

Sources and Uses of Charity Fund Accounts: A Comparative Analysis of Islamic Banks in Pakistan

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Abstract

Charity Fund Account (CFA) is a unique account of Islamic banks (IBs) where all *Shari'ah* non-compliant earnings of the banks are transferred. However, unfortunately, this has got the least attention in the academic literature so far. This case study explores the sources and uses of charity funds' accounts of four Islamic banks in Pakistan. It also analyzes the disclosure level of information regarding these sources and uses of funds. The study applied content analysis technique on disclosures of charity fund composition. The study uses five-year secondary data (2014-2018) of four Islamic banks (Meezan Bank, Dubai Islamic Bank, Bank Al Barakah and Bank Islami) collected from their financial statements. The findings of the study revealed that there is no uniformity in the disclosure of sources and uses of charity accounts' funds of the selected banks. The Meezan Bank's disclosure level was higher than the rest of the three banks. Further, among these four banks, the Dubai Islamic banks' late payment charges showed more decreasing trend over time. It means that Dubai Islamic banks performed better in controls and monitoring. The SBP as a regulator should make a detailed policy regarding disclosure of charity fund account to ensure uniformity and ultimately the comparability of these accounts.

Keywords: Source, Uses, Charity Fund Accounts, Islamic Banks

1. Introduction

Transparency in dealings is one of the key elements of good corporate

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governance. It ensures that management is not engaged in any improper, fraudulent or unlawful activities, as their acts are monitored. For achieving transparency, there are required proper and generally acceptable accounting methods as well as standardized disclosure of all relevant information (Fung, 2014). It refers to the degree to which information flows and reported freely within an organization among managers and employees, and outward to stakeholders (Fung, 2014).

Islam recognized transparency as *shafafiyyah* under important values of Islamic corporate governance (Asri & Fahmi, 2003). The roots of *shafafiyyah* in Islam lie in the concepts of transparency in actions of authority-holders, disclosure of defect ('*ayb*) in merchandise, the prohibition of *gharar* (uncertainty) in transactions and documenting of transactions (Mansoori, 2011).

Any Islamic bank can generate income from any unlawful sources unintentionally like hidden interest-based lending with international banks or a wrong penalty amount charged on the customer in case of delayed payment. This amount cannot be a part of the Islamic bank's income according to *Shari'ah* screening criteria defined by Meezan bank (Meezan Bank, 2015). Legally, it must go to charity (BNM, 2011). The State Bank of Pakistan (SBP) has provided instructions regarding charity fund treatment. This charity fund account holds potential non-Shari'ah-compliant sources of income or penalties received in lieu of late payments (SBP, 2008). The SBP further requires these Islamic banks to disclose the sources and uses of these charity account funds.

Many empirical research studies have researched Islamic banks in Pakistan in different aspects related to profitability and products (Ayaz, Hassan & Sadaf, 2019; Ayub, 2018; Usmani, 2015; Hussain, 2018) but there is a dearth of literature on the analysis and disclosure of information on charity fund accounts' sources and uses. Charities in Islam need professionalism and greater transparency to protect the sector from accusations of wasting resources or mixing it with unlawful income (GIFR, 2012). In this way, the stakeholders of the Islamic banks (IBs) will be confident about the good reputation of the IBs. Hassan and Cebeci (2012) mentioned that extending welfare via corporate social responsibility (CSR) is not enough to justify the responsibility of Islamic banking and mending social balance in the society while Zafar and Sulaiman (2020)

assessed detailed CSR and asserted the positive role of poverty alleviation.

Hence, the objectives of the study were to explore the sources and uses of charity funds' accounts of Islamic banks in Pakistan, further, to compare the uniformity in their disclosure practices; and lastly, to assess if there was any commonality in disbursement patterns of charity funds across Islamic banks in the country.

1.1 Charity in Islam

Islam encourages Muslims to spend money on others, who are needy. This is a moral obligation and emphasized in the Quran and Hadith. In Islam, charity is derived from an Arabic word, *sadaqah* which is used both in the *Quran* and the *Sunnah* of the Prophet (PBUH). For example, Allah says in the Quran that:

“Who believe in the unseen, establish prayer, and spend out of what we have provided for them, And who believe in what has been revealed to you, [O Muhammad], and what was revealed before you, and of the Hereafter they are certain [in faith]”. Al-Baqarah (2:3-4)

Similarly, in another verse, Allah says:

‘Do they not know that it is Allah who accepts repentance from his servants and receives charities and that it is Allah who is the accepting the repentance, the Merciful?’ Al-Ṭawbah (9:104)

With regard to the importance of charity in Ahadith of the Prophet Muhammad (PBUH), ‘Āisha said that a person came to the Messenger of Allah and said: ‘My mother died suddenly without having made any will. I think she would have definitely given Sadaqa if she had been able to speak. Would she have a reward if I gave Sadaqa on her behalf? He (the Holy Prophet) said: Yes.’ Sahih Muslim (1004a)

Similarly, Jābir (Allah be pleased with him) reported Allah’s Messenger as saying: ‘Never does a Muslim plant a tree except that he has the reward of charity for him, for what is eaten out of that is charity; what is stolen out of that, what the beasts eat out of that, what the birds eat out of that is charity for him. In

short, none incurs a loss to him but it becomes a charity on his part.” Sahih Muslim (1552a)

Likewise, Abū Ḥurayrah reported Allah’s Messenger as saying: ‘*Of the dinar you spend as a contribution in Allah’s path, or to set free a slave, or as a sadaqa given to a needy, or to support your family, the one yielding the greatest reward is that which you spent on your family.*’ Sahih Muslim (995)

1.2 Conditions of Charging Charity on Debt and Rental Installments

On one hand, Islam prohibits *riba* (usury) and permits *halal* (permissible) transactions. Any extra payment on a loan or debt is not allowed and be considered as *riba*. On the other hand, it is natural that customers make delay in payments. Hence, Islamic banks have to avoid the risk of delayed payments from the customers’ side.

