

MANAGING DIRECTOR'S REVIEW



MATI UL HASAN
MANAGING DIRECTOR

DEAR STAKEHOLDERS,

As-salamu alaikum.

The year 2025 was, operationally, the most demanding year our industry has navigated in recent memory. Tighter loan-classification standards reshaped how banks recognise risk on their books; private-sector credit growth slowed to multi-decade lows; deposit competition intensified as customers actively reassessed where their funds belonged; and the cost of funding rose materially through the elevated-rate environment. For our management team, this environment translated into a year of constant calibration — pricing assets and liabilities through tighter spreads, intensifying recovery operations on legacy exposures, deploying surplus liquidity into the highest-return opportunities available, holding operating costs firmly in check despite double-digit inflation, and maintaining service quality across our entire branch and digital network even as the operating tempo accelerated.

What we are able to report today is the direct outcome of that execution. Net profit after tax of BDT 119.99 crore (a 90.10% year-on-year increase), a deposit base of BDT 37,978.75 crore (up 10.81% with BDT



OUR STRATEGIC FOCUS REMAINS ON SUSTAINABLE GROWTH, OPERATIONAL EXCELLENCE AND INNOVATION — POSITIONING MERCANTILE BANK PLC. AS A SAFE, STRONG AND FORWARD-LOOKING INSTITUTION FOR THE NEXT PHASE OF THE COUNTRY'S DEVELOPMENT.

3,706 crore of net new funding), a non-performing loan ratio brought down to 15.19% (against an industry-wide deterioration to approximately 30.60%), an operating profit of BDT 581.70 crore (despite materially compressed net interest income), and a cost-to-income ratio improved to 58.13% — these are not abstract indicators of institutional health. They are the measurable results of decisions throughout the year.

The sections that follow define substantive detail of how the Bank performed across each of its principal business lines, the macroeconomic and banking-sector context within which we operated, the progress we have made on asset quality and capital, the milestones achieved in our digital transformation agenda, our commitments to our people and to sustainability, and the strategic priorities that will guide our operating focus into 2026.

MACROECONOMIC AND BANKING SECTOR REVIEW

GLOBAL ECONOMIC LANDSCAPE

Global growth in 2025 came in at 3.3%, with disinflation progressing unevenly across major economies and central banks moving more cautiously on rate cuts than financial markets had priced at the start of the year. The pass-through to emerging-market banking systems was material: higher external funding costs, slower trade flows, and currency volatility that became structural rather than episodic. Geopolitical tensions and the continued recalibration of global

trade arrangements added an additional layer of operating complexity, particularly for banks with significant trade-finance and remittance footprints. For our trade and remittance corridors, this environment required active management of correspondent-banking relationships, careful selection of L/C opening counterparties, and continuous repricing of our foreign-currency lending book to reflect prevailing market conditions.

DOMESTIC ECONOMIC DEVELOPMENTS

At home, Bangladesh navigated a year of deep adjustment. GDP growth in FY2025 settled at 3.49% — the weakest performance since the immediate post-Covid recovery period — reflecting tighter monetary conditions, weaker private investment, contractionary fiscal posture, and softer domestic demand. Inflation remained persistently elevated, closing December at 8.49% point-to-point with continued pressure from food and non-food prices alike. In response, Bangladesh Bank maintained a contractionary monetary stance, holding the policy rate at elevated levels and keeping liquidity conditions tight throughout the year. Exchange-rate stabilisation, the recovery of foreign-exchange reserves, and record remittance inflows together restored an external position materially stronger than the country entered the year on — a development that flowed directly into our own treasury operations through more stable USD/BDT trading conditions, improved nostro liquidity, and reduced FX volatility on our trade-finance and remittance flows. The orderly completion of the political transition and the national election further consolidated the

institutional continuity on which all banking activity ultimately depends.

BANKING SECTOR DYNAMICS

The banking sector operated against the most consequential supervisory and structural reset in a generation. Loan-classification standards were tightened in line with international practice. Depositor behaviour shifted noticeably; funds and credibility migrated toward institutions perceived to be soundly governed, adequately capitalised, and professionally managed. Private-sector credit growth slowed to 6.10%, the weakest reading in more than two decades. Bangladesh Bank introduced the Risk-Based Supervision framework, advanced the phased adoption of IFRS 9 / Expected Credit Loss accounting, and enacted the Bank Resolution Ordinance 2025 and the Deposit Protection Ordinance 2025. For our management team, these supervisory transitions translated into significant programme work — data-gathering and sustained engagement with Bangladesh Bank's RBS implementation team — all of which has progressed steadily and on the agreed transition timeline.

