



**Exploring Corporate Social Responsibility Disclosure in the  
UAE Islamic Banks:  
A Comparative Study**

استكشاف الإفصاح عن المسؤولية الاجتماعية للشركات في المصارف الإسلامية  
في الإمارات العربية المتحدة: دراسة مقارنة

by

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**Dissertation submitted in partial fulfilment**

**of the requirements for the degree of**

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## **ABSTRACT IN ENGLISH**

This study aims to explore the corporate social responsibility (CSR) disclosure of Islamic banks in the United Arab Emirates. Many researches have been conducted in the area of CSR disclosure of Islamic banks all over the world with varying findings. Some studies targeted the Islamic banks in the GCC region but not many have addressed the UAE Islamic banks in particular. This gap is what this study is aiming to fill. A benchmark based on AAOIFI disclosure standards is used to gather CSR disclosure data from the annual reports and sustainability reports of sample UAE Islamic banks for 2020. This data is then compared with CSR disclosure of a best practices Islamic bank in the Middle East, also gathered from its 2020 annual and sustainability reports and entered into the same benchmark. It became evident that there are discrepancies between the best practices bank and the UAE banks in both the extent and depth of CSR disclosure including major AAOIFI standards.

## ABSTRACT IN ARABIC

تهدف هذه الدراسة إلى استكشاف حدود المسؤولية الاجتماعية للشركات (CSR) عند المصارف الإسلامية في دولة الإمارات العربية المتحدة. لقد تم في الماضي إجراء العديد من الأبحاث في مجال الإفصاح عن المسؤولية الاجتماعية للشركات للبنوك الإسلامية في جميع أنحاء العالم مع نتائج متباينة. وقد استهدفت بعض الدراسات البنوك الإسلامية في دول مجلس التعاون الخليجي ، لكن لم يخاطب الكثير منها البنوك الإسلامية الإماراتية على وجه الخصوص. هذه الدراسة تهدف سد هذه الفجوة بالتحديد. في هذه الدراسة يتم استخدام مقاييس تستند إلى معايير الإفصاح لدى هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية (AAOIFI) لقد تم جمع بيانات الإفصاح عن المسؤولية الاجتماعية للشركات من التقارير السنوية وتقارير الاستدامة لعينة من البنوك الإسلامية الإماراتية لعام 2020. ثم تتم مقارنة هذه البيانات بالإفصاح عن المسؤولية الاجتماعية للشركات لأفضل بنك إسلامي في الممارسات في الشرق الأوسط ، والتي تم جمعها أيضًا من التقارير السنوية والاستدامة لعام 2020 وإدخالها في نفس المعيار. كشفت هذه الدراسة انه من الواضح أن هناك تناقضات بين أفضل الممارسات المصرفية لدى البنوك الإماراتية الإسلامية في كل من مدى وعمق الإفصاح عن المسؤولية الاجتماعية بما في ذلك معايير هيئة المحاسبة والمراجعة للمؤسسات المالية الإسلامية الرئيسية.

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## **LIST OF ACRONYMS**

|        |   |
|--------|---|
| ADIB   | Abu Dhabi Islamic Bank  |
| DIB    | Dubai Islamic Bank  |
| JIB    | Jordan Islamic Bank   |
| CSR    | Corporate Social Responsibility   |
| AAOIFI | Accounting and Auditing Organization for Islamic Financial Institutions |
| SSB    | Shariah Supervisory Board   |

# CHAPTER ONE: INTRODUCTION

## 1.1 Background

Corporate Social Responsibility (CSR) is a relatively new business concept that first appeared in 1953 in the USA when the American economist Howard Bowen published his book entitled “Social Responsibilities of the Businessman”. Bowen, as cited by Acquier et al (2011) stated that: “Corporate social responsibility (CSR) expresses a fundamental morality in the way a company behaves toward society. It follows ethical behavior toward stakeholders and recognizes the spirit of the legal and regulatory environment.” (p. 232)

Early limited practice of CSR started in 1970s and slowly began to spread in the following two decades. By the close of the 1990s CSR started to appear as a noticeable part of the business terminology and practice and started spreading with the pressure from various stakeholders and the society at large. (Carroll, 1999, P. 285).

The 2000s witnessed the worldwide takeoff of CSR practicing and reporting across the globe and started to expand to the developing economies. According to KPMG 2017 CSR survey report 93% of the world’s largest 250 firms issued CSR their reports<sup>1</sup>. CSR was not fully accepted by the business world at the beginning. Many management theorists taking capitalism to its extreme, stood against CSR when it first appeared. They held that the main goal of organizations is to maximize their shareholders’ wealth by proper utilization of available resources and not by incurring additional optional costs towards the development of their communities. Milton

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<sup>1</sup> <https://home.kpmg/xx/en/home/insights/2017/10/the-kpmg-survey>

Friedman, the Nobel Prize-winning economist had a solid stand against CSR and stated in his book “Capitalism and Freedom 1967” that “in a free economy there is one and only one social responsibility of business – to use its resources and to engage in activities designed to increase its profit so long as it stays within the rules of the game”. In 1973 Heatherington J.A.C as cited by Tolmie, Julia. (1992 p. 268) stated “There is no reason to think that shareholders are willing to tolerate an amount of corporate non- profit activity which appreciably reduces either dividends or the market performance of their stock.” The prevalence and spread of CSR today give credit to other theorists and strategic management scholars who advocated this corporate approach with assigning communities and environment responsibilities to companies in addition to their major goal of shareholders’ wealth maximization. In 1972, Dahl, as cited by Claydon, (2011) stated “Every large corporation should be thought of as a social enterprise; that is an entity whose existence and decisions can be justified insofar as they serve public or social purposes.”

CSR is generally looked at as a concept in which corporations voluntarily decide to support the communities where they are based and operating by contributing to enhancing their societies and promoting healthier standards in their environments. According to some theories, the social contract theory for example, this effort is exerted with a goal in management’s mind of improving the image of their brands in the positive awareness of their various stakeholders and communities. According to McDonald and Rundle- Thiele, 2008, “Corporations all over the world in various types of industries are devoting resources and effort in developing CSR strategies and activities with the goal of enhancing their brand images, stakeholders’ trust and positive reputation in their societies.”

Many strategic theorists and researchers have exerted numerous efforts to find a concise definition of CSR that is clear and unbiased. However, there is still some lack in clarity regarding the definition of this important concept. This lack of clarity is not from the conceptual content but rather from the varying contexts where CSR is practiced. This contextual nature of CSR causes organizations to respond in a different manner to issues relating to differing stakeholders' groups. The fact that corporations are diverse in the nature of their activities and are different in their levels of exposure to their host societies, can complicate the efforts to arrive at a one single definition of CSR.

As referenced by Hasan and Harahap (2007 PP 218), McGuire (1963) defines CSR as "The idea of social responsibility supposes that the corporation has not only economic and legal obligations, but also certain responsibilities to society which extend beyond these obligations" (p. 17). These additional responsibilities involve a corporate behavior that is congruent with the values, social norms and expectations of the societies.

An increasing number of corporations is now adopting CSR and exhibiting more care about their stakeholders with emphasis on the communities and the societies at large. Some global corporations are even extending their care through their supply chain and demanding that fair deal prices of raw materials and wages be paid to local producers and workers overseas. This is the result of cumulative pressures on corporations from various networks of stakeholders. These stakeholders' groups are made up of parties that have interests in the corporations including employees, customers, governments, trade unions, communities and other interest groups. Stakeholders are progressively becoming directly and indirectly involved in the corporate strategies of corporations.

## **1.2 CSR in the Banking Industry**

Banks, like any other corporations, are profit-seeking businesses that use deposits and investments delegated to them by the societies to generate income. The fact that the survival and success of banks is directly dependent on the societies that entrusted them with their resources for mutual benefits puts special obligations on the banks towards these societies. Not only to manage these resources to the best possible benefits of the depositors and investors but also to contribute to the wellbeing of these societies. Barako and Brown, (2008 p. 314) stated that “The banks’ social responsibility, as part of a social system, is influenced by society’s expectations. Therefore, to conform to them, banks must integrate environmental and social impacts as part of their activities”. Barako, D. & Brown, A (2008 p. 314).

The banking industry demonstrates a proactive approach to CSR activities (Marin et al. 2009 p. 72) unlike many other industries that work on CSR on a reactive manner after they become subject to pressure from external stakeholder. The banking institutions achieve highly in the ranking of the international CSR investment index (Perez et al., 2013 p. 276). This is mainly due to the fact that the relationship between the banks and most of their stakeholders is very close and the interaction between them is very frequent and sometimes direct in most societies.

Conventional banks had the lead in practicing CSR in various parts of the world despite the differences in application that emerged from the differing environment where these banks are located and operating.

### **1.3 CSR in Islamic Banking**

The Islamic Banking industry is relatively new when compared to conventional banking and consequently the practicing of CSR is also relatively new. Regardless of being Islamic or conventional the banking services are eventually the same in that they attract deposits and investments from the public and work towards creating financial products that are beneficial to both parties, the banks and the public. However, the difference between the two banking systems comes from the perspective from which they look at and handle money. Islamic banks follow Sharia rules that do not treat money as a commodity that can be bought or sold. From this perspective, a main difference is that charging interest for borrowing money is against Sharia law and is prohibited in Islamic banking.

Islamic banks provide alternatives to lending money for interest through offering a variety of asset-backed Sharia compliant financial instruments. These instruments include profit and loss sharing instruments like venture capital (Mudarabah), and the markup principles like resale with pre-agreed profit (Murabahah). The two parties will then share the ensuing profits or losses in accordance to an already agreed upon sort of partnership that take various forms depending on the nature of the transaction. These transactions must be preapproved by the Sharia Supervisory Board which governs all sharia compliance transactions.

Another major difference is that Islamic banks do not engage in transactions that involve excessive uncertainties like derivatives for example. Goods or services involved in transactions must be very clearly defined. A third major prohibited type of transaction is any deal that involves gambling.

These principles are based on Sharia law objectives and are fundamental in the Islamic banks' operations at all levels all the time. Sharia as a faith governs not only the religious aspects of the



believers but also their everyday aspects of life at all levels, personal, social, economic etc. From an Islamic viewpoint, the role of the humans on Earth is to take up the responsibilities of developing it and making it a place of constructive bona fide coexistence not only between them as humans, but also between them and between the other creatures that inhabit the Earth in order to preserve the creation of Allah

قُلْ إِنَّ صَلَاتِي وَنُسُكِي وَمَحْيَايَ وَمَمَاتِي لِلَّهِ رَبِّ الْعَالَمِينَ ﴿١٦٢﴾

Say, "Surely my prayer, my worship, my life, and my death are all for Allah—Lord of all worlds.

Quran 6:162

The above fundamental differences between Islamic Banks and Conventional Banks consequently impose differences in the contents of CSR of Islamic Banks. Since these Banks are governed by the Sharia, they are expected to comply with its guidelines in their business operations as well as their CSR practices and are expected to disclose that on their annual reports. The concept of caring for the societies and the environment is central to the teachings of Islam and CSR can be expected to ensue logically from these teachings. According to Dusuki and Dar, "ethical banking and social responsibility are more relevant to Islamic banking than it is to conventional banking since any practice of CSR would more impacting and enduring because they are ultimately based on divine revelation" Dusuki & Dar (2007, 249). Accordingly, there is a level of expectation that is held by the stakeholders in Islamic Financial Institutions for a sound corporate and Sharia governance that enhances accountability, integrity and transparency in order to build and maintain confidence in these banks' practices and transactions.

According to Haniffa et al, "Islamic Banks and Financial Institutions have additional responsibilities towards adopting, implementing and disclosing CSR since there are extra elements

of responsibilities towards Allah (SWT) in the first place in addition to responsibilities to the societies and the environment.” Haniffa & Cooke (2002, p. 325)

So Islamic banks can be held responsible to their communities under Shariah law, and their communities would have high levels of expectation of the banks’ performance at all levels based on the Islamic values they are adopting. (Maali *et al.*, 2006 p. 282). These banks are accountable for both practicing and disclosing CSR from a Sharia perspective because they made the choice of operating under Shariah rulings and guidelines and must abide by these rulings in front of their stakeholders and ultimately as obedience to Allah (SWT).

CSR practices in the Islamic banking industry started relatively recently as this industry is relatively new itself. The first full-fledged Islamic bank started operating in 1975 in Dubai, UAE. However, CSR has been progressing very rapidly.

“The past three decades have witnessed the emergence of Corporate Social Responsibility (CSR) as a field of study and a framework for the role Islamic financial institutions in society. “Dusuki, & Dar (2007, 249).

#### **1.4 Corporate Social Responsibility Disclosure (CSRD)**

Mandatory disclosure is additional information in the Annual Reports that must accompany the Financial Statements of a corporation to give more details to some activities with significant influence on the financial results.

Alternatively, voluntary disclosure is a non-mandatory additional information that is attached to the annual reports or other reports with the purpose of informing the stakeholders about activities that do not have direct influence on the financial results and are not required by the regulators. Many corporations voluntarily choose to disclose the results of many of their social and

environmental activities to their networks of stakeholders. This is known as Corporate Social Responsibility Disclosure (CSR/D). CSR/D provides information about companies' performance regarding their responsibilities towards their environments and societies.

One way to disclose these types of activities is through Narrative Disclosure of CSR which is a reporting method that comprises both non-financial and financial information included within the disclosed reports that provide a meaningful content of a firm's operations as it interacts with its social and environmental sphere (*Guthrie, J., & Abeysekera, I. 2006*).

Narrative CSR disclosure is becoming an increasingly important tool for corporations to reflect a positive image of their businesses in the eyes of the stakeholders and the society and to keep these stakeholders and societies informed and updated on the corporations' efforts in community and environment activities. This reporting normally follows a predetermined framework of disclosure that is recommended by certain bodies in the industry. CSR/D takes different forms depending on how companies prefer to disclose their CSR information. Some companies disclose the information as part of the Annual Reports, others disclose it in a separate CSR or Sustainability Report

The CSR/D practice has created what has come to be known as the Triple Bottom Line (TBL), which adds two more lines to the original bottom line of the "Net Profit" in the Income Statement. The two additional lines represent "People" and the "Planet" that stand for societies and the environment. The three-bottom line is intended to incorporate all the concerns of any organization's networks of stakeholders. With the help of the information that is disclosed by the banks, the stakeholders including current and potential shareholders make their decisions as how to deal with these banks.

The content of CSRD depends mainly on the management discretion. The management discretion in turn is influenced by many internal and external factors. The factors that influence the management discretion to disclose or not disclose CSR activities have received lot of research.

Various theories in the social reporting literature are already in place with a continuous effort in attempts to address the question of why do companies bother to disclose social and environmental data although it is not required of them by law? (Gray *et al.* 1995). Moreover, because there are a number of potential diversified networks of external users of CSR information reported by corporations there are many theories that try to answer the question of to whom should CSR information be disclosed? Neither of these two questions has been adequately answered yet. Gray *et al.* (1987) argued that because social responsibilities continuously change with time and place there is no conclusive answer to these questions. Still yet, another question that is waiting for an answer is: To what extent should the information be disclosed and based on what benchmark?

These questions and many more are addressed in many studies that researched Islamic banking CSRD. Some of these studies will be looked at closely in the Literature Review Chapter of this study in order to gain more insight into Islamic Banking CSRD.

### **1.5 Corporate Social Responsibility Disclosure (CSRD) in Islamic Banks**

CSRD in Islamic Financial Institutions has an additional dimension that distinct it from CSRD in conventional financial institutions. The obligation to disclose any truth is an essential issue in the Islamic context at both the individual and the businesses level. This commitment is stressed in the *Qur'an*: “And cover not truth with falsehood, nor conceal the truth when you know” (Quran 2:42). As long as there are stakeholders in any Islamic organization that affect and get affected by its operations, then they have the right to know about the organizations’

operations and CSR activities. At the same time, the organization has the accountability to disclose this information, including community and environment activities. According to Baydoun and Willett, (1997, p. 6). “The main objective of corporate reporting is to allow Islamic enterprises to show their compliance with Sharia”. Also, according to Wilson, R, (2006), “Social responsibility concerns in Shariah are of complete relevance and ethics and social responsibility are regarded as enduring principles”.

### **1.6 Aim, Objectives and Structure of the Study**

The title of this study is “Exploring Corporate Social Responsibility Disclosure in The UAE Islamic Banks: A Comparative Study”.

The main purpose of the study is to investigate any discrepancies in the Corporate Social Responsibility Disclosure (CSR) between a best practices Islamic bank in the region on one hand, and sample Islamic banks in the UAE on the other using a benchmark.