According to some Maliki jurists, in case of late payment, a borrower would pay for charitable activities. Hanafi school of thought also allowed charging penalty on late payment to avoid disadvantage to any party. Same is the opinion of contemporary Shari’ah scholars, who also authorized the banks to impose late fee charges on defaulting customers. The Majma’ Fiqh al-Islami (Islamic Fiqh Academy) is also in favour of charging penalty in business. However, the issue is whether this amount should be added to the IBs’ profits or not? There are three different opinions regarding this issue.

In view of Dr Nazih Hammad, member of the Islamic Fiqh Academy, Jeddah, Saudi Arabia and Dr Md Ali El-Gari, Shari’ah Board member of the Islamic Bank of Asia charging penalty is analogous to *riba*.

Opposing to the above opinion, Sheikh Muhammad Sadiq al-Dharir, Shariah Advisory Council of Islamic Bank Jordan and most of Shari’ah Committees of Islamic banks in Malaysia are in favour of penalty. In their opinion, the banks are allowed to take the penalty amount as a part of their income.

Dr Abd Sattar Abu Ghuddah and Shariah Council of Accounting and Auditing Organization for Islamic Financial Institutions (AAOFI) are of the opinion that

penalty should be charged in case of delayed payment, but this penalty should be a part of the charity account, and the banks cannot get any benefit from it.

1.3 Regulation of State Bank of Pakistan regarding Late Payment Charges

The State Bank of Pakistan (SBP) has instructed IBs to create a charity fund account for *Shari'ah* non-compliant sources of income and penalties received in lieu of late payments. This charity fund account's amount cannot be used for the Ibs own purposes. The Prudential Regulation G-3 of SBP further modified the compliance instruction related to the charity fund account. It further explained that this amount could only be used for charitable and welfare purpose with the consent of *Shari'ah* advisor (Resident Shari'ah Board Member RSBM) and board of directors. It is also required from IBIs to submit a copy of policy regarding charitable funds' utilization to the Islamic banking division of SBP within seven days after approval from the board. In case of any modification in policy, it should also come into SBP's knowledge within seven days of the change (SBP, 2008). It is also the responsibility of IBIs to make sure that this charity fund amount is not personally used. Ibs must maintain proper records of all charity fund account transactions, and this should be disclosed in financial statements under the head of the statement of sources and uses of the charity fund. This charity fund amount can be utilized in the same accounting year (SBP, 2008).

After establishing that all incomes from the prohibited sources shall be transferred to the charity accounts, it is necessary to discuss the criteria for declaring any income as Shari'ah non-compliant.

1.4 Shari'ah Screening Criteria in Islamic Banks Pakistan

In Pakistan, the applicable Shari'ah screening criteria which is utilized by the Islamic banks before pursuing a financial transaction are as follows:

1.4.1 Criteria 1: Nature of Business of the Investee Company

The core business of the company should be according to the principle of Shari'ah. It prohibits acquiring of the shares of companies providing interest-based services like conventional banks, insurance companies, leasing companies

or the companies involved in Shari'ah non-compliant business, e.g. making or selling liquor, pork, Haram meat, or involved in gambling, operating night clubs, disseminating pornographic content, and prostitution.

1.4.2 Criteria 2: Incidence of Interest Bearing Debt to Total

Assets

The interest bearing debt to total assets ratio should be less than 37%. The reason behind this rationale is that some companies are based on interest. Hereby, the shareholder must personally disagree to such borrowings unless the majority has overruled him. In such case, these borrowing transactions cannot be attributed to him/her. This case is considered like other interest based debt, including bonds, TFCs, commercial paper, conventional bank loans, finance lease, hire purchase, and issuing preference shares.

1.4.3 Criteria 3: Accepted limit of Non-Compliant Investments to Total Assets

The ratio of non-compliant investments to total assets should be less than 33%. Non-Shari'ah compliant investments include conventional mutual funds investment, income from conventional money market instruments, commercial Paper, interest bearing bank deposits, Bonds, PIBs, FIB, T-Bills, CoIs, CoDs, TFCs, DSCs, NSS, and derivatives.

1.4.4 Criteria 4: Tolerance level of Non-compliant Income to Total Revenue

The ratio of non-compliant income to total revenue should be less than 5%. Total revenue includes gross revenue plus any other income earned by the company. Non-compliant income includes income from gambling, interest and *Gharar* based transactions insurance claim reimbursement from a conventional insurance company, late payment penalty charges in case of credit sale, casinos income, addictive drugs, alcohol, dividend received from all those businesses or companies which are mentioned above because these businesses have been previously declared Shari'ah non-compliant.

So, any income generated against the above set criteria shall be Shari'ah non-compliant which according to the SBP's regulations shall be transferred to charity fund account. In the followings, the researchers discuss to know whether any income generated which is not in conformity with the above criteria, is transferred to charity account or not, and that whether the IBs disclose their sources and uses or not?

2. Uses and Sources of Charity Funds in Different Banks of Pakistan

Islamic banks in Pakistan offer different Shari'ah-compliant products. Sale and lease based products are much popular and attractive to the public. The main issue faced by the bank is how to effectively and timely recover financing amount from customers. This needs proper monitoring and avoiding the adverse selection of customer. Here the detail of the statement of sources and uses of funds of different full-fledged Islamic banks of Pakistan is given to see the transparency and uniformity in their disclosure policy.

