Dear Valued Shareholders,

It is our pleasure to present the Corporate Governance Report of Mercantile Bank Limited (MBL) on behalf of the Board of Directors for the year ended December 31, 2022.

**Stance on Corporate Governance**

At Mercantile Bank Limited, our commitment to corporate governance is a journey of continuous improvement towards achieving the highest standards of governance. We take into account developments in the regulatory, business, and internal workplace environments to ensure that the organization carries out its business in a responsible manner, leading to the long-term sustainability of the Bank. Our approach to governance goes beyond a mere ticking of boxes, and this report showcases this stance.

**Outline of the Corporate Governance Report**

The report illustrates how the MBL Board discharge their governance duties effectively with meticulous compliance with the applicable regulatory framework during the year under review. The key rules applying to MBL are the Corporate Governance Code Notification No. BSEC/CMRRCD/2006-158/207/Admin/80 dated 3 June, 2018 issued by the Bangladesh Securities and Exchange Commission (BSEC) in exercise of the power conferred by section 2CC of the Securities and Exchange Ordinance, 1969 (XVII of 1969), and BRPD Circular no. 11 dated October 27, 2013 issued by Bangladesh Bank as well as Bangladesh Secretarial Standards (BSS) issued by the Institute of Chartered Secretaries of Bangladesh (ICSB) and also global best practices applicable to banks. The said compliances are also reviewed and certified by independent auditors, M/s. Suraiya Parveen & Associates, Chartered Secretaries and are opined on through a Certificate of Compliance to the Shareholders, as per the requirements of the BSEC guidelines. The compliance status, along with the Corporate Governance Report, is enclosed with our Annual Report 2022.

In addition, the report demonstrates the overall responsibilities of the Board, which include setting MBL’s strategies, overseeing and supporting management in their day-to-day running of the business, performance monitoring, and safeguarding the interests of shareholders.

**Adopting best industry practices**

In recognition of corporate governance excellence, transparency and accountability in overall management, Mercantile Bank Limited has acquired Silver Award in the General Banking category of the 9th ICSB National Award for Corporate Governance Excellence 2021 held on December 17, 2022.

Our aim is to raise corporate governance standards to a level that is at par with global standards and ultimately contribute to the development of the Bangladesh economy. Hence, we continuously refine our corporate governance policies and look to benchmark the best practices followed by national and international organizations and regulatory bodies.

We welcome engagement with our stakeholders and look forward to your valuable feedback in order to continue our commitment to further improve on our corporate governance philosophy on a continuing basis.

On behalf of the Board

Sincerely,

Abu Asghar G. Haruni
Company Secretary
Good corporate governance helps to build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies. - OECD

Mercantile Bank Limited is committed to maintaining high standards of governance by complying with regulatory requirements and evolving best practices that are aligned with our strategy and risk appetite. Our corporate governance framework is designed to safeguard stakeholder value by embedding integrity, transparency, and accountability across all spheres of the organization, going beyond mere compliance with several voluntary standards and industry best practices. The framework involves an independent board that actively engages with all stakeholders, understands the business and its risks, constructively challenges management, and understands the opportunities and challenges of a changing industry and economy. This approach guides MBL in delivering on its purpose of helping clients thrive and communities prosper while enhancing shareholder value.

Corporate Governance Philosophy

MBL’s philosophy emphasizes the implementation of good corporate governance measures, and the framework for long-term value creation is ingrained within the organization. To establish a foundation of governance excellence, MBL has implemented measures that fortify its information gathering and decision-making capabilities, enabling it to discharge its duties towards stakeholders with utmost responsibility.

MBL places a significant emphasis on key parameters of corporate governance, including the independence of the board system, the function of board sub-committees, fair financial reporting, disclosure and compliance, and consistency of shareholder value enhancement. By focusing on these parameters, MBL aims to ensure that its governance practices are in line with industry best practices and regulations, thereby creating value for all stakeholders.

Value Creation through Corporate Governance
Core principles of Corporate Governance Strategy

By following good governance practices Mercantile Bank has been able to create values for all stakeholders of the Bank.

Value Creation for all stakeholders of MBL

<table>
<thead>
<tr>
<th>Ensuring long term and sustainable business growth</th>
<th>Ensuring openness &amp; transparency in communication with stakeholders</th>
<th>Improve operational risk management</th>
<th>Focus on digitalization in banking system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Governance Practices result a solid growth in all aspect of business operations of the bank</td>
<td>• Transparent communication • Providing both financial and nonfinancial data on regular basis</td>
<td>• proactively seeks to protect the organization by eliminating or minimizing risk • Improving customer service</td>
<td></td>
</tr>
<tr>
<td>• Loans and Advances growth 5%</td>
<td></td>
<td>• Upgradation of R-19 version of Temenos T24</td>
<td></td>
</tr>
<tr>
<td>• Deposit growth 7%</td>
<td></td>
<td>• ISO Certification</td>
<td></td>
</tr>
<tr>
<td>• Strong capital base Stable credit rating (ST-2 for short term and AA for long term)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Four Pillars of MBL’s Corporate Governance

**Accountability**
- Ensure that management is accountable to the board
- Ensure that the board is accountable to shareholders

**Fairness**
- Protect shareholders rights
- Treat all shareholders including minorities equitably
- Provide effective re-dress for violations

**Transparency**
- Ensure timely, accurate disclosure on all material matters, including the financial situation, performance, ownership and corporate governance.

**Independence**
- Procedures and structures are in place so as to minimize, or avoid completely conflicts of interest
- Independent directors i.e. Free from the influence of others
Corporate Governance Benchmarks of MBL

**Regulatory Benchmarks**

- The Bank Company Act, 1991 (amended up to 2018)
- Relevant provision/clause of Companies Act 1994
- Listing Regulations of Dhaka Stock Exchange and Chittagong Stock Exchange
- Bangladesh Bank BRPD Circular no. 11 dated October 27, 2013
- Other relevant circulars, directions and guidelines published by Bangladesh Bank
- Corporate governance principles for Bank published by Bank for International Settlements (BIS)
- G20/OECD Principles of Corporate Governance
- Local and global best practices

**Internal Benchmarks**

- Articles of Association
- Code of Conduct
- Vision, Mission, Strategic Objectives, Core Values, Business Ethics & Corporate Philosophy
- Board and Board Sub Committee Terms of Reference (ToR)
- Internal Circulars
- Internal Policies
- Manuals
- Guidelines

**Assurance Processes**

- Internal Audit Function
- Internal Compliance and risk management framework
- Information Technology (IT) Audit
- External Audit Function
- Bangladesh Bank Inspection
- Review the adequacy of Internal Control

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**Highlights of Corporate Governance 2022**

**Reformation of the Board of Directors**

- Pursuing appropriate board procedures

**Successful Conduction of 23rd Annual General Meeting**

- Declaration of Healthy Dividend of 12%

**Review and Approval of Policies, Procedures, and Metrics to Ensure Alignment with MBL's Strategic Plan.**

**Highlights of Corporate Governance 2022**
1. Board of Directors, Chairman and CEO

The board of MBL is composed of 12 (twelve) elected directors, including the ex-officio Managing Director & CEO of high caliber, with diverse backgrounds and experience. Each director possesses a wide range of knowledge and understanding of macroeconomic and microeconomic factors affecting the Bank, as well as domestic and international professional experience, operational experience, financial, legal, entrepreneurial and banking skills. This diverse mix of skills, knowledge, and expertise contributes to a well-balanced board and facilitates independent judgment in the decision-making process. The board of MBL is well-structured with a Chairman, two Vice Chairmen, and two Independent Directors. Mr. Morshed Alam, MP serves as the Chairman, while Mr. A S M Feroz Alam and Mr. Md. Abdul Hannan are the Vice Chairmen of the Board. The Chairman and nine other directors are Non-Executive Directors, including two Independent Directors, and the CEO (Managing Director) is an Executive Director.

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Educational Qualification</th>
<th>Board determines Chairman</th>
<th>Independent Director is the Chairman who is not Chairman of Board</th>
<th>Board determines Chairman</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mr. Morshed Alam, MP</td>
<td>Chairman, NED</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Mr. A. S. M. Feroz Alam</td>
<td>Vice Chairman, NED</td>
<td>Graduate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Mr. Md. Abdul Hannan</td>
<td>Vice Chairman, NED</td>
<td>Diploma Engineer</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Mr. Md. Anwarul Haque</td>
<td>NED</td>
<td>B. Sc. Engg. (Civil), BUET</td>
<td>Chairman</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Mr. M. Amanullah</td>
<td>NED</td>
<td>Graduation</td>
<td>Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Dr. Gazi Mohammad Hasan Jamil</td>
<td>Independent Director, NED</td>
<td>BBA &amp; MBA (DU), MS in Finance (USA), Ph.D. (Canada)</td>
<td>Chairman</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Al-haj Akram Hossain</td>
<td>NED</td>
<td>Graduate</td>
<td>Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Al-haj Mosharref Hossain</td>
<td>NED</td>
<td>Graduate</td>
<td>Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Mr. M.A. Khan Belal</td>
<td>NED</td>
<td>M.Sc. (Chemistry) (DU)</td>
<td>Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Mr. Mohammad Abdul Awal</td>
<td>NED</td>
<td>Graduation</td>
<td>Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Prof. Dr. Md. Rezaul Kabir</td>
<td>Independent Director, NED</td>
<td>M.Sc. (UK), Ph.D. (UK)</td>
<td>Member</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Mr. Md. Quamrul Islam</td>
<td>MD &amp; CEO, ED</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ED – Executive Director, NED - Non-executive Director

1.1 MBL’s Policy on Appointment of Directors

Directors are appointed in compliance with various regulatory frameworks, including BRPD Circular no. 11 dated October 27, 2013 issued by Bangladesh Bank, Corporate Governance Code Notification No. BSEC/CMRRCD/2006-158/207/Admin/80 dated June 3, 2018 issued by Bangladesh Securities and Exchange Commission (BSEC), relevant provisions and clauses of the Companies Act, 1994, Bank Company Act, 1991 (amended up to 2018), Articles of Association of the Bank, and other applicable regulatory frameworks. All Directors, except for the independent Director and the CEO, are elected by the shareholders of the company. The CEO is appointed by the Board of Directors with the approval of Bangladesh Bank. The independent Director is appointed by the Board and approved by the shareholders in the Annual General Meeting (AGM). The Bank follows all relevant rules and regulations of the respective regulatory bodies with regards to nomination, removal, and filling of casual vacancies for Directors. The members of the Board are elected each year at the AGM by the shareholders of the Bank.

1.1.1 Roles and Responsibilities of MBL’s Board of Directors

The business and affairs of the Bank are managed under the direction and oversight of the Board, which also has the responsibility to periodically review and approve the overall strategies and significant policies of the Bank. Some key responsibilities of the Board of Directors are:

<table>
<thead>
<tr>
<th>Key Responsibilities</th>
<th>Year 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approve Strategic Direction</td>
<td>The Board set and reviewed Strategic Targets and approved strategic direction. Refer pages 21.</td>
</tr>
<tr>
<td>Approve risk management strategy of the bank, framework and monitoring their effectiveness</td>
<td>The Company Risk Management Policy was discussed and reviewed by the Board. Details given in pages 191.</td>
</tr>
<tr>
<td>Effective use and discharge the duties of Board Sub-Committees</td>
<td>Board Sub Committee Meetings were held and discharged duties in 2022. Further details available in page 345.</td>
</tr>
<tr>
<td>Integrating sustainable business developments into Company strategy and promoting integrated reporting</td>
<td>Various CSR and sustainability initiatives were reviewed by the Board. Refer pages 278 for details.</td>
</tr>
<tr>
<td>Oversee the sound and prudent management of the bank to execute their strategic duties</td>
<td>Provide guidance to Senior Management to the planning and evaluate the strategies implemented by them.</td>
</tr>
<tr>
<td>Succession planning for the Board, MD &amp; CEO and Bank’s Top Management Team</td>
<td>For Human Resource Management Report refer pages 268.</td>
</tr>
<tr>
<td>Reviewing Company’s values, standards and encouraging compliance with regulations</td>
<td>The Company’s values and standards were discussed by the Board including the adaptation of the new accounting standards. Refer pages 18.</td>
</tr>
<tr>
<td>Appointing of MD and Evaluation of their strategy of the Senior Management</td>
<td>The Board evaluated the performance of the MD and Senior Management’s during 2022.</td>
</tr>
<tr>
<td>Evaluating of Annual Budget, Major Capital Expenditure, financial delegation, appointment of auditors and other Board reserved duties</td>
<td>The Board reviewed various major capital expenditure and budgets through various resolutions passed in 2022.</td>
</tr>
<tr>
<td>Considering all stakeholder interests in decision making</td>
<td>The Board has analysed the impact on various stakeholders of the company. Refer pages 246 for details.</td>
</tr>
<tr>
<td>Monitoring execution of the Strategic Plan and risks faced by the Company</td>
<td>The Board evaluated and monitored the execution of the strategic plan and risks faced via Board Risk committee.</td>
</tr>
<tr>
<td>Monitoring periodic financial performance report publishing of the Company</td>
<td>Financial Performance, KPI and budget achievements were reviewed at Board meetings during the year 2022.</td>
</tr>
<tr>
<td>Consider the social, ethical and environmental impact as part of strategy formulation</td>
<td>Refer pages 227 for more details.</td>
</tr>
<tr>
<td>Complying with laws, regulations and ethical standards</td>
<td>A compliance and Legal review was monitored and discussed through Board Meetings. Refer Audit committee report for more details on pages 347.</td>
</tr>
<tr>
<td>Reporting to shareholders on their stewardship</td>
<td>The Corporate Governance section provides a detailed approach to the stewardship activities.</td>
</tr>
<tr>
<td>Ensuring the integrity of financial information, internal controls, risk management and Business Continuity as well as code of conduct.</td>
<td>The Board reviewed the integrity of financial information, effectiveness of control and risk management environment.</td>
</tr>
<tr>
<td>Reviewing &amp; approving interim and annual financial statements for publication</td>
<td>Declarations of the Annual Report and Financial Statements can be found on pages 08</td>
</tr>
</tbody>
</table>
1.1.2 Code of Conduct for the Board of Directors

The Board of Directors follows a code of conduct that provides guidance to Directors on performing their duties in an honest, responsible, and businesslike manner, within the scope of their authority and in compliance with the laws of the country, as well as the Memorandum and Articles of Association of the Bank.

1.1.3 Retirement and Re-election of Directors

According to Section 91(2) of the Companies Act 1994 and clause 106, 107, and 108 of the Articles of Association of the Bank, 03 Directors retired before the 23rd Annual General Meeting (AGM) held on April 28, 2022 and among them 02 Directors were eligible for re-election as Director at the AGM.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Name of Directors</th>
<th>Mode of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mr. Morshed Alam, MP</td>
<td>Retired and Re-elected</td>
</tr>
<tr>
<td>2</td>
<td>Mr. Md. Nasiruddin Choudhury</td>
<td>Retired</td>
</tr>
<tr>
<td>3</td>
<td>Al-haj Mosharref Hossain</td>
<td>Retired and Re-elected</td>
</tr>
</tbody>
</table>

1.2 Adequate representation of non-executive Directors

As per the guidelines of regulatory bodies, Mercantile Bank maintains adequate representation of non-executive Directors on the Board. The Managing Director is the only Executive Director on the Board of Directors of the Bank, while all other Directors are non-executive. The Bank’s non-executive Directors are independent of management and are not involved in the day-to-day business of the bank.

Adequate representation of Independent Directors and their independence

MBL maintains strict compliance with the Corporate Governance Code of the Bangladesh Securities and Exchange Commission (BSEC). The code mandates that one-fifth of the board members be independent directors, and any fractions should be rounded up to the next integer. Accordingly, our Board of Directors comprises ten (10) non-executive directors, of whom two (2) are independent directors.

Independent Directors provide unbiased advice, perspective, and independent judgment to the Board on matters such as finances, strategy, performance, risk management, and key appointments. In addition to their roles as Directors, independent directors also perform other duties.

1.4 Chairman’s independence

According to the Corporate Governance guidelines issued by the Bangladesh Securities and Exchange Commission (BSEC), the positions of Chairman of the Board and Managing Director & CEO shall be filled by different individuals. MBL Bank has ensured compliance with this guideline. Mr. Morshed Alam, MP, is the Chairman of the Board of Directors, and Mr. Md. Quamrul Islam Chowdhury is the Managing Director & CEO.

1.5 Independence of non-executive Directors from day to day operations

All Directors are responsible for bringing independent judgment to issues of strategy, performance, resources, and standard of business conduct. Non-Executive Directors are responsible for providing independent judgment on proposals made by the Managing Director & Chief Executive Officer. None of the Directors of the Board, except the Managing Director & Chief Executive Officer, directly get involved in the supervision of the Senior Management Team or any other executive duties and day-to-day operations of MBL; rather, they provide their strategic direction and guidance to the management in the meeting of the Board and its committees.

1.6 Different position of the Chairman and the Chief Executive Officer

The functional responsibilities of the Chairman of the Board and the Managing Director & CEO are kept
separate and independent of each other. The Chairman of the Bank is elected by the Directors of the Bank, and the Managing Director & CEO is appointed by the Board of Directors subject to obtaining permission from Bangladesh Bank.

1.7 Roles and responsibilities of the Managing Director & CEO

The CEO & Managing Director is appointed by the Board, subject to the approval of Bangladesh Bank and the consent of the shareholders at the Annual General Meeting. The CEO & Managing Director does not hold the same position in another listed company.

1.8 Roles and responsibilities of the Chairman

The Board elects one of the Non-executive Directors as Chairman. The present Chairman is Mr. Morshed Alam, MP, who became Chairman on April 28, 2022.

Responsibilities of the Chairman

- ensures the Board works effectively and discharges its responsibilities
- ensures all key and appropriate issues are discussed by the Board in a timely manner
- conducts on-site inspection of Bank-branch or financing activities under the purview of the oversight responsibilities of the Board
- primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda.
- may delegate the drawing up of the agenda to the Company Secretary.
- ensures that all Directors are properly briefed on issues arising at Board Meetings and also ensures that Directors receive adequate information in a timely manner.
- encourages all Directors to make a full and active contribution to the Board’s affairs and take the lead to ensure that the Board acts in the best interests of the Bank.
- ensures that appropriate steps are taken to maintain effective communication with shareholders.

Role of MD & CEO

- Ensures compliance with related regulatory guidelines and circulars
- Fulfils duties as delegated by the board
- Plans, executes and achieves targets set by the board
- Appointment and appraisal of the employees

Role of Chairman

- Leadership to the Board
- Oversight of the affairs of MBL
- Clear, concise and focused Agenda setting
- Ensure all Directors properly briefed
- Overseeing the induction and development of Directors
- Support the CEO and managing Director
- Active Contribution
- Effective communication with shareholders
- Board Performance Evaluation

MBL has a strong corporate governance culture with structures and policies in place to manage risks and opportunities.

