

COVID-19 IMPACT ASSESSMENT REPORT



MALDIVES ISLAMIC BANK PLC.

Maldives Islamic Bank PLC., the first and fully Shariah compliant bank in the Maldives is a collaboration between Islamic Corporation for the Development of the Private Sector (ICD), the private sector arm of the Islamic Development Bank Group (IsDB) and the Government of Maldives, represented by Ministry of Finance. MIB opened its' doors on the 7th of March 2011 with the opening of the main branch in Male'. The Bank now operates with 6 branches in 5 atolls across the country. MIB is the only full-fledged Islamic bank in Maldives listed on Maldives Stock Exchange.

Incorporated as a Private Limited Company, the Bank was brought to inception with the intention to provide an alternative to the public and businesses who wish to avail themselves to banking transactions and dealings in strict compliance to Islamic banking principles. MIB provides full range of Shariah compliant deposit products and financing solutions catering to the general public, both individuals and businesses.

In its continuous effort to provide better access and convenience to its customers, the Bank has expanded its alternative distribution channels through Automated Teller Machines (ATM)s network, Point of Sale (POS) terminals at various merchant outlets, via its online banking service, FaisaNet, through modern banking services such as FaisaPay and FaisaMobile.

TABLE OF CONTENTS

- 1. INTRODUCTION:-----3
- 2. IMPACT ON FINANCIAL PERFORMANCE:-----3
- 3. IMPACT ON OPERATIONAL CONTROLS:-----5
- 4. IMPACT ON BUSINESS:-----5
- 5. FORWARD-LOOKING STATEMENTS:-----6

1. INTRODUCTION:

Celebrating the success of its IPO in 2019, the Bank embarked into fiscal year 2020 with a promising and growth-oriented outlook. Focusing on technological growth, the Bank intended to expand its reach and distribution network via significant investment in digital banking platforms. However, following the unprecedented economic impact due to the COVID-19 pandemic, businesses and individuals were affected severely. While the Bank remains strongly capitalised and funded, the adverse macro-economic impacts of COVID-19 pandemic have impacted the operational results of the Bank during the lockdown. The Bank was able to attain healthy results in Q1 of 2020 and we were able to attain satisfactory results in Q2.

The effects of pandemic hit businesses across all sectors. In order to reduce the financial and operational impact on our customers, investors and other stakeholders, the Bank initiated various proactive measures. These initiatives have yielded positive outcomes in containing the financial impact on the performance of the Bank.

This report is issued in line with the Bank's philosophy of establishing transparency in our operations, and to comply with the directive from Capital Market Development Authority (CMDA), to keep our investors informed regarding the impact of the pandemic on the operations and performance of the Bank.

2. IMPACT ON FINANCIAL PERFORMANCE:

2.1 IMPACT ON FINANCIAL CONDITION & OPERATIONAL RESULTS:

The Bank took proactive measures to navigate the adverse impacts of COVID-19 pandemic while anticipating the expected downturn of the current and future financial condition and operational results of the Bank, in context of the global pandemic which has seriously impacted the macro-economic condition of the country.

At the outset of 2020, the Bank anticipated a robust growth on its total customers' deposits. The COVID-19 global pandemic affected the macro-economic conditions in Maldives. The growth anticipated at the beginning of the year 2020, will be stunted due to the contraction in the economy due to COVID-19. Similarly, the Bank forecasted a strong growth, building on the momentum of 2019, in the financing portfolio, which is unlikely to happen given the same context.

The Bank's financial performance is likely to be impacted adversely as provision numbers due to credit impairment are expected to be significantly higher than anticipated. Though our efforts to optimize and prioritize operating and capital expenditure may lead to manage the total operating expenses well below the budgeted numbers, given the contraction in the overall business of the Bank, the Profitability for the year 2020 may experience budgetary gap vis-à-vis the expected forecasts at the beginning of the year.

Despite the negative impact on the operating results of the Bank, it is hoped that the Bank will be able to

sustain the liquidity position. The liquid assets position of the Bank is anticipated to stay as expected in the beginning of the year. This is contributed by the Bank's efforts to regain any stable new deposits while adopting a selective financing strategy.

Going forward, the Bank expects to maintain the Capital Adequacy Ratio well above the regulatory requirement of 12%. As the global economy recovers from the pandemic, the Maldivian economy is also expected to regain the momentum. In parallel with the growth in tourism and other industries, banks are also anticipated to recover from the downturn by the first half of 2021.

2.2 IMPACT ON FINANCIAL REPORTING:

As the Bank realizes the adverse impacts of the COVID-19 pandemic might spill over to all areas of the Bank's operations, the impact of IFRS 9 is in the process of being quantified. Even though it is expected that the performance of the Bank to be adversely affected by the COVID-19 pandemic, the judgements and estimations adopted under other IFRSs are not expected to change. However, it is believed that there will be significant adverse effect on IFRS 9 Provisioning under the current estimation model as the projected GDP of Maldives have gone to the negative¹ territory from a positive 5% plus estimates prior to COVID-19. We are in active consultation with our external auditors to revisit the modeling parameters to get a realistic view.