2.1 Case of Meezan Bank

In Meezan bank, the sources of charity funds are generated from different sources like receipts from customers on delayed payment, dividend purification amount, non-Shari'ah compliant income and profit on charity saving account (Table 1.1). Then these funds are distributed to different deprived sectors like Education, Health, Islamic Microfinance, Community Development, Environmental and Relief and Disaster Recovery as a charity. The major portion of these funds is distributed to the education sector and then the health sector. In education sector, maximum amount is provided to Institute of Business Administration - National Talent Hunt Program from 2014 to 2016 while in health sector Ihsan Trust - Related party and The Aga Khan University - Financial Assistance Program from 2014 and 2015 are major beneficiaries (Table 2.2). The details of the sources and uses of funds are given below:

Table 2.1 : Statement of Sources and Uses of Charity Fund

| | (Rs. in '000) | | | | |
|--|-----------------|-----------------|----------------|----------------|----------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Opening balance at Jan1 | 2,398 | 1,637 | 10,851 | 11,899 | 51,858 |
| Additions during the period | | | | | |
| Received from customers on delayed payment | 32,376 | 29,502 | 24,899 | 43,562 | 26,618 |
| Dividend Purification Amount | 3,396 | 1,937 | 2,587 | 2,666 | 2,654 |
| Non-Shari'ah Compliant Income | 1,150 | - | 712 | 1,526 | 1,785 |
| Profit on Charity Saving Account | 166 | 172 | 405 | 775 | 2193 |
| | <u>37,088</u> | <u>31,611</u> | <u>28,603</u> | <u>48,529</u> | <u>33,250</u> |
| | 39,486 | 33,248 | 39,454 | 60,428 | 85,108 |
| Less: Distribution of Charity | | | | | |
| Education | (30,250) | (26,250) | (32,867) | (40,427) | (55,409) |
| Health | (5,050) | (2,700) | (2,900) | (7,200) | (15,300) |
| Islamic Microfinance | - | - | (100) | (1,950) | (400) |
| Community Development | (3,100) | (1,900) | (1,950) | - | - |
| Environmental | - | - | - | - | (100) |
| Relief and Disaster Recovery | - | - | - | - | (2000) |
| | <u>(38,400)</u> | <u>(30,850)</u> | <u>(37817)</u> | <u>(49577)</u> | <u>(73209)</u> |
| Closing Balance at December 31 | 1,086 | 2,398 | 1,637 | 10,851 | 11,899 |

Source: Self constructed based on the information available in financial statement of Meezan Bank

Table 2.2 : Statement of Charity Fund Account Disbursement

| | (Rs. in '000) | | | | |
|--|---------------|------|------|--------|--------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Afzal Memorial Thalassemia Foundation | 250 | - | 200 | | 300 |
| The Aga Khan University - Financial Assistance Program | | - | - | 10,000 | 10,000 |
| Akhuwat Foundation | | - | 100 | 150 | 400 |
| Alamgir Welfare Trust International | | | - | 300 | 200 |

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Al Mustafa Trust Rawalpindi | 150 | - | 150 | - | - |
| Baqai Institute of Diabetology and Endocrinology | | - | - | 100 | 500 |
| Behbud Association Karachi | 200 | | | | |
| Bin Qutub Foundation Chakwal | 200 | | | | |
| Burhani Medical Welfare Association | 300 | | | | |
| Binoria Welfare Trust | | 200 | - | - | - |
| Burhani Blood Bank and Thalassemia Centre | 300 | - | - | - | 250 |
| Burns Centre, Civil Hospital, Karachi | | 150 | - | - | - |
| Care Foundation | 100 | 200 | 100 | - | - |
| Centre For Development of Social Services | 200 | - | 200 | - | - |
| Child Aid Association | 100 | - | 100 | 150 | 150 |
| Creek General Hospital | | 200 | - | - | 200 |
| Disabled Welfare Association | | - | 100 | - | - |
| Eye Donor Organization | 200 | 150 | 100 | 150 | 100 |
| Fatimid Foundation Kidney Centre & General Hospital | | - | 150 | 150 | 100 |
| Fatimid Foundation Peshawar Centre | | 500 | - | - | - |
| Family Educational Services Foundation | 200 | 350 | - | - | - |
| Garage School | 300 | - | 300 | - | - |
| Gulbahao | | - | - | - | 100 |
| Hands | | - | 100 | - | 500 |
| Health Oriented Preventive Education | 100 | - | - | - | 100 |
| Health Education and Livelihood Promoter | 100 | 200 | - | - | - |
| Health and Nutrition Development Society | 200 | | | | |
| Helping Hand For Relief & Development | 300 | - | - | - | 1,000 |
| Institute of Business Administration - National Talent Hunt Program | | - | 12,770 | 13,459 | 17,284 |
| Ihsan Trust - Related party | 28,000 | 25,000 | 17,000 | 18,000 | 35,000 |
| Infaq Memorial Trust | | 100 | 250 | - | - |
| Idara - Al Khair | 300 | - | 500 | - | - |
| Jamal Noor Hospital | 100 | - | 100 | 100 | 500 |

| | | | | | |
|---|-------|-------|-------|-------|-------|
| Jinnah Foundation | 100 | - | 100 | - | - |
| Kiran Foundation | 200 | - | 500 | - | 500 |
| Karachi Education Initiative | | - | 1,297 | 2,368 | - |
| Karigar Training Institute | 100 | 100 | - | 300 | - |
| Khwendo Kor | 200 | | | | |
| Lahore Businessmen Association For Rehabilitation of the Disabled | 1,000 | 1,000 | 500 | - | - |
| Layton Rahmatulla Benevolent Trust | | - | - | - | 300 |
| Marie Adelaide Leprosy Foundation | 100 | - | - | 100 | 200 |
| Markaz e Umeed | 100 | | | | |
| Medical Aid Foundation (Rahat Kada) | 250 | - | 200 | - | - |
| Memon Health and Education Foundation | | - | - | - | 500 |
| Muslim Aid Trust Pakistan | | - | - | - | 1,000 |
| Muhammadi Blood Bank | 200 | - | 100 | - | - |
| Muhammad Shafi Trust | | 200 | - | - | - |
| Muslim Welfare Centre | 200 | 200 | - | 200 | 200 |
| Mercy Pak | 100 | 100 | - | - | - |
| Noor Eli Trust | 100 | 100 | - | 200 | - |
| National Institute of Blood Diseases | | - | - | - | 300 |
| National Institute of Cardiovascular Disease | | 100 | - | - | - |
| Nigheban Trust | 100 | 150 | - | - | - |
| Omair Sana Foundation | 300 | - | - | - | 300 |
| Pakistan Association of Blind | 300 | 100 | - | - | 100 |
| Pakistan Kidney Institute / Shifa Foundation | | - | - | 100 | 200 |
| Patients Aid Foundation - Jinnah Hospital | 200 | - | 200 | 500 | 250 |
| Patients Welfare Association | 150 | | | | |
| Pakistan Red Crescent Society (for Ultra Sound machine) | | - | - | 150 | - |
| Pakistan Disabled Foundation | 400 | 200 | 200 | 100 | - |
| Pakistan Association of Deaf | 100 | 200 | 200 | 200 | - |
| Pakistan Eye Bank | | - | 100 | - | - |
| Patients' Behbud Society for Aga Khan University Hospital | 1,000 | 1,000 | - | - | - |
| Poor Patients Aid Society - Civil | | - | - | 100 | - |

