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Calculation, Distribution and Disclosure of Zakat in Malaysian Islamic Banks

Pengiraan, Pengagihan, dan Pendedahan Zakat di Bank-Bank Islam di Malaysia

Nurul 'Iffah M A Zaaba*, and Rusni Hassan**

Abstract

Zakat information in annual reports is one of the main attributes that differs Islamic banks from conventional banks. Thus, this study focuses on the zakat information that can be found in Islamic banks financial statements in comparison to the available standards. Reporting standards and guidelines from BNM, AAOIFI, JAWHAR and MASB were used by these banks as guidelines in calculating, distributing and reporting zakat. Due to the absence of standardized accounting standard, certain zakat information was not found in the financial statements. Compared to previous literatures, Islamic banks are moving towards increasing their zakat information disclosure. Based on the analysis of selected Islamic banks' annual reports, this study concludes by suggesting establishment of standardized zakat distribution framework for Islamic banks.

Keywords: Zakat, Reporting Standards, Disclosure, Financial Statement, Islamic Banks.

Abstrak

Maklumat tentang zakat dalam laporan tahunan adalah salah satu sifat utama yang membezakan bank Islam daripada bank konvensional. Oleh itu, kajian ini memberikan tumpuan kepada maklumat zakat yang boleh didapati dalam penyata kewangan bank-bank Islam dibanding dengan piawaian yang ada. Piawaian pelaporan

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dan garis panduan dari BNM, AAOIFI, JAWHAR dan MASB digunakan oleh bank-bank ini sebagai garis panduan dalam pengiraan, pengagihan pelaporan zakat. Oleh kerana tiada piawaian perakaunan yang selaras, maklumat zakat tertentu tidak boleh didapati dalam penyata kewangan. Berbanding dengan literatur terdahulu, bank-bank Islam bergerak ke arah meningkatkan pendedahan maklumat zakat mereka. Berdasarkan analisis laporan tahunan bank-bank Islam yang dipilih, kajian ini menyimpulkan dengan mencadangkan penubuhan kerangka pengedaran zakat yang selaras untuk bank-bank Islam.

Kata Kunci: Zakat, Piawaian Pelaporan, Pendedahan, Penyata Kewangan, Bank-Bank Islam.

Introduction

Paying zakat is one of five pillars of Islam after witnessing the confession of Faith (*Shahadah*) and performing prayers (*Salah*) that was obliged from the early days of Islam. In the beginning of Islam, the *zakat* was collected from individual only *then* it has broadened to institutional payers such as companies or corporations. This includes Islamic bank as well.¹

In the case of individual, any Muslim who possess wealth over a certain amount (*nisab*) are obliged to pay *zakat* and *as* for companies, they are responsible to pay out business *zakat*.² Therefore, *zakat* payment has become one of the characteristics of Islamic banks compared to conventional. However, if they do not pay *zakat*, they are responsible in informing the shareholders.³

¹ Adnan, Muhammad Akhyar, and Nur Barizah Abu Bakar, "Accounting Treatment for Corporate Zakat: A Critical Review." *International Journal of Islamic and Middle Eastern Finance and Management* 2, no. 1 (2009): 32.

<https://doi.org/10.1108/17538390910946258>.

² Sayed Sikandar Shah Haneef, "Issues in Fiqh Al-Zakat: Implications for Islamic Banking and Finance," 2008, 1–25,

<https://zulkiflihasan.files.wordpress.com/2008/06/issues-on-fiqh-al-zakat.pdf>.

