Disclosures on Risk Based Capital (Basel III)

As of December 31,2021

Southeast Bank Limited
a bank with vision

Disclosures on Risk Based Capital (Basel III)

The Basel III framework sets out minimum capital requirement standards for banks to ensure that banks 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 disclosure report is to set out how Southeast Bank complies with the Pillar 3 requirements under Basel III. The report will enable market participants to assess the 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. The report provides additional information to allow market participants to have a full picture of the risk profile of the Bank, to assess key information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Bank.

These qualitative and quantitative disclosures of the Bank are prepared in accordance with the central bank's Guidelines on Risk Based Capital Adequacy (Revised Regulatory Capital Framework for Banks in line with Basel III). The disclosures meet the minimum regulatory requirements and provide disclosure of the risks to which it is exposed, both on and off-balance sheet item. The disclosure framework has the following components:

A. Scope of Application
B. Capital Structure
C. Capital Adequacy
D. Credit Risk
E. Equities: disclosures for banking book positions
F. Interest rate risk in the banking book (IRRBB)
G. Market Risk
H. Operational Risk
I. Liquidity Ratio
J. Leverage Ratio
K. Remuneration

A. SCOPE OF APPLICATION

a) Qualitative Disclosures

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

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, 2021 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, financial statement of the Bank and its subsidiaries 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.

Southeast Bank Limited has two subsidiaries, particulars of which are given below:

Southeast Bank Capital Services Limited

- Date of Incorporation: **September 23, 2010**
- Date of Commencement: **September 23, 2010**
- Authorized Capital: **BDT 6,000 million**
- Paid up Capital: **BDT 5,500 million**
- Ownership Interest in Capital: **99.82%**

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Southeast Exchange Company (South Africa) Pty Limited

- Date of Incorporation: **December 15, 2014**
- Date of Commencement: **December 15, 2014**
- Paid up Capital: **RAND 6,632,179.00**
- Ownership Interest in Capital :**100%**

b) Quantitative Disclosures

Southeast Bank Limited has two subsidiaries: Southeast Bank Capital Services 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 is no capital deficiency in the financial year 2021.

B. CAPITAL STRUCTURE

a) Qualitative Disclosures

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, whereas, Common Equity Tier 1 (CET-1) 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:

1. Common Equity Tier 1 of at least 4.5% of the total RWA.
2. Tier-1 capital will be at least 6.0% of the total RWA.
3. Minimum CRAR of 10% of the total RWA.
4. 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. The recognition of excess Additional Tier 1 (above 1.5% of RWA) is limited to the extent of 33.3% (1.5/4.5) of the CET-1 in excess of 7.0% requirement.
5. Tier 2 capital can be admitted maximum up to 4.0% of the total RWA or 88.89% of CET-1, whichever is higher. The excess Tier 2 capital (above 4.0%) shall be recognized to the extent of 88.89% (4.0/4.5) of the CET-1 in excess of 7.0% requirement.
6. In addition to minimum CRAR, Capital Conservation Buffer (CCB) of 2.5% of the total RWA is introduced which is to be maintained in the form of CET-1.

b) Quantitative Disclosures

BDT in Million

Regulatory Capital:	Consolidated	Solo
Tier-1 capital		
1)Common Equity Tier-1 Capital (CET-1)		
Fully Paid-up capital	11,889.41	11,889.41
Non- repayable share premium account		
Statutory reserve	11,889.41	11,889.41
General reserve	247.65	247.65
Retained earnings	1,636.56	1,435.79
Dividend equalization Reserve		
Minority interest in subsidiaries	10.38	
Regulatory Adjustments		
Goodwill and all other Intangible assets	286.94	286.94
2) Additional Tier-1 Capital (AT-1)		
3)Total Tier-1 capital (1+2)	**25,386.47**	**25,175.32**
Tier-2 capital		
General provision (unclassified loans, SMA, off balance sheet) *	10,275.57	10,275.57
Subordinated debt	9,000.00	9,000.00
All other preference shares		
Regulatory Adjustments		
4) Total Tier-2 capital	**19,275.57**	**19,275.57**
Maximum Limit of Tier-2 Capital (Considering para 3.2 (v)	15,940.61	15,873.24