DELIVERING RESILIENT FINANCIAL PERFORMANCE

Against this backdrop, our principal business lines delivered measurable, broad-based progress. The results reflect disciplined execution of our operating plan throughout the year:

- Net Profit After Tax of BDT 119.99 crore, an increase of 90.10% over the prior year, achieved through expanded operating profit.
- Interest Income rose by 18.37% to BDT 2,747.46 crore, supported by the higher average yield earned across our earning-asset base, and selective origination at appropriate spreads.
- Investment Income grew by 26.27% to BDT 934.84 crore, driven by a 43.50% expansion of our investment portfolio and active treasury management that generated BDT 205.11 crore of mark-to-market and realised gains on our trading book in addition to the recurring accrual contribution.
- Operating Expenses fell by 4.67% to BDT 807.76 crore in a year of double-digit inflation — a disciplined outcome earned through sustained automation, tighter procurement protocols, and the careful redirection of spend toward technology and risk infrastructure. The cost-to-income ratio improved to 58.13% from 60.06% in 2024.
- Operating Profit before provisions and tax rose by 3.26% to BDT 581.70 crore, demonstrating measurable improvement in core earnings power despite the year's compression in net interest income.
- Total Assets expanded by 7.47% to BDT 47,788.75 crore, with deposits growing by 10.81% to BDT 37,978.75 crore — a net inflow of approximately BDT 3,706 crore in a single year.
- Earnings per Share climbed to BDT 1.08 (solo) and BDT 1.10 (consolidated), nearly doubling from the prior year and signalling tangible value creation for our shareholders.

18.37%

GROWTH IN INTEREST INCOME



WE CONTINUED TO NURTURE A CULTURE OF INNOVATION, ETHICAL PRACTICE, AND MUTUAL RESPECT — ENCOURAGING EVERY COLLEAGUE TO EMBODY OUR CORE VALUES AND CONTRIBUTE TO OUR SHARED MISSION OF BEING A LEADING, CUSTOMER-CENTRIC FINANCIAL INSTITUTION IN BANGLADESH.

RESTORING ASSET QUALITY, RESTORING EARNINGS POWER

Improving asset quality has been the most operationally intensive priority of our recent strategy, and the audited 2025 results record real and measurable progress. The non-performing loan ratio improved from 17.25% to 15.19% — at a time when the industry's NPL ratio rose to approximately 30.60%. Classified loans declined by 16.11% to BDT 4,342.07 crore, and BDT 2,075.09 crore of fully-provided legacy classified exposure was decisively written off our books during the year. Recovery operations were intensified across legal channels and structured workout arrangements. Our credit-appraisal and early-warning monitoring frameworks were recalibrated to identify stress earlier and act on it faster, and the Special Mention Account pool — now at BDT 2,939.70 crore — sits under intensified monitoring and active borrower engagement. The work is far from complete, but the direction of travel, measured in audited numbers, is unmistakable.

DEPOSIT GROWTH: POWERED BY TRUST, ANCHORED IN DISCIPLINE

Our deposit franchise was the operational standout of the year. In a single year, and in a market in which depositors across the country were actively reassessing where their funds belonged, we increased approximately BDT 3,706 crore of deposits. The composition strengthened materially: deposits under schemes grew 51.66% to BDT 8,446.76 crore,

13.18%

COST-TO-INCOME
RATIO

fixed deposits grew 13.53% to BDT 14,333.37 crore, and savings deposits grew 11.73% to BDT 4,115.24 crore. These are the most stable, longest-duration retail balances available to any Bangladeshi bank, and they form the operational foundation on which the next phase of disciplined asset-side growth will be built. The Advance-Deposit Ratio moderated to a comfortable 72.89% (2024: 82.53%), providing meaningful operational headroom for selective credit expansion as the asset-quality cleansing progresses. Behind these aggregate numbers sits the daily work of our network — every account opened, every renewal conversation, every product fit, executed at scale across our entire footprint.

DIGITAL TRANSFORMATION: BUILDING THE BANK OF TOMORROW

Our digital transformation agenda accelerated meaningfully during the year. To safeguard these digital channels, our dedicated Information Security and Governance Division conducted regular cyber-security drills, and maintained ongoing vigilance against an evolving threat environment. The work of preparing for IFRS 9 / Expected Credit Loss adoption and Risk-Based Supervision — the two most consequential regulatory transitions of the medium term — advanced steadily with capacity-building and system development progressing on plan.

