

DIRECTORS' RESPONSIBILITY REPORT

DIRECTORS' REPORT TO THE SHAREHOLDERS OF MERIDIAN FINANCE

Dear Shareholders,

The Board of Directors of Meridian Finance & Investment Limited cordially welcome you in the 4th Annual General Meeting of the Company.

On behalf of the Board of Meridian Finance, I have the pleasure in presenting the Director's Report on the operational and financial activities of your Company, audited financial statements for the year ended 31st December 2017; the auditor's report together with company's performance which includes reports on business strategy review, risk management, corporate governance, financial and operational highlights for your consideration, approval and adoption. This report has been prepared in accordance with Section 184 of the Companies Act 1994, Financial Institutions Act 1993 and the guidelines issued by Bangladesh bank and other relevant regulatory authorities. The Financial Statements were reviewed and approved by the Board of Directors on 22 March 2018.

Economic Outlook

2017 has been a tumultuous year marked by natural disasters, geopolitical tensions, and deep political divisions in many countries. Nevertheless, on the economic front 2017 ended on a high note, with GDP continuing to accelerate over much of the world in the broadest cyclical upswing since the start of the decade. In 2017 the growth was 3.7% which was stuck at around 3.2% to 3.4% growth cycle for quite a long period. The forecast says the growth will be 3.8% to 3.9% in the year 2018. Emerging markets & developing economies are expected to grow at 4.6%, while advanced economies are expected to grow at 2.2%. Financial conditions remain buoyant across the world, and financial markets seem to be expecting little turbulence going forward, even as the Federal Reserve continues its monetary normalization process and the European Central Bank inches up to its own.

The Bangladesh economy has been able to maintain sustained economic growth. The economy grew at a rate of 7.28% in FY2016-17, satisfactorily up from 7.11 percent growth in FY2015-16. The per capita national income reached US\$1,610 in FY2016-17, up by US\$145 a year earlier. Continuing the declining trend since FY2013-14 year-on-year inflation in FY2016-17 slid down to 5.44 percent from 5.92 percent in FY2015-16. However, at the end of December 2017, inflation has increased to 5.7% due to price hike in food due to sudden and lengthy flood. The political situation also remains stable, with the internal security situation greatly improving after the 2016 Dhaka

terrorist attack as a result of sustained police operations dismantling terrorist cells throughout the country. The government has set a GDP growth target of 7.40% for the 2018 fiscal year, which is achievable given the stable political climate, investments in power and transport infrastructure and the high private sector credit growth rates. Given current trends, GDP growth is likely to cross 8% in a few years.

The money market was so liquid throughout the year. At the end of December 2017, surplus liquidity was BDT 86,697 crore out of which private bank got surplus liquidity of BDT 18,358 crore.

Interest rate on deposits in Banks has been reduced by 31 basis point from 5.22% to 4.91% and interest rate on lending has been decreased by 58 basis points from 9.93% to 9.35% (spread stands at 4.44% decreased from 4.71% by 1 year). However, NBFIs were much affected than banking sector for reducing spread: spread for NBFIs has been decreased by 92 basis points from 3.85% to 2.93%.