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including footnote no. 9 of RBCA Guideline)		
Excess amount over Maximum Limit of T-2	3,334.97	3,402.33
Total Admissible Tier-2 Capital	**15,940.61**	**15,873.24**
Regulatory Adjustments		
Goodwill and all other Intangible assets	286.94	286.94
Total eligible capital (3+4)	**41,327.07**	**41,048.56**

C. CAPITAL ADEQUACY

a) Qualitative Disclosures

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.

b) Quantitative Disclosures

BDT in Million

Capital Adequacy	Consolidated	Solo
Capital requirement for Credit Risk	25,171.57	25,451.79
Capital requirement for Market Risk	2,122.51	1,333.70
Capital requirement for Operational Risk	2,519.29	2,486.44
Minimum capital requirement(MCR)	29,813.36	29,271.93
Total capital maintained	41,327.07	41,048.56
Capital surplus over MCR	11,513.71	11,776.63
Capital to Risk Weighted Assets Ratio(CRAR)	**13.86%**	**14.02%**
CET-1 to RWA ratio	8.52%	8.60%
Tier-1 Capital to RWA ratio	8.52%	8.60%
Tier-2 Capital to RWA ratio	5.35%	5.42%
Capital Conservation Buffer	2.52%	2.60%
Available Capital under Pillar 2 Requirement	11,513.71	11,776.63

* The shortfall in General provision of BDT 1187.94 million for year 2021 has been allowed for deferral facilities and instructed to maintain it in year 2022 by Bangladesh Bank vide letter no. DOS (CAMS) 1157/41(dividend)/2022-2252 dated 26 April 2022.

D. CREDIT RISK

a) Qualitative Disclosures

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.

1. Credit Approval

Southeast Bank has well defined and documented operational guidelines/policies for approval of credit facilities. Bank's Credit Risk Management Guideline has been prepared and updated in line with Bangladesh Bank guidelines illustrating the approval process, delegation of authority and other credit related important issues. The approval process segregates relationship management/marketing from the approval authority. The approval authorities are delegated to different levels of management and Board. The 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, AMD, DMD and Branch Manager).

2. Credit Administration

Credit Administration function is crucial for providing administrative support for lending activities of the Bank. Credit Administration shall cover different stages such as pre-disbursement, disbursement, post-disbursement & ongoing administration of Credit Portfolio of the Bank.

Credit Administration Division of the Bank has been separated from Credit Risk Management Division to avoid conflict of interest and ensure efficiency. Credit Administration procedures of the Bank performs the following responsibilities:

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a) Documentation and Disbursement
b) Credit Monitoring
c) Compliance & Reporting
d) CL, CIB & BB Returns

3. Credit Monitoring

Credit Risk Review is conducted at obligor level as well as at portfolio level to ensure sound asset quality and adherence to regulatory as well as the Bank's own policies and procedures. The review process ensures that a sound and proactive risk management culture is maintained across the Bank. It also aims at continuous improvement of the overall quality of assets at the portfolio level, by deploying appraisal skills, maintaining documentation standards and complying with the sanction terms and conditions. The primary monitoring is done by branches' relationship officers/managers as well as Head of Branch regarding their performances, business, transaction and turnover, repayment behavior etc.

The Credit Administration Division is assigned to look after post approval process such as to establish better control over loan portfolio by constant follow-up and monitoring of the credits right from its sanction and continues its efforts till repayment/recovery. Besides, overall portfolio along with industries/sectors concentration of the credit portfolio of the bank is reviewed at regular intervals and brought to the notice of senior level management regarding concentration risks, geographical distribution, down gradation along with early alert list (if any) for information & their guidance. These coherent activities altogether enable the Bank to put viable solutions in place to prevent further deterioration in credit quality.

4. Credit Assessment and Grading

Know Your Customer (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, copy of passports etc. and all other required papers as per Bank's policy are obtained at time of account opening. Physical verification of customer address is done prior to credit appraisal. The integrity/competency of the borrower and his/her ability to conduct business, ability to repay loans, practical experiences are of paramount importance while assessing the credit risk. At least three Cs, i.e., Character, Capital and Capacity of the customers are confirmed. Credit Appraisals include inter alia the details of amount and type of loan(s) proposed, purpose of loan (s), result of financial analysis, Debt 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 nature of credit.