The best practice Islamic Bank in the region is Jordan Islamic Bank (JIB). The UAE Islamic Banks chosen for this study are Dubai Islamic Bank (DIB) and Abu Dhabi Islamic Bank (ADIB). The benchmark that will be used to measure and compare the extent of CSR disclosure in these banks is developed by Maali et al (2006) and is based on the CSR disclosure standards of the Accounting and Auditing Organizations of Islamic Financial Institutions (AAOIFI).

The objectives of the study are:

- Collect CSR Disclosure data from the best practice IB bank within the ME region for 2020
- Collect CSR Disclosure data from sample UAE IBs for 2020
- Benchmark CSR Disclosure of the sample UAE IBs against best practices IB SCR Disclosure.

- Conduct a comparative analysis to identify any possible discrepancies in CSR disclosure.

This study is organized in five chapters. The second chapter provides literature review of existing CSR practices and disclosure in various Islamic Banks around the world. Chapter three describes the methodology followed by the study. Chapter Four populates the benchmark with the CSR disclosures of each the three banks to arrive at results. These findings are then presented under each bank individually. The findings are then discussed and compared to arrive at any possible discrepancies between the best practices bank on one hand and the two sample banks on another. Chapter Five provides conclusion and recommendations and identifies limitations and future research.

## **CHAPTER TWO: LITERATURE REVIEW**

A number of studies have investigated CSR practices and disclosure of Islamic Banks and Financial Institutions. The following five studies will be reviewed for further insight into this subject matter: Maali, B., Casson, P., & Napier, C. (2006), Dusuki (2008), Abul, Hassan and Sofyan Syafri Harahap (2010) Farook, Sayd, M. Kabir Hassan, and Roman Lanis (2011), Aribi, Z. A., & Gao, S. S. (2012).

The chronological order of these studies is purposeful. It is important in that the studies are expected to add to each other regarding accumulation of CSR practice and disclosure in Islamic Banks and financial institutions over time.

### **2.1 Maali et al (2006)**

Maali et al approached the CSR reporting and disclosure by Islamic banks where they examined the gaps that existed between the disclosure that is expected by stakeholders on one hand, and the actual CSR disclosure by Islamic banks on the other.

In order to achieve this process Maali et al developed a CSR benchmark comprised of the social disclosures variables that are expected by stakeholders from of Islamic banks. Maali et al stated, “We develop a benchmark, based on an Islamic perspective of accountability, social justice and ownership, for social disclosures that we would expect Islamic banks to provide.” (2006 p.271) To construct this benchmark, they used standards from the Accounting and Auditing Organization of Islamic Financial Institutions (AAOIFI) that are required for CSR disclosure. They used this benchmark to measure the actual CSR disclosures of 29 Islamic Banks

located in 16 countries. The study investigated the extent to which the CSR disclosure of these IBs agreed with the benchmark.

Maali et al findings suggested that the content of the CSR disclosure of the Islamic banks covered in the study fell significantly short of what they initially expected and that there was a considerable variation in voluntary CSR disclosure between the banks. They found that in some banks the reporting was only 35% of what was expected while some other banks disclosed no social information at all. Maali et al came to a conclusion that “with a few exceptions, Islamic banks have a long way to go to meeting expectations of the Islamic community”.

Islamic banks are not required by any regulators to disclose the CSR items listed Maali’s benchmark or any other benchmark. However, these banks are expected by a wide network of stakeholders to practice and disclose levels of CSR that reflect their commitment to Sharia. As mentioned earlier, Islamic banks have accepted the accountability of following the Islamic guidelines in all their operations, practices, reporting and disclosure. The Sharia principles, which the Islamic banks pledged to conform to, add important commitments to their role in contributing to the social issues of their stakeholders and communities at large and disclosing these contributions to their networks of stakeholders. This puts additional responsibilities on the Islamic banks as compared to conventional banks in CSR practice and disclosure.

Maali et al identified the following broad objectives to develop social disclosure for Islamic banks:

1. Compliance with Islamic principles and dealing justly with different parties.
2. The effect of business operations on the wellbeing of the society.
3. Helping Muslims in performing their religious obligations.



Maali et al used the above objectives in developing their CSR disclosure benchmark as shown below.

The benchmark includes eight Dimensions of CSR areas that stakeholders expect to see in Islamic banks CSR disclosure. Each Dimension is subdivided into “Items” of CSR activities to be disclosed totaling to 31 items. The items are further classified as “Required” and “Not required” items. The Required items are those that are AAOIFI standards and represent the minimum level of disclosure. The Not Required items are not AAOIFI standards. Maali et al added these items to the benchmark to give it more depth in identifying Islamic banks that are more willing to practice and disclose CSR. Below is Maali’s benchmark in (Table 1).

Table 1: MAALI et al Disclosure Index Benchmark as taken from the 2006 Accounting Foundation, The University of Sydney

| No.    | Dimension  | Items to be disclosed                           | AAOIFI       |
|--------|--|---|--------------|
| 1      | Sharia Opinion and Unlawful (Haram) transactions | Report of Sharia Supervisory Board (SSB)        | Required     |
|        |  | Nature of Haram transaction                     | Required     |
|        |  | Reasons for undertaking transaction             | Not Required |
|        |  | SSB view on necessity of such transactions      | Not Required |
|        |  | Amount of revenue or expense of transactions    | Required     |
|        |  | How bank disposes of such revenues              | Required     |
| 2<br>A | Zakat if bank is required to pay it              | Statement of sources and uses of Zakat          | Required     |
|        |  | Balance of Zakat, reasons for non-distribution  | Required     |
|        |  | SSB attestation on computation and distribution | Not Required |
| 2      | Zakat if bank is not required to pay it          | Amount due regarding shares and deposits        | Required     |
|        |  | SSB opinion on validity of computations         | Required     |

|   |                                  |  |  |
|---|----------------------------------|--|--|
| B |                                  |  |  |
| 3 | Qard Hasan<br>(Benevolent Loan)  | Sources of funds allocated to Qard. (Statement)<br>Amounts given to beneficiaries<br>Social purposes for which the funds are given<br>Bank policy on providing such loans<br>Bank policy in dealing with insolvent beneficiaries | Required<br>Required<br>Required<br>Not Required<br>Not Required |
| 4 | Charitable and Social Activities | Nature of charitable and social activities<br>Amount spent on such activities<br>Sources of funds for these activities   | Required<br>Required<br>Required                                 |
| 5 | Employees                        | Policy on salaries and other remunerations<br>Policy on education and training<br>Policy on equal opportunities  | Not Required<br>Not Required<br>Not Required                     |

|   |  |   |                                  |
|---|--|---|----------------------------------|
|   |  | Policy on working environment   | Not Required                     |
| 6 | Late repayments and insolvent clients  | Policy dealing with insolvent clients<br>Amount charged on late payment if any<br>SSB opinion on any additional charges on late payments          | Required<br>Required<br>Required |
| 7 | Environment                            | Amount and nature of donations or activities for environment protection<br><br>Projects financed by bank that may lead to harming the environment | Not Required<br><br>Not Required |
| 8 | Other aspects of community involvement | Bank's role in economic development of the community<br>Bank's role in addressing social problems   | Not Required<br>Not Required     |

The eight Dimensions of the above benchmark and their sub Items will be explained below.

## **2.1.1 Sharia Opinion and Unlawful Transactions**

### **2.1.1.1 Disclosure of Sharia Supervisory Board Opinion (SSB)**

As part of their annual reports Islamic Banks are expected to disclose a separate report that includes the responsibilities and opinion of the SSB regarding the operations of the bank during the financial year. The disclosure of the opinion of the SSB is extremely important in reassuring the users of the reports regarding the bank's compliance with Sharia in all its operations.

Sharia Supervisory Boards (SSB) is a body that is comprised of Sharia scholars whose role is to assure investors that the Islamic banks are complying with Islamic laws and principles. According to (Karim, 1995, p. 287) the demand for the services of an SSB as a monitoring mechanism comes from "perceived need to constantly check innovations in banking practices against the principles of Islamic orthodoxy"

SSBs are anticipated to measure up to the expectations of the network of stakeholders including shareholders and assure them of banks' commitment to Sharia practices. In that respect, they act in a way that is similar to external auditors. AAOIFI standards, on which the roles of SSB are based state that SSBs are "intended to investigate to what extent the financial institution has adhered to Shariah rules and principles in all its activities" (Bakar, 2002, p. 81). AAOIFI standards clearly state that SSB investigation should cover the inspection of the "bank's memorandum and articles of association, the bank's contracts, its financial reports and various other reports" (Bakar, 2002, p. 81). As a governance mechanism and internal control body, SSB is expected to result in more disclosure. "more governance mechanisms will strengthen the internal control of companies and provide an intensive monitoring package for a firm to reduce opportunistic behavior and information asymmetry" (Ho and Wong, 2001, p. 143).

At least three members are required by AAOIFI and many banks stick to this minimum while others choose to increase the number for closer monitoring and better levels of disclosure although this means higher costs for the bank. AAOIFI also recommends that the SSB consist of members from different professions including economists, bankers, finance professionals in addition to the Islamic scholars. This combination is essential for pooling diverse experiences and varied perspectives that are important for effective implementation of Sharia laws.

According to (Haniffa and Cooke, 2002, P. 332) for an SSB to have more impact on monitoring and consequently requiring more CSR disclosure, it needs to have many characteristics, including:

- The number of the SSB members
- The cross-membership of the SSB
- The Secular educational qualifications of the SSB members

#### **2.1.1.2 Disclosure of Unlawful Transactions**

The first Dimension also includes disclosure on transactions that violate Sharia principles, if any. These are required to be disclosed and reasons for entering into such transactions be explained. Sometimes Islamic banks find themselves entering in transactions that are not Sharia compliant for reasons beyond their control, like for example, earning interest on their mandatory deposits with the Central banks. Since earning interest does not comply with Sharia, revenues resulting from such transactions must be disclosed, showing their amounts, and must disposed of appropriately to charity.

### **2.1.2 (A) Zakat if payed directly by the bank to beneficiaries**

Zakat is a main pillar in Islam and must be paid if all payment conditions are met. Sharia requires businesses and wealthy individuals to contribute to the wellbeing of the less fortunate in the societies through a set of required contributions stated in the holy Quran and Sunnah. These include payment of Zakat to the poor and a number of other beneficiaries where financial aid is needed. Zakat is defined as “annual obligatory ritual of purifying one’s assets and income” Harun, N. H et al (2010, p. 36). There is a threshold, called Nisaab, which determines the minimum amount of wealth that must be owned to pay Zakat for cash and similar assets including corporate shares. Nisaab is above the equivalent of 3 ounces of gold (87.48 grams) that has been owned for the past year. Zakat amount is a 2.5% of the Nisaab. There are other assets other than cash, the ownership of which requires the payment of Zakat if all requirements are met including Nissab.

There is a disagreement, however in Islamic jurisprudence with regard to whether Zakat payment is a must for individuals or it does cover businesses as well (Farook, S. (2007). Some Islamic banks are required by law to pay Zakat on behalf of the shareholders as is the case in UAE and Saudi Arabia. In other countries, however, Islamic Banks calculate and disclose Zakah amounts per share and leave the actual payment up to the shareholders. SSB is expected to disclose a Zakat statement specifying the amounts and the per share Zakat.

### **2.1.3 (B) Zakat if not payed Directly**

In case if the bank is not required to pay Zakat on behalf of the shareholders, then it should disclose the amount of Zakat that is due on each share and shareholders would then pay it to the designated beneficiaries on their own.

#### 2.1.4 Qard Hassan (Benevolent loan)

Alqard Alhasan (Benevolent loan) is an interest free loan following the principle of prohibition of Riba. It is made available to clients in financial difficulties to assist them in issues related to their social and family lives, like wedding, education or medical expenses.

The borrower eventually returns the same amount borrowed with no additional charges. Qard Hasan is a one exclusive Islamic banking product that differentiate them from conventional banks. (Haniffa and Hudaib 2007). When time for repayment becomes due and the debtor is unable to repay, postponement is encouraged until they become able to repay. Even a further easing on the borrower who is in real financial difficulty and is genuinely unable to repay is to forgive this debtor from the amount owed as a charity. This benevolent practice is encouraged and hailed in Quran:

وَإِنْ كَانَتْ ذُو عُسْرَةٍ فَنَظِرَةٌ إِلَىٰ مَيْسَرَةٍ وَأَنْ تَصَدَّقُوا خَيْرٌ لَّكُمْ إِنْ كُنْتُمْ تَعْلَمُونَ ﴿٢٨٠﴾

And if the debtor is in straitened circumstances, then (let there be) postponement to (the time of) ease; and that ye remit the debt as almsgiving would be better for you if ye did but know.

#### Quran 2:280

Many users of annual reports need to know the degree of commitment of the Islamic Banks to their religious obligations such as Alqard Alhasan. Islamic Banks are expected to prepare and disclose a statement of sources and uses of the funds that go for Qard Hassan annually specifying beneficiaries and amounts paid out as well as the contributors to the fund and amounts received from them. The banks are also expected to disclose policy on providing such loans and ways of handling cases of any defaulting beneficiaries.



### **2.1.5 Charity and Other Social Activities**

Charitable donations are another way that is encouraged by Islam to give to the needy communities and individuals in various ways not limited to giving money. This is different from Zakah as it is voluntary where is Zakah is obligatory if all payment conditions are met. Those who donate for charity are praised and complimented in Quran and Sunnah (*Who is the one that will give to Allah a goodly loan, so that He may increase it manifold to his credit and give him a generous reward besides it? (AL-HADEED/11)*). Charity can take any form other than money but must be expressed in financial terms for the purpose of financial reporting and disclosure. The bank is expected to disclose the purposes of the charity, the amount given, and its sources.

### **2.1.6 Employees**

Islam emphasizes human dignity and social justice at all levels in all occupations especially for employees and workers. In a well-documented hadith, the Prophet (PBUH) had stated, *“Pay the worker his dues before his sweat has dried up”*. This includes not only financial remuneration but also other related compensations that become rightfully due when employees deliver what is required of them towards the employer as per the contract between the two parties. Annual reports readers need to know the level of justice and equity at which an Islamic bank treats its employees. Employees training and education is looked at positively by the society and Islamic banks are expected to set an example in this regard in addition to the appropriateness of the working environment.

### **2.1.7 Late repayments and Insolvent Clients**

Bank clients are expected to be punctual in their payments as pay-back is an Islamic obligation that proves honesty and integrity. Prophet Mohamed (PBUH) says, *“Default in payment on the part of solvent debtor is unjust” (Saheeh Bukhari, 2/999, cited in AAOIFI, 2005, p. 37)*. On the other hand,

however when a client defaults due to genuine financial difficulties, the bank should be lenient in handling the situation and give the client some grace period to arrange for payment or provide other solutions. This is stated clearly in Quran. *“If the debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity that is best for you if ye only knew (Holy Qur’an, 2:280).*

Islamic banks are expected to disclose:

- (a) Policy that explains how cases of defaulting clients are handled
- (b) Any amounts charged as penalties
- (c) The SS Board opinion
- (d) How amounts resulting from charging penalties are treated.

It is important to reiterate here that Islamic banks are prohibited from charging interest on loans or late repayments as is the case in conventional banks. Any charges made on late repayment are considered administrative expenses that must be disclosed and paid out by the bank as charity.

### **2.1.8 The Environment**

Islamic banks are expected to donate to activities that help in environment protection. In addition, they are also expected to refrain from financing economic activities that are harmful to the environment because that would eventually harm the entire society. It is prohibited in Islam to inflict harm damage on the environment. (Alam, 1998, p. 75).

### **2.1.9 Other Community Involvement Aspects**

In addition to the above Dimensions, Islamic banks are expected to engage in activities that are economically benefiting to their communities. They are also anticipated to play leading roles in addressing social problems.

As mentioned earlier above, using their above benchmark, Maali et al found that the content of the CSR reporting of the Islamic banks covered in their study fell short of what they initially expected with a considerable variation in voluntary CSR disclosure between the banks in their study.

My study will use the above benchmark to identify any discrepancies in CSR disclosure between the chosen banks as mentioned earlier above.

## **2.2 Dusuki (2008)**

Dusuki (2008, p. 12) approached CSR from a different perspective in his study “What Does Islam Say About Corporate Social Responsibility (CSR)?”. He made a comparison between the driving forces of the western CSR and the Islamic motives of Islamic CSR. First, he discussed the driving forces that underpin the structure of the Western CSR concept and practices, then he advocated CSR from an Islamic perspective based on Shariah law and principles. He concluded that Western CSR effort is driven by the goals of the organizations that try to satisfy the various networks of stakeholders so that they promote their brands and products and eventually maximize shareholders’ wealth. On the other hand, he concluded that CSR as a set of values is embedded in the teachings of Islam and Shariah law and argued that it is based on Islamic principles that aim at prioritizing good life and wellbeing of both the individuals and the societies.