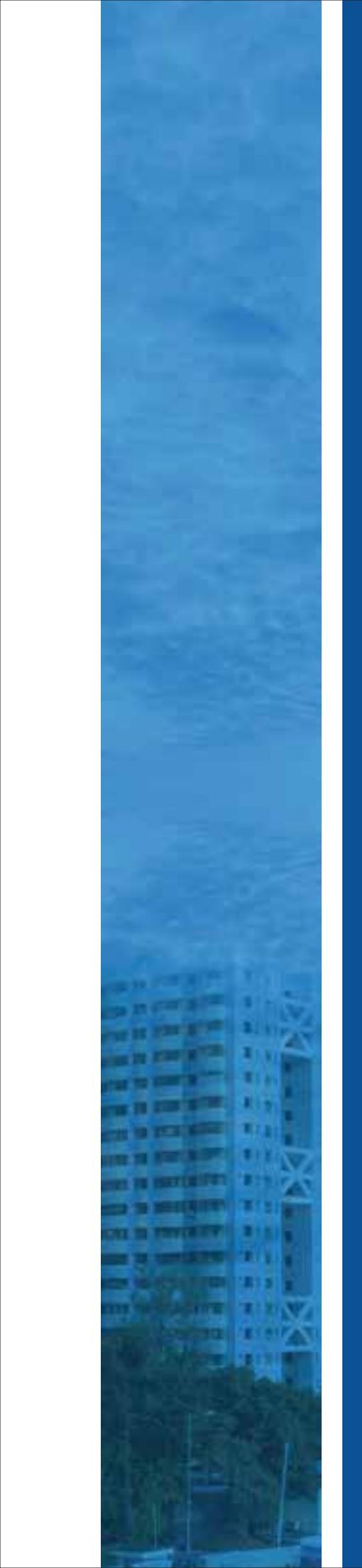
Although the banking system had surplus liquidity throughout the year, liquidity mismatch in private banks and NBFIs were observed in the month of December 2017 which may be continued or tightened further in the year 2018. The reason for such liquidity mismatch in private banking sector is due to high credit growth (18.1 percent at the end of December, up from the central bank's target of 16.2 percent for the July-December period). 2018 will be a challenging year for the Economy had this liquidity situation continues and/or the political stability hampered in light of upcoming election in 2018.

Meridian Finance's Performance Snapshot

The year 2017 was an excellent year for Meridian Finance to create its strong foothold in the NBFIs fraternity with remarkable growth on its core business operations while setting its backbone and team structure to cater the service needs of its different client base. In the backdrop of low credit appetite, mounting pressure on constant deposit & decreasing lending rate, Meridian Finance demonstrated high resilience in achieving its key performance indicators. The loan portfolio stood as high as BDT 4.59 billion with Zero percentage classified loan ratio. On the other hand, Meridian Finance managed to build a strong deposit portfolio consists of both institutional and individual clients of BDT 3.15 billion. While NBFIs industry experienced average spread of 3.36% throughout the year 2017, Meridian Finance was able to maintain average spread of 3.88%.

Your Company earned after tax net profit of BDT 110.59 million in 2017, meeting or exceeding all financial and operational objectives. Return on Equity stands at 8.53% at the end of December 31, 2017 jumped from 4.09% in 2016. The performance outlines our strength and capabilities to deliver a sustainable growth ensuring growing returns to our shareholders and stakeholders.





Business & Operational Activities

Meridian Finance has emerged as a multi-product financial service provider having major focus in SME Financing, Corporate Financing, Consumer Financing, Factoring & Work Order Financing, Corporate Advisory Services and Deposit products. It provides a high standard of professional and personalized services to its diverse set of client maintaining strict compliance and highest ethical standards. The Company's strategy is to build up a well-diversified credit portfolio across different sectors to manage risk prudently. As of 2017, the credit portfolio represents of 52% Term Loan, 3% Lease Finance, 31% SME Finance and 14% Consumer Finance respectively. New disbursement for the year 2017 was about BDT 3.27 billion (BDT 3.26 billion in 2016).

Performance Highlights

Meridian Finance focused on quality growth which has a profound impact on the lives of its clients. Thereby we consider us more than a financial institution that is keeping its strong blueprints in building the nation and taking part in the financial activities for the development. Our objective is to help our clients to shape their success stories as a trusted partner. As our clients focus on realizing their aspirations, we become an integral part in Shaping Stories of their achievement and success. During the year 2017, the Company focused on to create meaningful new relationships with its different segment of clients and successfully pulled clients to its portfolio and positioned itself in the NBFi fraternity.

Stiff competition among Banks and FIs were seen during the year especially due to high liquidity and offshore bank borrowings of large corporate bodies. Meridian Finance made best effort to capture reasonable pie of business especially from the emerging corporate clients. The result of our strategy was that despite of challenges our corporate loan book increased the most among all other divisions at about 52% to BDT 2.52 billion. NBFi Sector has very limited scope of fee based business. We have established our Structure Finance Division with reasonable expertise to go for arranging syndicated funding for corporate houses & was able to receive positive response from clients. Our structured finance wing, which is a part of the corporate division, successfully struck a syndication finance deal to raise BDT 1 billion as the lead arranger to establish a state of the art aluminum and cable manufacturing factory in Gazipur. In another syndication deal, our structure finance team on boarded and closed the mandate to raise BDT 430 million to establish a Green Tunnel Kiln Auto Brick manufacturing factory in Mirrorsorai Chattogram.