To measure and identify associated credit risks for all lending exposures of the banks in excess of Bangladesh Taka (BDT)10 million 'the Lending Risk Analysis (LRA)' was used which was introduced by Bangladesh Bank in 1993. The LRA framework, however, could make a little impact in risk identification and mitigation. As an advancement in this area, In 2005, Bangladesh Bank, vide its BRPD Circular No.18, advised all scheduled banks to implement Credit Risk Grading (CRG) for borrowing clients for all exposures. Till then CRG was used by the Banks to identify and categorize the associated risks. During the last couple of years, industry characteristics have changed a lot. Besides, necessity has evolved to review different weights applied in the CRG framework. In order to deal with growing complexities in a more dynamic banking industry, Bangladesh Bank vide their BRPD Circular 16/2018 dated October 30, 2018 has upgraded Credit Risk Grading mechanism and developed **"Internal Credit Risk Rating System"** comprises with 20 (twenty) different rating templates for 20 (twenty) industries/sectors instead of just one template for all the sectors. To ensure the current system useful, the following sectors are selected considering the size of exposures of banks in these industries:

Industry	**Service**		
1. Ready Made Garments (RMG) 2. Textile (including spinning, knitting, weaving) 3. Food and Allied Industries 4. Pharmaceutical 5. Chemical 6. Fertilizer 7. Cement 8. Ceramic 9. Ship building 10. Ship breaking 11. Jute Mills	1. Housing and Construction 2. Hospitals and Clinics 3. Telecommunication 4. Other service	Trade & Commerce	Agro based and Agro Processing

12. Steel Engineering 13. Power and Gas 14. Other industry (if the borrower falls under industry but does not fit with other 13 specific sub-categories)			

Quantitative and Qualitative indicators and associated weights:

Details indicators under these categories and associated weights are furnished below:

QUANTITATIVE INDICATORS			QUALITATIVE INDICATORS		
SL No	**Parameters**	**Weights**	**SL No**	**Parameters**	**Weights**
01	Leverage	10%	01	Performance Behavior	10%
02	Liquidity	10%	02	Business and Industry Risk	07%
03	Profitability	10%	03	Management Risk	07%
04	Coverage	15%	04	Security Risk	11%
05	Operational Efficiency	10%	05	Relationship Risk	03%
06	Earning Quality	05%	06	Compliance Risk	02%
Total		60%	**Total**		40%

Credit Risk Ratings Scores

The ICRR consists of 4-notched rating system covering the Quantitative and Qualitative parameters. The ratings and scores as per BRPD Circular Letter #14 dated February 23, 2021 are mentioned below:

Rating	**Scores Aggregate**	**Features**
Excellent	≥75%	• Strong repayment capacity of the borrower evident by the high liquidity, low leverage, strong earnings, and cash flow. • Borrower has well established strong market share. • Very good management skill & expertise.
Good	≥65% to <75%	• Aggregate score of 65 or greater but less than 75 and the quantitative score of at least 27. • These borrowers are not as strong as "Excellent"borrowers, but still demonstrate consistent earnings, cash flow and have a good track record. • Borrower is well established and has strong market share. • Very good management skill & expertise.
Marginal	≥55% to <65%	• Aggregate score of 55 or greater but less than 65 and the quantitative score of at least 27. • This grade has potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may result in a deterioration of the repayment prospects of the borrower.
Unacceptable	<55%	• Financial condition is weak and no capacity or inclination to repay. Severe management problems exist. • Facilities should be downgraded to this grade if sustained deterioration in financial condition is noted (consecutive losses, negative net worth, excessive leverage).

5. Credit Risk Mitigation

Generally, potential credit risks are mitigated by taking primary and collateral securities. There are other risk mitigates like netting agreements and other guarantees. The legal certainty and enforceability of the mitigates are verified by the professionals of the respective fields. Collateral types which are eligible for risk mitigation includes – cash; residential, commercial and industrial property; land and machinery; marketable securities etc. Collaterals are physically verified by the officials of the Branches and Head Office. Side by side, valuations of the same are also done by the enlisted surveyor of the Bank in accordance with the credit policy and procedures. For mitigation of credit risk, Bank may use the following methods:

a) Risk-based pricing: Generally charging a high interest rate to borrowers who are more likely to default, a practice called risk-based pricing.