Md. Quamrul Islam Chowdhury
MD & CEO
At MBL, we believe that good corporate governance is fundamental to our sustainable growth and success.

Morshed Alam, MP
Chairman

1.9 Annual Evaluation of the Managing Director & CEO by the Board

The Managing Director & CEO’s performance is evaluated annually, aligning with the business strategies of MBL. The CEO is evaluated on an annual basis and given Key Performance Indicators (KPIs) for the years ahead. The MBL Board of Directors has clearly defined and approved the roles, responsibilities, and duties of the Chief Executive Officer (CEO). At the end of each financial year, the Board evaluates the set targets and the actual performance Key evaluation indicators for the CEO as well as Management. These include profitability, yearly budget achievement, NPL ratio, Return on Equity, Return on Assets, Earnings per Share, Capital Adequacy Ratio, CAMELS Rating, and others that are reviewed by the Board of Directors on a monthly basis.

1.10 Annual Appraisal of the Board’s Performance

The Board performance evaluation process is not only another formality but also a part of the corporate governance framework of MBL. The Board members have always taken decisions that have benefitted the Bank as a whole, and they have always performed their duties accordingly. The Board conducts an annual assessment of the performance and effectiveness of the Board as a whole and of its Committees and individual Directors. The performance of each Committee of the Board is initially discussed and reviewed within each Committee and then subsequently reviewed as part of the Board’s annual assessment. In addition, the evaluation of the Board takes place at the AGM by the Shareholders.

1.10.1 Board Effectiveness

MBL's Board plays a fiduciary role in setting the strategic direction and long-term goals of the company. The
Board assures that effective policies are in place and sound decisions are made to ensure MBL’s smooth operation. MBL’s Board effectiveness has been greatly enhanced through careful forward planning of Board-related activities, efficient Board meetings, regular assessments of Board performance, a Board succession plan, and the effective use of sub-committees, such as the Executive Committee, Audit Committee, and Risk Management Committee.

### The Four Dimensions of Board Evaluation

**Structure**
- Strong & ethical leadership
- Three sub-committee
  - Executive Committee
  - Audit Committee
  - Risk Management Committee

**Diversity**
- Broad range of skills & experience
- Appropriate balance of independence

**Boardroom Dynamics**
- Open dialogues & debates
- Access to management & information
- Focus on reputation

**Governance Practices**
- Oversight of Management performance
- Board/Management succession planning
- Candid self-evaluations

MLB’s Board Effectiveness

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**Key activities of Board in 2022**

- Donation of Prime Minister’s Relief & Welfare Fund
- Inauguration of Sub Branch
- Inauguration of new agent banking outlets
- Launch of Islamic Banking Branch
- Mercantile Bank Limited has been awarded South Asian Business Excellence Award-2022 as ‘Best Bank in the Private Sector’ by South Asian Partnership Summit.
- The bank achieved the 22nd ICAB National Award for best presented Annual Reports 2021 in three categories – Joint 3rd position under categories of Private Sector Banks and Corporate Governance Disclosures, 3rd position under category of Integrated Reporting

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**1.11 Policy on the training and development of Board of Directors**

Most of the Directors of the Bank have been on the Board for many years, and they have acquired enough knowledge and acumen to lead the Bank well on the path of progress. Training in specific aspects of the bank’s business is provided to Directors when requested and regularly as part of site visits. Directors are briefed on issues at Board and Committee meetings, for example, receiving briefings on cyber risks, and relevant commercial, legal, and regulatory developments. Ahead of each meeting, all Directors are provided full and timely access to relevant information, and if required, they are able to contact members of management for further information. In accordance with best practice, the Chairman considers and addresses the development needs of the Board as a whole, if any, and ensures that each Director updates their individual skills, knowledge, and expertise. If required, external training courses may be provided at the company’s expense.

**1.11.1 Policy for the induction of Directors**

Every Director is given appropriate induction when first appointed to the Board regarding the affairs of the Bank and laws and regulations applicable to the Bank. Changes to the Board of Directors must be reported to Bangladesh Bank, all scheduled banks and financial institutions (FI), Bangladesh Securities and Exchange Commission (BSEC), and the stock exchanges.
**Board Induction Process**

- Introducing Bank’s business and Senior Management
- Appraising of the values, culture and code of conduct of MBL
- Introducing regulatory directions, circulars, the governance framework including the Articles of Association, Charters, Policies and procedures
- Informing Directors Responsibilities
- Familiarizing company operations including MBL strategy, risk appetite and internal controls

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1.11.2 Financial Acumen, Accounting Knowledge and Expertise of Directors

The Board as a collective is well-equipped to guide the business and strategy of MBL in an efficient way.

The Board of Directors of MBL comprises members who have an optimal mix of skills, expertise, and experience in finance, economics, management, business administration, marketing, and law, among others. The majority of other Directors are either successful entrepreneurs or seasoned professionals and are also well conversant in the field of business, economics, and administration. The Board of Directors of MBL can devise the appropriate policy for the growth of the Bank while having expertise skills, the ability to perceive matters in a bigger perspective, and adequate independence to review the management in a sensible manner. Members of the Board also possess experience in finance and banking thus there is sufficient financial acumen and knowledge within the Board to offer guidance on matters of finance.

<table>
<thead>
<tr>
<th>Skill Category</th>
<th>Explanation</th>
<th>No. of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurship, Business Leadership &amp;</td>
<td>Being successful entrepreneurs and industrial undertaking</td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategy</td>
<td>Development and oversight of execution of strategic objectives</td>
<td></td>
</tr>
<tr>
<td>Financial services experience</td>
<td>Corporate, Retail and SME banking experience</td>
<td></td>
</tr>
<tr>
<td>Financial Acumen</td>
<td>Accounting, internal and external reporting, audit, capital markets and funding, able to assess the effectiveness of financial controls</td>
<td></td>
</tr>
<tr>
<td>Risk Management</td>
<td>Oversight of risk frameworks and practices which identify and manage key risks</td>
<td></td>
</tr>
<tr>
<td>Information Technology</td>
<td>Development of and investment in IT infrastructure, adaptation to digital change and innovation</td>
<td></td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>Commitment to the highest standards and systems of governance</td>
<td></td>
</tr>
<tr>
<td>Legal and Compliance</td>
<td>Oversight of operations and obligations in a highly-complex and regulated environment</td>
<td></td>
</tr>
</tbody>
</table>

1.11.3 Length of Professional Experience

All members of MBL’s Board are extensively accomplished in their respective fields, and proffer their adept and seasoned knowledge on the back of over 30 years of experience.
1.12 Board meeting

The Board normally meets on a monthly basis, and the meeting dates are scheduled well in advance to enable the Directors to plan ahead. When required, the Board meets on an ad hoc basis to consider urgent matters. The Board also conducts a half-year review of the Bank’s strategy. In 2022, 20 (twenty) Board Meetings were held. Board meetings are characterized by robust exchanges of views, with Directors bringing their experience and independent judgment to bear on the issues and decisions at hand.

1.13 Directors’ Report on Compliance with Best Practices on Corporate Governance:

The status of compliance with corporate governance guidelines issued by Bangladesh Bank has been presented in the later part of this report. Suraiya Parveen & Associates, Chartered Secretaries, duly certified the compliance status of corporate governance guidelines and issued a report.
1.14 Directors’ responsibility to establish appropriate system of internal control

In line with the Bank Company Act, 1991 (amended up to 2018), the newly included Section 15 (kha) & (ga) MBL gives the responsibility to the Board of Directors for establishing policies for the Bank company, for risk management, internal controls, and compliance to ensure their implementation. The Directors acknowledge their overall responsibility for the Bank’s systems of internal control to establish efficiency, effectiveness, reliability, timeliness, completeness, and compliance with applicable laws and regulations. Along with the Board of Directors, internal control is affected by the senior management, audit committee, and all levels of personnel.

- The Board is vigilant about the internal control system of the Bank to attain and maintain a satisfactory qualitative standard of its loan and investment portfolio.
- The Board establishes such an internal control system so that the internal audit process can be conducted independently of the management.
- It reviews the reports submitted by its audit committee at quarterly rests regarding the compliance of recommendations made in internal and external audit reports and the Bangladesh Bank inspection reports.

1.15 Role of Company Secretary

The primary link between the Board and the management is served by the Company Secretary (CS). The Company Secretary of the Bank provides advice and support to the Board and is accountable to the Board, through the Chairman, for all matters relating to the proper functioning of the Board and its Committees. The Company Secretary is responsible for advising the Board on governance matters and ensuring compliance with Board and Board Committee Charters and procedures. The Company Secretary is appointed and removed by the Board.

At MBL, we understand the importance of having a strong capital base, and thus, we have been diligently working towards building it every year. Our efforts have resulted in an upward-sloping Capital Adequacy Ratio (CAR) graph for several years.

Tapash Chandra Paul, PhD
Chief Financial Officer

1.16 Role of Chief Financial Officer

The Chief Financial Officer (CFO) is responsible for managing the financial actions of a company. The CFO oversees all financial operations of the organization, including accounting, financial reporting, tax, and business control. The CFO manages all aspects of financial matters and decision-making, directing the company’s financial goals, objectives, and budgets. The CFO also advises the Board of Directors on the actions to be adopted in upholding high levels of financial control and reporting. The key responsibility and overall financial health of the Bank are separately disclosed in the CFO’s statement.
1.17 Role of Head of Internal Audit and Compliance

The Head of Internal Audit and Compliance (HIAC) is responsible for the Bank’s strategic risk-based internal audit plan and managing the internal audit function in accordance with the Bank’s internal audit charter. Responsibilities include providing reasonable assurance on the effectiveness of the organization’s risk management and the strength of internal controls. The position assesses organization-wide compliance with the Bank’s internal policies and procedures, laws and regulations, and contractual terms and conditions. The Head of Internal Audit reports directly to the Audit Committee of the Bank’s Board of Directors.

1.18 Attendance of CEO, CFO, CS & HIAC in Board Meeting

The CEO, CS, CFO & HIAC of the Bank attend the meetings of the Board of Directors. According to BSEC, they do not attend meetings involving consideration of an agenda item relating to their personal matters. In addition, they are not entitled to any remuneration for attending such meetings of the Board of Directors.

1.19 Governance of Board of Directors of Subsidiary Company

In the group concept, Mercantile Bank Limited is the parent company with the following three subsidiary companies:

- Mercantile Bank Securities Limited
  - Incorporated in Bangladesh
  - 99.61% owned

- MBL Asset Management Limited
  - Incorporated in Bangladesh
  - 56.00% owned

- Mercantile Exchange House (UK) Limited
  - Incorporated in United Kingdom
  - 100% owned

The Board of MBL is aware of the material risks and issues that might affect both the bank as a whole and its subsidiaries. It exercises adequate oversight over subsidiaries while respecting the independent legal and governance responsibilities that might apply to its subsidiary boards. The Board of Directors of all the subsidiaries conduct their roles and responsibilities in line with all relevant regulatory acts or guidance. Detailed information about the parent company’s Board is given in a separate part of this Annual Integrated Report.

2.0 Vision, Mission and Strategies

2.1 Board approved vision and mission statement

**VISION**
Would make finest corporate citizen

**MISSION**
Will become most caring, focused for equitable growth based on diversified deployment of resources and nevertheless would remain healthy and gainfully profitable bank

**CORE VALUES**
- Customer delight
- Innovation
- Ethical Values
- Caring for Human Resources
- Commitment
- Socially Responsible
- Shareholders Value
2.2 Business objectives and areas of business focus

Our business objectives have been explained in detail in page no. 21.

2.3 Strategies to achieve the Company’s business objectives

Aligned with our focus on enhancing shareholder communication and reporting our progress and prospects on an ongoing basis, we describe our strategy, resource allocation approach and our future plans to achieve our business objectives on page 161 of this annual report.

3.0 Board Committee

MBL Board has established following three specialized Board committees in line with BRPD Circular No. 11 dated 27 October, 2013:

- Executive Committee
- Audit Committee
- Risk Management Committee

The committees are created and mandated by the Board, with each committee having specified roles and responsibilities in line with guidelines set out by Bangladesh Bank, Bangladesh Securities and Exchange Commission (BSEC), and other regulatory bodies.

3.1 Executive Committee

The Executive Committee (EC) of the MBL Board is formed with members of the Board to handle urgent and routine work between Board meetings. The Executive Committee works according to its terms of reference, which are determined by the Board of Directors.

3.1.1 Appointment and Composition of the Executive Committee (EC)

i. Members of the committee are nominated by the Board of Directors from among themselves.

ii. The Executive Committee comprises six members.

iii. The Company Secretary of the Bank serves as the secretary of the Executive Committee.

3.1.2 Roles and Responsibilities of the Executive Committee:

- The Executive Committee acts on cases as instructed by the Board of Directors that are not specifically assigned to the full Board through the Bank Company Act, 1991, and other laws and regulations.

- The Executive Committee takes necessary decisions or approves cases within the power delegated by the Board of Directors.

- All decisions taken by the Executive Committee are ratified in the next Board meeting.

In addition, the Executive Committee ensures an efficient, competent, compliant, and secure structure for approving credit proposals and business decisions. The Executive Committee periodically reviews policies and guidelines issued by Bangladesh Bank regarding credit and other operations that are customized and adopted by the management after approval by the Board of Directors. The Executive Committee approves credit proposals as per the approved policy of the Board.
3.1.3 Meetings of the Executive Committee (EC)

A total of 38 meetings of the Executive Committee were held in 2022.

3.2 Audit Committee

The MBL Board approves the Bank’s objectives, strategies, and overall business plans, and the Audit Committee assists the Board in fulfilling its oversight responsibilities. The committee reviews the financial reporting process, the system of internal control and management of financial risks, the audit process, and the Bank’s process for monitoring compliance with laws and regulations and its own code of business conduct.

3.2.0 Appointment and Composition

i. Members of the committee are nominated by the Board of Directors from among the Directors.

ii. The Audit Committee comprises four members, including two independent Directors, and all members are non-executive Directors who do not take part in the day-to-day operations of the Bank.

iii. The Company Secretary of the Bank serves as the secretary of the Audit Committee.

3.2.1 Chairman of the Audit Committee – an Independent Director

Dr. Gazi Mohammad Hasan Jamil, Chairman of the Audit Committee, was appointed as an Independent Non-Executive Director of Mercantile Bank Limited in February 2021 after getting permission from Bangladesh Bank, and was also elected as the Chairman of the Audit Committee in March 2021. He is a Professor of the Department of Finance at the University of Dhaka.

Another Independent Director, Prof. Dr. Md. Rezaul Kabir, was appointed as an Independent Director of Mercantile Bank Limited in September 2020. He is an Associate Professor of Finance and Coordinator of the MBA Program at the Institute of Business Administration (IBA), University of Dhaka. More information about them is available in the Director’s Profile on page 28.

3.2.2 Terms of Reference (ToR) for Audit Committee

The ToR of the Audit Committee of MBL are specified in line with the provisions of BRPD Circular No. 11 dated 27 October 2013 issued by Bangladesh Bank, Corporate Governance Code Notification No. BSEC/CMRRC/2006-158/207/Admin/80 dated 3 June, 2018 issued by Bangladesh Securities and Exchange Commission (BSEC), DSE & CSE listing regulations, Bank’s own policies, procedures, manuals and other best practice corporate governance guidelines and standards.

- Review the adequacy and effectiveness of the Bank’s internal audit function and processes, as well as ensure that Bank Audit is adequately resourced and set up to carry out its functions, including approving its budget.
- Oversee the Internal Audit.
- Review Bank Audit’s plans, its effectiveness and the scope and results of audits.
- Approve the hiring, removal, resignation, evaluation and compensation of Head of Internal Audit.

- Review the adequacy and effectiveness of internal controls, such as financial, operational, compliance and information technology controls, accounting policies and systems
- Approve changes to the Group Disclosure Policy

- Determine the criteria for selecting, monitoring and assessing the external auditor. Make recommendations to the Board on the proposals to shareholders on the appointment, re-appointment and removal of the external auditor and approve the remuneration and terms of engagement of the external auditor.
- Review the scope and results of the external audits and the independence and objectivity of the external auditor.
- Review the assistance given by management to the external auditor
Internal Audit activity investigation/retain external counsel: The Audit Committee established terms and guidelines so that it could function effectively and smoothly. These terms and guidelines were created to define the roles and responsibilities of the Audit Committee. The Committee is also empowered to investigate/enquiry employees and retain external counsel when required.

Audit Committee takes up the responsibilities to supervise the management and control of various risk factors coming up from banking operation. The Committee work to strengthen the internal control system and to act as a connecting force between internal and external auditors in order to bring a disciplined Banking operation. Audit Committee reviews the financial reporting process, accounting policies & principles, hiring of external auditors, significant related party transaction, the system of internal control and management, the audit process, compliance with laws and regulations, and its own codes of business conduct.

3.2.3 Members of Audit Committee are Non-Executive Directors:

All members of the Audit Committee are Non-executive Directors. No executive of the Bank is eligible to become a member of the Audit Committee. In addition, no member of Executive Committee has been nominated as the member of the Audit Committee.

3.2.4 All members are suitably qualified and expertise in Finance and Accounting

All members of the Audit Committee are suitably qualified and having expert knowledge of Finance, Banking, Management, Economics, Accounting and Law.

- Integrity, dedication, and opportunity to spare time in the functions of committee have been considered while nominating a Director to the committee;
- Each member is capable of making valuable and effective contributions in the functioning of the committee;

- To perform his role effectively each committee member has adequate understanding of the detailed responsibilities of the committee membership as well as the Bank’s business, operations and its risks and
- All members of the audit committee of the Board of MBL are “financially literate” and they have extensive knowledge and expertise in the field of Finance, Banking, Management, Economics, Accounting and Law.

3.2.5 Head of Internal Control & Compliance Division’s Access to Audit Committee:

MBL’s ICCD has a broad scope of work to investigate at all levels. Audit Unit under ICCD is independent from the Management with a direct access to the Board of Directors and the Audit Committee of the Board. ICCD has the authority to propose initiatives and changes directly to the Board of Directors. Accordingly, The Board of Directors formulates policy for the Bank.

3.2.6 Audit Committee meeting

During the Year 2022, The Audit Committee conducted seven meetings. The details of meeting attendance by individual members are disclosed in page no. 347 of the report. The quorum of the meeting of the Audit Committee is constituted in presence of either two members or two third of the members of the Audit Committee, whichever is higher, where presence of an independent Director is a must.