Meridian Finance created a growth conducive operating environment to increase business volume by deepening focus on SME market which is considered as the key segment. The main thrust was placed to expand the market bandwidth and to broaden the sector mix. To expand the market bandwidth with in SME segment, the company looked at new products that are geared to support new startups. A range of value enhancement were introduced to broaden the sector mix with in SME segment aimed at mid-level SMEs who wish to take their business in next level. A series of market penetration strategies were initiated to put the services near to the customers. These efforts were successful & paved the way to increase our exposure to various sub-segments. Outstanding SME loan portfolio reached to BDT 1.43 billion at the end of the year 2017 grew by 64% from 0.88 billion in 2016, which is 32% of the loan portfolio covering different cluster of industries.

Consumer Loan business like home loans & car loans is fiercely competitive. To ride in the race we focused to provide value to clients through better service, standard documentation and quick approval & disbursement followed by advisory assistance. Consumer Loan appears to be very competitive as far as the rate is concern. Despite many challenges, we have recorded our consumer loan portfolio especially with Home & Car loan at BDT 577 million from 254 in 2016 (a growth of 127%).

Funding

Credit Lines from Commercial Bank are conventional source of funding for the newly established NBFIs but we have initiated a number of steps during the year to create visibility & promote Meridian Finance as a licensed deposit taking NBFIs. Our treasury team demonstrated outstanding performance in managing liquidity and keeping the cost of fund low. Continued emphasis was placed to onboard available all the refinancing schemes offered by Bangladesh Bank, call money borrowing & lending and to get cheaper sources of deposits from Individual and Institutions. The company was successful in attaining the desired objective, denoted by 86% of the borrowing mix was booked through deposit (BDT 3.15 billion). Meanwhile, the company also used Call Money Market, Overdraft Facilities, and Short Term Facilities from Bank & NBFIs & limited term loan from commercial bank for further support of its funding requirement. Consequently, the Company could maintain its average cost of fund to the level of 8.04% during the year (8.25% in 2016).

Asset Quality

Although the lending portfolio grew at a faster rate during the year, asset quality was successfully maintained, as the overdue virtually remained very marginal during the year. Vigorous follow up and monitoring of client's loan account performance paid off in managing Zero NPL during the year 2017.

Key Financial Performance

Meridian Finance's Net Interest Income and Operating Income witnessed a significant growth during the year and reached to BDT 249 million and BDT 310 million respectively from 169 million and 184 million respectively in 2016 resulting a growth in topline of 47% & 69% respectively. Investment income during the year was BDT 49.3 million whereas Fee Income was BDT 12.15 million which also observed hefty amount of growth.

To increase our reach out to clients, we have opened two branch offices. The first one is at Gazipur and another one is the Bogura. Cost to income ratio of the Company during the year was 39.5% reduced from 42.9% in 2016. In the coming years, the cost to income ratio will be declined gradually in line with the increase quantum of business. Profit before provision of the Company was BDT 188 million grew by 78%. There were no specific provision during the year other than the general provision of BDT 17.9 million. Meridian Finance witnessed profit before tax and reserve of BDT 170 million and Net Profit of BDT 110.6 million respectively for the year ended 2017 resulting a tremendous growth of 118% in bottom-line. The EPS stood at BDT 0.92 from 0.42 in 2016. Overall performance of the Company during the year 2017 was satisfactory and showed good prospects ahead to achieve better results.

Human Resources Management

We have been quite successful in attracting talents during the year and made a blended mix of quality human capital with dynamism, agility and experience. Our talents has built up the foundations and confidence for organic growth as we continue to proceed ahead to embark upon new challenges. MFIL strongly believes that its human resources are its most precious assets and recognizes them as building blocks for the Company to perform sustainably. MFIL continues to develop and implement proper human resource policies to motivate its employees and ensures their optimum contribution towards the achievement of common goals. As our resources represent a significant competitive edge, the Company continues its policy of recruiting the best professionals and implementing diverse training and motivational programs to develop and retain high-quality, performance-oriented personnel. Our strategy is to reward the best and be fair to the rest.