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b) Strict Covenants: Imposing strict stipulations/conditions on the borrower, called covenants, into loan agreements:
c) Credit insurance: Hedging credit risk by purchasing credit insurance.
d) Credit Tightening: Reducing credit risks by reducing the amount of credit extended, either in total or to certain borrowers.
e) Diversification: Lending to a small number of borrowers (or kinds of borrower) face a high degree of unsystematic credit risk, called concentration risk.

6. Past Due and Impaired Credit

Any **Continuous Loan** if not repaid/renewed within the fixed expiry date for repayment or after the demand by the bank, will be treated as past due/overdue from the following day of the expiry date.

Any **Demand Loan** if not repaid within the fixed expiry date for repayment or after the demand by the bank will be treated as past due/overdue from the following day of the expiry date.

In case of any installment(s) or part of installment(s) of a **Fixed Term Loan** is not repaid within the fixed expiry date, the amount of unpaid installment(s) will be treated as past due/overdue after six months of the expiry date.

For loan classification and maintenance of specific and general provision, Bank follows BRPD circular no-14 and 19 of 2012, 05 of 2013, 12 and 16 of 2014, 15 of 2017, 01 of 2018, 03 of 2019, 16 of 2020, 52 of 2020 and as advised 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, CC	HF	LP	CC			
Standard	1.0%	2%	1%	2%	2%	0.25%	2%	1%
SMA	-	2%	1%	2%	2%	0.25%	2%	1%
SS	5%	20%	20%	20%	20%	5-20%	20%	20%
DF	5%	50%	50%	50%	50%	20-50%	50%	50%
B/L	100%	100%	100%	100%	100%	100%	100%	100%

NB: SMA=Special Mention Account, SS=Substandard, DF=Doubtful, B/L=Bad/Loss, HF=Housing Finance, LP=Loans for Professionals to setup business, CC=Credit Card, SMEF= Small and Medium Enterprise Financing, BHs/ MBs/SDs= Loans to Brokerage Houses/Merchant Banks/Stock Dealers.

7. 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. Eligible collaterals are the followings:

- Deposit with the same bank kept under lien against the loan
- Government bond/savings certificate kept under lien,
- Guarantee given by Government or Bangladesh Bank.

For all other eligible collaterals, the provisions are maintained by the stated rates mentioned above on the balance calculated as the greater of the following two amounts:

- Outstanding balance of the classified loan less the amount of Interest Suspense and the value of eligible collateral; and
- 15% of the outstanding balance of the loan.

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8. Eligible Collateral

The following collaterals are 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.

9. Subjective Judgment

Considering the nature and performance of a loan, the bank can also classify a particular loan on the basis of subjective 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 and can instruct the bank to make additional provision on non-performing loans.

b) Quantitative Disclosures

1. 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 following table shows our gross exposure in each asset category.

BDT in Million

Sl	Particulars	Consolidated	Solo
a	Cash	16,418.54	16,418.43
b	Claims on Bangladesh Government and Bangladesh Bank	98,941.00	98,941.00
c	Claims on Banks & NBFIs	40,690.08	40,569.12
d	Claims on Corporate	160,222.52	160,222.52
e	Claims on SME	61,905.89	61,905.89
f	Claims under Credit Risk Mitigation	47,190.40	47,190.40
g	Claims categorized as retail portfolio (excluding SME, Consumer finance and Staff loan) up to 1 crore	1,350.51	1,350.51
h	Consumer finance	2,671.85	2,671.85
i	Claims fully secured by residential property	4,656.84	4,656.84
j	Claims fully secured by commercial real estate	2,217.56	2,217.56
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	6,986.06	6,986.06
	Where specific provisions are no less than 20% of the outstanding amount of the past due claim	1,590.15	1,590.15
	Where specific provisions are more than 50% of the outstanding amount of the past due claim	1,731.81	1,731.81
	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	245.73	245.73
	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	223.25	223.25
l	Capital Market Exposure	2,726.08	
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	5,749.81	11,283.95
n	Investment in Venture Capital, Alternative Investments	1,537.76	1,537.76
O	Investments in premises, plant and equipment and all other fixed assets	10,130.42	9,631.94