3.2.7 Objectives and activities of Audit Committee

The objectives and activities of MBL Audit Committee of the Board has constituted in compliance with BRPD Circular No. 11 dated 27 October 2013 issued by Bangladesh Bank, Corporate Governance Code Notification No BSEC/CMRRCD/2006-158/207/Admin/80 dated 3 June, 2018 issued by Bangladesh Securities and Exchange Commission (BSEC).
Audit Committee of the Board has following objectives:

- the integrity of the financial statements and financial reporting systems and matters relating risks
- the external audit engagement, including the external auditor’s qualifications, performance, independence and fees performance of the internal audit function
- Financial reporting and compliance with prudential regulatory reporting. With reference to the Board Risk & Compliance Committee, this includes an oversight of regulatory and statutory reporting requirements
- procedures for the receipt, retention and treatment of financial complaints, including accounting, internal controls or auditing matters, and the confidential reporting by employees of concerns regarding accounting or auditing matters

3.2.8 Audit committee’s review to ensure well-conceived, properly administered and satisfactorily monitored internal control system

The Internal Audit Unit, under the ICCD of the Bank, reviews the Bank’s internal control systems to ensure they are properly managed and satisfactorily supervised. This unit reviews internal controls throughout all divisions and branches of the Bank and reports their findings to the Audit Committee. The Audit Committee then reviews the report and provides feedback on any lapses found. The committee also guides the Internal Audit Unit on how to properly monitor internal controls and ensure they are correctly administered throughout the Bank. In 2022, the Audit Committee is committed to ensuring that internal controls are well-conceived, properly administered, and satisfactorily monitored by the Bank.

3.2.9 Audit committee Role in compliance with laws, regulations and settlement of statutory dues

Regarding compliance with laws, regulations, and settlement of statutory dues, the Audit Committee supervises and guarantees that the Bank obeys all applicable laws, rules, and regulations of various regulatory authorities, primarily Bangladesh Bank. The committee takes all measures to ensure that the Bank complies with all laws and regulations and that all statutory dues are settled timely.

3.2.10 Involvement of Audit committee in the external audit function

On the basis of the Audit Committee’s proposal, the board of directors recommended MABS & J Partners, and Khan Wahab Shafique Rahman & Co. Chartered Accountant firms in Bangladesh to the shareholders in the 23rd AGM to appoint them as statutory external auditors of the company for 2022. The external auditors provided their written assurance to the Bank in respect of their independence for FY 2022, as per BRPD circular. The details of the statutory audit and audit fees incurred for FY 2022 are set out under Note 32 of the Financial Statements Annual Report 2022.

To ensure full disclosure of matters, the External Auditors are requested to attend the Audit Committee meeting where Financial Statements of MBL are placed for review and recommendation. The Committee also implements an annual assessment of the efficiency of the Company’s Internal Audit function and certifies that the Internal Audit has sufficient resources to accomplish its duties. The Audit Committee has several roles regarding the external audit functions:
• Ensuring effective coordination of external audit function: The Audit Committee ensures open communication between the auditor and the committee for the best use of resources, as well as assessing the auditor’s performance.

• Ensuring independence of external auditors: The Audit Committee ensures that the auditor of MBL is independent and exercises a high level of objectivity and professional skepticism. The Committee interacts with the auditor during the audit to evaluate whether the auditor demonstrated integrity, objectivity, and professional skepticism.

• Reviewing the external auditors’ findings: The Audit Committee extensively reviews all findings of the external auditors to ensure that management is informed and taking action to resolve any discrepancies before the financial statements are signed.

• Reviewing and approving non-audit work: The Audit Committee is responsible for ensuring that external auditors do not undertake any work that might compromise their independence. If any work is being done by the external auditors, the Audit Committee must approve before the work commences.

• Recommending external auditor for appointment/reappointment: The Audit Committee scrutinizes the applications of the auditors and recommends them for appointment or reappointment for the next year/AGM.

3.2.11 Involvement of Audit committee in selecting appropriate accounting policies

The Audit Committee supports the Board of Directors in certifying that the financial statements reflect a true and fair view of the company and maintains a good supervising system within the Bank. The Board delegates the duty to the Audit Committee to decide on the appropriate accounting policies in line with applicable accounting standards such as International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS), as per requirements under Financial Reporting Act, 2015 and circulars, guidelines, policies, notifications and requirements from Bangladesh Bank and Bangladesh Securities and Exchange Commission (BSEC), as well as other regulatory authorities. After choosing the appropriate accounting policies, the Audit Committee recommends the Board regarding the implementation of the selected accounting guidelines, which the Board subsequently accepts for implementation.

3.2.12 Audit committee’s involvement in the review of annual and interim financial reports

The Audit Committee reviews the quarterly and half-yearly financial statements, along with the management, before submission to the Board for approval in compliance with the Corporate Governance Code Notification No. BSEC/CMRCD/2006-158/207Admin/80 dated 3 June 2018 issued by the Bangladesh Securities and Exchange Commission (BSEC). The Audit Committee ensures that the financial statements reflect a true and fair view of the company and analyzes the financials for any discrepancies.

3.2.13 Reliability of management information used for computation in financials

The Audit Committee ensures the reliability of the management information used for computation in the financials. To ensure the reliability of the information, the Audit Committee holds extensive meetings with management regarding the issues of the financial statements. The Audit Committee queries management on issues material to the financial statements and makes sure that management has a proper response to their queries. The Audit Committee is able to understand the reliability of the information used for computation in the financials through meetings with management. Management always assures that the information presented is true and fair and that all the information is derived from the system of the Bank.

3.2.14 Recommendation for appointment of External Auditors

The Audit Committee does an extensive review of the audit work done by the auditors after the audited financial statements have been signed. The Audit Committee evaluates the performance of auditors extensively and ensures that there were no threats to independence or any other issues with the auditors. The Audit Committee scrutinizes the applications of the auditors and recommends them for appointment/reappointment of auditors for the next year.

3.2.15 Reporting of the Audit Committee

The Audit Committee reports on its activities to the Board. It immediately reports to the Board on any findings, such as reports on conflicts of interests, suspected or presumed fraud or irregularity, or material defects identified in the internal audit and compliance process or in the financial statements, suspected infringement of laws, regulatory compliances including securities related laws, rules and regulations, and any other matter that the Audit Committee deems necessary to disclose to the Board.
3.3 Risk Management Committee

To play an effective role in mitigating impending risks arising out from strategies and policies formulated by the Board, and to carry out the responsibilities efficiently, a risk management committee has been formed in line with BRPD Circular no. 11 dated October 27, 2013 issued by Bangladesh Bank. The risk management committee identifies and assesses several risk factors such as credit risks, foreign exchange risks, internal control and compliance risks, money laundering risks, information and communication risks, management risks, interest risks, liquidity risks, etc. The risk management committee scrutinizes whether appropriate risk management measures are being put in place and applied and whether adequate capital and provision is being maintained against the risks identified.

3.3.1 Appointment and Composition

The members of the risk management committee are nominated by the Board of Directors from themselves, and the committee comprises the company secretary of the Bank as its secretary.

3.3.2 Roles and Responsibilities of the Risk Management Committee

i) Risk identification & control policy

The Risk Management Committee is responsible for formulating and implementing appropriate strategies for risk assessment and control. The committee monitors risk management policies and methods and amends them if necessary to ensure effective prevention and control measures.

ii) Construction of organizational structure

The Risk Management Committee is responsible for ensuring an adequate organizational structure for managing risk within the Bank. The committee supervises the formation of separate management level committees and monitors their activities for compliance with instructions of various risk types.

iii) Analysis and approval of Risk Management policy

The Risk Management Committee reviews the Bank’s risk management policies and guidelines annually and proposes amendments if necessary. The committee then sends its proposals to the Board of Directors for approval. Lending limits and other limits should also be reviewed at least once annually and amended if necessary.

iv) Storage of data & Reporting system

The Risk Management Committee approves an adequate record-keeping and reporting system developed by MBL management and ensures proper use of the system. The committee minutes its proposals, suggestions, and summary in a specific format and informs the Board of Directors.

v) Monitoring the implementation of overall Risk Management Policy

The Risk Management Committee monitors the proper implementation of overall risk management policies and ensures that proper steps have been taken to mitigate all risks, including lending risk, market risk, and management risk.

vi) Other responsibilities

The committee’s decisions and suggestions are submitted to the Board of Directors quarterly in a short form. The committee complies with instructions issued by the controlling body and receives evaluation reports from internal and external auditors whenever required.

3.3.3 Meetings

The Risk Management Committee held four meetings in 2022. The committee invites the Managing Director and CEO, Chief Risk Officer, and any other officer to its meetings if deemed necessary. To ensure active participation and contribution by the members, a detailed memorandum is distributed to committee members well in advance of each meeting. All decisions and observations of the committee are noted in minutes.

4. Internal Control and Risk Management

MBL has designed and formed an effective control system, namely the Internal Control and Compliance Division (ICCD), to carry out analysis and independent appraisals of the adequacy and effectiveness of the Bank’s risk management framework and internal control environment. ICCD continually recognizes and assesses all material risks that could adversely affect the Bank’s goals, focusing more on compliance with regulatory requirements, social, ethical, and environmental risks. The ICCD ensures reliable financial and managerial information that promotes better strategic decisions for the Bank.
4.1 Statement of director’s responsibility to establish appropriate system of Internal Controls

The Directors of the Bank acknowledge their overall responsibility for the Bank’s systems of internal control, for establishing efficiency, effectiveness, reliability, timeliness, completeness, and compliance with applicable laws and regulations. MBL follows the Bank Company Act, 1991 (amended up to 2018) Section 15 (kha) and (ga), which gives the responsibility to the Board of Directors for establishing policies for the Bank Company, for risk management, internal controls, and compliance to ensure their implementation.

4.2 Key features of Internal Control System and monitoring techniques of the Board, Audit Committee and Senior Management

The entire system of internal control helps MBL establish an environment that does not encourage corruptibility and fraudulent activities. The key features of the internal control system include the internal control process, which is monitored by the Board, Audit Committee, and Senior Management.

4.2.1 Control Environment

The Control Environment component of MBL has five principles which establish a tone at the top regarding the importance of internal control, including the expected standards of conduct. These principles include:

a) MBL demonstrating a strong commitment to integrity and ethical values
b) The Board of Directors demonstrating independence from management
c) Management establishing structures, reporting lines, and appropriate authorities and responsibilities
d) MBL demonstrating a commitment to attract, develop, and retain competent employees in alignment with objectives, and
e) MBL holding its employees accountable for their internal control responsibilities in the pursuit of objectives.

4.2.2 Risk assessment

To have an effective internal control system, it is necessary to recognize and continually assess material risks. This assessment should cover all risks facing the Bank, such as credit risk, country risk, transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk, and reputational risk. Internal controls may need to be revised to appropriately address any new or previously uncontrolled risk.

4.2.3 Control Activities

The Control Activities of MBL have been established to mitigate risks. Control activities are performed at all levels of MBL, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities, such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical,
management selects and develops alternative control activities.

a) MBL selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels,

b) selects and develops general control activities over technology to support the achievement of objectives, and

c) deploys control activities through specific policies that establish what is expected and in procedures that put policies into action.

4.2.4 Monitoring activities and correcting deficiencies

Monitoring of key risks is a part of the Bank, as well as periodic evaluations by the business lines and internal audit. The Bank’s internal control system is monitored, and deficiencies are corrected on an ongoing basis. MBL has adopted the following two principles in respect of monitoring activities:

a) it selects, develops, and performs ongoing and separate evaluations to ascertain whether the components of internal control are present and functioning, and

b) it evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board of Directors, as appropriate.

4.2.5 Information and communication

MBL has adopted the following three principles in respect of information and communication to carry out its internal control responsibilities to support the achievement of its objectives:

a) MBL obtains or generates and uses relevant, quality information to support the functioning of internal control in a timely manner.

b) MBL internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

c) MBL communicates with external parties regarding matters affecting the functioning of internal control.

4.2.6 Audit Function

In the case of financial audits, a set of financial statements is considered true and fair when it is free of material misstatements. Audits were traditionally associated with gaining information about financial systems and records of a company or business. However, recent auditing has begun to include non-financial subject areas, such as safety, security, information systems performance, and environmental concerns.

The manner in which Internal Control System is monitored by the Board, Audit Committee or Senior Management:

![Audit Function Diagram]

- **Internal Audit Function**
  - Fundamental functions of Internal Audit

- **External Audit Function**
  - Board Audit

- **Central Bank’s inspection**
  - Information Technology (IT) Audit
Principal of internal audit function: The internal audit function of MBL provides independent assurance to the Board and supports the Board and senior management in promoting an effective governance process and the long-term soundness of the Bank. The Board and senior management promote the independence of the internal audit function by ensuring that:

- internal audit reports are provided to the Board or its audit committee without management filtering and that the internal auditors have direct access to the Board or the Board’s audit committee;
- the head of the internal audit function’s primary reporting line is to the Board (or its audit committee), which is also responsible for the selection, oversight of the performance and, if necessary, dismissal of the head of this function;
- if the chief audit executive is removed from his or her position, this should be disclosed publicly. The Bank should also discuss the reasons for such removal with its supervisor.

An effective and efficient internal audit function constitutes the third line of defense in the system of internal control. The internal audit function has a clear mandate, being accountable to the Board and being independent of the audited activities. It has sufficient standing, skills, resources and authority within the Bank to enable the auditors to carry out their assignments effectively and objectively. The Board and senior management contribute to the effectiveness of the internal audit function by:

- providing the function with full and unconditional access to any records, file data and physical properties of the Bank, including access to management information systems and records and the minutes of all consultative and decision-making bodies;
- requiring the function to independently assess the effectiveness and efficiency of the internal control, risk management and governance systems and processes;
- requiring internal auditors to adhere to national and international professional standards, such as those established by the Institute of Internal Auditors;
- requiring that audit staff collectively have or can access knowledge, skills and resources commensurate with the business activities and risks of the Bank;
- requiring timely and effective correction of audit issues by senior management; and
- requiring the function to perform a periodic assessment of the Bank’s overall risk governance framework.

MBL is fully dependent on Information Technology, which poses inherent risks such as data collapse, data loss, data modification, and unauthorized access to data. MBL’s service delivery is designed on an IT platform. The IT Audit Team follows prescribed guidelines, solves unsettled issues, and suggests necessary action to higher management. The IT Audit Team has been formed according to the Central Bank’s Guidelines to identify intrinsic risks and manage them effectively and efficiently.

MABS & J Partners, Chartered Accountants have been appointed as External Auditors for the second time, and Khan Wahab Shafique Rahman & Co., Chartered Accountants for the first time, in the 22nd AGM of the Shareholders. They audited the Financial Statements of the Bank, including the Balance Sheet, Profit and Loss Account, Cash Flow Statement, Statement of Changes in Equity, Statement of Liquidity Analysis, and explanatory notes to financial statements.

To review the business performance of the Bank, MBL has formed a separate Audit Cell called the Board Audit Cell. This cell reviews the compliance status of the Bank’s Policy Guidelines and those of the regulators. It also visits the branches and other divisions of the Bank for verification and inspection purposes.
Bangladesh Bank conducts comprehensive inspections at the Head Office and Branches of the Bank. The Central Bank's Inspection Team exchanges views with the Bank's Auditors regarding Financial, Treasury, and IT Operations, as well as various audit processes. The Board of Directors reviews the Inspection Report of the Central Bank and takes corrective action regarding any lapses mentioned in the report.

4.3 Director's Review of the adequacy of the system of internal controls by Director

MBL's Board of Directors has established a management structure that clearly defines roles, responsibilities, and reporting lines for Internal Control and Compliance. The Board of Directors is committed to managing risk and controlling its business and financial activities to maximize profitable business opportunities, reduce risks that can cause loss or reputational damage, ensure compliance with applicable laws and regulations, and enhance resilience to external events.

The Bank's internal control system is subject to regular review by the Board, its Committees, the Bank's management, and the Bank's internal audit. The Bank's internal audit ensures compliance with policies and standards, as well as the effectiveness of internal control structures throughout the Bank through its business audit program. Related party transactions are disclosed in the Financial Statements' Notes. Lending to Board members or Controlling Shareholders has been prohibited by the Bank's Memorandum and Articles of Association since its inception. MBL’s Board of Directors has established internal control policies and procedures to ensure effective internal control system within the Bank.

4.4 Disclosure of the identification of major risks both internally and externally

The Bank's risk management and internal control infrastructure are sophisticated enough to keep up with changes in the Bank’s risk profile, the external risk landscape, and industry practice. To conduct effective risk assessments, the Board and senior management, including the CRO, regularly evaluate the Bank’s risks and overall risk profile on an ad hoc basis. The risk assessment process involves ongoing analysis of existing risks and the identification of new or emerging risks, with risks captured from all organizational units. Risk identification and measurement encompass both quantitative and qualitative elements.
4.4.1 Risk Communication

A strong risk culture is fostered to promote risk awareness, encourage open communication and challenge about risk-taking, both horizontally and vertically across the Bank, to and from the Board and senior management. Senior management actively communicates and consults with the control functions on management’s major plans and activities so that they can effectively discharge their responsibilities. Information on overall and specific risks is communicated to the Board and senior management in a timely, accurate, and understandable way to enable them to minimize such risks effectively.

Risk reporting to the management, Board, and regulator is made carefully so that Bank-wide, individual portfolio, and all other risks are concisely and meaningfully identified and reported properly. Reporting accurately communicates risk exposures and results of stress tests or scenario analyses and provokes robust discussions of, for example, the Bank’s current and prospective exposures (particularly under stressed scenarios), risk/return relationships, and risk appetite and limits. All material risks that affect the Bank are disclosed in a separate Risk Management report in this Annual Integrated Report.

4.4.2 Risk Management

MBL has an effective independent risk management function under the direction of a CRO, with sufficient stature, independence, resources, and access to the Board and Board risk management committee. The risk management function has a sufficient number of employees who possess the requisite experience and qualifications, including market and product knowledge, as well as command of risk disciplines. Risk managers work closely with individual business units, and the risk management function is sufficiently independent of the business units and not involved in revenue generation.

The key activities of the risk management function include:

- Setting targets for capital ratios and capital composition
- Managing the balance sheet
- Managing the funding structure
- Determining general principles for measuring, managing and reporting of Bank’s risk
- Developing risk policies for business units
- Determining the overall investment strategy
- Identifying, monitoring and managing the Bank’s current and potential operational risk exposures
- Handling “critical risks” (risks that require follow-up and further reporting)
- Following up on reviews by Internal Audit and informing the Board through Audit Committee of unusual circumstances
- Preparing management information on issues such as IT security, physical security, business continuity and compliance.

4.4.3 Role of the Chief Risk Officer (CRO)

The Bank has a CRO with a high-designated position, Additional Managing Director. The CRO is primarily responsible for overseeing the development and implementation of the Bank’s risk management function. This includes the ongoing strengthening of staff skills and enhancements to risk management systems, policies, processes, quantitative models, and reports as necessary to ensure that the Bank’s risk management capabilities are sufficiently robust and effective to fully support its strategic objectives and all of its risk-taking activities. The CRO is also responsible for supporting the Board in its engagement with and oversight of the development of the Bank’s risk appetite and RAS and for translating the risk appetite into a risk limits structure.

