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 Nine Months Ended September 30, 2024.

Rs. in Million

Statement of Financial Position	30-Sep-24	31-Dec-23	Growth
Deposits	239,876	204,460	17.3%
Total Assets	296,861	267,000	11%
Investments – *net*	154,186	132,544	16%
Islamic Financing – *net*	90,902	89,347	2%
Shareholders' Equity *(including revaluations)*	24,894	22,037	13%

Profit & Loss Account	Jan – Sep 2024	Jan – Sep 2023	Growth
Operating income	14,048	13,621	3%
Operating and other expenses	7,246	5,554	30%
Credit loss allowance and write offs – net	(135)	(561)	-0.24 Times
Profit before taxation	6,668	7,506	-11%
Profit after taxation	3,399	3,834	-11%
Basic / diluted earnings per share - *Rs.*	2.19	2.47	-11%

Performance Review

Pakistan's banking sector continues to demonstrate remarkable resilience and strong performance despite challenges such as climate change costs, economic stagnation and political instability.

Amidst these challenges, our Bank has proactively navigated the economic landscape with a strategic focus on sustained growth in business volumes, expanding branch network and investment in technology. This includes optimizing deposit mobilization, making timely investments and adhering to prudent financing practices. With an efficient organizational structure, robust risk management and strict regulatory compliance, the Bank achieved a commendable **profit before tax of Rs. 6.67 billion for the Nine Months ended September 30, 2024. Alhamdulillah**.

As of September 30, 2024, the Bank's **Deposits surged to Rs. 239.88 billion**, up from Rs. 204.46 billion as of December 31, 2023. The Current and Savings Account (CASA) mix is a healthy 75%, with non-remunerative deposits comprising 29% of the total. The Bank achieved significant growth in current deposit, increasing by Rs. 6.52 billion (10%) during the period. Emphasizing Islamic banking, we continue to engage potential non-banked customers through a diverse range of Islamic banking products, ensuring service excellence.

Total assets grew by 11%, reaching Rs. 296.86 billion as of September 30, 2024, compared to Rs. 267 billion on December 31, 2023. The net financing position closed at Rs. 90.90 billion, up from Rs. 89.35 billion, reflecting prudent financial management, while investments totaled Rs. 154.19 billion. The Bank's capital adequacy ratio increased by 0.48 percentage points, concluding at 24.28%. Management remains focused on efficient capital management, superior asset quality and a high-yielding portfolio.

During the review period, the Bank generated an **operating income of Rs. 14.05 billion**, representing a 3% increase compared to the same period last year, achieving a return on earning assets of 18.28% with a net spread of 6.59%. However, operating and other expenses increased by 30% due to higher business volumes, significant branch network expansion and substantial investment in infrastructure. This increase is closely monitored through effective management controls to sustain profitability.

In light of these developments, the Bank reported an **after-tax profit of Rs. 3.40 billion** for the Nine Months under review, a slight decline from Rs. 3.83 billion in the same period last year. Earnings per share (EPS) after tax decreased to Rs. 2.19 compared to Rs. 2.47 in the prior year.

An important development during the period is Bank's **agreement to take over 39 branches from MCB Bank Limited** as part of a "Scheme of Compromises, Arrangements and Reconstruction" approved by the Honorable Lahore High Court. Following the Court Order, the banking business, including assets, liabilities and operations of these branches, will be converted into Islamic banking branches and transferred to our Bank effective from the close of business on November 15, 2024.

Credit Rating

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 remains resilient despite challenges like post-pandemic disruptions, geopolitical conflicts and energy and food crises. Inflation is easing due to global monetary tightening, with the International Monetary Fund (IMF) projecting a decline from 6.8% in 2023 to 5.9% in 2024. However, growth remains slow due to high borrowing costs and geopolitical risks. While the services sector is growing, the manufacturing sector is weak. Despite these issues, the global banking system remains stable, with improved financial conditions and IMF projected global growth of 3.2% in 2024 compared to 3.3% in 2023.

Pakistan's economy entered Fiscal Year (FY) 2025 with promising growth indicators following a moderate recovery in FY2024. A stable exchange rate, lower inflation and positive real interest rates have supported sustained growth. Investor confidence has improved, aided by a supportive monetary policy and stable global energy and food prices. The rebuilding of reserves and a contained current account further strengthened economic stability. The IMF's approval of a USD 07 billion Extended Fund Facility (EFF) reflects international confidence, with the Pakistan Stock Exchange rising 30% since December 2023. The IMF projects FY2024 growth at 2.4%, compared to -0.2% in 2023.