P	Claims on all fixed assets under operating lease		
q	All other assets		223.25
	i) Claims on GoB & BB	1,264.79	1,264.79
	ii) Staff loan	329.42	329.42
	iv) Claims on Offshore Banking Unit		
	v) Others	5,323.10	5,137.96
	Total	**474,103.57**	**476,330.19**

2. Geographical distribution of exposures

BDT in Million

	Regions	Exposure
Region Based	Dhaka	273,921.72
	Chattogram	47,316.72
	Rajshahi	4,624.65
	Sylhet	4,183.75
	Khulna	1,660.76
	Rangpur	1,084.24
	Barisal	228.18
	Mymensingh	484.71
	Total	333,504.73
Country Based	Domestic	333,504.73
	Overseas	-

3. Major Industry wise distribution of exposures (Industrial Loan)

BDT in Million

Ready Made Garment industries (RMG)	80,271.03
Real Estate industries	23,144.84
Textile industries	24,630.28
Agro-Based Industries	16,943.88
Cement & Ceramics industries	6,592.66
Ship Breaking & Ship Building industries	5,171.43
Pharmaceuticals industries	1,287.92
Other Industries	96,584.03
Total	**254,626.06**

4. Residual contractual maturity breakdown of the whole portfolio

BDT in Million

On demand	19,681.20
Less than three months	88,780.67
More than three months but less than one year	95,262.56
More than one year but less than five years	88,103.98
More than five years	41,676.32
Total	**333,504.73**

5. Major Industry type amount of impaired loans

BDT in Million

Agriculture	125.34
Industrial (Manufacturing)	7104.49
Industrial (Services)	3658.96
Consumer Credit	208.17
Trade & Commerce (Commercial Loans)	4308.46
Credit to NBFI	-
Loans to Capital Market	-
Other Loans	630.14
Total	**16035.56**

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6. Gross Non-Performing Assets (NPAs)

BDT in Million

Gross Non-Performing Assets (NPAs)	16,035.56
Non-performing assets to outstanding loans and advances	4.81%
Movement of Non-Performing Assets (NPAs):	
Opening balance	9,939.76
Additions	11,573.10
Reductions	5,477.30
Closing balance	16,035.56
Movement of specific provisions for NPAs:	
Opening balance	2,022.68
Provision made during the period	327.28
Write off	284.67
Write back of excess provisions	337.08
Closing balance	1,728.21

E. EQUITIES: DISCLOSURES FOR BANKING BOOK POSITIONS

a) Qualitative Disclosures

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.

b) Quantitative Disclosures

Values of investments as disclosed in the Balance Sheet:

BDT in Million

	Consolidated		Solo	
	Cost Price	**Market Price**	**Cost Price**	**Market Price**
Unquoted Share	649.81	649.81	649.81	649.81
Quoted Share	7,224.02	7,936.05	3,965.62	3,992.00

Cumulative unrealized gains/losses (for Banking Book Equity):

BDT in Million

	Consolidated	Solo
The cumulative realized gains/losses arising from sales and liquidations in the reporting period	-	-

For Banking Book Equity:

BDT in Million

	Consolidated	Solo
Total unrealized gains/losses	-	-
Total latest revaluation gains/losses	-	-
Any amounts of the above included in Tier 2 capital	-	-

Capital requirement according to equity groupings:

BDT in Million

Particulars	Capital Requirement	
	Consolidated	**Solo**
Unquoted Share	81.23	81.23
Quoted Share	1,587.21	798.40

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)

a) Qualitative Disclosures

Interest rate risk affects the bank's financial condition due to adverse movements in interest rates of interest sensitive assets and interest sensitive liabilities. 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 the Bangladesh Bank prescribed format for assessing the economic value due to interest rate shock.

b) Quantitative Disclosures

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
45,608.00	1% increase in interest rate	+398.50
	1% decrease in interest rate	-398.50
	2% increase in interest rate	+797.00
	2% decrease in interest rate	-797.00
	3% increase in interest rate	+1,195.50
	3% decrease in interest rate	-1,195.50

G. MARKET RISK

a) Qualitative Disclosures

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 held with trading intent or to hedge against various risks, which are purchased to make profit from spreads between the bid-price 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 are deemed fit for a particular scenario. For measuring interest risk from earnings perspective, the Bank uses Maturity Gap analysis, Duration Gap analysis, Sensitivity Analysis and Mark to Market (MTM) method. 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.

