QUALITATIVE AND QUANTITATIVE DISCLOSURES UNDER PILLAR-III OF RISK BASED CAPITAL ADEQUACY (BASEL-III) DECEMBER 31, 2015

The Basel III framework sets out minimum capital requirement standards for banks to ensure they are adequately capitalized against the risks they face and are able to withstand losses during periods of stress conditions. The framework consists of three pillars:

- Pillar-1 sets out the minimum capital requirements for credit, market and operational risk;
- Pillar-2 covers the review process by banks and supervisors to assess whether banks' Pillar 1 capital is adequate to meet the risk exposures and whether there is any requirement to hold additional capital in respect of any risks not covered by Pillar 1; and
- Pillar-3 encourages market discipline and transparency through appropriate disclosures on capital adequacy and risk management processes.

The purpose of this Disclosures Report is to set out how Southeast Bank Ltd. complies with the Pillar 3 requirements under Basel III. The following detailed qualitative and quantitative disclosures are prepared in accordance with Guidelines on Risk Based Capital Adequacy (Basel-III) by Bangladesh Bank.

The reports will enable market participants to assess key information relating to the Bank's regulatory capital and risk exposures more effectively in order to instill confidence about the Bank's exposure to risk and overall regulatory capital adequacy.

A) Scope of Application

Qualitative Disclosures

a) The name of the top corporate entity to which this framework applies: Southeast Bank Limited.

b) The quantitative disclosures are made on the basis of consolidated audited financial statements of the Bank and its Subsidiaries as at and for the year ended December 31, 2015 prepared under relevant international accounting and financial reporting standards as adopted by the Institute of Chartered Accountants of Bangladesh (ICAB) and related circulars/ instructions issued by Bangladesh Bank from time to time. In preparing consolidated financial statements, the bank and its subsidiaries' financial statements are combined on a line by line basis by adding together like items of assets, liabilities, equity, income and expenses. However all intra group balances, transactions, profits and losses are eliminated in full.

c) Southeast Bank Limited has four subsidiaries and the descriptions are given below.

Southeast Bank Capital Services Limited	Southeast Financial Services (UK) Limited	Southeast Financial Services (Australia) Pty Limited	Southeast Exchange Company (South Africa) Pty Limited
• Date of Incorporation: September 23, 2010 • Date of Commencement: September 23, 2010 • Authorised Capital: BDT 3,000 million • Paid up Capital: BDT 1,500 million • Ownership Interest in Capital: BDT 1,489.93 million (99.33%)	• Date of Incorporation: February 22, 2011 • Date of Commencement: September 26, 2011 • Paid up Capital: BDT 38.49 million • Ownership Interest in Capital: 100%	• Date of Incorporation: March 18, 2013 • Date of Commencement: March 18, 2013 • Capital: BDT 25.03 million • Ownership Interest in Capital: 100%	• Date of Incorporation: December 15, 2014 • Date of Commencement: December 15, 2014 • Capital: BDT 50.10 million • Ownership Interest in Capital: 100%

The BRPD circular 02 dated 16 January 2014 regarding 'Single Borrower Exposure Limit' is being applied by the Bank in determining maximum amount of finance to the subsidiaries of the Bank. As on year end 2015, the bank had a credit line to Southeast Capital Services Ltd of BDT 2863.90 million.

Quantitative Disclosures

d) Southeast Bank Ltd has four subsidiaries: Southeast Bank Capital Services Limited, Southeast Financial Services (UK) Limited, Southeast Financial services (Australia) Pty Limited and Southeast Exchange Company (South Africa) Pty Limited. Assets and liabilities of these subsidiaries are consolidated with the financials of the parent company. There was no capital deficiency in the financial year 2015.

B) Capital Structure

Qualitative Disclosures

a) The regulatory capital under Basel-III is composed of (I) Tier-1 (Going-concern Capital) and (II) Tier-2 (Gone-concern Capital). From regulatory capital perspective, going-concern capital is the capital which can absorb losses without triggering bankruptcy of the bank and gone-concern capital is the capital which will absorb losses only in a situation of liquidation of the bank.

Tier-1 capital is composed of (a) Common Equity Tier- 1 and (b) Additional Tier-1

Common Equity Tier-1 (CET1) capital consists of paid-up capital, statutory reserve, general reserve, retained earnings, minority interest in subsidiaries etc.

Tier-2 capital is composed of general provision, subordinated debt, revaluation reserves etc.

