

## Directors' Report to the Members

On behalf of the Board of Directors, we are pleased to present the financial statements of **MCB Islamic Bank Limited** (the Bank) for the First Quarter ended **March 31, 2026**.

	<i>Rs. in million</i>		
<b>Statement of Financial Position</b>	<b>31-Mar-26</b>	<b>31-Dec-25</b>	<b>Growth</b>
Deposits	283,973	268,934	5.6%
Total Assets	353,449	337,298	4.8%
Investments – net	158,808	155,824	1.9%
Islamic Financing – net	134,675	125,390	7.4%
Shareholders' Equity (including revaluations)	27,387	27,768	-1.4%

<b>Profit &amp; Loss Account</b>	<b>Jan – Mar 2026</b>	<b>Jan – Mar 2026</b>	<b>Growth</b>
Operating income	3,833	4,150	-7.6%
Operating and other expenses	3,224	2,685	20.1%
Credit loss allowance and write offs – net	-	-150	-100%
Profit before taxation	610	1,315	-53.4%
Profit after taxation	292	614	-52.4%
Basic / diluted earnings per share - Rs.	0.188	0.395	-52.4%

### Performance Review

Despite prevailing macroeconomic and geopolitical headwinds, the Bank remained focused on **balance sheet optimization, deposit mobilization and operational efficiency**. Through disciplined execution, the Bank achieved a **Profit Before Tax (PBT) of Rs. 610 million** and a **Profit After Tax (PAT) of Rs. 292 million**, compared to **Rs. 1.31 billion** and **Rs. 614 million**, respectively, in the corresponding period last year. **Earnings per share (EPS)** stood at **Rs. 0.188**, as against **Rs. 0.395** last year.

As of **March 31, 2026**, the Bank's **total assets** stood at **Rs. 353.45 billion (up 4.8%)**, while **deposits** increased to **Rs. 283.97 billion (up 5.6%)**. This growth was supported by a **strong CASA ratio of 89%** and **non-remunerative deposits comprising 36%** of total deposits, compared to 87% and 35%, respectively, as at December 2025, reflecting continued improvement in deposit mix. The **investment portfolio** reached **Rs. 158.81 billion**, while **Islamic financing – net** stood at **Rs. 134.68 billion**, demonstrating prudent credit risk management and asset quality discipline.

**Operating income** for the period amounted to **Rs. 3.83 billion**, with a **net spread of 4.13%** and a **return on earning assets of 9.48%**. Operating and other expenses increased by 20%, primarily due to branch network expansion and ongoing technology investments; however, the Bank continues to **exercise disciplined cost management** to support sustainable profitability.

The Bank's **Capital Adequacy Ratio (CAR)** remained strong at **16.53%**, significantly above the regulatory minimum, underscoring a **robust capital base, sound risk management practices and resilience**.

The **Core Banking System upgrade** is at an advanced stage of implementation. This initiative reflects the Bank's **commitment to innovation, operational efficiency and digital transformation**, while strengthening its foundation for a **high-performing, future-ready Islamic banking franchise**.

### Credit Rating

The Pakistan Credit Rating Agency (**PACRA**) maintained the Bank's **medium to long-term credit rating to 'A+'** and the **short-term at 'A1'**, with a Stable Outlook.

## Economic Review

Pakistan's economy continued to demonstrate improving macroeconomic stability, supported by prudent fiscal management, disciplined monetary policy and ongoing reforms. Economic activity showed gradual recovery, while inflation and the current account remained broadly contained. External buffers strengthened alongside improved market confidence, reflecting progress in fiscal consolidation and structural reforms, while targeted social protection measures helped mitigate the impact of energy price volatility.

A staff-level agreement has been reached between the International Monetary Fund (IMF) and the Government of Pakistan on the third review under the Extended Fund Facility (EFF) and the second review under the Resilience and Sustainability Facility (RSF), reinforcing policy continuity and reform momentum.

Inflation stood at 7.3% (March 2026, year-on-year), while foreign exchange reserves improved to USD 21.79 billion, reflecting stronger external buffers and a favorable remittance trajectory. The IMF has projected GDP growth of 3.2% for FY 2026, indicating a gradual economic recovery.

The Monetary Policy Committee (MPC) maintained the policy rate at 10.5%, preserving a positive real interest rate stance to anchor inflation expectations and support sustainable growth. The KSE-100 Index closed at 148,743 points as of March 2026, declining by over 25,300 points since December 2025, largely reflecting heightened geopolitical uncertainties in the Middle East.

The Islamic banking sector continued its growth trajectory, with total assets reaching Rs. 14.47 trillion and deposits at Rs. 11.04 trillion as of December 2025. The sector's market share stood at 22.9% in assets and 27.8% in deposits, reaffirming its increasing significance within Pakistan's financial landscape.

## Future Outlook

The economic outlook remains cautiously optimistic, supported by policy discipline and ongoing reforms, with the IMF projecting GDP growth of 3.2% for FY 2026 and 4.1% for FY 2027. Inflation is expected to remain within the State Bank's target range, while foreign exchange reserves continue to strengthen. Agricultural performance has improved; however, final output remains dependent on weather conditions.

Geopolitical tensions, particularly involving the United States and Iran, pose downside risks for the Middle East and Pakistan, mainly through energy prices and external account pressures. In case of de-escalation, gradual normalization in global and regional markets is expected, although the pace of recovery will depend on the extent and duration of disruptions.

Domestically, fiscal consolidation, energy sector reforms and private sector development will remain key to sustaining growth. In the Islamic banking sector, ongoing regulatory and governance enhancements are expected to strengthen transparency and overall industry discipline. While these developments may have short-term implications, the Bank is proactively aligning its strategy and systems to ensure long-term sustainable growth.

## Appreciation and Acknowledgements

The **Board of Directors** extends its sincere appreciation to the Bank's **customers and shareholders** and to the **regulators**, including the **State Bank of Pakistan**, the **Securities and Exchange Commission of Pakistan** and the **Shari'ah Board**, for their continued guidance and support. The Board also acknowledges the **dedication, professionalism and commitment of the Bank's employees**, whose collective efforts continue to support **sustainable growth** in a challenging operating environment.

**For and on behalf of the Board of Directors**

  
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**Hammad Khalid**  
President / CEO

  
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**Raza Mansha**  
Chairman