Dusuki first started with discussing four major driving forces behind the Western CSR structure. His study then constructed a generic continuum that ranks the extent to which firms, both Islamic and conventional, are practicing and disclosing CSR activities. Finally, he argued that the Islamic paradigm behind CSR provides more ethics and values that backup CSR activities, practices and disclosures.

According to Dusuki there are many driving forces of varying magnitudes and orientations that exist in the western CSR literature. These driving forces have created the continuing influence on the movement in the direction of CSR development practices as contributed by strategy theorists, like Snider et al (2003 p. 182)

#### Driving Forces of Western CSR practices and Disclosure

- Pressure from the markets
- Power of communication
- Competition between corporations
- Regulatory pressure

Dusuki's study discussed the above driving forces and later contrasted these forces with what he termed the "Islamic Perspective of CSR" followed by a discussion of the basis for understanding CSR in Islam from Shariah standpoint.

His study suggested that because Islamic Banks chose Shariah as their ruling governance that guide their operations, then they become accountable and must comply with it.

Below, the above western CSR driving forces are explained, followed by the CSR from an Islamic perspective, according to Dusuki.

##### **2.2.1 Pressure from the Markets**

This is the strongest driving force of the four, which works through increasing market pressure, and consists of employees, customers, and capital markets to impose some sort of choices that pressurize organizations in a particular direction regarding their preferences of CSR activities.

Corporations cannot afford to ignore the pressures of this group, as it is their main source of the existence and continuity. From this pressure group comes the social and ethical concern over issues,

which constitute an increasingly public consideration that businesses and organizations cannot overlook. Strong reactions from the society can face companies that neglect their social responsibilities and concentrate only on maximizing shareholders' wealth.

Joyner and Payne (2002 p. 302) argue that “values, ethics and corporate social responsibility (CSR) are linked in the culture and management of a firm” Many firms are integrating CSR in their strategies by pursuing ethical investment indicating the magnitude of pressure that this driving force is placing on the ethical and social commitment of companies.

### **2.2.2 Power of Communication**

This driving force is the result of the constant and massive flow of information through freely available media sources of communications especially through the internet. This has created a level of awareness among individuals and the community as a whole that observe and scrutinize the operations of companies more closely and develop patterns of behavior that can impact these companies to react in a socially responsible manner. Companies in turn, use the same mass media tools to inform these pressure groups about their achievements in addressing their concerns.

### **2.2.3 Competition between Corporations**

The third driving force towards CSR practice comes from within the businesses themselves. Companies work hard to create a competitive advantage by forming a positive image in the minds of the stakeholders by being socially responsible towards their societies, socially, environmentally and economically. They expect their commitment to practicing and disclosing their CSR activities to positively reflect on their brand images, boost their reputation with the society, keep their existing customers and expand their market share by attracting new customers. In turn, this is likely to improve the ability of companies to compete' and perform better through appropriate risk management. (O'Brien et al 2020).

Commitment to CSR need not only be practiced but also clearly communicated to the stakeholders through reporting and disclosure by the business's annual reports and other means of disclosure. It is eventually the customers, employees and the society, who make up the demand for the goods and services of the businesses.

#### **2.2.4 Regulatory Pressure**

The fourth driving force is the regulators. Although CSR practice and disclosure are not regulated, still however, governments and other bodies are increasingly introducing reporting requirements that mandate obligatory business standards with which businesses and industries need to abide especially in the environment related operations of certain businesses.

The impact of these driving forces on corporations varies depending on the nature of their operations, their products, location and the structure and level of education of the stakeholders among many other factors.

#### **2.2.5 Criticism of Western CSR Driving Forces**

Dusuki asserted that the above driving forces that prompt western CSR are all generated by profit seeking and wealth maximization motives and carry no ethical or humanitarian motivation in them. He added that the whole concept and practice of CSR as an attempt from the businesses to please societies' which would enable these businesses to focus on their main goal of maximizing the shareholders' wealth. In other words, CSR efforts are just means to the always-sought end of firm's survival and success. They look at it as a rational argument rather than a commitment that is based on genuine ethical social responsibility towards the societies. In this same direction Hasan et al arrived to a conclusion that "the match between a firm's CSR strategies and its value chain is crucial for firms' survival and success, especially when firm managers recognize the contingent nature of CSR in a competitive context. Hasan et al, (2016 p. 25)

This would render the CSR efforts as transitional and always changing because it is governed by the societies' changing realities that impact and adjusts their behavior, expectations and preferences. To respond to these changing expectations, businesses have to continuously keep modifying and updating their CSR activities. "This lack of conceptual clarity and absence of adequate ethical direction to the management of corporations to oblige to a strategic course of commitment received a lot of criticism by strategic scholars". Goodpaster, K. (1991, p. 63).

Dusuki then introduced CSR as viewed from the Islamic perspective in his study.

#### **2.2.6 CSR from an Islamic Perspective**

To contrast the western methods to CSR, Dusuki advocated Shariah as an alternative approach. According to his study, this approach is considered from a holistic view based on the guidance of Quran and Sunnah (Sayings and practices of Prophet Mohammad Peace Be Upon Him). According to the Islamic approach, man was created only to worship Allah "*I did not create the jinnis and the humans except to worship Me alone.*" (Quran 51:56). Worshipping in Islam is not confined to the performance of the religious obligations alone like prayer, fasting etc. but also covers the everyday Muslim behavior including work and human interaction with nature and other humans.

Imam Al-Gazzali, a famous Muslim scholar stated that the overarching purpose of Shariah is also known as Maqasid al-Shari'ah or "to promote the welfare of the people, which lies in safeguarding their faith, their life, their intellect, their prosperity and their wealth" (Kamla, 2005, p. 112).

Dusuki holds that the decision-making process of Islam followers at all levels and in every context including business is influenced by Shariah in one way or another. The daily activities of Muslims are well documented in the Holy Qur'an and Sunnah, which are the main sources of business ethics

in Islam. Many of the Islamic business values such as justice, socio-economic benefits, human well-being, honesty, etc. are the core of CSR. Islam is not merely a personal religion, but also an organization for society and its institutions, as well as a guide for their behavior and conduct.

Dusuki constructed a CSR activities continuum that describes a firm’s extent of practicing CSR activities. The degree to which businesses complies with community responsibilities and environment protection varies widely from one firm to another, ranging from extreme lack compliance to full abidance in practice. The continuum consists of five levels of a firm’s CSR activities ranging from an Irresponsible firm that shows minimum compliance to a Taqwa-centric firm that fully complies with CSR activities. He explains that the continuum is generic in nature and describes CSR practices and disclosure for both Islamic and Non-Islamic firms.

Summarized below is Dusuki’s continuum that describes CSR practicing and disclosure.

**2.2.7 Description of Corporate Social Responsibility Continuum (Dusuki 2008)**

*Table 2:Description of Corporate Social Responsibility Continuum by Dusuki, 2008*

|                          |  |
|--------------------------|--|
| Level1:<br>Irresponsible | This is the lowest level of a firm’s CSR behavior. The firm does not comply with the minimum required legal or moral standards. Noncompliance activities examples range from damaging the environment and dumping of contaminated waste in inhabited areas to violating protection laws and rights of their employees. |
| Level 2:<br>Minimalist   | In this level, companies comply with the minimum legislation required. Their main goal is to maximize shareholders’ wealth.  |
| Level 3:<br>Apathy       | Firms in this category abide by the law and simultaneously observe their ethical responsibilities. Their contributions to social activities and environment protection   |



|                           |  |
|---------------------------|--|
|                           | are minimal but inflicts no harm on either their communities or environments. They exhibit no strategic effort to engage in CSR activities.  |
| Level 4:<br>Strategic     | Companies in this category take their voluntary social responsibilities seriously, including contributing to society wellbeing and protecting the environment. This will in turn help in enhancing the reputation the company and improving its long-term shareholders wealth maximization as advocated by Greenfield (2004, p. 758);  |
| Level 5:<br>Taqwa-centric | Companies at this high level exhibit their commitment to social responsibilities following their belief that they have social responsibility irrespective of the financial performance. Such belief can only be present in a the deeply rooted divine faith as in Quran and Sunnah. CSR activities and disclosure of these companies is practiced as an obedience of Allah and to no other external driving forces. Their obligation to societies is the demonstration of taqwa-paradigm or fear of Allah resulting from their comprehension of the Islamic Sharia rules. This level represents the Islamic view of CSR. |

According to Dusuki, when it comes to CSR in Islamic organizations that follow Sharia law, a “divine contract” rather than a “social contract” governs the relationship between the businesses and the stakeholders, at least from a theoretical point of view. “Human behavior in Islam is prescribed by the divine revelations and are expected to be more absolute and ethical.” (Khurshid et al, 2014). The divine contract is detailed in the Shariah laws for all types of interactions amongst the humans and businesses in their daily attempts in all lifestyles and practices of earning their living and fulfilling their social and other needs.

Dusuki advocates that the highest level of CSR practices, which is Taqwa-centric as in the above continuum, can only be practiced by companies that follow Sharia in their operations and reporting. He concludes that this divine motive is more effective and sustainable than any earthly selfish driving force.

### **2.3 Hasan and Harahap (2010)**

Abul Hassan and Sofyan Syafri Harahap in their “Exploring corporate social responsibility Disclosure: The Case of Islamic Banks” study explored possible discrepancies between CSR activities disclosed in the annual reports of Islamic banks and the CSR disclosure index which they developed based on a framework of the Islamic business ethics. Using the content analysis method, they examined annual reports of seven Islamic banks from seven Islamic countries in 2006 with the aim of measuring the size and extent of their CSR disclosure. The countries are Bahrain, Kuwait, Saudi Arabia, United Arab Emirates, Indonesia, Malaysia, and Bangladesh.

According to the authors, “the main objective of this study is to provide an index which objectively measures CSR disclosures of the Islamic banks.” They further stated that their main concern is to examine the scope to which Islamic banks disclose relevant information about the CSR activities they are involved in, and the extent to which these activities are part of the AAOIFI standards of disclosure. Below are Hasan and Harahap’s CSR disclosure dimensions:

1. Ethical behavior, stakeholder engagement, and customer relations;
2. Good governance;
3. Interest-free, lawful products, and services;
4. Sharia Supervisory Board;
5. Development and social goal;

6. Employees;
7. Environment; and
8. Research and development.

Five of the above dimensions are similar to those of Maali's benchmark explained earlier. They are:

- Interest-free, lawful products, and services
- SSB
- Development and social goal
- Employees
- Environment

Therefore, only the three additional dimensions will be discussed from Hasan and Harahap's point of view. These three dimensions are:

- Ethical behavior, stakeholder engagement, and customer relations.
- Good governance
- Research and development

### **2.3.1 Ethical Behavior, Stakeholder Engagement, and Customer Relations**

Within their economic role of mobilizing deposited savings, Islamic Banks are accountable for their business ethical performance, not only the economic financial results. This means that in addition to their financial performance, they are expected to behave with their networks of stakeholders in a way that reflects their compliance to established codes of ethics that are guided by Shariah. The stakeholders including investors ideally expect the banks to make economic decisions that enforce Sharia principles. These banks should disclose the ethical corporate

objectives, ways to engage with stakeholders and special attention to be given to their customers all within a Shariah framework.

Under this dimension of the study, only one bank scored the highest level of disclosure set by the benchmark, three banks scored the second highest, two scored the lowest and one did not disclose at all.

### **2.3.2 Good Governance**

Islamic Banks' governing executives and management are expected to be devoted and righteous individuals as well as experts in relevant banking and finance fields. So, the names, positions and profiles of the bank's board of directors, top management and committees should be disclosed. This would be an indication of accountability and responsibility of higher management and members of the board to the stakeholders. Doing so would give stakeholders more confidence and assurance in the governance of the bank and its expected Shariah compliance in all its practices including CSR activities and disclosure.

None of the seven banks in the study disclosed any profiles of their board of directors or higher management. So, disclosure of practices of good corporate governance are absent in all seven banks.

### **2.3.3 Research and development**

The authors hold that research and development should be given a special attention by the Islamic banks in order to keep up with the constant rapid change in the industry including regular redesigns of banking products, updates and latest features and innovations.

Hasan and Harahap investigated R&D disclosure of the following information:

- Formulation of bank policies;

- strategic decisions and their support;
- Job skills related training curriculum;
- Database Management
- Supporting universities and academic centers with research efforts

Under this dimension only three banks have disclosed R&D information in their annual reports.

They suggest that top management of Islamic banks have to consider showing more commitment and accountability and doing justice not only to their societies but also in being obedient to Allah (SWT) by complying to sharia rules in their CSR activities and disclosure.

Hasan and Harahap asserted that there is a need for developing a standard on the disclosure of CSR activities that is applicable to all Islamic financial institutions. They claim that such disclosure would add more trust and confidence of stakeholders and other parties in the performance of Islamic banks.

The authors recommended adding the following practices to existing CSR activities of Islamic Banks in order for them be more effective in their CSR practices and disclosure:

#### **2.3.4 The equator principles**

This is defined as “a financial industry benchmark for determining, assessing, and managing social and environmental risk in a project financing”<sup>2</sup>. It is a risk management framework that many conventional financial institutions have adopted to mitigate the exposure to possible risks that may result from financing projects that are harmful to the environment and the societies. It mainly aims to providing minimum standards of due diligence to backup responsible decision-making related to risk management. It works through determining associated risks, assessing them and eventually

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<sup>2</sup> [www.equator-principles.com](http://www.equator-principles.com)

managing them to minimize any negative potential impacts on the environment and the society that could result from the projects that the banks are considering financing. This can be followed by Islamic banks as a best practice to help them in deciding whether to finance or not finance certain projects if there is doubt that these projects are harmful to the environment or the society. It would be particularly helpful in disclosing Dimension number (7) in Maali'e benchmark under the item of "Projects financed by bank that may lead to harming the environment"

The authors hold that implementation of these principles by Islamic banks would confirm their commitment to help in Sharia compliant financing of the communities. Moreover, it will serve to provide these banks with access to the global markets for more expansion.

### **2.3.5 Strategic Social Investments**

This refers to making community needs permanent components of Islamic banks' strategies and addressing them as sustainable social responsibility investment objectives into their operations and not as seasonal activities. This can include such initiatives as providing finance for poverty-alleviation projects, micro-finance programs and Awqaaf schemes. These initiatives can serve as steps towards sustainable resolutions to many chronic social needs. It can also serve as best-practice paradigms for other banks to adopt.

## **2.4 Farook et al (2011)**

### **2.4.1 The Determinants**

In their study "Determinants of corporate social responsibility disclosure (CSR): the case of Islamic banks" Farook et al (Farook, S., Hassan, M. K., & Lanis, R. (2011), developed and tested a model to identify and measure the determinants of social disclosures by Islamic banks using a benchmark based on Islamic principles and information extracted from Annual Reports. Their sample is made up of 47 Islamic banks from 14 countries. The authors found that CSR disclosure

by Islamic banks showed significant variation in their sample. This variation according to the results is due to the impact of what they termed as the Relevant Publics in addition to the influence of the Shariah Supervisory Boards (SSB) on the mechanism of the corporate governance in their study.

Another determinant that influenced the level of disclosure according to their study is the proportion of investment accounts compared to total assets in each of the banks researched.

Their results also suggested that the amount of social and political freedom in the countries of the study affected the level of disclosure across the sample.

The above determinants of CSR disclosure will now be explained and the impact of each determinant on CSR disclosure will be discussed.

**The determinants are:**

1. The relevant publics
2. Shariah Supervisory Boards (SSB)
3. Proportion of investment accounts compared to total assets.
4. Level of social and political freedom

**2.4.2 The Relevant Publics**

Farook et al defines the “Relevant Publics” as the size of Muslim population in a given community or country and hold that “the relative size of the Muslim population as a proxy for the Islamic society will determine the level of CSR disclosure presented by Islamic banks”.

Largely, the common social and political beliefs can affect the size and flow of information in a particular country. In addition, since Islamic banks expect support from the Islamic publics, then they must act in a way that confirms their commitment to the expectations of these Islamic publics.

The degree of Islamic banks abidance with stakeholders’ expectations of CSR disclosures depends

on the relative power of the relevant public impact on the practices and operations these banks. The size of the relevant public as a proportion of the overall population of a given country or society determines the degree of pressure on the Islamic banks to show their compliance to Sharia in their practices and disclosure. Farook et al concluded that the relevant public has a direct relationship with the level of CSR disclosure

### **2.4.3 Shariah Supervisory Boards (SSB)**

Farook et al suggested that the higher the number of the SSB members and the more diversified their cross membership, the more ability it has to monitor the compliance of corporate activities and consequently higher levels of CSR are expected.