³ Wan Amalina Wan Abdullah, Majella Percy, and Jenny Stewart, "Shari'ah Disclosures in Malaysian and Indonesian Islamic Banks: The Shari'ah Governance System," *Journal of Islamic Accounting and Business Research* 4, no. 2 (2013): 100–131, <https://doi.org/10.1108/JIABR-10-2012-0063>; "Financial Reporting for Islamic

Using financial statements (and annual reports) as a mean of communication, sufficient *zakat* information must be provided so it can satisfy stakeholders' needs for Islamic law (Shariah) compliance assurance.⁴

Islamic banks pay *zakat* on voluntary basis. It is also notable that each Islamic bank has its own *zakat's* computation and payment method according to the rulings made by their respective Shariah Supervisory Board (SSB) or Shariah Committee (SC).⁵

- 1) This is because of no specific accounting standards for *zakat* to be used by the Islamic banks of Malaysia. Nonetheless, Islamic banks can refer to Bank Negara Malaysia (BNM)'s Guidelines on Financial Reporting for Islamic Banking Institutions, Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)'s Financial Accounting Standard (FAS) 9, Jabatan Wakaf, Zakat dan Haji (JAWHAR)'s Zakat Management Manual and Malaysian Accounting Standards Board (MASB) Technical Release (TR) i-1 as standards and guidelines for *zakat* matters. It is worth mentioning that there is additional information needed to be disclosed by Islamic banks that pay *zakat* according to Bank Negara Malaysia (2018).⁶ Those information are:
 - 2) Responsibility for *zakat* payment either on the business, and/or behalf of the shareholders;
 - 3) method applied in the determination of *zakat* base e.g. Growth Method, Working Capital Method; and

Banking Institutions," BNM/RH/STD 033-4, 1 (2018), Accessed April 16, 2020, <https://www.bnm.gov.my/index.php?ch=57&pg=137&ac=28&bb=file>.

⁴ Sugianto and Nurlaila Harapan, "The Integration of Disclosure of Islamic Social Reporting (ISR) in Islamic Bank Financial Statements," *SHS Web of Conferences*, 2017, <https://doi.org/10.1051/shsconf/20173600011>.

⁵ Muhammad Hafiz Badarulzaman, Alias Azhar, and Che Thalbi Md Ismail, "Zakah Practice in Islamic Banking Institution in Malaysia: A Legal Horizon," *UniMAP Journal of Human Development and Communication* 5, no. May (2016): 63–78.

⁶ "Financial Reporting for Islamic Banking Institutions"

- 4) beneficiaries of *zakat* fund e.g. Baitul Mal, orphanage, etc.

Zakat disclosure, reporting and calculation

Islamic banks have been bombarded with accusations that they are similar with conventional banks and they are driven by profit maximization.⁷ However, the reality is Islamic banks do not only base on profit but on religion as well. They must comply Shariah requirements so that they can uphold their name proudly. However, being business entities, they are expected to generate profit out of their business. Hence, they must find a balance between being Islamic and business institutions.⁸

Tax and *zakat* payment have been always incorporated in Islamic banks' balance sheet. These two pieces of information were made available in their financial statements. Business organization needs to pay tax liability imposed by the government⁹ while *zakat* is one of the requirements of Shariah law if all the conditions for *zakat* are present.¹⁰ Islamic banks have been fulfilling their *zakat* obligations. Bank Islam, for instance has been paying *zakat* ever since its establishment.¹¹

⁷ Khaliq Ahmad, "Islamic Banking's Challenges and Goals," NST, 2016, <https://www.nst.com.my/news/2016/04/139794/islamic-bankings-challenges-and-goals>.

⁸ Nooraslinda Abdul Aris et al., "Islamic Banking Products: Regulations, Issues and Challenges," *Journal of Applied Business Research* 29, no. 4 (2013): 229–43, <https://doi.org/10.1080/08039410.1998.9666084>.

⁹ Rohila Awang and Mohd Zulkifli Mokhtar, "Technical Comparison between Business Zakat and Tax on Business Income in Malaysia," *Malaysian Accounting Review* 10, no. 2 (2011): 13–25.

¹⁰ Khairunnisa Abd Samad, Roshima Said, Masrul Hayati Kamarulzaman, and Mursyida Mahshar, "Exploring the Zakat Payment and Firm's Performance of Islamic Banks in Malaysia." *The 6th International Conference on Governance, Fraud, Ethics and Social Responsibility 2015 (IConGFESR 2015)*, June (2015): 1–6; Awang and Mokhtar, "Technical Comparison between Business Zakat and Tax on Business Income in Malaysia", 13–25.