4.5 Strategies adopted to manage and mitigate the risks

Bangladesh Bank has identified six core risks and provided guidelines to identify and minimize them. The Bank’s Board of Directors has formulated policies to manage and control risks associated with banking activities. The Board has ensured that employees have been assigned responsibilities for managing risks and provided proper training to enable them to understand and identify risks. The Bank has approved an organizational structure with clear functional separation and segregation of functioning authorities. This ensures core risk management practice and compliance across the Bank.

MBL has established designated committees to support the Bank’s management in discharging its duties efficiently and effectively. These committees are entrusted with specific objectives under the leadership of Managing Director & CEO of the Bank. As per Bangladesh Bank guidelines, the Senior Management Team (SMT) is the main body of management and decision-making in the Bank. In addition, there are committees such as:

- Asset Liability Committee (ALCO)
- Basel III Implementation Unit
- Risk Management Committee
- ICAAP Preparation Committee
- Management Reporting System (MRS) Committee
• Share Investment Committee
• Credit Assessment Committee
• Purchase Committee etc.

5. Ethics and Compliance

The Bank’s senior management is responsible for establishing a compliance policy that contains the basic principles approved by the Board and explains the main processes by which compliance risks are identified and managed through all levels of the organization. The Board and management are accountable for the Bank’s compliance, and the compliance function has an important role in supporting corporate values, policies, and processes that help ensure that the Bank acts responsibly and fulfills all applicable obligations.

5.1 Disclosure of statement of Ethics and values

Mercantile Bank is committed to establishing the highest level of business compliance and ethical standards. The Bank has an “Employee Code of Ethics and Business Conduct,” which is a framework of ethical behavior for all employees of the organization. Leaders/managers are required to exemplify the highest standards of conduct and ethical behavior. The leaders/managers are expected to:

• Lead according to Mercantile Bank standards of ethical conduct, in both words and actions
• Create and maintain an environment where employees feel comfortable asking questions or reporting concerns
• Be diligent in enforcing the Bank’s ethical standards and taking appropriate action if violation occur
• Contact the Human Resources Division when in need of assistance

5.1.1 Integrity

The “Employee Code of Ethics and Business Conduct” begins with the phrase “Uncompromising integrity.” Employees of Mercantile Bank are evaluated not only in terms of their competencies but also with their integrity. The reputation and continued success of Mercantile Bank largely depend on a shared commitment to the core value of integrity. Respecting this value is the responsibility of each and every member of the organization.

5.1.2 Avoiding conflict of interest

The MBL Board oversees the implementation and operation of policies to identify potential conflicts of interest. Board members shall endeavor to avoid having private interests interfere with:

• The Company interests
• Ability to perform their duties and responsibilities objectively and effectively

To avoid conflict of interest and also to make accountable the Bank has already taken the following measures:

• Loan to the Directors is restricted subject to full filing certain terms and conditions of regulatory guidelines.
• If there is any related party transaction, the management discloses the matter in the Annual Report and it is also approved by the general shareholders in AGM.
• Executive committee of the Board can approve loan to anyone up to a limited portion.
• Audit committee regularly reviews the financial and other related statements and gives recommendation to the management regarding any changes in policy and also presents to the Board for further evaluation.
• Board of Directors’ approval is needed for loan re-scheduling.

5.1.3 Compliance with the laws and regulations

Mercantile Bank maintains its reputation as a law-abiding organization and a good corporate citizen. The policy and procedures regarding Mercantile Bank’s business process are prepared in adherence to the prevailing applicable laws and regulations.

Compliance with Bangladesh Secretarial Standards (BSS) issued by Institute of Chartered Secretaries of Bangladesh (ICSB)

Mercantile Bank has conducted its Board meetings in line with the provisions of the Bangladesh Secretarial Standards (BSS)-1: Secretarial Standard on Meetings of the Board of Directors, general meeting in line with the provisions of BSS-2: Secretarial Standard on General Meetings, record the minutes of the meetings in line with the provisions of BSS-3: Minutes and declared the dividend in line with the provisions of BSS-4: Secretarial Standard on Dividend adopted by the Institute of Chartered Secretaries of Bangladesh (ICSB).

Compliance with BB guidelines for Corporate Governance

To ensure good governance i.e. corporate governance in Bank management, Bangladesh Bank (BB) issued four
Circulars covering broad areas as follows:

1. BRPD Circular No.11 dated 27 October 2013: Formation and responsibilities of Board of Directors (BoD).
2. BRPD Circular Letter No. 18 dated 27 October 2013: Appointment and responsibilities of Chief Executive Officer (CEO).

5.2 Communication of the statement of ethics and business practices to all Directors and employees:

As a custodian of public funds, MBL has a responsibility to safeguard its integrity and credibility. Therefore, the bank sets out a code of ethics and conduct for its employees and follows a code of conduct for the Board of Directors to guide them in performing their duty in an honest, responsible, and businesslike manner within the scope of their authority, as stated in the laws of the country and the Memorandum and Articles of Association of the Bank.

5.2.1 Business Ethics and Practices for Employees

The Business Ethics and complete Code of Conduct can be read on page no. 19 & 20 of this Annual Report 2022.

5.3 The Board’s commitment to establish high level of ethics and compliance within the organization

The Board of Directors of the Bank has established a high level of ethics and compliance within the organization, and they are committed to maintaining it at both the Board and management levels. The code of conduct for the Board of Directors states that:

- The members of the Board of Directors discharge their duties professionally, with due diligence and to the best of their abilities.
- The members act honestly in good faith and in the best interest of the stakeholders.
- The members do not make improper use of information and offensive advantage of the position as Director.
- Confidential information acquired by the members in the course of exercise of Directorial duties remain the property of the company.
- Members make every effort to attend all Board and committee meeting during their tenure to maximize effectiveness of the Board/ committee meetings, contribution of individual Directors are monitored and appraised on an annual basis.
- All others code of conduct set by the Bangladesh Bank, Bangladesh Securities and Exchange Commission and other regulatory bodies are followed strictly.
5.3.1 MBL’s Board of Directors Responsibilities in preparing Financial Statements

When preparing financial statements, the Board of Directors ensures suitable accounting policies, accounting judgments, and estimations. They also ensure the highest standards in the preparation, reporting, and disclosure of accounting and financial information to the Regulators and to the stakeholders of the Bank. The Board of Directors ensures that qualified personnel with professional and academic knowledge in the area of cost and financial accounting prepare financial statements in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), Bangladesh Bank’s Circulars, Schedule of Bank Companies Act of 1991, the Companies Act-1994, the Securities and Exchange Rules-1987, and other applicable laws and regulations.

5.3.2 Accountability in Disclosure of Material Facts

The Bank is accountable for disclosing all material facts to stakeholders for taking their timely economic decisions. Material but non-public information is not divulged that may adversely affect the business of the Bank or create regulatory breach or legal complications. Material public information is disclosed through the Audited Annual Report, Un-audited Half-yearly and Quarterly Report, Quarterly Bulletin (MBL Bulletin)/MBL Spectrum (Monthly Online Bulletin), and other forms of print and electronic media. All related party transactions are reviewed regularly by the internal auditors, and a report on the conducted reviews is submitted to the Audit Committee for their monitoring.

5.3.3 Accountability in Maintaining Confidentiality of Information

Information of customers, prospective customers, suppliers, shareholders, and employees is kept confidential. Information is used solely for corporate purposes and is never to be discussed with or divulged to unauthorized people, including family, friends, and acquaintances. Examples of confidential information broadly include: (a) customer’s account or business details, (b) shareholder’s holding or transaction details, (c) employees’ job records, pay perquisites, benefits tax issues, etc. (d) suppliers’ price, sales strategy, etc. (e) Internal documents like strategy papers, Product Program Guidelines (PPG), etc.

5.3.4 Fulfillment of pertinent Rules and Regulations

5.3.5 Related Party Transaction

The Bank in its ordinary course of business undertook financial transactions with some entities or persons that fall within the definition of ‘Related Party’ as contained in IAS 24 (Related Party Disclosures) and relevant provisions of Bank Company Act 1991 (amended up to 2018) and Bangladesh Bank BRPD Circular No. 14 dated 25 June 2003. The Board approves all related party transactions and ensures that these transactions with the Company are undertaken on an arm’s length basis. The Audit Committee reviewed all material related party transactions and kept the Board informed of such transactions.

5.3.6 Accountability

When presenting quarterly and annual financial statements, the Board aims to provide shareholders with a balanced and understandable assessment of the Bank’s performance and position, including a commentary on competitive conditions within the industry in which it operates. Prior to each Board meeting, the Management provides all Directors with accounts and detailed reports on the Bank’s financial performance and related matters. The Directors may seek further information from and discuss the Bank’s operations and performance with the Management at any time. To ensure compliance with legislative and regulatory requirements, a Compliance Department with a direct reporting line to the Risk Management Committee has been set up.

5.4 Establishment of Anti-Fraud program and whistle Blowing Policy

5.4.1 Effective Anti-Fraud Programs

The Internal Control & Compliance Division (ICCD) of MBL is responsible for examining whether any fraud, forgery or irregularities are occurring in the Bank. The ICCD also conducts special audits or investigations as instructed by the Board or Audit Committee of the Bank. The ICCD submits reports on their observations to the Audit Committee at regular intervals.

5.4.2 Effective Anti- Money laundering and anti-terrorism program

To mitigate the problems of money laundering and terrorism, the Management of MBL has established an Anti-Money Laundering Department. This department seeks to prevent any misuse of the financial system for offenses that might jeopardize the assets and reputation of the Bank. The Bank has also nominated a Chief Anti-Money Laundering Compliance Officer (CAMLCO) who attends the CAMLCO Conference every year, organized by Bangladesh Bank. Additionally, Branch Anti-Money Laundering Compliance Officers (BAMLCO) have been appointed at Branches to independently ensure that the Bank is compliant on AML matters.

5.4.3 Effective Whistle blowing

MBL has an effective Whistle Blowing Policy that allows employees to raise concerns in confidence about malpractices in the Bank. Whistle blowing can help ensure that problems are identified before they become too large, ranging from customer mistreatment to huge financial loss. MBL is committed to the highest standards of good governance, openness, transparency, honesty, integrity and accountability. The Whistle Blowing Policy document explains the procedure for reporting any misconduct to the designated officials, so that appropriate remedial action can be taken. This policy is designed to enable all employees, including temporary staff and Directors, to raise any serious concerns internally with a high level of confidentiality and immunity.
5.4.4 Establishment of hot line for reporting irregularities

MBL is committed to recognizing the right of its customers and stakeholders to complain if they feel dissatisfied with the service of the Bank. MBL undertakes to resolve any complaints about irregularities and to prevent similar complaints from occurring. Any issues brought to the attention of the Bank are treated in a confidential manner and discussed only with the people who need to be involved. In this connection, MBL strictly follows the ‘Guidelines for Customer Services and Complaint Management’ (June 2014) issued by the Financial Integrity & Customer Services Department (Customer Services Division) of Bangladesh Bank.

6. Remuneration Committee

6.1 Charter (roles and responsibilities) of Remuneration committee

According to Bangladesh Bank BRPD Circular no. 11 dated October 27, 2013, every bank must form three committees in addition to the Board of Directors: 1 (one) executive committee, 1 (one) audit committee, and 1 (one) risk management committee. The circular also restricts the formation of any other permanent, temporary, or sub-committee except for the above-mentioned three committees.

GRI 102-35, 102-36
Hence, the Board of Directors of MBL reviews employees’ remuneration along with fringe benefits based on inflation, market trends, and employee satisfaction, among others. They usually propose to the Board, which is then reviewed and validated by a special policy committee of the Board. After incorporating their recommendations, the compensation/remuneration decisions are approved by the Board. The main work includes presenting recommendations to the Board regarding remuneration, compensation packages of management, incentive schemes, and retirement benefits.

They also assist the Board of Directors in ensuring that all employees are remunerated fairly and receive performance-based compensation by ensuring effective remuneration policy, procedures, and practices aligned with the bank’s strategy and applied consistently for all employee levels. Salaries and allowances of MBL are very competitive in comparison with other banks operating in the market.

6.1.1 The roles and responsibilities of the Remuneration committee

- Reviewing the effectiveness of remuneration policy to ensure that whether the Board’s set objectives and expectations are being met
- Ensuring that an effective remuneration policy, procedure and practice are in place, aligned with the Bank’s strategy, and is applied consistently for all employee levels
- Ensuring that the structure and mix of fixed and variable pay and other elements are in alignment with the overall business objectives
- Guiding and giving suggestion to HR team during preparation and review of any policy or process related to compensation and benefits
- Ensuring that all benefits, including retirement benefits and other financial arrangements, are justified, appropriately valued and promoting the performance based reward and recognition etc.
- Identifying MBL’s needs for employees at different levels and determine their selection, transfer or replacement and promotion criteria; and
- Developing, recommending and reviewing annually the company’s human resources and training policies

6.2 Composition of the Remuneration Committee

Since the bank is restricted by Bangladesh Bank to have more than three sub-committees of the Board, the Board reviews and enhances the remuneration packages of the employees from time to time.

6.3 Key policies with regard to remuneration of Directors, senior management and employees

All employees, including senior management employees, are paid competitive remuneration packages. The structure and level of remuneration are reviewed from time to time based on the bank’s performance and affordability. The remuneration also stresses ensuring internal and external pay equity.
6.4 Number of meetings and work performed

Meetings regarding overseeing the remuneration-related policy by the Managing Director and CEO, Deputy Managing Directors, and other Heads of Division are held on a need basis at regular intervals throughout the year. So, if any remuneration-related issue needs the committee’s attention, it is placed as an agenda for necessary review. However, if required, the meeting is held on a need basis to review and discuss any remuneration-related issue exclusively.

Activities of the Remuneration Committee

The major activities of the Remuneration Committee are given below:

2. Recruitment, promotion and remuneration process of top executives (Up to two-level below the rank of Managing Director & CEO) as per Bangladesh Bank Circular (BRPD Circular No.11 dated 27 October 2013).
3. Other than the above as mentioned in (2), all appointments, promotions and fixing remuneration are made by the Managing Director & CEO as authorized by the Board.
4. Conducting periodic Salary Survey to determine MBL’s competitive position with peer Banks in the industry. Based on the Survey Result, Board approves required adjustments to existing benefit packages for the employees of the Bank.

6.5 Disclosure of Remuneration of Directors, Chairman, Chief Executive and Senior Executives

The Directors of the Board receive an honorarium of Tk. 8,000.00 for attending Board or Committee meetings, including the Board Meeting, Audit Committee Meeting, Executive Committee Meeting, and Risk Management Committee Meeting. However, no remuneration is given for attending meetings at the management level.

In 2022, the expenditures related to Directors were Tk. 4.49 million for Directors’ fees, compared to Tk. 4.43 million in 2021. The Managing Director is paid a salary and allowances fixed by the Bangladesh Bank. The total remuneration for the Managing Director and CEO in 2022 was Tk.14.81 million, and in 2021 was Tk. 13.99 million.

7. Human Capital

Human capital is a fundamental pillar for success in different magnitudes. Developing human capital requires creating and cultivating environments where human beings can learn and apply new ideas, competencies, skills, behaviors, and attitudes.

7.1.1 Human Resource Development and Management

MBL considers its employees as the most precious capital of the organization, playing a crucial role in materializing the mission, vision, goals, and objectives of the Bank. To ensure long-term sustainability, MBL focuses on skill and merit-based recruitment and selection processes, highly competitive remuneration packages, adequate training and development programs, career growth with succession planning, a high-performance culture, and a
pleasant working atmosphere. The details of the policies and practices adopted by the Bank’s “Human Capital” are presented on page 268 of this annual report.

7.1.2 Succession planning

Succession planning is a process whereby an organization ensures that employees are recruited and developed to fill each key role within the company. Through the succession planning process, MBL recruits superior employees, develops their knowledge, skills, and abilities, and prepares them for advancement or promotion into ever more challenging roles. The future leader development program is designed to develop highly qualified managers and future leaders for the Bank. This program provides exposure to various operational settings and helps them acquire the required knowledge and skills to become successful leaders. With proven experiences, these juniors will move to senior management positions in the future. They will also have a clear career progression and receive extensive development programs to fine-tune their skills and knowledge.

7.1.3 Merit based recruitment

To set the business up for success over the long term, MBL recognizes the importance of attracting and retaining the best talent. MBL recruits fresh graduates from different academic backgrounds of renowned universities, which act as a source of creativity. Fresh graduates are recruited through a comprehensive written test and Viva voce. MBL also recruits experienced Bankers from the industry having sound Banking knowledge and expertise. As a part of MBL’s investments in Human Capital, it has formulated a Human Resources Policy, including a strategic imperative for recruiting the best people from society.

7.1.4 Performance Appraisal System

The performance appraisal is the process of assessing employee performance by comparing present performance with already established standards that have been communicated to employees, subsequently providing feedback to employees about their performance level for the purpose of improving their performance as needed by the organization. The performance appraisal system of MBL is an annual process that includes:

- Assessment of the financial or non-financial targets;
- Assessment of the competencies of the individual in achieving the content of the job;
- Assessment of overall performance.

7.1.5 Promotion, reward and motivation

As efficiency is our strength, the Board of Directors of our bank has approved and enacted various motivational benefits and policies, in addition to regular pay scales, to ensure maximum efficiency of employees and maximize job satisfaction. We declare promotions every year for our eligible executives and officers, which motivates, inspires, and helps them develop themselves for greater achievement of individual and organizational goals.

7.1.6 Training and Development

MBL has a strong focus on imparting training to enhance the skills and competencies of employees to take on the challenges of modern banking. The bank has established the Mercantile Bank Training Institute (MBTI), run by experienced and talented faculty members. MBTI has brought all employees of the bank into the training net. We believe that trained, skillful, and experienced employees are the most important strategic resource in a more competitive business environment. Employees are given on-the-desk training to carry out their work confidently and remain compliant. Additionally, classroom training is arranged for employees to keep them up-to-date with changing requirements.

7.1.7 Grievance management and counseling

Since employee behavior affects work discipline, the HR division always encourages employees to report any work-related grievances. Mercantile Bank Limited has a formal procedure to address employee grievances and counseling. The competent authority also counsels employees as part of its job as people’s advocate. Whenever any grievance is received from any employee of the bank, the management of the bank promptly takes action to address the matter.
An employee on whom any disciplinary action is imposed may prefer an appeal to the competent authority of the bank, and the appeal needs to be made within a specific time period. Thus, we have a participative and collaborative grievance handling procedure that is very democratic in nature.

7.2 Organizational Chart

MBL’s organogram mirrors the internal structure of the company. It has been designed to emphasize the roles, work responsibilities, reporting relationships, and lines of communication within the organization to ensure good governance. The organizational chart of MBL is shown on page number 24 of this annual integrated report.

