

SHARĪ'AH DISCLOSURE AND READABILITY OF ISLAMIC BANKS IN PAKISTAN

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Abstract

Islamic banks are required to ensure *Sharī'ah* compliance as established by regulatory authorities, i.e., the State Bank of Pakistan. Stakeholders consider *Sharī'ah* compliance as a crucial factor when investing in these banks, which is why annual reports are produced to communicate the level of compliance. However, these reports often lack complete and readable information about the banks' level of *Sharī'ah* compliance. This study analysed the extent of *Sharī'ah* governance disclosure and readability in annual reports of 19 Pakistani banks, including full-fledged and window Islamic banks. Using the *Sharī'ah* disclosure index and content analysis, the study identified the disclosure level and explored the disclosures' readability using Bog Index in the *Sharī'ah* reports. Results showed that full-fledged banks had a higher

level of disclosure than window banks. Meanwhile, *Shari'ah* reports were generally difficult to read. Improving the level of disclosure and readability in *Shari'ah* reports can have a positive impact on all stakeholders. The study provides implications for management to enhance the level of *Shari'ah* compliance and readability, which will lead to a better understanding of the banks' operations, increased trust in these institutions, and ultimately, contribute to the growth and development of Islamic finance in Pakistan. Stakeholders such as investors, customers, and policymakers will be able to make more informed decisions with a clearer understanding of the banks' operations. A better reputation for Islamic banking will help attract more customers and investors, further boosting the country's growth and development of Islamic finance.

Keywords: *Islamic Banks; Readability; Shari'ah Governance; Shari'ah Disclosure Index.*

1. Introduction

The growth of Islamic finance is due to the distinctive characteristics of Islamic Financial Institutions (IFIs), which strongly emphasize fairness and justice in their operations based on the two primary moral guidelines found in the Holy Qur'an and Sunnah. Islamic banks (IBs) are responsible for ensuring their products, operations, and instruments comply with *Shari'ah* rules. Compliance can only be observed if IBs are monitored under a strong *Shari'ah* governance framework. In this regard, the regulatory bodies of the country provide a proper framework for Islamic banks; e.g., Malaysia is following the *Shari'ah* Governance Framework issued by Bank Negara Malaysia, and similar to it, the State Bank of Pakistan (SBP) has issued the *Shari'ah* Governance Framework (SGF) for Islamic banks in 2018. Compliance with *Shari'ah* and implementation of the *Shari'ah* framework are also encouraged by international institutions like the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). In a similar vein, AAOIFI has issued governance standards as well. Since the core foundation of Islamic banks lies in *Shari'ah* principles, the public expects that these banks will provide more transparency and fairness in their operations and reporting. Resultantly, the presence of effective *Shari'ah* governance increases stakeholders' trust in the IB's products and operations.

The stakeholder theory suggests that managers serve and promote all stakeholders' interests, including customers, suppliers, employees, and stockholders¹. Thus, Islamic banks need to communicate essential information to their stakeholders. Annual reports serve as a communication channel between stakeholders and businesses; thus, information disclosure is communicated this way². According to the *Shari'ah* perspective, social responsibility gave rise

to the principle of full disclosure, in which the public has a right to know how a company's operations will affect its decisions. Similarly, *Shari'ah* disclosure gives customers high confidence by providing adequate and relevant information³. Khomsatun⁴ demonstrates how *Shari'ah* disclosure affects the soundness of IBs in terms of management effectiveness, capital adequacy ratio, asset quality, and liquidity. The findings suggest that *Shari'ah* disclosure mediates the indirect impact of SSB on the soundness of Islamic banks. Hence, IBs need to provide a clear information disclosure system as compared to their conventional counterparts⁵. Information regarding *Shari'ah* governance disclosure in corporate annual reports is important, as it assists users in decision-making⁶. Recently, research on disclosure has received much consideration from academicians, and numerous studies have been conducted⁷.

Moreover, it is observed that insufficient disclosure leads to fraudulent financial reporting and corporate failure, as managers could easily misrepresent information⁸. Therefore, disclosure helps decrease the information gap between external stakeholders and managers⁹.

There is a split in the literature about to what extent IBs disclose information in their annual report. For instance, corporations must disclose information that is necessary for decision-making. In this regard, Hanifa and Hudaib¹⁰ argued that complete disclosure of relevant information should assist external users in making both financial and religious decisions, as well as assisting the management in fulfilling their duty to God and society. Khan et al.¹¹ revealed that IBs still lack information in their corporate governance disclosures. Khanifah et al.¹² conducted a similar analysis and concluded that Islamic banks have 72 percent *Shari'ah* disclosure on average. Further investigation shows that full-fledged Islamic banks have a higher level of disclosure than window banking¹².

