Directors' Report to the Members

As representatives of the Board of Directors (The Board) of MCB Islamic Bank Limited (the Bank), we take pleasure in presenting the financial results for the First Quarter Ended March 31, 2024.

Rs. in Million

Statement of Financial Position	31-Mar-24	31-Dec-23	Growth
Deposits	203,869	204,460	-0.3%
Total Assets	268,845	267,000	1%
Investments – *net*	115,203	132,544	-13%
Islamic Financing – *net*	107,682	89,347	21%
Shareholders' Equity *(including revaluations)*	22,962	22,036	4%

Profit & Loss Account	Jan – Mar 2024	Jan – Mar 2023	Growth
Operating income	4,464	3,158	41%
Operating and other expenses	2,148	1,590	35%
Provisions against financing and investments	(49)	(116)	-0.42 Times
Profit before taxation	2,267	1,452	56%
Profit after taxation	1,156	840	38%
Basic / diluted earnings per share - *Rs.*	0.74	0.54	1.38 Times

Performance Review

In the first quarter of 2024, the Pakistani banking industry exhibited resilience despite significant challenges including high inflation, climate-related expenses, economic stagnation and political instability.

Amidst these challenges, our Bank proactively navigated the economic and operational landscape following a strategic approach focused on sustained growth. This entailed optimizing deposit mobilization, timely investments and adherence to prudent financing practices. Supported by an efficient organizational structure, robust risk management and strict regulatory compliance, the Bank achieved a commendable **profit before tax of Rs. 2.27 billion for the quarter ended March 31, 2024, 56% growth from the corresponding period of last year. Alhamdulillah**.

As of March 31, 2024, the Bank's deposits remained stable at Rs. 203.87 billion, compared to Rs. 204.46 billion as of December 31, 2023, indicating consistency, however, in terms of average deposit, the Bank experienced a notable growth of 14%. The Bank's Current and Saving Account (CASA) mix stands at a healthy 75% with non-remunerative Deposits comprising 29% of the total deposit mix. The Bank reported negative growth in Current Accounts by Rs. 4.58 billion (7%) in Q1 2024 at the back of extraordinary current deposit growth in 2023. Emphasizing Islamic Banking, we continue to reach potential non-banked customers through a diverse range of Islamic Banking products, ensuring service excellence.

Total assets witnessed a growth of 1%, reaching Rs. 268.85 billion as of March 31, 2024 compared to Rs. 267 billion as at December 31, 2023. The net Financing position closed at Rs. 107.68 billion compared to Rs. 89.35 billion as at December 31, 2023, demonstrating prudent financial management, while investments stood at Rs. 115.20 billion. The Bank's Capital Adequacy decreased by 0.14% points, concluding at 23.65%. The management maintains unwavering focus on efficient capital management, superior asset quality and a high-yielding portfolio.

During the quarter under review, the Bank generated an operating income of Rs. 4.46 billion, 41% higher than corresponding period last year, achieving a return on earning assets at 18.64% with a net spread of 6.72%. However, operating and other expenses rose by 35% due to heightened inflation and Rupee devaluation. This escalation is vigilantly monitored through effective management controls to sustain profitability.

In light of these developments, the Bank's profit and loss statement sustained an after-tax profit of Rs. 1.16 billion for the quarter under review, a notable improvement from Rs. 840 million and growth of 38% from the corresponding period of last year. Earnings per share after tax rose to Rs. 0.74 for the period under review, compared to Rs. 0.54 in the corresponding last period.

Credit Rating

Pakistan Credit Rating Agency (PACRA) has reaffirmed the Bank's medium to long-term rating as 'A' and the short-term rating as 'A-1,' maintaining a stable outlook.

Economic Review

The global economic recovery has shown resilience amidst challenges like the COVID-19 pandemic, Russia's invasion of Ukraine and rising living costs. Inflation after peaking in 2022 is declining faster than expected with minimal impact on employment and economic activity, aided by supply-side improvements and central bank actions. Geopolitical tensions, especially in the Middle East are adding uncertainty to commodity markets. The IMF forecasts a gradual decline in global inflation from 6.8% in 2023 to 5.8% in 2024, with global growth at 3.1% for both years.

In Pakistan, Fiscal Year (FY) 2024 holds promise with decreasing inflation, positive real interest rates, stable currency and improved foreign reserves. The formation of a federal government post the February 2024 General Election marks progress. Pakistan has successfully concluded its IMF Stand-By Arrangement program securing a $1.1 billion disbursement. The Pakistan Stock Exchange (PSX) reflects this progress with robust performance. However, the IMF's growth estimate for FY 2024 has been revised down to 2.0% from the previous 2.5% assessment in October 2023.