8. Communication with Shareholders and Stakeholders

8.1 Communication with Shareholders and other stakeholders

For Shareholders’ Inquiries
Share Department
Mercantile Bank Limited
Head Office
61 Dilkusha Commercial Area
Dhaka-1000
Web: www.mblbd.com

While maintaining investor relations, proper communication, and equitable treatment of every shareholder are given the highest priority by MBL. MBL always shares information with concerned parties and publishes integrated operational and financial outputs, taking initiatives to enrich the ability of future assessment of the bank by shareholders. The Share Department of the bank plays an instrumental role in effective communication with its shareholders and other stakeholders. Shareholders and other stakeholders of the bank may contact this department during office hours for any information or queries.

Maintaining a website by MBL

In addition to the above, MBL also maintains a website linked with the website of the stock exchange. The bank has been maintaining the website since the date of listing and has made available the detailed disclosures on its website as required under the listing regulations of the concerned stock exchange(s).

Information Access

Prior to each board meeting, the bank management provides the board with relevant information on matters on the agenda for the board meeting. The management also provides adequate information in their regular reports pertaining to operational issues, financial performance, and any affairs that require the attention of the board. Such reports enable the directors to be aware of key issues pertaining to financial statements, internal controls, compliance, and risk management of the company. The board has separate and independent access to the senior management and the company secretary at all times. Procedures are also in place for directors and board committees, where necessary, to seek independent professional advice at the company’s expense.
8.2 Disclosures of policies on ensuring participation of shareholders at AGM

The Bank strongly encourages and supports shareholder participation at its AGM. The Bank sends out the Notice of the Meeting on a timely basis to provide ample time for shareholders to receive and review the Notice and reply with their attendance. The AGM normally takes place in a well-known location at a convenient time. Annual Reports are circulated as per the provisions of the Companies Act 1994, so that shareholders have sufficient time to go through the report and provide their valuable comments and suggestions freely in the AGM. The Company advocates fair and equitable treatment to all shareholders.

- **Redressal of Investors Complaints:** Any complaint received at the AGM or throughout the year related to transfer and transmission of shares, non-receipt of Annual Reports, and timely payment of dividends and other share-related matters is resolved lawfully and promptly.

**Investors Complaints Redress Mechanism**

- Designated e-mail ID: complaint@mblbd.com
- A letter dispatched to our designated address
- Complaint Lodgement at MBL Website: https://www.mblbd.com
- Investor complaints register maintained at our office

**Communication with Stakeholders**

- **Communication with Employees:** MBL’s Board of Directors and senior management maintain open communication with employees to enhance mutual understanding and promote cooperation at all levels. They discuss matters such as safety, the work environment, as well as broader issues relating to staff welfare.

- **Communication with the General Public:** MBL’s website, www.mblbd.com, serves as an easy access source for key information about the Bank’s business, financials, and other relevant information. MBL provides quarterly and half-annually financial statements and Annual Reports to provide a balanced and clear assessment of its performance for the general public.

- **Investors Friendly Essentials:** MBL has better capital adequacy, good asset quality, steady financial performance, comfortable liquidity, strong market position, and experienced management, making it a reliable investment. Since its inception, MBL has been declaring good dividends for investors. MBL is also a Corporate Shareholder of IDLC Finance Ltd.

Details of MBL’s Stakeholder Engagement Mechanism have been listed at page 246.

9. Environmental and Social Obligations

9.1 MBL’s policies and practices relating to environmental and social obligation

MBL assumes responsibility to act in the best long-term interests of its beneficiaries. In this fiduciary role, MBL believes that environmental, social, and corporate governance (ESG) issues can affect the performance of its own business portfolio. MBL recognizes that following these principles may better align with broader societal objectives.
Our approaches towards environmental and social obligations are depicted below.

In recent years, the issue of climate change has been taken seriously all over the world. MBL is focused on environmental preservation by financing projects in the field of renewable energy, organic agriculture, health food shops, recycling companies, and nature conservation projects across the entire value chain.

MBL always encourages financing projects that promotes:

- Sustainable development and use of renewable natural resources
- Protection of human health, bio-diversity, occupational health and safety, efficient production, delivery and use of energy
- Pollution prevention and waste minimization.

To achieve its goals, MBL has adopted necessary steps, including green financing and creating awareness to turn the bank into a ‘Green Bank.’ The bank’s policies and practices related to environmental and social obligations have been presented in the “Sustainability Report” and “Corporate Social Responsibility” sections of the Annual Report.

9.2 Specific activities undertaken by MBL in pursuance of these policies and practices

MBL has always been focused and active in its efforts to better the environment. The corporate office of MBL has been designed to make maximum use of natural light, reducing energy consumption substantially compared to other conventional buildings. Approximately one-third of the bulbs used in this office are of the energy-saving type. By utilizing daylight in the corporate office, MBL is saving around 40% electricity used for lighting purposes. More activities are described in the Sustainability Report segment.
Mercantile Bank commenced its Islamic Banking Operations ‘Taqwa’ on June 29, 2020 with the noble objective of providing customers who seek Islamic Shari’ah-based banking services and those committed to Islamic lifestyles with unparalleled financial solutions.

Morshed Alam, MP
Chairman, Shari’ah Supervisory Committee
Mercantile Bank Limited
Assalamu Alaikum Wa Rahmatullahe Wa Barakatuhu.

In the name of Allah, the Most Gracious, the Most Merciful, we are honored to present the annual report of the Shari’ah Supervisory Committee of Mercantile Bank Limited for the year 2022. Our committee has been steadfast in our mission to ensure that the bank operates in complete compliance with the principles of Islamic finance, as prescribed by the Qur’an and Sunnah. Through our diligent monitoring and supervision, we have assessed the bank’s adherence to these principles, including our review of its operations and products, and we are pleased to report that the bank continues to operate in accordance with Shari’ah regulations. We humbly express our gratitude to Allah for enabling us to fulfill our duties and responsibilities in promoting Islamic finance and for guiding us in our efforts to ensure the bank’s full compliance with Shari’ah regulations.

Mercantile Bank commenced its Islamic Banking Operations ‘Taqwa’ on June 29, 2020 with the noble objective of providing customers who seek Islamic Shari’ah-based banking services and those committed to Islamic lifestyles with unparalleled financial solutions. In response to the growing interest of the community, the esteemed Board of Directors (BOD) of MBL decided to initiate Islamic banking operations. At Mercantile Bank, Islamic banking is a parallel window operation alongside conventional banking at branches. The brand name of Mercantile Bank’s Islamic banking division is ‘Taqwa’, accompanied by a slogan that reflects the division’s mission to provide banking services aligned with customers’ religious beliefs, “ধর্মীয় আয়য় ব্যাংকিং”. To ensure the purity of its Islamic banking operations, an independent Shari’ah Supervisory Committee (SSC) was established, consisting of renowned Islamic scholars.

On behalf of the committee, we extend our sincerest gratitude to the Board of Directors, management team, and the team of Islamic Banking Division and business center IBWs for their invaluable assistance and support. We are also indebted to our honorable customers and shareholders, whose unwavering trust and support have enabled us to achieve our current status.

We express our utmost satisfaction with the Islamic Banking Division’s compliance with Shari’ah principles. It brings us great joy to see that MBL-Taqwa Islamic Banking operations has explicitly stated its unwavering commitment to the principles of Islamic Shari’ah and abstains from Riba (interest) in all of its financial operations. All banking activities within the Islamic Banking division are fully compliant with Shari’ah laws, and Mercantile Bank’s Islamic Banking division ensures practical adherence to Shari’ah principles in its daily banking operations. We take immense pride in the Islamic Banking Division’s compliance and remain dedicated to maintaining its pure and transparent banking practices.

The Shari’ah Supervisory Committee actively monitors and evaluates MBL’s overall activities, management policies, strategies, and action plans from an Islamic Shari’ah perspective. In 2022, the committee, under its vigilant supervision, reviewed several matters related to the inspection and management of MBL Islamic Banking, which encompassed various issues put forth by the Board of Directors, Management Authority, and branches. After thorough scrutiny and analysis of these matters in light of Islamic Shari’ah, the committee provided crucial advice and guidance to the relevant authorities. It is the solemn responsibility of the Shariah Supervisory Committee to prepare and present the necessary policies, which include verification and justification in compliance with Islamic Shari’ah. We take great pride in upholding the values and principles of Islamic Shari’ah, and our unwavering commitment to serving our customers with pure and transparent financial practices remains our top priority.

In 2022, the esteemed Members of the Shari’ah Supervisory Committee held three Supervisory Committee Meetings to thoroughly review and make informed decisions on the crucial matters referred by the Board of Directors and the Management of the Bank.

Here are some of the highlights from the past financial year under the supervision of the Shari’ah Supervisory Committee of Mercantile Bank:

- Shariah audits were conducted in all MBL Islamic Banking branches and the head office during the last financial year. The audit report was presented at the committee meeting where it was thoroughly
discussed. The committee provided detailed guidelines to the head office and branches to rectify any deviations observed during the Shari’ah audit.

- The Shari’ah compliance system has been improved for the implementation of the advice, guidelines, and policies given by the Shari’ah Supervisory Committee at both the head office and branch level.
- One of our missions over the past year has been to promote and enhance the image of our bank through the introduction of Islamic banking services. We are proud to report that we have made significant progress in achieving this goal, both domestically and on the international stage.
- In an effort to enhance the customer experience, Mercantile Bank has implemented advanced banking services for MBL Taqwa Islamic Banking customers. These services include real-time online banking, digital banking wallet RAINBOW for individual and proprietorship account holders, and upgraded services such as real-time RTGS, BATCH, and BEFTN.
- MBL Islamic Banking introduced new customer-friendly products and services in the last financial year with the approval of the Shari’ah Supervisory Committee (SSC). These include:
  - Mudaraba Savings Deposit – Staff
  - Taqwa Mudaraba Hajj Sanchaya Prokolpo (TMHSP)
  - Mudaraba Short Notice Deposit (Special)
  - Launch a complete Islamic banking branch in Dilkusha
- The employees of the head office and branches underwent regular Shariah training to achieve proficiency in Shariah principles and rules, ensuring 100% compliance.

The Shari’ah Supervisory Committee expresses the following opinion:

After reviewing all activities of MBL Islamic Banking Windows during the last financial year, including financial transactions and related agreements, the Shari’ah Supervisory Committee has expressed the opinion that all activities were conducted in compliance with Islamic Shariah principles and rules.

Furthermore, profits were distributed among all types of depositors according to the Mudaraba policy.

The Shari’ah Supervisory Committee recommends the following areas of improvement for MBL-Taqwa Islamic Banking:

1. The Bank Management should be more vigilant in implementing the suggestions given by the Shari’ah Supervisory Committee to ensure effective compliance with Shari’ah principles.
2. The distribution of profits among Mudarabah depositors must be strictly in accordance with the principles of Islamic Shari’ah.
3. The bank should organize “Meetings, Seminars, Workshop, Symposia, and Get-together” both centrally and at the Branch level to raise awareness among clients and employees about the benefits of Islamic banking.
4. The Management should exercise more caution and ensure the necessary documentation is in place in all cases, particularly in the case of Bai-Muajjal and Bai-Murabaha investments.
5. Efforts should be made to increase awareness and promote a culture of compliance among the executives and officers of the Head Office and Branch levels.
6. The Management and Shari’ah Supervisory Committee should improve their coordination to ensure effective implementation of Shari’ah principles.

As we move forward, we humbly implore Allah (SWT) to grant us the fortitude and resilience needed to establish a just and equitable economic system that fosters the well-being of people across the globe. We are steadfast to remain in our pursuit of a fair and ethical financial system that uplifts and empowers all.

May Allah expand the horizons of Mercantile Bank Islamic Banking “Taqwa” and make it a superior and exemplary model in Islamic Banking worldwide.

Aa-meen!

Morshed Alam, MP
Chairman,
Shari’ah Supervisory Committee
Mercantile Bank Limited
CERTIFICATE OF COMPLIANCE

Suraiya Parveen & Associates
(Chartered Secretaries, Financial & Management Consultants)

Report to the Shareholders of
Mercantile Bank Limited on compliance on the Corporate Governance Code

We have examined the compliance status to the Corporate Governance Code by Mercantile Bank Limited for the year ended on 31st December 2022. This Code relates to the Notification No. BSEC/CGRRC/2006-158/207/Admin/80 dated 3 June, 2019 of the Bangladesh Securities and Exchange Commission.

Such compliance with the Corporate Governance Code is the responsibility of the Bank. Our examination was limited to the procedures and implementation thereof as adopted by the Management in ensuring compliance to the conditions of the Corporate Governance Code.

This is a scrutiny and verification and an independent audit on compliance of the conditions of the Corporate Governance Code as well as the provisions of relevant Bangladesh Secretarial Standards (BSS) as adopted by Institute of Chartered Secretaries of Bangladesh (ICSB) in so far as those standards are not inconsistent with any condition of this Corporate Governance Code.

We state that we have obtained all the information and explanations, which we have required, and after due scrutiny and verification thereof, we report that, in our opinion:

(a) The Bank has complied with the conditions of the Corporate Governance Code as stipulated in the above mentioned Corporate Governance Code issued by the Commission;

(b) The Bank has complied with the provisions of the relevant Bangladesh Secretarial Standards (BSS) as adopted by the Institute of Chartered Secretaries of Bangladesh (ICSB) as required by this Code;

(c) Proper books and records have been kept by the company as required under the Companies Act, 1994, the securities laws and other relevant laws; and

(d) The Governance of the company is satisfactory.

Dhaka, Dated
March 16, 2023

For Suraiya Parveen & Associates
Chartered Secretaries

Suraiya Parveen, FCS
Chief Executive Officer

Alim Sky Castle (2nd floor), Flat-B3, 3/8 Asad Avenue, Block-A, Mohammadpur, Dhaka-1207.
Phone : 02 41023157 (Off), Mob : 01911 421998, 01713 110408
Email : suraiyaparveenfcs@gmail.com, musfiquefcs@gmail.com
# COMPLIANCE REPORT ON BSEC NOTIFICATION ON CORPORATE GOVERNANCE

Status of compliance with the conditions imposed by the Commission’s Notification No. SEC/CMRRCD/2006-158/207/Admin/80, dated 3 June 2018 issued under section 2CC of the Securities and Exchange Ordinance, 1969:

(Report under Condition No. 9)

## Annexure-C

[As per condition No. 1(5)(xxvii)]

<table>
<thead>
<tr>
<th>Condition No.</th>
<th>Title</th>
<th>Compliance Status (✓ has been put in the appropriate column)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Board of Directors:</td>
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<tr>
<td>1(1)</td>
<td>Size of the Board of Directors</td>
<td>✓</td>
<td>There are 11 (eleven) members in the Board of the Bank as on December 31, 2022.</td>
</tr>
<tr>
<td></td>
<td>The total number of members of a company’s Board of Directors shall not be less than 5 (five) and more than 20 (twenty).</td>
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<tr>
<td>1(2)</td>
<td>Independent Directors</td>
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<td></td>
<td>All companies shall have effective representation of independent directors on their Boards, so that the Board, as a group, includes core competencies considered relevant in the context of each company; for this purpose, the companies shall comply with the following:-</td>
<td></td>
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</tr>
<tr>
<td>1(2)(a)</td>
<td>At least one-fifth (1/5) of the total number of directors in the company’s Board shall be independent directors; any fraction shall be considered to the next integer or whole number for calculating number of independent director(s);</td>
<td>✓</td>
<td>There are 02 (Two) Independent Directors in the Board of the Bank. Relevant Provision of the Banking Companies Act, 1991 (amended upto 2018):</td>
</tr>
</tbody>
</table>

**Quote**

Sec.-15:9: Notwithstanding anything contained in any other law for the time being in force or in memorandum of association or article of association of any banking company, after expiration of 1 (One) year on the commencement of this Act, no banking company shall have directors not exceeding 20 (twenty) in total including 3 (three) independent directors. Provided that, if the number of directors of a bank company is less than 20 (twenty), the number of independent directors shall be minimum 2 (two).