Capital requirement rules

The Bank is required to maintain the following ratios on an ongoing basis:

i. Common Equity Tier-1 will be at least 4.5% of the total RWA.

ii. Tier-1 capital will be at least 6.0% of the total RWA.

iii. Minimum CRAR of 10% of the total RWA.

iv. Additional Tier-1 capital can be admitted maximum up to 1.5% of the total RWA or 33.33% of CET-1, whichever is higher.

v. Tier-2 capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET-1, whichever is higher.

vi. In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.5% of the total RWA is being introduced which will be maintained in the form of CET-1.

Following is the phase-in arrangement for the implementation of minimum capital requirements:

Particulars	2015	2016	2017	2018	2019
Minimum Common Equity Tier-1 Capital Ratio	4.50%	4.50%	4.50%	4.50%	4.50%
Capital Conservation Buffer	-	0.625%	1.25%	1.875%	2.50%
Minimum CET-1 plus Capital Conservation Buffer	4. 50%	5.125%	5.75%	6.375%	7.00%
Minimum T-1 Capital Ratio	5.50%	5.50%	6.00%	6.00%	6.00%
Minimum Total Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total Capital plus Capital Conservation Buffer	10.00%	10.625%	11.25%	11.875%	12.50%

Quantitative Disclosures

BDT in million

Regulatory Capital:	Consolidated	Solo
Tier-1 capital		
1)Common Equity Tier-1 Capital (CET-1)	**21,183.28**	**21,192.15**
Fully Paid-up capital	9,169.50	9,169.50
Non- repayable share premium account		
Statutory reserve	8,897.31	8,897.31
General reserve	247.65	247.65
Retained earnings	2,924.04	2,942.32
Minority interest in subsidiaries	9.43	
Regulatory Adjustments		
Goodwill and all other Intangible assets	64.64	64.64
2) Additional Tier-1 Capital (AT-1)		
3)Total Tier-1 capital (1+2)	**21,183.28**	**21,192.15**
Tier-2 capital		
General provision(unclassified loans, SMA, off balance sheet)	2,430.00	2,430.00
Subordinated debt	3,000.00	3,000.00
Revaluation Reserves as on December 31, 2014 (50% of Fixed Assets and Securities & 10% of Equities)	2,335.43	2,335.43
All other preference shares		
Regulatory Adjustments		
Revaluation Reserves for Fixed Assets, Securities & Equity Securities (Phase in deductions as per Basel-III Guidelines	467.09	467.09
4) Total Tier-2 capital	**7,298.34**	**7,298.34**
c)Regulatory Adjustments		
Revaluation Reserves for Fixed Assets, Securities & Equity Securities (Phase in deductions as per Basel-III Guidelines)	467.09	467.09
Goodwill and all other Intangible assets	64.64	64.64
d)Total eligible capital (3+4)	**28,481.63**	**28,490.49**

C) Capital Adequacy

Qualitative Disclosures

a) The bank is presently following Standardized Approach for assessing and mitigating Credit Risk, Standardized Rule Based Approach for quantifying Market Risk and Basic Indicator Approach for Operational Risk to calculate Minimum Capital requirement (MCR) under pillar-I of Basel-III framework as per the guidelines of Bangladesh Bank.

Quantitative Disclosures

BDT in million

	Capital Adequacy	Consolidated	Solo
b)	Capital requirement for Credit Risk	21,688.49	21,889.44
c)	Capital requirement for Market Risk	1,305.22	947.67
d)	Capital requirement for Operational Risk	1,731.38	1,723.00
e)	Minimum capital requirement (MCR)	24,725.09	24,560.11
	Total capital maintained	28,481.63	28,490.49
	Capital surplus over MCR	3,756.54	3,930.38
	Capital to Risk Weighted Assets Ratio(CRAR)	**11.52%**	**11.60%**
	CET-1 to RWA ratio	8.57%	8.63%
	Tier-1 Capital to RWA ratio	8.57%	8.63%
	Tier-2 Capital to RWA ratio	2.95%	2.97%
f)	Capital Conservation Buffer	-	-
g)	Available Capital under Pillar 2 Requirement	3,756.54	3,930.38

D) Credit Risk

Qualitative Disclosures

a) Credit risk is the potential loss that may arise from a borrower's failure to repay a loan or meet its obligation in accordance with agreed term.

Credit Approval

Bank's credit policy has been prepared in line with Bangladesh Bank's guidelines illustrating the approval process and delegation of authority. The approval process segregates relationship management/marketing from the approval authority. The approval authorities are delegated to different levels of management and Board. Board of Directors of the bank has the highest level of authority to approve any credit proposal and delegate such authority to the competent authority (EC, MD, DMD, Branch Manager). The Corporate Banking Division receives the proposals from the branches and thereafter scrutinized, analyzed and processed in conformity with

Credit Risk Management(CRM) guidelines of Bangladesh Bank and forward the memorandum embodying their recommendations to the CRM division for scrutiny and to ensure that all regulatory procedures/rules and regulations etc. are complied with. After exercising due diligence by CRM, they convey their observations to Corporate Banking/Islamic Banking/SME and Agri Credit Division for submitting the proposals to Head Office Credit Review Committee (HOCRC) and finally forward it to the competent authority for approval.

