

DIRECTORS' REPORT



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This report offers a concise overview of the global and Bangladeshi economies, in addition to the bank's performance, strength, growth trajectory, and other relevant matters.

Esteemed Shareholders,

With great pleasure, the Board of Directors of Mercantile Bank Limited extends a cordial welcome to the 24th Annual General Meeting of the Bank. We are delighted to present the Annual Report and Audited Financial Statements for the year ending December 31, 2022, in compliance with the Companies Act of 1994, the Bank Company Act of 1991 (Amended until 2018), and the Guidelines set forth by the Bangladesh Securities

and Exchange Commission (BSEC), along with other applicable regulatory rules and regulations.

This report offers a concise overview of the global and Bangladeshi economies, in addition to the bank's performance, strength, growth trajectory, and other relevant matters. The Directors are confident that the Report will offer all interested stakeholders an immersive insight into the bank's performance over the reviewed year.

Global Economy

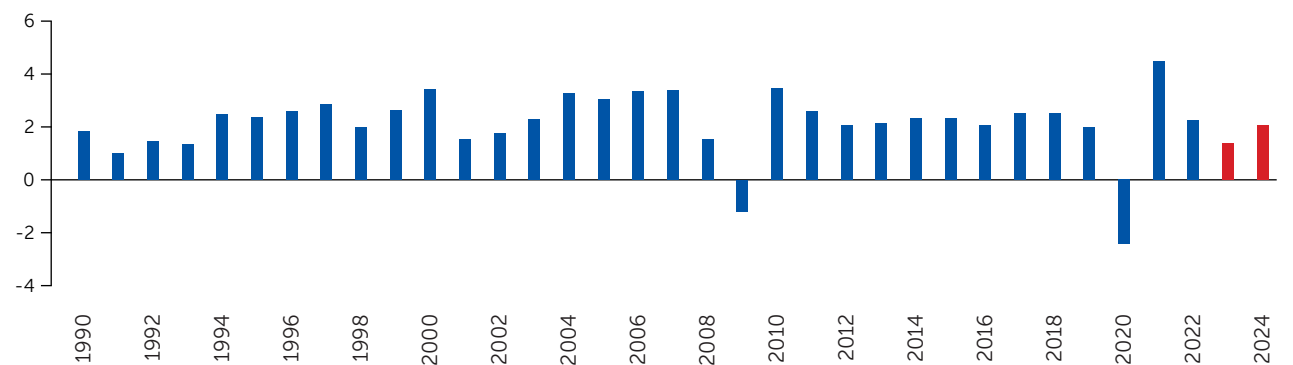
Global Economic Review

The global economy has encountered a slowdown, and there are concerns about an impending recession. The inflation rates remain high worldwide and above central bank targets in almost all inflation targeting economies. The response has been for central banks around the world to tighten policy faster than previously expected. Monetary policy tightening in advanced economies, a strong US dollar, geopolitical tensions, and high inflation have dampened risk appetite, leading to widespread capital outflows and slowing bond issuance across Emerging Market and Developing Economy (EMDEs). Financial conditions have particularly worsened for less creditworthy EMDEs, especially if they are energy importers.

Global growth is forecast to slow to 1.7 percent in 2023.

GLOBAL GROWTH

(IN PER CENT)



Although commodity prices have eased, to varying degrees, they remain elevated, prolonging challenges associated with energy and food insecurity. While food prices have eased from earlier peaks, food price inflation remains very high in some EMDEs. Against this backdrop, global growth is projected to slow to 1.7 percent in 2023, which would be the third weakest in nearly three decades, overshadowed only by the global recessions caused by the pandemic in 2020 and the global financial crisis in 2009. This forecast is 1.3 percentage points lower than in June, largely reflecting more aggressive monetary policy tightening, deteriorating financial conditions, and declining confidence.

Global trade is also expected to slow sharply alongside global growth, despite support from a continued recovery in services trade. Downgrades to growth projections mean that global activity is now expected to fall even further below its pre-pandemic trend over the forecast horizon, with EMDEs accounting for most of the shortfall from trend. This suggests that the negative shocks of the past three years, namely the pandemic, the invasion of Ukraine, and the rapid

increase in inflation and associated tightening of monetary policy worldwide, are having a lasting impact on economic prospects.

Impact on Banking Industry

The challenging economic conditions will have a significant impact on the banking industry. Tighter financing conditions, weaker growth, and elevated debt levels create significant fiscal challenges for EMDEs, exemplified by the recent precipitous fall in bond issuance. Timely and carefully calibrated fiscal consolidation needs to be guided by credible medium-term frameworks, with a focus on reducing wasteful spending and ensuring that support for the poor and most vulnerable is well-targeted.

The long-term scarring effects of the overlapping adverse shocks of the past three years have led to large cumulative losses, especially with respect to EMDEs. The banking industry must work in tandem with policymakers to support economic recovery efforts and facilitate financial stability. It is crucial to maintain financial sector resilience and continue to support financial inclusion, which will aid in the recovery from the ongoing economic challenges.

Bangladesh Economy

Bangladesh Economic Review

Bangladesh's economy has demonstrated impressive growth, with GDP reaching 8.0% in FY 2018-19, despite a decline to 3.45% due to the COVID-19 pandemic in FY 2019-20. However, the country managed to effectively control the outbreak and achieved a GDP growth of 6.94% in FY 2020-21, surpassing the previous year's growth rate. The preliminary estimates show that the country's GDP growth in FY 2021-22 has exceeded the target rate by 0.05% and the preceding year's rate by 0.31%, standing at 7.25%. Furthermore, the economy is expected to maintain growth rates of 7.5% in FY 2022-2023, 7.8% in FY 2023-2024, and 8.0% in FY 2024-2025.

GDP, per capita GDP and GNI

In terms of GDP, the projection for FY 22 is Tk 39,76,462 crore, with a per capita GDP projection of \$2,723 USD. Forecasts for the medium-term GDP are expected to rise, with Tk 44,12,849 billion in FY 2022-2023, Tk 49,49,712 billion in FY 24, and Tk 55,59,517 billion in FY 25. Per capita GDP increased by \$228 from the previous year to \$2,462 USD in FY 21, while per capita gross national income increased by US\$265 to US\$2,591 from FY 20. According to provisional estimates, per capita gross national income will rise to US\$2,824 in FY 22, a growth of US\$233 from the prior fiscal year.

Sectoral Growth

According to BBS's final estimate, the agricultural sector expanded by 3.17 percent in the fiscal year 2020-21, with industry sector growth reaching 10.29% and the service sector expanding by 5.73%. However, the growth rate of the agricultural sector in FY 2021-22 declined by 0.97 percentage points. The broad agriculture sector's share of GDP in FY 2021-22 decreased by 0.57 percentage points to 11.50% from the prior fiscal year. The service sector is predicted to grow by 6.31% in FY 2021-22, with the human health and social work industry expected to grow the fastest at 9.78%. The service sector accounts for 51.44% of the GDP, a slight decrease of 0.29 percentage points from the previous year.

