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BB discovers irregularities at Al-Arafah Islami Bank

MD MEHEDI HASAN

The Bangladesh Bank has uncovered serious irregularities at Al-Arafah Islami Bank, including misuse of its corporate social responsibility (CSR) funds.

The central bank also found evidence of suspicious transactions involving two personal employees of the bank's former chairman as well as unauthorised incentive bonuses for its managing director and other senior officials.

Following the political changeover in August last year, the Bangladesh Bank dissolved the bank's board of directors led by Abdus Samad Labu and appointed a five-member interim board in place.

Labu, the preceding chairman of Al-Arafah Islami Bank, is the vice chairman of the controversial S Alam Group and brother to its Chairman Mohammed Saiful Alam.

Separate inspections by the Bangladesh Bank and Bangladesh Financial Intelligence Unit (BFIU) revealed serious financial mismanagement within the shariah-based bank.

According to the central bank's inspection report, the Al-Arafah Islami Bank Foundation submitted an office note on December 14, 2023, seeking approval to disburse Tk 10 crore for distributing blankets.

The request was signed by the lender's former chairman Labu and later approved by its Managing Director Farman R Chowdhury.

Chowdhury had suggested at the time that the matter should be presented to the board of directors for post-facto approval. But when the related memorandum was submitted, the then board chairman Labu refused to sign it and instead instructed not to place it before the board.

Despite the lack of approval, the whole amount was transferred to an account under the Al-Arafah Islami Bank Foundation at the bank's Gulshan branch, with Labu holding the authority to withdraw funds from this account.

The funds were subsequently withdrawn through cheques signed by Labu, which were submitted by his personal chauffeur and office secretary.

The inspection report confirmed that board approval is mandatory for such CSR expenditures, but was not obtained in this case. Besides, there was no evidence of any payments made to blanket vendors.

Labu fled the country following the political changeover on August 5, when a mass uprising ousted the Awami League government.

The Bangladesh Bank inspection report also uncovered suspicious transactions linked to Labu's personal secretary, Mohammad Piaru, as his bank account was found to contain Tk 1.5 crore.

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BB moves to enhance cashless transactions

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The Bangladesh Bank is currently implementing several measures, such as introducing digital credit scoring and regulatory enhancements for fintech solutions, in a bid to accelerate cashless transactions in the country.

The central bank also issued guidelines for setting up private credit bureaus and invited applications from eligible entities in its Monetary Policy Statement for the second half of the fiscal year 2024-25, which was released yesterday.

The digital credit scoring system will facilitate embedded lending solutions, such as microloans and revenue-based financing, the Bangladesh Bank said.

The central bank added that to further streamline digital lending, it is exploring an open banking framework for integrating fintech companies, traditional banks, agent

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Govt considers charging industries for water use



STAR BUSINESS REPORT

The government is considering charging industrial unit owners for water usage and will categorise industries based on water consumption while offering incentives for recycling initiatives, said Environment Adviser Syeda Rizwana Hasan yesterday.

The government, in collaboration with German partners, is working on a Chemical Waste Management Rule, which is expected to be finalised soon to endorse chemical handling and

management regulations to ensure environmental and workplace safety.

The adviser urged the business community and international partners to collaborate with their Bangladeshi counterparts to transition from fossil fuel-dependent energy production to renewable and sustainable sources.

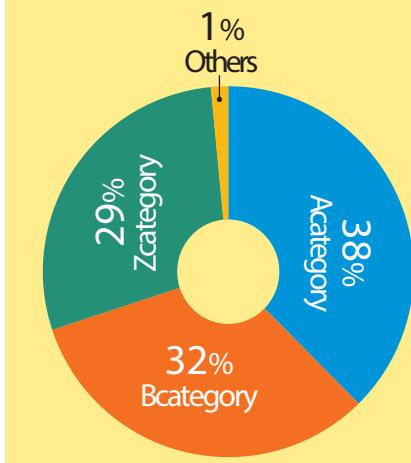
She emphasised that energy supply shortages in the past two years have severely impacted industries, making sustainable energy solutions a necessity for both the country and the industry.

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Going broke? LET'S GO PUBLIC

PRESENT STATUS OF LISTED FIRMS that got approval in the last 14 years
In % of approved IPOs; SOURCE: DSE



CASE OF SIKDER INSURANCE

Invested 73% of its assets to buy shares of problem-ridden National Bank. Breached insurance rules by investing heavily in a single company. Despite the irregularities, BSEC approved its IPO and it got listed in 2024. Within one year, it became a junk stock.