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Hospital (Karachi) | | | | | |
| Prevention of Blindness Trust | | - | 200 | - | - |
| Professional Education Foundation | | - | - | - | 125 |
| Rashid Memorial Welfare Organization | 200 | - | 500 | - | 1,000 |
| Roshni Homes Trust | | - | - | - | 200 |
| Rotary Humanitarian Trust - Hawksbay School | | - | - | 1,000 | - |
| Saylani Welfare | 100 | - | 100 | - | - |
| Sargodhian Spirit Trust | 200 | 300 | - | - | - |
| Shafi Trust | | - | 100 | - | 200 |
| SINA Trust | 100 | 200 | - | 200 | - |
| Society for Heart Care | | - | 1000 | 1,000 | - |
| SOS Children Village Islamabad | 100 | | | | |
| SOS Children Village Karachi | 100 | 100 | - | - | - |
| The Indus Hospital | 1,000 | - | 100 | 500 | 1,000 |
| The Kidney Centre | | - | 100 | - | 200 |
| Trust Jamiat Taleem Ul Quran | 100 | - | - | - | 200 |
| Welfare Society for Patient Care | | - | 100 | - | - |
| Women Islamic Lawyer's Forum | 100 | | | | |
| | 38,400 | 30,850 | 37,817 | 49,577 | 73,209 |

Source: Self constructed based on the information available in financial statement of Meezan Bank

2.2 Case of Dubai Islamic Bank Pakistan Limited

In Dubai Islamic bank, the sources of funds are not properly disclosed, only yearly addition charity amount is mentioned (Table 2.3) Same is the case with disbursement which is not disclosed according to sector wise uses while proper Statement of Charity Fund Account Disbursement to the individual beneficiary is available. Almost all charity funds of Dubai Islamic Bank are distributed to health sector (Table 2.4). The details of the sources and uses of funds are given below:

Table 2.3: Statement of Sources and Uses of Charity Fund

| | (Rs. in '000) | | | | |
|---|---------------|--------------|----------|---------|----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Opening balance | 16 | 3,373 | 10,071 | 11,244 | 8,447 |
| Additions during the year | | | 3,352 | 4,627 | 12,797 |
| Received from customers on account of delayed payment | 4,010 | 1,891 | | | |
| Profit on charity fund | 28 | 52 | | | |
| | <u>4,038</u> | <u>1,943</u> | | | |
| | 4,054 | 5,316 | | | |
| Payments during the year | | | (10,050) | (5,800) | (10,000) |
| Health | (2,900) | 3,850 | | | |
| Education | (1,000) | 1,450 | | | |
| | (3,900) | (5,300) | | | |
| Closing balance | 154 | 16 | 3,373 | 10,071 | 11,244 |

Source: Self constructed based on the information available in financial statement of Dubai Islamic Bank

Table 2.4: Statement of Charity Fund Account Disbursement

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|------|-------|-------|-------|-------|
| The Indus Hospital | 700 | 1,000 | 700 | 700 | 1,000 |
| Sindh Institute of Urology and Transplantation | 700 | 750 | 700 | 1,000 | 1,000 |
| Shaukat Khanum Memorial Trust | 700 | 700 | 700 | 500 | 2,000 |
| The Citizen Foundation | | 500 | 500 | 250 | 500 |
| Chippa Welfare Association | | - | - | - | 1,000 |
| Akhuwat Foundation | | 500 | 500 | 500 | 1,500 |
| Baitussalam Welfare Trust | 700 | 450 | - | 250 | - |
| Koohi Goth Hospital | | 400 | 400 | 400 | 500 |
| Child Aid Association | 200 | 300 | 300 | 300 | 500 |
| Nigahban Welfare Association | 600 | 300 | 400 | 300 | - |
| Layton Rahmatulla Benevolent Trust | | 200 | 700 | 500 | 1000 |
| Kashif Iqbal Thalassaemia Care Centre (KITCC) | | 200 | 200 | - | - |
| KPSS Secondary School Saigolabad | 200 | | | | |
| Hina Gul | | - | 3,000 | - | - |
| IBA – CEIF | 100 | | | | |
| Afzal Memorial Thalassaemia Foundation | | - | 300 | 300 | - |
| Patel Hospital | | - | 300 | 300 | - |

| | | | | | |
|---|-------|-------|--------|-------|--------|
| Kiran Patients Welfare Society | | - | 300 | 250 | - |
| Bait ul Sukoon Cancer Hospital | | - | 300 | 250 | - |
| Burns Centre | | - | 300 | - | - |
| Children Cancer Hospital | | - | 250 | 250 | 200 |
| Marie Adelaide Leprosy Centre | | - | 200 | - | - |
| Centre for Development of Social Sciences | | - | - | - | 500 |
| | 3,900 | 5,300 | 10,050 | 5,800 | 10,000 |