Inflation

Average inflation accelerated to 6.2 percent last fiscal year, reflecting strong domestic demand and higher global oil, gas and commodity prices resulting from supply disruptions. This year, the government set a target to restrict inflation to within 5.6 percent.

Monetary Policy and Monetary Management

Our monetary policy for FY 2021-22 aims to sustain economic recovery while maintaining stability in the general price level. We strive to support real GDP growth

of 7.2% and to keep average inflation at 5.3%. We have reduced repo and reverse repo interest rates by 50 and 75 basis points, respectively, and introduced a 360-day repo facility.

Money and Credit

Broad money (M2) increased by 9.4% YoY in February 2022, while reserve money fell by 7.41%. Domestic credit grew by 13.3% YoY, with private sector loan growth at 10.87% and net credit owed by the government increasing by 28.94%.

Interest Rate

To promote the productive sector and enhance global competitiveness while reducing classified loans, we streamlined the interest rate to a single digit, except for credit cards. The productive sectors remained resilient during the pandemic, and the weighted average loan and deposit rates have declined, with commercial banks' weighted average loan rate decreasing to 7%, and the interest rate spread decreasing from 5% to 3%.

Exports

In FY 2020-21, our total export revenues increased by 12.77% to US\$ 40.11 billion. During FY 2021-22, export

earnings from July to March increased by 32.43% to US\$ 43.7 billion, and we expect export receipts to exceed US\$ 50 billion for FY 2021-2022. Most products saw improved export earnings, with strengthened export facilitation activities and incentives for new products during the pandemic, except for jute and building materials.

Import

Our overall import payments increased by 10.74% to US\$ 61.7 billion in FY 2020-21, and total import payments through March of FY 2021-22 increased by 42.24% to US\$ 71.41 billion. We project import payments to reach approximately US\$ 80 billion for FY 2021-2022.

Balance of Payments (BoP)

Bangladesh's trade deficit increased to US\$ 22.8 billion in FY 2020-21, up by 27.67% due to higher import payments caused by rising commodity prices. However, the current account balance deficit decreased to US\$ 3.8 billion during that period, owing to significant remittance inflows. For July through February of FY 2021-22, the trade imbalance increased to US\$ 22.3 billion compared to US\$ 12.4 billion for the same period in the previous fiscal year.

Banking Industry

Banking Industry Review

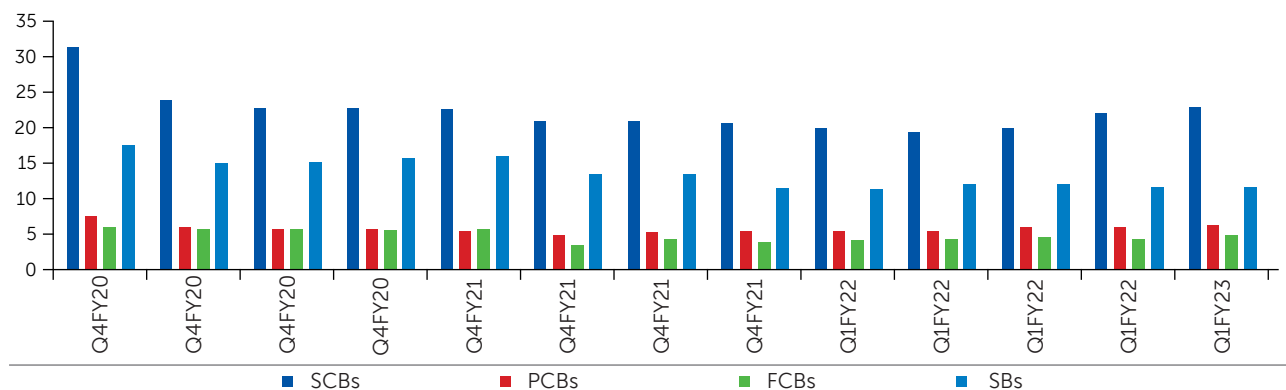
The banking sector faced a multitude of challenges during Q1FY23, primarily due to the recent global interest rate hike and depreciation pressure on Taka. As a result, external borrowings became more expensive, putting asset quality at risk. Furthermore, BB's intervention in the foreign exchange market, combined with high credit demand, deteriorated the liquidity condition in the banking sector.

Asset Quality

During Q1FY23, the defaulted loans in the banking sector continued to deteriorate. This was partly caused by the adverse spillover effect of global economic slowdown and inflation surge. Additionally, the withdrawal of the deferral repayment facility and relaxation of loan classification further contributed to the escalation of defaulted loans.

RATIO OF GROSS NPLS TO TOTAL LOANS

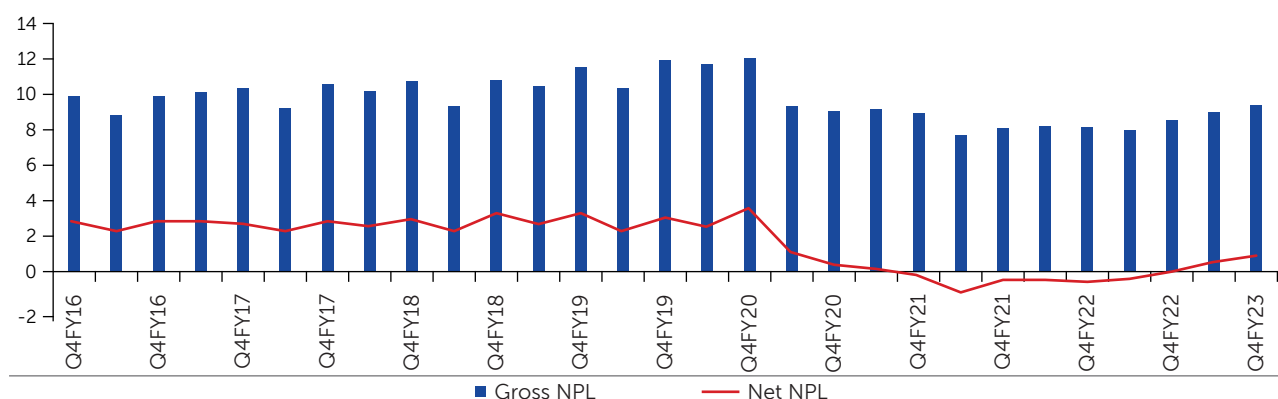
(IN PER CENT)



Source: Bangladesh Bank

RATIO OF GROSS NPLS AND NET NPL TO TOTAL LOANS

(IN PER CENT)



