



The Disclosure of Zakat by Islamic Banks (IBs) and Development Financial Institutions (DFIs) in Malaysia

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ABSTRACT - As an Islamic finance institution, a transparent disclosure of zakat payment to stakeholders is one of the ways in which the organization demonstrates Islamic ethical value and accountability through business transaction. The effective, translucent, and timely reporting to the stakeholders (i.e., the public, regulators, investors, and others) is critical to the economic decision-making process as well as equitable distribution of resources to the society. Despite the various variations in zakat disclosure, less attention is given to the disclosure practices on zakat information by Islamic banks (IBs) and Development Financial Institutions (DFIs). Therefore, this study aims to examine firstly, the zakat disclosure requirements by regulations and then the zakat disclosure for all IBs and DFIs in Malaysia. This study adopted content analysis on the financial statement, annual report, annual integrated report, and annual sustainability report for the 2019 financial year. The whole population of 16 IBs and six DFIs were selected. This study found inconsistency in zakat disclosure of the different banks and other zakat-related practical issues in the descriptive analysis. The inconsistency varies from the method, rates, policy, and terminology used. Additionally, further embellishment on the non-financial information of zakat is also vital to demonstrate accountability to the general public.

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INTRODUCTION

Zakat, one of Islam's five pillars, is the obligation to give a certain proportion of one's wealth each year to charitable charities if one meets certain requirements. Zakat is compulsory for Muslims who earn above a certain threshold and is distinct from Sadaqah, which is more on voluntarily basis. Zakat plays a similar role as taxation in fiscal policy. Both are levied to individuals and wealth, and the fund is to be used for social and economic development. However, even though zakat acts as a mechanism to alleviate poverty, many Muslim countries are facing increment in poverty rate due to a lack of proper zakat administration involving collection and distribution and a lack of transparency in the government's financial statement involving zakat fund disclosure (Saad & Foori, 2020; Mat Nawi et al., 2022).

In contrast to the succinct zakat disclosure requirement under MASB Tr *i-1*, the tax disclosure requirement under MFRS 112 is more detailed. One of the methods for an Islamic financial institution to show its adherence to Islamic ethical value and responsibility through business operation is to pay zakat and to disclose this clearly to the stakeholders. The effective, transparent,

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and timely reporting to the public, regulators, investors, and others is critical to the economic decision-making process as well as equitable distribution of resources to the society. According to Ismail et al. (2013) and Abu Seman et al. (2022), paying zakat on one's business wealth is akin to appraising the Islamic concept of trust from Allah Who is the real owner of all wealth and us as mere caretakers.

In addition to these IFIs, the government established specialized financial institutions under the Development Financial Institutions Act (DFIA) 2002 to develop and promote key industries that are crucial to socioeconomic development, such as agriculture, small and medium-sized enterprises (SMEs), infrastructure, maritime, export-oriented sectors, and capital-intensive and high-technology industries (BNM, 2021). The Development Financial Institutions Act of 2002 governs Development Financial Institutions (DFIs), which were created by the Government of Malaysia with a specific mandate. According to DFIA 2002, several DFIs have been given regulatory oversight by Bank Negara Malaysia (BNM). However, the relevant minister for each DFI is still in charge of setting broad policy direction for the strategic responsibilities and targeted sectors supported by each institution.

In their study, Abojeib et al. (2019) concluded that the status of zakat in Malaysia, especially in IFIs, needs urgent attention and correction. They highlighted many issues on zakat information disclosure in financial reporting, namely, inadequate transparency and disclosure about zakat computation, application of different standards, application of different zakat rates, determination of Muslim and non-Muslim shareholders, disbursement of zakat, and the roles and responsibilities of Shariah committees. They suggested that standard-setting organizations like MASB and zakat authorities as well as BNM which is in charge of overseeing IFIs, should create a basic standard for the information and data that should be presented within the yearly reports on zakat calculation.

Disclosure on trust (*amanah*) is compulsory as Islamic banks by nature is ethical banks that promote socio-economic values (Rahman et al., 2014), more so than Development Financial Institutions where the purpose of establishment is to promote development in targeted sectors for the sake of socio-economic and nation development entirely. Taufiq (2015) posits that the concept of transparency and accountability are the fundamental principles of good governance that complement each other. He further adds that public accountability demands transparency and being transparent means explaining the responsibilities to be carried on, the process to realize the responsibility, and the output and impact from the process undertaken.

Some of the studies on zakat disclosure delve into the disclosure items in-depth (see Abd Samad & Said, 2016), albeit they were older studies. On the other hand, Zaaba and Hassan (2020), a more recent study, only examined selected banks. Most of the studies on zakat disclosure concentrated on the zakat disclosure index and did not address specific items in the annual reports (see Zaaba & Ariffin, 2018; Tuan Ibrahim et al., 2020; Zulkepli, 2013). Moreover, less research has been done on DFIs, which are vital to socioeconomic growth. Based on the literature, this study aims to fill the gap by:

- examining the zakat disclosure requirements of all IBs and DFIs, and
- investigating the disclosure of all IBs and DFIs in terms of zakat policy, computation, rate, and beneficiaries.

The findings can provide valuable insights to the regulators and public on the transparency level of Islamic banks in relation to zakat disclosure and offer a wide overview of current trends in zakat reporting. The remainder portion of this study is structured as follows: a summary of the literature on the role of Islamic banks in managing zakat disclosure is presented in Section 2. Section 3 elaborates on the research methodology, including the technique of data gathering employed in the study. The analytical component of the study is presented in Section 4 along with a thorough analysis of the breakdown of all zakat disclosures for each bank. Finally, the study's conclusion is detailed in Section 5.

LITERATURE REVIEW

Zakat Administration in Malaysia

Managing zakat fund requires good governance as zakat management must demonstrate vigilant practice and fullest accountability to Allah as the real owner as well as to various stakeholders, namely, zakat payers, zakat recipients, zakat boards, regulators, and the Muslim society. In Malaysia, zakat institutions in every State and the Federal Territory are entrusted by the laws – Federal Constitution and State Enactment – to manage zakat funds on their own, led by the King. This practice creates a diversity of management style and reporting, which may subsequently trigger confusion among the public and stakeholders on the uniformity and transparency of information disclosed. Hence, in 1968, the Majlis Raja-Raja consensually agreed to establish a government department, known as Jabatan Kemajuan Islam Malaysia (JAKIM), to coordinate zakat reporting by those States and Federal institutions as to demonstrate transparency.

Article 97(3) of the Federal Constitution states that Zakat is part of Islamic religious revenue, besides Fitrah, Baitulmal, or similar religious revenue, and to be managed separately from other public funds. The State Ruler is defined under Article 3 of the Tenth Schedule of the Federal Constitution as the Head of the religion of Islam in these States, with the exception of Malacca, Penang, Sabah, and Sarawak, where the constitutions of each of those states provide for the Yang di-Pertuan Agong to be designated as the Head of the religion of Islam in those states. This is one of the factors that create the diversity in administrative structure as well as the regulation for Zakat, including zakat for businesses.

Besides individuals, zakat is also compulsory on businesses and it is regulated under National and State fatwas (Jabatan Wakaf Zakat dan Haji (JAWHAR), 2010; Jawatankuasa Fatwa Negeri Johor, 2009; Jawatankuasa Syariah Negeri Perlis, 1988; Jawatankuasa Fatwa Negeri Selangor, 2015; Jawatankuasa Fatwa Negeri Selangor, 2008; and Jawatankuasa Fatwa Negeri Perak, 2016). As for record, zakat for business has contributed around 20 percent of total zakat collection based on the 2018 zakat collection statistic; the second largest portion after zakat for individual earnings (JAWHAR, 2021).