¹¹ Wan Noor Hazlina Wan Jusoh and Uzaimah Ibrahim, "Corporate Social Responsibility of Islamic Bank's Practices: An Exploratory Study," *International Journal of Islamic Business Ethics* 1, no. 2 (2016): 95–109.

Based on year 2018, out of sixteen Islamic banks, twelve banks disclosed their *zakat* payment. Seven banks disclose *zakat* payment independently and the remaining five incorporated *zakat* payment with tax.

Table 1: Total Amount of Business Zakat Paid by Islamic Banking Institutions in Year 2018

No.	Bank	Total Amount of Zakat Paid (RM'000)
1.	Bank Islam Malaysia Berhad	12, 678
2.	Bank Muamalat Malaysia Berhad	6, 134
3.	MBSB Bank Berhad	4,844
4.	Affin Islamic Bank Berhad	3, 897
5.	AmBank Islamic Berhad	1,855
6.	Hong Leong Islamic Bank Berhad	350
7.	Alliance Islamic Bank Berhad	104
TOTAL		29, 866

Source: Individual Financial Statements of Islamic Banks

As the table suggests, the amount of business *zakat* paid by the Islamic banks is very high. According to Rahman (2012) and annual report of PPZ MAIWP of year 2017, business *zakat* records among the highest collection with Islamic banks being the main contributor to this type of *zakat*. Table 2 below shows five out of sixteen Islamic banks that disclosed their *zakat* paid accumulated with tax in year 2018.

Table 2: Total Amount of Tax and Business Zakat Paid by Islamic Banking Institutions in 2018

No.	Bank	Total Amount of Tax and Zakat Paid (RM'000)
1.	Maybank Islamic Berhad	542,331
2.	CIMB Islamic Bank Berhad	187, 658
3.	Public Islamic Bank Berhad	167,902
4.	RHB Islamic Bank Berhad	125,211
5.	OCBC Al-Amin Bank Berhad	54,861

Source: Individual Financial Statements of Islamic Banks

Nevertheless, it can be inferred that *zakat* payment was not properly disclosed when they accumulated *zakat* payment together with tax liability.

For *zakat* distribution, Islamic banks can choose to pay directly to the *zakat* institutions, or they can also pay *zakat* to the eligible *zakat* recipients (*asnaf*) through the government or non-government agencies. There are three methods of *zakat* payment. The first method is to pay *zakat* directly to the recipients (*asnaf*). The second method is to pay *zakat* directly to the *zakat* center and the third method is the combination of two former methods.¹²

For the third method, Islamic banks act as *zakat* payer and *zakat* distributor.¹³ In this case, they pay the amount of *zakat* liable and they ask for a refund ranging from one-eighth (1/8) to three-eight (3/8) of the total *zakat* paid. This is subject to the policy of each *zakat* institutions.

¹² Azman Ab Rahman, "The Role of Zakat In Islamic Banking Institutions In Developing The Economy of The Poor and Needy In Malaysia," *Tazkia Islamic Finance and Business Review* 7.2 (2012): 256–76, <http://www.tifbr-tazkia.org/index.php/TIFBR/article/view/16>.

¹³ Jusoh, Wan Noor Hazlina Wan, and Uzaimah Ibrahim, "Corporate Social Responsibility of Islamic Bank's Practices: An Exploratory Study." *International Journal of Islamic Business Ethics* 1, no. 2 (2016): 95–109.

Bank Islam, for instance has been practicing the third method since 1983 as they pay five-eighth (5/8) to the *zakat* centers and distribute the remaining (3/8) by themselves as a part of CSR activities.¹⁴ This *zakat* fund, however, will only be allocated for three main recipients (*asnaf*) – the poor (*fuqara*), the needy (*masakin*) and people in the cause of Allah (*fisabilillah*)¹⁵ and only for programs that fulfill *zakat* receiver's entitlement.¹⁶

Zakat reporting and disclosure standards

For Islamic banks, *zakat* management is a regulatory and reputational necessity. They are liable to calculate, pay and disclose information on *zakat* in the annual reports.¹⁷ However, there is no standard *zakat* reporting for Islamic banks to follow in Malaysia.¹⁸ Yet, they still can refer to these four guidelines and standards for *zakat* matters¹⁹:

¹⁴ Jusoh and Ibrahim "Corporate Social Responsibility of Islamic Bank's Practices: An Exploratory Study", 95-109.