Source: Bangladesh Bank

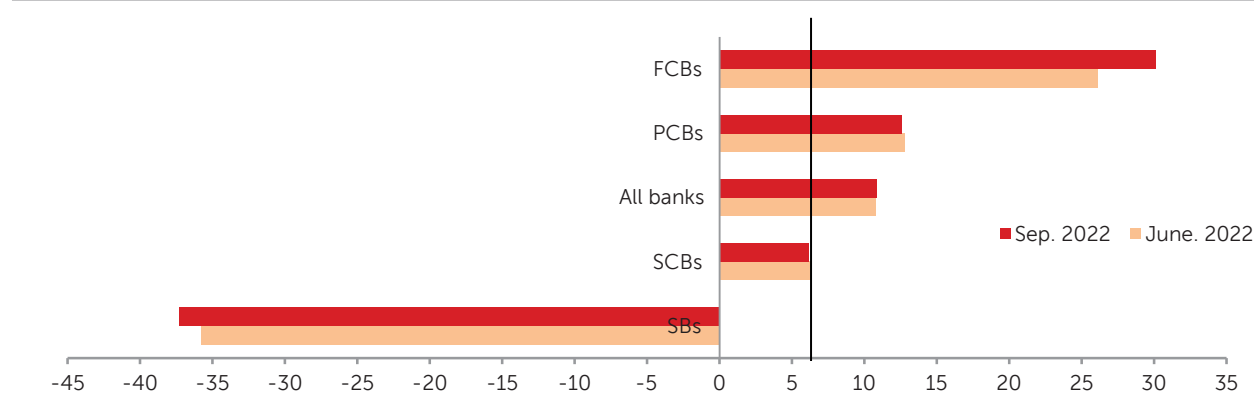
At the end of Q1FY23, the ratio of gross NPLs to total loans increased to 9.36 percent from 8.96 percent at the end of Q4FY22. The gross NPLs ratio in the SCBs and PCBs grew to 23.04 percent and 6.20 percent, respectively, at the end of Q1FY23 from 21.93 percent and 6.01 percent, respectively, at the end of Q4FY22. The NPLs ratio of FCBs marginally increased to 4.77 percent at the end of Q1FY23 from 4.40 percent in the previous quarter.

Capital

Although the capital-to-risk-weighted assets ratio (CRAR) modestly declined to 11.01 percent at the end of Q1FY23 from 11.15 percent at the end of Q4FY22 due to weaker asset quality mostly associated with SCBs and PCBs, overall capitalization of the banking system remained broadly stable as per the Basel norm.

CAPITAL TO RISK WEIGHTED ASSETS RATIO (CRAR)

(IN PER CENT)



Source: Bangladesh Bank

Profitability & Return on equity

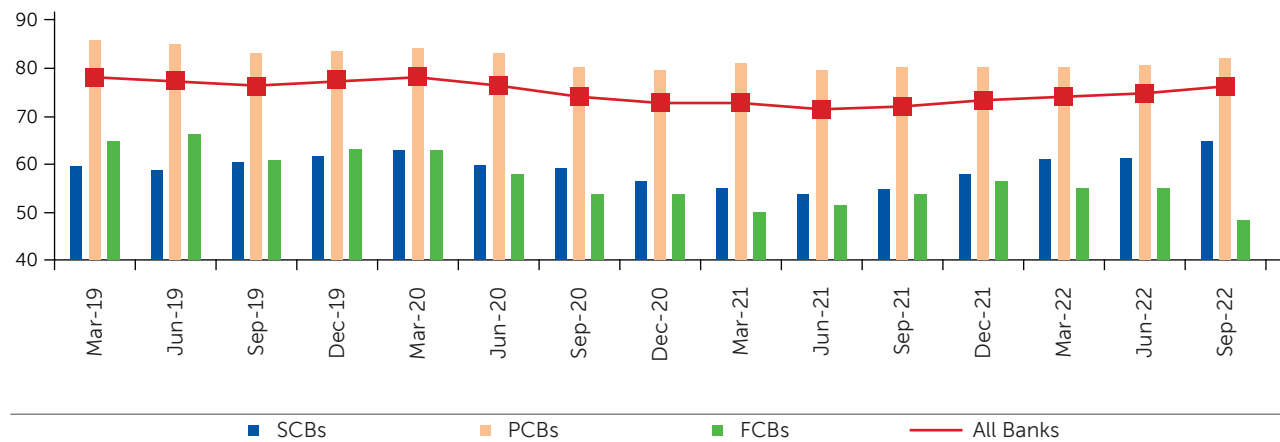
The banking sector's profitability witnessed an improvement in Q1FY23 compared to Q1FY22, as reflected by an uptick in both return on asset (ROA) and return on equity (ROE), mostly stemming from a significant rise in non-interest income originated from exchange gain. Furthermore, the net profit of the banking industry increased to BDT 92.91 billion in Q1FY23 from BDT 72.29 billion in Q1FY22.

Deposit & Advances

The growth of bank advances has maintained an upward trend since the last couple of quarters, indicating higher credit demand due to the post-pandemic economic recovery. The bank's advances continued to grow and reached their highest level compared to its recent past at 14.6 percent at end- September 2022, up from 14.4 percent at end-June 2022. On the other hand, the growth of bank deposits fell to 7.8 percent at the end of Q1FY23 from 9.3 percent at the end of Q4FY22, mostly due to higher inflationary pressure together with slower remittance inflow.

ADVANCE DEPOSIT RATIO

(IN PER CENT)

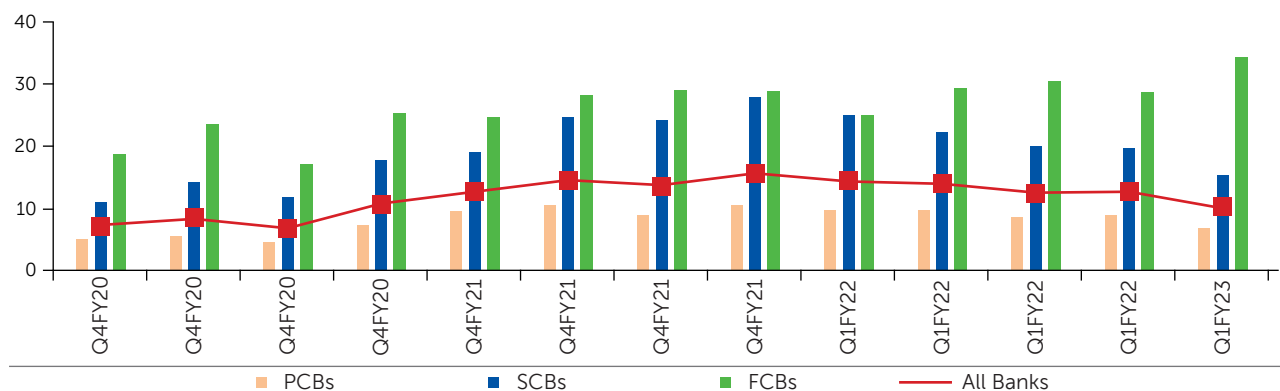


Source: Bangladesh Bank

Liquidity

Although the liquidity condition of the overall banking sector remained broadly adequate, lower bank deposit growth, in addition to selling of USD to the foreign exchange market by BB, resulted in moderated excess liquidity. As a result, the excess liquidity in the banking sector abated to BDT 1703.2 billion at the end of Q1FY23 from BDT 2034.3 billion at the end of Q4FY22.

EXCESS OF SLR AS % OF TDTL



Source: Bangladesh Bank.