Past Studies on Zakat Disclosure

Several studies outlined the appropriate information for the zakat disclosure index that are to be used in measuring the disclosure level by Islamic banks. For instance, Zaaba and Ariffin (2018) proposed the Zakat Disclosure Checklist to assess the disclosure level of IBs in Malaysia. This checklist was developed by outlining the requirement in the regulations on zakat according to BNM's guidelines, AAOIFI's FAS 9, JAWHAR's Manual, and MASB Tr *i*-1. Besides reviewing the mandatory requirement by the relevant authorities, there are also studies on voluntary disclosures on zakat information.

Haniffa and Hudaib (2007) proposed the Ethical Identity Index (EII) in which information about zakat, charity, and benevolent loans is one of the eight dimensions in measuring the ethical identity of Islamic banks in the Arabian Gulf region. Meanwhile, Abd Samad and Said (2016) extended that study by focusing on the zakat disclosure items in-depth as communicated in the annual reports of IBs in Malaysia during the financial year 2014.

Tuan Ibrahim et al. (2020) investigated the relationship between ethical values and performance of 50 Banks (not limited to Islamic banks) in Malaysia using the Zakat Disclosure Index (ZDI) and the Charity Disclosure Index (CDI). Similarly, (Sumiyati & Vehtasvili, 2021) conducted a similar study by examining the relationship between EII and the financial performance of IBs in Asia. In this study, zakat, charity, and benevolent loan are one of the dimensions used in EII apart from other dimensions, namely, vision and mission statement, Board of Directors (BOD) and top management, product and service, commitment towards employees, commitment towards debtors, commitment towards society, and Shariah Committee.

Besides banking sectors, the study by (Md Zaini, 2017) focused on disclosure in the listed companies in Malaysia in which 'disclosure on the policy for an Islamic form of tax payable

including amount and zakat paid breakdown' was one of the 61 items examined to measure voluntary disclosure. Interestingly, the element of zakat information being communicated to the public has been widely used in numerous Islamic business entities in measuring the practice of Islamic values, thus not limited to Islamic banking per se.

METHODOLOGY

This study employs the method of content analysis to achieve its objectives. As discussed by Horúcková and Baudasse (2017), content analysis is defined as “a research technique for the objective, systematic and quantitative description of the manifest content of communication”. On the other hand, Abbott and Monsen (1979) provided an enhanced definition of content analysis as “a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories for deriving quantitative scales of varying levels of complexity”.

Population

The data sample for this study covers sixteen (16) Islamic banks and six (6) DFIs in Malaysia. The list of the IBs and DFIs selected is presented in Table 1.

Table 1: List of Islamic Banks and DFIs in Malaysia

No	Name	Abbreviation	Ownership	IBs/DFIs
1	Affin Islamic Bank Berhad	AFIBB	Local	IBs
2	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad	ALRAJHI	Foreign	IBs
3	Alliance Islamic Bank Berhad	ALIBB	Local	IBs
4	AmBank Islamic Berhad	AMIB	Local	IBs
5	Bank Islam Malaysia Berhad	BIMB	Local	IBs
6	Bank Muamalat Malaysia Berhad	BMMB	Local	IBs
7	CIMB Islamic Bank Berhad	CIMB	Local	IBs
8	Hong Leong Islamic Bank Berhad	HLIBB	Local	IBs
9	HSBC Amanah Malaysia Berhad	HSBC	Foreign	IBs
10	Kuwait Finance House (Malaysia) Berhad	KFHMB	Foreign	IBs
11	Maybank Islamic Berhad	MBBIB	Local	IBs
12	MBSB Bank Berhad	MBSB	Local	IBs
13	OCBC Al-Amin Bank Berhad	OCBC	Foreign	IBs
14	Public Islamic Bank Berhad	PIBB	Local	IBs
15	RHB Islamic Bank Berhad	RHB	Local	IBs
16	Standard Chartered Saadiq Berhad	SCSB	Foreign	IBs
17	Bank Pembangunan Malaysia Berhad	BPMB	Local	DFIs
18	SME Bank	SME	Local	DFIs
19	Exim Bank	EXIM	Local	DFIs
20	Bank Kerjasama Rakyat Malaysia Berhad	BKRMB	Local	DFIs
21	Bank Simpanan Nasional	BSN	Local	DFIs
22	Bank Pertanian Malaysia Berhad	AGRO	Local	DFIs

Taking into account the above information, the sources and scope of data for this study is thus based on the annual reports in 2019. However, the study also includes a review of annual reports for the years 2018 and 2017 to provide a clearer example of this disclosure if none can be found in year 2019.

ANALYSIS AND FINDINGS

Zakat Disclosure Requirements

For the first research objective, a review of all the rules and regulation pertaining to the disclosure requirements by both IBs and DFIs was performed.

Islamic Banks (IBs)

The requirement of zakat to be disclosed in an annual financial statement by Islamic banks in Malaysia are regulated under;

- Bank Negara Malaysia Policy Document (BNM PD) for Financial Reporting for Islamic Banking Institutions (FRIBI),
- MASB Pronouncement – MASB Technical Release *i-1* (TR *i-1*) Accounting for Zakat on Business, and
- MASB Pronouncement – MASB Technical Release *i-3* (TR *i-3*) Presentation of Financial Statements of Islamic Financial Institutions. However, TR *i-3* has been archived.

Although BNM PD evolved, there has been no change on the zakat disclosure requirement since 2012, albeit the existence of five amended versions of this document up to 2019 (refer to Table 2)

Table 2: Evolution of BNM’s Regulation on Financial Reporting of Islamic Banks – Specific on Zakat Disclosure Requirement

	Evolution 1 - 2003:	Evolution 2 – 2012:	Evolution 3 – 2013:	Evolution 4 – 2015:	Evolution 5 – 2016:	Evolution 6 – 2018:	Evolution 7 – 2019:
Components of Financial Statement	GP8-i Guidelines on the Specimen Reports and Financial Statements for Licensed Islamic Banks, Aug 2003 (effective date - Financial year ending in 2004)	Guidelines on Financial Reporting for Islamic Banking Institutions (GP8-i), 12 December 2012	Financial Reporting for Islamic Banking Institutions, 28 June 2013 (effective date – 30 June 2013)	Financial Reporting for Islamic Banking Institutions, 28 January 2015 (effective date - Financial year beginning 1 January 2015)	Financial Reporting for Islamic Banking Institutions, Feb 2016 (effective date – 5 February 2016)	Financial Reporting for Islamic Banking Institutions, 2 Feb 2018 (effective date – financial year 1 January 2018)	Financial Reporting for Islamic Banking Institutions, 27 Sep 2019 (effective date – financial year 1 January 2019)
Directors’ Report	“(4) Information on the following items, with regard to the institution’s operations and management: (iv) Zakat obligations – A disclosure, where applicable, on the institution’s responsibility towards payment of zakat on the business, and behalf of the shareholders, depositors, and others.”	n/a	Similar requirement as per the previous version	Similar requirement as per the previous version	Similar requirement as per the previous version	Similar requirement as per the previous version	“(11.6(b)) reporting institution’s obligation on zakat, which <u>may alternatively be disclosed under the Director’s Report</u> . Reporting institutions that do not pay zakat must also disclose to that effect. Reporting institutions that pay zakat shall disclose additional information regarding: (i) responsibility towards zakat payment either on the

			business, and/or behalf of the shareholders;
			(ii) method applied in the determination of zakat base e.g., growth method, working capital method; and
			(iii) beneficiaries of zakat fund e.g., Baitul Mal, the poor, etc.”
Shariah Committee's Report	n/a	“(8.4) ...The Shariah Committee's Report shall contain the following information: (c)(iv) compliance of zakat computation with Shariah”	“(11.4) ...The Shariah Committee's Report shall contain the following information: (c)(iv) compliance of zakat computation with Shariah”
Balance Sheet/ Statement of Financial Position	Reported Under 'Liabilities' in item 'provision for zakat and taxation; with reference to the notes to the financial statement	n/a	<i>Reported Under 'Liabilities' in item 'provision for zakat and taxation</i>
Income Statement/ Statement of Comprehensive Income	'Zakat' disclosed after 'Profit before zakat and taxation' and before 'taxation'	n/a	<i>'Zakat' disclosed after 'Profit before zakat and taxation' and before 'taxation'</i>
Cash Flow Statement	'Zakat paid' after 'Net cash from operating activities before zakat and taxation' and before 'taxes paid'	n/a	n/a

