SEC/Enforcement/338/2005/911 By Special Messenger
August 15, 2006

Mercantile Bank Limited, 61 Dilkusha C/A, Dhaka-1000

Directors
Mercantile Bank Limited, 61 Dilkusha C/A, Dhaka-1000

Managing Director
Mercantile Bank Limited, 61 Dilkusha C/A, Dhaka-1000

Company Secretary
Mercantile Bank Limited, 61 Dilkusha C/A, Dhaka-1000

Sub: Non-compliance with securities related laws: in connection with notification concerning adoption of audited financial statements for the year 2003: Disposal.

As per section 2(g) of the Securities and Exchange Ordinance, 1969 (ORDINANCE No. XVII OF 1969) Mercantile Bank Limited is an issuer (hereinafter referred to as "issuer").

A show cause cum hearing notice No. SEC/Enforcement/338/2005/35 dated January 8, 2006 was issued to Mercantile Bank Limited for contravening Commission's Notification No. SEC/CMRRCD/2001-14/24/Admin/03-03 dated 26/11/2001, gazetted on 10/12/2001, by not recommending/deciding on the price sensitive 25% stock dividend in the same board meeting in which the bank considered and adopted its audited accounts for 2003.

The Commission instituted an enquiry pursuant to the Order vide No. SEC/SRMID/2003-28/1102/103 dated 13/04/2004 wherefrom it is appeared that Mercantile Bank Ltd. has contravened the Commission's said notification by not recommending/deciding on the price sensitive 25% stock dividend in the board meeting held on 28/02/2004 in which the bank considered and adopted its audited accounts for 2003 based on which the dividend was recommended in its subsequent board meeting held after one month i.e. 30/03/2004, which helped the bank's two insider directors for their involvement/attempted involvement in insider trading and that Mr. Md. Amanullah is a director of the said issuer who was present in the said two board meetings.

The aforesaid contravention of the securities related laws appeared to be deliberate attracting appropriate measures under the securities related laws.

A show cause cum hearing notice No. SEC/Enforcement/338/2005/35 dated 8/01/2006 was issued to yourselves to explain the alleged contravention and as well as to provide an opportunity of being heard prior to take any measure as per securities related laws.

In reply, Mercantile Bank Limited, vide letter No. BS/351/2006 dated 28/01/2006 mentioned, among others, that the board of directors adopted the audited accounts for the year 2003 in the 49th meeting held on 19/02/2004 but could not take decision regarding the dividend in the meeting as the approval from the SEC as requested for utilization of funds available in the share premium account was awaited and the bank requested to treat the matter of omission relating to adopting audited accounts and recommendation of dividend in the same meeting as an exception. The bank also sought exoneration from the above stated contravention and assured to maintain schedule/checklist for compliance of the rules and procedures of the SEC/regularity bodies in this respect in future.

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The Commission, considering the submissions/explanations of the issuer, has decided to dispose off the proceedings against yourselves for the stated contravention by placing on record the Commission's dissatisfaction on the defaults made by the issuer company and its officials concerned, with an advice to ensure full compliance of all securities related laws in future.

Please note that this disposal does not absolve the issuer or any of its directors or officers concerned from their lawful responsibilities/obligations to the persons, if any, affected as a result of their above said defaults.

For the Securities and Exchange Commission

Mansur Alam
Executive Director

CC:
CEO, Dhaka Stock Exchange Limited
CEO, Chittagong Stock Exchange Limited
Executive Director (R&D), SEC
Executive Director (SRMID), SEC
Director (MIS), SEC
Chairman's Office, SEC