Credit Administration

The bank accomplishes documentations and makes disbursements with utmost care to reduce the potential credit risk. The disbursement authority is given to the branches within approved limit after the completion of necessary documentation. Furthermore, the bank constantly monitors clients' repayment behaviors, fulfillment of conditions given before disbursement and compliance of covenants in post disbursement period.

Credit Monitoring

The loan portfolio with classification status is reviewed periodically and brought to the notice of Board of Directors of the Bank and senior level management regarding down gradation, overdue, special mention account (SMA), classified and rescheduled portfolio along with early alert list for their information and guidance. The Branches are communicated through letters and circulars for implementation of efficient credit risk management in a proper manner including adherence to the Bank's and Bangladesh Bank's rules and regulations. They have also been advised to follow the guidelines of comprehensive recovery/collection procedures and systems to keep the sound wealth of credit portfolio of the bank.

Credit Assessment and Grading

Know Your Client (KYC) is the first step to analyze any credit proposal. Banker-Customer relationship is established through opening of CD/SB accounts of the customers. Proper introduction, photographs of the account holders/ signatories, passports etc., and all other required papers as per Bank's policy are obtained during account opening. Physical verification of customer address is done prior to credit appraisal. At least three Cs, i.e., Character, Capital and Capacity of the customers are confirmed. Credit Appraisals include the details of amount and type of loan(s) proposed, purpose of loan (s), result of financial analysis, loan Structure (Tenor, Covenants, Repayment Schedule, Interest), security arrangements. The above are minimum components to appraise a credit and there are other analyses depending on the credit nature.

The bank follows the CRG manual of Bangladesh Bank circulated on December 11, 2005 through BRPD circular no. 18. Borrowers are assigned risk grades based on the qualitative and quantitative factors of their business. There are 08 grades based on the marks obtained in qualitative and quantitative factors. The grades and factors are:

GRADING	SHORT NAME	Marks	NUMBER
Superior	SUP	85-100	1
Good	GD	75-84	2
Acceptable	ACCPT	65-74	3
Marginal/Watch list	MG/WL	55-64	4
Special Mention	SM	45-54	5
Sub standard	SS	35-44	6
Doubtful	DF	25-34	7
Bad & Loss	BL	<25	8

Qualitative and Quantitative factors/principal risk components	Weight
Financial Risk	50%
Business/Industry Risk	18%
Management Risk	12%
Security Risk	10%
Relationship Risk	10%

Credit Risk Mitigation

Potential credit risks are mitigated by taking primary and collateral securities. There are other risk mitigants like netting agreements and other guarantees. The legal certainty and enforceability of the mitigants are verified by the professionals of the respected fields. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; plant and machinery; marketable securities etc. Collaterals are physically verified by the officials of the branches and Head Office. At the same time these are also valued by independent third party surveyor in accordance with the credit policy and procedures.

Past Due and Impaired Credit

A claim that has not been paid as of its due date is termed as past due claim. Payment may be for repayment/ renewal/rescheduling or as an installment of a loan. For loan classification and maintenance of specific and general provision, the Bank follows BRPD circular no-14 and 19 of 2012, 05 of 2013, and 16 of 2014 and advices by Bangladesh Bank from time to time.

Approaches followed for specific and general allowances:

Particulars	Short Term Agri Credit	Consumer Financing			SMEF	Loans to BHs/MBs/SDs	All other Credit
		Other than HF, LP	HF	LP			
Standard	2.5%	5%	2%	2%	0.25%	2%	1%
SMA	-	5%	2%	2%	0.25%	2%	1%
SS	5%	20%	20%	20%	20%	20%	20%
DF	5%	50%	50%	50%	50%	50%	50%
B/L	100%	100%	100%	100%	100%	100%	100%

NB: CF=CONSUMER FINANCING, HF=HOUSING FINANCE, LP=LOANS FOR PROFESSIONALS TO SET UP BUSINESS, SMA=SPECIAL MENTION ACCOUNT, SS=SUBSTANDARD, DF=DOUBTFUL, B/L=BAD/LOSS, BHs/ MBs,/SDs= LOANS TO BROKERAGE HOUSES/ MERCHANT BANKS/STOCK DEALERS.

