



President & CEO, Summit Bank
Hussain Lawai

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ICMAP: Please tell us briefly about your Bank and its performance in the banking sector in terms of deposits, assets base, advances and profitability and what measures your bank have taken to enforce good governance practices for improving internal control and ensuring strong oversight?

HL: The Pakistan operations of Rupali Bank Limited were acquired by Arif Habib Securities Limited (AHSL) under the Scheme of Amalgamation approved by State Bank of Pakistan and its name was changed to Arif Habib Rupali Bank Ltd. In October 2007, it was renamed as Arif Habib Bank Ltd. On 31st March 2010, Suroor Investments Ltd, a company incorporated in Mauritius, acquired 59.41% stake in Arif Habib Bank Ltd. In August 2010, Arif Habib Bank was rebranded as **Summit Bank Ltd (SMBL)**. In 2011, Ex-Atlas Bank and Ex-My bank were merged into SMBL, expanding the Bank's geographical outreach and customer base. The merger of three entities brought synergies and access to a wider range of markets and customers. Although summit bank had its own identity but we made Arif Bank as a base. All three banks were in bad condition in terms of liquidity and infected ratio was only 16 percent. It was an alarming situation but we had took over the charge. Uptil now, we have earned 17 billion and from last two years we are in profit. We have a network of 192 Real-Time Online branches and 246 ATMs, which includes 173 on-site and 73 off-site ATMs. SMBL has also established/converted 10

branches into full-fledged Islamic Banking branches together with two Islamic Banking windows. Furthermore, the bank has planned to convert rest of the conventional banking operations into Islamic Banking within a span of 3 years.

As far as SMBL's performance is concerned, let me share some facts and figure here. In terms of **Asset base**, SMBL has shown 27% growth as compared to banking industry's average of 19% growth in total assets. The total assets of SMBL in 2015 stood at Rs. 39.9 billion, including Rs. 32.2 billion of investment in government securities and Rs. 4 billion increase in net advances. SMBL has also surpassed growth in **total deposits** by registering 14% growth as compared to only 12% achieved by the banking industry. The Cost of deposits and CASA of SMBL also improved during the year. Due to prudent lending measures, total share of SMBL's **advances-net** compared to banking Industry fell marginally by 0.09% from 1.97% in 2014 to 1.88% in 2015. As far as **profitability** is concerned, SMBL recorded after-tax profit of Rs. 217 million during FY2015 as compared to Rs. 229 million in FY2014.

SMBL has also taken measures to enforce good governance practices for improving internal control and oversight, starting from the Board of Directors (BODs) level and cascading down to Board Committees and various Management Committees. The Bank has a formal procedure to monitor performance of the Board and Management Committees and all major decisions taken by these committees are forwarded to BODs for review. SMBL has clearly defined board approved SOPs and Manuals to ensure compliance of various policies, laws and regulations. Besides, there are specific day-to-day oversight management functions such as Compliance, Risk Management, Internal Control and Shari'a Compliance & Audit. The Resident Auditors help field functionaries to exercise effective control over branches. Furthermore, the business and operational areas are

segregated and have clearly defined reporting lines, responsibilities and goals to avoid conflict of interests. The basic and fundamental controls have been embedded in all the processes and transactions such as segregation of duties, dual custody, limits & approvals, physical verification, reconciliation, etc to avoid manipulations. The head office functionaries along with the field hierarchy are responsible to exercise effective implementation and monitoring of these controls. Internal Control Unit (ICU) is responsible to regularly review the processes to identify gaps, if any, and make recommendations to the management to take remedial measures to fill the gaps. ICU presented all these gaps along with the management action to the Board Audit Committee (BAC) for its review.

ICMAP : How your bank is dealing with the issue of non-performing loans?

HL: Special Asset Management (SAM) Division at SMBL head office in Karachi is responsible to recover non-performing loans (NPLs) on pan-Pakistan basis and it is assisted by two regional offices at Lahore and Islamabad. There is also a management committee viz. SAM Committee, which is responsible to monitor the recovery on NPLs. In the beginning of each year, SAM Division is assigned recovery targets by SAM Committee after reviewing each and every individual NPL account. Despite the fact that as a result of merger, SMBL inherited huge portfolio of NPLs of **Rs.23.4** billion called legacy portfolio, it is making concerted efforts to recover them. Due to these efforts, NPLs have come down from Rs. 23.4 billion as of December 31, 2012 to Rs. 12.2 billion as of September 30, 2015, thereby showing a decline of Rs. 11.2 billion. In the same way, the infection ratio has been reduced from 36% to 23 percent. However, the provision coverage ratio has been increased from 53% in 2012 to 73% in 2015. Year wise position of NPLs, recoveries, infection ratio and provision coverage ratio is as under: ■