Source: Self constructed based on the information available in financial statement of Dubai Islamic Bank

2.3 Case of Al-Barakah Bank Pakistan Limited

In Barakah Bank, the sources of funds are not properly disclosed like Dubai Islamic Bank but only the yearly addition charity amount is mentioned (Table 2.5). Same is the case with disbursement which is not disclosed according to sector wise uses while proper Statement of Charity Fund Account Disbursement to the individual beneficiary is available. Here the disbursement of charity funds is different in a sense. They have a diversified list of beneficiaries and every year almost the beneficiaries are changed. The major portion of funds is given to the health sector along with the funds also provided to some individuals, trusts and foundations (Table 2.6). The details of sources and uses of funds are given below:

Table 2.5: Statement of Sources and Uses of Charity Fund

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---------------|-------|-------|-------|-------|
| Opening balance | 76,218 | 49928 | 47763 | 57742 | 82948 |
| Amount transfer during the year | | 58876 | 15085 | 26321 | 28259 |
| Received from customers on account of delay payment | 51,570 | | | | |
| Dividend purification amount | 1,773 | | | | |
| Non Shari'ah-compliant income | - | | | | |
| Others | 417 | | | | |
| | <u>53,760</u> | | | | |
| | 129,978 | | | | |

| | | | | | |
|-------------------------------------|----------|--------|--------|--------|--------|
| payment/utilization during the year | | 32586 | 26297 | 36300 | 53465 |
| Education | (16,007) | | | | |
| Health | (32,824) | | | | |
| Mass wedding | (1,530) | | | | |
| Ramzan rashan drive | - | | | | |
| Infrastructure and development | (7,500) | | | | |
| Others | (25,382) | | | | |
| | (83,243) | | | | |
| Transfer upon amalgamation | - | | 13377 | | |
| Closing balance | 46,735 | 76,218 | 49,928 | 47,763 | 57,742 |

Source: Self constructed based on the information available in financial statement of Al-Barakah Bank Pakistan Limited

Table 2.6: Statement of Charity Fund Account Disbursement

| | RS In '000 | | | | |
|---|------------|-------|------|--------|-------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Shaukat Khanum Memorial Trust | 2,500 | - | 6960 | 10,000 | - |
| Patients Aid Foundation | 1,000 | 1000 | - | 4,600 | 7,500 |
| Citizens Foundation | 7,200 | 30000 | - | 2,750 | 8,250 |
| Family Educational Services Foundation | 1,600 | 1600 | 1600 | 200 | |
| Afzal Memorial Thalassemia Foundation | 4,000 | 2000 | 1750 | 1,500 | 1,750 |
| Sayeban Pakistan | | - | 1470 | 1,470 | 3,425 |
| Hands Pakistan | | - | - | 1,000 | 1,000 |
| Burn And Children Care Welfare Organization | | 1000 | - | 1,000 | - |
| Care Foundation | | - | - | 1,000 | |
| Meher On Nissa | | - | - | 1,000 | - |
| Hira Foundation School | | - | - | 850 | - |
| Lady Willington Hospital | | - | - | 550 | 600 |
| Sundas Foundation | | 500 | 500 | 500 | 500 |
| Ihsan Trust | | - | - | 500 | - |
| Samreen | | - | - | 400 | - |
| Marie Adelaide Leprosy Centre | | - | - | 250 | 1,000 |
| Mohammad Bashir | | - | - | 250 | - |

| | | | | | |
|--|-------|-------|------|-----|-------|
| Muhammad Akram | | - | - | 250 | |
| Students Of Wah Engineering College | | - | 490 | 210 | 420 |
| Association For Rehabilitation Of Challenging People | | - | - | 200 | - |
| Zeenat Ullah | | - | | 200 | |
| Arif All | | - | | 199 | - |
| Abdul Qayyum | | - | - | 170 | |
| Hukum Rawa Bacha | | - | - | 125 | - |
| Zahida Soh Ail | | - | - | 121 | - |
| Razia Kausar | | - | - | 100 | - |
| Muhammad Jameel | | - | - | 100 | - |
| Sine Health, Education And Welfare Trust | | - | - | - | 5,084 |
| Diya Pakistan | | - | - | - | 5,000 |
| Patients Behbud Society For AKUH | 2,500 | 1,500 | - | - | 2,500 |
| Lahore Business Association For Rehabilitation Of The Disabled | 1,000 | 1000 | 1000 | - | 2,000 |
| Child Aid Association | | 200 | - | - | 1,500 |
| Medel Pakistan | | - | - | - | 1,500 |
| Dar UI Sukun | | - | - | | 1,000 |
| Khair Un Nissa Hospital Foundation | | - | - | - | 1,000 |
| Muktaran Rafiq Foundation | | - | - | - | 1,000 |
| Centre Of Development Of Social Services | | - | - | - | 500 |
| Hope | 1,900 | - | | | 500 |
| Sos Children's Village. | | 500 | 500 | - | 500 |
| Foundation For Rehabilitation & Education Of Slow Children | | - | - | - | 300 |
| Koohi Goth Hospital | | - | - | - | 300 |
| Medical Aid Foundation | | - | - | - | 300 |
| Ms Shahida Zubair | | - | - | | 230 |
| Bunyard Literacy Community Council | | - | - | - | 200 |
| Clapp Hospital | | - | - | - | 200 |
| International Wheel Chair Cricket Association | | - | - | - | 200 |