Base for Provision

For the following types of eligible collaterals, provision is maintained at the stated rates mentioned above on the base for provision. Base for provision is calculated deducting interest suspense and the value of eligible collateral from outstanding classified loans.

i. Deposit with the same bank under lien against the loan

ii. Government bond/savings certificate under lien,

iii. Guarantee given by Government or Bangladesh Bank.

For all other eligible collaterals, the provision will be maintained at the stated rates mentioned above on the balance calculated as the greater of the following two amounts:

i. Outstanding balance of the classified loan less the amount of Interest Suspense and the value of eligible collateral; and

ii. 15% of the outstanding balance of the loan.

Eligible Collateral

The following collateral is included as eligible collateral in determining base for provision:

- 100% of deposit under lien against the loan
- 100% of the value of government bond/savings certificate under lien
- 100% of the value of guarantee given by Government or Bangladesh Bank
- 100% of the market value of gold or gold ornaments pledged with the bank.
- 50% of the market value of easily marketable commodities kept under control of the bank
- Maximum 50% of the market value of land and building mortgaged with the bank
- 50% of the average market value for last 06 months or 50% of the face value, whichever is less, of the shares traded in stock exchange.

Qualitative Judgment

Considering the nature and performance of a loan, the bank can also classify a particular loan on the basis of qualitative judgment taking into consideration the factors such as uncertainty or doubt of repayment, continuous loss of capital, adverse situation, decrease of value of securities, legal suit etc. However, regardless of all rules and regulations the central bank can classify any loan on the basis of their subjective judgment as well as can instruct the bank to make additional provision on non-performing loans.

Quantitative Disclosures

b) Total gross credit risk exposures broken down by major types of credit exposure:

Total gross credit risk exposures by major types: Bangladesh Bank guidelines on Basel III, stipulated to segregate bank's asset portfolio into different categories and the table below shows our gross exposure in each asset category.

BDT in million

	Particulars	Consolidated	Solo
a	Cash	15,996.99	15,996.99
b	Claims on Bangladesh Government and Bangladesh Bank	52,620.79	52,620.79
c	Claims on Banks & NBFIs	7,778.69	7,724.36
d	Claims on Corporate	104,129.48	104,129.48
e	Claims on SME	29,075.82	29,075.82
f	Claims under Credit Risk Mitigation	5,988.91	5,988.91
g	Claims categorized as retail portfolio (excluding SME, Consumer finance and Staff loan) up to 1 crore	864.35	864.35
h	Consumer finance	1,134.18	1,134.18
i	Claims fully secured by residential property	413.03	413.03
j	Claims fully secured by commercial real estate	2,289.74	2,289.74
k	1.Past Due Claims that is past due for 60 days or more (Risk weights are to be assigned net of specific provision):		
	Where specific provisions are less than 20% of the outstanding amount of the past due claim	10,806.55	10,806.55
	Where specific provisions are no less than 20% of the outstanding amount of the past due claim	616.88	616.88
	Where specific provisions are more than 50% of the outstanding amount of the past due claim	203.17	203.17
	2. Claims fully secured against residential property that are past due for more than 60 days and/ or impaired specific provision held there-against is less than 20% of outstanding amount	34.31	34.31
	3. Loans and claims fully secured against residential property that are past due for more than 60 days and/ or impaired and specific provision held there-against is no less than 20% of outstanding amount	78.66	78.66
l	Capital Market Exposure	2,363.50	2,863.90
m	Investment in equity and other regulatory capital instruments issued by other banks and Merchant Banks/Brokerage Houses/Exchange Houses which are not listed in the Stock Exchanges (other than those deducted from capital) held in banking book	214.99	1,674.98
n	Investments in premises, plant and equipment and all other fixed assets	7,885.23	7,751.08
o	Claims on all fixed assets under operating lease		
p	All other assets		
	i)Claims on GoB & BB	943.84	943.84
	ii)Staff loan	195.48	195.48
	iv) Claims on Offshore Banking Unit	439.21	439.21
	v)Others	3,869.48	3,573.42
	Total	**247,943.27**	**249,419.13**

c) Geographical distribution of exposures

BDT in million

Region Based	Dhaka	122,814.59
	Chittagong	38,037.94
	Rajshahi	2,350.14
	Sylhet	3,759.47
	Khulna	1,495.95
	Rangpur	750.95
	Barisal	90.22
	Mymensingh	79.59
	Total	169,378.86
Country Based	Domestic	169,378.86
	Overseas	

d) Major Industry wise distribution of exposures (Industrial Loan)