**Unquote**
<table>
<thead>
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<tbody>
<tr>
<td>1(2)(b)</td>
<td>“Independent director” means a Director</td>
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<tr>
<td>1(2)(b)(i)</td>
<td>who either does not hold any share in the company or holds less than one percent (1%) shares of the total paid-up shares of the company;</td>
<td>√</td>
<td>Independent directors have submitted declarations about their compliances.</td>
</tr>
<tr>
<td>1(2)(b)(ii)</td>
<td>who is not a sponsor of the company or is not connected with the company’s any sponsor or director or nominated director or shareholder of the company or any of its associates, sister concerns, subsidiaries and parents or holding entities who holds one percent (1%) or more shares of the total paid-up shares of the company on the basis of family relationship and his or her family members also shall not hold above mentioned shares in the company: Provided that spouse, son, daughter, father, mother, brother, sister, son-in-law and daughter-in-law shall be considered as family members;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(b)(iii)</td>
<td>who has not been an executive of the company in immediately preceding 2 (two) financial years;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(b)(iv)</td>
<td>who does not have any other relationship, whether pecuniary or otherwise, with the company or its subsidiary or associated companies;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(b)(v)</td>
<td>who is not a member or TREC (Trading Right Entitlement Certificate) holder, director or officer of any stock exchange;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(b)(vi)</td>
<td>who is not a shareholder, director excepting independent director or officer of any member or TREC holder of stock exchange or an intermediary of the capital market;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(b)(vii)</td>
<td>who is not a partner or an executive or was not a partner or an executive during the preceding 3 (three) years of the concerned company, statutory audit firm or audit firm engaged in internal audit services or audit firm conducting special audit or professional certifying compliance of this Code;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(b)(viii)</td>
<td>who is not independent director in more than 5 (five) listed companies;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(b)(ix)</td>
<td>who has not been convicted by a court of competent jurisdiction as a defaulter in payment of any loan or any advance to a bank or a Non-Bank Financial Institution (NBFI); and</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(b)(x)</td>
<td>who has not been convicted for a criminal offence involving moral turpitude;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(c)</td>
<td>The independent director(s) shall be appointed by the Board and approved by the shareholders in the Annual General Meeting (AGM);</td>
<td>√</td>
<td>No such situation arisen in the reporting year.</td>
</tr>
<tr>
<td>1(2)(d)</td>
<td>The post of independent director(s) cannot remain vacant for more than 90 (ninety) days; and</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(2)(e)</td>
<td>The tenure of office of an independent director shall be for a period of 3 (three) years, which may be extended for 1 (one) tenure only: Provided that a former independent director may be considered for reappointment for another tenure after a time gap of one tenure, i.e., three years from his or her completion of consecutive two tenures [i.e. six years]: Provided further that the independent director shall not be subject to retirement by rotation as per the Condition no. 18 of Companies Act, 1994. Explanation: For the purpose of counting tenure or term of independent director, any partial term of tenure shall be deemed to be a full tenure.</td>
<td>√</td>
<td>Independent directors of the Bank are in their regular term of office.</td>
</tr>
<tr>
<td>Condition No.</td>
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<td>Remarks</td>
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<tr>
<td>1(3)</td>
<td>Qualification of Independent Director:</td>
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<tr>
<td>1(3)(a)</td>
<td>Independent director shall be a knowledgeable individual with integrity who is able to ensure compliance with financial laws, regulatory requirements and corporate laws and can make meaningful contribution to the business;</td>
<td>√</td>
<td>The qualification and background of Independent Directors justify their capabilities to ensure mentioned compliances.</td>
</tr>
<tr>
<td>1(3)(b)</td>
<td>Independent director shall have following qualifications:</td>
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<tr>
<td>1(3)(b)(i)</td>
<td>Business Leader who is or was a promoter or director of an unlisted company having minimum paid-up capital of Tk.100.00 million or any listed company or a member of any national or international chamber of commerce or business association; or</td>
<td>Not applicable.</td>
<td></td>
</tr>
<tr>
<td>1(3)(b)(ii)</td>
<td>Corporate Leader who is or was a top level executive not lower than Chief Executive Officer or Managing Director or Deputy Managing Director or Chief Financial Officer or Head of Finance or Accounts or Company Secretary or Head of Internal Audit and Compliance or Head of Legal Service or a candidate with equivalent position of an unlisted company having minimum paid-up capital of Tk.100.00 million or of a listed company; or</td>
<td>Not applicable.</td>
<td></td>
</tr>
<tr>
<td>Explanation: Top level executive includes Managing Director (MD) or Chief Executive Officer (CEO), Additional or Deputy Managing Director (AMD or DMD), Chief Operating Officer (COO), Chief Financial Officer (CFO), Company Secretary (CS), Head of Internal Audit and Compliance (HIAC), Head of Administration and Human Resources or equivalent positions and same level or ranked or salaried officials of the company.</td>
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<tr>
<td>1(3)(b)(iii)</td>
<td>Former official of government or statutory or autonomous or regulatory body in the position not below 5th Grade of the national pay scale, who has at least educational background of bachelor degree in economics or commerce or business or law; or</td>
<td>Not applicable.</td>
<td></td>
</tr>
<tr>
<td>1(3)(b)(iv)</td>
<td>University Teacher who has educational background in Economics or Commerce or Business Studies or Law; or</td>
<td>Dr. Gazi Mohammad Hasan Jamil is a Professor in the Department of Finance, University of Dhaka. Prof. Dr. Md. Rezaul Kabir is a Professor of Institute of Business Administration (IBA), University of Dhaka.</td>
<td></td>
</tr>
<tr>
<td>1(3)(b)(v)</td>
<td>Professional who is or was an advocate practicing at least in the High Court Division of Bangladesh Supreme Court or a Chartered Accountant or Cost and Management Accountant or Chartered Financial Analyst or Chartered Certified Accountant or Certified Public Accountant or Chartered Management Accountant or Chartered Secretary or equivalent qualification;</td>
<td>Not applicable.</td>
<td></td>
</tr>
<tr>
<td>1(3)(c)</td>
<td>The independent director shall have at least 10 (ten) years of experiences in any field mentioned in clause (b);</td>
<td>√</td>
<td>Both the Independent Directors have more than 10 years of working experiences in their respective fields.</td>
</tr>
<tr>
<td>1(3)(d)</td>
<td>In special cases, the above qualifications or experiences may be relaxed subject to prior approval of the Commission.</td>
<td>Not applicable.</td>
<td></td>
</tr>
<tr>
<td>1(4)</td>
<td>Duality of Chairperson of the Board of Directors and Managing Director or Chief Executive Officer.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1(4)(a)</td>
<td>The positions of the Chairperson of the Board and the Managing Director (MD) and/or Chief Executive Officer (CEO) of the company shall be filled by different individuals;</td>
<td>√</td>
<td>The Chairman of the Board and the MD &amp; CEO of the Bank are different individuals.</td>
</tr>
<tr>
<td>1(4)(b)</td>
<td>The Managing Director (MD) and/or Chief Executive Officer (CEO) of a listed company shall not hold the same position in another listed company;</td>
<td>√</td>
<td>The MD &amp; CEO of the Bank is not holding any such position in another company.</td>
</tr>
<tr>
<td>Condition No.</td>
<td>Title</td>
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<td>Remarks</td>
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<tr>
<td>1(4)(c)</td>
<td>The Chairperson of the Board shall be elected from among the non-executive directors of the company;</td>
<td>✓</td>
<td>All 11 (eleven) members of the Board including the Chairperson are non-executive directors.</td>
</tr>
<tr>
<td>1(4)(d)</td>
<td>The Board shall clearly define respective roles and responsibilities of the Chairperson and the Managing Director and/or Chief Executive Officer;</td>
<td>✓</td>
<td>The Board have clearly defined respective roles &amp; responsibilities of the Chairman and the MD &amp; CEO of the Bank.</td>
</tr>
<tr>
<td>1(4)(e)</td>
<td>In the absence of the Chairperson of the Board, the remaining members may elect one of themselves from non-executive directors as Chairperson for that particular Board’s meeting; the reason of absence of the regular Chairperson shall be duly recorded in the minutes.</td>
<td></td>
<td>No such situation arisen in the reporting year.</td>
</tr>
</tbody>
</table>

**1(5) The Directors’ Report to Shareholders**

The Board of the company shall include the following additional statements or disclosures in the Directors’ Report prepared under section 184 of the Companies Act, 1994 (Act No. XVIII of 1994):

<p>| 1(5)(i)      | An industry outlook and possible future developments in the industry | ✓ | Disclosed in the Directors’ Report part of this Annual Report. |
| 1(5)(ii)     | The segment-wise or product-wise performance; | ✓ | |
| 1(5)(iii)    | Risks and concerns including internal and external risk factors, threat to sustainability and negative impact on environment, if any; | ✓ | |
| 1(5)(iv)     | A discussion on Cost of Goods sold, Gross Profit Margin and Net Profit Margin, where applicable; | ✓ | Being a bank, Interest Income, Interest Expenses and Profit Margins were discussed. |
| 1(5)(v)      | A discussion on continuity of any extraordinary activities and their implications (gain or loss); | | No such situation arisen in the reporting year. |
| 1(5)(vi)     | A detailed discussion on related party transactions along with a statement showing amount, nature of related party, nature of transactions and basis of transactions of all related party transactions; | ✓ | Disclosed in the Directors’ Report part of this Annual Report. |
| 1(5)(vii)    | A statement of utilization of proceeds raised through public issues, rights issues and/or any other instruments; | | No such situation arisen in the reporting year. |
| 1(5)(viii)   | An explanation if the financial results deteriorate after the company goes for Initial Public Offering (IPO), Repeat Public Offering (RPO), Rights Share Offer, Direct Listing, etc.; | | |
| 1(5)(ix)     | An explanation on any significant variance that occurs between Quarterly Financial performances and Annual Financial Statements; | | |
| 1(5)(x)      | A statement of remuneration paid to the directors including independent directors; | ✓ | |
| 1(5)(xi)     | A statement that the financial statements prepared by the management of the issuer company present fairly its state of affairs, the result of its operations, cash flows and changes in equity; | ✓ | Disclosed in the Directors’ Report part of this Annual Report. |
| 1(5)(xii)    | A statement that proper books of account of the issuer company have been maintained; | ✓ | |
| 1(5)(xiii)   | A statement that appropriate accounting policies have been consistently applied in preparation of the financial statements and that the accounting estimates are based on reasonable and prudent judgment; | ✓ | |</p>
<table>
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<tr>
<td>1(5)(xiv)</td>
<td>A statement that International Accounting Standards (IAS) or International Financial Reporting Standards (IFRS), as applicable in Bangladesh, have been followed in preparation of the financial statements and any departure there from has been adequately disclosed;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xv)</td>
<td>A statement that the system of internal control is sound in design and has been effectively implemented and monitored;</td>
<td>√</td>
<td></td>
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<tr>
<td>1(5)(xvi)</td>
<td>A statement that minority shareholders have been protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly and have effective means of redress;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xvii)</td>
<td>A statement that there is no significant doubt upon the issuer company’s ability to continue as a going concern, if the issuer company is not considered to be a going concern, the fact along with reasons thereof shall be disclosed;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xviii)</td>
<td>An explanation that significant deviations from the last year’s operating results of the issuer company shall be highlighted and the reasons thereof shall be explained;</td>
<td>No such situation arisen in the reporting year.</td>
<td></td>
</tr>
<tr>
<td>1(5)(xix)</td>
<td>A statement where key operating and financial data of at least preceding 5 (five) years shall be summarized</td>
<td>√</td>
<td>Disclosed in the Directors’ Report part of this Annual Report.</td>
</tr>
<tr>
<td>1(5)(xx)</td>
<td>An explanation on the reasons if the issuer company has not declared dividend (cash or stock) for the year;</td>
<td>No such situation arisen in the reporting year.</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxi)</td>
<td>Board’s statement to the effect that no bonus share or stock dividend has been or shall be declared as interim dividend;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxii)</td>
<td>The total number of Board meetings held during the year and attendance by each director;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxiii)</td>
<td>A report on the pattern of shareholding disclosing the aggregate number of shares (along with name-wise details where stated below) held by:</td>
<td>√</td>
<td>Disclosed in this Annual Report.</td>
</tr>
<tr>
<td>1(5)(xxiii)(a)</td>
<td>Parent or Subsidiary or Associated Companies and other related parties (name-wise details);</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxiii)(b)</td>
<td>Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer, Head of Internal Audit and Compliance and their spouses and minor children (name-wise details);</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxiii)(c)</td>
<td>Executives; and Explanation: For the purpose of this clause, the expression “executive” means top 5 (five) salaried employees of the company, other than the Directors, Chief Executive Officer, Company Secretary, Chief Financial Officer and Head of Internal Audit and Compliance.</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxiii)(d)</td>
<td>Shareholders holding ten percent (10%) or more voting interest in the company (name-wise details);</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxiv)</td>
<td>In case of the appointment or reappointment of a director, a disclosure on the following information to the shareholders:</td>
<td>√</td>
<td>Disclosed in this Annual Report.</td>
</tr>
<tr>
<td>1(5)(xxiv)(a)</td>
<td>a brief resume of the director;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxiv)(b)</td>
<td>nature of his or her expertise in specific functional areas; and</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxiv)(c)</td>
<td>names of companies in which the person also holds the directorship and the membership of committees of the Board;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxv)</td>
<td>A Management’s Discussion and Analysis signed by CEO or MD presenting detailed analysis of the company’s position and operations along with a brief discussion of changes in the financial statements, among others, focusing on:</td>
<td>√</td>
<td>Disclosed in the Annual Report.</td>
</tr>
<tr>
<td>1(5)(xxv)(a)</td>
<td>accounting policies and estimation for preparation of financial statements;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxv)(b)</td>
<td>changes in accounting policies and estimation, if any, clearly describing the effect on financial performance or results and financial position as well as cash flows in absolute figure for such changes;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>Condition No.</td>
<td>Title</td>
<td>Compliance Status (✓ has been put in the appropriate column)</td>
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<tr>
<td>1(5)(xxv)(c)</td>
<td>comparative analysis (including effects of inflation) of financial performance or results and financial position as well as cash flows for current financial year with immediate preceding five years explaining reasons thereof;</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxv)(d)</td>
<td>compare such financial performance or results and financial position as well as cash flows with the peer industry scenario;</td>
<td>✓</td>
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</tr>
<tr>
<td>1(5)(xxv)(e)</td>
<td>briefly explain the financial and economic scenario of the country and the globe;</td>
<td>✓</td>
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</tr>
<tr>
<td>1(5)(xxv)(f)</td>
<td>risks and concerns issues related to the financial statements, explaining such risk and concerns mitigation plan of the company; and</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxv)(g)</td>
<td>future plan or projection or forecast for company’s operation, performance and financial position, with justification thereof, i.e., actual position shall be explained to the shareholders in the next AGM;</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxvi)</td>
<td>Declaration or certification by the CEO and the CFO to the Board as required under condition No. 3(3) shall be disclosed as per Annexure-A; and</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>1(5)(xxvii)</td>
<td>The report as well as certificate regarding compliance of conditions of this Code as required under condition No. 9 shall be disclosed as per Annexure-B and Annexure-C.</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

1(6) Meetings of the Board of Directors

The company shall conduct its Board meetings and record the minutes of the meetings as well as keep required books and records in line with the provisions of the relevant Bangladesh Secretarial Standards (BSS) as adopted by the Institute of Chartered Secretaries of Bangladesh (ICSB) in so far as those standards are not inconsistent with any condition of this Code. Board Meetings are conducted regularly and all minutes, required books & records are well maintained & preserved.

1(7) Code of Conduct for the Chairperson, other Board members and Chief Executive Officer

1(7)(a) The Board shall lay down a code of conduct, based on the recommendation of the Nomination and Remuneration Committee (NRC) at condition No. 6, for the Chairperson of the Board, other board members and Chief Executive Officer of the company; Bangladesh Bank (BB), the primary regulator of Banks, advised all the schedule Banks to follow the Bank Company Act, 1991 and relevant directives of BB. They have also provided the Banks the code of conduct of Board.

1(7)(b) The code of conduct as determined by the NRC shall be posted on the website of the company including, among others, prudent conduct and behavior; confidentiality; conflict of interest; compliance with laws, rules and regulations; prohibition of insider trading; relationship with environment, employees, customers and suppliers; and independency.

2 Governance of Board of Directors of Subsidiary Company

2(a) Provisions relating to the composition of the Board of the holding company shall be made applicable to the composition of the Board of the subsidiary company; ✓

2(b) At least 1 (one) independent director on the Board of the holding company shall be a director on the Board of the subsidiary company; ✓

2(c) The minutes of the Board meeting of the subsidiary company shall be placed for review at the following Board meeting of the holding company; ✓

2(d) The minutes of the respective Board meeting of the holding company shall state that they have reviewed the affairs of the subsidiary company also; ✓

2(e) The Audit Committee of the holding company shall also review the financial statements, in particular the investments made by the subsidiary company. ✓
### Compliance Status

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<tr>
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<tbody>
<tr>
<td>3(1)</td>
<td>Appointment</td>
<td></td>
</tr>
<tr>
<td>3(1)(a)</td>
<td>The Board shall appoint a Managing Director (MD) or Chief Executive Officer (CEO), a Company Secretary (CS), a Chief Financial Officer (CFO) and a Head of Internal Audit and Compliance (HIAC);</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>The positions of the Managing Director (MD) or Chief Executive Officer (CEO), Company Secretary (CS), Chief Financial Officer (CFO) and Head of Internal Audit and Compliance (HIAC) shall be filled by different individuals;</td>
<td>✓</td>
</tr>
<tr>
<td>3(1)(c)</td>
<td>The MD or CEO, CS, CFO and HIAC of a listed company shall not hold any executive position in any other company at the same time;</td>
<td>✓</td>
</tr>
<tr>
<td>3(1)(d)</td>
<td>The Board shall clearly define respective roles, responsibilities and duties of the CFO, the HIAC and the CS;</td>
<td>✓</td>
</tr>
<tr>
<td>3(1)(e)</td>
<td>The MD or CEO, CS, CFO and HIAC shall not be removed from their position without approval of the Board as well as immediate dissemination to the Commission and stock exchange(s).</td>
<td>✓</td>
</tr>
<tr>
<td>3(2)</td>
<td>Requirement to attend Board of Directors’ Meetings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>The MD or CEO, CS, CFO and HIAC of the company shall attend the meetings of the Board. Provided that the CS, CFO and/or the HIAC shall not attend such part of a meeting of the Board which involves consideration of an agenda item relating to their personal matters.</td>
<td>✓</td>
</tr>
<tr>
<td>3(3)</td>
<td>Duties of Managing Director (MD) or Chief Executive Officer (CEO) and Chief Financial Officer (CFO)</td>
<td></td>
</tr>
<tr>
<td>3(3)(a)</td>
<td>The MD or CEO and CFO shall certify to the Board that they have reviewed financial statements for the year and that to the best of their knowledge and belief:</td>
<td>✓</td>
</tr>
<tr>
<td>3(3)(a)(i)</td>
<td>these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading; and</td>
<td>✓</td>
</tr>
<tr>
<td>3(3)(a)(ii)</td>
<td>these statements together present a true and fair view of the company’s affairs and are in compliance with existing accounting standards and applicable laws;</td>
<td>✓</td>
</tr>
<tr>
<td>3(3)(b)</td>
<td>The MD or CEO and CFO shall also certify that there are, to the best of knowledge and belief, no transactions entered into by the company during the year which are fraudulent, illegal or in violation of the code of conduct for the company’s Board or its members;</td>
<td>✓</td>
</tr>
<tr>
<td>3(3)(c)</td>
<td>The certification of the MD or CEO and CFO shall be disclosed in the Annual Report.</td>
<td>✓</td>
</tr>
<tr>
<td>3(3)</td>
<td>Duties of Managing Director (MD) or Chief Executive Officer (CEO) and Chief Financial Officer (CFO)</td>
<td></td>
</tr>
<tr>
<td>4(i)</td>
<td>Board of Directors’ Committee: For ensuring good governance in the company, the Board shall have at least following sub-committees</td>
<td></td>
</tr>
<tr>
<td>4(i)</td>
<td>Audit Committee; and</td>
<td>✓</td>
</tr>
</tbody>
</table>

Annual Report 2022
<table>
<thead>
<tr>
<th>Condition No.</th>
<th>Title</th>
<th>Compliance Status</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>4(ii)</td>
<td>Nomination and Remuneration Committee.</td>
<td></td>
<td>Bangladesh Bank (BB), the primary regulator of Banks, advised all the schedule Banks to follow the Bank Company Act, 1991 and relevant directives of BB. As per BB guidelines, MBL can only form three sub-committees of the Board: Audit Committee (AC), Executive Committee (EC) and Risk Management Committee (RMC). No other Sub-Committee of the Board is permitted by BB. However, to comply with the issue, we addressed this issue to BSEC and BB.</td>
</tr>
</tbody>
</table>

5 Audit Committee

5(1) Responsibility to the Board of Directors

| 5(1)(a) | The company shall have an Audit Committee as a subcommittee of the Board; | √ | Audit Committee is established as per BSEC and BB guidelines. |
| 5(1)(b) | The Audit Committee shall assist the Board in ensuring that the financial statements reflect true and fair view of the state of affairs of the company and in ensuring a good monitoring system within the business; | √ | The Audit Committee discharges their responsibility as per given guidelines. |
| 5(1)(c) | The Audit Committee shall be responsible to the Board; the duties of the Audit Committee shall be clearly set forth in writing. | √ | The duties of the Audit committee are clearly defined in the Guideline for Audit committee as per BSEC and BB guidelines. |

5(2) Constitution of the Audit Committee

| 5(2)(a) | The Audit Committee shall be composed of at least 3 (three) members; | √ | Audit Committee comprises of 04 (four) members. |
| 5(2)(b) | The Board shall appoint members of the Audit Committee who shall be non-executive directors of the company excepting Chairperson of the Board and shall include at least 1 (one) independent director; | √ | All the Directors of the Bank except MD & CEO are non-executive directors. There are 02 (two) Independent Directors in the Audit Committee and one of them, Dr. Gazi Mohammad Hasan Jamil, is the Chairman of the Audit Committee. |