<p>Notes to the financial statements</p>	<p>“Under notes ‘Significant Accounting Policies’ – Zakat: description of the purpose of this item and its basis of calculation.</p> <p>Illustration i.e., “Zakat- this represents business zakat.”</p> <p>“It is an obligatory amount payable by the Bank to comply with the principles of Shariah. Zakat provision is calculated based on xx% of the net asset method.”</p> <ul style="list-style-type: none"> • Explanation notes to item ‘Provision for zakat and taxation’ in the balance sheet”. 	<p>“(8.5) The explanatory notes to be included in the annual financial statements of reporting institutions shall include the following information prescribed in 8.6 to 8.23.”</p> <p>“(8.6(b)) reporting institution’s obligation on zakat, which <u>may alternatively be disclosed under the Director’s Report.</u></p> <p>Reporting institutions that do not pay zakat must also disclose to that effect. Reporting institutions that pay zakat shall disclose additional information regarding:</p> <p>(i) responsibility towards zakat payment either on the business, and/or behalf of the shareholders;</p> <p>(ii) method applied in the determination of zakat base e.g., growth method, working capital method; and</p> <p>(iii) beneficiaries of zakat fund e.g., Baitul Mal, the poor, etc.”</p>	<p>“(11.5) The explanatory notes to be included in the annual financial statements of reporting institutions shall include the following information prescribed in 11.6 to 11.23.”</p> <p>“(11.6(b)) reporting institution’s obligation on zakat, which may alternatively be disclosed under the Director’s Report. Reporting institutions that do not pay zakat must also disclose to that effect. Reporting institutions that pay zakat shall disclose additional information regarding:</p> <p>(i) responsibility towards zakat payment either on the business, and/or behalf of the shareholders;</p> <p>(ii) method applied in the determination of zakat base e.g., growth method, working capital method; and</p> <p>(iii) beneficiaries of zakat fund e.g., Baitul Mal, the poor, etc.”</p>
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Another regulation of zakat reporting is MASB Tr *i-1* which applies to any type of business. This document aims to standardize the recognition, measurement, presentation, and disclosure of zakat on business due to differences in how zakat is handled by different zakat-paying businesses. It lays forth the general guidelines as well as the procedures for recognizing and assessing zakat, determining the "zakat base used in the zakat evaluation," and presenting, measuring, and disclosing zakat information in financial statements. Additionally, TR *i-1* only addresses zakat on business-related financial reporting-related matters. For any questions pertaining to zakat on business, such as zakat charges of an entity, zakat calculation, zakat base determination, and zakat eligibility of assets and liabilities, an entity shall refer to the applicable State Islamic Religious Council or its relevant zakat authorities.

Decisions made by an entity should be subjected to a conclusion reached with the relevant zakat authorities. Nevertheless, MASB Tr *i-1* outlines the zakat rate of 2.5% as determined by the National Fatwa Council (refer to Section 7 of Tr *i-1*); zakat period at least 12 months operation (refer to Section 6 of Tr *i-1*); zakat base calculation method of Adjusted Working Capital or Adjusted Growth (refer to Section 10 of Tr *i-1*); measurement of zakat assets and liabilities are to be based on the similar measurement in the preparation of the reporting entity's financial statements (refer to Section 14 of Tr *i-1*); and the amount of zakat assessed for the current period shall be presented as a line item on the face of the income statement (refer to Section 15 of Tr *i-1*). The comparison is tabled in Table 3.

Table 3: Comparison of Disclosure Requirement by FRIBI, 2019 and MASB TR *i-1*, 2006

Components of Financial Statement	BNM PD FRIBI 2019	MASB Tr <i>i-1</i> , 1 July 2006
Director's Report	<p>Cross-reference to Notes to the financial statements</p> <p>“(11.5) The explanatory notes to be disclosed in the annual financial statements of an Islamic financial institution shall include the information specified in paragraphs 11.6 to 11.22 of this policy document.”</p> <p>“(11.6(b)) an Islamic financial institution's obligation on zakat, <u>which may alternatively be disclosed under the Director's Report</u>. An Islamic financial institution that does not pay zakat must also disclose a statement to that effect in the financial statements. An Islamic financial institution that pays zakat shall disclose additional information regarding:</p> <p>(i) its responsibility towards zakat payment either on the business, and/or behalf of the shareholders;</p> <p>(ii) method applied in the determination of zakat base e.g., growth method, working capital method; and</p> <p>(15) the beneficiaries of zakat fund e.g., Baitul Mal, the poor, etc.”</p>	n/a
Shariah Committee's Report	<p>(11.4) ...The Shariah Committee's Report shall contain the following information:</p> <p>(c)(iv) zakat computation</p>	n/a

Balance Sheet/ Statement of Financial Position	Reported Under 'Liabilities' in item 'provision for zakat and taxation	n/a
Income Statement/ Statement of Comprehensive Income	'Zakat' disclosed after 'Profit before zakat and taxation' and before 'taxation'	“(15) Presentation – The amount of zakat assessed for the current period shall be presented <u>as a line item</u> on the face of the income statement”
Cash Flow Statement	n/a	n/a
Notes to the financial statements	<p>“(11.5) The explanatory notes to be disclosed in the annual financial statements of an Islamic financial institution shall include the information specified in paragraphs 11.6 to 11.22 of this policy document.”</p> <p>“(11.6(b)) an Islamic financial institution’s obligation on zakat, which may alternatively be disclosed under the Director’s Report. An Islamic financial institution that does not pay zakat must also disclose a statement to that effect in the financial statements. An Islamic financial institution that pays zakat shall disclose additional information regarding:</p> <p>(i) its responsibility towards zakat payment either on the business, and/or behalf of the shareholders;</p> <p>(ii) method applied in the determination of zakat base e.g., growth method, working capital method; and</p> <p>(iii) the beneficiaries of zakat fund e.g., Baitul Mal, the poor, etc.”</p>	<p>“(16) An entity shall disclose in the notes accompanying the financial statements the following:</p> <p>(a) method used in the determination of zakat base;</p> <p>(b) its responsibility towards payment of zakat on business; and</p> <p>(c) major components of zakat.</p> <p>(17) Components of zakat may include:</p> <p>(a) current zakat expense;</p> <p>(b) zakat payment;</p> <p>(c) zakat liability; and</p> <p>(d) any adjustment recognized in the period for zakat of prior periods.”</p>

Development Financial Institutions (DFIs)

With regards to zakat reporting, no specific requirement exists under the DFIA 2002. However, there are provisions on reporting which are (i) Section 5(1)(e) on the board of directors’ responsibilities to ensure a reliable and transparent financial reporting process; (ii) Section 73(3) “The revenue account, profit and loss account and balance sheet laid before the general meeting of a prescribed institution or submitted to the Registrar of Companies or the Registrar-General of Co-operative Societies shall be in such form as the Bank may specify and the amounts appearing in the revenue account, profit and loss account and balance sheet shall be the same as those reported under this section and any qualification in respect of the returns under this section shall also be incorporated in those accounts”; and Section 75(2) “A prescribed institution shall prepare its financial statements in accordance with (a) the approved accounting standards subject to any standards as may be specified by the Bank; or (b) in the absence of any approved accounting standards, any standards as may be specified by the Bank”. Eventually, DFIs’ reporting manner for zakat information align to the regulation by Bank Negara Malaysia.