In Summary, the banking sector faced several challenges in Q1FY23, including increasing global financial strain, global interest rate hike, depreciation pressure on Taka, and a deterioration of asset quality. The ratio of non-performing loans (NPLs) to total loans rose, the capital to risk-weighted asset ratio (CRAR) declined, and there was an increase in defaulted loans. However, the banking sector's profitability improved, and the growth of bank advances maintained an upward trend, indicating higher credit demand due to the post-pandemic economic recovery. The liquidity condition of the banking sector remained adequate, although excess liquidity moderated due to lower bank deposit growth and selling of USD to the foreign exchange market by BB.

Financial Review

In 2022, the banking industry experienced a mixed trend in financial performance due to the 19 Pandemic and the Russo-Ukrainian war, which caused a global economic disruption, including Bangladesh's. However, the Government and Bangladesh Bank's timely financial and policy support helped the economy recover gradually. The year 2022 was focused on mitigating liquidity and recovery risks rather than profitability. Despite these challenges, the Bank managed to develop its profitability and balance sheet in a commendable way.

Deposits & Deposit Mix

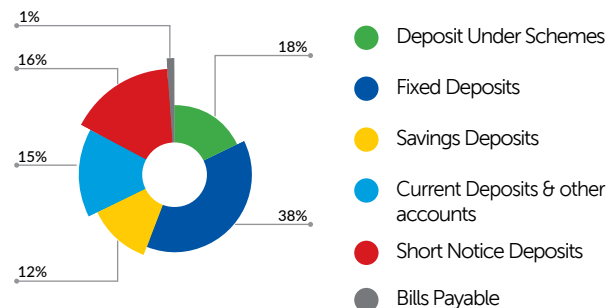
The Bank understands that deposits are the primary source of funding for commercial banks, and thus, we have focused on optimizing the deposit mix in 2022. Our aim was to decrease funding costs and develop a sustainable deposit base by reducing dependence on corporate deposits. We achieved an impressive increase in Low Cost and No Cost Deposits, which grew by 26.93% and 17.03%, respectively. This achievement was driven by attractive deposit products, reasonable interest rates, excellent branch customer service, branch network expansion to rural areas with considerable foreign remittance flow, and our effort to mobilize no cost and low cost deposits. Furthermore, we developed a range of alluring deposit plans to cater to the needs of customers from different socioeconomic backgrounds, which led to qualitative changes in the deposit structure in addition to increasing the quantity of deposits.

Deposit Mix

BDT in Million

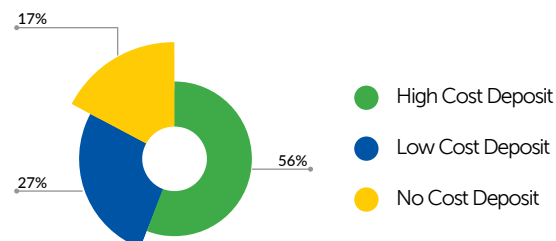
Type	2022		2021	
	Volume	%	Volume	%
Deposit Under Schemes	49,513.28	17.57%	58,844.61	21.75%
Fixed Deposits	108,426.37	38.48%	95,502.12	35.30%
Savings Deposits	33,314.19	11.82%	33,300.12	12.31%
Current Deposits & other accounts	42,357.12	15.03%	33,017.75	12.20%
Short Notice Deposits	45,560.37	16.17%	46,294.98	17.11%
Bills Payable	2,620.73	0.93%	3,597.85	1.33%
Total	281,792.05	100.00%	270,557.43	100.00%

DEPOSIT MIX 2022 VOLUME



Deposit Mix	BDT in Million		
	Dec-22	Dec-21	Growth
High Cost Deposit	157,016.45	154,346.73	0.22%
Low Cost Deposit	76,304.25	79,595.10	29.52%
No Cost Deposit	48,471.35	36,615.60	22.97%
Total	281,792.05	270,557.43	10.31%

DEPOSIT MIX 2022

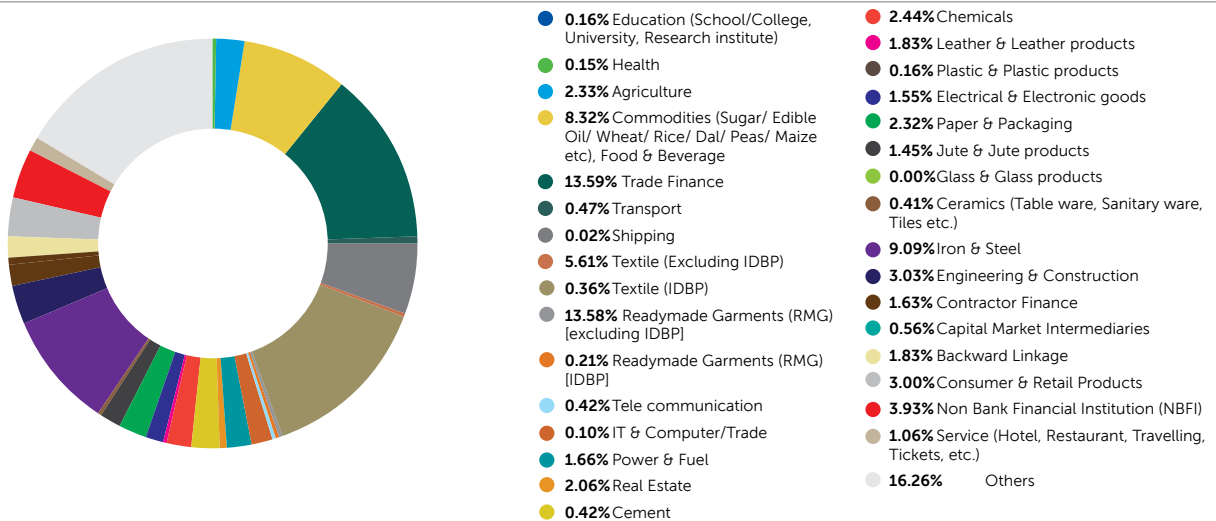


Loans and Advances

Loans and Advances remain a key driver of the bank's total assets, accounting for 73.46% of the portfolio. In 2022, the division exhibited a growth rate of 5.29%, with total loans and advances reaching BDT 280,890.53 million, up from BDT 266,766.60 million in 2021. The bank's diverse portfolio is composed of Corporate, SME, and Retail sectors, with a focus on expanding the latter two sectors in recent years. MBL extended loans to several key industries, including Trade & Commerce, Garment, Agriculture, Transport, Construction, and Pharmaceutical, among others.

