

PRUDENTIAL DISCLOSURE REGIME IN ISLAMIC BANKING: AN EMPIRICAL STUDY FROM PAKISTAN



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Dedication

Dedicated to my beloved Parents and Siblings

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Abstract

This research comprehensively review the level of selected risk disclosures practices of Islamic banking Institutions in Pakistan and empirically if there is any relationship between disclosure, risk and performance according to the standard-4 of the IFSB to promote transparency and market discipline for Islamic banks. This study's nature is the quantitative. This research covers all the Islamic Banks which are operating under the jurisdiction of State Bank of Pakistan. The methodology which will be used in this research is to be based on the disclosure index, descriptive statistics, correlation analysis, Multicollinearity by Variance Inflation factor, unit root analysis and panel data regression analysis. Overall Disclosure level of the Islamic banks in Pakistan is very satisfactory as per the IFSB-4 in mitigating the risk. The average score obtained by the Islamic banks are 50 percent to the 68 percent. The Islamic banks are most efficient in managing and disclosing the Shariah Governance, General Governance, and Credit Risk. The average score obtained by the Meezan Bank is 68.96 percent, Alabaraka Bank 50.52 percent, Bank Islami 53.86 percent, MCB Islamic 57.18 percent and the Dubai Islamic Bank is 52.10 as per the Standard IFSB-4. There is a significant relationship between the Risk, Disclosure and Profitability. Findings show that Islamic banks of Pakistan are less disclosing the items included in the rate of return and contract specific risk disclosure. General disclosure level items are also less disclosed by the Islamic banks like restricted and unrestricted investment account holder funds. There is also gap in disclosing the assets pledged by the Islamic banks and third-party guarantee. These items did not disclose the Islamic banks. In shariah governance Islamic banks do not disclose the zakat related items as well as the number of violations by the Islamic bank in amounts and numbers. This research also has a great importance to the bankers, consumers, general public (customers), managers and policy makers in decision making to encourage market discipline for IBs as well as the transparency for Islamic banking industry functioning in Pakistan. This study also recommends that State Bank of Pakistan should fully implement the IFSB-22 for Islamic banks because for the IFSB-22 it is prerequisite condition that regulator implement the IFSB-4. This study has implications for the regulatory authority (State Bank of Pakistan) which recommends the regulator that financial reporting regulations can affect the harmonization of the Islamic banks

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