In 2020, BNM produced the Policy Document on Financial Reporting for Development Financial Institutions (FRDFI) (Bank Negara Malaysia, 2020), which was applied to the financial year beginning on or after 1 January 2020. The requirement is similar to the requirement under FRIBI 2019. This 2020 version superseded the first version of financial reporting guidelines for DFIs, namely, BNM Guidelines on Financial Reporting for Development Financial Institutions dated 24 December 2012 which took effect for the financial year 1 January 2013. The differences between both versions are as per Table 4.

Table 4: Evolution of BNM Regulation on Financial Reporting of Development Financial Institutions – Specific on Zakat Disclosure Requirement

Components of Financial Statement	Guidelines on Financial Reporting for Development Financial Institutions (FRDFI), 2012	Financial Reporting for Development Financial Institutions (FRDFI), 2020
Director's Report	<p>Cross-reference to Notes to the financial statements</p> <p>“(10.5) The explanatory notes to be included in the annual financial statements of DFIs shall include the following information prescribed in 10.6 to 10.23.”</p> <p>“(10.6) DFIs shall disclose the recognition and measurement accounting policies on the following:</p> <p>(b) DFI's obligation on zakat, which may alternatively be disclosed under the Director's Report. DFIs that do not pay zakat must also disclose to that effect. DFIs that pay zakat shall disclose additional information regarding:</p> <p>(i) responsibility towards zakat payment either on the business, and/or behalf of the shareholders;</p> <p>(ii) method applied in the determination of zakat base e.g., growth method, working capital method; and</p> <p>(iii) the beneficiaries of zakat fund e.g., Baitul Mal, <i>orphanage</i>, etc.”</p>	<p>Cross-reference to Notes to the financial statements</p> <p>“(12.5) The explanatory notes to be disclosed in the annual financial statements of DFI shall include the information specified in paragraphs 12.6 to 12.22 of this policy document.”</p> <p>“(12.6) DFIs shall disclose the recognition and measurement accounting policies on the following:</p> <p>(b) DFI's obligation on zakat, which may alternatively be disclosed under the Director's Report. DFIs that do not pay zakat must also disclose to that effect. DFIs that pay zakat shall disclose additional information regarding:</p> <p>(i) its responsibility towards zakat payment either on the business, and/or behalf of the shareholders;</p> <p>(ii) method applied in the determination of zakat base (e.g., growth method, working capital method; and</p> <p>(iii) the beneficiaries of zakat fund e.g., Baitul Mal, <i>the poor</i>, etc.”</p>
Shariah Committee's Report	<p>“(10.4) ...The Shariah Committee's Report shall contain the following information:</p> <p>(c) paragraph expressing the Shariah Committee's opinion on the reporting institution's compliance with Shariah principles in respect of the;</p>	<p>“(12.4) ...The Shariah Committee's Report shall contain the following information:</p> <p>(c) paragraph expressing the Shariah Committee's opinion on the DFI's compliance with Shariah in respect of:</p> <p>(iv) <i>zakat computation</i>.”</p>

Components of Financial Statement	Guidelines on Financial Reporting for Development Financial Institutions (FRDFI), 2012	Financial Reporting for Development Financial Institutions (FRDFI), 2020
	(iv) <i>compliance of zakat computation with Sbariab;</i>	
Statement of Financial Position	n/a	Reported Under 'Liabilities' in item 'provision for zakat and taxation'
Statement of Comprehensive Income	n/a	'Zakat' disclosed after 'Profit before zakat and taxation' and before 'taxation'
Statement of Cash Flow	n/a	n/a
Notes to the financial statements	<p>“(10.5) The explanatory notes to be included in the annual financial statements of DFIs shall include the following information prescribed in 10.6 to 10.23.”</p> <p>“(10.6) DFIs shall disclose the recognition and measurement accounting policies on the following:</p> <p>(b) DFI's obligation on zakat, which may alternatively be disclosed under the Director's Report. DFIs that do not pay zakat must also disclose to that effect. DFIs that pay zakat shall disclose additional information regarding:</p> <p>(i) responsibility towards zakat payment either on the business, and/or behalf of the shareholders;</p> <p>(ii) method applied in the determination of zakat base e.g., growth method, working capital method; and</p> <p>(iii) the beneficiaries of zakat fund e.g., Baitul Mal, <i>orphanage</i>, etc.”</p>	<p>“(12.5) The explanatory notes to be disclosed in the annual financial statements of DFI shall include the information specified in paragraphs 12.6 to 12.22 of this policy document.”</p> <p>“(12.6) DFIs shall disclose the recognition and measurement accounting policies on the following:</p> <p>(b) DFI's obligation on zakat, which may alternatively be disclosed under the Director's Report. DFIs that do not pay zakat must also disclose to that effect. DFIs that pay zakat shall disclose additional information regarding:</p> <p>(i) its responsibility towards zakat payment either on the business, and/or behalf of the shareholders;</p> <p>(ii) method applied in the determination of zakat base (e.g., growth method, working capital method; and</p> <p>(iii) the beneficiaries of zakat fund e.g., Baitul Mal, <i>the poor</i>, etc.”</p>

As a result of these zakat disclosure requirements, the list of zakat elements that should be disclosed in the annual report are as those in Table 5 and can be classified under banks liable and not liable to pay zakat.

Table 5: List of Zakat Disclosures

CATEGORY A – BANK LIABLE TO PAY ZAKAT	
I. FINANCIAL INFORMATION	
1.	Zakat Policy
	1(a) Zakat Policy
	1(b) Brief Statement on IBs Zakat Policy
	1(c) Zakat Policy made available to the public
2.	Zakat method adopted
3.	Zakat rate
4.	Amount of Zakat
	3(a) Detail computation
	3(b) Current zakat expense
	3(c) Zakat paid disclosed separately from taxation
	3(d) Zakat paid
	3(e) Provision for zakat/ zakat liability
	3(f) Any adjustments recognized in the period for zakat of prior periods
5.	Disclosure on the face of Financial Statements
	5(a) Statement of Financial Position - zakat payables (if any)
	5(b) Statement of Profit or Loss/ Income Statement - zakat expenses
	5(c) Statement of Cash Flow – zakat paid
	5(d) Notes to Financial Statements
6.	Zakat paid to zakat institutions
	6(a) Zakat paid to zakat institutions
	6(b) Detail disclosure on zakat authority and amount respectively
7.	Zakat Beneficiaries
	7(a) Legality to distribute zakat - <i>wakalah</i> zakat
	7(b) Statement on Asnaf/ beneficiaries of zakat
	7(c) List on Asnaf/ beneficiaries of zakat and amount distributed to each group of recipients
	7(d) Zakat as part of CSR program
	7(e) List of Zakat contribution as part of CSR activity with the amount contributed
CATEGORY B – BANK NOT LIABLE TO PAY ZAKAT	
1.	SC attestation on IB is not liable for zakat
2.	Reasons for not paying zakat
3.	Zakat policy

Table 5 discloses the descriptive analysis of all 22 banks, which consist of 16 IBs and 6 DFIs. From these 22 banks, 18 banks fall under Category A-Bank liable to pay zakat, whilst four banks fall under Category B-Bank not liable to pay zakat. All four banks which are not liable to pay zakat are foreign-owned banks. In terms of ownership structure, out of 22 banks, 12 banks (55% of the total population of this study) are owned by the government, five banks (23%) are foreign-owned, two are family-owned banks, and three banks have a mixed ownership of government, family, and individuals.