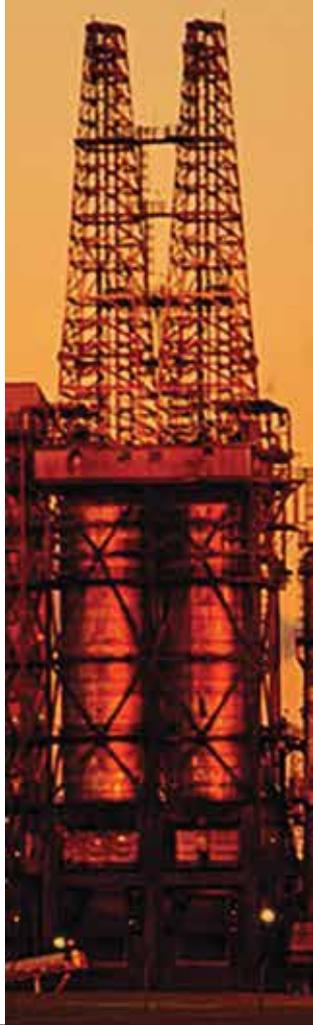
Meridian Finance's Contribution to the Society

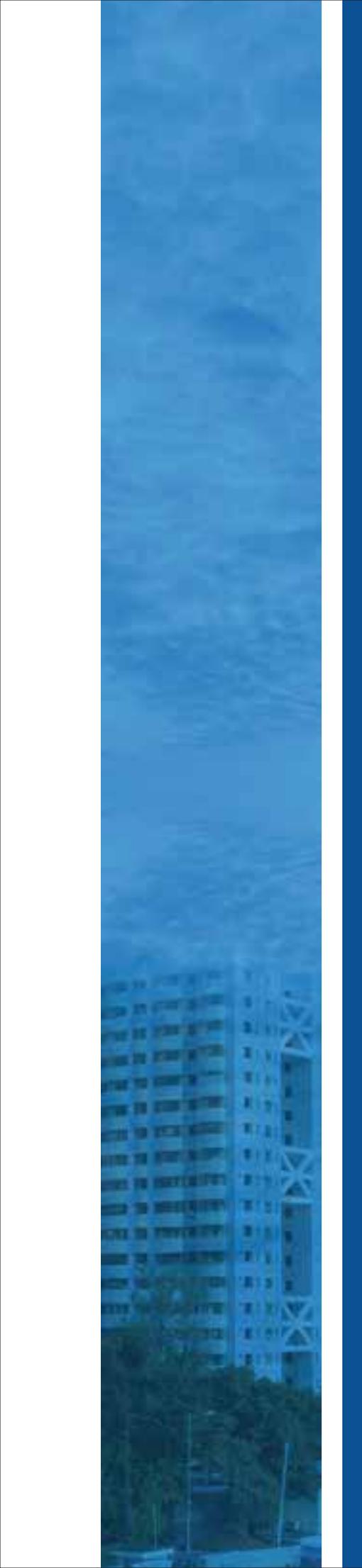
The Company is strictly committed to contribute for the economic and social development of the country. Besides our core activities, we give utmost priority to increase the standard of living condition of our clients and our employees and directly contribute to the exchequer in the form of various tax, excise duty and VAT during the year. Details are given later in this report in Statement of Contribution to Government Exchequer section.

Risk Management & Control Environment

High quality management of risk is one of Meridian Finance's hallmarks and thus a priority in its activity. It has combined prudence in risk management with use of advanced risk management techniques, which have proven to be decisive in generating recurrent and balanced earnings and creating shareholder value. The activity of risks is governed by the following principles, which are aligned with Meridian Finance's strategy and business model and take into account the recommendations of the supervisory bodies, regulators and the market's best practices. These are:

- A culture of risks integrated throughout the organization. It embraces a series of attitudes, values, skills and ways of acting toward risks that are integrated into all processes, including taking decisions on change management and strategic and business planning.
- Independence of the risk function, covering all risks and providing an adequate separation between the risk generating units and those responsible for its control and supervision, and having the sufficient authority and direct access to the management and governance bodies which are responsible for setting and supervising the risk strategy and policies.
- Comprehensive approach to all risks as the objective for adequate management and control of them, including risks directly as well as indirectly originated but which can affect it. It is vital to have the capacity to draw up an all comprehensive view of the risks assumed, understand the relations between them and facilitate their overall assessment, without detriment to the differences of nature, degree of evolution and real possibilities of management and control of each type of risk, adapting the organization, processes, reports and tools to the features of each one.