BDT in million

Textile and Garments Industries including Spinning Industries	38,256.80
Food and allied Industries	5,580.70
Pharmaceutical Industries	718.40
Chemical, Fertilizer, etc.	150.90
Cement and Ceramic Industries	3,381.90
Service Industries	2,221.20
Other Industries	23,701.30
Total	**74,011.20**

e) Residual contractual maturity breakdown of the whole portfolio

BDT in million

On demand	39,477.07
Less than three months	20,774.33
More than three months but less than one year	8,736.93
More than one year but less than five years	37,652.83
More than five years	22,737.69
Total	**169,378.86**

f) Major Industry type amount of impaired loans

BDT in million

Agriculture	8.62
Large and Medium Scale Industries	2,463.72
Small and Cottage Industry	114.95
Exports	10.00
Commercial Lending	2,245.32
Finance to NBFIs	0.00
Real Estate	884.70
Retail Banking	29.57
Transport & Communication	49.30
Credit Card	57.50
Others	1,330.13
Total	**7,193.80**

g) Gross Non Performing Assets (NPAs)

BDT in million

Gross Non Performing Assets (NPAs)	
Nonperforming assets to outstanding loans and advances	4.25%
Movement of Non Performing Assets (NPAs):	
Opening balance	5,387.70
Additions	7,065.70
Reductions	5,259.60
Closing balance	7,193.80
Movement of specific provisions for NPAs:	
Opening balance	2,673.50
Provision made during the period	2,214.40
Write off	2,564.60
Write back of excess provisions	-
Closing balance	2,323.30

E) Equities: Disclosures for Banking Book Positions

Qualitative Disclosures

a) Banking book positions consist of those assets which are bought for holding until they mature. The bank treats unquoted equities as banking book assets. Unquoted equities are not traded in the bourses or in the secondary market, they are shown in the balance sheet at cost price and no revaluation reserve is created against these equities.

Quantitative Disclosures

b) Values of investments as disclosed in the Balance Sheet:

BDT in million

	Consolidated		Solo	
	Cost Price	Market Price	Cost Price	Market Price
Unquoted Share	214.99	214.99	214.99	214.99
Quoted Share	5,993.49	4,071.57	4,052.64	2,283.85

For Banking Book Equity

	Consolidated	Solo
c) The cumulative realized gains (losses) arising from sales and liquidations in the reporting period	-	-
d)	-	-
Total unrealized gains(losses)	-	-
Total latent revaluation gains (losses)	-	-
Any amounts of the above included in Tier 2 capital	-	-

e)

BDT in million

Particulars	Capital Requirement	
	Consolidated	Solo
Unquoted Share	26.87	26.87
Quoted Share	814.31	456.77

As equities do not have any maturity, we have calculated risk weighted assets for unquoted equities on the basis of fixed risk weight which is 125% of investment value. And for quoted share capital charge is 10% for both specific and market risks.

F) Interest Rate Risk in the Banking Book (IRRBB)

Qualitative Disclosures

Interest rate risk affects the bank's financial condition due to adverse movements in interest rates of interest sensitive assets. Changes in interest rates have two types of impact:

i. Earnings perspective: It affects a bank's earnings by changing its net interest income and the level of other interest sensitive income and operating expenses.

ii. Economic value perspective: The economic value of future cash flows changes when interest rate changes.

At present, SEBL is following prescribed format of Bangladesh Bank for assessing the change in economic value due to change in interest rate.

Quantitative Disclosures

i. Earnings perspective:

Here, we have used maturity gap method to measure changes in earnings due to changes in interest rates.

BDT in million

Up to 12 Month(Cumulative Gap)	Percentage changes in interest rate	Net interest income and re-pricing impact
(26,147.41)	1% increase in interest rate	(261.47)
	1% decrease in interest rate	261.47
	2% increase in interest rate	(522.95)
	2% decrease in interest rate	522.95
	3% increase in interest rate	(784.42)
	3% decrease in interest rate	784.42

G) Market Risk

Qualitative Disclosures

a) View of the Board of Directors on trading/investment activities

Market risk arises due to changes in the market variables such as interest rates, foreign currency exchange rates, equity prices and commodity prices. The financial instruments that are held with trading intent or to hedge against various risk, are purchased to make profit from spreads between the bid and ask price are subject to market risk. SEBL is exposed to market risk mostly stemming from Government Treasury Bills and Bonds, Shares of listed Public Limited Companies, foreign currency etc.

Methods used to measure Market Risk

There are several methods used to measure market risk and the bank uses those methods which deem fit for a particular scenario. For measuring interest risk from earnings perspective, the bank uses maturity gap analysis, Duration Gap analysis, Sensitivity Analysis and marked to market method and for measuring foreign exchange risk, the bank uses VaR analysis.

