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 Half year Ended June 30, 2024.

Rs. in Million

Statement of Financial Position	30-Jun-24	31-Dec-23	Growth
Deposits	252,026	204,460	23.3%
Total Assets	300,777	267,000	13%
Investments – *net*	128,323	132,544	-3%
Islamic Financing – *net*	102,803	89,347	15%
Shareholders' Equity *(including revaluations)*	23,399	22,037	6%

Profit & Loss Account	Jan – Jun 2024	Jan – Jun 2023	Growth
Operating income	8,953	7,783	15%
Operating and other expenses	4,646	3,452	35%
Provisions against financing and investments	(46)	(318)	-0.14 Times
Profit before taxation	4,261	4,013	6%
Profit after taxation	2,173	1,966	11%
Basic / diluted earnings per share - *Rs.*	1.40	1.26	11%

Performance Review

In the first half of 2024, the Pakistani banking industry exhibited resilience despite significant challenges including high living cost, 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. 4.26 billion for the half year ended June 30, 2024. Alhamdulillah**.

As of June 30, 2024 the Bank's Deposits surged to Rs. 252.03 billion as compared to Rs. 204.46 billion as of December 31, 2023 a significant growth of 23.3%. The Bank's Current and Saving Account (CASA) mix stands at a healthy 77% with non-remunerative Deposits comprising 30% of the total deposit mix. The Bank reported remarkable growth in Current Accounts by Rs. 12.49 billion (20%) in H1 2024. Emphasizing Islamic Banking, we continue to reach potential non-banked customers through a diverse range of Islamic Banking products, ensuring service excellence.

Total Assets of the Bank crossed Rs.300 billion mark with a growth of 13% during the first half of 2024. The net Financing grew by 15% and closed at Rs. 102.80 billion compared to Rs. 89.35 billion as at December 31, 2023, demonstrating prudent financial management, while investments stood at Rs. 128.32 billion. The Bank's Capital Adequacy decreased by 0.97% points, closing at 22.82%. The management maintains unwavering focus on efficient capital management, superior asset quality and a high-yielding portfolio.

During the half year ended under review, the Bank generated an operating income of Rs. 8.95 billion, 15% higher than corresponding period last year, achieving a return on earning assets at 18.62% with a net spread of 6.61%. However, operating and other expenses rose by 35% due to high inflation, increase in business volume and branch network. This escalation is vigilantly monitored through effective management controls to sustain profitability.

In light of these developments, the Bank's posted after-tax Profit of Rs. 2.17 billion for the half year ended under review, a notable improvement from Rs. 1.97 billion in the corresponding last period. Earnings per share after tax rose to Rs. 1.40 for the half year ended under review, compared to Rs. 1.26 in the corresponding last period.

Credit Rating

Another significant milestone achieved by the bank as Pakistan Credit Rating Agency (PACRA) has upgraded the Bank's medium to long-term rating to 'A+' and the short-term rating as 'A-1,' maintaining a stable outlook.

Economic Review

The global economy has demonstrated remarkable resilience amidst various challenges, maintaining steady growth as inflation consistently going down toward target levels. Key events, including post-pandemic supply chain disruptions, the Ukraine and Gaza-Israel conflicts triggering a global energy and food crisis and a surge in inflation have significantly impacted this period. These challenges were met with globally synchronized monetary policy tightening. However, economic expansion remains historically low due to high borrowing costs, the withdrawal of fiscal support, lingering effects of the pandemic and geopolitical tensions. Elevated uncertainty around inflation has made central banks more cautious about easing policies. Despite pessimistic forecasts, the world avoided a recession, the banking system proved resilient and major emerging markets did not suffer sudden stops. The International Monetary Fund (IMF) expects global headline inflation to decrease from an annual average of 6.8% in 2023 to 5.9% in 2024, with global growth projected to remain at 3.2% in 2024 compared to 3.3% in 2023.

In Pakistan, the recently concluded Fiscal Year (FY) 2024 experienced a moderate economic revival, largely attributed to the stabilization of the exchange rate and a positive real interest rate. Improved foreign reserves were achieved through stringent import restrictions and prudent government expenditure management. The IMF staff and Pakistani authorities have reached a staff-level agreement on a 37-month Extended Fund Facility (EFF) arrangement of approximately USD 7 billion. This agreement is subject to approval by the IMF's Executive Board and the timely confirmation of necessary financing assurances from Pakistan's development and bilateral partners. The Pakistan Stock Exchange (PSX) has surged by more than 80% since June 2023. The IMF and SBP estimate growth for FY 2024 at 2.0% and 2.4%, respectively, compared to a negative 0.2% in 2023.

In June 2024, the National Consumer Price Index (CPI) experienced a significant decline to 12.6% year-on-year down from 29.4% in June 2023. During FY 2024, monetary aggregates showed modest growth, driven by bank deposits and an improved currency-to-deposit ratio. Despite a rise in headline inflation to 12.6% in June 2024, up from 11.8% in May due to higher electricity tariffs and Eid-related price increases, core inflation remained stable. The average inflation forecast for FY 2025 is expected to range between 11.5% and 13.5%, a substantial decrease from FY 2024's 23.4%, bolstered by ongoing fiscal consolidation and a tight monetary policy.