| | | | | | |
|--|--|------|------|---|-----|
| Marghzar Welfare Society | | - | - | - | 200 |
| Patients Welfare Association Mayo Hospital | | - | - | - | 200 |
| Ms Shahnaz Begum | | - | - | - | 200 |
| Sir Ganga Ram Hospital | | - | - | - | 200 |
| Mr. Sabir | | - | - | - | 166 |
| Patient Welfare Association, Jinnah Hospital | | - | - | - | 100 |
| 5Ved Irshad Ul Hag | | - | - | - | 100 |
| Bakhtawar Amin Memorial Trust | | 2000 | 1000 | - | - |
| Endowment Fund Rust (GC University Lahore) | | 1000 | - | - | - |
| Indus Foundation | | 1000 | - | - | - |
| Kahir Un Nisa Hospital Foundation | | 1000 | - | - | - |
| Children Health And Care Foundation | | 750 | - | - | - |
| Children Foundation | | 500 | - | - | - |
| Green Crescent Trst | | 500 | 200 | - | - |
| Hira Foundation Academy | | 500 | - | - | - |
| Ibrahim Foundation (Gujranwala) | | 500 | - | - | - |
| Sundus Foundation | | 500 | 500 | - | - |
| University Of Wah | | 400 | - | - | - |
| Usman Sadique | | 390 | - | - | - |
| Akhuwat | | 300 | - | - | - |
| Liaqat National Hospital (Nazia) | | 375 | - | - | - |
| Pakistan Association Of The Blind | | 300 | - | - | - |
| Centre Of Development For Social Service | | 300 | - | - | - |
| Pakistan Myasthenic Welfera Org Pmwo | | 300 | - | - | - |
| Attock Sahrea Foundation | | 250 | - | - | - |
| Disables Centre | | 250 | - | - | - |
| Bin Qutab Foundation | | 250 | - | - | - |
| Children Health And Education | | 200 | - | - | - |
| Afbmtc Gum Hospital Rawalpandi(Patient Amjid Ali) | | 200 | - | - | - |
| Association For The Rehabilitation Of Challenging People Sindh | | 200 | - | - | - |
| Orange Tree Foundation | | 200 | - | - | - |

| | | | | | |
|--|--------|-------|------|---|---|
| Raza Maqsood | | 200 | - | - | - |
| Sanbeer Ali | | 200 | - | - | - |
| Syda Zaba Haseeb | | 150 | - | - | - |
| Donaid Khulder David | | 140 | - | - | - |
| Naveed | | 136 | - | - | - |
| Itthad Iron Stor | | 115 | - | - | - |
| Shayan Akhtar | | 107 | - | - | - |
| Aziz Jehan Brgum Trust | | 100 | - | - | - |
| Infaq Memorial Trust | | 100 | - | - | - |
| Haseena Parveen | | 100 | - | - | - |
| Riffat Kashif | | 100 | - | - | - |
| Children Hospital Quetta | | - | 3000 | - | - |
| Health And Nutrition Development Society | | - | 100 | - | - |
| Cancer Care Hospital And Research Center | | - | 500 | - | - |
| Eatanare | | - | 250 | - | - |
| Shamim Begum | | - | 200 | - | - |
| Zafar Iqbal | | - | 200 | - | - |
| Shanaz Begum | | - | 200 | - | - |
| Freash Foundation | | - | 200 | - | - |
| Fauzla Ameer | | - | 150 | - | - |
| Najum Un Nisa | | - | 150 | - | - |
| Muhammed Amin | | - | 125 | - | - |
| Nzakat Jahan | | - | 100 | - | - |
| Ayesha Tahir | | - | 100 | - | - |
| Abdul Raseed | | - | 100 | - | - |
| Indus Hospital | 10,000 | | | | |
| Alamgir welfare trust international | 7,772 | | | | |
| Sayeban Pakistan | 1,530 | 1,350 | | | |
| SC infrastructure and development scheme | 7,500 | | | | |
| Shahid Afridi foundation | 5,000 | | | | |
| Help international welfare trust | 4,600 | | | | |
| Namal Education Foundation | 1,035 | | | | |
| Al Mustafa Trust | 1,000 | | | | |
| Ihsan Trust | 1,000 | | | | |
| Karigar Training Institute | 1,000 | | | | |
| Shifa International Hospital Ltd | 1,000 | | | | |

| | | | | | |
|---|--------|-------|-------|-------|-------|
| Salani Welfare International Trust | 1,000 | | | | |
| Caravan of life Pakistan Trust | 1,000 | | | | |
| Aman Institute for Vocational Training | 967 | | | | |
| Tasneem Qamar | 919 | | | | |
| Hira Foundation School (HIES) | 720 | | | | |
| North West General Hospital | 700 | | | | |
| IBP School of Special Education | 600 | | | | |
| Bint -e- Fatima Old Home Trust | 500 | | | | |
| Child Care Foundation of Pakistan | 500 | | | | |
| Family Welfare Society Mumtaz Girls School | 500 | | | | |
| Fatima Kidney Care Hospital | 500 | | | | |
| Patel Hospital- Patel Foundation | 500 | | | | |
| Muhammad Asif | 500 | | | | |
| National Epilepsy Centre | 500 | | | | |
| Parents Voice Association | 500 | | | | |
| Shaukat Khanum Memorial cancer hospital and research centre | 2,500 | | | | |
| Total | 75,543 | 26318 | 22195 | 31295 | 49425 |

Source: Self constructed based on the information available in financial statement of Al- Barakah Bank Pakistan Limited

2.4 Case of Bank Islami Pakistan Limited

Table 2.7: Statement of Sources and Uses of Charity Fund Account of Bank Islami

| | (Rs. In '000) | | | | |
|--|---------------|-------|-------|------|------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Opening balance at Jan1 | 2,679 | 2,145 | 3,956 | 6212 | 7879 |
| Additions during the period | | | | | |
| Received from customers on delayed payment | 51,213 | 8,864 | 6,988 | 6804 | 8945 |
| Non-Shari'ah Compliant Income | 2,773 | 239 | 170 | | |

| | | | | | |
|----------------------------------|----------------|---------------|---------------|--------------|--------------|
| Profit on charity saving account | <u>101</u> | <u>81</u> | <u>238</u> | | |
| | <u>54,087</u> | <u>9,184</u> | <u>7,396</u> | <u>6,804</u> | <u>8,945</u> |
| | 56,766 | 11,329 | 11,352 | 13,016 | 16,824 |
| Less: Distribution of Charity | | | | (9060) | (10612) |
| Education | (1,700) | (3400) | (960) | | |
| Health | (37,500) | (2300) | (5047) | | |
| Islamic Microfinance | (500) | (700) | (500) | | |
| Community Development | <u>(4,100)</u> | <u>(2250)</u> | <u>(2700)</u> | | |
| | (43,800) | (8650) | (9207) | | |
| Closing Balance at December 31 | 12,966 | 2679 | 2145 | 3956 | 6212 |