The larger the number of members will pool more contributions and more input and views. So, the more flow of information is expected to enhance the quantity and quality of disclosure resulting in higher levels of compliance by Sharia laws and principles.

SSB cross-membership refers to the structure of the board being made up of members from different backgrounds. This is likely to enrich the pool of experiences that is gained from different experiences. "Decisions at one board become part of the raw material for decisions at other boards" (Haniffa and Cooke, 2002, p. 321).

Qualifications in secular educational refers to education in fields other than Sharia law. The more secular education SSB member have, the more insight into corporate activities and more input is expected from them. So SSB members' level of education is likely to have a direct effect on the level of CSR disclosure. "Ideally a Sharia adviser (board member) must be able to understand not only Sharia issues but also issues pertaining to law and economics, finance etc. because such issues in many cases are overlapping" Bakar (2002, p. 79)



Farook et al concluded that an existence of an SSB whose members have cross memberships and secular qualifications increases CSR disclosure. “In particular, the existence of Shari’ah board members with cross-memberships, doctorate qualifications and/or international reputation results in greater monitoring and hence greater compliance with Islamic laws and principles, an output of which is higher levels of CSR disclosure”.

#### **2.4.4 Proportion of investment accounts compared to total assets**

Investment Account Holders (IAH) comprise a significant proportion of the total assets of Islamic Banks. According to Gray et al., 1995, the major and cumulative investments of Islamic banks comes from investment account holders’ funds (IAH). According to Farook et al, the management of banks have obligations to commit to both of the shareholders as well as the IAH regarding abiding by Sharia laws in operations and disclosure. The authors concluded that “Further, the significance of IAH rights in influencing CSR disclosures imply that Islamic banks disclose CSR in order to bond their activities to their “Islamic” investors.”

#### **2.4.5 Level of social and political freedom**

Farook et al also pointed out that there is a direct relationship between the level of social and political freedom in a community and the extent of CSR disclosure of the banks in that community. The higher the level of social and political freedom there is in a community, the wider the level of disclosure.

#### **2.5 Aribi et al (2012)**

In their study (Narrative disclosure of corporate social responsibility in Islamic financial institutions), Aribi et al (Aribi, Z. A., & Gao, S. S. 2012), examined the impact of Shariah Islamic

rules on corporate social responsibility (CSR) and corporate social responsibility disclosure (CSRD) in Islamic Financial Institutions (IFIs). They resorted to analysis of narrative reporting of 21 IFIs operating in the GCC region using content analysis. The study points out that many business values from Islam are already found in the concept of CSR of Islamic firms where the socio-economic justice is one major objective clearly stated in Quran. *“We send our Messengers with clear signs and sent down with them the Book and the Balance (Right and Wrong), that men may stand forth in justice” (Qur’an 57:25).*

Aribi et al found that the CSR disclosure in the 21 GCC IFIs is based on Islamic Shariah guidelines. Their study found that Shairah Supervisory Board (SSB) reports constituted the largest part of the CSR disclosure in IFIs. SSB is a governing body that is unique to the management of Islamic banks made up of scholars who are specialized in Islamic jurisprudence as explained earlier in this study. The study also found that other Shariah related items were disclosed in the annual reports, namely Zakah, Al Qard Al Hasan loans or (benevolent loans) which are interest free loans. Also included are donations for charity in addition to employees and community related disclosure.

#### **2.5.1 Aribi et al CSR table from Quran and Sunnah**

Aribi et al constructed a table that links CSR Practice with Islamic principles from the Quran and Sunnah and business ethics.

Below in (Table 3) are some examples adapted from (Aribi, & Gao 2012)

*Table 3: CSR contributions from an Islamic perspective, adapted from Aribi et. al. 2012*

| Quranic or Sunnah Sources  | Practice in Business   | CSR Practice                         |
|--|--|--------------------------------------|
| <p>“Do not mischief on the earth, after it has been set in order, and invoke Him with fear and hope; Surely, Allah’s Mercy is (ever) near unto the good-doers”<br/>(Qur’an, 7:56)</p>  | <p>The importance of taking care of environment</p>                                | <p>Responsibility to environment</p> |
| <p>“The Prophet pray and peace upon him said ‘I will be foe to three persons on the day of judgment, one of them being the one who, when he employs a person that has accomplished his duty, does not give him his due’” (Al Bukhari, No. 2109)</p>  | <p>Fair treatment; equal opportunity and training and development of employees</p> | <p>Responsibility to employees</p>   |
| <p>“It is not righteousness that ye turn your faces towards East or West. But it is righteousness- to believe in Allah and the Last Day, and the Angels, and the Book, and the Messengers. To spend of your substance, out of love for Him, for your kin, for orphans, for the needy, for the wayfarer, for those who ask, and for the ransom of slaves” (Quran 2:177)</p> | <p>Socio-economic justice</p>  | <p>Responsibility to community</p>   |

The above examples from Aribi's table specify CSR contributions from an Islamic perspective to the wellbeing of the societies which includes responsibility to the environment, responsibility to the employees, responsibility to customers and responsibility to the community as a whole as evidenced by Quran and Sunnah.

Aribi's study expected Islamic banks to comply with practicing and disclosing their CSR activities according to Shariah for the sake of informing and updating the stakeholders and the societies. The study concluded that the IFIs Annual Reports they analyzed confirmed that CSR disclosure agreed to a significant extent with Islamic ethics and principles. Aribi's study did not provide details of each of the components of the disclosed information or the extent of variation between the individual IFIs, they rather highlighted only the ideal disclosures as they mentioned in their limitations

## **2.6 Summary of the Literature Reviews**

Findings and conclusions from the current knowledge in the above studies helped me in looking in different routes around my thesis and eventually gaining a sense of direction as to where I am now and where I am heading, while observing the landmarks and gathering more knowledge along the way. These findings helped me in positioning my study within the current relevant body of literature of CSR disclosure in Islamic banks.

The five literature reviews approached CSR and its disclosure from varying perspectives but arrived at somewhat related findings.

Maali et al (2006) approached the CSR reporting and disclosure in 29 Islamic banks in 16 countries using eight Dimensions that are based on AAOIFI standards. Their findings suggested that the content of the CSR reporting fell significantly short of what they initially expected. They came to

a conclusion that Islamic banks have a long way to go before they measure up to the expectations of the Islamic stakeholders.

Dusuki (2008) asserted that CSR practices and disclosure in Islamic organizations are governed by a “divine contract” rather than a “social contract” as in conventional businesses because in Islam human behavior is prearranged by divine revelations and hence are expected to be closer to the absolute and ethical behavior. Therefore, he concluded that Islamic businesses are expected to show more commitment to practice and disclosure of CSR

Hasan and Harahap investigated dimensions of CSR disclosure that are similar to those of Maali et al and added three more areas of research including Ethical Behavior, Good governance and Research & Development, which they considered to be important areas for stakeholders. They conclude that disclosure in these additional areas was not adequate as per the reports of their sample of seven Islamic banks.

Farook et al (2011) identified and measured the determinants of CSR disclosures by 47 Islamic banks from 14 countries and tested four determinants of the disclosure. Two of these four determinants are of high relevance to Maali et al, Hasan and Harhap and Aribi’s studies. These two determinants are the size and structure of Shariah Supervisory Board (SSB) of the banks and the Relevant Public which refers to the composition of the network of the stakeholders in the communities where the banks are operating. The authors concluded that the extent of the CSR disclosure varies directly with size and structure of the SSB and the magnitude and composition of the stakeholders’ networks.

Aribi et al (2012), in the same direction of Dusuki’s study, hold that the socio-economic justice of Islam paved the way for CSR practice and disclosure for Islamic businesses and as such they

expected Islamic banks to comply with Shariah in disclosing their CSR activities. They concluded that Annual Reports of the 21 IFIs operating in the GCC region confirmed that CSR disclosure agreed to a significant extent with Islamic ethics and principles. Their study, however, did not provide details of each of the components of the disclosed information. They only highlighted the ideal IFI disclosures.

## **CHAPTER THREE: METHODOLOGY**

This study contributes to the literature of Corporate Social Responsibility and its Disclosure in Islamic Banks through examining the narrative disclosure published in the 2020 annual reports and sustainability reports of 2 UAE Islamic Banks and comparing them with the best practices' disclosure of one Islamic bank in the region. The comparison will take place using a benchmark developed by Maali et al (2006) based on AAOIFI disclosure standards. The purpose is to identify any gaps in CSR practices and disclosure in the two UAE banks for possible future improvements.

### **3.1 Methodology**

The purpose of this study is to investigate the Corporate Social Responsibility Disclosure (CSR D) of Islamic banks in the UAE in comparison to a best practice IB in the region using Maali et al AAOIFI based benchmark. The data used in this study is predominantly qualitative in nature as it gathers data from narrative reports of corporations that are mainly descriptive in nature especially the sustainability reports. The study also uses quantitative data in some of its parts but only to a limited extent.

### **3.2 Objectives**

The objectives of this study are:

- Collect CSR Disclosure data from the best practice IB bank for 2020 and enter it into Maali's benchmark.
- Collect CSR Disclosure data from the two UAE IBs for 2020 and enter it into Maali's benchmark
- Benchmark CSR Disclosure of the two UAE IBs against best practice IB.

- Conduct a comparative analysis between the UAE IBs and the best practice IB CSR disclosure to find any possible disclosure gaps.
- Discuss the above findings
- Make conclusions, implications and recommendations

Maali's benchmark includes eight Dimensions of CSR areas that stakeholders expect to see in Islamic banks CSR disclosure. Each Dimension is subdivided into Items of CSR activities to be disclosed totaling to 31 items. The items are further classified as Required and Not required items. The Required items are those that are AAOIFI standards and represent the minimum level of disclosure. The Not Required items are not AAOIFI standards. Maali et al added these items to the benchmark to give it more depth in identifying Islamic banks that are willing to practice and disclose more CSR.

### **3.2 Sample**

To attain these objectives, first an investigation into the CSR disclosure of Jordan Islamic Bank (JIB) as the best practice Islamic Bank in the region is conducted. The focus is on the extent of the CSR Disclosure of the Bank as compared to Maali's disclosure benchmark. Information is obtained by examining JIB's 2020 annual reports and sustainability report. Then, 2020 annual reports and sustainability reports of Dubai Islamic Bank (DIB) and Abu Dhabi Islamic Bank (ADIB) are also compared to Maali et al benchmark to find out the extent to which these banks are following the benchmark in their CSR disclosure. Finally, the disclosure results of DIB and ADIB are compared to the disclosure of JIB, the best practice bank. The findings will then be discussed to identify any possible discrepancies in the extent of CSR disclosure in preparation for a conclusion.



This study is based on the contents of 2020 Annual Reports and Sustainability Reports of Jordan Islamic Bank (JIB) and Dubai Islamic Bank (DIB) and Abu Dhabi Islamic Bank (ADIB) based in the UAE.

The data used in this study is predominantly qualitative in nature as it gathers data from narrative reports of the banks that is mainly descriptive in nature especially the sustainability reports. The study also uses quantitative data in some of its parts but only to a limited extent.

### **3.2.1 Jordan Islamic Bank (JIB)**

Jordan Islamic Bank (JIB) started its operations in September 1979 and now has a ROA 1.12%, more than 2440 employees and 255 ATMs working across more than 100 local branches and offices<sup>3</sup>.

To signify its CSR practices and disclosure importance, JIB appointed two committees for this purpose; one is a five-member committee whose members are from the Board of directors and includes the CEO, and a four-member committee, which represents the executive management. These committees regularly put together and issued the Social Responsibility and Sustainability Report annually since 2012. The Bank obtained the Certificate of ISO 26000 in 2015 for implementation of ISO guidance of social responsibility project in the MENA Region.

### **3.2.2 Dubai Islamic Banks (DIB) and Abu Dhabi Islamic Banks (ADIB)**

“There are 22 local banks in the UAE including eight fully-fledged local Islamic banks.”<sup>4</sup>

From the above mentioned 22 banks, the list of the Top 10 local banks in the UAE in 2020, there

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<sup>3</sup> <https://www.worldfinance.com/banking/jib>

<sup>4</sup> [https://www.google.com/search?q=How+many+banks+are+there+in+the+UAE%](https://www.google.com/search?q=How+many+banks+are+there+in+the+UAE%22)

are 4 fully-fledged Islamic banks<sup>5</sup>.

The top two Islamic Banks from the above four IBs are Dubai Islamic Bank (DIB) and Abu Dhabi Islamic Bank (ADIB). Conventional banks on the list with Islamic windows have been excluded because they operate under different frameworks, which are not sharia compliant. DIB and ADIB are ranking 4<sup>th</sup> and 6<sup>th</sup> respectively in the list of the Top 10 banks in the UAE in terms of Return on Assets (ROA), number of employees, number of branches and number of ATMs in 2020.

DIB and ADIB have a network of branches totaling to 90 and 89 branches, a number of employees totaling 3,900 and 2042 employees respectively. In addition, these two banks have 265 and 210 ATMs respectively.

The number of branches, employees and ATMs shown in (Table 4) is important to this study because it reflects the extent of spread of the banks' services and consequently the number of customers and the size of network of stakeholders that are affected by the banks CSR activities.

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<sup>5</sup> <https://gulfbusiness.com/revealed-top-10-banks-uae-2/>

Table 4: Number of branches, employees and ATMs of JIB, DIB, and ADIB

|  |
|--|
| <b>Jordan Islamic Bank (JIB)</b>   |
| <ul style="list-style-type: none"> <li>• Return on assets (ROA) 1.12%</li> <li>• Employees 2,440</li> <li>• Branches: 100</li> <li>• 255 ATMs</li> </ul> |
| <b>Dubai Islamic Bank (DIB)</b>  |
| <ul style="list-style-type: none"> <li>• Return on assets (ROA) 2.2%</li> <li>• Employees 3,900</li> <li>• Branches: 90</li> <li>• 265 ATMs</li> </ul>   |
| <b>Abu Dhabi Islamic Bank (ADIB)</b>   |
| <ul style="list-style-type: none"> <li>• Return on assets (ROA) 2%</li> <li>• Employees 2042</li> <li>• Branches: 89</li> <li>• ATMs 210</li> </ul>      |

### 3.2.3 Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)

AAOIFI was founded in 1990 in Manama, Bahrain. It is a not-for-profit organization that was established to maintain and promote Shariah standards for Islamic financial institutions, participants and the overall industry. So far it has issued 100 standards of Sharia accounting, auditing, governance and ethics for international Islamic institutions. It provides standards for Islamic banking to ensure its members follow the rules and prohibitions set forth by Shari'ah law. AAOIFI is supported by a number of institutional members including Islamic central banks, financial institutions, regulatory bodies and legal firms.

## **CHAPTER FOUR: RESULTS, FINDINGS AND DISUSSION**

This chapter includes the Results, Findings and Discussions of the study.

The first part of the chapter includes the Results of CSR disclosure of each of the three banks, JIB, DIB and ADIB separately as searched and identified in their 2020 annual reports and sustainability reports.

The results are set out in Maali's benchmark shown below. The benchmark consists of 8 Dimensions which are detailed further into 31 Items that need to be disclosed. (Yes) indicates that an Item of a Dimension is disclosed, (No) indicates that it is not. These results of the 8 Dimensions will be elaborated on for each bank separately in the same order to arrive at more specific findings.

The second part of this chapter includes the findings and discussion. Here, each Dimension will be analyzed and discussed for all three banks together to enable the comparison between their disclosures. The extent of disclosure of each Dimension of JIB will be discussed and compared to those of DIB and ADIB respectively.

### **4.1 Results**

Below in (Table 5) is the populated Maali's benchmark for each bank starting with JIB followed by DIB and then ADIB. This order of banks is followed in the rest of the study.