In response, the State Bank of Pakistan (SBP) reduced the policy rate by 150 and 100 basis points in its Monetary Policy Committee meetings on June 10, 2024 and July 29, 2024, respectively. With the positive real interest rate trajectory, further policy rate reductions may be considered in the coming months.

During July-April FY 2024, the Large Scale Manufacturing (LSM) sector saw moderate growth of 0.45%, a marked improvement from the 8.8% contraction in the same period last year. In April 2024, LSM increased by 5.8% year-on-year. Notably, several sectors showed positive growth during July-April FY 2024, including Food, Wearing Apparel, Leather, Wood Products, Coke & Petroleum Products, Chemicals, Pharmaceuticals, Rubber Products, Machinery & Equipment, Furniture and Football. The growth in agriculture sector after showing a strong performance in FY 2024, is expected to slow down in FY 2025 majorly due to input conditions for Kharif crops.

On the external front, during July-May FY 2024, the Current Account deficit significantly reduced to USD 464 million from USD 3.8 billion in the same period the previous year. This decline was attributed to stricter import policies and administrative measures. Exports increased by 11.3% to USD 28.7 billion during July-May FY 2024, while imports declined by 2.3% to USD 48.4 billion, narrowing the trade deficit to USD 19.7 billion from USD 23.8 billion. Workers' remittances totalled USD 30.3 billion, reflecting a 10.7% increase. Foreign exchange reserves reached USD 14.6 billion as of June 28, 2024, with a year-on-year exchange rate appreciation of over

2.7%.

On the fiscal front, the overall deficit slightly reduced to 4.5% of GDP (Rs. 4,726 billion) during July-April FY 2024 compared to 4.7% of GDP (Rs. 3,929 billion) in the same period of the previous year.

The KSE-100 Index closed at 78,445 points on June 28, 2024, marking a 15,994-point increase from December 31, 2023.

The Islamic banking industry experienced significant growth, with assets increasing by Rs. 241 billion and deposits by Rs. 126 billion during the first quarter of 2024. Total assets and deposits increase by 2.7% and 1.9%, reaching Rs. 9,235 billion (market share of 19.9%) and Rs. 6,875 billion (market share of 23.2%) respectively. Additionally, the branch network expanded to 5,101 branches by the end of March 2024.

Future Outlook

In the evolving global economic landscape, a combination of disinflation and steady growth suggests a hopeful scenario for a potential soft landing with balanced risks. However, geopolitical tensions such as the war in Ukraine and the conflict in Gaza and Israel pose a risk of new price spikes. Persistent core inflation in tight labour markets may also elevate interest rate expectations. As the global economy approaches a soft landing, the immediate priority for central banks is to manage inflation meticulously, avoiding both premature policy easing and delays that could lead to missing targets. These challenges could temper the anticipated growth. The IMF forecasts a global headline annual average inflation decrease to 5.9% in 2024 and 4.5% in 2025, with growth projections of 3.3% in 2025 from 3.2% in 2024.

On the domestic front, Pakistan's growth prospects appear promising. The Federal Budget for FY 2025 is designed to usher in an era of sustainable and inclusive growth. To realize these objectives, the government is prioritizing high-potential sectors such as information technology, small and medium-sized enterprises (SMEs), mining and minerals, tourism, exports and agriculture. The trajectory of positive real interest rates will be crucial in steering inflation towards the medium-term target range of 5 to 7%. Additionally, the approval of the EFF Arrangement by the IMF's Executive Board is anticipated to unlock significant financial inflows, which will bolster foreign exchange reserves.

Fitch Ratings' recent upgrade of Pakistan's rating to CCC+ reflects improved certainty regarding the availability of external funding, supported by the newly signed USD 7 billion IMF program. Nonetheless, there are risks to the near-term inflation outlook due to recent budgetary measures and uncertainties surrounding future energy price adjustments. Consequently, both the IMF and SBP project an increase in GDP growth to 3.5% and a range of 2.5% to 3.5% respectively in 2025 up from 2.0% in 2024.

The banking sector is confronted with heightened risks, including credit, operational and cyber threats, driven by the expansion of digital financial services. Addressing these challenges demands robust and proactive strategic risk management.

Despite these challenges, our dedication to sustainable growth remains steadfast. We focus on enhancing profitability through the acquisition of cost-effective deposits, asset optimization and advancements in digitization. Concurrently, we are committed to investing in IT infrastructure, improving employee satisfaction, and implementing best-in-class management practices. With a forward-looking approach, we are well-positioned to navigate the evolving landscape of banking and finance, maintaining our leadership and continuing to thrive.

Acknowledgment

On behalf of the Board and management, we extend our heartfelt gratitude to our valued customers, esteemed business partners and dedicated shareholders for their steadfast support and trust. We also wish to acknowledge the State Bank of Pakistan, the Securities & Exchange Commission of Pakistan, other regulatory authorities and the Shari'ah Board for their ongoing guidance and support. Additionally, we

commend the exceptional efforts of our dedicated staff members whose commitment has been instrumental in driving the growth of our franchise even in the face of challenging business conditions.

For and on behalf of the Board of Directors

Zargham Khan Durrani	**Raza Mansha**
President / CEO	**Chairman**