Sector Wise Loans & Advances Mix	BDT in Million			
	Sectors	Dec-22	%	Dec-21
Education (School/College, University, Research institute)	4,411	0.16%	371	0.14%
Health	4,315	0.15%	329	0.12%
Agriculture	65,474	2.33%	6,785	2.54%
Commodities (Sugar/ Edible Oil/ Wheat/ Rice/ Dal/ Peas/ Maize etc), Food & Beverage	233,605	8.32%	19,562	7.33%
Trade Finance	381,689	13.59%	32,551	12.20%
Transport	13,302	0.47%	1,479	0.55%
Shipping	584	0.02%	104	0.04%
Textile (Excluding IDBP)	157,547	5.61%	16,696	6.26%
Textile (IDBP)	10,169	0.36%	1,025	0.38%
Readymade Garments (RMG) [excluding IDBP]	381,363	13.58%	54,321	20.36%
Readymade Garments (RMG) [IDBP]	5,980	0.21%	428	0.16%
Tele communication	11,677	0.42%	845	0.32%
IT & Computer/Trade	2,812	0.10%	337	0.13%
Power & Fuel	46,582	1.66%	5,999	2.25%
Real Estate	57,962	2.06%	7,729	2.90%
Cement	11,911	0.42%	901	0.34%
Chemicals	68,437	2.44%	6,068	2.28%
Leather & Leather products	51,449	1.83%	5,127	1.92%
Plastic & Plastic products	4,552	0.16%	852	0.32%
Electrical & Electronic goods	43,657	1.55%	4,180	1.57%
Paper & Packaging	65,165	2.32%	5,525	2.07%
Jute & Jute products	40,758	1.45%	3,923	1.47%
Glass & Glass products	-	0.00%	0,009	0.00%
Ceramics (Table ware, Sanitary ware, Tiles etc.)	11,450	0.41%	1,166	0.44%
Iron & Steel	255,238	9.09%	22,624	8.48%
Engineering & Construction	85,128	3.03%	7,920	2.97%
Contractor Finance	45,793	1.63%	5,133	1.92%
Capital Market Intermediaries	15,651	0.56%	1,381	0.52%
Backward Linkage	51,433	1.83%	4,978	1.87%
Consumer & Retail Products	84,190	3.00%	7,938	2.98%
Non Bank Financial Institution (NBFI)	110,269	3.93%	9,631	3.61%
Service (Hotel, Restaurant, Travelling, Tickets, etc.)	29,696	1.06%	2,629	0.99%
Others	456,658	16.26%	28,214	10.58%
Total	280,890	100%	266,766	100.00%

LOANS AND ADVANCES/INVESTMENTS: SECTOR WISE

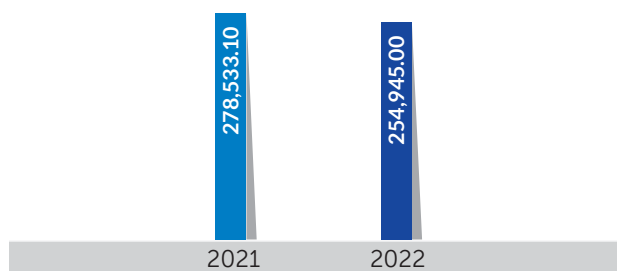


Import Trade

In 2022, the Bank's import business decreased by 8.47% from the previous year, totaling BDT 254,945.00 million. The Bank provides Letters of Credit in various industries, including machinery, apparel & accessories, CDSO, vegetable oil, wheat, sugar, cement clinkers, hot roll steel, raw cotton, ship-breaking, and more.

IMPORT TRADE

BDT in million

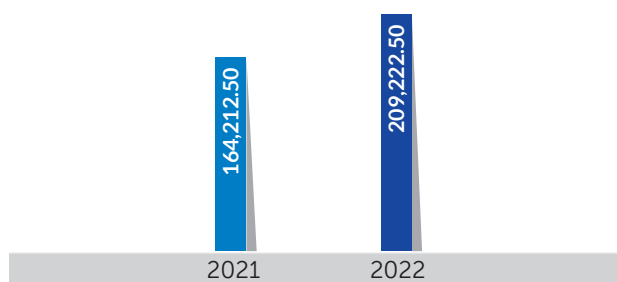


Export Trade

The Bank's export trade increased by 27.41%, reaching a total of BDT 209,222.50 million in 2022 compared to BDT 164,212.50 million in 2021. The Bank mainly focuses on financing the garment industry in Bangladesh, the largest source of foreign revenue and employment in the country. Other notable exports include jute and jute products, leather, handicrafts, tea, frozen meals, and fish products.

EXPORT TRADE

BDT in million



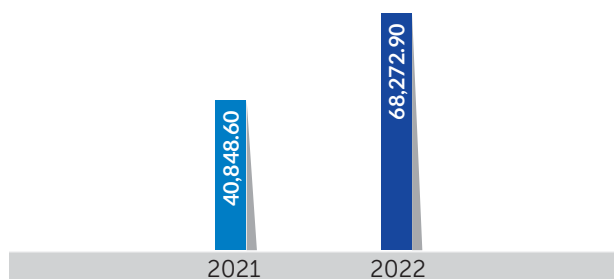
Foreign Remittance

MBL improved its position in 2022 by strategically partnering with top exchange firms and banks in the USA, UK, UAE, Kuwait, Bahrain, Canada, Italy, France, and other countries to mobilize inward foreign remittance from Non-Resident Bangladeshis (NRB). The Bank also collaborates with microfinance institutions, NGOs, and

organizations to distribute this money securely and efficiently. MBL's inbound foreign remittances in 2022 were BDT 68,272.90 million, up from BDT 40,848.60 million in 2021, reflecting a growth of 67.14%. Our relationships with multiple international money transfer firms have strengthened over time.

FOREIGN REMITTANCE (INWARD)

BDT in million



Review of Divisional Performance

MBL has several business divisions. Detail overview of business divisions during 2022 has been presented in a separate segment under 'Divisional Overview'.

Operating Performance

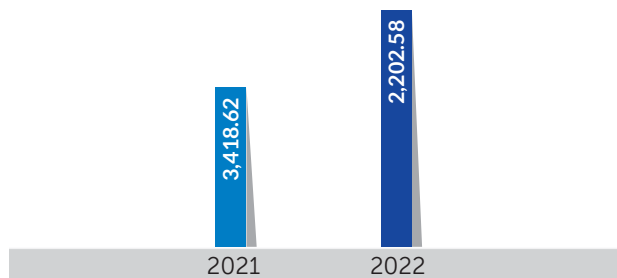
Despite the economic losses caused by the pandemic and the war in Ukraine, the timely decisions made by the government and Bangladesh Bank have enabled Bangladesh's economy to return to its pre-COVID growth trajectory. MBL's focus on cost reduction and operational efficiency has allowed it to respond to market demands and become the leading bank in Bangladesh. The bank is cautious of its strategies and is investing in technology to offer better services and reduce security risks. Despite facing exceptional conditions, MBL's carefully executed efficiency initiatives have resulted in significant revenue and asset growth while overhead costs are growing at a slower rate. Key operating performance indicators are provided below:

Financial Performance Analysis- Profitability

MBL has demonstrated continued growth despite various challenges by focusing on risk management, process reengineering, digital banking transformation, innovative products, and maximizing the Bank's assets. The Bank expanded its network to 152 branches and 30 uposhakhas by the end of 2022. The Bank achieved excellent operating outcomes in 2022 through effective management strategies, overcoming the slow economic scenario brought on by the Russia-Ukraine war.

Operating profit increased by 16.80% to BDT 7,138.89 million, resulting in a profit after tax of BDT 2,202.58 million.

