

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

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THE EXTENT OF VOLUNTARY DISCLOSURE IN THE ANNUAL REPORTS OF ISLAMIC BANKS: EMPIRICAL EVIDENCE FROM YEMEN

Abstract

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

Keywords

disclosure index, information, Islamic banks, Yemen

JEL Classification

M14, M40, M48

INTRODUCTION

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

Uyar and Kilic (2012) define corporate transparency to improve information disclosure through various media, such as annual reports, corporate websites, press releases and annual reports, to reduce information asymmetry among executives and investors. Meek, Roberts, and Gray (1995) consider voluntary disclosures as divulgations that meet specifications. Lee (1987) determined data

as an interaction feature that improves recipient knowledge and decreases future uncertainty. The Financial Accounting Standard Board (FASB, 2001) described voluntary reporting as “disclosure, mainly outside financial information that is not expressly mandated by accounting or regulatory standards.” Academic researchers often classify voluntary disclosures into three categories, namely the disclosure of political, financial and non-financial data (Eng & Mak, 2003; Meek, Roberts, & Gray, 1995).

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

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

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

1. LITERATURE REVIEW

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

Prior research on voluntary disclosure in Islamic banks can be classified into three categories. First, studies related to the disclosure of an Islamic bank that is examined empirically in various countries

around the world, e.g. Hassan and Harahap (2010) who explored seven countries, Abdullah, Percy, and Stewart (2014) who studied Southeast Asian countries and the GCC; Abdullah, Percy, and Stewart (2015) who investigated Council regions in Southeast Asia and the Gulf Cooperation. Srairi (2015) studied five Arab Gulf countries, Harun (2016) explored the Gulf Countries Council, Sellami and Tahari (2017) considered some Middle East and North African countries.

The second category includes studies comparing between two countries, e.g. Abdullah, Percy, and Stewart (2013) who compared between Malaysia and Indonesia; Abdullah, Percy, and Stewart (2014) who compared between Southeast Asian and the GCC countries; Wardayati and Wulandari (2014) who examined the relationship between Indonesia and Malaysia; Abdullah, Percy, and Stewart

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

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

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

Darmadi (2013) stated that these banks complied with the AAOIFI particular presentation and transparency guidelines in the financial results by

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

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

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

Table 1. Some empirical studies of Islamic banks

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

2. METHODS

For the purpose of this study, the descriptive analysis is used and the study period is 10 years, from 2005 to 2014. The population of the sample is five Islamic financial institutions within the period of research. Three Islamic banks have been chosen

based on the study criteria. The main criteria for including a bank in the sample are based on the following:

- Availability of financial reporting information on the website.

- The bank should be established by 2005.

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

2.1. Scoring the voluntary disclosure index

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

For each year, a disclosure index was prepared to evaluate the degree of total voluntarily transparency in each Islamic institution in the study, including voluntary transparency index products. The overall voluntarily reporting indicator rating was then determined as the real voluntary transparency score ratio (AVDS) for every one of the 30 financial reports from Islamic institutions under review, granted to Islamic financial institutions

separated by the Minimum Voluntary Disclosure Score (MVDS) that is required to be won by that specific Islamic company.

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

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

$$AVDS = \sum_{j=1} dj, \quad (1)$$

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

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

$$MVDS = \sum_{j=1} dj, \quad (2)$$

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

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

$$TVDIS = AVDS / MVDS (100\%). \quad (3)$$

Maximum Voluntary Disclosure Score (MVDS) = Actual Voluntary Disclosure Score (AVDS) for each Islamic institution per year (its value ranges from zero to one). The percentage is then compounded by 100 to translate to the percentage and round to the closest whole number. In its reported financial statements, an Islamic bank with better transparency indicates a greater degree of voluntary disclosure. Table 2 shows the voluntary information categories.

Table 2. Voluntary information categories

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

3. RESULTS

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

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

The dualistic scoring gives one if an Islamic institution reveals a particular item and null if it does not show it. Therefore, for an individual Islamic institution, a comparative voluntary disclosure index (comprising independent factor in this study)

was determined by the proportion of the product range reported by an Islamic financial institution to the total number of items for every year (266) that are expected to be reported in the financial statements by each Islamic bank (see Table 3).

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

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

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

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

Note: $TVDIS\% = (\text{Actual voluntary disclosure score (AVDS)} / \text{Maximum voluntary disclosure score (MVDS)}) \%$, which means the relative disclosed score received by each Islamic bank of Yemen.