Similarly, Ismail et al.¹³ investigated full-fledged Islamic banks in Pakistan. However, their study is limited to only full-fledged Islamic banks. Current research has considered both window and full-fledged Islamic banks and compared the level of disclosure.

On the other hand, information disclosure is insufficient until it is readable so that the readers can understand. Specifically when prospective users are unable to comprehend the content of the disclosure provided in the reports. However, the importance of annual report disclosure comes with its capacity to convey meaning to various stakeholders. Therefore, good components alone do not guarantee the quality of well-written communication. Annual report readability is an important element of disclosure. Leheavy et al.¹⁴ demonstrate how the volume and complexity of disclosures have

grown significantly over time. However, it is the firm's responsibility to present disclosures in a language that investors can understand¹⁵, depicting the importance and significance of readability¹⁶. Despite the growing considerations on an annual report's readability from the aforementioned studies, it has been observed that no such study on *Shari'ah* reports has been conducted to the best of our knowledge. Therefore, this study examines the extent of *Shari'ah* governance disclosure in the annual reports of Pakistani banks, including full-fledged and window Islamic banks. This objective was achieved by constructing the *Shari'ah* disclosure index and then deriving the information related to each index item from the annual reports of Islamic Banks. Meanwhile, another objective is to examine the readability of *Shari'ah* governance disclosure by comparing full-fledged and window Islamic banks using the Bog index on the text related to *Shari'ah* disclosure in the annual reports of Islamic banks.

2. Literature Review

2.1. *Shari'ah* Governance

Corporate governance (CG) is how companies are controlled and directed¹⁷. It is the way organizations are governed and operated.^{18 19}, describes corporate governance as the framework for the direction and control of business operations. It is a "collection of mechanisms designed to safeguard shareholders' interests." The growing importance of CG is the result of the Lehman brothers, Enron scandals, and Asian financial crises²⁰. Considering these corporate problems, the corporate control and governance mechanism plays a major role in regulating corporations' financial systems²¹ by establishing the framework for the relationship between directors, the board of directors, and shareholders. It also clarifies each party's rights and obligations to effectively utilize the opportunities and resources²². In addition, effective governance mechanisms can improve transparency, corporate performance, and shareholder value²³. It has been observed from Chinese Listed companies that the supervisory board has played an active role when Chinese firms are sentenced to some irregularities²⁴.

On the other hand, *Shari'ah* is concerned with both the substance and the form of business; CG of a *Shari'ah*-compliant business would first examine the transactional structure to determine whether the transaction involves elements that invalidate gains or profits²⁵. The philosophy on which Islamic banks operate is based on a profit and loss and risk-sharing model and, thus, are not permitted to engage in speculation and interest-based activities²⁶.

The contradicting philosophy of IBs with conventional business operations may misrepresent information regarding the *Shari'ah* compliance of the operations and products. This is because the BODs always think about profit maximization and may be involved in *Shari'ah* non-compliant activities without disclosing it to the stakeholders. Therefore, the stakeholders of Islamic banks are more interested in knowing how the profits are derived. In this regard, the established rules of *Shari'ah* governance hinder BODs from indulging in any *Shari'ah* non-compliant activity.

The supervisory board is the main layer differentiating conventional corporate governance from Islamic governance. In addition, the concept of CG from an Islamic perspective does not differ much from the conventional definition as it refers to a system by which companies are directed and controlled to meet the company's objective and the interest of all stakeholders.

Regarding standardization of rules, Islamic corporate governance differs from conventional corporate governance practices because Islamic corporate governance must be based on Islamic *Shari'ah* principles inspired by Holy Qur'an and *Hadith*²⁷. To sum up, the context of corporate governance with an Islamic perspective is more focused on the socio-scientific concept in major decision-making and considering the teaching of Islam²⁸.

Every country has its own rules and regulations regarding banking and is therefore governed by the Central Bank. In the case of IBs, the situation is not much different. For instance, the Bank of Negara Malaysia issued *Shari'ah* governance standards for Islamic Banks in Malaysia. Similarly, the State Bank of Pakistan has issued and implemented a comprehensive *Shari'ah* governance framework.