NET PROFIT BDT in million



Total Income

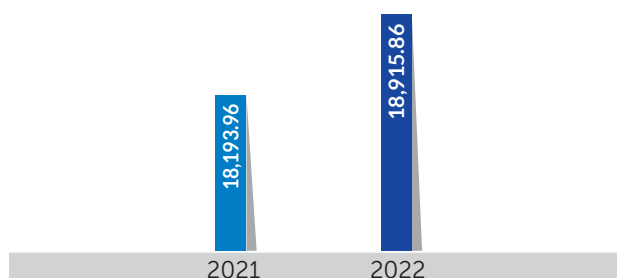
Total operational income for 2022 was BDT 29,555.47 million, with interest income accounting for 67.65%, investment income 17.83%, commission 9.62%, and other income 4.91%. The Bank focused on good portfolio management in 2022, maintaining fund costs at a reasonable level.

Particulars	BDT in million	
	2022	2021
Interest Income	18,915.86	18,193.96
Investment Income	4,098.54	4,794.62
Commission, Exchange and Brokerage	5,038.26	2,586.20
Other Operating Income	1,502.82	1,319.84
Total Income	29,555.47	26,894.62

Interest Income

MBL's interest income rose to BDT 18,915.86 million in 2022, up from BDT 18,193.96 million in 2021. The bank achieved this by providing exceptional customer service, innovative products, and tailored solutions that met customer expectations. Despite a challenging macroeconomic environment, the highly trained workforce contributed to significant portfolio growth in 2022.

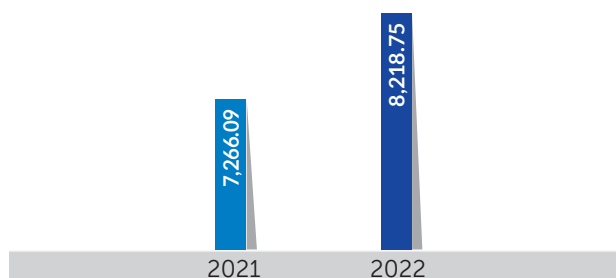
INTEREST INCOME BDT in million



Operating Expenses

The Bank incurred a total operating cost of BDT 8,218.75 million in 2022, representing a 13.11% increase from 2021. Of these costs, salaries and benefits for employees accounted for BDT 4,239.61 million or 51.58%. Office management and establishment costs, such as rent, taxes, power, legal costs, insurance, security printing and stationery, postage, and telecommunication, were also key components. Despite an increase in transaction volumes, new branch openings, and employment, the bank has maintained cost per employee and branch-level administrative and establishment costs within budgeted ranges for the past five years. Continuous reminders and awareness are expected to drive solid business growth.

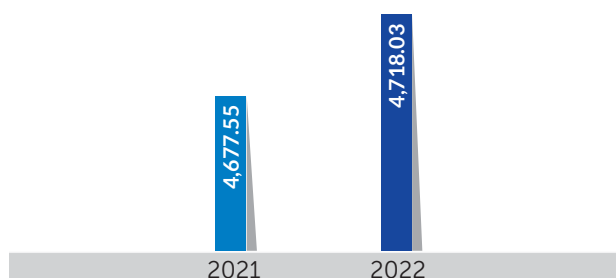
OPERATING EXPENSES BDT in million



Net Interest Margin (NIM)

Despite facing challenges with interest on loans and advances during the year, the bank's NIM, calculated by dividing net interest revenue by average earning assets, rose to BDT 4,718.03 million in 2022, thanks to a stable 5.29% increase in loan volumes. As of December 2022, total interest-earning assets increased by 3.71% year over year to BDT 346,551.55 million, while NIM, which is the amount of net interest revenue relative to average earning assets, increased by 0.87%.

NET INTEREST MARGIN BDT in million



Non-Interest Income

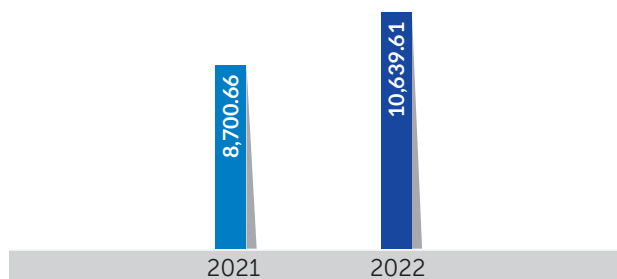
Other operating income, which includes investment income, commission income, exchange and brokerage income, and other operating income, increased by 22.29% to BDT 10,639.61 million in 2022. Exchange gains accounted for 15.10%, commissions 32.25%, investment income 38.52%, and other non-interest revenue 14.12%, compared to 16.59%, 13.13%, 55.11%, and 15.17%, respectively, in 2021.

(BDT in Million)

Components	Amount	% of Total
Exchange gains	1,606.90	15.10%
Commission	3,431.35	32.25%
Income of Investment	4,098.54	38.52%
Other-non Interest Income	1,502.82	14.12%
Total	10,639.61	100.00%

NON INTEREST INCOME

(BDT in Million)



Financial Position Analysis

Mercantile Bank demonstrated remarkable resilience in 2022 and concluded the year with a strong, positive balance sheet. The Board and Management continuously work towards realizing the corporate vision and mission by implementing innovative business strategies.

Asset Portfolio

Total assets increased to BDT 382,328.47 million (a 6.38% increase from 2021), with loans, advances, and investments as primary income sources. Loans and advances witnessed organic growth of BDT 280,890.53 million, and decreased government investments of BDT 1,836.89 million demonstrate planned and strategic growth.

Funded and Non-Funded Business

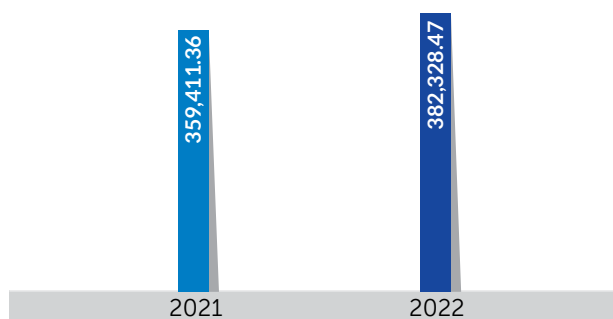
As on December 31, 2022, the funded business of the bank stood at BDT 267,558.52 million, and non-funded business stood at BDT 13,332.01 million.