Meridian Finance has different risk management team to manage and control all types of risks (i.e. Credit risk, concentration risk, market risk, operation risk, liquidity risk, market risk, compliance risk, reputation risk, environment and social risk, related party exposure risk, competition risk, Legal risk, ICT risk, Strategic risk etc.) prudently. The committees are as follows:

- Credit Evaluation Committee (CEC);
- Credit Risk Management Committee (CRM),
- Asset & Liability Management Committee (ALCO);
- Central Compliance Unit (CCU)
- Risk Management Forum;
- Internal Control Committee;
- HR & Compensation Committee;
- Corporate Governance Committee;
- Integrity Committee;
- Risk Analysis Unit;
- Meridian Finance's Ladies Forum;
- Anti-Money Laundering & ICT Committee.

We are committed to manage the risks and ensure delivery of service to our stakeholders maintaining effective Risk Management System which pays off between risk and return.

Statutory Payments

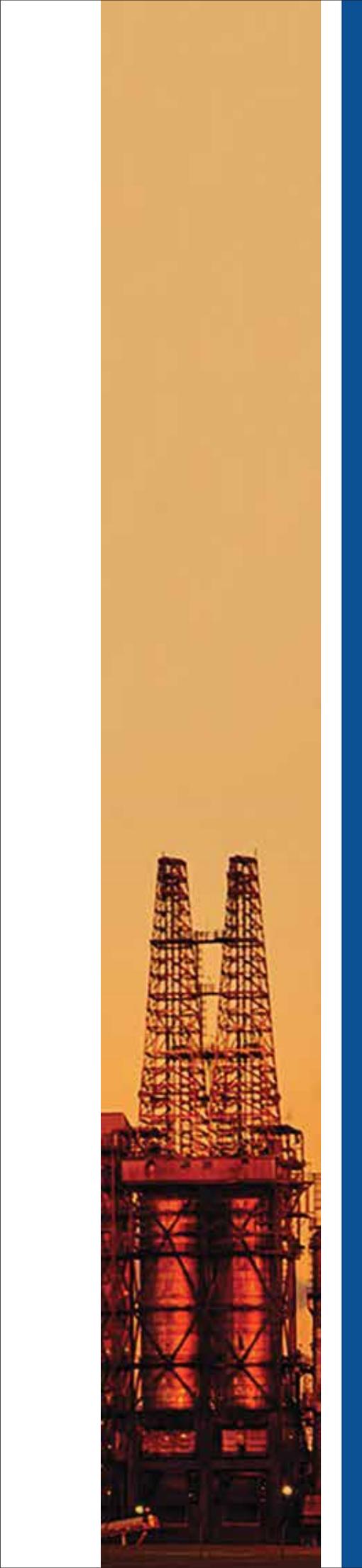
The Board of Directors are satisfied that to the best of their knowledge and belief all statutory payments to all authorities have been paid on a regular basis.

Capital Expenditure

Meridian Finance incurred BDT 19.72 million as capital expenditure mainly for interior decoration and renovation of its branches, furniture & fixtures, office equipment, IT equipment and software. The details of capital expenditure are shown under the head Property, Plant and Equipment Schedule in the Notes to the Financial Statements.

Going Concern

The Directors after making necessary inquiries and reviews including reviews of the budget for the ensuing year, capital expenditure requirements, future prospects and risks, cash flows and such other matters required to be addressed in the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Bangladesh and the Bangladesh Securities and Exchange Commission Meridian Finance has adequate resources to continue operations into the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements.



Details about going concern assessment of Meridain Finance is presented in Assessment report on the Going Concern Status of Meridian Finance later in this report.

Corporate and Financial Reporting Framework

Financial Statements have been prepared in conformity with the requirements of the Bangladesh Financial Reporting Standards, Companies Act 1994, Financial Institutions Act 1993 and amendments thereto, Bangladesh Bank's Guidelines the Corporate Governance Code.