The emphasis on *Shari'ah* corporate governance emerged in the twenty-first century after the birth of Islamic finance and banking. The increase in the number of *Shari'ah* firms has led to the formulation of *Shari'ah* rules and regulations following *Shari'ah* jurisdiction. These rules are derived from *Shari'ah* law. To understand *Shari'ah* governance, it is necessary to comprehend how *Shari'ah* governance organs work.

The main distinguished element that differentiates it from its conventional counterpart is the *Shari'ah* supervisory board. The SSB is a crucial component of the Islamic governance body that monitors and certifies an Islamic bank's compliance with *Shari'ah*²⁹. SSB is required to ensure product implementation and any other activity connected to Islamic financial institutions (i.e., Islamic banks comply with *Shari'ah*). In this regard, IBs should have the SSB, whose responsibility is to make sure that the products and services given to

investors and consumers comply with the laws and values of *Shari'ah*³⁰.

Therefore, the disclosure of these activities in the financial reports must be provided by Islamic Banks. It is important to note that since the core of IBs is based on *Shari'ah* principles, it is held accountable to Allah Almighty first and society second, where accountability and responsibility are presumed to be mandatory. Thus, the disclosure is owed fundamentally to Allah Almighty and the community³¹.

Therefore, to examine the *Shari'ah* disclosure in the financial report. Al-Shiabah et al.³² have explored the extent of disclosure of SGF in full-fledged and window Islamic banks of Oman. Moreover, Zulfikar et al.³³ have found that Indonesian *Shari'ah* banks have improved their level of disclosure, which was 60 percent³⁴ to 89 percent. Therefore, we propose that:

H1: There is a significant difference between the disclosure of full-fledged Islamic and window banks.

2.2. Readability of Islamic Banks' *Shari'ah* Reports

As discussed, much of the literature is focused on the *Shari'ah* disclosure provided by Islamic banks. However, as per our knowledge, none of the studies has focused on how readable the provided disclosure is for a common reader. Thus understanding art is of equal importance to understanding science³⁵.

How the concept is defined is mainly considered to the readability of the text³⁶. Readability is "the understandability or comprehension of the writing due to its style"³⁷. Multiple definitions are provided by authors, such as DuBay,³⁸ who defined it as "*the degree to which particular class of people find certain reading comprehensible and compelling*". Annual reports are the source of information corporations provide to their investors, which enables them to supervise the management. Difficulty with the readability of these disclosures has serious consequences³⁹. Shareholders of firms with less clear and ambiguous annual reports also suffer from less transparent information disclosure⁴⁰. It also undermines investors' ability to process information⁴¹. Moreover, the extent of readability of the disclosures that provide these documents credibility and importance for conveying important information to stakeholders in an effective way⁴².

Li⁴³ has used the Fog index to measure readability by calculating the document's number of words and length using a sample of 10-k files. Boubaker et al.⁴⁴ have also used the same

technique. However, there are some shortcomings in the fog index, as it measures the multisyllabic words as complex, i.e., the company has three syllables, but the index will consider it a complex word, but everyone commonly understands it⁴⁵. Another frequently used method is the Flesch score, which is used as a measure of readability. However, Flesch and the fog index faced some critics from practitioners, such as not capturing the complexity of sentence structure⁴⁶. Although the fog index is used by many authors in measuring readability, this study uses the Bog index. The main reason to use the Bog index measure as readability is that it can potentially measure non-financial information.

The above-mentioned studies provide the significance of readability. The main channel for conveying corporate information is annual reports. However, understanding available information is equally important. The annual report of *Shari'ah* banks provides details about their operations and products. These reports also contain some specific *Shari'ah*-related information. Using complex words and terms may make it difficult for stakeholders to understand that information. Thus, information disclosed in the *Shari'ah* report must be readable. Therefore, it is important to consider the readability of full-fledged and window banking. Ahmed et al.⁴⁷ have conducted readability of the mission and vision statement of Pakistani Islamic full-fledged and window banking. Findings suggest the window banking mission statement is more readable than full-fledged banks. However, when one is concerned about the readability of *Shari'ah* disclosure of full fledge and window Islamic banks, it can be deduced that since the former has more expertise than the latter, their reports are more readable. Therefore, it is hypothesized that:

H2: The Shari'ah disclosure in the reports of full-fledged Islamic banks is more readable than window Islamic banks.