Table 5: Maali's benchmark for JIB, DIB, and ADIB

| Disclosure Index (Benchmark, by MAAALI et al 2006) |   |  | AAOIFI Standards | Banks' Disclosure |         |            |          |
|--|---|--|------------------|-------------------|---------|------------|----------|
| No.  | Dimensions  | Items to be disclosed  |                  | JIB               | DIB     | ADIB       | Comments |
| 1  | Sharia Opinion<br>Unlawful<br>(Haram)<br>transactions | <ul style="list-style-type: none"> <li>• Report of Sharia Supervisory Board</li> </ul>           | Required         | Yes               | Yes     | Yes        |          |
|  |   | <ul style="list-style-type: none"> <li>• Nature of Haram transaction</li> </ul>                  | Required         | Yes P 105         | Yes P37 | Yes        |          |
|  |   | <ul style="list-style-type: none"> <li>• Reasons undertaking transaction</li> </ul>              | Not Required     | No                | No      | No         |          |
|  |   | <ul style="list-style-type: none"> <li>• SSB view on necessity of such transactions</li> </ul>   | Not Required     | No                | No      | No         |          |
|  |   | <ul style="list-style-type: none"> <li>• Amount of revenue or expense of transactions</li> </ul> | Required         | No                | No      | No         |          |
|  |   | <ul style="list-style-type: none"> <li>• How bank disposes of such revenues</li> </ul>           | Required         | Yes               | Yes     | Yes<br>112 |          |

|           |  |   |   |  |  |                                     |          |
|-----------|--|---|---|--|--|-------------------------------------|----------|
|           |  |   |   |  |  |                                     |          |
| 2.<br>(A) | Zakat if bank is required to pay it            | <ul style="list-style-type: none"> <li>• Statement of sources and uses of Zakat</li> <li>• Balance of Zakat, reasons for non-distribution</li> <li>• SSB attestation on computation and distribution</li> </ul> | <p>Required</p> <p>Required</p> <p>Not Required</p> | JIB is NOT required to pay Zakat on behalf of Shareholders | <p>Yes P8</p> <p>Yes P61</p> <p>Yes 35</p> | <p>Yes 117</p> <p>No</p> <p>Yes</p> |          |
| 2.<br>(B) | Zakat if bank is <b>NOT</b> required to pay it | <ul style="list-style-type: none"> <li>• Amount due regarding shares and deposits</li> <li>• SSB or ISSC opinion on validity of computations</li> </ul>   | <p>Required</p> <p>Required</p>                     | <p>Yes P 89</p> <p>Yes Amount due per share specified</p>  | <p>See 2 A above</p>                       | <p>See 2 A above</p>                |          |
|           | Qard Hasan                                     | <ul style="list-style-type: none"> <li>• Sources of funds allocated to Qard. (Statement)</li> </ul>   | Required  | <p>Yes P112</p> <p>Yes P24</p>                             | No   | No                                  | Note JIB |

|   |                                  |   |   |  |   |  |                     |
|---|----------------------------------|---|---|--|---|--|---------------------|
| 3 | (Benevolent Loan)                | <ul style="list-style-type: none"> <li>• Amounts given to beneficiaries</li> <li>• Social purposes for which the funds are given</li> <li>• Bank policy on providing such loans</li> <li>• Bank policy in dealing with insolvent beneficiaries</li> </ul> | <p>Required</p> <p>Required</p> <p>Not Required</p> <p>Not Required</p> | <p>Yes</p> <p>Yes pp.24</p> <p>Yes</p>         | <p>No</p> <p>No</p> <p>No</p> <p>No</p> | <p>No</p> <p>No</p> <p>No</p> <p>No</p>  | <p>P 111 cash F</p> |
| 4 | Charitable and Social Activities | <ul style="list-style-type: none"> <li>• Nature of charitable and social activities</li> <li>• Amount spent on such activities</li> <li>• Sources of funds for these activities</li> </ul>  | <p>Required</p> <p>Required</p> <p>Required</p>                         | <p>Yes pp.25</p> <p>Yes P25</p> <p>Yes P25</p> | <p>Yes Sustain.</p> <p>No</p> <p>No</p> | <p>Yes 47</p> <p>Yes P160</p> <p>Yes</p> |                     |
|   |                                  | <ul style="list-style-type: none"> <li>• Policy on salaries and</li> </ul>  | <p>Not Required</p>   | <p>Yes P20</p>                                 | <p>No</p>                               | <p>Yes</p>                               | <p>P 34</p>         |

|   |                                      |   |              |                    |     |     |            |
|---|--------------------------------------|---|--------------|--------------------|-----|-----|------------|
| 5 | Employees                            | <ul style="list-style-type: none"> <li>• other remunerations</li> <li>• Policy on education and training</li> </ul> | Not Required | Yes P49            | Yes | Yes | Sustain 34 |
|   |                                      | <ul style="list-style-type: none"> <li>• Policy on equal opportunities</li> </ul>                                   | Not Required | No                 | No  | Yes |            |
|   |                                      | <ul style="list-style-type: none"> <li>• Policy on working environment</li> </ul>                                   | Not Required | Yes Sustainability | Yes | Yes |            |
| 6 | Late repayment and insolvent clients | <ul style="list-style-type: none"> <li>• Policy dealing with insolvent clients</li> </ul>                           | Required     | Yes p27            | No  | Yes |            |
|   |                                      | <ul style="list-style-type: none"> <li>• Amount charged on late payment if any</li> </ul>                           | Required     | N/A                | No  | No  |            |
|   |                                      | <ul style="list-style-type: none"> <li>• SSB opinion on any additional charges on late payments</li> </ul>          | Required     | Yes                | Yes | Yes |            |
|   |                                      | <ul style="list-style-type: none"> <li>• Amount and nature of donations or activities for</li> </ul>                | Not Required | Yes P28            | No  | Yes | Sustain    |



|   |  |  |              |             |     |     |  |
|---|--|--|--------------|-------------|-----|-----|--|
| 7 | Environment                            | environment protection   |              |             |     |     |  |
|   |  | <ul style="list-style-type: none"> <li>• Projects financed by bank environment protection</li> <li>• Projects financed by bank that may lead to harming the environment</li> </ul> | Not Required | Yes sustain | No  | Yes |  |
| 8 | Other aspects of community involvement | <ul style="list-style-type: none"> <li>• Bank's role in economic development of the community</li> <li>• Bank's role in addressing social problems</li> </ul>                      | Not Required | Yes         | Yes | Yes |  |
|   |  |  | Not Required | Yes         | Yes | Yes |  |

## 4.2 Findings

Below are the findings of CSR disclosure of Dimensions and Items of **each bank**, starting with JIB, followed by DIB and then ADIB, as identified from the results in the above benchmark.

### 4.2.1 JORDAN ISLAMIC BANK

#### 4.2.1.1 Sharia Opinion on Unlawful (Haram) transactions

Table 6: Sharia Opinion on Unlawful (Haram) transactions (JIB)

| Sharia Opinion on Unlawful (Haram) transactions | Yes (√) or No (X) |
|---|-------------------|
| Report of Sharia Supervisory Board (SSB)        | √                 |
| Nature of Haram transaction                     | X                 |
| Reasons for undertaking transaction and SSB     | X                 |
| View on necessity of such transactions          | X                 |
| Amount of revenue or expense of transactions    | X                 |
| How bank disposes of such revenues              | √                 |

The Report of Sharia Supervisory Board (SSB) received the most disclosure and attention of JIB published separately on pages 88 and 89 of the annual report. The Report summarizes the responsibilities of the SSB towards ensuring the compliance of the Bank with rules of Sharia. In the opinion of SSB “Contracts, operations, and transactions of the Bank during the year ending on 31/12/2020 that we reviewed, was made in accordance with the teachings and principles of Islamic Sharia.” The SSB consists of four members all are PhD holders. Pages 67 and 68 of the annual report contains detailed information about each member of the board covering their academic qualification and practical experiences. The SSB is supported by and Internal Sharia Audit Department. They held 6 meetings during 2020, in addition to meetings with the Board of

Directors, the audit committee, and the external auditor during 2020. The annual report dedicated a section to the members of the SSB regarding their appointment responsibilities, independence, and remunerations.

Haram transactions are referred to in the SSB report on page 89 as inconsistent or noncompliant with Sharia. The report stated, “All amounts that the Bank received from sources in manners that are not consistent with the teachings and principles of Islamic Sharia were excluded from the Bank’s revenues, and they were given to charity.” However, the nature of any such transactions that the bank entered into during 2020 was not disclosed in the body of the report. Moreover, since no such transactions were disclosed, no reasons that might necessitate the undertaking of transactions were disclosed either.

Under Shari’a Non-Compliant Revenues, Gains, Expenses and Losses on page 112, the report states that” the Bank recognize these amounts in a separate account within the other liabilities and shall be distributed to charitable activities as determined by the SSB.” On page 25 of the report under Donations, payments were made to charity associations including but not limited to The Charity Associations and Organizations committees which received about 189,000 JD and The Hashemite Charity Association received about 55,000 JD in 2020 among many other payments. The exact amount received from sources that are not consistent with Sharia are not specified, however.

According to SSB report, any amounts resulting from transactions that are not complying with Sharia rules are disposed of to charity.

#### 4.2.1.2 (B) Zakat if bank is NOT required to pay it directly

Table 7: Zakat if bank is NOT required to pay it directly (JIB)

| Zakat if bank is NOT required to pay it directly | Yes(√) or No (X) |
|--|------------------|
| Amount due regarding shares and deposits         | √                |
| SSB opinion on validity of computations          | √                |

JIB is not required to pay zakat directly on behalf of the shareholders. This is stated in the SSB report on page 89: “The duty of dispensing Zakat is vested with shareholders; no authorization is given by them to the Bank to dispense it directly”. Shareholders are personally responsible for paying off their due Zakat on their shares if all requirements are met.

JIB calculates the amount due for the shareholders. SSB calculated Zakat for 2020 as 26 Jordanian Fills per share. The SSB also advises the shareholders on the basis on which Zakat is handled where shares purchased for trading pay Zakat on the market value of the share and dividends received. If the shareholder is holding shares for dividends then Zakat is payable upon receiving the dividends.

#### 4.2.1.3 Qard Hasan (Benevolent Loan)

Table 8: Qard Hasan (JIB)

| Qard Hasan (Benevolent Loan)                        | Yes(√) or No (X) |
|---|------------------|
| Sources of funds allocated to Qard.                 | √                |
| Amounts given to beneficiaries                      | √                |
| Social purposes for which the funds are given       | √                |
| Bank policy on providing such loans                 | √                |
| Bank policy in dealing with insolvent beneficiaries | √                |

Sources and Uses of Al Qard Al Hasan Fund for the Year Ended December 31, 2020 are disclosed on page 106 of the annual report. JIB disclosed a separate Consolidated Statement of Qard Hasan.

(See figure 1 JIB below). The main source of the loan is the Central Bank, which contributed JD 65 million while sources authorizing the bank contributed JD 24 million. Sources outside the bank also contributed JD1.9 million making a grand total of more than JD91 million.

Amounts that were given out to the beneficiaries of this total amounted to JD79.6 million. More than 20 thousand beneficiaries benefited from the Qard in 2020.

Social purposes of the Qard covered financing justified purposes including education, medical treatment, facing wedding costs. In addition, customers' overdrafts and social advances to bank employees were provided by the Qard. The major beneficiaries during 2020 however, were those who suffered the consequences of Corona pandemic. This category of beneficiaries received a total of about JD 63 million covering all segments of the society, individuals as well as organizations.

The bank policies on providing these loans to the eligible beneficiaries include bank procedures starting filling appropriate and authenticated forms that prove that the applicant is eligible to receiving the Qard. These procedures need to go through committees who ensure that the applicant is eligible.

Dealing with those beneficiaries who receive the Qard and then afterwards become insolvent and be unable to pay are covered under through the bank's Mutual Insurance Fund. The participants of this fund share in covering any financial damage resulting from defaulting on paying debts to the bank. (See more details under Dimension 6 (Late Repayments) below).

Shown below in (Figure 1) is JIB's Consolidated Statement of Qard Hasan for 2020.

Figure 1: JIB's Consolidated Statement of Qard Hasan for 2020

Statement (F): Consolidated Statement of Sources and Uses of Al Qard Al Hasan Fund  
For the Year Ended December 31, 2020

| Description   | 31 December 2020  | 31 December 2019  |
|---|-------------------|-------------------|
|   | JD                | JD                |
| Balance at the beginning of the year  | 20,114,216        | 14,280,494        |
| <b>Sources of the Fund:</b>   |                   |                   |
| Central bank account / Al Qard Al Hasan Fund                                    | 64,908,095        | -                 |
| Sources the Bank is authorized to use   | 24,314,107        | 18,291,786        |
| Sources outside the Bank  | 1,934,535         | 1,822,430         |
| <b>Total sources of the Fund's assets for the year</b>                          | <b>91,156,737</b> | <b>20,114,216</b> |
| <b>Uses of the Fund:</b>  |                   |                   |
| Education   | 1,465,015         | 1,897,157         |
| Medical treatment   | 831,884           | 862,210           |
| Marriage  | 570,170           | 624,780           |
| Overdraft accounts  | 11,238,735        | 14,515,380        |
| Social advances for the Bank's employees  | 2,478,683         | 2,474,311         |
| Central Bank's programme for facing Corona pandemic & med-term crisis agreement | 63,055,499        | -                 |
| <b>Total uses for the year</b>  | <b>79,639,986</b> | <b>20,373,838</b> |

#### 4.2.1.4 Charitable and Social Activities

Table 9: Charitable and Social Activities (JIB)

| Charitable and Social Activities           | Yes(√) or No (X) |
|--|------------------|
| Nature of charitable and social activities | √                |
| Amount spent on such activities            | √                |
| Sources of funds for these activities      | √                |

As shown in table 9 above, JIB is committed to a wide range of charitable and social activities that were detailed in the report on page 25. These activities and organizations that benefited ranged from “Hemmat Watan Fund” which received the highest amount of JD 2 million to a minimum of JD 5000 that was given to “Tkiyet Um Ali”. Total amount spent on these activities totaled to about JD 2.82 million in 2020, which is disclosed on page 167 of the annual report on Note 52 under Other Expenses. Sources of amounts donated are the bank’s own resources.

#### 4.2.1.5 Employees

*Table 10: Employees (JIB)*

| Employee related elements                  | Yes(√) or No (X) |
|--|------------------|
| Policy on salaries and other remunerations | √                |
| Policy on education and training           | √                |
| Policy on equal opportunities              | √                |
| Policy on working environment              | √                |

On the Board of Directors report page 22 under Staff it is reported that JIB employees totaled 2434 by the end of 2020 distributed across the branches and offices in the Kingdom.

Remuneration Policy on page 49 under the report states that this policy is implemented according to the regulations as per the directions of the Central Bank of Jordan, the Jordanian Companies Law and the directives of the Securities Commission. Under “Employees Expenses” on page, 166 Note 51 the total expenses were JD 41.5 million. This covered a full package of remunerations including salaries and allowances, social security, medical expenses and Takaful insurance.

Training courses totaling 265 were offered by bank of which 136 courses took place in the Bank’s Academy for Training and Human Resources Development attended by 3917 employees from different departments covering both functional and institutional competencies in 2020.

Regarding equal opportunities, JIB’s mission on page 11 of the report states “the bank equally serves the interests of all stakeholders including shareholders, investors, borrowers and employees”. On page 46 of the 2020 Social Responsibility and Sustainability Report (SRS Report) JIB stated that they are “committed to provide safe and secure working environment through the Occupational Safety and Health Committee formed in 2013” This (OSH) committee is responsible for developing occupational, safety and health regulations and plans and appropriate performance indicators

**4.2.1.6 Late repayments and insolvent clients**

*Table 11: Late Repayments (JIB)*

| Late repayments and insolvent clients                  | Yes(√) or No (X) |
|--|------------------|
| Policy dealing with insolvent clients                  | √                |
| Amount charged on late payment if any                  | √                |
| SSB opinion on any additional charges on late payments | √                |

This dimension is about disclosing incidents of bank customers who fail to pay dues to the bank on time or become financially insolvent and how the bank handles such occurrences.

JIB has a creative vehicle through which insolvent clients can be assisted in times of financial difficulties through the bank’s Mutual Insurance Fund that was created in 1994 (Page 27). The participants of this fund share in indemnifying any financial damage resulting from defaulting on



paying debts to the bank due to permanent insolvency, disability or death. In 2020 compensations covered 218 participants totaling to nearly JD1.5 million (about AED7.8 million) By the end of December 2020, the Fund had a balance JD 54.8 million (AED285 million). This is a creative best practice that can resolve clients’ insolvency issues and create a sustainable solution for any default issues.

#### 4.2.1.7 Environment

Table 12: Environment (JIB)

| Environment elements  | Yes(√) or No (X) |
|---|------------------|
| Amount and nature of donations or activities for environment protection | √                |
| Projects financed by bank for environment protection                    | √                |
| Projects financed by bank that may lead to harming the environment      | X                |

On page 28 of annual report under “Energy and Environment” JIB stated that they have been providing solar energy to its headquarters and branches since 2013 in contribution to the environment protection by encouraging renewable energy. A total of 52 branches and offices are benefitting from this renewable energy initiative. In addition, JIB has entered into a cooperation agreement with the Ministry of Energy and Mineral Wealth, department of Renewable Energy Encouragement and Power Saving to finance renewable energy projects.