We use standardized (Rule Based) method for Calculating capital charge against market risks for minimum capital requirement of the Bank under Basel-III.

Market Risk Management System

The Bank has its own Market Risk Management System which includes Asset Liability Risk Management (ALM) and Foreign Exchange Risk Management under the core risk management guidelines.

Asset Liability Management (ALM): The ALM policy specifically deals with liquidity risk management and interest rate risk management framework.

Foreign Exchange Risk Management: Foreign exchange risk arises when the bank is involved in foreign currency transactions. These include foreign currency exchange, placement, investments, loans, borrowings and different contractual agreements. We use different hedging techniques to mitigate foreign exchange risks exposed to the bank.

Policies and processes for mitigating market risk are mentioned below

- Risk Management and reporting is based on parameters such as Maturity Gap Analysis, Duration Gap Analysis, VaR etc, in line with the global best practices.
- Risk Profiles are analyzed and mitigating strategies/ processes are suggested by the Asset Liability Committee (ALCO).
- Foreign Exchange Net Open Position (NOP) limits (Day limit / Overnight limit), deal-wise trigger limits, Stop-loss limit, Profit / Loss in respect of cross currency trading are properly monitored and exception reporting is regularly carried out.
- Holding of equities is monitored regularly so that the investment remains within the limit as set by Bangladesh Bank.
- Asset Liability Management Committee (ALCO) analyzes market and determines strategies to attain business goals.
- Reconciliation of foreign currency transactions

Quantitative Disclosures

b) The capital requirements for:

BDT in million

Particulars	Consolidated	Solo
Interest rate risk	410.98	410.98
Equity position risk	814.31	456.77
Foreign exchange risk	79.92	79.92
Commodity risk	-	-
Total	**1,305.21**	**947.67**

H) Operational risk

Qualitative Disclosures

a) Views of the Board of Directors on system to reduce Operational Risk

Operational risk is the risk which may arise directly or indirectly due to failure or breakdown of system, people and process. This definition includes legal risk, but excludes strategic and reputation risk. The bank manages this risk through a control based environment in which processes are documented, authorization is independent and transactions are reconciled and monitored. This is supported by a periodic process conducted by ICCD and monitoring external operational risk events, which ensure that the bank stays in line with the international best practices.

Performance Gap of Executives and Staffs

The bank believes that training and knowledge sharing is the best way to reduce knowledge gap. Therefore, it arranges trainings on a regular basis for its employees to develop their expertise. The bank offers competitive pay package to its employees based on performance and merit. It always tries to develop a culture where all employees can apply his/her talent and knowledge to work for the organization with high ethical standards in order to add more value to the company and for the economy.

Policies and processes for mitigating operational risk

The Bank has adopted policies which deal with managing different operational risks. Bank strongly follows KYC norms for its customer dealings and other banking operations. The Internal Control and Compliance Division of the Bank, the inspection teams of Bangladesh Bank and External Auditors conduct inspection on different branches and divisions at Head Office of the Bank and submit reports presenting the findings of the inspections. Necessary control measures and corrective actions have been taken on the suggestions or observations made in these reports.

Approach for calculating capital charge for operational risk

The Bank has adopted Basic Indicator Approach (BIA) to compute capital charge against operational risk under Basel-III as per Bangladesh Bank Guidelines.

Quantitative Disclosures

b) BDT in million

Particulars	Consolidated	Solo
The capital requirements for operational risk	1,731.38	1,722.99

Calculation of Capital Charge for Operational Risk (Consolidated)

Basic Indicator Approach

BDT in million

Year	Gross Income (GI)	Average GI	15% of Average GI
December, 2013	9,885.20	11,542.52	1,731.38
December, 2014	12,670.92		
December, 2015	12,071.43		
Total GI	**34,627.55**		

I) Liquidity Ratio

Qualitative Disclosures

a) Views of the Board of Directors on system to reduce Liquidity Risk

Southeast Bank Limited is blessed with a prudent Board of Directors that has always been giving utmost importance to minimize the liquidity risk of the bank. In order to reduce liquidity risk strict maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Reserve (SLR) are also being emphasized on a regular basis. Apart from these as a part of Basel-III requirement Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are also maintained under the guidance and sharp acumen of our honorable Board of Directors.

Methods used to measure Liquidity Risk

In order to measure liquidity risk various methods are being used which are as follows:

- GAP analysis is being done regularly that deals with the mismatch of assets and liabilities in different time buckets like 0-30 days, 31-90 days, 91-180 days, 181-270 days, 271-365 days and beyond 1 year. In our monthly ALCO paper we show this GAP analysis based on which different strategic decisions are taken in order to reduce liquidity risk that may arise due to the mismatch between assets and liabilities.
- Cash flow forecasting is another technique to measure liquidity risk that may arise due to future cash flow mismatch. In our monthly ALCO paper we show this cash flow forecasting.