Table 4. Descriptive TVDIS statistics over the ten years analyzed

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Pooled
No	266	266	266	266	266	266	266	266	266	266	266
Maximum	134	129	137	134	143	135	134	136	139	152	51.62%
Minimum	105	111	113	117	114	118	116	125	128	118	43.80%
Mean	44.2%	45%	46.9%	46.7%	48%	47.6%	47%	48.5%	49.6%	50.6%	47.48%
SD	14.54	9.00	12.00	8.53	14.50	8.50	9.01	5.54	5.57	17.00	10.41

disclosure score in 2005, 2008 and 2011, which is 134 out of 266, and shows the highest disclosure score of 152 and the lowest of 129 in 2006. Shamil Bank of Yemen & Bahrain presents the same disclosure score in 2010 and 2014, while the highest disclosure score amounts to 128 in 2013. Substantially, the results of the voluntary transparency scores show that the degree of voluntary transparency by Yemeni Islamic financial institutions during the ten years studied has significantly increased (see Table 3).

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

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

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

Table 5. Developments of the degree of TVDIS over the 2005–2014 period

Years	TVDS (average score, %)	Differences between years	Changes in percent of TVDIS, % ($Y_t - Y_{t-1}$)*
2005	44.4	2005–2006	0.7
2006	45.1	2006–2007	1.9
2007	47.0	2007–2008	–0.3
2008	46.7	2008–2009	1.5
2009	48.2	2009–2010	–0.5
2010	47.7	2010–2011	–0.3
2011	47.4	2011–2012	1.2
2012	48.6	2012–2013	1
2013	49.6	2013–2014	1.2
2014	50.8	2005–2014	6.4

Note: * Y_t means total voluntary disclosure score (TVDIS) in the following year, whereas Y_{t-1} means the total voluntary disclosure score (TVDIS) in the previous year".

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

Among the seven voluntary disclosure groups, financial statements information (Group D) has the highest disclosure score, approximately 62.4%; financial ratios and other details (Group G) have 51.78%; Islamic bank background/general information (Group A) has 42.46%; Zakat information (Group E) has 29.58%; corporate governance information (Group C) 25.69%; financial ratios and other information (Group B) have 20.42%, and corporate social disclosure has the lowest mean voluntary information disclosure score of 15% (Group E).

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

Information categories	Mean percentage score										Pooled	Minimum	Maximum
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014			
(A) Background about the Islamic bank/General information	31.6	35.1	33.3	36.8	45.6	38.6	45.6	42.1	50.9	64.9	42.46	33.16	47.37
(B) Financial ratios	18.1	19.4	20.8	20.8	22.2	19.4	20.8	20.8	19	22	20.42	20	20.83
(C) Corporate governance information	23	22	26	24.5	26.9	28.2	25	27	26	28	25.69	20.56	31.11
(D) Financial statements information	72	73	74	73.6	72.7	73.6	73.6	74.2	74.2	73	73.52	68.73	79.27
(E) Corporate social disclosure	3.3	3.3	6.7	10	20	17	10	20	37	23	15	11	20
(F) Zakat information	29	27	29	29	29	29	27	29	33	33	29.58	26.25	36.25
(G) Other information	42	49	51	53	56	47	53	56	53	58	51.78	46	62.67

More precisely, the general information of an Islamic bank (Group A) has a maximum transparency score of 47.37% and a minimum transparency score of 33.16%. Whereas financial ratios and other details (Group B) have an average divulgation score of 20.83% and a minimum divulgation score of 20%. Corporate governance information (Group C) has a max transparency score of 31.11%, while the min disclosure score was 20.56% over the ten-year period analyzed. The voluntary disclosure of the seven information groups has improved. Furthermore, the differences between them have been relatively high. Table 6 and Figure 1 show that the distribution of the overall disclosure (Group A) over the 10 years is marginally increased; the average disclosure is 31.6%, 35.1%, 33.3%, 36.8%, 45.6 %, 38.6%, 45.6%, 42.1%, 50.9%, and 64.9%, respectively.