3. Research Methodology

3.1. *Shari'ah* Disclosure Index

To test H1, the *Shari'ah* disclosure index is adapted from the study of Ismail et al⁴⁸. A thorough review of the SBP *Shari'ah* governance framework constructs it. It includes all organs of SGF-2018. Every bank has been given a score based on the whole SGF-2018 disclosure items in the annual report. The items are selected on a quantifiable basis. Previous studies^{49 49 50} employ several stages to develop a disclosure index. Therefore, developing an index requires three steps. First, to measure disclosure, the items in the index are developed based on the *Shari'ah* governance framework 2018 issued by SBP. Second, items included in the index are selected carefully by reading SGF-2018, and third, selecting main dimensions based on

governance organs. There are eight organs, BODs, Executive Management, *Shari'ah* Board, Resident *Shari'ah* Board Member, *Shari'ah* Compliance Department, Product Development, Internal *Shari'ah* Audit, and External *Shari'ah* audit.

The index consists of 31 items; the dimensions show to determine the level of governance disclosure using the index in each governance section of an annual report.

After the development of the index, the formula for calculating the mean is as follows:

$$SGDI = \frac{\sum_{t=1}^{n_j} X_{ij}}{n_j}$$

Where n is the estimated number of items disclosed by the jth bank, multiplication term X_{ij} is 1 if an item is disclosed fully, 0.5 if partial disclosure is provided, and otherwise 0.

To compare the means of each group, the paired-sample t-test is applied to examine the difference between means of full-fledged and window Islamic banks for five years sample and compare the level of disclosure of other countries and Pakistan. Lone et al.,⁵¹ used a t-test to compare the CSR disclosure of each sector.

3.2. The Readability Measures:

We first converted *Shari'ah* disclosure pdf files into HTML text files to compute readability. Tables and figures, and numbers were deleted from the text. The calculation of the *Shari'ah* report is based on the remaining text.

We used the bog index⁵² to capture a broader set of plain English attributes. It captures the plain English writing attributes. The bog index summarizes those writings that make readers bog down. It is calculated as:

$$\text{Bog Index} = \text{Sentence Bog} + \text{Word Bog} - \text{Pep},$$

Where, the higher the bog index lower the readability.

The first component, sentence Bog, identifies problems with readability caused by sentence length and with longer sentences having a higher Bog Index. The program determines the typical sentence length for the entire document. The typical long sentence limit of 35 words per sentence is then squared to determine the average length. The second component, based on the word bog contains two parts. To be more precise, Word Bog is computed as the total problems in plain English and word difficulty multiplied by 250

and divided by the total number of words. The second subcomponent is based on the word difficulty of general vocabulary. The bog index measures the difficulty using predetermined 200,000 words based on familiarity and precision. The final component, i.e., Pep, highlights writing characteristics that make it easier for readers to understand texts. This part of the Bog Index considers good writing by adding elements like names and fascinating words, which tend to make writing more interesting.

4. Findings

4.1. *Shari'ah* Disclosure

The disclosure level of Islamic window and full-fledged banks through the years (2017-2021) is presented in Tables 4.1 and 4.2. Table 4.1 shows that Summit Bank has the highest disclosure at 70%, while Allied Bank and Habib Metropolitan Bank have the lowest at 41%.

Disclosure Level of Window Islamic Banks						
Banks	2017	2018	2019	2020	2021	Average
Summit	66%	66%	66%	66%	60%	65%
UBL	65%	65%	65%	65%	65%	65%
Faysal Bank	65%	65%	65%	65%	58%	63%
NBP	61%	61%	60%	60%	63%	61%
Soneri5 Bank	60%	58%	58%	58%	53%	57%
Bank of Khyber	58%	58%	55%	58%	56%	57%
HBL	65%	55%	55%	55%	52%	56%
Bank of Punjab	55%	55%	55%	55%	53%	55%
Standard Chartered	52%	52%	52%	52%	52%	52%
Bank Alfalah	44%	44%	44%	58%	44%	46%
Askary	44%	44%	40%	34%	50%	42%
Bank Alhabib	42%	40%	53%	37%	37%	42%
HMP	40%	48%	56%	40%	19%	41%
ABL	27%	47%	42%	45%	44%	41%

Table 4.1. Level of Disclosure of Islamic Window Banks

Looking at the full-fledged Islamic banks in Table 4.2, again, Meezan has the highest score, followed by Dubai Bank, which has 55% disclosure. Al-Baraka has the lowest level of disclosure. Interestingly, it can be observed that the overall *Shari'ah* disclosure of Islamic window banks is higher than full-fledged banks.