(BDT in Million)

Particulars	In 2022	In 2021
Loans & Advances	280,890.53	266,766.60
Investments	60,561.00	62,397.89
Cash	16,570.15	14,618.97
Money at Call	948.10	548.40
Balance with other Banks	4,136.15	2,931.79
Other Assets (Including Fixed Assets)	19,222.53	12,147.72

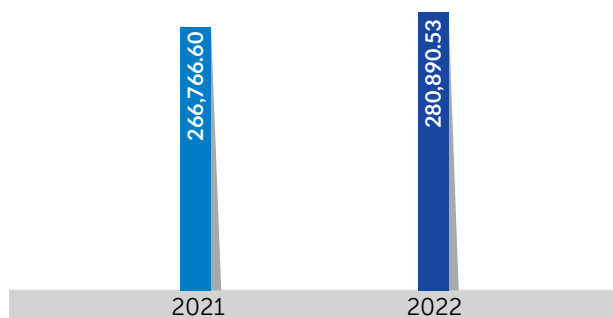
TOTAL ASSETS

(BDT in Million)



ADVANCES

(BDT in Million)



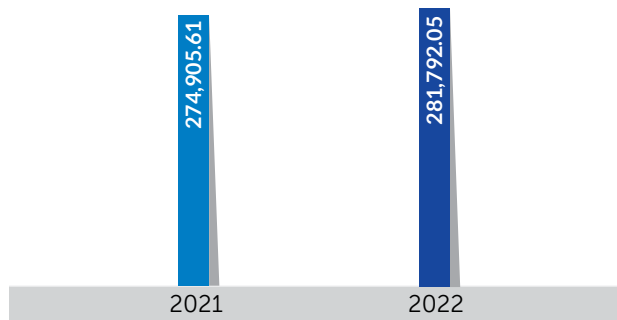
Liabilities

MBL's total liabilities increased by 6.58% from BDT 335,007.46 million in 2021 to BDT 357,053.31 million in 2022. Expansion in deposits, other obligations, and borrowings were the primary reasons for the increase in liability.

Deposit

MBL's vast network of branches and ATMs, with 193 ATMs, 30 sub-branch locations, and 152 branches, supported the 2.51% increase in total deposits to BDT 281,792.05 million in 2022. The bank secured more low-cost funds, with fixed deposits contributing 38.48% of the total deposits. The cost of deposits dropped from 4.76% in 2021 to 4.68% in 2022.

DEPOSIT (BDT in Million)



Capital

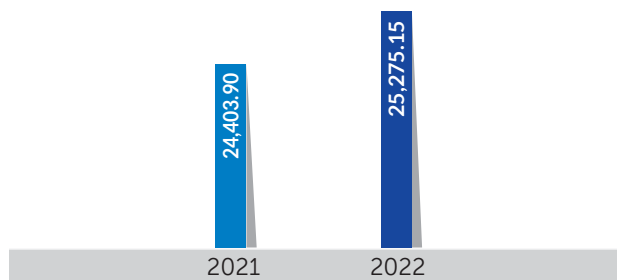
The bank's commitment to maintaining a sufficient capital base is evidenced by its adherence to Basel III's risk-based capital adequacy framework. The bank has developed a five-year capital plan that incorporates its future outlook of achieving capital adequacy ratio far above the minimum requirement in the future. Additionally, the Bank's capital management structure includes a capital adequacy review process to ensure that it can minimize present and potential risks and achieve its strategic objectives.

Market Performance Analysis

Shareholder Equity

MBL's stockholders' equity rose by 3.57% to BDT 25,275.15 million in 2022. The bank's paid-up capital also grew by 5% to BDT 10,848.78 million, while statutory reserves increased by 6.48% to BDT 9,865.59 million during the year.

SHAREHOLDER'S EQUITY (BDT in million)

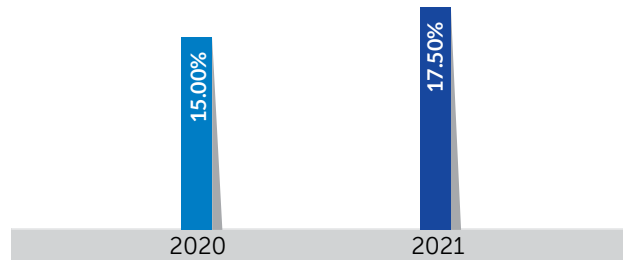


Dividend

The Bank's Board of Directors recommended a dividend of 12% (10% Cash & 2% Stock) for 2022, subject to approval by shareholders/members in the upcoming 24th Annual General Meeting (AGM) scheduled on June 14, 2023,

2023. This recommendation was made after considering the net profit after tax and total available profit for distribution, while ensuring regulatory compliance.

DIVIDEND



Credit Rating

MBL's long-term rating was assigned 'AA' and short-term rating was assigned 'ST-2' by Credit Rating Information and Services Limited (CRISL) based on its financial performance until December 31, 2021, and other qualitative and quantitative data available as of the rating date.

Basis of Information	Rating		Rating Company
	Long Term	Short Term	
2021	AA	ST-2	CRISL
2020	AA	ST-2	CRISL
Outlook	Stable		

MBL also received a 'B2' rating from Moody's, reflecting its good profitability, well-matched maturity profile, modest asset quality, and solvency profile.

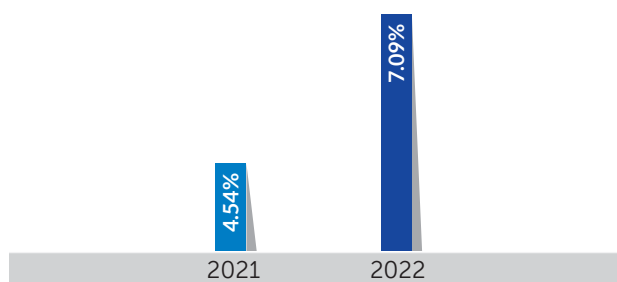
Contribution to National Exchequer

MBL is proud to be one of the largest taxpayers in the nation, contributing significantly to the revenue of the Government of Bangladesh. The bank has helped the government to collect taxes, complying with all tax and VAT laws. In 2022, the bank contributed BDT 6,474.83 million to the national exchequer.

Status of Asset Quality

MBL carefully selects borrowers, monitors them regularly, and follows up with customers to identify and address potential issues. The Special Asset Management Division (SAMD) works diligently to maintain loan regularity, resulting in a significantly lower NPL rate than the industry average. MBL's NPL was 7.09% at the end of 2022, and the Bank classifies its assets according to Bangladesh Bank's regulations into performance and non-performing categories.

NPL



Internal Control System

MBL recognizes the importance of good governance and long-term profitability, which is ensured through a robust internal control system. The Board of Directors sets crucial rules to ensure compliance at all levels, and the ICC Division oversees the bank's internal control structure, creating a culture of compliance within the organization.

Risk Management

As a responsible corporate citizen, MBL prioritizes risk management and has implemented policies and procedures to mitigate losses from credit, liquidity, market, operational, and reputation risks. The Board Risk Management Committee formulates risk management policies and procedures, and monitors risk governance, as described in the "Risk Management Report" and "Board Risk Management Committee Report" sections of this annual report.

Financial Reporting

MBL is committed to financial transparency and complies with the International Financial Reporting Standards, Companies Act of 1994, Securities and Exchange Rules of 1987, Financial Reporting Act of 2015, and other relevant laws in Bangladesh when preparing financial statements. The notes to the financial statements provide specific information about accounting principles and estimates used.

Supportive Disclosure

Proper disclosures have been made in Annual Report regarding:

- Basis for related party transactions.
- Remuneration to directors including independent directors.
- The number of Board meetings held during the year and attendance by each director.

