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 Half year ended **June 30, 2026**.

Rs. in million

Statement of Financial Position	30-Jun-26	31-Dec-25	Growth
Deposits	332,983	268,934	24%
Total Assets	395,974	337,298	17%
Investments – *net*	185,646	155,824	19%
Islamic Financing – *net*	128,769	125,390	3%
Shareholders' Equity *(including revaluations)*	27,925	27,768	1%

Profit & Loss Account	Jan – Jun 2026	Jan – Jun 2025	Growth
Operating income	8,041	8,094	-1%
Operating and other expenses	6,559	5,633	16%
Credit loss allowance and write offs – *net*	-380	132	-388%
Profit before taxation	1,862	2,329	-20%
Profit after taxation	894	1,048	-15%
Basic / diluted earnings per share - *Rs.*	0.575	0.674	-15%

Performance Review

Despite continued macroeconomic and geopolitical headwinds, the Bank remained focused on balance sheet optimization, deposit mobilization, operational efficiency and disciplined execution of its strategic priorities. As a result, the Bank reported a **Profit Before Tax (PBT)** of **Rs. 1.86 billion** and a **Profit After Tax (PAT)** of **Rs. 894 million**, compared to **Rs. 2.33 billion** and **Rs. 1.05 billion**, respectively, during the corresponding period last year. Earnings per share (EPS) stood at **Rs. 0.575**, compared to **Rs. 0.674** in the corresponding period of 2025.

As at **June 30, 2026**, the Bank's total assets increased by **17%** to **Rs. 395.97 billion**, while deposits grew by **24%** to **Rs. 332.98 billion**. The quality of the deposit base continued to strengthen, supported by a significant increase of **Rs. 38.69 billion (41.60%)** in **non-remunerative deposits**. Consequently, the **CASA ratio** improved to **90%**, while **non-remunerative deposits** increased to **40%** of total deposits, compared with **87%** and **35%**, respectively, as at **December 31, 2025**. The investment portfolio stood at **Rs. 185.65 billion**, while **net Islamic financing** reached **Rs. 128.77 billion**, reflecting prudent asset allocation and disciplined credit risk management.

Operating income for the period amounted to **Rs. 8.04 billion**, supported by a net spread of **4.14%** and a return on earning assets of **9.84%**. Operating and other expenses increased by **16%**, primarily due to branch network expansion and continued investment in technology and digital capabilities. Nevertheless, the Bank maintained a disciplined approach to cost management, supporting long-term operational efficiency and sustainable profitability.

The Bank maintained a strong capital position, with a **Capital Adequacy Ratio (CAR)** of **15.35%**, comfortably above the regulatory minimum, demonstrating the Bank's sound capital management, prudent risk governance and financial resilience.

The implementation of the Bank's upgraded Core Banking System is at an advanced stage and represents a key strategic milestone in its digital transformation journey. The initiative is expected to enhance operational efficiency, strengthen customer experience and establish a scalable technology platform to support the Bank's future growth.

Credit Rating

The Pakistan Credit Rating Agency (**PACRA**) reaffirmed the Bank's **medium to long-term credit rating at 'A+'** and **short-term rating at 'A1'**, while **upgrading the outlook from "Stable" to "Positive"**. The improved outlook reflects the Bank's strengthening financial profile, sound risk management and continued progress in executing its strategic priorities.

Economic Review

Pakistan's economy demonstrated improving macroeconomic stability during FY2026, supported by continued fiscal consolidation, strengthening external accounts and sustained policy reforms. Improved revenue mobilization, expenditure discipline and a sizeable primary surplus, together with record workers' remittances, continued growth in IT exports, a current account surplus, exchange rate stability and higher foreign exchange reserves, contributed to enhanced investor confidence. **S&P Global Ratings** also upgraded Pakistan's **long-term sovereign credit rating to 'B' from 'B-'**, reflecting improved political and institutional settings and continued progress in economic reforms. However, inflationary pressures remained elevated due to geopolitical uncertainties, supply chain disruptions and higher global commodity prices.

During the period, the International Monetary Fund (IMF) reached a staff-level agreement with 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 supporting the country's macroeconomic reform agenda.

Inflation stood at 11.1% (year-on-year) in June 2026, while the Monetary Policy Committee (MPC) increased the policy rate by 100 basis points to 11.5% in April 2026 to contain inflation and preserve macroeconomic stability. Foreign exchange reserves improved to USD 23.23 billion, strengthening the country's external position. The IMF projected GDP growth of 3.6% for FY2026, indicating a gradual recovery in economic activity. Meanwhile, the KSE-100 Index closed at 180,302 points, reflecting improved investor confidence and market sentiment.

The Islamic banking sector continued its strong growth trajectory, with total assets reaching Rs. 14.7 trillion and deposits Rs. 11.3 trillion, representing 23.0% and 28.5% of the overall banking industry's assets and deposits, respectively. This continued expansion underscores the growing importance of Islamic banking within Pakistan's financial system.

Future Outlook

The outlook for Pakistan's economy remains **cautiously optimistic**, supported by continued macroeconomic stabilization, prudent fiscal management and the Government's commitment to structural reforms under the IMF-supported programme. The IMF has projected **GDP growth of 3.5%** for **FY2027**, while easing geopolitical tensions in the Middle East and moderation in global oil prices are expected to help contain inflationary pressures.

Despite the improving outlook, risks remain. Inflation is expected to stay above the target range of **5–7%** for much of **FY2027**, with the outlook subject to uncertainties arising from geopolitical developments, adjustments in electricity and gas tariffs and weather-related risks affecting food prices. Any resurgence or escalation of geopolitical tensions could disrupt global trade and energy supplies, exert upward pressure on oil prices and inflation and adversely impact external sector stability and the pace of economic recovery.

The **Islamic banking sector** is expected to maintain its growth momentum, supported by continued regulatory and governance enhancements aimed at strengthening transparency and industry resilience. The Bank remains well positioned to capitalize on emerging opportunities and is proactively aligning its strategy, digital capabilities and operational framework to support sustainable growth and deliver long-term value to its stakeholders.

Appreciation and Acknowledgements

The Board of Directors extends its sincere appreciation to the Bank's **customers, shareholders and business partners** for their continued trust and confidence. The Board also expresses its gratitude to the **State Bank of Pakistan**, the **Securities and Exchange Commission of Pakistan**, the **Shari'ah Board** and other regulatory authorities for their continued guidance and support. The Board further acknowledges the dedication, professionalism and unwavering commitment of the Bank's employees, whose collective efforts continue to drive the Bank's performance and support its long-term sustainable growth.

For and on behalf of the Board of Directors

Hammad Khalid
President / CEO

Raza Mansha
Chairman