Table 6: Ownership, Zakat Obligation and Amount Paid in 2019

No	Abbreviation	Name of the Bank	Majority Ownership*				Types of Banks		Zakat Obligation Category		Amount Paid (in FY 2019) (RM'000) – available in Statement of Cash Flows	
			Government	Foreign	Family	Gov+ family/ individual	IB	DFI	A (Bank liable to pay zakat)	B (Bank not liable to pay zakat)	Zakat paid	Taxation paid
1.	AFIBB	Affin Islamic Bank Bhd	/				/	/		2,212	34,917	
2.	ALRAJHI	Al-Rajhi Banking & Investment Corporation (Malaysia)		/			/		/	N/A	17	
3.	ALIBB	Alliance Islamic Bank Bhd				/	/	/		156	41,748	
4.	AMIB	Ambank Islamic Bhd				/	/	/		1,855	74,714	
5.	BIMB	Bank Islam Malaysia Bhd	/				/	/		13,589	238,032	
6.	BMMB	Bank Muamalat Malaysia Bhd				/	/	/		6,134	17,908	
7.	CIMB	CIMB Islamic Bank Bhd	/				/	/		3,700 (zakat expenses)	324,900	
8.	HSBC	HSBC Amanah Malaysia Bhd		/			/		/	N/A	65,817	
9.	HLIBB	Hong Leong Islamic Bank Bhd			/		/	/		350	112,263	
10.	KFHMB	Kuwait Finance House Malaysia Bhd		/			/		/	N/A	20	
11.	MBBIB	Maybank Islamic Bhd	/				/	/		30,351 (zakat expenses)	775,651	
12.	MBSB	MBSB Bank Bhd	/				/	/		8,158	293,370	
13.	OCBC	OCBC Al Amin Bank Bhd		/			/	/		50 (zakat expenses)	35,191	
14.	PIBB	Public Islamic Bank Bhd			/		/	/		300	149,834	
15.	RHB	RHB Islamic Bank Bhd	/				/	/		5,000 (zakat expenses)	155,917	
16.	SCSB	Standard Chartered Saadiq Bhd		/			/		/	N/A	20,000	

No	Abbreviation	Name of the Bank	Majority Ownership*				Types of Banks		Zakat Obligation Category		Amount Paid (in FY 2019) (RM'000) – available in Statement of Cash Flows	
			Government	Foreign	Family	Gov+ family/ individual	IB	DFI	A (Bank liable to pay zakat)	B (Bank not liable to pay zakat)	Zakat paid	Taxation paid
17.	BPMB	Bank Pembangunan Malaysia Berhad	/				/	/		17,282	91,399	
18.	SME	SME Bank	/				/	/		2,686	782	
19.	EXIM	Exim Bank	/				/	/		NIL (net liabilities)	NIL (loss)	
20.	BKRMB	Bank Kerjasama Rakyat Malaysia Berhad	/				/	/		32,143	104,945	
21.	BSN	Bank Simpanan Nasional	/				/	/		7,483	103,586	
22.	AGRO	Bank Pertanian Malaysia Berhad	/				/	/		6,293	37,332	
Total										132,742	2,639,242	
Composition of zakat and taxation (%)										4.8%	95.2%	

*Source: M Abbas (2012), for item 1-16.

In year 2019, the percentage of zakat paid by 22 IBs and DFIs was low at 5% (equivalent to RM132,742,000) as compared to the total zakat and taxation paid (i.e., RM2,771,984,000). Around 93.58% (equivalent to RM128,897,000) of zakat paid was contributed from government-owned banks and 50% (equivalent to RM65,887,000) from that amount was contributed by DFIs (only five DFIs paid zakat in 2019, while EXIM bank did not pay due to the net liabilities recorded in the wealth position of the previous year).

Zakat Policy

Table 6 provides the rate reported by each bank and the zakat policy, the method of computing zakatable amount. Accordingly, almost all banks paid zakat for business. However, the declaration on the 'payment of zakat on behalf of depositor/ investment account holder (IAH) or shareholders' varies. While certain banks mentioned this aspect, others did not. For example, the disclosure by Bank Muamalat in the Director's Report clearly stated:

“The Bank pays zakat on its business to the state zakat authorities, based on the growth model method as approved by the Shariah Committee. The bank does not pay zakat on behalf of the shareholders or depositors, unless upon request by depositors” (Annual Report Bank Muamalat, 2019).

On the other hand, CIMB disclosed its zakat policy in detail in its Director's Report:

“The Bank pays business zakat by adopting the Adjusted Growth Method in line with the methodology approved by the Board Shariah Committee. However, the amount payable by the Bank is at the discretion of the Management and it is the shareholder's responsibility to ensure that their zakat obligations are fulfilled with their ownership of the share. The obligation and responsibility for specific payment of zakat on depositors' funds lie with its Muslim customers only. The aforesaid is subject to the jurisdictional requirements on zakat payment as may be applicable from time to time on the Bank and its subsidiaries arising from changes to local legislation, regulation, law, or market convention as the case may be. Accrual of zakat expenses (if any) in the Financial Statement of the Bank is reflective of this” (Annual Report CIMB, 2019).

Zakat Computation

The data further shows that the adoption of zakat computation method also differs. Apparently, the most adopted method was the net invested fund method/capital growth method/*urf'iyyah* which appeared at 12 banks (refer to Table 5). This is in line with PPZ MAIWP's recommendation that the best method for IFIs is the adjusted growth method (Pusat Pungutan Zakat MAIWP, 2021). The second most chosen method was the net asset method/working capital method/*syar'iyyah* which was preferred by three banks. Surprisingly, two banks (AMIB and PIBB) adopted the third choice: profit and loss method, and AGRO Bank opted for either capital growth method or profit and loss method, whichever gave a higher amount, although the method of profit and loss is supposedly recommended for hawkers, grocery marts, restaurants, food stalls, and any other types of small businesses (Pusat Pungutan Zakat MAIWP, 2021). Abojeib et al. (2019) also found a similar practice among takaful operators.

Concerning the method of zakat computation, it was found that EXIM Bank disclosed a different 'method' in the 2018 annual report. For instance, in the Shariah Committee's Report (refer to Figure 1), the bank employed the growth method, and in the Notes to the Financial Statements, used the working capital method instead (refer to Figure 2) even though either method will give a similar result. Essentially, consistency in the terminology used in all related reports is important to avoid confusion and misinterpretation by the users of the report.