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

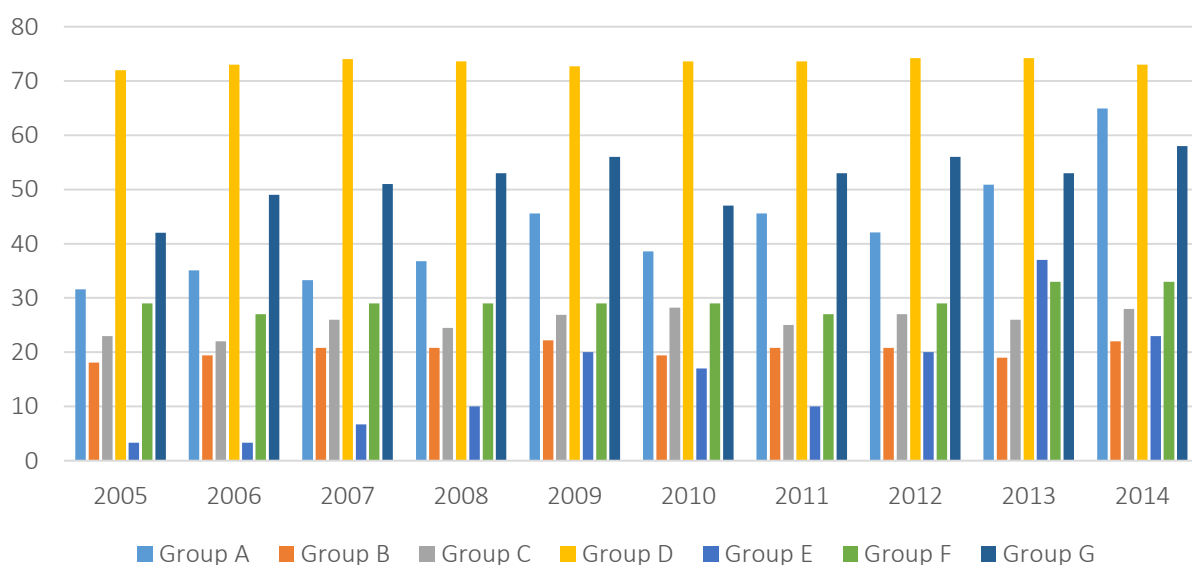
**Figure 1.** The degree of voluntary disclosure groups

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

4. DISCUSSION

This study compares its own findings and the results of previous studies in different countries. As the literature review shows, few studies have focused on the scope of voluntary information transparency of financial services, since most of the previous trans-

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

CONCLUSION

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

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APPENDIX A

Table A1. Voluntary disclosure index items

No.	Items
A. Basic information on an Islamic bank/General information (19)	
1	A brief summary of the nature of the bank's activities
2	Date and details of establishment
3	List of branch locations
4	Clear plan and priorities statement (Financial – Advertising – Social)
5	Strategy effect on the existing results
6	Strategy effect on future outcomes
7	New products (services) development
8	Qualitative forecast of revenues
9	Quantitative forecast of revenues
10	Qualitative forecast of profits
11	Quantitative forecast of profits
12	Qualitative forecast of cash flow
13	Quantitative forecast of cash flow
14	Forecast earnings per share
15	Assumptions underlying the forecasts
16	The debate about the company's competitive position
17	Strategy and priorities statement – specific
18	Discussion about the company's financial stability
19	Forecast of R&D expenses
B. Financial performance and other statistical information (24)	
a. Profitability ratios	
20	Return on assets
21	Return on equity
22	Profit margins
23	Net profit ratio
24	Earnings per share
b. Liquidity ratios	
25	Total liquidity assets to deposits ratio
26	Total liquidity assets to assets ratio
27	Current ratio
28	Cash asset ratio
29	Quick liquidity ratio
c. Efficiency ratios	
30	Working capital turnover
31	Return on investment
32	Account payable turnover
33	Total asset turnover
34	Fixed asset turnover
35	Operating expense ratio
d. Other	
36	List of top 5 shareholders of a bank
37	Declaration of relative profits for two years
38	Comparative balance sheet for two years
39	Comparative information for the current and previous year
40	Number of branch extensions during the current fiscal year
41	Dividends per share for the period
42	Disclosure half-yearly balance sheet statement
43	Disclosure half-yearly profit and loss account statement
C. Corporate governance information	
a. Board of directors and management category	
44	Chairman of the board identified