Disclosure Level of Full-fledged Islamic Banks						
Banks	2017	2018	2019	2020	2021	Average
Meezan Bank	61%	68%	60%	82%	79%	70%
Dubai Bank	53%	53%	65%	52%	52%	55%
Bank Islami	45%	65%	47%	61%	50%	54%
Al-Baraka	35%	37%	32%	32%	35%	35%
MIB	26%	45%	35%	42%	52%	40%

Table 4.2. Level of Disclosure of Full-fledged Islamic Banks

Table 4.3 reports the descriptive statistics. The sample consists of 5 full-fledged and 14 window banks. The mean disclosure value of full fledge Islamic banks is 50.8%. Similarly, window banking has a mean value of 53.07%, slightly higher than full-fledged banks. Moreover, data is normally distributed under the kurtosis range. It is important to notice that the sample variance of window banking is higher than full-fledged. The maximum disclosure level of full-fledged banks is 70%, and the minimum level is 36%; compared to window banking maximum range is 65% which is lower than full-fledged, and the minimum level is 41%.

Descriptive Statistics		
	Full-Fledged	Window Banks
Mean	50.58064516	53.0645161
Standard Error	6.221208397	2.41486053
Median	53.5483871	55.3225806
Standard Deviation	13.91104488	9.03558074
Sample Variance	193.5171696	81.6417194
Kurtosis	-0.598195118	-1.53825014
Skewness	0.324468841	-0.19660398
Range	35.48387097	23.8709677
Minimum	34.51612903	40.9677419

Maximum	70	64.8387097
Sum	252.9032258	742.903226
Count	5	14

Table 4.3. Descriptive Statistics

The results of Hypothesis 1 are shown in Table 4.4. The result shows no significant mean difference between full-fledged and window banking. It can be deduced that the average disclosure of both samples is not significantly different.

Hence, we cannot reject the null hypothesis stating that there are no significant mean differences in the disclosure level of the window and full-fledged Islamic banks.

t-Test: Two-Sample Assuming Equal Variances		
	<i>Full- Fledge</i>	<i>Window Banks</i>
Mean	50.58065	53.06452
Variance	193.5172	81.64172
Observations	5	14
Pooled Variance	107.9654	
Hypothesized Mean Difference	0	
df	17	
t Stat	-0.45884	
P(T<=t) one-tail	0.326081	
t Critical one-tail	1.739607	
P(T<=t) two-tail	0.652163	

Table 4.4. Results of T-Test

In Table 4.5, we have compared the mean differences between full-fledged Islamic banks and Islamic windows with the average disclosure mentioned in the literature.

Results show a significant negative relationship between the means and suggest that at a 5% significance level window bank's mean is 26% lower than average, and the full-fledged bank's mean difference is 28.7% lower than the overall average disclosure level in the literature.

Test Value = 79.5%				
	t	df	Sig. (2-tailed)	Mean Difference
Full Fledged	-4.647	4	.010	-28.700
Windows	-0.865	13	.000	-26.429

Table 1.5 Results of One-Sample t-Test

4.2. Readability Analysis:

The results of the readability of the *Shari'ah* board report of 19 banks lack readability. Table 4.6 and 4.7 presents the readability score throughout 2017-2021 of 19 banks. The results are presented based on each bank. We have used Bog Index as a measure of readability. A higher level of bog index score reflects the lowest document readability.

Bog Index Score of Window Banks						
	2017	2018	2019	2020	2021	Average
ABL	83	83	80	80	75	80
Bank Alfalah	76	86	86	93	85	85
Al-Habib	94	98	98	87	84	92
Askari	93	80	104	114	87	96
BOK	93	91	89	108	114	99
BOP	83	101	113	98	104	100
Faysal Bank	99	105	96	106	108	103
HBL	109	104	97	97	97	101
HMP	84	84	83	91	60	80
NBP	92	95	89	79	75	86
SC	71	74	81	90	86	80
Soneri Bank	81	86	78	76	83	81
Summit Bank	95	85	96	90	93	92
UBL	94	95	99	92	92	94

Table 4.6. Readability Score of each Islamic Window Bank

Bog Index Score Full-fledged Banks						
	2017	2018	2019	2020	2021	Average
Meezan	84	79	81	84	88	83
MIB	128	130	81	99	102	108
B.Islami	67	84	82	83	86	80
AlBaraka	73	78	77	76	91	79
DIB	91	88	94	101	95	94

Table 4.7. Readability Score of each Full-Fledged Islamic Bank

Accordingly, the bog index of banks reflects poor readability of narrative disclosure. However, comparing the readability score of each bank every year, most of the banks have improved from 2018 to 2020, whereas, in 2021, banks failed to maintain readability. Moreover, from the perspective of each bank, Faysal Bank, HBL, and MIB are reported at a Bad level with the highest bog score. However, Al-Baraka, ABL, and Bank Islami have scored low in the bog index, which inculcates that they are considered poor but comparatively better than the aforementioned banks.