¹⁵ Ahmad Mukarrami Ab Mumin, "Zakat Distribution by Islamic Financial Institutions: The Practice in Malaysia," *Islamic Finance News* 8, no. January (2019): 45–46, <https://www.islamicfinancenews.com/zakat-distribution-by-islamic-financial-institutions-the-practice-in-malaysia.html>.

¹⁶ Jusoh and Ibrahim, "Corporate Social Responsibility of Islamic Bank's Practices: An Exploratory Study", 95-109.

¹⁷ Mamunur Rashid et al., "Reporting of Zakat and Charitable Activities in Islamic Banks: Theory and Practice in a Multi- Cultural Setting," in Handbook of Empirical Research on Islam and Economic Life, ed. M. Kabir Hassan (Cheltenham, UK: Edward Elgar Publishing, 2017), <https://doi.org/10.4337/9781784710736>.

¹⁸ Teh Suhaila Tajuddin and Fadilah Mat Nor, "Business Zakat Reporting of Co-Operatives: Case Studies in Malaysia," in *International Conference on Management and Muamalah* 2018, vol. 5, 2018, 494–99.

¹⁹ Nurul Iffah M A Zaaba and Noraini Mohd Ariffin, "Zakat Computation And Disclosure By Malaysian Islamic Banks," in *e-book of Masjid, Zakat And Waqf Management 2018*, vol. 4 (Bangi, Selangor, Malaysia, 2018), 1–11, <http://conference.kuis.edu.my/i-maf/images/e-proceedings/2018/PAPER-1-NURUL-IFFAH-.pdf>

- 1) Bank Negara Malaysia (BNM)'s Guidelines on Financial Reporting for Islamic Banking Institutions,
- 2) Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI)'s Financial Accounting Standard (FAS) 9,
- 3) Jabatan Wakaf, Zakat dan Haji (JAWHAR)'s Zakat Management Manual, and
- 4) Malaysian Accounting Standards Board (MASB) Technical Release (TR) i-1.

BNM has issued Guidelines on Financial Reporting for Islamic Banking Institutions in 2018 as a guideline on reporting including information on *zakat* for Islamic Banking Institutions to follow. Information that these institutions need to disclose are as follows:

- (a) Whether these institutions are obliged to pay *zakat*, if they do not pay *zakat*, they must disclose a statement to that effect in the financial statements.
- (b) If they pay *zakat*, they need to disclose additional information regarding:
 - (i) Its responsibility toward *zakat* payment, either *zakat* on business and/or *zakat* on behalf of the shareholders;
 - (ii) Method applied in determining *zakat* base; and
 - (iii) The beneficiaries of *zakat* fund.

This information was an obligation as it is stated under S 11.6 (b) where "... S denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement actions;"²⁰

Furthermore, AAOIFI has issued FAS 9 regarding *zakat*. This standard listed a few required information that Islamic financial institutions need to disclose, among other:

- 1) Method used for determining the *zakat* base,

²⁰ "Financial Reporting for Islamic Banking Institutions"

- 2) whether or not the entity that collects and pays *zakat* on behalf of the investment accountholder and other accounts,
- 3) And other related issues regarding *zakat*.²¹

On the other hand, JAWHAR has prepared Zakat Management Manual so that institutions that pay *zakat* can refer to this manual. In this manual, issues on business *zakat* was discussed in detail such as the elaboration of the conditions for *zakat* liability as per discussed in AAOIFI's FAS 9 with the presentations of each scholar's own view on some issues.²²

Besides, MASB has issued TR i-1 where it deals only with issues relating with *zakat* on business. For the disclosure, an entity shall disclose this information:

- 1) Method used in the determination of *zakat* base,
- 2) Its responsibility towards payment of *zakat* business, and
- 3) Major components of *zakat* which include current *zakat* expense; *zakat* payment; *zakat* liability; and any adjustments recognized in the period for *zakat* of prior periods.