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) 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 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

b) Quantitative Disclosures

The capital requirements for:

BDT in Million

Particulars	Consolidated	Solo
Interest rate risk	470.40	470.40
Equity position risk	1,587.21	798.40
Foreign exchange risk	64.90	64.90
Commodity risk	-	-
Total	**2,122.51**	**1,333.70**

H. OPERATIONAL RISK

a) Qualitative Disclosures

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 these risks through a control based environment in which processes are documented, authorization is kept 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 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.

Southeast Bank Limited RMD Head Office, Dhaka

b) Quantitative Disclosures

The capital requirements for operational risk:

BDT in Million

Particulars	Consolidated	Solo
The capital requirements for operational risk	2,519.29	2,486.44

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, 2019	17,688.84	16,795.25	2,519.29
December, 2020	15,217.63		
December, 2021	17,479.28		
Total GI	**50,385.75**		

I. LIQUIDITY RATIO

a) Qualitative Disclosures

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

Southeast Bank Limited has proficient Board of Directors that has always been giving utmost importance to minimizing the liquidity risk of the Bank. In order to reduce liquidity risk, strict maintenance of Cash Reserve Ratio (CRR) and Statutory Liquidity Reserve (SLR) is also being emphasized on a regular basis. Apart from these, as part of Basel-III requirement Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are also maintained under the guidance of the 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 part of liquidity risk management system, we have Board approved liquidity contingency plan. In this liquidity contingency plan, we have incorporated all the strategic decisions to tackle any sort of liquidity crisis. As per 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 strictly follow the Bangladesh Bank instructions and policy guideline to prepare the structural liquidity profile and submit it to Bangladesh Bank every month. We also place liquidity related information to the meeting of the Board of Directors each month so that Board can give necessary directives to adjust/prevent us from the branch of the limits set by the Board and the Bangladesh Bank.

b) Quantitative Disclosures

BDT in Million

Liquidity Coverage Ratio (LCR)	118.93%
Net Stable Funding Ratio (NSFR)	121.76%
Stock of High quality liquid assets	118,276.57
Total net cash outflows over the next 30 calendar days	99,450.58
Available amount of stable funding	383,011.47
Required amount of stable funding	314,553.29

RMD

J. LEVERAGE RATIO

a) Qualitative Disclosures

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, 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 in 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, as well as risk management which are eventually reinforcing standards set by Bangladesh Bank. The aim is to ensure that the high leverage that is 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 includes 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 off 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.

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.

b) Quantitative Disclosures

BDT in Million

Particulars	Consolidated	Solo
Leverage Ratio	4.42%	4.39%
On balance sheet exposure	478,559.90	477,206.30
Off balance sheet exposure	96,012.79	96,012.80
Total exposure after deduction	574,285.75	572,932.15

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Southeast Bank Limited
Head Office, Dhaka

K. REMUNERATION

a) Qualitative Disclosure

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 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.

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

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 2021, there has been no material change that could create impact on the remuneration.

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.

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.

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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 the officials of Information Technology Division, Alternative Delivery Channel (ADC) Division, Surveillance Allowance for the Head/Supervisor, In-charges & Operators of Central Monitoring System (CMS) of 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.

b) Quantitative Disclosure:

<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">02 (two) 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">218 employees received a variable remuneration in the year 2021</td></tr>
<tr><td>Number and total amount of guaranteed bonuses awarded during the financial year</td><td colspan="3">02 (two) guaranteed bonuses were awarded and the total amount of bonus was Taka 164.77 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>182.02</td><td rowspan="2">Total
193.10</td></tr>
<tr><td>Variable</td><td>11.08</td></tr>
<tr><td>Deferred</td><td colspan="2">0</td></tr>
<tr><td>Non- deferred</td><td colspan="2">193.10</td></tr>
<tr><td>Form used (cash)</td><td colspan="2">193.10</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>