Figure 1: Excerpt from the Shariah Committee’s Report of EXIM Bank in Annual Report 2018

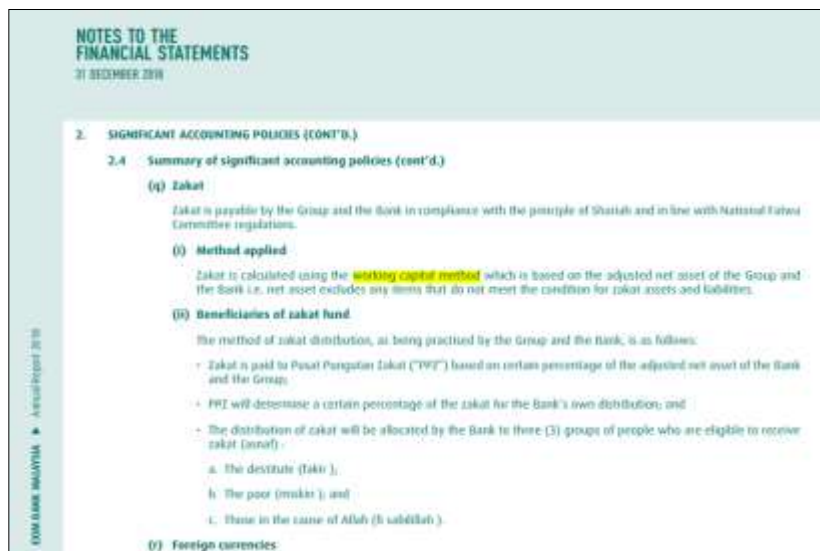


Figure 2: Excerpt from Notes to the Financial Statements of EXIM Bank’s Annual Report 2018

Zakat Rate

More or less similar to the other discoveries made by the study so far is the variation in the zakat rate used in calculating the zakat amount. Nine banks adopted 2.5%, two banks (AFIBB and BPMB) adopted 2.5775%, one bank (ALIBB) used 2.575%, while six banks (BIMB, BMMB, CIMB, HLIBB, OCBC, and EXIM) did not disclose the rate in their financial statements, annual report, integrated report, or sustainability report.

Table 7: Zakat Policy, Zakat Computation Method and Zakat Rate Adopted by IBs and DFIs – Based on Information from FY 2019 Reports

No.	Bank	Zakat Obligation/ Zakat Policy			Zakat Computation Method			Zakat Rate (%)	
		Business Zakat	Depositor/ Investment Account Holder	Shareholder	(a) Net Asset method/ working capital method/ <i>ḡar'yyah</i>	(b) Net invested fund method/ capital growth method <i>/ urfyyah</i>	(c) Profit and loss method		Terminology used for the adopted method
1.	AFIBB	✓	x		✓			Working capital	2.5775
2.	ALRAJHI	N/A							
3.	ALIBB	✓	x			✓		Growth	2.575 Gregorian
4.	AMIB	✓	x				✓	Net profit after tax	2.5
5.	BIMB	✓	x			✓		Growth capital	N/A
6.	BMMB		x						
		✓	unless upon request by depositors	x		✓		Capital growth model	N/A
7.	CIMB	✓	x	x		✓		Adjusted Growth	N/A
8.	HSBC	N/A							
9.	HLIBB	✓	x		✓			Net asset	N/A
10.	KFHMB	N/A							
11.	MBBIB	✓	x	x		✓		Shareholder' Equity with Adjustment	2.5
12.	MBSB	✓	x		✓			Working Capital	2.5
13.	OCBC	✓	x	x		✓		Growth capital	N/A
14.	PIBB	✓					✓	Profit and loss and is based on % of estimated	2.5

No.	Bank	Zakat Obligation/ Zakat Policy			Zakat Computation Method			Zakat Rate (%)	
		Business Zakat	Depositor/ Investment Account Holder	Shareholder	(a) Net Asset method/ working capital method/ <i>yar'yyah</i>	(b) Net invested fund method/ capital growth method <i>urfyyah</i>	(c) Profit and loss method		Terminology used for the adopted method
							Muslim shareholders		
15.	RHB	✓	x	x	✓		Working Capital	2.5	
16.	SCSB	N/A							
17.	BPMB	✓	x	x		✓	Capital Growth	2.5775	
18.	SME	✓	x	a		✓	Growth Capital	2.5	
19.	EXIM	✓				✓	Growth Model	N/A	
20.	BKRMB	✓				✓	Growth Capital	2.5	
21.	BSN	✓				✓	Adjusted Growth	2.5	
22.	AGRO	✓	x	x		✓	✓	Capital growth model or profit & loss (whichever higher)	2.5

Disclosure on Zakat Financial Information

Generally, disclosure on zakat financial information according to the accounting standard was the most complied item by the banks, in which only two banks (ALIBB and CIMB) did not disclose the zakat expenses which are required under the disclosure of a line item on the face of the income statement (refer to Figure 3). An excerpt of this practice is as per Figure 4. The requirement to disclose any adjustment recognized in the period for zakat of prior periods was only complied by BMMB, SME, and BKRMB (refer to Figure 5), while the other banks did not disclose this information, which may be due to the absence of any recognizable adjustment.

Presentation

- 15 The amount of zakat assessed for the current period shall be presented as a line item on the face of the income statement.

Figure 3: Excerpt from MASB Tr i-1

Company No: 200401032872 (671380-H)

CIMB Islamic Bank Berhad
(Incorporated in Malaysia)

Statements of Income
for the financial year ended 31 December 2019

	Note	The Group		The Bank	
		2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Income derived from investment of depositors' funds and others	34	4,188,928	3,488,997	4,188,928	3,488,997
Income derived from investment of investment account	35	415,670	555,563	415,670	555,563
Income derived from investment of shareholder's funds	36	449,804	414,535	451,621	416,940
Expected credit losses on financing, advances and other financing/loans	37	(49,272)	(107,458)	(49,272)	(107,458)
Expected credit losses written back for commitments and contingencies	25	19,792	1,837	19,792	1,837
Other expected credit losses	38	(721)	(474)	(721)	(474)
Total distributable income		5,024,201	4,353,000	5,026,018	4,355,405
Income attributable to depositors and others	39	(2,643,481)	(2,275,874)	(2,645,254)	(2,278,329)
Profit distributed to investment account holder	40	(307,968)	(438,686)	(307,968)	(438,686)
Total net income		2,072,752	1,638,440	2,072,796	1,638,390
Personnel costs	41	(29,622)	(27,751)	(29,622)	(27,751)
Other overheads and expenditures	42	(930,699)	(577,466)	(930,556)	(577,259)
Profit before taxation and zakat		1,112,431	1,033,223	1,112,618	1,033,380
Taxation and zakat	44	(324,421)	(202,914)	(324,421)	(202,914)
Profit after taxation and zakat		788,010	830,309	788,197	830,466
Earnings per share (sen)					
- basic	45	78.80	83.03	78.82	83.05

Figure 4: Excerpt from Statement of Income of CIMB Islamic Bank Berhad for Financial Year 2019

BANK KERJASAMA RAKYAT MALAYSIA BERHAD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019**

35. ZAKAT

In computing for zakat, the Group and the Bank have been applying the growth capital method based on the rate of 2.5%. This method applies the rate on owners' equity, long term liability, net of fixed assets and non-current assets, and subjected to allowable adjustments.