RECOMMENDATIONS

Market entry and exit policy for firms should be made easier.

Firms should be liquidated or their boards should be restructured depending on existing situation.

A special investigation should be carried out into recent IPOs.

BSEC and issuers managers should be held accountable for bringing weak firms into stock market.

percent of its total loans classified as non-performing.

In contrast to National Bank, Sikder Insurance invested only Tk 2.5 crore, or 1.37 percent of its assets, in government treasury bonds -- far below the required minimum of 7.5 percent.

The DSE flagged in its report to the Bangladesh Securities and Exchange Commission (BSEC) that it was not convinced about the listing.

But the company was approved to go public in 2023.

After its listing in 2024, Sikder Insurance announced a 3 percent cash dividend in June, but failed to disburse it. As a result, its stock was downgraded to Z-category.

Even if the company manages to distribute the dividend, it will only be upgraded to B-category, as a minimum 10 percent cash dividend is required for A-category status.

An analysis of the insurer's 2023 financial report showed that its problematic investment in National Bank remains unchanged.

Since National Bank has not paid dividends for four years, Sikder Insurance's earnings from its primary investment source remain zero.

Besides, the company has not increased its investment in treasury bonds, continuing to flout regulatory requirements.

The Sikder case is not an isolated incident. Many other companies are facing similar IPO-related issues, raising questions about the stock regulator's due diligence in approving listings.

For instance, Apollo Ispat, whose

flagship product "Rani Marka

Dheu Tin", had already lost market relevance before its listing on the DSE.

Despite this, BSEC approved its IPO at a premium of Tk 12 per share, only for the company to decline into junk status within a few years.

On Thursday, the stock of Apollo Ispat traded at Tk 3.80.

'ROTEN STOCKS'

Former BSEC chairman Faruq Ahmad Siddiqi said that these companies should never have been approved for listing, as their financials clearly indicated their businesses were in trouble.

According to DSE data, BSEC has approved 132 companies for listing, transitioning them from private to public entities over the last 14 years. However, nearly one-fourth of these companies have since become junk stocks.

Of the 132 companies approved, only 50 remain in A category, while 43 have been downgraded to B-category and 38 have fallen to Z-category. One company was merged with another listed company.

Siddiqi said that the BSEC should be held accountable for approving so many questionable IPOs over the past decade.

"This is the right time to do it," he said.

He suggested that regulators should conduct case-by-case inquiries to assess whether struggling companies are failing due to genuine business challenges or mismanagement and poor financial decisions.

Companies with no recovery potential should be liquidated, he added.

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Stricter conditions proposed for margin loans

New prerequisites include Tk 10 lakh equity, six months' market experience

AHSAN HABIB

A government-formed taskforce for capital market reforms has proposed a host of amendments to margin loan rules, including new eligibility criteria.

An investor must have a minimum equity of Tk 10 lakh alongside six months' experience in secondary market trading to be able to purchase stocks with money borrowed from brokers against securities as collateral.

Moreover, to ensure responsible lending, institutions providing margin loans must conduct mandatory risk profiling before approving financing.

Investors without stable earnings—such as students, homemakers, and retirees—will not be eligible unless classified as high-net-worth individuals.

These, alongside stricter regulations, have been proposed for a major overhaul of the Margin Rules, 1999, through the introduction of a new framework under the Equity Margin Rules, 2025.

The recommendations, formulated through consultations with stakeholders, were handed over to the Bangladesh Securities and Exchange Commission (BSEC) on Sunday.

Mismanagement of margin loans has harmed many institutions and investors since the market crashed in 2010 and 2011.

On one hand, margin loans have fuelled market liquidity; on the other, when lenders were not allowed to go for forced sales of assets to adjust loan balances, a huge amount of negative equity piled up.

Negative equity refers to an asset whose value has fallen below its outstanding debt.

This ultimately harmed many brokerage houses and merchant banks.

Negative equity against margin loans in the country's capital market amounted to Tk 9,700 crore at the end of November 2024, which was significantly higher than just a decade earlier.

Against this backdrop, the taskforce has proposed introducing stricter eligibility criteria, improved risk management, and greater transparency to stabilise the capital market and protect investors.

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