5(2)(c) All members of the audit committee should be “financially literate” and at least 1 (one) member shall have accounting or related financial management background and 10 (ten) years of such experience;

Explanation: The term “financially literate” means the ability to read and understand the financial statements like statement of financial position, statement of comprehensive income, statement of changes in equity and cash flows statement and a person will be considered to have accounting or related financial management expertise if he or she possesses professional qualification or Accounting or Finance graduate with at least 10 (ten) years of corporate management or professional experiences. | √ | The profiles of the members demonstrate their capabilities as such. |
<table>
<thead>
<tr>
<th>Condition No.</th>
<th>Title</th>
<th>Compliance Status</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>5(2)(d)</td>
<td>When the term of service of any Committee member expires or there is any circumstance causing any Committee member to be unable to hold office before expiration of the term of service, thus making the number of the Committee members to be lower than the prescribed number of 3 (three) persons, the Board shall appoint the new Committee member to fill up the vacancy immediately or not later than 1 (one) month from the date of vacancy in the Committee to ensure continuity of the performance of work of the Audit Committee;</td>
<td>√</td>
<td>No such situation arisen in the reporting year.</td>
</tr>
<tr>
<td>5(2)(e)</td>
<td>The company secretary shall act as the secretary of the Committee;</td>
<td>√</td>
<td>The CS in practice act as the secretary of the Audit Committee.</td>
</tr>
<tr>
<td>5(2)(f)</td>
<td>The quorum of the Audit Committee meeting shall not constitute without at least 1 (one) independent director.</td>
<td>√</td>
<td>The quorum of all the meetings of the Audit Committee were duly filled up.</td>
</tr>
<tr>
<td>5(3)</td>
<td>Chairperson of the Audit Committee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5(3)(a)</td>
<td>The Board shall select 1 (one) member of the Audit Committee to be Chairperson of the Audit Committee, who shall be an independent director;</td>
<td>√</td>
<td>Dr. Gazi Mohammad Hasan Jamil is a Professor in the Department of Finance, University of Dhaka an Independent Director, is the Chairman of Audit Committee.</td>
</tr>
<tr>
<td>5(3)(b)</td>
<td>In the absence of the Chairperson of the Audit Committee, the remaining members may elect one of themselves as Chairperson for that particular meeting, in that case there shall be no problem of constituting a quorum as required under condition No. 5(4)(b) and the reason of absence of the regular Chairperson shall be duly recorded in the minutes.</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>5(3)(c)</td>
<td>Chairperson of the Audit Committee shall remain present in the Annual General Meeting (AGM):</td>
<td>√</td>
<td>Duly recorded.</td>
</tr>
<tr>
<td></td>
<td>Provided that in absence of Chairperson of the Audit Committee, any other member from the Audit Committee shall be selected to be present in the annual general meeting (AGM) and reason for absence of the Chairperson of the Audit Committee shall be recorded in the minutes of the AGM.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5(4)</td>
<td>Meeting of the Audit Committee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5(4)(a)</td>
<td>The Audit Committee shall conduct at least its four meetings in a financial year:</td>
<td>√</td>
<td>Total 07 (seven) meetings of Audit Committee held in the Year 2022.</td>
</tr>
<tr>
<td></td>
<td>Provided that any emergency meeting in addition to regular meeting may be convened at the request of any one of the members of the Committee;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5(4)(b)</td>
<td>The quorum of the meeting of the Audit Committee shall be constituted in presence of either two members or two-third of the members of the Audit Committee, whichever is higher, where presence of an independent director is a must.</td>
<td>√</td>
<td>The quorum of all the meeting of the Audit Committee was duly filled up.</td>
</tr>
<tr>
<td>5(5)</td>
<td>Role of Audit Committee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5(5)(a)</td>
<td>Oversee the financial reporting process;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>5(5)(b)</td>
<td>Monitor choice of accounting policies and principles;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>5(5)(c)</td>
<td>Monitor Internal Audit and Compliance process to ensure that it is adequately resourced, including approval of the Internal Audit and Compliance Plan and review of the Internal Audit and Compliance Report;</td>
<td>√</td>
<td>The Audit Committee performs as per BSEC and BB guidelines.</td>
</tr>
<tr>
<td>5(5)(d)</td>
<td>Oversee hiring and performance of external auditors;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>5(5)(e)</td>
<td>Hold meeting with the external or statutory auditors for review of the annual financial statements before submission to the Board for approval or adoption;</td>
<td>√</td>
<td></td>
</tr>
</tbody>
</table>
### Corporate Governance

<table>
<thead>
<tr>
<th>Condition No.</th>
<th>Title</th>
<th>Compliance Status (✓ has been put in the appropriate column)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>5(5)(f)</td>
<td>Review along with the management, the annual financial statements before submission to the Board for approval;</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5(5)(g)</td>
<td>Review along with the management, the quarterly and half yearly financial statements before submission to the Board for approval;</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5(5)(h)</td>
<td>Review the adequacy of internal audit function;</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5(5)(i)</td>
<td>Review the Management’s Discussion and Analysis before disclosing in the Annual Report;</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5(5)(j)</td>
<td>Review statement of all related party transactions submitted by the management;</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5(5)(k)</td>
<td>Review Management Letters or Letter of Internal Control weakness issued by statutory auditors;</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5(5)(l)</td>
<td>Oversee the determination of audit fees based on scope and magnitude, level of expertise deployed and time required for effective audit and evaluate the performance of external auditors; and</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>5(5)(m)</td>
<td>Oversee whether the proceeds raised through Initial Public Offering (IPO) or Repeat Public Offering (RPO) or Rights Share Offer have been utilized as per the purposes stated in relevant offer document or prospectus approved by the Commission:</td>
<td>✓</td>
<td>No such situation arisen in the reporting year.</td>
</tr>
</tbody>
</table>

Provided that the management shall disclose to the Audit Committee about the uses or applications of the proceeds by major category (capital expenditure, sales and marketing expenses, working capital, etc.), on a quarterly basis, as a part of their quarterly declaration of financial results:

Provided further that on an annual basis, the company shall prepare a statement of the proceeds utilized for the purposes other than those stated in the offer document or prospectus for publication in the Annual Report along with the comments of the Audit Committee.

### 5(6) Reporting of the Audit Committee

<table>
<thead>
<tr>
<th>5(6)(a)</th>
<th>Reporting to the Board of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>5(6)(a)(i)</td>
<td>The Audit Committee shall report on its activities to the Board.</td>
</tr>
<tr>
<td>5(6)(a)(ii)</td>
<td>The Audit Committee shall immediately report to the Board on the following findings, if any:</td>
</tr>
<tr>
<td></td>
<td>report on conflicts of interests</td>
</tr>
<tr>
<td></td>
<td>suspected or presumed fraud or irregularity or material defect identified in the internal audit and compliance process or in the financial statements;</td>
</tr>
<tr>
<td></td>
<td>suspected infringement of laws, regulatory compliances including securities related laws, rules and regulations; and</td>
</tr>
<tr>
<td></td>
<td>any other matter which the Audit Committee deems necessary shall be disclosed to the Board immediately;</td>
</tr>
<tr>
<td>5(6)(b)</td>
<td>Reporting to the Authorities</td>
</tr>
</tbody>
</table>

If the Audit Committee has reported to the Board about anything which has material impact on the financial condition and results of operation and has discussed with the Board and the management that any rectification is necessary and if the Audit Committee finds that such rectification has been unreasonably ignored, the Audit Committee shall report such finding to the Commission, upon reporting of such matters to the Board for three times or completion of a period of 6 (six) months from the date of first reporting to the Board, whichever is earlier.

No such situation arisen in the reporting year.
<table>
<thead>
<tr>
<th>Condition No.</th>
<th>Title</th>
<th>Compliance Status</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>5(7)</td>
<td>Reporting to the Shareholders and General Investors</td>
<td>√</td>
<td>Disclosed in this Annual Report.</td>
</tr>
</tbody>
</table>

### 5(7) Reporting to the Shareholders and General Investors

Report on activities carried out by the Audit Committee, including any report made to the Board under condition No. 5(6)(a)(iii) above during the year, shall be signed by the Chairperson of the Audit Committee and disclosed in the annual report of the issuer company.

### 6 Nomination and Remuneration Committee (NRC)

#### 6(1) Responsibility to the Board of Directors

6(1)(a) The company shall have a Nomination and Remuneration Committee (NRC) as a sub-committee of the Board

6(1)(b) The NRC shall assist the Board in formulation of the nomination criteria or policy for determining qualifications, positive attributes, experiences and independence of directors and top level executive as well as a policy for formal process of considering remuneration of directors, top level executive;

6(1)(c) The Terms of Reference (ToR) of the NRC shall be clearly set forth in writing covering the areas stated at the condition No. 6(5)(b).

### 6(2) Constitution of the NRC

6(2)(a) The Committee shall comprise of at least three members including an independent director;

6(2)(b) All members of the Committee shall be non-executive directors;

6(2)(c) Members of the Committee shall be nominated and appointed by the Board;

6(2)(d) The Board shall have authority to remove and appoint any member of the Committee;

6(2)(e) In case of death, resignation, disqualification, or removal of any member of the Committee or in any other cases of vacancies, the board shall fill the vacancy within 180 (one hundred eighty) days of occurring such vacancy in the Committee;

6(2)(f) The Chairperson of the Committee may appoint or co-opt any external expert and/or member(s) of staff to the Committee as advisor who shall be non-voting member, if the Chairperson feels that advice or suggestion from such external expert and/or member(s) of staff shall be required or valuable for the Committee;

6(2)(g) The company secretary shall act as the secretary of the Committee;

6(2)(h) The quorum of the NRC meeting shall not constitute without attendance of at least an independent director;

6(2)(i) No member of the NRC shall receive, either directly or indirectly, any remuneration for any advisory or consultancy role or otherwise, other than Director's fees or honorarium from the company.
<table>
<thead>
<tr>
<th>Condition No.</th>
<th>Title</th>
<th>Compliance Status</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>6(3)</strong> Chairperson of the NRC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6(3)(a)</td>
<td>The Board shall select 1 (one) member of the NRC to be Chairperson of the Committee, who shall be an independent director;</td>
<td>Complied</td>
<td>Bangladesh Bank (BB), the primary regulator of Banks, advised all the schedule Banks to follow the Bank Company Act, 1991 and relevant directives of BB. As per BB guidelines, MBL can only form three sub-committees of the Board: Audit Committee (AC), Executive Committee (EC) and Risk Management Committee (RMC). No other Sub-Committee of the Board is permitted by BB. However, to comply with the issue, we addressed this issue to BSEC and BB.</td>
</tr>
<tr>
<td>6(3)(b)</td>
<td>In the absence of the Chairperson of the NRC, the remaining members may elect one of themselves as Chairperson for that particular meeting, the reason of absence of the regular Chairperson shall be duly recorded in the minutes;</td>
<td>Not complied</td>
<td></td>
</tr>
<tr>
<td>6(3)(c)</td>
<td>The Chairperson of the NRC shall attend the annual general meeting (AGM) to answer the queries of the shareholders; Provided that in absence of Chairperson of the NRC, any other member from the NRC shall be selected to be present in the annual general meeting (AGM) for answering the shareholder’s queries and reason for absence of the Chairperson of the NRC shall be recorded in the minutes of the AGM.</td>
<td>Complied</td>
<td></td>
</tr>
<tr>
<td><strong>6(4)</strong> Meeting of the NRC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6(4)(a)</td>
<td>The NRC shall conduct at least one meeting in a financial year;</td>
<td>Complied</td>
<td>Bangladesh Bank (BB), the primary regulator of Banks, advised all the schedule Banks to follow the Bank Company Act, 1991 and relevant directives of BB. As per BB guidelines, MBL can only form three sub-committees of the Board: Audit Committee (AC), Executive Committee (EC) and Risk Management Committee (RMC). No other Sub-Committee of the Board is permitted by BB. However, to comply with the issue, we addressed this issue to BSEC and BB.</td>
</tr>
<tr>
<td>6(4)(b)</td>
<td>The Chairperson of the NRC may convene any emergency meeting upon request by any member of the NRC;</td>
<td>Complied</td>
<td></td>
</tr>
<tr>
<td>6(4)(c)</td>
<td>The quorum of the meeting of the NRC shall be constituted in presence of either two members or two third of the members of the Committee, whichever is higher, where presence of an independent director is must as required under condition No. 6(2)(h);</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6(4)(d)</td>
<td>The proceedings of each meeting of the NRC shall duly be recorded in the minutes and such minutes shall be confirmed in the next meeting of the NRC.</td>
<td>Complied</td>
<td></td>
</tr>
<tr>
<td><strong>6(5)</strong> Role of the NRC</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6(5)(a)</td>
<td>NRC shall be independent and responsible or accountable to the Board and to the shareholders;</td>
<td>Complied</td>
<td>Bangladesh Bank (BB), the primary regulator of Banks, advised all the schedule Banks to follow the Bank Company Act, 1991 and relevant directives of BB. As per BB guidelines, MBL can only form three sub-committees of the Board: Audit Committee (AC), Executive Committee (EC) and Risk Management Committee (RMC). No other Sub-Committee of the Board is permitted by BB. However, to comply with the issue, we addressed this issue to BSEC and BB.</td>
</tr>
<tr>
<td>6(5)(b)</td>
<td>NRC shall oversee, among others, the following matters and make report with recommendation to the Board:</td>
<td>Complied</td>
<td></td>
</tr>
<tr>
<td>6(5)(b)(i)</td>
<td>Formulating the criteria for determining qualifications, positive attributes and independence of a director and recommend a policy to the Board, relating to the remuneration of the directors, top level executive, considering the following:</td>
<td>Complied</td>
<td></td>
</tr>
<tr>
<td>6(5)(b)(i)(a)</td>
<td>The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate suitable directors to run the company successfully;</td>
<td>Complied</td>
<td></td>
</tr>
<tr>
<td>6(5)(b)(i)(b)</td>
<td>The relationship of remuneration to performance is clear and meets appropriate performance benchmarks, and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6(5)(b)(i)(c)</td>
<td>Remuneration to directors, top level executive involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the company and its goals;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6(5)(b)(ii)</td>
<td>Devising a policy on Board’s diversity taking into consideration age, gender, experience, ethnicity, educational background and nationality;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Condition No.</td>
<td>Title</td>
<td>Compliance Status</td>
<td>Remarks</td>
</tr>
<tr>
<td>--------------</td>
<td>-------</td>
<td>-------------------</td>
<td>---------</td>
</tr>
<tr>
<td>6(5)(b)(iii)</td>
<td>identifying persons who are qualified to become directors and who may be appointed in top level executive position in accordance with the criteria laid down, and recommend their appointment and removal to the Board;</td>
<td>√ has been put in the appropriate column</td>
<td></td>
</tr>
<tr>
<td>6(5)(b)(iv)</td>
<td>formulating the criteria for evaluation of performance of independent directors and the Board;</td>
<td>√</td>
<td></td>
</tr>
<tr>
<td>6(5)(b)(v)</td>
<td>identifying the company’s needs for employees at different levels and determine their selection, transfer or replacement and promotion criteria; and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6(5)(b)(vi)</td>
<td>developing, recommending and reviewing annually the company’s human resources and training policies;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6(5)(c)</td>
<td>The company shall disclose the nomination and remuneration policy and the evaluation criteria and activities of NRC during the year at a glance in its annual report.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### 7 External or Statutory Auditors

7(1) The issuer company shall not engage its external or statutory auditors to perform the following services of the company, namely:-

7(1)(i) Appraisal or valuation services or fairness opinions; √
7(1)(ii) Financial information systems design and implementation; √
7(1)(iii) Book-keeping or other services related to the accounting records or financial statements; √
7(1)(iv) Broker-dealer services; √
7(1)(v) Actuarial services; √
7(1)(vi) Internal audit services or special audit services; √
7(1)(vii) Any service that the Audit Committee determines; √
7(1)(viii) Audit or certification services on compliance of corporate governance as required under condition No. 9(1); and √
7(1)(ix) Any other service that creates conflict of interest. √

Declaration has been provided by External/ Statutory auditors.

7(2) No partner or employees of the external audit firms shall possess any share of the company they audit at least during the tenure of their audit assignment of that company; his or her family members also shall not hold any shares in the said company:

Provided that spouse, son, daughter, father, mother, brother, sister, son-in-law and daughter-in-law shall be considered as family members.

7(3) Representative of external or statutory auditors shall remain present in the Shareholders’ Meeting (Annual General Meeting or Extraordinary General Meeting) to answer the queries of the shareholders. √

Representative of external or statutory auditors were present in the 23rd AGM held in 2022.

### 8 Maintaining a website by the Company

8(1) The company shall have an official website linked with the website of the stock exchange √

The address of official website of the Bank is www.mblbd.com & it’s already linked with websites of DSE & CSE.

8(2) The company shall keep the website functional from the date of listing. √

The website is functional since inception of the Bank.

8(3) The company shall make available the detailed disclosures on its website as required under the listing regulations of the concerned stock exchange(s). √

Detailed disclosures required as per listing regulations are available on the “Investors’ Relation” part of the website.
### Reporting and Compliance of Corporate Governance

<table>
<thead>
<tr>
<th>Condition No.</th>
<th>Title</th>
<th>Compliance Status</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>9(1)</td>
<td>The company shall obtain a certificate from a practicing Professional Accountant or Secretary (Chartered Accountant or Cost and Management Accountant or Chartered Secretary) other than its statutory auditors or audit firm on yearly basis regarding compliance of conditions of Corporate Governance Code of the Commission and shall such certificate shall be disclosed in the Annual Report.</td>
<td>√</td>
<td>Disclosed in this Annual Report.</td>
</tr>
<tr>
<td></td>
<td>Explanation: “Chartered Accountant” means Chartered Accountant as defined in the Bangladesh Chartered Accountants Order, 1973 (President’s Order No. 2 of 1973); “Cost and Management Accountant” means Cost and Management Accountant as defined in the Cost and Management Accountants Ordinance, 1977 (Ordinance No. LIII of 1977); “Chartered Secretary” means Chartered Secretary as defined in the Chartered Secretaries Act, 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9(2)</td>
<td>The professional who will provide the certificate on compliance of this Corporate Governance Code shall be appointed by the shareholders in the annual general meeting.</td>
<td>√</td>
<td>Approval for Appointment of Corporate Governance compliance Auditor has been taken in the 23rd AGM held in 2022.</td>
</tr>
<tr>
<td>9(3)</td>
<td>The directors of the company shall state, in accordance with the Annexure-C attached, in the directors’ report whether the company has complied with these conditions or not.</td>
<td>√</td>
<td>Disclosed in this Annual Report.</td>
</tr>
</tbody>
</table>
COMPLIANCE OF MEETING & REMUNERATION

Board Meeting held during the year 2022 and attendance of each Director

<table>
<thead>
<tr>
<th>No.</th>
<th>Director’s Name</th>
<th>Designation</th>
<th>Total no. of meeting held during the year</th>
<th>Applicable for mentioned member</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Meeting held</td>
</tr>
<tr>
<td>1</td>
<td>Mr. Morshed Alam, MP</td>
<td>Chairman</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>2</td>
<td>Mr. A.S.M. Feroz Alam</td>
<td>Vice Chairman</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>3</td>
<td>Mr. Md. Abdul Hannan</td>
<td>Vice Chairman</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>4</td>
<td>Mr. Md. Anwarul Haque</td>
<td>Chairman, Executive Committee</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>5</td>
<td>Mr. M. Amanullah</td>
<td>Chairman, Risk Management Committee</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>6</td>
<td>Dr. Gazi Mohammad Hasan Jamil</td>
<td>Independent Director &amp; Chairman, Audit Committee</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>7</td>
<td>Al-Haj Akram Hossain (Humayun)</td>
<td>Director</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>8</td>
<td>Alhaj Mosharref Hossain</td>
<td>Director</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>9</td>
<td>Mr. M. A. Khan Belal</td>
<td>Director</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>10</td>
<td>Mr. Mohammad Abdul Awal</td>
<td>Director</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>11</td>
<td>Mr. Md. Nasiruddin Choudhury*</td>
<td>Director</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>12</td>
<td>Prof. Dr. Md. Rezaul Kabir</td>
<td>Independent Director</td>
<td></td>
<td>16</td>
</tr>
</tbody>
</table>

Directors, who could not attend meeting, were granted leave of absence by the present members of the Board.