Sources: Self Constructed based on the information available in financial statements of Bank Islami

Table 2.8: Statement of Charity Fund Account Disbursement

| | Rupees in '000 | | | | |
|---|----------------|-----|------|-------|-------|
| | 2018 | 201 | 2016 | 2015 | 2014 |
| | | 7 | | | |
| Ahmed E.H Jaffer Foundation | | 350 | - | - | - |
| Akhuwat Foundation | 500 | 700 | 500 | - | 1,000 |
| Alamgir Welfare Trust International | 2,600 | 950 | 500 | 1,000 | 1,000 |
| Aman Foundation | | - | - | - | 200 |
| Bait us Salam Education Foundation | | 200 | - | - | - |
| Bait us Salam Welfare Trust | 1,000 | 500 | - | - | - |
| Child Aid Association | 100 | | | | |
| Centre for Development of Social Services | 500 | 300 | - | - | - |
| Diya Pakistan | | 200 | 200 | - | 500 |
| Dr. NI Nasir Jamal Pasha | | - | 200 | - | - |

| | | | | | |
|---|--------|-----|-----|-------|-------|
| Ghousia Free Dispensary | 500 | 200 | - | - | 500 |
| Indus Hospital | 35,500 | 700 | 500 | 1,000 | 2,000 |
| Habib University | | - | - | 300 | - |
| Infaq Memorial Trust | | - | 700 | 1,000 | - |
| Institute of Business Administration | | - | - | - | 575 |
| Institute of Behavioural Psychology | 500 | | | | |
| Karachi Relief Trust | | 150 | - | - | - |
| Kharadar General Hospital | 500 | 700 | 200 | - | - |
| Karewan-e-Hayat | 300 | | | | |
| Kiran Patient Welfare Society | | - | - | 350 | - |
| Kainat Zubari | | - | - | 35 | 67 |
| Koohi Goth Hospital | 300 | 200 | 200 | 500 | - |
| Liaqat National Hospital and Medical College | | - | - | 500 | - |
| Markaz-e-Umeed | | 200 | - | - | - |
| Marine Adelaide Leprosy Centre | | - | - | 500 | - |
| Mr. Sajid Inayat | | - | 322 | - | - |
| Mrs. Shalu'taz Khan | | 150 | 975 | | |
| Ms. Mehak Ruba | | - | 60 | 50 | 120 |
| National University of Sciences and Technology | | 500 | - | - | - |
| Nighiban Welfare Association Charity | 100 | - | - | 500 | 500 |
| Pakistan Association of The Blind (Sindh) | 100 | | | | |
| Pakistan Navy Education Trust (PNET) | | 200 | - | - | - |
| Pakistan Navy Educational Trust - Bahria Model School | | 250 | - | - | - |
| Qind eel Academy | | - | 200 | - | - |
| Romaila Rashid | | - | - | - | 150 |
| Sahara Public Rights Welfare | | 200 | - | - | - |

| | | | | | |
|--|--------|-------|-------|-------|--------|
| Saylani Welfare International Trust | | - | 500 | - | - |
| Sindh Institute of Urology and Transplantation | | - | - | 500 | - |
| Shoukat Khan'urn Memorial | 300 | 500 | 500 | 1,000 | 2,000 |
| Mrs. Shahnaz Khan | | - | - | 825 | - |
| Syeda Anayah Nadeem | | - | 250 | - | - |
| Ishrat afzal butt | | - | 1900 | - | - |
| Tasha Trust | | 500 | - | - | - |
| The Citizen Foundation | 1,000 | 1,000 | 500 | 1,000 | 2,000 |
| Wasil Trust Charity | | - | 1,000 | - | - |
| Total | 43,800 | 8,650 | 9,207 | 9,060 | 10,612 |

Source: Self constructed based on the information available in financial statement of Bank Islami

3. Analysis

In Meezan bank, there is no straight forward moving pattern of late payment charges' amount. In 2014, the received late payment charges were 26,618,000 but in 2015, it increased from 26,618,000 to 43,562,000. There was a decreasing trend in 2016 and again increasing trend in 2017 and the same in 2018. This was observed as about 64% increase from year 2014 to 2015 and 42% decrease from year 2015 to 2016. Although the Meezan bank's Islamic financing is increasing every year from 2014 to 2018. So, it shows the bank's controls are not good enough, and they need to find out the reasons and solutions to avoid this non-stabilized fluctuation every year.

There is a clear cut decreasing pattern of charity fund amount in case of Dubai Islamic bank. The late payment charges are gradually decreasing every year, but there is a substantial increase in 2018. There is a major decrease observed from 12,797,000 to 4,627,000 in year 2014 to 2015. It shows timely payment from the bank's customers. This is a good sign for the bank and shows the bank's good controls over its systems and proper monitoring from 2014 to 2017, although, the financing of the bank in different products is being increased every year.

The charity fund account of the bank al Barakah shows a decreasing trend in late payment charges from 2014 to 2016 but a substantial increase of about 290% is observed in 2017 and again little bit increase in 2018 from 2017. The bank needs to find out the reason for this substantial increase in late payment charges' amount in 2017.

In Bank Islami, the charity fund account of the bank shows a decreasing trend of late payment charges from 2014 to 2015 but an increasing trend of about 26% is observed in 2017 and huge increase in 2018, although, the financing of the bank in different products is being increased every year.