- The pattern of shareholding by:
 - Parent/Subsidiary/Associated Companies and other related parties (name-wise details).
 - Directors, Chief Executive Officer, Company Secretary, and Chief Financial Officer, Head of Internal Audit and their spouses and minor children (name-wise details).
 - Disclosure on Executives (Top 5 salaried employees of the company, other than the Directors, CEO, Company Secretary, CFO and Head of Internal Audit).
 - Shareholders holding ten percent (10%) or more voting interest in the company (name-wise details).
- Disclosure on the appointment/reappointment of directors of the Bank:
 - Brief resumes of the directors,
 - Nature of expertise in specific functional areas,
 - Names of companies in which the person also holds the directorship and the membership of committees of the board.

ToR/Code of Conduct

Our code of conduct serves as the moral compass guiding our interactions with all stakeholders, including customers, vendors, regulators, and others. The Board of Directors has adopted all policies, guidelines, and circulars issued by Bangladesh Bank as our ToR/Code of Conduct, and our directors have complied with them. Please refer to our Corporate Governance Report for further details.

Going Concern Basis

We have prepared our financial statements on the basis that the Bank will remain operational and a going concern. Our management has assessed the adequacy of our regulatory capital, liquidity, and shock absorbent capacity under different distress scenarios, and our ratios indicate that we are well above the required levels set by Bangladesh Bank.

Branch Network

In 2022, MBL has successfully increased its branch network by opening 30 sub-branches, bringing our total branches to 152, which includes one full-fledged Islamic Banking Branch. Our branch network has been strategically placed in key commerce hubs and rural

areas, enabling access to modern banking services and remittances for people with lower incomes. Furthermore, we offer 193 ATMs, 45 Islamic Banking Windows, and 187 Agent Banking Outlets, catering to the diverse needs of our customers.

Correspondent Relationship

Our correspondent relationships with 618 banks across 61 nations enable us to monitor the demands and commercial prospects of our clients. We maintain 29 Nostro accounts with reputable international banks to settle trade financing and other cross-border transactions. We also have access to sufficient credit lines from correspondent banks to add confirmation to LC to support global trade.

Minority Interest

We prioritize the protection of minority shareholders from abusive actions by controlling shareholders and provide effective means of redress.

Review of Subsidiaries Performance

Mercantile Exchange House (UK) Limited

Mercantile Exchange House (UK) Limited is a wholly owned subsidiary of Mercantile Bank Limited that commenced operations on December 6, 2011, in the United Kingdom, following a decision made by the board of directors of Mercantile Bank Ltd. at its 187th meeting held on October 27, 2011. The subsidiary currently operates a remittance business through its London Branch, offering a diverse range of goods and services to Bangladeshi expatriates residing in the United Kingdom, despite intense competition in the London market. Its services include remittances, account opening, Bureau de Change, and various wage worker bond services. Additional information can be found in the "Subsidiary Overview" section.

Mercantile Bank Securities Limited

Mercantile Bank Securities Limited (MBSL) is a subsidiary of Mercantile Bank Limited, established on September 27, 2010, to manage stock trading and brokering. MBSL commenced operations on September 14, 2011, following the acquisition of a stock dealer and broker license from the Bangladesh Securities and Exchange Commission (BSEC). The subsidiary's primary activities involve buying and selling securities, as well as issuing margin loans to customers against their margin for investment in listed companies. MBSL currently operates

7 branches. Additional information can be found in the "Subsidiary Overview" section.

MBL Asset Management Limited

MBL Asset Management Limited (MBL AML) is a subsidiary of Mercantile Bank that has been in operation since November 29, 2018. The Bangladesh Securities and Exchange Commission (BSEC) issued the firm a license on January 30, 2020, and it is governed by the Bangladesh Securities and Exchange Commission (Mutual Fund) Rules-2001. MBL AML's primary objectives are to manage mutual funds, assets, and portfolios, as well as to operate capital markets, handle issues, provide financial intermediary services, and conduct other relevant operations in Bangladesh and internationally. Additional information can be found in the "Subsidiary Overview" section.

Off-shore Banking

We were granted permission by Bangladesh Bank to establish the Off-Shore Banking Division, a separate business unit governed by their policies and procedures. Since March 20, 2011, the Unit has been offering authorized commercial banking services in foreign currencies to our clients.

2022 Update: Total exposure of OBUs decreased to BDT 9,645.20 million, compared to BDT 16,093.33 million in 2021. However, the net profit of OBU for 2022 was BDT 374.89 million, an increase from BDT 316.47 million in 2021.

Mobile Banking

Mercantile Bank Ltd aims to expand its financial services to unbanked individuals across the nation through its innovative "MYCash" mobile banking app. By leveraging basic mobile phones as bank accounts and wallets, this solution provides a convenient and secure platform for financial transactions. This inclusive approach caters to low-income individuals who previously lacked access to banking services, while also offering local and international money transfer services to all demographics.

Outlook 2023

MBL has successfully delivered a satisfactory balance sheet to stakeholders despite the challenging national and international environment in 2022, attributed to the COVID-19 pandemic and the Russia-Ukraine conflict. Moving forward, we remain dedicated to expanding our core business portfolios and strengthening our position to achieve sustainable growth. In 2023, we have set

strategic goals to diversify our credit portfolio, ensure qualitative asset growth, and attain an acceptable level of risk and return trade-off. These goals are as follows:

- **Strengthened risk management:** Measures have been taken to guard against exceptional risks brought on by market uncertainty locally and by global economic and financial crises.
- **Increased business growth:** The focus is on increasing both funded and non-funded business growth while reducing risk and ensuring portfolio quality.
- **Reduced cost of funds:** The cost of funds is being reduced by opening new savings deposit accounts, introducing value-added retail deposit products and services, and increasing the quantity and share of low-cost deposits.
- **Rationalized operating expenses:** Operating expenses are being reduced in a rational manner to increase resource productivity and operational effectiveness.

MBL is dedicated to improving service quality by providing real-time services and equipping staff with necessary skills to be proactive and responsive. Our commitment to excellent corporate governance, risk management strategies, and strict compliance with prudential rules reinforces our dedication to sustainable growth and profitability.

Acknowledgements

MBL is poised to take on the challenges of the coming years with confidence and professional zeal. We are committed to delivering superior value-added services to our diversified clientele and strengthening our position as a first-ranking competitive financial service solution in the country. We extend our heartfelt appreciation and debt of gratitude to the Government of the People's Republic of Bangladesh, Ministry of Finance, Bangladesh Bank, Bangladesh Securities and Exchange Commission, Dhaka Stock Exchange Limited, Chittagong Stock Exchange Limited, and Registrar of Joint Stock Companies and Firms for their cooperation, valuable guidance, and advice provided to us from time to time. We also express our deep appreciation to the management, executives, officers, and staff for their relentless efforts and to our clients, sponsors, shareholders, stakeholders, patrons, and well-wishers for their continued unflinching support and patronage. It is due to their support that we have been able to take our institution on an excellent growth trajectory.

On behalf of the Board of Directors,



Morshed Alam, MP
Chairman