Note:

Executive Committee (EC) Meeting held during the year 2022 and attendance of each Director

<table>
<thead>
<tr>
<th>No.</th>
<th>Director’s Name</th>
<th>Designation</th>
<th>Total no. of meeting held of the committee during the year</th>
<th>Applicable for mentioned member</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Meeting held</td>
</tr>
<tr>
<td>1</td>
<td>Mr. Md. Anwarul Haque</td>
<td>Chairman</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>2</td>
<td>Mr. M. Amanullah</td>
<td>Member</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>3</td>
<td>Al-Haj Akram Hossain (Humayun)</td>
<td>Member</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>4</td>
<td>Alhaj Mosharref Hossain</td>
<td>Member</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>5</td>
<td>Mr. M. A. Khan Belal</td>
<td>Member</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>6</td>
<td>Mr. Mohammad Abdul Awal</td>
<td>Member</td>
<td></td>
<td>43</td>
</tr>
<tr>
<td>7</td>
<td>Mr. Md. Nasiruddin Choudhury*</td>
<td>Member</td>
<td></td>
<td>15</td>
</tr>
</tbody>
</table>

Members, who could not attend meeting, were granted leave of absence by the present members of the committee.

Note:
* Mr. Md. Nasiruddin Choudhury as Member of Executive Committee upto 28.04.2022.
### Audit Committee (AC) Meeting held during the year 2022 and attendance of each Director

<table>
<thead>
<tr>
<th>No.</th>
<th>Director’s Name</th>
<th>Designation</th>
<th>Total no. of meeting held of the committee during the year</th>
<th>Applicable for mentioned member</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Meeting held</td>
<td>Present</td>
</tr>
<tr>
<td>1</td>
<td>Dr. Gazi Mohammad Hasan Jamil</td>
<td>Chairman</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>2</td>
<td>Mr. A.S.M. Feroz Alam</td>
<td>Member</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>Mr. Md. Abdul Hannan</td>
<td>Member</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>4</td>
<td>Prof. Dr. Md. Rezaul Kabir</td>
<td>Member</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

### Risk Management Committee (RMC) Meeting held during the year 2022 and attendance of each Director

<table>
<thead>
<tr>
<th>No.</th>
<th>Director’s Name</th>
<th>Designation</th>
<th>Total no. of meeting held of the committee during the year</th>
<th>Applicable for mentioned member</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Meeting held</td>
<td>Present</td>
</tr>
<tr>
<td>1</td>
<td>Mr. M. Amanullah</td>
<td>Chairman</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>Mr. Md. Anwarul Haque</td>
<td>Member</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Mr. M. A. Khan Belal</td>
<td>Member</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>Mr. Mohammad Abdul Awal*</td>
<td>Member</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Al-Haj Akram Hossain (Humayun)**</td>
<td>Member</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>6</td>
<td>Dr. Gazi Mohammad Hasan Jamil***</td>
<td>Member</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Note:  
* Mr. Mohammad Abdul Awal was appointed as Member of Risk Management Committee on 22.05.2022.  
** Al-Haj Akram Hossain (Humayun) continued as Member of Risk Management Committee upto 22.05.2022.  
*** Dr. Gazi Mohammad Hasan Jamil continued as Member of Risk Management Committee upto 22.05.2022.
Audit Committee is an operating committee of a on 03 June 2018 and Bangladesh Bank BRPD Circular No. 11 dated 27 October 2013. The Audit Committee assists company’s Board of Directors, assisting the board to fulfill its oversight responsibilities in areas such as an entity’s financial reporting, internal control systems, risk management systems and the internal and external audit functions. For ensuring good governance in the Bank, Mercantile Bank Limited has an Audit Committee as a sub-committee of the Board. The Audit Committee of Mercantile Bank Limited has been formed and its roles and responsibilities have been defined in line with the notification on Corporate Governance issued by BSEC the Board in ensuring that the financial statements reflect true and fair view of the state of affairs of the company and in ensuring a good monitoring system within the business.

Audit Committee Composition and Qualifications

The Audit Committee of the Board of Directors of MBL was reconstituted in the 402nd meeting of the Board held on May 22, 2022 in compliance with the Bangladesh Bank direction. The Committee is comprised of 04 (four) members including 02 (two) Independent Directors and they are not members of Executive Committee. The composition of Audit Committee is as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Status</th>
<th>Position</th>
<th>Educational Qualification</th>
<th>Meeting Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. Gazi Mohammad Hasan Jamil</td>
<td>Independent Director</td>
<td>Chairman</td>
<td>BBA &amp; MBA (DU), MS in Finance (USA), Ph.D. (Canada)</td>
<td>7/7</td>
</tr>
<tr>
<td>Mr. A S M Feroz Alam</td>
<td>Vice Chairman</td>
<td>Member</td>
<td>Graduate</td>
<td>7/7</td>
</tr>
<tr>
<td>Mr. Md. Abdul Hannan</td>
<td>Director</td>
<td>Member</td>
<td>Engineer</td>
<td>7/7</td>
</tr>
<tr>
<td>Prof. Dr. Md. Rezaul Kabir</td>
<td>Independent Director</td>
<td>Member</td>
<td>M.Sc. (UK), Ph.D. (UK)</td>
<td>7/7</td>
</tr>
</tbody>
</table>

The Company Secretary of the Bank is the Secretary of the Board Audit Committee. The quorum of the Audit Committee meeting do not constitute without at least one independent director.

Roles and Responsibilities of the Audit Committee

In compliance with Bangladesh Bank BRPD Circular and BSEC’s Corporate Governance Guidelines, the Audit Committee is mainly responsible for the following:

- Oversee the financial reporting process;
- Monitor choice of accounting policies and principles;
- Monitor Internal Audit and Compliance process to ensure that it is adequately resourced, including approval of the Internal Audit and Compliance Plan and review of the Internal Audit and Compliance Report;
- Oversee hiring and performance of external auditors;
- Hold meetings with the external or statutory auditors for review of the annual financial statements before submission to the Board for approval or adoption;
- Review along with the management, the quarterly and half yearly financial statements before submission to the Board for approval;
- Review the adequacy of internal audit function;
- Review the Management’s Discussion and Analysis before disclosing in the Annual Report;
- Review statement of all related party transactions submitted by the management;
- Review Management Letters or Letter of Internal Control weakness issued by statutory auditors; and
- Oversee whether the proceeds raised through Initial Public Offering (IPO) or Repeat Public Offering (RPO) or Rights Share Offer have been utilized as per the purposes stated in relevant offer document or prospectus approved by the Commission.
**Reporting of the Audit Committee**

**1. Reporting to the Board of Directors**

All activities of Audit Committee were reported to the Board and the Board closely reviewed and ratified them. The Audit Committee reports to the Board on the following findings, if any –

- Report on conflicts of interests;
- Suspected or presumed fraud or irregularity or material defect identified in the internal audit and compliance process or in the financial statements;
- Suspected infringement of laws, regulatory compliances including securities related laws, rules and regulations; and
- Any other matter which the Audit Committee deems necessary, to discuss to the Board immediately;

**2. Reporting to the Authorities**

There had not been any occurrence in the Bank that required reporting to the relevant authorities by the Bank's Audit Committee.

**Meetings of the Audit Committee and Major focused Areas**

Bangladesh Bank suggested Banks to hold at least 4 (four) meetings in a year. The Audit Committee of MBL held 7 (seven) meetings in 2022 and had detailed discussions and review sessions with the Head of Audit, Head of Internal Control & Compliance, External Auditors regarding their findings and remedial suggestions on various issues that need improvement. The Audit Committee instructed management to follow those remedial suggestions and monitored accordingly. Meeting dates are as follows:

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Meeting</th>
<th>Date of Meeting</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>210th Audit Committee Meeting</td>
<td>31 January 2022</td>
</tr>
<tr>
<td>2</td>
<td>211th Audit Committee Meeting</td>
<td>15 March 2022</td>
</tr>
<tr>
<td>3</td>
<td>212th Audit Committee Meeting</td>
<td>24 April 2022</td>
</tr>
<tr>
<td>4</td>
<td>213th Audit Committee Meeting</td>
<td>19 July 2022</td>
</tr>
<tr>
<td>5</td>
<td>214th Audit Committee Meeting</td>
<td>25 August 2022</td>
</tr>
<tr>
<td>6</td>
<td>215th Audit Committee Meeting</td>
<td>20 October 2022</td>
</tr>
<tr>
<td>7</td>
<td>216th Audit Committee Meeting</td>
<td>28 November 2022</td>
</tr>
</tbody>
</table>

The Company Secretary of the Bank is the Secretary of the Board Audit Committee. The quorum of the Audit Committee meeting do not constitute without at least one independent director.

In the meetings, among other things, the following issues were evaluated/reviewed/discussed and provided guidelines and necessary instructions:

**Evaluation/Review/Discussion of financial related matters, compliances and disclosures:**

- Reviewed the yearly, quarterly and half yearly audited/ unaudited financial statements along with Balance Sheet, Profit & Loss Accounts, Cash Flow Statements, Changes in Equity, Liquidity Statements and notes of the Bank and discussed with Management and the external auditors prior to submission to the Board of Directors for their approval.

**Evaluation/Review/Discussion of policy formulation & implementations:**

- Position of Non-Performing Loans and Advances.
• Reviewed with the external auditors about the result of their audit findings and management letter together with Management’s response to their findings.

• Evaluated the performance of external auditors and make the necessary recommendations for appointment/re-appointment of External Auditors of the Bank and to fix their remuneration.

**Evaluation of internal audit reports and compliances there against Branches and Divisions at Head Office level:**

• Reviewed the internal audit reports of Branches/Divisions with a focus on all major areas of housekeeping particularly day to day operational activities, inter branch adjustment accounts, arrears in the balancing of the books, un-reconciled entries in inter-bank accounts and frauds.

• Reviewed implementation status of report submitted earlier of the Branches/Divisions through respective Cluster Head on continuous basis.

• Reviewed Compliance on observations, recommendations and decisions of the Audit Committee Meetings.

• Reviewed the investigation reports tabled during the year and ensured appropriate remedial actions/measures were taken.

• Discussed the observations relating to inspection reports of Bangladesh Bank and compliance thereof.

• Suggested preventive measures for internal control lapses those were arisen during the period of inspection.

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Dr. Gazi Mohammad Hasan Jamil  
Independent Director and Chairman, Audit Committee
DIVIDEND DISTRIBUTION POLICY

Prelude
The Dividend Distribution Policy has been formulated in accordance with the directives of Bangladesh Securities and Exchange Commission (BSEC) reference no. BSEC/CMRRCD/2021-386/03 dated 14 January 2021.
The Board of Directors may recommend dividend complying with the Companies Act, 1994 and provisions of all Rules, Regulations, Notifications, Orders, Guidelines, etc. in force or to be enforced and issued or to be issued from time to time by Bangladesh Bank, Bangladesh Securities and Exchange Commission (BSEC) and other Regulatory Authorities.

Objectives
The objectives of this policy are:
1. To protect interest of all stakeholders.
2. To lay down the criteria to be considered by the Board of Directors of the Bank before recommending dividend to its shareholders for a financial year.
3. To describe manner and procedure of dividend payment.
4. To describe manner and procedure of unclaimed dividend.
5. To comply all regulatory requirements.

Parameters for various classes of shares
Currently, the Bank does not have any other class of shares (including shares with differential voting rights) other than equity shares. In the absence of any other class of shares and/or shares with differential voting rights, the entire distributable profit for the purpose of declaration of dividend is considered for the equity shareholders.

Factors to be considered before recommending dividend
The dividend for each year is recommended by the Board at its discretion for approval by the shareholders in Annual General Meeting (AGM) as per the Policy guidelines, after taking into account of Bangladesh Bank instruction regarding dividend distribution, financial performance of the Bank, its future plans, internal and external factors, Dividend payout trends, Tax implications, Cost of raising funds from alternate sources of capital, Corporate actions including expansion plans and investment in subsidiaries/associates of the Bank, Shareholder expectations and statutory restrictions, etc.

Utilization of retained earnings
The Bank would utilize the retained earnings of the Bank in a manner which is beneficial to the interest of the Bank and its stakeholders, including, but not limited to ensuring maintenance of a healthy level of minimum capital adequacy ratios, meeting the Bank’s future business growth/ expansion and strategic plans or such other purpose the Board may deem fit from time to time in the interest of the Bank and its stakeholders.

Circumstances under which shareholders may or may not expect dividend
The Board of Directors of the Bank may not recommend any dividend if the eligibility criteria for recommendation of dividend has not been met by the Bank, including any restriction imposed by the Regulatory Authorities.

Procedure of approval/recommendation of dividend
The shareholders of the Bank shall approve dividend at Annual General Meeting (AGM) on the basis of recommendation of the Board. The Board shall recommend Dividend after taking consideration of above mentioned factors and review of the financial statements by the Board Audit Committee. All requisite approvals and clearances, where necessary as applicable, shall be obtained before the declaration of dividend.

Entitlement to dividend
Only the shareholders of the Bank whose names are appeared in the Register of Members and/or Depository Register of the Bank on the record date fixed by the Bank shall be entitled to the dividend.

Payment of dividend
Mercantile Bank Limited shall payoff the dividend to its shareholders within 30 (thirty) days of approval. The Bank shall maintain detailed information of Beneficiary Owners (BO) account, bank account, mobile phone number, email and address of the shareholder as maintained with the Depository Participants (DP) for the purpose of proper distribution of dividend and also keep confidentiality of information. Manner and procedures of dividend payment shall be as follows:

A. Cash dividend:
   i. The Bank shall maintain the amount equivalent
to the declared cash dividend payable for the concerned year in a separate bank account within 10 (ten) days of declaration.

ii. The Bank shall send a short message service (SMS) to mobile number or email of the shareholders after disbursement of cash dividend intimation.

iii. The Bank shall pay Cash dividend directly to the bank account through Bangladesh Electronic Funds Transfer Network (BEFTN);

iv. In case of unavailability of BEFTN, the Bank shall pay Cash dividend through bank transfer or any electronic payment system as recognized by the Bangladesh Bank;

v. In case of margin loan and claim by loan provider, the Bank shall pay Cash dividend through the Consolidated Customer’s Bank Account (CCBA);

vi. To the separate bank account of the merchant Banker or portfolio manager through BEFTN;

vii. The Bank shall pay Cash dividend through the security custodian following Foreign Exchange Regulation for non-resident sponsor, director, shareholder, unit holder or foreign portfolio investor (FPI);

viii. The Bank shall issue reminder through e-mail / SMS / post in case of non-deposit of cash dividend and non-availability of information of the shareholder or unit holder.

B. Stock dividend

i. The Bank shall credit the stock dividend to the BO account within 30 (thirty) days of approval subject to the clearance of the regulatory requirement (if any from Bangladesh Bank, BSEC, exchange(s) and the Central Depository Bangladesh Limited (CDBL));

ii. In case of undistributed or unclaimed stock dividend/bonus shares, The Bank shall credit the stock dividend to the suspense BO Account;

iii. The bonus dividend shall be transferred to the suspense BO account if BO account is not available or BO account is inactive;

iv. The sale proceeds of fractional bonus dividend shall be paid off as per circular of BSEC or Bangladesh Bank or other regulatory authority from time to time.

Unpaid/Unclaimed Dividend

i. Mercantile Bank Limited shall maintain detailed information of unpaid or unclaimed dividend and rationale thereof.

ii. Unpaid or unclaimed cash dividend including accrued interest (after adjustment of bank charge, if any) thereon, if remain, shall be kept in a separate bank account.

iii. In case of non-credited stock dividend through Corporate Action due to closure of BO ID or any other reasons, the bonus shares shall be kept in ‘Dividend Suspense Account’.

iv. The Bank shall not forfeit any unclaimed cash or stock dividend till the claim becomes barred by the law of land in force.

v. Unclaimed dividend shall be paid off as per procedure set by the Bangladesh Securities and Exchange Commission and the Stock Exchanges.

Tax matters

Tax will be deducted at source as per applicable tax laws.

Dividend information

The Bank shall maintain detailed information of unpaid or unclaimed dividend and rationale thereof as per BO account number-wise or name-wise or folio number-wise of the shareholder or unit holder; and shall also disclose the summary of aforesaid information in the annual report and shall also report in the Statements of Financial Position (Quarterly/annually) as a separate line item ‘Unclaimed Dividend Account’.

Conflict in policy

In the event of a conflict between this policy and the extant regulations, the regulations shall prevail.

Amendments/ modifications

To the extent any change/amendment is required in terms of any applicable law or change in regulations, the regulations would prevail over the policy and the provisions in the policy would be modified in due course to make it consistent with law. Such amended policy shall be placed before the Board for noting and necessary ratification.

Review of policy

The Board of Directors of the Bank will review the policy annually. If the Board proposes to declare dividend on the basis of criteria in addition to those specified in the policy, or proposes to modify the criteria, it shall disclose such changes along with the rationale for the same on the Bank’s website and in the Annual Report.

Disclosure of policy

The policy will be available on the Bank’s website and will also be disclosed in the Bank’s Annual Report.
চাই আজ দেশ জুড়ে
বিবেকের জাগরণ,
দুনীতি রোধে দ্রুত
শুরু হেক মহারণ।

-আখতার হুসেন