It also claimed that AAOIFI's FAS 9 has been one of the bases of this TR. However, it is said that AAOIFI's FAS 9 is inappropriate to be applied in Malaysia because it is specifically meant for Islamic financial institutions that also act as *zakat* collectors and distributors and it might run contrary with Malaysian state or federal legislation.²³ However, according to Abdullah et al. (2012),²⁴ MASB TR i-1 can only be a

²¹ Financial Accounting Standards No. (9) in Accounting Auditing and Governance Standards, 329–61. Accounting and Auditing Organizations of Islamic Financial Institution (AAOIFI), 2015.

²² Manual Pengurusan Zakat Perbankan. Vol. 1. Jabatan Wakaf, Zakat dan Haji (JAWHAR), 2010.

²³ Malaysian Accounting Standards Board (MASB), "Presentation of Financial Statements of Islamic Financial Institutions," Technical Release I-3, 2009, 1–18, http://www.masb.org.my/index.php?option=com_content&view=article&id=155&Itemid=25.

²⁴ Abdullah, Abdul, Abdullah Ibrahim, Mohd Abdul Kadir, and Syed Adwam Wafa, "Assessing Financial Reporting on Adopting Business Zakat Guidelines on Malaysian

guideline for *zakat* accounting treatment meanwhile, cooperation from *zakat* authorities is still needed for the details on the *zakat* assessment.

Zakat calculation

According to AAOIFI's FAS 9, the *zakat* base should be calculated using either of these two methods: Net Assets and Net Invested Funds by using 2.5% for a lunar calendar and 2.5775% for a solar calendar.²⁵

On the other hand, two method of calculation that were recommended by JAWHAR and MASB are Adjusted Working Capital method and Adjusted Growth Method. It is interesting to note that usage of both methods would result in the same amount of *zakat* base.²⁶

Additionally, in the manual prepared by AAOIFI and JAWHAR, there are examples of *zakat* calculation that can be referred to when these entities are calculating their business *zakat* depending on method that they used. Yet, institutions that used this TR can also refer to *zakat* authorities regarding this matter. Furthermore, the *zakat* rate recommended is 2.5% without considering the entity is using lunar or solar calendar. On the other hand, JAWHAR does mentioned about using 2.5% as a famous culture in Malaysia although they do use solar calendar with the assumption that the difference is on *zakat* payable items.²⁷

Analysis and Findings

There are 16 banks that were listed as Islamic banks.²⁸ Thus, information on method used in calculating *zakat* and *zakat* rate were gathered from individual Islamic banks. This study is a continuation from

Government Linked Companies." *International Journal of Business and Social Science* 3, no. 24 (2012): 1–10.

²⁵ Financial Accounting Standards No. (9)." (2015)

²⁶ Manual Pengurusan Zakat Perbankan (2010) and Malaysian Accounting Standards Board (MASB) (2009)

²⁷ Financial Accounting Standards No. (9)." (2015)

²⁸ BNM, "List of Islamic Banks," 2019,

<http://www.bnm.gov.my/index.php?ch=li&cat=islamic&type=IB&fund=0&cu=0>.

previous studies done by Abbas, Sulaiman, & Bakar (2018), Zaaba & Ariffin (2018) and Abd Samad, Said, Mohd Nasir, Mahshar, & Kamarulzaman (2017).²⁹

It is important to note that two banks were not liable for *zakat* in year 2018. These banks are HSBC Amanah and Standard Chartered Saadiq. Moreover, business *zakat* of Al-Rajhi and Kuwait Finance House was on the responsibility of its holding company or its main shareholders. Thus, *zakat* information in the financial statements were not available for analysis.