EXPANDING REACH, EMPOWERING COMMUNITIES

Mercantile Bank PLC. continued to extend its physical and digital reach in support of bringing unbanked and underbanked populations into the formal financial system. Our diverse network — 153 branches, 48 sub-branches, 188 agent banking outlets nationwide, and over 200 ATM booths — ensures convenient access to financial services, reaches deeper into rural and semi-urban areas, and supports small and medium enterprises across the country. Our Taqwa Islamic Banking windows, available across 45 branches and 02 dedicated Islamic Banking Branches, cater to the specific needs of a diverse clientele seeking Shari'ah-compliant banking. Together, our physical network, our digital platforms, and our agent-banking outlets connect us to communities and customer segments that traditional banking has historically reached only partially.

OUR HUMAN CAPITAL: THE DRIVING FORCE OF EXCELLENCE

At Mercantile Bank PLC., we firmly believe that our employees are our most valuable asset and the driving force behind our enduring success. As at year-end 2025, our dedicated team of professionals serving across our nationwide network and overseas operations with deeper investment per head in capability-building, well-being, and engagement.

Investment in our people during the year accelerated meaningfully. Training programmes delivered covered technical banking, leadership development, risk and compliance, digital skills, customer service, and supervisory effectiveness, with both classroom and online formats maintained at scale. Beyond strategic competitive compensation, we sustained our full suite of statutory and non-statutory employee benefits — provident fund, gratuity, healthcare, and dedicated support for colleagues facing personal hardship or critical illness. We continued to nurture a culture of innovation, ethical practice, and mutual respect — encouraging every colleague to embody our core values and contribute to our shared mission of being a leading, customer-centric financial institution in Bangladesh. The strength of our institution is, finally, the strength of the people who build it day after day.

COMMITMENT TO SUSTAINABILITY AND RESPONSIBLE BANKING

Sustainability remains integral to how we approach long-term value creation. We continued to expand our green and sustainable-finance portfolio during 2025, supported by Bangladesh Bank's directed refinance facilities — for certified green buildings, women-entrepreneur SMEs, agro-processing industries, financial-inclusion supply chains, and brick-kiln modernisation. IFRS S1 and S2 sustainability disclosure standards has begun in coordination with the wider industry transition. Through these efforts, we aim to deliver inclusive and sustainable economic growth alongside our commercial banking activity.

OUTLOOK 2026: SUSTAINABLE GROWTH, OPERATIONAL EXCELLENCE, INNOVATION

Looking ahead to 2026, we remain cautiously optimistic about the economic outlook. Exchange-rate stability, steady remittance inflows and the gradual recovery of exports are expected to support continued resilience. The banking sector will progress further into the Expected Credit Loss regime and the more forward-looking discipline of Risk-Based Supervision. Our priorities for the year ahead are clear: drive sustained improvement in asset

quality through intensified recovery and disciplined origination; rebuild capital strength meaningfully above the regulatory minimum through retained earnings; rebuild net interest margin as policy rates moderate and asset repricing flows through; deepen our non-interest income streams across trade finance, card business, treasury and digital channels; and continue to embed sustainability and climate considerations across our lending decisions. Our strategic focus remains on sustainable growth, operational excellence and innovation — positioning Mercantile Bank PLC. as a safe, strong and forward-looking institution for the next phase of the country's development.

APPRECIATION

My sincere thanks to our Honourable Chairman and to every member of the Board of Directors for the engagement, judgement, and active oversight that have shaped this year's work. To Bangladesh Bank, the Bangladesh Securities and Exchange Commission, the Financial Reporting Council, the National Board of Revenue, the Dhaka and Chittagong Stock Exchanges, and RJSC&F — our sincere appreciation for the regulatory stewardship that has guided the industry through a year of substantial transition.

To every customer and depositor whose continued confidence is the operational foundation on which we conduct our business — thank you. To every shareholder and partner who has remained engaged with us through a demanding year — thank you. And to every

colleague across Mercantile Bank PLC. and our subsidiaries — the operating results are, in truth, your achievement. They were earned through the daily work of running a Bank with discipline, care, and commitment to doing things the right way. I am grateful, beyond what words can fully express, for what each of you has contributed during the year just completed.

May Almighty Allah bless our shared journey and guide us toward greater heights.



Mati Ul Hasan
Managing Director