In the Social Responsibility and Sustainability Report on page 30, renewable energy and environment protection initiatives are listed as the first two strategic objectives of this report. Page 60 of the report under Energy, Environment and Water JIB finances hybrid and electric vehicles with favorable terms regarding periods of installment repayments, affordable guarantees and

competitive lending rates. JIB also has a financing product called “Our Sun” which finances companies that work in the field of renewable energy.

Projects financed by bank that may lead to harming the environment were not disclosed, however.

**4.2.1.8 Other aspects of community involvement**

*Table 13: Other Aspects of Community Involvement (JIB)*

| Other Community Involvement                          | Yes(√) or No (X) |
|--|------------------|
| Bank’s role in economic development of the community | √                |
| Bank’s role in addressing social problems            | √                |

JIB has a special program that finances Professionals and Craftsmen with the aim of creating more job opportunities and economically developing the community. Various financing modes were used including Murabaha, Musharakah Muntahia Bet-Tamleek and Wakalah depending on the size of the investment. In 2020, the bank financed 191 such projects for around JD3.6 million (about AED18.72)

The Sustainability Report on page 44 asserts that JIB interacts with a number of educational and academic institutions in Jordan including universities, colleges and schools. As an example, the bank sponsored the National Program of Dissemination of Community Financial Culture providing about JD 150 thousand.

During 2020 the bank provided 383 training opportunities to students from various institutions related to banking careers. Also, on page 48 the report mentions that JIB encourages and supports culture, arts, literature and heritage initiatives including community related programs on a

number of national and local television and radio stations in addition to specialized magazines and newspapers.

**4.2.1.9 CSR and Sustainability Executive Committee and Department**

This is an additional Dimension that is not on Maali’s benchmark and is unique only to JIB. In their 2020 Sustainability Report, JIB stated that “JIB deems social responsibility as a national duty that requires its contribution to economic and social development and to award the society”. In order to achieve this goal, the bank has created a special executive management committee to oversee the CSR and sustainability activities and disclosed the names of its members as below in (Figure 2):

*Figure 2: Members of CSR committee of JIB (2020)*

| <b>Members of the Social Responsibility and Sustainability Committee</b>  |          |
|---|----------|
| <i>“A committee of the Executive Management”</i>  |          |
| <b>Dr. Abdul Hamid Abdallah Ahmad Abu-Sagri</b><br>Assistant General Manager  | Chairman |
| <b>Mr. Bassam Ahmad Abdullah Abu Ghazalah</b><br>Manager of the Studies and Social Responsibility and Sustainability Department | Member   |
| <b>Mr. Ahmad Mohammad Ahmad Abdul Karim</b><br>Manager of Public Relations Department   | Member   |
| <b>Mr. Rashad “Mohammad Rashid” Rashad Alhalawani</b><br>Banking Marketing Unit Officer   | Member   |

Disclosing the names of the members of the committee puts direct responsibility on them and makes them accountable for Board of Directors, top management and the stakeholders.

The Bank also established a department for social responsibility and sustainability as part of the Department of Research and Studies and combined them under the name of “Department of Studies, Social Responsibility, and Sustainability”. (p. 29 of the Sustainability Report). This shows the commitment of the Bank to CSR and sustainability practices and disclosure which

became evident later in its annual and sustainability reports. None of DIB or ADIB had a separate department for CSR and sustainability. ADIB pointed out that there is a committee but no names were disclosed. DIB did not mention such a committee in its reports at all.

## 4.2.2 DUBAI ISLAMIC BANK

### 4.2.2.1 Sharia Opinion on Unlawful (Haram) transactions

*Table 14: Sharia Opinion on Unlawful (Haram) transactions (DIB)*

| Sharia Opinion on Unlawful (Haram) transactions | Yes(√) or No (X) |
|---|------------------|
| Report of Sharia Supervisory Board              | √                |
| Nature of Haram transaction                     | X                |
| Reasons for undertaking transaction and SSB     | X                |
| View on necessity of such transactions          | X                |
| Amount of revenue or expense of transactions    | X                |
| How bank disposes of such revenues              | √                |

Dubai Islamic Bank’s (DIB) Sharia supervisory board is called the Internal Sharia Supervisory Committee (ISSC). Its report was the first to be disclosed on the annual report for 2020 after the Board of Directors Report published separately on pages 1 and 2. The ISSC Report states the responsibilities of the Committee towards ensuring the compliance of the Bank with the rules of Sharia.

Under “Sharia Standards”, the report states that ISSC has complied by the AAOIFI standards to the Bank’s activities from September 2018 as minimum Sharia requirements. The report then lists

the duties accomplished by the Committee during the 2020. The ISSC consists of five members all are PhD holders. Page 91 Note 47.5 of the annual report states, “The ISSC is the highest authority in the Bank from a Sharia governance perspective.”

Unlawful or Haram transactions are referred to as Sharia non-compliance transactions or “wrong transactions”. Under Revenue Recognition Note 5.21.1 on page, 37 the annual report refers to income earned from such transactions as “forfeited income”. This includes income resulting from “transaction errors, wrong transactions or late payments donations by the customers as determined by the ISSC.” DIB 2020 annual report p.37

The ISSC report on page 2 states that it has continuously provided guidance and directives to all departments in the Bank in order to rectify any incidents flagged in any reports. This included setting aside any non-compliance revenues and disposing of them towards charity.

The nature, reasons and necessity for undertaking any Haram transactions during 2020 were not disclosed. Total forfeited income is shown on page 64 as AED6.1 million. The report does not specify how much of this amount is resulting from Haram transactions, however.

The ISSC opinion concluded, “The Bank’s activities are in compliance with Islamic Sharia, except for the incidents of non-compliance observed, as highlighted in the relevant reports.” DIB SSB report p. 7

The reports did not disclose any incidents of (non-compliance) as mentioned above, however.

#### 4.2.2.2 (A) Zakat if required to be paid by the Bank

Table 15: Zakat if required to be paid by the Bank (DIB)

| (A) Zakat if required to be paid by the Bank     | Yes(√) or No (X) |
|--|------------------|
| Statement of sources and uses of Zakat           | √                |
| Balance of Zakat, reasons for non-distribution   | √                |
| ISSC attestation on computation and distribution | √                |

DIB by the provisions of its Article (69) of Association and per the UAE Central Bank requirements is required to pay Zakat on behalf of its shareholders to the Zakat Fund. The ISSC calculates and discloses Zakat due per share on a separate Zakat Notice. There are two types of shares; Shares purchased for trading and shares purchased for benefiting from yearly returns, which are not for trading. Zakat per each type are calculated below as on the Zakat Notice on 2020 Annual Report:

- Zakat due on trading shares is AED 0.04596 per share, calculated as at the end of the Hijri year
- Zakat due on shares not for trading is AED 0.03425 per share calculated for the Gregorian year

Detailed calculations are shown on the Zakat Notice. The annual report under the Consolidated Statement of Financial Position on page 61 Note 23 reported a total of Zakat Payable with an amount of about AED346 million as at December 31, 2020.

The ISSC report on its page 2 attested that the calculation of Zakat for the Bank was reviewed and approved following the AAOIFI standards and that Zakat of shareholders' retained earnings was calculated following the Articles of association of the bank.

#### 4.2.2.3 Qard Hasan (Benevolent Loan)

Table 16: Qard Hasan (DIB)

| Qard Hasan (Benevolent Loan)                             | Yes(√) or No (X) |
|--|------------------|
| Sources of funds allocated to Qard. (Statement)          | X                |
| Amounts given to beneficiaries                           | X                |
| Social purposes for which the funds are given            | X                |
| Bank policy on providing such loans                      | X                |
| Bank policy in dealing with insolvent Qard beneficiaries | X                |

As shown in table 16 above, DIB showed no disclosure for Qard Hasan for 2020. There is no mention of this item in the report or the notes or the financial statements. Further research was done on 2019 and 2018 reports without finding any disclosure of this fundamental component of Islamic Banking.

#### 4.2.2.4 Charitable and Social Activities

Table 17: Charitable and Social Activities (DIB)

| Charitable and Social Activities           | Yes(√) or No (X) |
|--|------------------|
| Nature of charitable and social activities | √                |
| Amount spent on such activities            | X                |
| Sources of funds for these activities.     | X                |

DIB mentioned in its reports that it supported people with special needs with programs aimed at enhancing their quality of life. The bank educated the community on issues related to Islamic banking and finance by publishing its monthly journal “Al Iktisad Al Islami”.

On its 2020 Sustainability Report page 31, DIB announced an amount of AED120 million contribution to the UAE community in the face of Covid 19 pandemic. This amount did not appear in the annual reports, however. No specific amounts spent on charitable and social activities are detailed in the reports

In 2020 during COVID 19 Pandemic, The UAE Central Bank announced a program titled “Targeted Economic Support Scheme (TESS). This is a Zero Cost Facility collateralized liquidity that was given to all UAE banks, including DIB, so that they can give support to their insolvent clients to temporarily relief them from installment payments during COVID 19 economic downturn. An amount of AED 5,890 million was made available to DIB of which the bank made 3,200 million to its retail banking customers and private sector as shown on page 58 Note 19.1

**4.2.2.5 Employees**

*Table 18: Employees (DIB)*

| Employees elements                         | Yes(√) or No (X) |
|--|------------------|
| Policy on salaries and other remunerations | X                |
| Policy on education and training           | √                |
| Policy on equal opportunities              | X                |
| Policy on working environment              | √                |

According to its 2020 Sustainability Report, DIB has 4,233 employees from 40 different nationalities, 35% of which are women. The report states that more than 50% of these employees are Emirati nationals. There is no policy disclosure of employees’ salaries or remunerations in the report. Remuneration related information in the annual report is disclosed only in relation to the of



the Board of Directors and bank directors in general terms. Total salaries, wages and other benefits totaled about AED1.67 billion for 2020 as on page 65, note 38 with no details.

Regarding education and training, the bank gives special attention to developing its human resources with focus on Emirati nationals especially those that have top management potentials. Training and education are referred to under Employee Growth and development, the report states that the bank is striving to develop dedicated and motivated employees through enhancing their job satisfaction and fulfilment. A variety of career training programs are available including an in-house training hub for on the job training in addition to leadership and long term executive training courses from top training and educational institutions from around the world. All training and educational programs are digital learning focused. Examples of in-house training programs include Leadership Development Program, Itkasib Program and Taalam Program with focus on Emirati employees. The report did not include policy on equal opportunity.

For working environment, an employee engagement program titled “DIB Active” is designed to enhance employees’ health and wellness. This an extra out of-the-office program with activities that target enhancing key personality traits such as team work, leadership, mentoring and overall wellbeing. This program offered more than 60 events with more than 2700 employees participating in 2020. The bank won the Workplace Wellness award of the Happiness @Work 2019 Appreciation Awards, Dubai, UAE. The bank responded well to the working environment during the COVID-19 pandemic through its slogan "In It Together" through flexible working hours, flexible working hours and similar precautions.

#### 4.2.2.6 Late Repayments and Insolvent Clients

Table 19: Late Repayments and Insolvent Clients (DIB)

| Late Repayments and Insolvent Clients                   | Yes(√) or No (X) |
|---|------------------|
| Policy dealing with insolvent clients                   | X                |
| Amount charged on late payment if any                   | X                |
| ISSC opinion on any additional charges on late payments | √                |

This particular dimension of the benchmark is about disclosing policies on incidents of customers who fail to pay dues to the bank on time or become financially insolvent and how the bank handles such incidents. Quran encourages creditors to grant debtors time to repay the dues or even to condone it as charity. *“If the debtor is in difficulty, grant him time till it is easy for him to repay. If ye remit by way of charity that is best for you if ye only knew.” (Sura 2:280)*

There is no policy disclosed on dealing with insolvent clients as shown in table 19 above. Regarding the amounts charged on late payments, a policy on page 37 of the annual report refers to insolvent clients with late payments charges, which are directed to charity as “forfeited income”. This income is not treated as interest income which is Haram as per Sharia rules as explained earlier. The bank refers to this income as late charges donations and pays them to charity. Amount in total of forfeited income is shown on page 64 as 6.1 million. However, the exact amount resulting from late payment charges which is treated as donations and paid to charity is not specified. Central Bank TESS program “Targeted Economic Support Scheme” mentioned in dimension (4) above under Charitable and Social Activities was also used by the bank to support customers in difficulties during COVID 19 pandemic during 2020.

#### 4.2.2.7 Environment

Table 20: Environment (DIB)

| Environment elements  | Yes(√) or No (X) |
|---|------------------|
| Amount and nature of donations or activities for environment protection | √                |
| Projects financed by bank environment protection                        | X                |
| Projects financed by bank that may lead to harming the environment      | X                |

On Pages 13-16 of its 2020 Sustainability Report DIB emphasizes its commitment on using ESG as a vehicle for improving the environment through building sustainable operations and supporting the employees and the stakeholders. ESG stands for Environment, Society and Governance measures used to evaluate corporate operations and assess its future financial performance through measuring their sustainability.

The report says they implemented energy saving and resources optimization solutions. This included using energy efficient LED lights and optimization in paper use and water consumption in all branches. The report also says they use and finance environment-friendly and renewable construction materials in its construction affiliate companies. Self-timer switches are used in all its branch signatures. No Dirham amounts have been disclosed, however. Projects financed by bank that may lead to harming the environment are not disclosed

#### 4.2.2.8 Other aspects of community involvement

Table 21: other Aspects of Community Involvement (DIB)

| Other aspects of community involvement               | Yes(√) or No (X) |
|--|------------------|
| Bank's role in economic development of the community | √                |
| Bank's role in addressing social problems            | X                |

DIB reduced and simplified processing fees and documentation processes for customers in accordance with Sharia guidelines in order to keep small businesses running during the pandemic and help in economically developing the communities. The role of the bank in addressing social problems as disclosed in the report is limited to what is shown under Dimension 4 “Charitable and Social Activities”.

#### 4.2.3 ABU DHABI ISLAMIC BANK

##### 4.2.3.1 Sharia Opinion on Unlawful (Haram) transactions

Table 22: Sharia Opinion on Unlawful (Haram) transactions (ADIB)

| Sharia Opinion on Unlawful (Haram) transactions | Yes(√) or No (X) |
|---|------------------|
| Report of Sharia Supervisory Board              | √                |
| Nature of Haram transaction                     | X                |
| Reasons for undertaking transaction and SSB     | X                |
| View on necessity of such transactions          | X                |
| Amount of revenue or expense of transactions    | X                |
| How bank disposes of such revenues              | √                |

Abu Dhabi Islamic Bank (ADIB) Sharia supervisory board is also called the Internal Sharia Supervisory Committee (ISSC). The report of this committee was disclosed on pages 69 and 70 of the annual report for 2020. The report lists the responsibilities of the Committee towards ensuring the compliance of the Bank the rules of Sharia. The ISSC consists of five members three of them are PhD holders. The ISSC report also lists duties that were accomplished by the ISSC during 2020 including providing directives and issuing necessary resolutions. The report held that the ISSC has abided by the Sharia standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as a minimum that meets Shari'a requirements. AAOIFI standards are to be followed in all approvals, fatawi, and recommendations of activities with no exception within the bank's Financial Year. The report then lists all the tasks that were completed by the ISSC during 2020.

No unlawful (Haram) transactions or on-compliance transactions were disclosed in 2020 reports. Therefore, no nature or reason for necessity or amounts were disclosed either.

Under Prohibited Income on Page 92 ADIB ISSC requires the bank to avoid any transaction that is not acceptable according to Shari and identify any possible income from such activity, set it aside in a special account called the charity account. Any such income must be disposed of to charity as purification amount.

#### 4.2.3.2 (A) Zakat if Bank is required to pay it

Table 23: Zakat if Bank is required to pay it (ADIB)

| (A) Zakat if Bank is required to pay it          | Yes(√) or No (X) |
|--|------------------|
| Statement of sources and uses of Zakat           | √                |
| Balance of Zakat, reasons for non-distribution   | √                |
| ISSC attestation on computation and distribution | √                |

ADIB is required to pay Zakat on behalf of the shareholders as per the UAE Central Bank requirements to the Zakat Fund. On page 93 the annual report of ADIB states that Zakat is calculated following AAOIFI Standard number 35 and its ISSC guidance. Total Zakat payable by the bank on shares for 2020 amounted to about 194 million AED as on Note 38 on page 117 of the annual report. The per share Zakat was calculated and attested by the ISSC at AED 0.05335.