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Provision for current year	42,725	27,943	40,000	27,000
Overprovision in prior years	(3,541)	(2,410)	(3,541)	(2,408)
	<u>39,184</u>	<u>25,533</u>	<u>36,459</u>	<u>24,592</u>

Figure 5: Excerpt from Zakat Adjustment in the Explanatory Notes

Although detailed computation is an important requirement, none of the sample banks disclosed it. Since taxation and zakat have similarities as both are levied by the government on wealth, Abbas et al. (2018) proposed the same detailed disclosure in the notes to accounts. Figure 6 shows how taxation and zakat are disclosed in the notes to the accounts of SME Bank.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2019

CHAPTER 37
33 - 34

33. TAX EXPENSE/(CREDIT) AND ZAKAT

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Current tax:				
Tax expense for the year	46	-	12	-
Under/Overprovision in prior years	27	(475)	-	(500)
	<u>73</u>	<u>(475)</u>	<u>12</u>	<u>(500)</u>
Deferred tax (Note 17):				
Origination or reversal of temporary differences	6,209	-	6,209	-
Total tax expense/(credit) for the year	<u>6,282</u>	<u>(475)</u>	<u>6,221</u>	<u>(500)</u>

The reconciliation between tax expense/(credit) and accounting profit/(loss) of the Group and of the Bank multiplied by the applicable corporate tax rate is as follows:

	Group		Bank	
	2019 RM'000	2018 RM'000	2019 RM'000	2018 RM'000
Profit/(Loss) before tax expense and zakat	206,644	(52,170)	213,858	(495,552)
Tax expenses/(credit) at Malaysian tax rate of 24% (2018: 24%)	49,595	(12,522)	51,326	(118,932)
Tax effects of:				
Non-deductible expenses	6,812	105,306	5,097	91,684
Non-taxable income	(2,696)	(1,023)	(2,696)	(1,022)
Deferred tax assets not recognized	(44,727)	30,326	(44,727)	30,326
Effects of changes in tax rate	-	7,987	-	7,987
Effects of differences in tax rate	(2,779)	(43)	(2,779)	(43)
Effects of share of associate's profit/(loss)/ loss included in Group's profit before taxation	50	(32)	-	-
Under/Overprovision of current tax in prior years	27	(475)	-	(500)
Total tax expense/(credit) for the year	<u>6,282</u>	<u>(475)</u>	<u>6,221</u>	<u>(500)</u>

	Group and Bank	
	2019 RM'000	2018 RM'000
Zakat:		
Zakat for the year	1,432	4,200

Figure 6: Excerpt from Notes to the Account on Calculation of Taxation and Zakat from SME Bank's Annual Report 2019

Zakat Paid to Zakat Institutions and Beneficiaries

In terms of zakat beneficiaries, few banks, especially DFIs, disclosed extensive information on zakat allocation and distribution to the communities. Figure 7, Figure 8, and Figure 9 are examples of how the information was disclosed. In this case, to determine the different disclosure methods, the study refers to the 2017 and 2018 annual reports.

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AGROBANK

PENYATA TADBIR URUS SYARIAH STATEMENT ON SHARIAH GOVERNANCE

Zakat

Pada Julai 2018, Jabatan Syariah telah dilantik sebagai sekretariat kepada Jawatankuasa Pengagihan Bank, di mana dahulunya, fungsi ini dijalankan oleh Jabatan Komunikasi Strategik (SCD) Bank. Sekretariat kepada Jawatankuasa Pengagihan Bank bertanggungjawab untuk memastikan kepatuhan terhadap Garis Panduan Pengendalian Zakat dalam memproses, menilai, dan mengagihkan zakat kepada golongan asnaf yang berkelayakan.

Bagi peruntukan zakat kepada negeri-negeri di Malaysia, pihak Bank mengambil kira nisbah aset pembiayaan bagi setiap negeri. Oleh yang demikian, zakat yang diagihkan kepada setiap pihak berkuasa agama negeri adalah berlainan bergantung kepada aset yang dimiliki oleh setiap negeri. Jawatankuasa zakat dalam bagi tujuan pengagihan zakat telah ditubuhkan untuk memastikan serakam danimbangan, di mana setiap laporan pengagihan zakat dibentangkan kepada SC untuk pemakluman dan ditambahbaik.

Pada tahun 2018, bank telah mengagihkan zakat bernilai RM2.6 juta, yang merangkumi zakat dari tahun 2016 dan tahun 2017. Zakat tersebut disampaikan kepada pemohon berkelayakan termasuk individu dan organisasi yang dipilih oleh Bank. Antara penemernya termasuk pelajar, penduduk atau rumah anak yatim yang dikategorikan sebagai asnaf, keluarga di bawah Program Perumahan Rakyat (PPR) di Lembah Klang, badan-badan amal, masjid, dan pihak berkuasa zakat, dan sebagainya.

Ringkasan taburan peruntukan zakat ditunjukkan dalam jadual di bawah ini:

Zakat

The Shariah Department has been appointed as secretariat to the Bank's Distribution Committee in July 2018, where previously this function was handled by the Bank's Strategic Communication Department (SCD). The secretariat of the Bank's Distribution Committee is responsible to ensure that procedures related to process, evaluation and distribution of zakat allocation to eligible asnaf are based on *Garis Panduan Pengendalian Zakat*.

For allocation of zakat by states in Malaysia, the method used by the bank is by considering the ratio of financing assets from every state, and therefore the zakat distributed to each state religious authority varied depending on assets owned by each state. Internal zakat committee for zakat distribution has been set-up to conduct check and balance, with each zakat distribution reports notified to the SC for any improvement and recommendations.

In year 2018, the bank had successfully distributed RM2.6 million of zakat, consisting zakat from the year 2016 and 2017 zakat. The zakat was paid to eligible applicants including individual and organisations selected by the Bank. Among the recipients were students, residents or orphanages that were categorised under *asnaf*, families from Program Perumahan Rakyat (PPR) in Klang Valley, charitable bodies, mosques, and zakat authorities etc.

Brief distribution of the zakat allocation is tabulated as below:

Kategori Asnaf Asnaf Categories	Jumlah (RM) Amount (RM)
Faki Miskin/Fakir Miskin	710,770.00
Fi Sabillillah/Fi Sabillillah	1,529,828.49
Gharimin/Gharimin	87,347.90
Muallaf/Muallaf	10,500.00
Pihak Berkuasa Zakat dalam Negeri/Zakat Authority of States	262,000.00
TOTAL/JUMLAH	2,600,446.39

Figure 7: Excerpt from Annual Report of Agrobank's Annual Report 2018

The size of the TM fund distributed and the trend of TM aids applications for FY2019 are described as below.

<i>Fakir</i>	RM255,000.00
<i>Miskin</i>	RM516,010.00
<i>Fi-sabilillah</i>	RM1,656,849.29
<i>Gharimin</i>	RM12,521.80
<i>Muallaf</i>	RM193,000.00
<i>Sadaqah</i>	RM161,520.40

Notes: *

- Fakir* – Poor
- Miskin* – Needy
- Amil* – Zakat Collectors
- Muallaf* – recent converts to Islam
- Riqab* – slavery
- Gharimin* – those who have incurred overwhelming debts while attempting to satisfy their basic needs
- Fi-sabilillah* – Those STRIVE for a religious cause
- Musafir* – wayfarers

Figure 8: Excerpt from Bank Muamalat 2019 Annual Report

An example of the disclosure on zakat distribution was retrieved from Bank Pembangunan Malaysia Berhad’s 2017 annual report (see Figure 9).

BANK PEMBANGUNAN MALAYSIA BERHAD

SHARIAH COMMITTEE’S REPORT (CONT’D.)

ZAKAT ON BUSINESS & CHARITY FUNDS

During the financial year the zakat has been computed using the growth capital computation method at the rate of 2.5775% in accordance with the approved guidelines and decisions by the Shariah Committee. The method of computation for the year has been revised to be more aligned with *Manual Pengurusan Zakat Perbankan* issued by the *Jabatan Wakaf, Zakat dan Haji (JAWHAR)* Jabatan Perdana Menteri.