In September 2024, the National Consumer Price Index (CPI) dropped significantly to 6.9% year-on-year, compared to 31.4% in September 2023. This sharp decline was driven by delays in energy price hikes and favourable global oil and food prices. For FY2025, average inflation is expected to be below the earlier forecast of 11.5%–13.5%, substantial decrease from FY2024's 23.4%.

The State Bank of Pakistan (SBP) has reduced the policy rate by 450 basis points, bringing it down to 17.5%. With positive real interest rates, further reductions may be considered in the coming months.

During July 2024, Large Scale Manufacturing grew by 2.4%, recovering from a 5.4% contraction the previous year, with sectors like textiles, food, beverages and chemicals showing positive growth. The current account deficit during July-August FY2025 narrowed to USD 171 million from USD 893 million in the same period the previous year. Exports rose by 7.2% to USD 4.86 billion, while imports increased by 13.8%, widening the trade deficit to USD 4.67 billion. Workers' remittances reached USD 8.8 billion, a 38.8% rise. Foreign exchange reserves stood at USD 15.98 billion as of September 27, 2024. The KSE-100 Index closed at 81,114 points on September 30, 2024, up 18,663 points since December 2023.

The Islamic banking industry experienced substantial growth in the first quarter of 2024, with assets increasing by Rs. 241 billion and deposits rising by Rs. 126 billion. Total assets reached Rs. 9,235 billion (19.9% market share), reflecting a 2.7% increase, while deposits totalled Rs. 6,875 billion (23.2% market share), up by 1.9%. The branch network also expanded to 5,101 branches by the end of March 2024.

Future Outlook

Future Outlook

The global economy has demonstrated resilience in 2024, with moderating inflation expected to continue through 2025. Global growth is projected to stabilize at a moderate pace, with inflation returning to target levels in most countries by the end of 2025. However, risks remain, including geopolitical tensions, trade disputes and potential financial market disruptions. As inflation declines, policy interest rates are expected to be lowered, but this must be carefully managed to maintain targets. Stronger efforts are needed to ensure fiscal sustainability by containing government spending and enhancing revenues. The IMF forecasts global headline inflation to decrease to 5.9% in 2024 and 4.5% in 2025, with global growth projected at 3.3% in 2025, up from 3.2% in 2024.

Pakistan's economic outlook is cautiously optimistic but depends on overcoming significant challenges. The IMF's USD 07 billion EFF will aid efforts to broaden the tax base, enhance fiscal sustainability and enable crucial investments in infrastructure, human capital and social services. The agriculture sector is expected to improve productivity through modernization and innovative practices. Sustained fiscal consolidation and prudent spending are essential for reducing public debt and fostering private sector growth. However, risks such as a challenging business environment, weak governance and insufficient investment remain. Timely reforms in the energy sector, public institutions and climate resilience are vital for long-term stability. The IMF projects GDP growth to increase from 2.4% in 2024 to 3.2% in 2025.

The banking sector is facing heightened risks, including credit, operational, and cyber threats, driven by the expansion of digital financial services. To mitigate these risks, robust and proactive risk management is crucial. Additionally, banks are struggling to meet the Advances to Deposit Ratio (ADR) targets set by the Federal Board of Revenue, leading to downward adjustments in lending rates, which may affect profitability. To avoid higher taxes, banks must either reduce their deposits or significantly increase financing activities, adding pressure to their operational strategies.

Despite challenges, our commitment to sustainable growth remains strong. We aim to enhance profitability by acquiring cost-effective deposits, optimizing assets and advancing digitization. We are also focused on 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 banking landscape while 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 unwavering support and trust. We also acknowledge the State Bank of Pakistan, the Securities & Exchange Commission of Pakistan, other regulatory authorities and our Shari'ah Board for their ongoing guidance. Additionally, we commend our dedicated staff members, whose exceptional efforts have been crucial in driving the growth of our franchise despite challenging business conditions.

For and on behalf of the Board of Directors

Zargham Khan Durrani
President / CEO

Raza Mansha
Chairman