ADIB disclosed another category of Zakat, which is Tier 1 Sukuk Zakat. This was estimated to be a total AED 85.6 million for 2020 and AED 0.01800 per each Dirham invested in Tier 1 Sukuk. The holders of Sukuk are responsible for paying this Zakat by themselves. All of these Zakat computations and methods of distributions are attested by the ISSC. No balances of undistributed Zakat are disclosed.

### 4.2.3.3 Qard Hasan (Benevolent Loan)

Table 24: Qard Hasan (ADIB)

| Qard Hasan (Benevolent Loan)                             | Yes(√) or No (X) |
|--|------------------|
| Sources of funds allocated to Qard                       | X                |
| Amounts given to beneficiaries                           | X                |
| Social purposes for which the funds are given            | X                |
| Bank policy on providing such loans                      | X                |
| Bank policy in dealing with insolvent Qard beneficiaries | X                |

Under “Definitions” on page 76, ADIB annual reports shows the following definition of Qard Hasan.

“A non-profit bearing loan that enables the borrower to use the borrowed amount for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.”

However, there is no other mention of Qard Hasan in any other part of the report. Searching back into 2018 and 2019 annual reports showed exactly the above definition with no further mention of Qard Hasan. So, none of the above items were disclosed in the reports of ADIB for 2020.

### 4.2.3.4 Charitable and Social Activities

Table 25: Charitable and Social Activities (ADIB)

| Charitable and Social Activities           | Yes(√) or No (X) |
|--|------------------|
| Nature of charitable and social activities | √                |
| Amount spent on such activities            | √                |
| Sources of funds for these activities      | √                |

ADIB has a social committee (page 61) and a Charity Account (page 12) for charitable and social activities. The mission of this committee is to engage the community by adopting initiatives and implementing programs that are aimed to have sustainable impacts on the community development. Examples of programs included supporting local programs creation of job opportunities, supporting of volunteering. Social activities disclosed included mass wedding, sports, senior citizens, people of determination and developing local economy, food boxes and winter clothing to the poor. ADIB organized the Tolerance Wedding for 48 nationalities. In sports, since 2012, the bank has sponsored the Future Champions League. This is a football tournament for school children between 10 and 14 years old. In Dubai, the bank built a center for senior Emirati citizens to elevate the quality of their lives in collaboration with the Ministry of Community Development.

A total of AED 20 million was the amount spent on charitable and social activities as approved by the Annual General Assembly by the shareholders on 29 March 2020. This amount was fully paid during 2020 as shown on page 74 the Statement of Cash Flows and on page 160 Note 44.

Source of the social contribution funds of charity and social activities was the Retained Earnings of the bank.

#### 4.2.3.5 Employees

Table 26 Employees (ADIB)

| Employees elements                         | Yes(√) or No (X) |
|--|------------------|
| Policy on salaries and other remunerations | √                |
| Policy on education and training           | √                |
| Policy on equal opportunities              | √                |
| Policy on working environment              | √                |



On page 58 of ADIB, annual report shows Note 10.5 on Bank Remuneration and Nomination Committee. The report states that this committee “reviews on an annual basis the policy for the remuneration, benefits, incentives and salaries of all ADIB employees”. Page 93 of the annual report detailed policies on the Bank’s Employees’ Pensions and end-of-service benefits for national and expatriate employees. UAE national employees get pensions, which are contributed a pension fund that is established by the General Pension and Social Security Authority. The pension is computed as a percentage of each employee’s salary. Pension obligations are disclosed in the Consolidated Income Statement when they become due. Expatriate employees get a lump-sum end of service gratuity, which is based on the employee’s salary and a minimum length of service period, subject to the completion of a minimum service period. These costs are accrued and disclosed under ‘Other Liabilities’ in the consolidated financial position statement. Page 112 showed a total Provision for staff benefits and other expenses amount of AED 414 million. Employee benefits as detailed in ADIB sustainability Report included medical insurance, life insurance, leave, flexible working hours, employee financing, annual Umrah program and semi-annual revision of job profiles.

Policy on training and education, under Talent Development on page 37 the report disclosed that an average of 60 hours of training were provided per employee during the year. ADIB academy delivered a number of training programs to support talent advancement like Qiyadat and Taken programs designed to prepare UAE national employees for leadership and key corporate roles like finance, investment banking, audit, credit and risk management.

ADIB provided disclosed policies on equal opportunity for women under Women Empowerment program in a work environment that undertakes gender equality. Women counted to more than 32% of the employees and top management in an effort to reduce the gender gap. This is an equal

opportunity aspect from a gender perspective.

ADIB Sustainability Report under Enabling Our People discussed various perspectives of their employees work related environment. The report also showed different activities covering employee health and wellness, sports activities and safe work environment. ADIB headquarters in Abu Dhabi ISO 45001 certified a safe working place designed to prevent accident and injury. Safety practices including scheduled fire drills across all sites are in place to ensure a safe working environment. Corvid 19 precautionary measures were also followed during the pandemic. This included scheduling of vaccination campaigns, strict facilities sterilization protocols working from home Staff Wellbeing Seminars.

ADIB’s Working environment also included an Employees’ Code of Ethics and Standards of Professional Conduct with the aim of ensuring an ethical, professional and moral work environment. This code established processes of grievance management, anti-harassment and whistle blowing to warrant that the working environment is as ethical and professional as possible.

**4.2.3.6 Late Repayments and Insolvent Clients**

*Table 27: Late Repayments and Insolvent Clients (ADIB)*

| Late Repayments and Insolvent Clients                   | Yes(√) or No (X) |
|---|------------------|
| Policy dealing with insolvent clients                   | √                |
| Amount charged on late payment if any                   | X                |
| ISSC opinion on any additional charges on late payments | √                |

This dimension is about disclosing policies on handling incidents of customers who fail to pay dues to the bank on time or become financially insolvent and how the bank handles such incidents.

On page 69, the annual report of the ISSC stated that they provide directives to rectify and issue resolutions to set aside revenues earned from non-compliance transactions to be disposed towards charitable purposes. These noncompliance revenues include charges on late payments.

Late repayment charges were not applicable during 2020 because of the unique situation where almost all the banks’ clients were insolvent because of the global downturn in the economy that resulted from the repercussions of COVID 19. Consequently, no amounts charged were disclosed.

The UAE Central Bank intervened with the “Targeted Economic Support Scheme (TESS) to resolve this issue in 2020 during the pandemic as mentioned earlier above. ADIB received 665 million from this fund, which was appropriately used to support customers in difficulties during the pandemic including insolvent clients.

**4.2.3.7 Environment**

*Table 28: Environment elements (ADIB)*

| Environment Elements  | Yes(√) or No (X) |
|---|------------------|
| Amount and nature of donations or activities for environment protection | √                |
| Projects financed by bank environment protection                        | √                |
| Projects financed by bank that may lead to harming the environment      | X                |

In its Sustainability Report (page 73) ADIB stated its commitment to managing the risks and opportunities that are associated with climate change in relation to their operations. In so doing, they set their environmental objectives with the aim of raising environment awareness amongst

their employees, customers and suppliers in order to minimize the negative impact of their footprint. To achieve this the bank created initiatives that are linked to environmental performance indicators to monitor waste management, purchasing with responsibility in addition to encouraging digitization of operations. The ultimate goal is to minimize waste and maximize energy saving in operations. In resources optimization the bank lead initiatives to minimize electricity consumption, fuel, water and paper consumption. Also in efforts to manage, Greenhouse Gas emissions to protect the environment the bank financed a tree planting initiative across the Emirates.

Amounts spent on these environment activities are not disclosed.

No environment harming projects financed by ADIB are disclosed

**4.2.3.8 Other Aspects of Community Involvement**

*Table 29: other aspects of community Involvement (ADIB)*

| Other aspects of community involvement               | Yes(√) or No (X) |
|--|------------------|
| Bank’s role in economic development of the community | √                |
| Bank’s role in addressing social problems            | √                |

According to its annual report Page 29, ADIB stated that they are the only bank in the UAE that has a Community Banking section. This section undertakes to serve organizations that benefit the community through providing investments that have social impact and non-profit organizations and governmental programs that provide contributions to communities.

ADIB won Mohammed bin Rashid Al Maktoum Business Award for the third time for its outstanding impact in contributing to the UAE’s economy. The purpose of the award is to recognize UAE businesses exceptional contributions to the economic development of the UAE and GCC.

Other ADIB community involvement disclosed in the sustainability report included Partnership with the Red Crescent, Think Science Clubs for the youth, and Adahi campaign during Eid Al Adha for the poor UAE residents. Also sponsoring Holy Quran, recitation and Tajweed competition directed towards young generations from all nationalities in the UAE.

### **4.3 Discussion**

This part will discuss the results from the above part of this chapter and arrive at findings regarding the CSR disclosure of the three banks. Here, each of the eight Dimensions in the benchmark will be looked at from the perspectives of All 3 banks at the same time. The discussion will identify any differences between the disclosure of JIB on one hand and DIB and ADIB on the other. The discussion of the dimensions will be following the same order as in the previous chapters.

There are a number of discrepancies in CSR disclosure in many of the eight dimensions of Maali benchmark between JIB disclosure, and that of DIB and ADIB. Some differences are fundamental like Qard Hasan Dimension and The Environment. Other differences are partial in certain items. It is worth mentioning here that although the two UAE banks have a very similar reporting framework, they still exhibited some differences between them in their CSR disclosure in 2020.

#### **4.3.1 Sharia Opinion Unlawful (Haram) transactions**

- Report of Sharia Supervisory
- Nature of Haram Transactions
- Reasons undertaking Haram transaction
- SSB view on necessity of such transactions
- Amount of revenue or expense of these transactions

- How bank disposes of such revenues

All three banks disclosed the “Report of Sharia Supervisory Board” in details.

However, JIB report provided more details about the members of the SSB committee than DIB and ADIB. Two full pages detailed members’ educational and practical experiences in Islamic jurisprudence and its implementation in various fields. This in turn gives more credibility to the SSB Report itself. It details not only the academic and professional qualifications of the members of the SSB but also their past applied experiences in both Sharia and other disciplines. This an important part of disclosure as it gives more confidence to the stakeholders in the SSB members and their abilities to give deeper and broader magnitude opinion of the disclosure’s compliance of the bank’s operations with Sharia rules.

This finding agrees with Aribi et al (Aribi, Z. A., & Gao, S. S. 2012), in the literature review above in that SSB Reporting made up the major part of the CSR disclosure in the IFIs. The finding also agrees with the literature of Farook et al (Farook, S., Hassan, M. K., & Lanis, R. (2011), who considers SSB to be a main governance mechanism in Islamic banks and hold that Islamic banks would be subject to high pressure from the SSB in order abide by Islamic laws and principles and therefore disclose more CSR information.

Below in (Figure 3) is a sample detailed profile of one of JIB SSB members as disclosed in its annual report (page 67).

Figure 3: Sample detailed profile of one of JIB SSB members

| Names of the Sharia Supervisory Board Members   | Academic Qualification   | Practical Experience  |
|---|--|---|
| <p>H.E. Prof. Dr. Mahmoud Ali Mosleh Al Sartawi<br/>                     Chairman of the Sharia Supervisory Board since 26/5/2015.<br/>                     Member of the Sharia Supervisory Board since 26/4/2005.<br/>                     Date of birth: 22/9/1943</p> | <ul style="list-style-type: none"> <li>– PhD. in (comparative jurisprudence), Al-Azhar University, 1976,</li> <li>– Master's in comparative jurisprudence, Al-Azhar University, 1972.</li> <li>– Bachelor's in Islamic Sharia, Al-Azhar University, 1967.</li> </ul> | <p>Professor of Comparative Jurisprudence at the World Islamic Sciences and Education University previously, Former Dean of Faculty of Sharia and Former Professor in the comparative Jurisprudence at University of Jordan, lecturer in many universities, member of the Sharia supervisory board at the Islamic Insurance Company and Jordan Engineers Association, member in the Jordan Academy of Arabic. He is a former Member of the Supervisory Board of Accounting and Auditing Organization (AAIOFI), member in many committees, advisor to the authorship of Islamic Education books at the Ministry of Education, he was awarded AL Hussein Medal of First Class in serving Islam and Da'wa.</p> |

The above sample of disclosure on the credentials and experience of SSB gives the stakeholders of the bank more assurance of the abilities of the board in making decisions regarding Sharia compliance.

### Disclosure of Haram Transactions

Regarding the remaining items under (Haram Transactions), none of the three banks including, JIB, disclosed any of the above items about Haram transactions, except the last item related to how they disposed of the noncomplying revenues.

This finding agrees with Maali et al as they also find that “Islamic banks, in general, do not disclose information about activities that may attract criticism, such as unlawful (*haram*) transactions and their policy for dealing with insolvent clients.” (Maali et al 2006, P. 286).

This also agrees with findings of Hassan and Harhap (2010 p. 218) that from their sample of 7 banks “Only two Islamic banks clearly stated no involvement in non-permissible activities”.

Probable reasons behind this nondisclosure could be that Islamic banks are trying to avoid any concerns that might affect their Islamic image in the minds of the stakeholders as

Buhr and Freedman stated, “negative corporate image can have a serious economic implication for organizations’ (Buhr and Freedman, 2001, p. 294). All three banks agreed that non-compliance revenues are deposited in a special charity account and later disposed of to charity.

This disclosure should be given attention by Islamic Banks to share this important disclosure item with the stakeholders and other parties. From a Sharia standpoint, these transactions can include Ribba (interest bearing), Gharar (excessive uncertainty) and gambling or similar transactions. Many potential Muslim customers and investors are staying away from all banks including Islamic Banks because they are skeptical about sources of some revenues.

Some Haram transactions may not be avoidable by Islamic Banks where they find themselves entering in them without their choice. For example, all banks including Islamic Banks are required to keep deposits with the Central Bank. These deposits receive interest, which falls under revenue from Ribba. Such unavoidable transactions and their amounts must be disclosed. Informed stakeholders are aware of such transactions and their nondisclosure may shake their confidence in the bank’s compliance with Sharia rules.

If Islamic banks disclose the sources of these revenues and the necessity behind their involvement in them and how they are disposed of, this would give these potential skeptical customers and investors more confidence in the compliance of the banks with Sharia rules.



### **4.3.2 Zakat**

#### **(A) Zakat if bank is required to pay it**

Both DIB and ADIB are required to pay Zakat on behalf Shareholders to the Zakat Fund as per the requirement of UAE Central Bank. Both banks appropriately calculated Zakat per share as approved by ISSC. ADIB also calculated Zakat on Sukuk

#### **(B) Zakat if bank is NOT required to pay it**

JIB is not required to pay Zakat on behalf of the shareholders. Zakat per share has been appropriately calculated and approved by SSB. The shareholders would then arrange to pay their own Zakat to whoever they see deserving

### **4.3.3 Qard Hasan (Benevolent Loan)**

JIB is the only bank that disclosed Qard Hasan dimension in its annual report. This sets a main and clear demarcation in disclosure between JIB on one hand and DIB and ADIB on the other. JIB disclosed Qard Hasan information in detail. It showed all amounts that comprised the Qard in a separate statement depicting its sources and uses of funds.

See the detailed consolidated statement of Qard Hasan (Figure 4:JIB's Consolidated Statement of Qard Hasan for 2020) on page (62) above.

On the other hand, none of either DIB or ADIB showed any disclosure of Qard Hasan in any of their annual or sustainability reports for 2020. The disclosure of this Qard is a major dimension in Maali's benchmark and is required by AAOIFI.

Aribi et al (2012) found that 90% of their sample disclosed Qard Hasan

“Disclosure covers items such as community investment, contribution to national economy as well as education support, health support, free-interest loan and public welfare. A total of 19 companies (90 percent) of the total sample disclosed information under this category”. (Aribi et al page 218)

I had suspected that this lack of disclosure of Qard Hasan by both DIB and ADIB was probably due to COVID 19 economic repercussions during 2020. Therefore, I did further research in the annual reports for both banks before COVID, for 2018, and 2019 respectively. No Qard Hasan information related to either DIB or ADIB was disclosed in these two years even before COVID 19.

I also did further research into the annual reports of Noor Islamic Bank which has been fully acquired by DIB in 2019 – 2020. Noor Bank had disclosed Qard Hasan on its Financial Statement Position as at December 2017 and 2018 under Qard-e-Hasan showing amounts of AED9.3 and AED9.8 million respectively, under Customer Deposits on page 81 of its 2018 annual report.

Noor Bank does not exist as a separate entity as of 2020 following its full acquisition by DIB. Reasons for the non-disclosure of Qard Hasan by DIB and ADIB needs to be researched further.

