

Bad loans a curse for banks

Mercantile Bank's MD talks about challenges and opportunities of the banking sector

STAR BUSINESS REPORT

ON the occasion of the 17th founding anniversary of Mercantile Bank Ltd, The Daily Star caught up with Kazi Masihur Rahman, managing director and chief executive of the bank, to discuss their journey so far.

The Daily Star (TDS): Where does Mercantile Bank stand on its 17th founding anniversary?

Kazi Masihur Rahman (KMR): Our motto is to be the finest corporate citizen of the corporate world. For the wellbeing of society, we have focused on equitable growth based on diversified deployment of resources.

Our journey has always been goal-oriented and to become the most caring bank. It has been our focus to cross the one-million-customer mark through our 109 branches across the country.

TDS: What are your major achievements so far?

KMR: Mercantile Bank has passed 17 golden years through many success stories. On this occasion, we want to say that the bank has implemented the core banking software TEMENOS T24 to provide world class services. The bank also crossed the one-million-customer milestone.

We also attained membership at the Dhaka and Chittagong stock exchanges, established Mercantile Bank Brokerage operations, opened 109 branches, an exchanges house in London and a subsidiary company named MBL Securities with 7 branches at different locations, and the mobile financial service 'MYCash'. The bank also received various awards for its outstanding contribution to agriculture and remittance.

TDS: How much does the bank lend each year?

KMR: We have a plan to achieve 15 to 20 percent growth in loans and advances every year, which is around Tk 1,500 crore.

TDS: How much does the bank have in outstanding loans?

KMR: Our outstanding loan amount at the end of December 2015 was Tk 12,633.90 crore.

TDS: Where does the bank stand in terms of annual revenue growth and profits?

KMR: The bank earned Tk 1975.3 crore in revenue in 2015. Our pace of revenue growth as well as profit growth has been slightly hampered due to a continuous rate reduction pressure from the business community, especially corporate clients.

TDS: How did the bank fare in the mobile banking area?

KMR: The mobile banking service of Mercantile Bank -- MYCash -- aims to connect with the country's unbanked population. Anyone can use it as a mobile financial service, like cash in/out, fund transfer, mobile recharge, salary and tuition fee payment. It is integrated with all the mobile operators in Bangladesh. Customers can enjoy MYCash services through 94,767 outlets.

TDS: Analysing the bank's non-performing loans, would you say it is higher or lower than industry standards?

KMR: The bank is maintaining its NPL at below 5 percent. The industry average is 8.8 percent and so we are maintaining a moderate level of NPL.

However, the banking sector, as well as our bank, is facing problems in this area mainly for sluggish growth of the economy that is affecting the profitability of businesses and their ability to pay back loans. A chunk of NPL can also be attributed to corruption, political and personal influences by some



Kazi Masihur Rahman

unscrupulous borrowers. The sector is also plagued by weak, defective monitoring and follow-ups.

TDS: What are the opportunities and challenges of the banking sector as a whole?

KMR: The banking sector has suffered from investment stagnation. Idle money has become a big challenge for commercial banks. The ongoing 100 economic zones, mega infrastructure projects like Padma bridge, Rooppur nuclear power plant, and the deep-sea port at Payra can bring prosperity for the economy. Bangladesh is on the right track but the pace of progress is slow.

On the other hand, bad loans have become a curse. Newly established commercial banks fuel this situation as unethical or bad competition makes it worse.

Cheap foreign currency loans and political instability in the Middle East

is also a major hurdle for the banking industry.

TDS: What is your take on irregularities in the banking sector?

KMR: Corporate governance practices are mostly absent in many companies and organisations. Bangladesh has also lagged behind its neighbours and the global economy in corporate governance. Disclosing more information and improving governance practices by companies is necessary. The presence of sound corporate governance practices is the key to an efficient and stable banking system.

Quality credit analysis and asset management practices are also a must. We believe in corporate governance implementation and take initiatives to protect irregularities like regular instruction and training of employees, KYC updates, a special unit for credit risk management,

information disclosure, and appointing external auditors.

TDS: Will you say something about your CSR activities?