Liquidity risk management system

As a part of liquidity risk management system we have board approved liquidity contingency plan. In this liquidity contingency plan we have incorporated all the strategic decision to tackle any sort of liquidity crisis. As per the Bangladesh Bank ALM guideline this liquidity contingency plan is reviewed annually which is approved by the Board of Directors.

Policies and processes for mitigating Liquidity risk

We have board approved policies namely "Medium to Long Term Liquidity Management Policy (LMP)" for mitigating liquidity risk. This policy is reviewed annually and placed before the Board of Directors for their kind approval.

Quantitative Disclosures

b)

BDT in million

Liquidity Coverage Ratio (LCR)	140.77%
Net Stable Funding Ratio (NSFR)	107.60%
Stock of High quality liquid assets	68,438.67
Total net cash outflows over the next 30 calendar days	48,617.37
Available amount of stable funding	213,101.36
Required amount of stable funding	198,054.85

j) Leverage ratio

Qualitative Disclosures

a) Views of the Board of Directors on system to reduce excessive leverage

Leverage is an inherent and essential part of modern banking business. In other words, banks are highly leveraged organizations which facilitate leverage for others. Leverage, in simple terms, it is the extent to which a bank funds its assets with borrowings rather than capital. More debt relative to capital means a higher level of leverage.

Banks have a range of financial incentives to operate with high leverage. But it creates risk when it crosses a certain point. Therefore, the board views that sound prudential controls are needed to ensure that the organization maintains a balance between its debt and equity. The board also believes that the bank should maintain its leverage ratio on and above the regulatory requirements which will eventually increase the public confidence on the organization.

Policies and processes for managing excessive on and off-balance sheet leverage

The leverage ratio is a non risk based approach to the measurement of leverage. The ratio acts as a 'backstop' against the risk-based capital requirements and is also designed to constrain excess leverage. There are three types of leverage—balance sheet, economic and embedded. Under Basel III, the Bank has to maintain a leverage ratio in excess of 3% of its exposures. The leverage ratio is intended to achieve the following objectives:

a) Constrain the build-up of leverage in the bank

b) Reinforce the risk based requirements with an easy to understand and a non-risk based measure.

To manage excessive leverage, the bank follows all regulatory requirements for capital, liquidity, commitment, Advance Deposit Ratio (ADR), Maximum Cumulative Outflow (MCO), large exposures which are eventually reinforcing different standards set by Bangladesh Bank. The aim is to ensure that the high leverage inherent in banking business models is carefully and prudently managed.

Approach for calculating exposure

Leverage ratio reflects the Bank's tier 1 capital (the numerator) over total exposure (the denominator), which include its balance sheet exposures and certain off-balance sheet exposures.

The capital measure for the leverage ratio is based on the Tier 1 capital. The exposure measure for the leverage ratio follows the accounting measure of exposure. In order to measure the exposure consistently with financial accounts, the followings are applied by the bank:

1. On balance sheet, non-derivative exposures will be net of specific provisions and valuation adjustments
2. Physical or financial collateral, guarantee or credit risk mitigation purchased is not considered to reduce on-balance sheet exposure.
3. Netting of loans and deposits is not considered.
4. Off-balance sheet (OBS) items are calculated by applying a uniform 100% credit conversion factor (CCF). For any commitments that are unconditionally cancellable at any time by the bank without prior notice, a CCF of 10% is applied.

Quantitative Disclosures

BDT in million

Particulars	Consolidated	Solo
Leverage Ratio	6.78%	6.80%
On balance sheet exposure	258,394.74	257,929.75
Off balance sheet exposure	53,959.70	53,959.70
Total exposure	312,289.80	311,824.81

k) Remuneration

Qualitative Disclosures

a. Information relating to the bodies that oversee remuneration :

The Human Resources Division of the Bank oversees the remuneration in line with its HR policy under direct guidance of the Board of Directors of the Bank.

A committee comprising of few members of senior Management (Additional Managing Director and Deputy Managing Directors) led by the Managing Director is responsible for formulating remuneration policy. The Head of Human Resources Division acts as the Member Secretary of the committee.

The remuneration committee is the main body for overseeing the Bank's remuneration. The committee reviews the position of remuneration and recommend to the Board of Directors for approval taking into consideration present cost of living index, rate of inflation and the existing remuneration of peer banks.

The Bank does not have any external consultant in preparing and implementing the remuneration policy.