Farook et al CSR determining factor of the Relevant Public may be used to explain why JIB is practicing and disclosing Qard Hasan while DIB and ADIB are not. Farook et al stated that ‘The size of the relevant public as a proportion of the overall population of a given country or society determines the degree of pressure on the Islamic banks to show their compliance to Sharia in their practices and disclosure.’ Therefore, given the size of Muslim population in the two countries, the relevant public in Jordan can have more pressure on JIB than the pressure that can come from

the relevant public in the UAE on DIB and ADIB. The two countries have almost similar population size in 2020; however, Jordan has a higher ratio of Muslim population than the UAE. (10.2 million in Jordan, 96% are Muslims and 9.89 million in the UAE, 76% are Muslims). This needs to be researched further, however.

#### **4.3.4 Charitable and Social Activities**

- Nature of charitable and social activities
- Amount spent on such activities
- Sources of funds for these activities

All three banks disclosed their charitable and social activities. The level of disclosure varied between them, however. The nature of the activities is almost similar in that they are directed towards the needy and vulnerable sectors of the societies. However, JIB included a wider range of activities directed towards more beneficiaries that are officially registered as charity organizations. The amounts disclosed by JIB was JD2.82 million (about AED14.4 million) from its own resources. ADIB disclosed AED20 million from the shareholders. DIB (announced) that an amount of AED120 was going to be allocated for these activities but none was clearly disclosed in the reports.

#### **4.3.5 Employees**

- Policy on salaries and other remunerations
- Policy on education and training
- Policy on equal opportunities
- Policy on working environment

JIB and ADIB disclosed their policies on salaries and remunerations while DIB showed no disclosure in this item. This is an important item to be disclosed for both the employees and the stakeholders and DIB should make it part of its disclosure. All three banks disclosed training and education policies and working environment policies. ADIB disclosed working environment that included an Employees' Code of Ethics and Standards of Professional Conduct to ensure a work environment that is ethical, professional and moral. It included grievance management, anti-harassment and whistle-blowing to warrant working place that is as healthy as possible.

The equal opportunities policies are disclosed by both JIB and ADIB. DIB showed no such disclosure. Equal opportunities are of utmost importance worldwide now a days and should be an integral part of any CSR disclosure.

#### **4.3.6 Late Repayments and Insolvent Clients**

- Policy dealing with insolvent clients
- Amount charged on late payment if any
- SSB opinion on any additional charges on late payments.

JIB has insolvent clients can be assisted by the bank's Mutual Insurance Fund as mentioned in details earlier. The participants of this fund are covered in any financial damage resulting from failure on paying debts to the bank due to permanent insolvency. In 2020 compensations covered 218 participants totaling to nearly JD1.5 million (about AED7.8 million) By the end of December 2020, the Fund had a balance JD 54.8 million (AED285 million). This is a creative best practice than can resolve clients' insolvency issues and create a sustainable solution for any default issues.

Both DIB and ADIB have policies on dealing with insolvent clients and treating charges on late payments as donations that is put in a separate account and paid off later to charity. DIB classifies

all noncomplying income including late charges as forfeited income, which totaled AED6.1 in 2020. No details of how much of this total amount is specifically from late payment is disclosed however. ADIB did not disclose any late charges for 2020.

As mentioned earlier above, during the pandemic, The UAE Central Bank interfered with the Targeted Economic Support Scheme (TESS) and temporarily relieved defaulting insolvent bank clients from late payments which gave them deferral opportunity during the economic recession period.

SSB and ISSC opinion of all three banks are very clear on late payments, if any, as to be paid off to charity

#### **4.3.7 Environment**

- Amount and nature of donations or activities for environment protection
- Projects financed by bank environment protection
- Projects financed by bank that may lead to harming the environment

Both JIB and ADIB disclosed the nature of activities targeting environment protection and the projects they financed to help in environment protection. Amounts spent on these activities were not disclosed, however.

Dubai Islamic Bank disclosed only a description of the environment protection they implemented.

Regarding financing environmental activities, JIB concentrated most of its environment protection efforts on renewable energy to serve its head office and branches. The bank entered into partnership with the Ministry of Energy and Mineral Wealth and financed many renewable energy projects. It also financed hybrid and electric vehicles with favorable lending terms regarding periods of

repayments, affordable guarantees and competitive lending rates. JIB also launched a solar energy product called “Our Sun” also with favorable financing terms.

ADIB led environmental initiatives including environmental awareness training to their employees, monitoring their operation carbon footprints, waste management and paper recycling.

None of the three banks disclosed financing any projects that might be harming to the environment.

#### **4.3.8 Other aspects of community involvement**

- Bank’s role in economic development of the community.
- Bank’s role in addressing social problems

All three banks disclosed contributions to the above items in different ways.

JIB has contributed to economically developing the community through providing financing to Professionals and Craftsmen and thereby creating more job opportunities. Various Islamic financing modes were used that resulted in creating 191 projects in 2020 totaling to round JD3.6 million (about AED18.72 million)

JIB also provided various training opportunities to students from several universities related to the banking industry. The purpose of introducing these students to the banking career is to enhance their employability chances and thereby contribute to the economic development of the communities. In addition, JIB encouraged and supported community cultural and heritage initiatives on various programs through national and local television and radio stations sponsored specialized magazines and newspapers to raise community banking and financial literacy awareness

DIB contributed to the economic development of the community by reducing and simplifying the banking processes and transactions for the clients. Banking fees and documentation processes were reduced and made simpler in order to keep small businesses running during the pandemic. No further role of the bank in addressing social problems other than those disclosed under Charitable and Social Activities above

ADIB played a role in economic development of the community and won many awards for their exceptional contributions to the economic development in the UAE and GCC. The bank won Mohammed bin Rashid Al Maktoum Business Award for the third time for its outstanding impact in contributing to the UAE's economy (Page 33 of the Sustainability Report)

ADIB community involvement disclosed in the sustainability report included Partnership with the Red Crescent, Think Science Clubs for the youth, and Eid Al Adha for the poor UAE residents.

DIB contributions under this Dimension are very deficient compared with the two other banks.

## **CHAPTER FIVE: CONCLUSION**

### **5.1 Conclusion**

Corporate Social Responsibility Disclosure (CSR/D) is a voluntary activity that involves varying levels of interaction between the management of the corporation on one hand and its network of stakeholder's and communities on another. Many users of Islamic banks' annual reports and sustainability reports, including existing and potential shareholders and depositors are interested in seeing and judging the degree to which these banks' management is willing to share information about the funds that have been entrusted with them. Using the information disclosed, these users have the choice of making decisions about their funds with the banks. Generally speaking, the more transparent the banks are, the more likely the stakeholders are willing to entrust the banks with their funds.

The main purpose of this study is to investigate any discrepancies in the Corporate Social Responsibility Disclosure (CSR/D) between Jordan Islamic Bank (JID) on one hand, and Dubai Islamic Bank (DIB) and Abu Dhabi Islamic Bank (ADIB) on the other, using comparative analysis. To achieve this purpose the study used a benchmark (Disclosure Index) that was developed by Maali et al (Maali et al., 2006) mainly comprised of AAOIFI standards using narrative disclosure. This benchmark is composed of eight Dimensions that include required AAOIFI disclosure standards. The benchmark also includes additional disclosure items that have been derived from the literature of Islamic banking ethics and CSR. Each Dimension has a sub list of Items making a total of 31 items in the benchmark that detail each Dimension further. The study mainly used the 2020 Annual Reports and other reports of the



three banks to populate the benchmark. Sustainability Reports of the banks were used only when needed and when information is not disclosed in the annual reports. DIB and ADIB disclosure of the 31 items are benchmarked against the disclosure of the same items of JIB. Findings suggest that there are discrepancies between JIB CSR disclosure and DIB and ADIB CSR disclosure in most of the 31 items of the 8 Dimensions. Some of these discrepancies included absence of entire Dimensions that are totally not disclosed. Other discrepancies are in the items.

In Dimension one, all three banks agreed in disclosing only the first item and the last item. However, JIB disclosed more details and depth of information about the SSB members than the other two banks giving details about education and practical experiences of each of the SSB members. In its annual report, JIB also dedicated a section detailing SSB members' regarding their appointment responsibilities, independence, and remunerations.

Disclosing detailed information about the SSB members gives more credibility and confidence to the users of the report about their contents. This finding agrees with the literature review of Farook et al (Farook, S., Hassan, M. K., & Lanis, R. (2011). They regard SSB to be a major governance mechanism in Islamic banks and stated that "Islamic banks would thereby be under greater pressure from the SSB to comply with Islamic laws and principles and hence disclose more CSR information." It also agrees with Aribi et al (Aribi, Z. A., & Gao, S. S. 2012), literature review in that "SSB reports constituted the largest part of the CSR disclosure in IFIs."

In Dimension two there was no room for comparison as the required disclosures are different. JIB is not required to pay Zakat on behalf of the shareholders while DIB and ADIB are both required as per the UAE Central Bank rules. All information about the per share Zakat was

disclosed by all three banks. Zakat is one of the five pillars of Islam and its disclosure cannot be ignored by any Islamic bank or financial institution.

Dimension Three only JIB fully disclosed Qard Hasan showing its best practice, while none of the two UAE banks showed any disclosure on this major Dimension. This is the largest discrepancy of all Dimensions in the study and at the same time one of the best practices of JIB. This result is similar to the findings of Haniffa and Hudaib (2007) who conducted a research on Exploring the Ethical Identity of Islamic Banks via Communication in Annual Reports. In their sample of seven Islamic banks, six of which are in the Gulf region, showed that only four of these banks disclosed Qard Hasan information including the statements of sources and uses of funds. Lack of Qard Hasan disclosure by UAE Islamic banks needs to be researched further.

Dimension Four showed that JIB and ADIB disclosed all three items of Charitable and Social Activities, while DIB disclosed only the first item. Dimension Five all three banks agreed on disclosure on Employees. However, only JIB and ADIB showed disclosure on the items related to Equal Opportunities and the working environment. In Dimension 6, again JIB disclosed a best practice in handling late payments and insolvent clients through their creative Mutual Insurance Fund and disclosed the number of beneficiaries and total amounts spent from the fund in 2020. DIB and ADIB only disclosed the policies, no amounts were disclosed. This best practice would work very well if adopted by DIB and ADIB. In Dimension Seven JIB and ADIB disclosed two of the three items while DIB disclosed none. This is another area where DIB is lacking in a major Dimension of the benchmark. All Items of Dimension Eight were disclosed by all three banks.

The study shows that out of the total 31 Items in the 8 Dimensions of the benchmark, Jordan

Islamic Bank (JIB) disclosed 26 items (84%), Dubai Islamic Bank (DIB) disclosed only 15 items (48%) and Abu Dhabi Islamic Bank (ADIB) disclosed 20 items (65%). In percentages terms, there is a big discrepancy and the extent of DIB and ADIB CSR disclosures are considerably below those of JIB. Although the weights of the items are not equal, however they show the extent to which each bank has gone in the of CSR disclosure with the aim of measuring up to the expectations of their respective stakeholders.

There was variation in CSR disclosure between the two UAE banks themselves. ADIB made disclosure on the Employees Dimension better than the two other banks including JIB, the best practice bank. ADIB's Work Environment was not limited to the physical environment but also covered professional, ethical and moral aspects of the workplace including anti-harassment, grievance management and whistle blowing to ensure a healthy working environment. ADIB bank also disclosed their Equal Opportunities policy. This is a practice that would add to the extent of credibility of CSR disclosure if followed by the other two banks and other Islamic banks in the region.

## **5.2 Policy Implications and Recommendations**

Islamic Banks are expected to be more transparent and disclose as much CSR activities as possible. Stakeholders and other parties are likely to have more confidence and assurance in the ability of Islamic banks to comply with Sharia guidelines. This would give them more assurance that their investments and deposits are in safe hands that ensure that these funds are mobilized in a way that is following the Sharia rules. Not disclosing some transactions such as Haram Transactions, would work against what the Islamic Banks are trying to achieve by not disclosing such transactions.

Many CSR practices of Jordan Islamic Bank can be recommended as a benchmark for best practices that can be adopted for more transparent disclosure to satisfy the expectations of the network of stakeholders and the community at large.

JIB has a special executive management committee to follow up CSR and Sustainability activities. The names and titles of the members of the committee are disclosed in the reports for assigning more accountability. According to the bank “JIB deems social responsibility as a national duty that requires its contribution to economic and social development and toward the society”. The Bank also established a Department of Studies, Social Responsibility, and Sustainability to signify the importance of CSR and sustainability in the bank. This commitment to CSR enabled the bank to create a network of partnerships that work towards achieving the goal of making social responsibility a “national duty” as per the Bank’s Sustainability report. This is good practice is recommendable to both DIB and ADIB and other Islamic banks to consider for furthering their efforts towards CSR practice and disclosure. Disclosing a profile of the members of the Sharia Supervisory Board (SSB) including their practical experiences and academic qualifications is also a best practice of JIB that can be adopted by Islamic Banks in the UAE. This practice puts the SSB members directly accountable in front of the stakeholders.

A major finding of the study was the lack of disclosure of Al Qard Al Hassan by DIB and ADIB as mentioned above. None of the two UAE banks disclosed anything about this recommendable Islamic practice that reflects shouldering of responsibilities towards a sector of their stakeholders. DIB and ADIB are recommended to consider disclosing this important dimension if it is one of their products or make it available as one of their products. All Islamic societies whether they are rich or poor are susceptible to having people who run into financial

difficulties who can benefit from Qard Hasan which is a fundamental Islamic practice. Organizations, individuals and the banks themselves can contribute to funding the sources of Al Qard Al Hasan. DIB and ADIB in addition to any other UAE Islamic banks can benefit from JIB practices in this regard. Al Qard Al Hassan works towards supporting a significant sector of the community with basic needs like health, education and similar requirements in times when they are not prepared for them. The expected benefits outweigh any costs involved. Any possible defaults from Qard Hasan beneficiaries can be handled using similar tools like the Mutual Insurance Fund used by JIB as mentioned below.

Another recommendable good practice followed by JIB is the creative way of handling issues related to Late Repayments and Insolvent Clients. JIB handles this problem by using its Mutual Insurance Fund. This is another best practice that both DIB and ADIB can consider adopting. It is funded by the bank clients and works for their benefits if they default. At the same time, it relieves the bank from all the worries related to late payments and insolvent clients and thereby eliminating any possible noncompliance doubts associated with handling late repayments and defaulting clients.

The discrepancies of CSR disclosure evidenced in this study in addition to the short falls asserted by Maali et al and the variations stated by Hasan and Harahap in their studies, all indicate a need for creating and developing a standardized CSR disclosure index that is applicable to all Islamic banks and financial institutions all over the world. Such standardized disclosure index would create an overall Islamic Financial Institutions access to a disclosure framework that would add more trust and confidence of stakeholders and other parties in the CSR practices and disclosure of Islamic banks and financial institutions.

Innovations and best disclosure practices can also be borrowed from conventional banks and

financial institutions in this regard. Practices like the “Equator Principles” advocated earlier by Hasan and Harahap can help in the assessment and management of social and environmental risks that meet Islamic banks when considering financing projects especially those industrial projects that are associated with possible negative impacts on the environment and the societies.

### **5.3 Limitation of the Study and Future Research**

The results of this study included several limitations. First, its sample is small. More information about CSR disclosure could have been obtained if all the UAE Islamic Banks were included in the study. So future research may be more comprehensive by covering all or at least the majority of the Islamic Banks in the UAE. Second, the period covered is short, which is 2020. A research over an extended period could have given more information about the disclosure of these banks. Third, the period of research fell within the COVID 19 pandemic, which had implications on operations that might have impacts on the level and extent of the CSR disclosure. Fourth, Maali’s benchmark is not comprehensive enough to cover a wide variety of CSR activities that are expected by the stakeholders. Dimensions like good governance, transparency, customers, research and development and the variety of banking products and services can add more depth to the benchmark as a tool for accommodating disclosure expectations for a wider range of networks of stakeholders.

Further research is needed to investigate whether all UAE Islamic Banks are not providing Qard Hasan as one of their products to their clients or it is only DIB and ADIB. If all UAE Islamic Banks are not, then reasons behind it should be further investigated. “Qard Hasan is a one unique feature of Islamic Banks that sets them aside conventional banks” (Haniffa and

Hudaib 2007, p. 106). It is a powerful financing mechanism of serving the communities through providing interest free loans to finance a range of community needs including educational, wedding and other needs.

Further research is also needed to further examine why DIB, the leading Islamic bank in the UAE, is deficient in disclosing activities related to the environment and other CSR disclosures.

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