KMR: The bank's social responsibilities are overseen by the Mercantile Bank Foundation. The bank contributes 1 percent of its operating profit or Tk 40 lakh to the Mercantile Bank Foundation a year. Investment in CSR programmes is always supported and encouraged by the board of directors. The management reports to the board and regulatory bodies regarding CSR activities through a 'CSR Desk'.

The funding policy focuses on community outreach, health and medical research, education arts and culture and development of sports.

TDS: What lies in the future for Mercantile Bank?

KMR: In the coming months, the

bank expects to launch a number of branches in commercially important places of the country.

In order to make our services available to all sections of people, we intend to expand our network in both urban and rural areas. We aspire to augment the number of branches by the end of 2016. Some new SME service centres will also be opened in 2016 across different important business hubs.

We also want to increase the number of our ATM booths to meet our customers' demand for 24-hour cash withdrawal. Despite low credit growth, our NPL had continually been rising. The prime focus of the bank would be recovery of rescheduled loans.

TDS: Tell us something about yourself.

KMR: I joined the bank as the managing director and CEO in January 2016 and I have thirty eight years of experience in the financial industry. Prior to joining here, I served as the CEO of Exim Bank, DMD of Prime Bank and consultant of BGB to establish the Shimanto Bank (proposed).

I began my banking career with Sonali Bank as a probationary officer in 1977 after obtaining my master's degree in economics from Dhaka University.

I have served in various capacities at banks in Bangladesh and the UK.

I joined BASIC Bank as company secretary and head of corporate affairs in 1988 and moved to Mashreqbank, Dubai as AVP - operations in 1990.

After serving Mashreqbank for about 4 years, I joined United Saudi Commercial Bank of Saudi Arabia in 1993 as head of system and procedures department.

In 1997, I joined Saudi Hollandi Bank and served as the country head of trade finance for more than 6 years

Asian regulators ask banks to reveal Panama Papers' links



REUTERS/FILE

Mossack Fonseca law firm sign is pictured in Panama City.

REUTERS, Hong Kong

REGULATORS in Hong Kong and Singapore have asked banks doing business there to disclose if they have dealings with entities and individuals named in the leaked 'Panama Papers', which contained details on thousands of shell firms, people familiar with the requests said.

The leaked documents from Panama law firm Mossack Fonseca, which contained information on 214,000 offshore companies, revealed that Hong Kong was the most active centre in the world for the creation of shell firms, which have many legitimate purposes but can also be used to hide assets and avoid taxes.

According to two sources familiar with the situation, the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Singapore (MAS) sent letters to the banks in April. The two central banks did not set a firm deadline for a reply, the sources said.

One source, who had seen the letter sent to Hong Kong banks, said the request asked about their dealings with a list of between 16 and 18 names.

The sources did not disclose which banks were written to nor the names on the lists.

Bankers operating in Hong Kong have told Reuters that the Panama Papers have triggered a massive compliance exercise there, with banks carefully combing through their accounts to ensure there are no problems.

HKMA said in a statement that it regularly collects information from banks on various issues or risks relating to anti-money laundering or counter-financing of

terrorism, but it could not discuss details of its dealings.

MAS did not offer fresh comment but referred to its statement on May 10 that said it was reviewing the latest batch of information released on the Panama Papers.

"If there is evidence of wrongdoing by any individual or entity in Singapore, we will not hesitate to take firm supervisory and enforcement action," they said then.

Reuters contacted several large banks operating under MAS and HKMA jurisdiction, but they declined to comment when asked if they had received letters.

According to the two sources, HKMA and MAS were trying to ascertain whether banks operating in their jurisdictions carried out due diligence and checked the source of funding when dealing with clients named in the Panama Papers, they said.

One source said some banks in Singapore had already responded to the MAS request.

The leak has put tax avoidance at the top of the global agenda by showing the extent to which tax havens have been used by politicians and businesspeople around the world.

Besides Hong Kong, Singapore and China were among the busiest office for Mossack Fonseca, which worked with more than 2,200 banks, law firms, corporate secretaries and other middlemen in the territory.

A portion of the leaked data released by the International Consortium of Investigative Journalists showed 51,295 offshore entities and 25,982 individuals linked to Hong Kong, and 4,188 entities and 33,290 individuals linked to China.