Of the total amount of zakat payable, 7/8 of the amount is distributed by the Bank to the states' zakat authorities in Malaysia based on the data on the poverty level of the respective states as reported by the Department of Statistics of Malaysia, whereas the balance of 1/8 of the amount is distributed by the Bank directly to eligible beneficiaries (*asnaf*).

Throughout the year, we also note that the Bank has carried out the distribution of the following in accordance with the internal guidelines and as approved by us:

- a) The zakat fund has been distributed to the eligible *asnaf*; and
- b) The charity fund has been distributed to the eligible recipients.

Figure 9: Excerpt from Bank Pembangunan Malaysia Berhad 2017 Annual Report

As far as the disclosure on zakat-eligible beneficiaries is concerned, this study found a somewhat confusing statement released by Agrobank in its 2019 annual report. This finding is highly significant in the sense that the unclear or ambiguous information on zakat beneficiaries could lead to misinterpretation of the management of zakat distribution. The bank’s statement in that ‘Agrobank presented zakat contribution of RM104,500 to underprivileged children and orphans’

(see Figure 10) is of particular interest, since the orphanage is not one of the eligible beneficiaries/asnaf listed by Islamic law. Allah SWT manifested in Al-Quran:

“Zakāh expenditures are only for the poor and for the needy and for those employed for it¹ and for bringing hearts together [for Islām] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveler - an obligation [imposed] by Allah. And Allah is Knowing and Wise”

(At-Taubah 9:60)

Agrobank welcomed about 1,200 guests from diverse agencies and backgrounds to our Aidilfitri open house celebrations held at MAEPS Serdang. Among those in attendance were representatives from the Ministry of Finance, Ministry of Agriculture & Agro-based Industry, Bank Negara Malaysia, other government and private agencies, the Bank's various stakeholders, customers and media partners. Agrobank presented zakat contribution of RM104,500 to underprivileged children and orphans from five (5) establishments. The orphans were presented withduit raya by YB Sim Tze Tzin, Deputy Minister of Agriculture & Agro-based Industry, Tan Sri Mohamad Zabidi Zainal, Chairman of Agrobank's Board and Syed Alwi Mohamed Sultan, President/Chief Executive Officer of Agrobank.

Figure 10: Excerpt from AGRO Bank 2019 Annual Report

Tracing the cause of this presumed misstatement, it was found that the regulation itself actively used the term ‘orphanage’ as an example of zakat beneficiaries (refer to Figure 11), which has somehow been excluded in the new regulation (i.e., BNM Policy Document on Financial Reporting for DFIs dated 28 July 2020) which is to be applied to financial statements with financial years beginning on or after 1 January 2020 (Bank Negara Malaysia, 2020).

BNM/RH/GL 005-16	Development Finance and Enterprise Department	Guidelines on Financial Reporting for Development Financial Institutions	Page 18/37
<p>(iii) financial effect of the departure on each item in the financial statements that would have been reported in complying with the MFRS requirement.</p> <p>(b) DFI's obligation on zakat, which may alternatively be disclosed under the Director's Report. DFIs that do not pay zakat must also disclose to that effect. DFIs that pay zakat shall disclose additional information regarding:</p> <ul style="list-style-type: none"> (i) responsibility towards zakat payment either on the business, and/or behalf of the shareholders; (ii) method applied in the determination of zakat base e.g. growth method, working capital method; and (iii) beneficiaries of zakat fund e.g. Baitul Mal, orphanage, etc. 			

Figure 11: Excerpt from AGRO Bank 2019 Annual Report

Another important item for zakat disclosure is *wakalah* zakat. Although most of the banks did mention in their zakat policy that they are distributing zakat to eligible *asnaf* accordingly, they did not mention the legality to do so, albeit such is not required by the authority. To show transparency, the bank can disclose which SIRC or zakat authority/ies gave them the permission, and how much amount was approved, distributed, and the undistributed balance. Indirectly, this requirement can support the disclosure of the zakat fund as per item 5 which was found to be very minimal disclosure. Banks which mentioned the *wakalah* zakat in their reporting were BIMB, RHB, SME, EXIM, and BKRMB, even though it was just a simple and brief statement (see Figure 12 for an example).

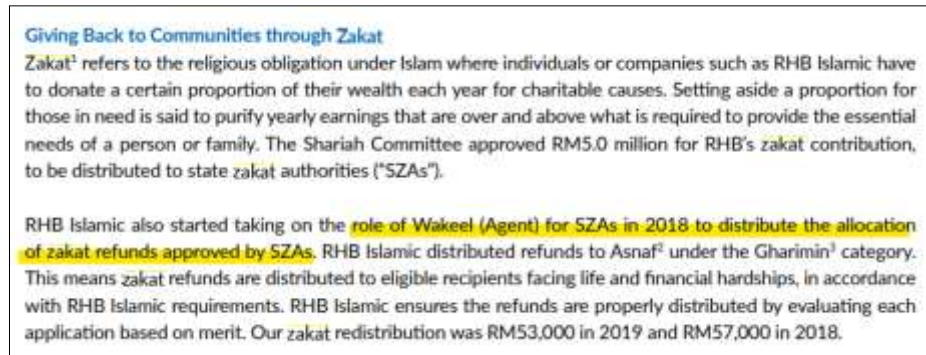


Figure 12: Excerpt from RHB Bank Berhad Bank 2019 Sustainability Report

The legality to distribute zakat is also related to the Corporate Social Responsibility (CSR) assessment of the bank. Nearly 70% of banks announced that zakat is part of their CSR activities in giving back to the communities.

CONCLUSION

From the findings, this study has shown that all of the banks self-declared their liability to pay zakat, except for four (4) foreign banks. For banks which pay zakat, the method, rates, and policy vary. In terms of zakat calculation, three banks (AMIB, PIBB, and AGRO) employ the profit and loss method despite the regulation set by Pusat Pungutan Zakat MAIWP that 'this approach is appropriate for businesses with no accounts or financial data like small shops, retailers, wet markets, night markets, bazaars, restaurants, food and beverage kiosks, and other small businesses. As for the terminology used for the method of zakat calculation, this factor also varies. The 'capital growth model method', 'capital growth method', 'growth method', 'growth model method', 'growth capital method', 'adjusted growth method', and 'shareholders' equity with adjustment method' all refer to the same method, which is adjusted growth method or net invested fund. The use of various terminology is very much confusing to the users of the financial reports. Essentially, the terminology used in the MASB Tr *i-1* and Manual Zakat Perbankan JAWHAR also differs, in which the MASB refers to it as 'Adjusted Growth' while JAWHAR as 'Net Invested Fund'. Therefore, the standardization of terminology (or any other provisions in a similar field/ area) from the regulators will be very much helpful in standardizing the implementation at the industry level. Furthermore, both taxation and zakat are levied by the government on wealth. Thus, a similar detailed disclosure for taxation must also be practiced to zakat. This study has further found the lack of detailed disclosure related to *wakalah* zakat. Although the bank that engages with *wakalah* zakat needs to report to the zakat authority on the usage of zakat funds, this study assumes that disclosing this aspect in the annual report will benefit other stakeholders. As a community-centric

organization, DFI has contributed greatly to CSR, especially through zakat distribution. As such, disclosing more on the non-financial elements of zakat is very much required to enhance the accountability to the public. Indeed, this has been in practice for quite some time (since 2016) and the trend of zakat disclosure is positively moving upward.

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