Table 3: Method for zakat calculation and zakat rate

No.	Bank	Method used for calculating zakat base	Zakat rate
1.	Affin Islamic Bank ³⁰	Growth method	2.5775%
2.	Al-Rajhi ³¹	N/A	N/A
3.	Alliance Islamic Bank ³²	Growth method	2.575%

²⁹ Abbas, Samsuwatd Zuha Mohd, Saliza Sulaiman, and Noorbijan Abu Bakar. "A Review on Zakat Payments by Islamic Banks in Malaysia." *International Journal of Zakat* 3, no. 4 (2018): 71–82.

<https://ijazbaznas.com/index.php/journal/article/view/107/57>; Zaaba and Ariffin, "Zakat Computation And Disclosure By Malaysian Islamic Banks," 1–11; Samad, Said, Kamarulzaman, and Mahshar, "Exploring the Zakat Payment and Firm's Performance of Islamic Banks in Malaysia" 1–6.

³⁰ Affin Islamic Bank Berhad, "Annual Report 2018." Kuala Lumpur, 2018. [https://www.affinislamic.com.my/AFFINISLAMIC/media/Content-Images/About-Us/Annual Report/AIBB-23042019.pdf](https://www.affinislamic.com.my/AFFINISLAMIC/media/Content-Images/About-Us/Annual%20Report/AIBB-23042019.pdf).

³¹ Al-Rajhi Banking & Investment Corporation (Malaysia) Berhad, "Financial Statements for the Financial Year Ended 31 December 2018." Kuala Lumpur, 2018. https://www.alrajhibank.com.my/images/financial_report/ARBM_Financial_Statements_2018.pdf.

³² Alliance Islamic Bank Berhad, "Report and Financial Statements For The Financial Year Ended 31 March 2019," 2018.

https://www.alliancebank.com.my/Alliance/media/AIS/IRAnnualReports/2019/ar_financialstatemets_2019.pdf

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4.	AmBank Islamic ³³	Net profit method	2.5%
5.	Bank Islam ³⁴	Growth method	N/A
6.	Bank Muamalat ³⁵	Growth method	2.5%
7.	CIMB Islamic Bank ³⁶	Adjusted growth method	N/A
8.	HSBC Amanah ³⁷	N/A	N/A
9.	Hong Leong Islamic Bank ³⁸	Net asset method	N/A
10.	Kuwait Finance House ³⁹	Opening reserve method	N/A

³³ AmBank Islamic Berhad, “*Directors’ Report and Audited Financial Statements 31 March 2019.*” Kuala Lumpur, 2018.

https://www.ambankgroup.com/eng/InvestorRelations/FinancialResultsAndCorporatePresentations/Documents/2019/FY2019/AmBankIslamic_310319.pdf.

³⁴ Bank Islam Malaysia Berhad, “*FINANCIAL STATEMENT.*” Kuala Lumpur, 2018. http://www.bankislam.com.my/home/assets/uploads/BI_IAR18_Eng_FinancialStatement.pdf.

³⁵ Bank Muamalat Malaysia Berhad, “*Directors’ Report and Audited Financial Statements 31 March 2019.*” 2018.

<http://www.muamalat.com.my/downloads/corporate-overview/audited/Audited-Report-31st-March2019.pdf>.

³⁶ CIMB Islamic Bank Berhad, “*Reports and Financial Statements for the Financial Year Ended 31 December 2018.*” Kuala Lumpur, 2018.

<https://www.cimb.com/content/dam/cimb/group/documents/investor-relations/financial-information/cimb-islamic-bank-berhad/2018/31-dec/Full%20Audited.pdf>

³⁷ HSBC Amanah Malaysia Berhad, “*Financial Statements – 31 December 2018.*” Kuala Lumpur, 2018.

<https://cdn.hsbcamanah.com.my/content/dam/hsbc/hbms/documents/amanah-and-me/financial-results/2018-december.pdf>.

³⁸ Hong Leong Islamic Bank Berhad, “*Annual Report 2018.*” Kuala Lumpur, 2018.

<https://www.hlisb.com.my/content/dam/hlisb/my/docs/pdf/About-Us/Investor-Relations/Annual-Quarterly-Reports/2018/annual-report/hlisb-annual-report-2018.pdf>.