Directors Meeting and Remuneration

During the year 7 Board Meetings were held. All meeting fulfilled the quorum of 5 directors. On an average, in each meeting 8 directors were present. The Board has two sub-committee: Executive Committee (5 meetings held in 2017) and Audit Committee (4 meetings held in 2017).

For each meeting a fee of Tk. 6,250 (excluding VAT & Tax) is paid to directors as remuneration which is in line with Bangladesh Bank guideline made in this regard.

Appointment / Re-appointment of Directors

As per Article no. 79 of Schedule I of Companies Act 1994 and also as per Article No. 92 of Articles of Associations of Meridian Finance & Investment Limited, at the first Ordinary Meeting of the Company, the whole of the Directors shall retire from office and at the ordinary Meeting in every subsequent year, one third of the Directors representing sponsor shareholders inclusive of co-opted directors for the time being and, one third of the Directors from public subscribers, if their number is not three or a multiple of three, then the number nearest to one third shall retire from office.

Furthermore, Article 93 of Articles of MFIL also states that the Directors to retire in every year shall be those who have longest in office since their election, but as between persons who become Directors on the same day those to Retire shall (unless they otherwise agree among themselves) be determined by a lottery. A retiring director shall be eligible for re-election.

Mr. Mahmud Hasan Khan, Mr. Rezaul Hossain, Mr. Golam Mostofa and Ms. Rashnat Tarin Rahman will be retired in 4th Annual General Meeting and they seek reappointment.

Status of Compliance & Corporate Governance

Details are given in the next section of the report in Statement of Directors' Responsibility for Corporate Governance.

Statutory Auditors

The Board in its 22nd meeting held on March 22, 2018 recommended the shareholders to appoint A. Qasem & Co., Chartered Accountants as the Auditors of Meridian Finance for the year ended December 31, 2018 with a fee of BDT 150,000. Plus VAT. Meridian Finance has also taken prior approval from Bangladesh Bank to appoint A. Qasem & Co., Chartered Accountants, until completion of conclusion of the 5th AGM.

As far as the Directors are aware, the Auditors do not have any relationship with or interest with the Company that in their judgments, may reasonably be thought to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Bangladesh, applicable on the date of this report.

The Auditors, A. Qasem & Co., Chartered Accountants have expressed their willingness to conduct audit of the Company. They come up for appointment at the Annual General Meeting, with the recommendation of the Board Audit Committee and the Board of Directors. In accordance with the Companies Act, a resolution proposing the appointment of A. Qasem & Co., Chartered Accountants, as Auditors is being proposed at the Annual General Meeting.

Internal Control System

The Directors of the Company have taken reasonable steps open to them to safeguard the assets of the Company and to prevent and detect frauds and any other irregularities. For this purpose, the Directors have instituted effective and comprehensive systems of internal controls for identifying, recording, evaluating and managing the risks faced by the Company throughout the year and it is being regularly reviewed by the Board of Directors. This comprises internal reviews, internal audit and the whole system of financial and other controls required to carry on the operations in an orderly manner, safeguard the assets, prevent and detect frauds and other irregularities and secure, as far as practicable, the accuracy and reliability of the records.

Dividend

Considering the overall environment of financial market, current financial strength of the Company and meeting shareholders' expectations, the Directors recommended that dividend of BDT 1.00 per share to be paid for the year ended 31 December 2017. This will be paid by BDT 1.00 per share in cash form.

The dividend is subject to approval of the shareholders at the Annual General Meeting. The Board was satisfied that LBFL would meet the solvency test immediately after the proposed dividend, which will be paid in 2017.

Acknowledgements

The Board of Directors would take this opportunity to express their profound gratitude and extend appreciation to our values shareholders, clients, bankers, depositors, lenders, business partners, regulators, service providers and other stakeholders for their continued patronage and support and cooperation. The Board offers its sincere thanks to the Bangladesh Bank, Bangladesh Security Exchange Commission, Registrar of Joint Stock Companies and Firms, National Board of Revenue, Ministry of Finance and other Government authorities for their support and cooperation. I would also like to thank to the employees of Meridian Finance for their dedication and commitment to make the year 2017 a successful one and look forward to make the year 2018 even better in every terms.

For and on behalf of the Board of Directors.



Naima Chowdhury
Chairman