The Bank follows a non discriminatory policy in respect of remuneration and benefits for Head quarter and regions. However, a foreign posting allowance in remuneration is in practice for employees who are posted outside Bangladesh.

b. Information relating to the design and structure of remuneration processes :

The motto of the remuneration policy is to attract and retain productive employees who can contribute substantially to the overall growth of the Bank. The remuneration policy is carefully designed and regularly updated to provide adequate incentives so that the employees are fully committed to do their best to achieve the operational goals of the Bank.

The committee reviewed the Bank's remuneration policy in the year 2015. The Board approved upward revision of salary structure of the employees of the Bank as an incentive for posting better result. Changes were also made in annual increment structure in pay scales, certain allowances etc. to bring about more uniformity in the remuneration package.

The risk and compliance related employees are carrying out the activities independently in line with delegation of powers and job descriptions approved by appropriate authorities.

c. Description of the ways in which current and future risks are taken into account in the remuneration processes :

When implementing remuneration measures, the Bank considers business risk, financial and liquidity risk, compliance and reputational risk for each official.

Various types of measures are taken into account in determining these risks. The measures focus on the organizational goals set for operational areas. Asset quality (NPL ratio), cost-income ratio, net profit growth etc. are used for measuring the risks.

The performance of each employee is evaluated for a particular period especially annually against performance indicators set and agreed with the officials at the beginning of the year. Performance differs from employee to employee and this affects the remuneration package.

In the year 2015, there has been no material change that could create impact on the remuneration.

d. Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration :

The Bank has one set of Performance Appraisal Form (PAF) to evaluate the performance of all categories of officials of the bank. The PAF has 3 (Three) parts i.e. (i) Key Performance Indicators, (ii) Personal Attributes and (iii) Job Related Skills and Competencies. Key Performance Indicators (KPIs) are deposit, investment and profit target oriented.

Decisions about promotion, granting of annual increment and incentive bonus are linked to the performance of the employees against set Key Performance Indicators.

e. Description of the ways in which the bank seek to adjust remuneration to take account of longer-term performance :

The Bank does not seek to adjust remuneration to take account of longer-term performance.

f. Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms:

The Bank pays variable remuneration such as, Technical allowance for Information Technology Division, Head Office and Charge allowance for Heads of Branches. Those allowances are paid taking into account the special and technical nature of the job they perform.

Quantitative Disclosures

<table>
<tr><td>Number of meetings held by the main body overseeing remuneration during the financial year and remuneration paid to its matter</td><td colspan="3">04 (four) meetings of remuneration committee were held and no remuneration was paid to the members</td></tr>
<tr><td>Number of employees having received a variable remuneration award during the financial year</td><td colspan="3">167 employees received a variable remuneration in the year 2015</td></tr>
<tr><td>Number and total amount of guaranteed bonuses awarded during the financial year</td><td colspan="3">2 (two) guaranteed bonuses were awarded and the total amount of bonus was Taka 106.36 Million</td></tr>
<tr><td>Number and total amount of sign on awards made during the financial year</td><td colspan="3">No amount was paid as sign-on awards</td></tr>
<tr><td>Number and total amount of severance payments made during financial year</td><td colspan="3">No payment was paid as severance</td></tr>
<tr><td>Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms. Total amount of deferred remuneration paid out in the financial year</td><td colspan="3">Not Applicable</td></tr>
<tr><td rowspan="6">Breakdown of amount of remuneration awards for the financial year to show:
- fixed and variable.
- deferred and non-deferred.
- different forms used (cash, shares and share linked instruments, other forms)</td><td>Particulars</td><td colspan="2">Amount (in Million Taka)</td></tr>
<tr><td>Fixed</td><td>106.36</td><td rowspan="2">Total 114.89</td></tr>
<tr><td>Variable</td><td>8.53</td></tr>
<tr><td>Deferred</td><td colspan="2">0</td></tr>
<tr><td>Non-deferred</td><td colspan="2">114.89</td></tr>
<tr><td>Form used (cash)</td><td colspan="2">114.89</td></tr>
<tr><td>Quantitative information about employee's exposure to implicit (e.g. fluctuation in the value of shares or performance units) and explicit adjustments (e.g. clawbacks or similar reversals or downward revaluation of awards) of deferred remuneration and retained remuneration:</td><td colspan="3">Not Applicable</td></tr>
<tr><td>Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and/or implicit adjustments</td><td colspan="3">Not Applicable</td></tr>
<tr><td>Total amount of reductions during the financial year due to ex post explicit adjustments</td><td colspan="3">Not Applicable</td></tr>
<tr><td>Total amount of reductions during the financial year due to ex post implicit adjustments</td><td colspan="3">Not Applicable</td></tr>
</table>