³⁹ Kuwait Finance House (Malaysia) Berhad, “*Directors’ Report and Audited Financial Statements 31 December 2018.*” Kuala Lumpur, 2018.

[https://www.kfh.com.my/malaysia/reports/malaysia/annual-reports/KFH-Malaysia-Annual-Report-Year-2018/document_en/KFH Malaysia Annual Report Year 2018-signed.PDF.PDF](https://www.kfh.com.my/malaysia/reports/malaysia/annual-reports/KFH-Malaysia-Annual-Report-Year-2018/document_en/KFH%20Malaysia%20Annual%20Report%20Year%202018-signed.PDF.PDF).

11.	MBSB Bank ⁴⁰	Working capital method	2.5%
12.	Maybank Islamic ⁴¹	Adjusted growth method	2.5%
13.	OCBC Al-Amin ⁴²	Growth method	N/A
14.	Public Islamic Bank ⁴³	Profit and loss method	2.5%
15.	RHB Islamic Bank ⁴⁴	Working capital method	2.5%
16.	Standard Chartered Saadiq ⁴⁵	N/A	N/A

Source: Individual Financial Statements of Islamic Banks (2019)

The authors found that Islamic banks are moving towards more transparency as more banks disclose *zakat* information in their financial statements. Compared to the findings of Zaaba and Ariffin (2018)⁴⁶, there

⁴⁰ MBSB Bank Berhad. “*Annual Report 2018.*” Kuala Lumpur, 2018. https://www.mbsb.com.my/misc/MBSB_Annual_Report_2018.pdf.

⁴¹ Maybank Islamic Berhad. “*Directors’ Report and Audited Financial Statements 31 December 2018.*” Kuala Lumpur, 2018. https://www.maybank.com/iwov-resources/corporate_new/document/my/en/pdf/subsidiary-reports/2019/Maybank_Islamic_Fin_Statement_FY2018.pdf.

⁴² OCBC Al-Amin Bank Berhad, “*Reports and Financial Statements for the Financial Year Ended 31 December 2018.*” Kuala Lumpur, 2018. <https://www.ocbc.com.my/assets/pdf/Financial%20Results/pdf%20for%20OCBC%20Al-Amin/AA%20FS%20Dec2018.pdf>

⁴³ Public Islamic Bank Berhad, “*FINANCIAL STATEMENTS – 31 DECEMBER 2018.*” Kuala Lumpur, 2018. <https://www.publicislamicbank.com.my/pdf/Financial/2018/Final-Stat-Islamic-2018.aspx>.

⁴⁴ RHB Islamic Bank Berhad, “*Annual Report 2018.*” Kuala Lumpur, 2018. https://www.rhbgroup.com/~/_media/files/malaysia/investor-relations/annual-reports/rhb18_islamic.ashx.

⁴⁵ Standard Chartered Saadiq Berhad. “*Financial Statements for the Financial Year Ended 31 December 2018.*” 2018. <https://av.sc.com/my/content/docs/my-scsb-ye-updated.pdf>.

⁴⁶ Zaaba and Ariffin, “Zakat Computation and Disclosure by Malaysian Islamic Banks,” 1–11.

is an additional 3 banks that disclosed their method in calculating *zakat* base. Concurrently, there is one bank that disclosed on their *zakat* rate. However, it is difficult to compare as previous study mentioned their sample anonymously.

It can be concluded that growth method was chosen by many banks in calculating their *zakat* base. This is in correlation with what JAWHAR and MASB have recommended. However, there is no explanation in the financial statements of banks that chose opening reserve method and profit and loss method. Furthermore, *zakat* rate of 2.5% was used by many banks in correlation with what claimed by JAWHAR. On the other hand, Alliance Islamic Bank has chosen 2.575% as their *zakat* rate. This rate was never mentioned by previous mentioned guidelines and standard.