	(Rs. in millions)			
	2013	2014	2015	Total Recovery
NPLs (Legacy Portfolio)	20,749	15,318	12,227	n/a
Recoveries from Legacy Portfolio	2,661	2,490	2,611	7,762
Infection Ratio*	36.0%	27.1%	19.0%	20.6%
Provision Coverage Ratio**	53.0%	63.6%	76.3%	72.8%
* Infection ratio is computed by taking the ratio of total NPLs against Total Gross Loans & Advances.				
** Provision coverage ratio is computed by taking the ratio of Provisions held against NPLs to Gross NPLs.				

Our strategy to recover NPLs is that we engage with defaulters on case-to-case basis. We know that there are big names and if we do not support them, not only their but our bank's business will also suffer. We initially suggest them to pay defaulted loans through sale of property for which we offer to ignore interest. This strategy succeeds in fifty percent of the cases, however for difficult defaulters, we have to pressurize them through recovery sue which force them to come to table. For defaulters who are willing to pay but have no capacity to pay, we do not ask them to pay loan, rather we facilitate them. There are many companies who have taken this benefit of our facilitations and are grateful to us.

ICMAP: What is the progress made in Corporate Rehabilitation Law (CRA)?

HL: Our Bank is keenly following the steps taken by SBP and Securities and Exchange Commission of Pakistan in regard to promulgation and establishment of Corporate Rehabilitation Law, which in all respect is a much needed step in furthering growth and protection of business(s) and lenders in Pakistan.

ICMAP : Please explain your banks' policy towards SME-financing. Could you share some statistics with regard to bank's lending to the private sector, especially SMEs during last few years?

HL: SBL has set up a separate SME Department to provide financing facilities to SME sector. Although, SME financing is covered under overall bank's credit policy, a separate policy for SMEs is under process and will be finalized soon. SBL has also placed dedicated Relationship Managers (RMs) at Karachi, Hyderabad, Sialkot, Faisalabad, Lahore, Gujranwala, Rawalpindi, Peshawar, etc. Our exposure to SME sector constitutes 25% of our total financing as of December 2015. The total exposure on SMEs has increased from Rs. 16 billion from Dec 2014 to Rs. 20 billion in Dec 2015, showing a 25% annual growth.

ICMAP : Is there any specific role of Summit Bank to support and facilitate the businesses?

HL: We have a 'Business Intelligence' department which develops research reports based on their direct contact and consultation with the different industry sectors and markets. Based on these intelligence reports, we provide guidance to our customers about market dynamics and hurdles. We cannot share every information but we can see the coming problems and notify our customers. Research is a major department. In every international organization there is a research department.

ICMAP: How do you see general emerging economic conditions in terms of challenges and opportunities, especially in the context of China-Pakistan Economic Corridor (CPEC)?

HL: Though CPEC provides one of the rare opportunities for Pakistan to improve its economy, however, to be very frank, exact information about CPEC is still unknown and unclear such as type of investment to be made; whether loan or investment and what will be the percentage of loan etc. Planning Ministry takes the ownership of CPEC but it is also least informed. I visited China recently and found that there was non-clarity about CPEC at their side as well. We just know that this corridor will consist of power projects, industrial zones and Port and infrastructure development. Around 500 people are coming from China to work at the Port. We will make a "tax Free Zone", but who will invest in it is a question to be answered. We know that three power projects will be under taken i.e. Sahiwal Power project will be China's investment; Port Qasim will be a joint venture of both countries and there is also a third one. CPEC is surely a game changer and it has potential for development. All we need the details of the planning and execution of projects that what will be the outcome of 1st year, and 2nd year etc. We also want to know about the capacity of the country's economy. I tell you frankly that our economy has no potential to absorb 46 billion dollars, which is a huge amount.

As far as challenges are concerned, I think that there would be both internal and external challenges. At the domestic level, it would be difficult to develop consensus among the Provinces on CPEC. The Provinces have expressed reservations over the proposed new route of the corridor, which may delay the implementation of various infrastructure projects. Moreover, the poor law and order situation is another hindrance for the smooth functioning of the corridor. In addition, Pakistan's unstable political system carries the potential to delay the implementation of the CPEC. Another big challenge is poor governance, which may hamper progress on CPEC. At the external front, we have to face different political challenges. There is talk with India to stop a diplomatic route to construct CPEC in Gilgit-Baltistan, which it considers to be an integral part of its territory. On the other side, USA has been apprehensive of Chinese strategic access to the Arabian Sea and its presence in the region. It has apparently tried numerous times to discourage Pakistan from involving China in the development. Having said that, there are opportunities for the banks especially those that are equipped with the resources to handle long term financing for power and infrastructure projects, etc. Our bank may consider participating in syndicate of the banks for financing infrastructure and power projects.