Fed records show dozens of cybersecurity breaches

REUTERS, Washington

THE US Federal Reserve detected more than 50 cyber breaches between 2011 and 2015, with several incidents described internally as "espionage," according to Fed records.

The central bank's staff suspected hackers or spies in many of the incidents, the records show. The Fed's computer systems play a critical role in global banking and hold confidential information on discussions about monetary policy that drives financial markets.

The cybersecurity reports, obtained by Reuters through a Freedom of Information Act request, were heavily redacted by Fed officials to keep secret the central bank's security procedures.

The Fed declined to comment, and the redacted records do not say who hacked the bank's systems or whether they accessed sensitive information or stole money.

"Hacking is a major threat to the stability of the financial system. This data shows why," said James Lewis, a cybersecurity expert at the Center for Strategic and International Studies, a Washington think tank. Lewis reviewed the files at the request of Reuters.

The records represent only a slice of all cyber attacks on the Fed because they include only cases involving the Washington-based Board of Governors, a federal agency that is subject to public records laws. Reuters did not have access to reports by local cybersecurity teams at the central bank's 12 privately owned regional branches.

The disclosure of breaches at the Fed comes at a time when cybersecurity at central banks worldwide is under scrutiny after hackers stole \$81 million from a Bank Bangladesh account at the New York Fed.

Cyber thieves have targeted large financial institutions around the world, including America's largest bank JPMorgan, as well as smaller players like Ecuador's Banco del Austro and Vietnam's Tien Phong Bank.

Hacking attempts were cited in 140 of the 310 reports provided by the Fed's board. In some reports, the incidents were not classified in any way.

In eight information breaches between 2011 and 2013 - a time when the Fed's trading desk was buying massive amounts of bonds - Fed staff wrote that the cases involved "malicious code," referring to software used by hackers.

Four hacking incidents in 2012 were considered acts of "espionage," according to the records. Information was disclosed in at least two of those incidents, according to the records. In the other two incidents, the records did not indicate whether there was a breach.



REUTERS/FILE

The headquarters of US Federal Reserve in Washington is seen.

In all, the Fed's national team of cybersecurity experts, which operates mostly out of New Jersey, identified 51 cases of "information disclosure" involving the Fed's board. Separate reports showed a local team at the board registered four such incidents.

The cases of information disclosure can refer to a range of ways unauthorized people see Fed information, from hacking attacks to Fed emails sent to the wrong recipients, according to two former Fed cybersecurity staffers who spoke on condition of anonymity.

The former employees said that cyber attacks on the Fed are about as common as at other large financial institutions.

It was unclear if the espionage incidents involved foreign governments, as has been suspected in some hacks of federal agencies. Beginning in 2014, for instance, hackers stole more than 21 million background check records from the federal Office of Personnel Management, and US officials attributed the breach to the Chinese government, an accusation denied by Beijing.

Security analysts said foreign governments could stand to gain from inside Fed information. China and Russia, for instance, are major players in the \$13.8 trillion federal debt market where Fed policy plays a big role in setting interest rates.

"Obviously that makes it a very clear (hacking) target for other nation states," said Ari Schwartz, a former top cybersecurity adviser at the White House who is now with the law firm

Venable.

US prosecutors in March accused hackers associated with Iran's government of attacking dozens of US banks.

In the records obtained by Reuters, espionage might also refer to spying by private companies, or even individuals such British activist Lauri Love, who is accused of infiltrating a server at a regional Fed branch in October 2012. Love stole names, e-mail addresses, and phone numbers of Fed computer system users, according to a federal indictment.

The redacted reports obtained by Reuters do not mention Love or any other hacker by name.

The records point to breaches during a sensitive period for the Fed, which was ramping up aid for the struggling US economy by buying massive quantities of US government debt and mortgage-backed securities.

In 2010 and 2011, the Fed went on a \$600 billion bond-buying spree that lowered interest rates and made bonds more expensive. It restarted purchases in September 2012 and expanded them up in December of that year.

The Fed cybersecurity records did not indicate whether hackers accessed sensitive information on the timing or amounts of bond purchases or used it for financial gain.

The Fed's national cybersecurity team - the National Incident Response Team, or NIRT - created 263 of the incident reports obtained by Reuters.