Table 4: Beneficiaries of zakat

No.	Bank	Beneficiaries of zakat
1.	Affin Islamic Bank	The zakat fund is distributed through various channels i.e. States Zakat Collection Centre, non-governmental organization and individuals under <i>asnaf</i> categories
2.	Al-Rajhi	N/A
3.	Alliance Islamic Bank	The payment of <i>zakat</i> to <i>zakat</i> authorities and eligible recipients is recommended and approved by Shariah Committee and the Board of Directors respectively.
4.	AmBank Islamic	The Bank has fulfilled its obligation to pay business zakat to state zakat authorities and has identified eligible beneficiaries (<i>asnaf</i>).
5.	Bank Islam	During the financial year, the Bank fulfilled its obligation to pay <i>zakat</i> on its

		business to state zakat authorities by adopting the capital growth computation method and in compliance with the Manual Pengurusan Zakat Perbankan issued by Jabatan Wakaf, Zakat dan Haji (“JAWHAR”). Several zakat authorities had mandated the Bank as their agent to distribute a portion of the business <i>zakat</i> to eligible beneficiaries (<i>asnaf</i>), including needy individuals, mosque, non-governmental organisations, student welfare funds of higher learning institutions and schools as guided by the Business Zakat Payment Guideline that was approved by us.
6.	Bank Muamalat	N/A
7.	CIMB Islamic Bank	The Bank pays business <i>zakat</i> by adopting the Adjusted Growth Method to state zakat authorities in line with the methodology approved by Board Shariah Committee.
8.	HSBC Amanah	N/A
9.	Hong Leong Islamic	The Bank has fulfilled its obligation to pay <i>zakat</i> for its business on behalf of its shareholders to the state zakat authorities.
10.	Kuwait Finance House	N/A
11.	MBSB Bank	The beneficiaries of <i>zakat</i> fund include schools, mosques, universities and non-government organisations.
12.	Maybank Islamic	N/A
13.	OCBC Al-Amin	The beneficiaries of the zakat fund were Pusat Pungutan Zakat Universiti Putra

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		Malaysia (UPM), International Islamic University Malaysia (IIUM) Endowment Fund, Tabung Amanah Zakat Universiti Kebangsaan Malaysia (UKM) and Universiti Teknologi Mara (UiTM) Zakat Centre.
14.	Public Islamic Bank	The beneficiaries of the Bank's zakat fund are state zakat collection centres, deserving orphanage homes for the poor and other deserving recipients (<i>asnaf</i>).
15.	RHB Islamic	The Bank only pays <i>zakat</i> on its business to zakat state authorities.
16.	Standard Chartered Saadiq	N/A

Source: Individual Financial Statements of Islamic Banks (2019)

Based on the categorization made by Rahman (2012),⁴⁷ five banks fall under third category that pay *zakat* directly to both zakat authorities and eligible *asnaf*. These five banks are Affin Islamic Bank, Alliance Islamic Bank, AmBank Islamic, Bank Islam and Public Islamic Bank. Furthermore, two banks fall under first and second category respectively which is MBSB Bank and OCBC Al-Amin for former category and CIMB Islamic Bank and RHB Islamic Bank for latter category.

However, it is difficult to monitor the self-regulated zakat distribution that were practiced by the third category due to the absence of zakat distribution framework for Islamic financial institutions. Therefore, it is recommended that zakat authorities provide standardized framework for self-regulation of the zakat distribution for these institutions. This is to avoid the mismanagement of the fund and it can serve as a good mechanism to monitor and control the implementation process of the fund. It is important to note that zakat distribution is not

⁴⁷ Rahman, "The Role of Zakat In Islamic Banking Institutions In Developing The Economy of The Poor and Needy In Malaysia," 256–76.

under the purview of Bank Negara Malaysia thus reflects the insufficiency of zakat standards in Malaysia resulting in unsuitability of this entity to be the ultimate regulator of Islamic Financial Institutions (IFI).

Conclusion

The prevailing study found that more *zakat* information can be found in the recent financial reports. Despite the fact that *zakat* disclosure might have improved, *zakat* distribution of Islamic banks has not been further discussed in the literature.

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