The overall result shows that Meezan bank has weak controls over recovery, as there is 64% increase in default rate from 2014 to 2015 and then 42% in the next accounting year while other Islamic banks are found stable in terms of late payment charges. As the late payment charges are the part of charity account, so this instability will be a cause of reduction of profit of Meezan bank. In other words, the default rate is high but no clear cut explanation is provided in their report about the exact reason of this fluctuation.

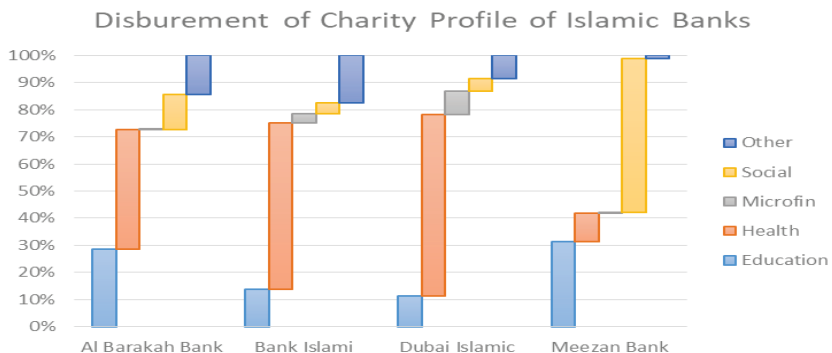
The results show that there is no uniformity in terms of disclosure practices in Islamic banks of Pakistan for charity funds' account. Meezan bank of Pakistan discloses all the sources and uses of funds with full detail. It mentions in detail not only the addition of charity fund in the year but also segregates their sources of income properly by dividing into different groups (amount received from customers on delayed payment, dividend purification amount, Non-Shari'ah compliant income and profit on charity saving account). Same is the case of their disbursement which is also mentioned sector wise (Education, Health, Islamic Microfinance, Community Development, Environmental Relief and Disaster Recovery). Bank Islami also provides these sources and uses of funds detail but this is limited to 2016 to 2018, and the previous years' detail is not available. While the other two banks Dubai Islamic Bank and Al Barakah Bank did not provide this detail, they only provided yearly receipt and payment amount.

On the other hand, all four banks provide the complete detail of their disbursement amount given to different beneficiaries. Here in the case of

disbursement of all the four Islamic banks, the donor organizations and individuals are not related to the bank, that's why, the issue of conflict of interest does not exist. It is important that the State Bank of Pakistan should bring uniformity in this regard and make sure that every Islamic bank should provide the same detail in their financial statements. This uniformity can alleviate many doubts over their treatment of sources and uses of funds.

By comparing their disbursement patterns of Islamic banks, it can be seen that their priorities are homogenous which is only because of the fact that there is a centralized goal targeted while deciding the disbursement of the charity fund. The table of correlation coefficients given below also confirms that the disbursement patterns are not highly correlated across all the banks even there is very low and negative correlations exist among Islamic banks.

Figure 3.1



Source: Self Calculated

Table 3.1 Correlation Coefficients

| | Al Barakah | Bank Islami | Dubai Islamic | Meezan Bank |
|---------------|------------|-------------|---------------|-------------|
| Al Barakah | 1.0000 | | | |
| Bank Islami | 0.8741 | 1.0000 | | |
| Dubai Islamic | 0.8223 | 0.9764 | 1.0000 | |
| Meezan Bank | 0.0622 | -0.2868 | -0.2638 | 1.0000 |

4. Conclusion

The present paper indicates that Islamic banks in Pakistan are properly disclosing their uses and sources of funds in their financial statements as per the State Bank of Pakistan's regulations. The sources of charity fund account of Islamic banks are not only based on late payment charges but also include dividend purification amount, non-Shari'ah compliant income and profit on charity saving account respectively as disclosed by Meezan bank. Bank Islami is also providing the same details in its 2016 to 2018 financial statements while in bank Islami's previous year's financial statements do not show this detail. The other two banks, Dubai Islamic Bank and Al Barakah Bank, did not provide this detail. They only provide yearly receipt and payment amount.

The charity amount is distributed in different deserving sectors like education, health, environmental sector, Islamic microfinance, community development and relief and disaster recovery. All four banks provide the complete detail of their disbursement amount given to different beneficiaries. Empirical literature is silent on the disbursement mechanism or framework. Like CSR (Zafar & Sulaiman, 2020), it is proposed that charity disbursement management could also lead in achieving social goals.

This paper also indicates that Dubai Islamic bank looks good in controls and monitoring. Its late payment charges are showing the decreasing trend over the years while in Meezan bank, Al Barakah bank and Bank Islami, the late payment charges' moving trend is up and down over the years. These banks should adopt concrete measures to reduce late payment charges amount and increase profitability. However, decrease in charity shows good controls of the bank, still with the increase in the size of Islamic banks, the volume of charity fund may see a rise.

It is important that the State bank should bring uniformity in this regard and make sure that every Islamic bank should provide the same detail in their financial statements. This uniformity can alleviate many doubts over their treatment of sources and uses of funds.

This study recommends future researchers to explore the framework which can help in efficient disbursement of charity income rather than random distribution based on linkages or reputation. The government can form priority

channels of disbursements depending on the current needs of the country. One hint can be to follow the Sustainable Development Goals or following some national development targets. The only problem with this mechanism is that the funds could move on one specific region of the country. This could be solved by creating the brackets in the charity spending mechanism with respect to essentials and necessity needs whereby the present government and necessities define the essentials defined by the community of the banks. Lastly, the government can frequently fix the portion of the charity fund to be diverted to essentials.

Lastly, this study proposes future research studies to integrate the charity disbursement of Islamic banks with the social development of the country. It may help us to explore whether Islamic banks contribute to social development via charity disbursement.

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