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 Nine Months ended **September 30, 2026**.

Statement of Financial Position	30-Sep-26	31-Dec-25	Growth
Deposits	349,852	268,934	30%
Total Assets	411,172	337,298	22%
Investments – *net*	230,666	155,824	48%
Islamic Financing – *net*	111,149	125,390	-11%
Shareholders' Equity *(including revaluations)*	28,228	27,768	2%

Profit & Loss Account	Jan – Sep 2026	Jan – Sep 2025	Growth
Operating income	12,878	12,512	3%
Operating and other expenses	9,994	8,705	15%
Credit loss allowance and write offs – *net*	-441	132	-434%
Profit before taxation	3,325	3,675	-10%
Profit after taxation	1,596	1,702	-6%
Basic / diluted earnings per share - *Rs.*	1.026	1.095	-6%

Rs. in million

Performance Review

Despite continued macroeconomic and geopolitical challenges, the Bank remained focused on balance sheet optimization, deposit mobilization, operational efficiency and the execution of its strategic priorities. During the period, the Bank recorded a **Profit Before Tax (PBT) of Rs. 3.33 billion** and a **Profit After Tax (PAT) of Rs. 1.60 billion**, compared with Rs. 3.68 billion and Rs. 1.70 billion, respectively, in the corresponding period of 2025. **Earnings per share (EPS) stood at Rs. 1.026**, compared with Rs. 1.095 in the corresponding period last year.

As at September 30, 2026, the Bank's total assets increased by **22% to Rs. 411.17 billion**, while deposits grew by **30% to Rs. 349.85 billion**. Non-remunerative deposits increased by **Rs. 26.79 billion (28.80%)** during the period. The **CASA ratio** and the **share of non-remunerative deposits** stood at **84% and 34%**, respectively, compared with 87% and 35% as at December 31, 2025. The investment portfolio reached Rs. 230.67 billion, while net Islamic financing stood at Rs. 111.15 billion, reflecting the Bank's continued focus on managing its asset mix and disciplined credit risk management.

The Bank reported **operating income of Rs. 12.88 billion**, with a net spread of 4.28% and a return on earning assets of 10.24%. Operating and other expenses increased by 15%, primarily reflecting branch network expansion and continued investment in technology and digital capabilities. The Bank continued to focus on cost discipline and operational efficiency to support sustainable profitability.

The Bank maintained a **Capital Adequacy Ratio (CAR) of 16.25%**, above the applicable regulatory minimum, reflecting its sound capital position and capacity to support business growth while maintaining regulatory capital requirements.

The Bank successfully completed the upgrade of its **Core Banking System (CBS)** during the period, marking a significant milestone in its digital transformation journey. The upgraded system is expected to enhance operational efficiency, improve customer experience, strengthen system capabilities and provide 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 revised outlook reflects the Bank's strengthening financial profile, sound risk management practices and continued progress in implementing its strategic

priorities.

Economic Review

Pakistan's economy maintained macroeconomic stability during FY2026, supported by fiscal consolidation, resilient workers' remittances, improved foreign exchange reserves and progress under the IMF-supported reform programme. Sovereign credit rating upgrades by Moody's and S&P Global Ratings, together with the successful issuance of US$3 billion in Eurobonds, reflected improved access to international capital markets. However, economic conditions remained challenging amid heightened geopolitical tensions, elevated global commodity prices and renewed inflationary pressures.

During the period, the International Monetary Fund (IMF) reached a staff-level agreement on the fourth review under the Extended Fund Facility (EFF) and the third review under the Resilience and Sustainability Facility (RSF), subject to approval by its Executive Board. These reviews underscored the continued focus on macroeconomic stabilization and structural reforms.

Inflation reached 10.3% year-on-year in September 2026, while the State Bank of Pakistan (SBP) increased the policy rate by 100 basis points to 11.5% in April 2026 to contain inflationary pressures and preserve macroeconomic stability. Foreign exchange reserves strengthened the country's external position, while the IMF projected GDP growth of 3.6% for FY2026, indicating a gradual recovery in economic activity. The KSE-100 Index closed at 169,969 points on September 30, 2026, reflecting prevailing investor sentiment.

Pakistan's Islamic banking sector continued to expand, with total assets reaching Rs. 16.3 trillion and deposits Rs. 12.7 trillion, representing 23.7% of the banking industry's total assets and 29.2% of its deposits, respectively. This growth highlights the increasing significance of Islamic banking within the country's financial system.

Future Outlook

Pakistan's economic outlook remains cautiously optimistic, supported by the gradual recovery in economic activity, continued policy reforms and resilient workers' remittances. Inflation is expected to moderate towards the upper end of the SBP's target range of 5%–7% by June 2027, although the pace of disinflation remains uncertain. Key risks include geopolitical tensions, volatility in global energy and commodity prices, potential utility tariff adjustments and climate-related disruptions. Sustaining macroeconomic stability will depend on fiscal discipline, prudent monetary management, continued accumulation of foreign exchange reserves and effective implementation of structural reforms. The IMF has projected GDP growth of 3.5% for FY2027.

The Islamic banking sector is expected to maintain its growth momentum, supported by continued regulatory and governance enhancements aimed at strengthening transparency and resilience. Against this backdrop, the Bank remains focused on leveraging emerging opportunities through strategic alignment, enhanced digital capabilities and operational improvements to support sustainable growth and create long-term value for its stakeholders.

Appreciation and Acknowledgements

The Board of Directors expresses its **sincere appreciation to the Bank's customers, shareholders and business partners** for their trust and confidence. The Board also extends 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 valuable guidance and support. The Board further acknowledges the **dedication, professionalism and commitment of the Bank's employees**, whose collective efforts contribute significantly to the Bank's performance and long-term sustainable growth.

For and on behalf of the Board of Directors

Hammad Khalid
President / CEO

Raza Mansha
Chairman