ICMAP: Do you think that the banking industry in Pakistan is ready to capitalize on the opportunities of CPEC?

HL: CPEC is poised to attract domestic as well as international investment in projects such as infrastructure, construction, transport, energy, telecommunication, exploration, food, etc. The banking industry has excessive liquidity as well as capacity to participate in such projects by entering into syndicate arrangements among the local banks as well as with international banks, especially Chinese banks. This will help the banking industry to pool its financial resources and expertise which is essential for financing big and complex projects. This is evident from the fact that domestic banks are already capitalizing on the opportunities for financing energy projects such as disbursement of \$1.95 billion to development of Thar Block-II 3.8 MT/A coal mining project and associated 2x330MW coal-fired power plant. This project has been lead by Pakistani banks such as HBL, UBL and Bank Alfalah Limited, etc with lender syndicate comprising Chinese banks led by China Development Bank Corporation, Industrial & Commercial Bank of China Limited and China Construction Bank Corporation.

As a result of CPEC, massive investments are in the pipeline, thus there will be enormous opportunities for the banking industry not only in financing mega infrastructure and energy projects but also consumer banking will flourish as a result of increase in earning of masses. The development of such projects will give also boost trade and service sectors such as contractors, builders, transporters, etc.

ICMAP: Is your bank foreseeing investment opportunity in CPEC related projects?

HL: SMBL has a Corporate & Investment Banking Division (CIBD) which is headed by an experienced EVP and manned with talented and capable resources, having presence in South, Central and North. CIBD has the capacity and expertise to finance infra structure projects, therefore, we have participated in a consortium of banks which financed the construction of Hyderabad Mirpurkhas-Motorway project. This motorway was constructed by a South Korean Construction Company on Build, Operate and Transfer (BOT) basis. Further, we have also financed some power projects. With this experience, we will surely consider any proposal for financing projects under CPEC related to energy, telecom and construction.

ICMAP: How do you see the role of Management Accountants in bringing operational efficiency in banks and also cost effectiveness in financial products offered to customers?

HL: Management accountants traditionally have roles to determine cost of products to be provided to customers. Due to increase in competitiveness, management accountants have an expanded role in decision making aspect of banks especially to ensure that financial services provided to customer are not only of highest quality but also cost-effective. Such efficiency is achieved by performing various analyses of the bank's financial products and suggesting a perfect product mix to target markets and thus effectively utilizing funds obtained from depositors.

ICMAP: How do you see the contribution of Management Accountants under CPEC regime?

HL: CPEC has opened an era of opportunities both in short and long term for almost all the sectors of the economy. This will also create job opportunities for all categories of employees such as laborers, skilled and semi-skilled workers as well as professionals including Accountants, Engineers, Tele-communication Experts, IT, etc. The role of Management Accountants is very critical in CPEC as decision making will be based on financial and non-financial information provided by them to the decision makers. Therefore, the Management Accountants would have great job opportunities and they will be in a position to significantly influence economically and timely completion of infrastructure projects.

To ensure cost efficiency of CPEC projects, the Management Accountants can apply their knowledge such as network analysis, budgeting, cash flow management to ensure timely delivery and completion of CPEC projects. They can also conduct budget monitoring exercises to check whether the projects are within allocated budget and timeline. Multiple variance analysis can be performed and reasons for favorable/ unfavorable variances can be identified, investigated and rectified. Management Accountants can prepare project reports that would help the relevant stakeholders and leadership to take right and timely decisions for quality results. The strategy right now in many companies is that CFO should be a qualified from ICMAP. While making investment in Steel Mills, our Bank has made it a condition that there should be one chartered Accountant and one Management Accountant in order to manage the costs. We now advice our clients that they should have specific qualification of CMA as they have different type of training as compared to chartered accountants. ■

This interview of Mr. Husain Lawai was conducted few days before his retirement from the position of President and CEO of Summit Bank. He has now been elevated to play his role as Vice Chairman on the Board of Directors of Summit Bank. We are indeed thankful to him for sparing valuable time to share his candid views exclusively for this Journal – Editor