Table A1. (cont.) Voluntary disclosure index items

No.	Items
45	List of board members
46	Dissemination of information on senior managers' qualifications and experience
47	Senior executives' reports and membership fees
48	Number of meetings of the board of members and the date
49	Number of senior executives (not members of the board)/senior leadership framework
50	Composition of board of directors
51	Educational (academic or professional) credentials and experience
52	Other directorships held by executive directors
53	Other directorships held by non-executive directors
54	Number of shares owned by management
55	Number of shares owned by managers
56	Number of shares owned by directors
b. Audit committee (AC)	
57	Auditor report
58	AC consists solely of non-executive directors
59	Two-thirds of members in AC are independent directors
60	The chairman of AC is an independent director
61	One member at least of AC has accounting expertise or experience in the field of finance
62	AC consists of at least three members
63	AC holds regular meetings 3-4 times per year
64	Banks has a formal policy on AC's functions and responsibilities
65	Information of the identities and credentials of the board of directors named
66	The audit committee's position and work
67	Number of committee meetings
68	Attendance at committee meetings
69	External auditor appointed by the bank and suggested by AC
70	Existence of an audit committee
71	Committee reports in the annual report
72	Performance of each committee
c. Board's report (05)	
73	Director's report
74	Narrative statement of bank's affairs
75	Amount of dividend recommended
76	Narrative discussion of material changes and commitments
77	Narrative discussion of any changes occurring during the financial year
d. Sharia supervisory board (SSB)	
78	The qualification and experience of members are revealed
79	SSB contains at least three members
80	The bank has formed an internal Sharia review to help the SSB in their task and to carry out an ex post Sharia audit
81	SSB representatives are not required to be members of the board and do not own any of the bank's shares
82	The bank discloses information on remuneration of members
83	The bank has a formal policy on SSB's duties and responsibilities
84	The bank discloses the attendance of every member
85	Details regarding the SSB members' profiles
86	The bank issues an SSB report on the compliance of the Islamic institution activities with the rules of Sharia
87	Report of the Shariah supervisory board
88	Age of the Shariah supervisory board
89	The view of the Shariah Supervisory Board on the accuracy of the measurement of Zakat
90	Statement certifying distribution of profits and losses are made according to Islamic Shariah
91	Statement of recommendations to rectify defects in products
92	Names of members
93	Positions of members
94	Pictures of members
95	Profiles of members

Table A1. (cont.) Voluntary disclosure index items

No.	Items
96	Number of meetings held
97	Members' attendance in meeting
98	Remuneration of members
99	The Board's tasks and obligations
100	Compliance of profit or loss with Shariah
101	Compliance of products and services with Shariah
102	Examination procedures
103	Recommendation to management
e. Internal control and external audit	
104	Internal control report in the annual report
105	Existence of an internal audit division
106	Internal audit framework
107	Internal audit division duties and responsibilities
108	Certification of internal audit by staff
109	Policies on the appointment of external auditor
110	Performance of internal audit division
f. Ownership structure	
111	Number of shareholders and their shareholdings
112	Number of institutional investors and their shareholdings
113	Number of shares owned by the government
114	Family shareholders
115	Directors and managerial ownership
D. Financial statements	
a. Income statement items	
116	Revenue from Murabaha financing transactions – local
117	Revenue from other joint investments
118	Group income and expenses by nature
119	The numbers of the major revenue and expenditure forms
120	Income and expenses should not be offset
121	Income from interest and similar income
122	Expenses from interest and similar expenses
123	Income from fees for services and commissions
124	Gross profit/loss
125	Expenses from fees for services and commissions
126	Less risks arising from foreign currency trades
127	Other income from banking operations
128	General administrative expenses
129	Other costs associated with banking activities
130	Net profit from pre-tax activities
131	Tax expenses
132	Net profit/loss
133	Other income and its breakdown
134	Operating expenses and its breakdown
135	Auditor's fee 19
136	Directors' fee and allowances
137	Net profit/loss for the year
b. Balance sheet items	
138	Assets and liabilities grouped by nature
139	Listed assets and liabilities in order of liquidity
140	Fixed assets
141	Assets and liabilities should not be offset
142	Cash
143	Cash at the central bank
144	Cash at other banks