The impacts of credit impairment given the moratorium guideline from Maldives Monetary Authority ("MMA") is quantified and reported in the financial data presented in the reports published by the Bank. While that is the case, MIB does not foresee material impairments (with respect to goodwill, other assets, right to use assets, investment securities and so on), increase in credit losses, restructuring charges, other expenses, or changes in accounting judgements that have had or are reasonably likely to have a material impact on financial statements.

2.3 CORRECTIVE MEASURES:

MIB has established an interbank line to manage and strengthen its Local Currency liquidity. We are also working to get a significant line of finance from overseas to be made available shortly. Lastly, MIB has also engaged with MMA to get refinancing lines against the excess holding of MVR in Treasury Bills. These actions have resulted in managing the liquidity efficiently as of now.

¹ Asian Development Bank (<https://www.adb.org/countries/maldives/economy>)

3. IMPACT ON OPERATIONAL CONTROLS:

3.1 BUSINESS CONTINUITY PLAN (BCP):

With the news of first ever case of COVID-19 reported in Maldives back in February 2020, the Bank started devising a Business Continuity Plan (BCP); a model envisaging to ensure the continuity of the critical operations and services of the Bank under worst case scenario. New protocols on operational continuity were devised, with utmost significance given to the safety of the Bank's human capital and the customers who seek the services of the Bank. Some processes requiring physical interactions with the customers were modified to adjust to the online interactions with the customers. This pre-planned BCP was immediately activated after the lockdown was imposed in Male' and Hulhumale', following the first incident of community spread reported.

3.2 INTERNAL CONTROL MECHANISMS:

In order to ensure proper safeguards are in place amid the interruptions in the service front, the technology team of the Bank ensured that core banking system and financial reporting system is available at all times. Moreover, all control functions like Compliance and Audit are guaranteed to be working remotely and fully functional at all times. As a result, the Bank did not face any situation of any lapse in internal controls, disclosures or financial reporting requirements up to date.

3.3 OPERATIONAL SAFEGUARDS:

The uncertainty surrounding COVID-19 and economic environment requires us to implement stress testing measures for different scenarios. The necessity to put in place credible back-up solutions for the continued execution of key functions of the Bank is inevitable in light of the persistent health risk amid the pandemic. As part of MIB's critical operational safeguards, all the staff in different functions are divided into different teams working in different weeks as per the job roster set for them, ensuring minimal interaction with each other and all protective measures are in place. When one team is working from office the other team is required to work from home, so as to help in slowing the spread and flattening the pandemic curve within the MIB environment.

4. IMPACT ON BUSINESS:

4.1 IMPACT ON DEMAND FOR MIB'S PRODUCTS & SERVICES:

When the COVID-19 hit Maldives, MIB took proactive measures to identify customers who are facing or are likely to face temporary financial strain due to the pandemic. The Bank reached out to such customers with customized solutions such as payment skips, profit and charges deferrals, new financing lines and other relief for the next 06 months so as to hold their hand to wade through troubled waters. The Bank also identified those who have special financing or servicing needs and developed active solutions in order to continue serving them. Additionally, segments where refinancing and expansion of the current products range may be appropriate were also identified given that they are not impacted by the changing market conditions.

4.2 IMPACT ON DISTRIBUTION OF MIB'S PRODUCTS & SERVICES:

COVID-19 pandemic has created a new normal in product and service delivery standards and methods across all sectors. This crisis has highlighted how important digital capabilities and products are for businesses, and how important speed and seamless integration is. Even before COVID-19 outbreak, MIB was already focusing over how best we can digitize our payment and other financial services. The pandemic has furthered our resolve, and we are working to use this crisis as an opportunity to bring in and test more innovations, adjust our marketing models and transform our delivery channels, by prioritizing digital and automated delivery chains. With our strategy to continuously enhance our digital infrastructure, the Bank hopes to insulate from any risk of disruption of our products and services delivery to our customers owing to the pandemic fallouts.

4.3 IMPACT ON CREDIT RISK OF MIB:

While the real GDP growth is now projected to drop significantly in 2020 due to the pandemic, it is anticipated that the negative economic impacts of the pandemic will spillover to all major sectors of the economy. As the banking sector foresees negative growth throughout the year, MIB also expects several impacts on our credit risk.

While the Bank anticipates vulnerabilities, the Bank has taken measures to minimize the credit risks. Prudent safeguards have been implemented and are in place to mitigate the challenges in relation to credit risk and overall financial stability.

5. FORWARD-LOOKING STATEMENTS:

While the Bank's overall results were managed at satisfactory levels during 2020 so far, going forward, the performance of the Bank is most likely to get affected further due to COVID-19 pandemic. MIB is committed to provide continued support to the customers and businesses across segments and communities where we are present, whilst following the guidelines provided by the Regulators from time to time, during this challenging time.

Thank you