In March 2024, the National Consumer Price Index (CPI) saw a significant year-on-year decline, dropping to 20.7% from 35.4% in March 2023. This shift resulted in a positive real interest rate of 1.3%, marking the first time in over 3 years. The State Bank of Pakistan (SBP) has maintained the policy rate unchanged for 9 months, but with the recent positive real interest rate a reduction in the policy rate may be considered in the coming months.

During July-January FY 2024, Large Scale Manufacturing (LSM) declined by 0.5%, an improvement from the 2.7% contraction in the same period last year. In January 2024, LSM increased by 1.8% year-on-year. Notably, several sectors showed positive growth during July- January FY 2024, including Food, Beverages, Apparel, Leather, Wood products, Coke & Petroleum Products, Chemicals, Pharmaceuticals, Rubber Products, Machinery and Equipment, Furniture and Football.

On the external front, during July-February FY 2024 the Current Account deficit notably reduced to USD 999 million, down from USD 3.85 billion the previous year. This decline was attributed to stricter import policies and administrative measures. Exports increased by 10.2% to USD 20.5 billion, while imports declined by 8.8% to USD 34.1 billion narrowing the trade deficit to USD 13.5 billion from USD 18.7 billion. Workers' remittances totalled USD 18.1 billion reflecting a 1.2% decrease. Foreign exchange reserves reached USD 13.38 billion as of March 29, 2024 with a year-on-year exchange rate appreciation of over 2.1%.

On the fiscal front, the overall deficit slightly increased during July-January FY 2024 to 2.6% of GDP (Rs. 2,721 billion) compared to 2.3% of GDP (Rs. 1,974 billion) the previous year.

The KSE-100 Index closed at 67,005 points on March 29, 2024, marking a 4,554-point increase from December 31, 2023.

The assets and deposits of the Islamic banking industry experienced significant growth, with an increase of Rs. 1,765 billion and Rs. 1,588 billion, respectively during the year 2023. The total assets and deposits recorded a substantial rise of 24% and 31%, reaching Rs. 8,994 billion (with a market share of 19.4%) and Rs. 6,749 billion (with a market share of 23.2%) respectively. Additionally, the branch network expanded, closing at 4,955 branches by the end of December 2023.

Future Outlook

The global economic landscape reflects disinflation and steady growth with receding concerns of a hard landing and balanced risks. Potential upside includes further easing of financial conditions and enhanced productivity through structural reforms. Conversely, risks persist from geopolitical tensions, China's property sector challenges and potential tax hikes and spending cuts, all of which could dampen growth. The IMF forecasts a global headline inflation decrease to 5.8% in 2024 and 4.4% in 2025, alongside growth projections of 3.1% in 2024 and 3.2% in 2025.

On the domestic front, the political uncertainty poses a significant risk to macroeconomic policymaking and the sustainability of stabilization and reform efforts. Persistent political instability coupled with potential external disruptions from conflicts in the Middle East compounds this risk. Recent IMF arrangements are expected to support financial inflows and foreign exchange reserves. Moreover, additional IMF support for medium-term reform initiatives holds promise for improving market sentiment and facilitating access to affordable external financing. As a result, the IMF forecasts GDP growth of 2.0% in 2024 and 3.5% in 2025 for Pakistan.

The banking sector confronts heightened risks like credit, operations and cyber threats amidst the rise of digital financial services. Effective strategic risk management is essential to navigate these challenges.

Despite challenges, our commitment to sustainable growth remains steadfast. We prioritize profitability through acquiring cost-effective deposits, optimizing assets and advancing digitization. Concurrently, we invest in IT enhancements, employee satisfaction and top-tier management practices. With confidence, we move forward, poised to thrive and uphold leadership in the ever-changing landscape banking and finance.

Acknowledgment

On behalf of the Board and management, we extend heartfelt appreciation to our valued customers, esteemed business partners and dedicated shareholders for their unwavering patronage and trust. We extend our gratitude to the State Bank of Pakistan, Securities & Exchange Commission of Pakistan, other regulatory authorities and Shari'ah Board for their consistent guidance and support. The Board sincerely commends the invaluable contributions of our dedicated staff members, whose commitment has played a pivotal role in fostering the growth of our franchise, even amid challenging business conditions.

For and on behalf of the Board of Directors

Zargham Khan Durrani
President / CEO

Raza Mansha
Chairman