Table A1. (cont.) Voluntary disclosure index items

No.	Items
145	Treasury bills
146	Investments in Murabaha transactions
147	Investment in Musharaka contracts
148	Investments in Mudaraba contracts
149	Ijarah Muntahia Bittamleek
150	Investments available for sale
151	Investments in real estate
152	Investments in Istisna'a contracts
153	Al-Qard Al-Hasan
154	Investments in Islamic Sukuk
155	Restricted investments
156	Government treasury bonds
157	Time deposits with the Central bank
158	Time deposits with other banks
159	Deposits from other banks
160	Customers deposits
161	Customers time deposits
162	Savings deposits
163	Accumulated depreciation on fixed assets
164	Inclusion in liabilities for accumulated depreciation
165	Amortization based on straight line method
166	Provisions against the threat of decreasing asset values
167	Reserve sums that are sufficient to meet the worker's balance
168	Cash securities
169	Certified cheques
170	Amount of nominal capital
171	Reserve levels
172	Breakdown of reserves into legal and non-legislative components
173	Various provisions
174	Retained earning
c. Cash flow statements	
175	Revealing the requisite net income reconciliation when using the indirect method
176	Main items of cash inflow from different activities
177	Main items of cash outflow from different activities
178	Net cash flow from different activities
179	Cash flow related to interests, dividends, and extraordinary items disclosed separately
180	Cash outflow for taxes
181	Non-cash investment and financial transactions separately disclosed
182	Breakdown of cash and cash equivalents
d. Change in equity	
183	Net income or reduction attributable to shareholders during the accounting period
184	Increase or decrease in share capital reserves
185	Dividend payments to shareholders
186	Gains and losses recognized directly in equity
187	Effect of changes in accounting policies
188	Effect of correction of prior period error
e. Accounting policies	
189	The recognition of revenue and expenditure
190	The depreciation methods used
191	The depreciation rates used
192	Accounting policies for foreign currency
193	Accounting policies for investments
194	Accounting policies for reserve levels
195	Accounting policies for taxation system

Table A1. (cont.) Voluntary disclosure index items

No.	Items
196	Accounting policies for doubtful debts provision
197	Financial reporting Fixed asset valuation (e.g., fair value or cultural cost)
198	Foreign currency transaction, translation and differences treatment
199	Events after the balance sheet date
200	Accounting standards reporting uses the accounts
201	Statements of compliance with approved AAOIFI
202	Financial statements cost basis
203	Treatment of investments
204	Changing in accounting method
205	Changing in accounting policies
206	The measurement basis used in preparing the financial statements
207	The reason and nature of changes in an accounting policy
208	Statement of compliance with approved IASs
209	Basis of consolidation
210	The accounting policies adopted for the recognition of revenues
211	The accounting policies adopted for research and development costs
212	The methods of amortization used and the effective life and amortization level used for costs of research and development
213	Disclosing the foreign exchange risk assessment plan
214	The depreciation methods used
215	The useful lives or the depreciation rates used
216	Method of valuing goodwill
217	The methods used to account for investments in associates
218	Accounting policy for borrowing costs
219	Accounting policy for actuarial gains and losses
220	Treatment of retirement benefits
221	Treatment of preliminary expenses
222	Methods of advance payments
223	Sales policy
224	Deferred taxation system
225	Treatment of contingent liabilities
E. Corporate social disclosure	
226	Sponsoring public health, sporting of recreational projects
227	Donation information for benevolent support campaigns sponsored by national pride/administration
228	Supporting national pride/government – sponsored campaigns
229	Social banking activities/bank information for society
230	Policy provisions
231	Aggregate categories of charitable works and sums allocated to each aggregate class by ultimate beneficiaries
232	Quotas/targets and year-on-year milestones
233	Reasons for changes in quotas/target up and down
234	Qualitative data on the quantitative framework
235	Quantitative information on environmental protection program charitable
F. Zakat information	
Zakat (for the banks required to pay it)	
236	Statement of sources and uses of zakat
237	Policy on zakat
238	Zakat able amount
239	Zakat beneficiaries
240	SSB's certificate of measurement and allocation of zakat funds
241	Method of zakat computation
Zakat (for the banks not required to pay it)	
242	Policy on zakat
243	Zakat beneficiaries
244	The SSB's opinion regarding validity of computation
245	Method of zakat computation

Table A1. (cont.) Voluntary disclosure index items

No.	Items
246	Amount of zakat fund
247	Sources of zakat fund
248	Beneficiaries of zakat
249	Zakat fund balance and explanations for multi-distribution
250	Statement sources and uses of funds in the Zakat and charity fund
251	Financing and portfolio (Mudharabah, Ba't Bitsaan Ajil, Murabahah, Musyarakah, Al Qardhul hasan, Al Hiwalah, etc.)
G. Other information	
252	Chairman's/MD's report
253	On-line banking facilities
254	Information on credit card business
255	Information on international banking facilities
256	Information on employees' welfare
257	Graphical presentation of performance indicators
258	Performance at a glance – 3 years
259	Legal action against defaulters
260	Number of assets pledge as security
261	Community involvement
262	Description of charitable
263	Shares held by government
264	Factors affecting future business of the bank
265	Dividend declared
266	Multiple language presentation