5. Discussion

The above analysis indicates that full-fledged Islamic banks have comparatively lower disclosure than Islamic window banks. Moreover, the average overall disclosure of Islamic banks is 52% lower than other countries' reports. A similar phenomenon is found by Al-Shaibah³² where many Islamic bank reports highlight very little Shari'ah disclosure information, affecting the overall Islamic Banks' Shari'ah disclosure. However, the overall *Shari'ah* disclosure reported by the study is still above 70%. On the contrary, the study of Zulfikar and Puspawati³³ reports 89% *Shari'ah* disclosure of Indonesian Islamic banks, where most banks disclose above 90% of Shari'ah governance-related information. Unfortunately, comparing the average *Shari'ah* disclosure of Islamic Banks with Pakistani Islamic Banks, it is found that these Banks are still far behind the international average of 79.5%, which we calculated from the previous literature.

More specifically, it is observed that Meezan Bank has the highest disclosure level. This suggests that Meezan Bank is more compliant with *Shari'ah* governance framework guidelines, whereas Al-Baraka lacks in disclosing information required by the SBP governance framework. The overall average score for *Shari'ah* disclosure (including full-fledged and windows) is 52% confirming

the findings of an earlier study by Ismail et al.⁵³ in the Pakistan context. Still, their sample consists of only full-fledged Islamic banks. The most significant part of *Shari'ah* governance is the *Shari'ah* board, the main ruling department of Islamic banks and has comparatively the lowest score. However, this dimension has the highest number of items. The dimension consists of *Shari'ah* board members as authority to oversee the operations and implementation of overall *Shari'ah* compliance. From a theoretical perspective, the results do not support the argument of stakeholder theory, which suggests that IBs should preserve the rights of all stakeholders. Hence, it is necessary to manage and disclose necessary information that enables IB stakeholders to make decisions.

More importantly, the disclosure of the information is important, but stakeholders are more concerned with the readability of those disclosures. This study has conducted readability analysis by developing a bog index by *Stylwriter*. The bog index measure readability score indicates that the higher the score, the lesser the document's readability. Our analysis results show less readability of all documents, but in comparison, Al-Baraka has higher readability with low disclosure of information; it can be inferred that the bank has used simple language but limited information. Whereas MIB and Faysal bank reports are difficult to read and have less disclosure levels from MIB, the bank is not properly disclosing information to its stakeholders. Additionally, full-fledged Islamic banks and window banking has not shown much difference in readability score. From a theoretical perspective, our analysis confirms the argument related to information asymmetry theory, which states that managers have more information about the firm than stockholders. The results proved that a low level of readability depicts the least knowledge about operations and compliance of *Shari'ah* reports to the stakeholders. However, to be socially responsible, IBs must use less complex words and simple language.

6. Conclusion

The purpose of this study is to investigate the extent of *Shari'ah* disclosure and readability of banks of Pakistani banks. It has been deduced from the analysis that overall *Shari'ah* disclosure is not satisfactory because the overall average of the index is below 60%, indicating that from 100 items, only 60 items are disclosed by banks in their annual report. On the other hand, what has been disclosed by the full fledge and Islamic Windows banks is less readable as the readability score is unsatisfactory since most of the index score lies in the bad or poor readability range.

The Islamic banks' low level of disclosure and reliability is alarming for the stakeholders and the State Bank of Pakistan, the

main regulatory authority. Consequently, the regulatory authority might identify the minimum level of governance disclosure in annual reports. On the other hand, the results of this study provide insights for the Islamic banks to not only focus on the *Shari'ah* disclosure but also on the importance of the reliability of the disclosure content by the stakeholders. They need to avoid ambiguous communication styles, as this can improve their reputation and corporate image.

The study is a preliminary investigation that future researchers can further extend by including it as one of the dimensions of the financial reporting quality of Islamic banks.

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