

Fusion Bank

Fusion Bank Limited

REGULATORY DISCLOSURE STATEMENT

**For the quarter ended
31 March 2024**

(UNAUDITED)



FUSION BANK LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
For the quarter ended 31 March 2024

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FUSION BANK LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION For the quarter ended 31 March 2024

Introduction

Purpose

The information contained in this document is for Fusion Bank Limited (“the Bank”), and prepared in accordance with the Banking (Disclosure) Rules (“BDR”) and disclosure templates issued by the Hong Kong Monetary Authority (“the MA”).

This banking disclosure is governed by the Bank’s disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the regulatory disclosure statement is not required to be externally audited, the document has been subject to independent review in accordance with the Bank’s disclosure policy.

The numbers in this document are expressed in thousands of Hong Kong Dollars, unless otherwise stated.

Basis of preparation

The capital adequacy ratio (“CAR”) was compiled in accordance with the Banking (Capital) Rules (“BCR”) of the Banking Ordinance. In calculating the risk weighted assets (“RWA”), the Bank adopted the Standardized (Credit Risk) Approach (“STC approach”) and the Standardized (Market Risk) Approach (“STM approach”) for credit risk and market risk respectively. For operational risk, the capital requirement is calculated under the Basic Indicator Approach (“BI approach”) pursuant to Division 2 of Part 9 of the BCR.

Basis of consolidation

As at 31 March 2024, the Bank has a subsidiary that is included in the accounting scope of consolidation but not included in the regulatory scope of consolidation. Shenzhen Fusion Information Technology Services Co. Ltd., as the subsidiary that provides information technology service to the Bank, has total assets and total equity of HKD 9,950,000 and HKD 7,647,000 respectively.

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1. PILLAR 3 DISCLOSURE

The following templates for the Bank show the standard disclosure templates specified by the MA in relation to the Pillar 3 disclosure required under the BDR.

Other Pillar 3 templates or tables not disclosed below either are not applicable to the Bank or have no reportable amount for the period.

a. Template KM1: Key Prudential Ratios

		As at 31 March 2024	As at 31 December 2023	As at 30 September 2023	As at 30 June 2023	As at 31 March 2023
		HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	926,531	982,020	1,068,087	594,165	468,033
2	Tier 1	926,531	982,020	1,068,087	594,165	468,033
3	Total capital	938,076	995,558	1,077,862	603,738	478,005
RWA (amount)						
4	Total RWA	2,414,224	2,188,759	1,843,118	1,616,759	1,596,775
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	38.4%	44.9%	58.0%	36.8%	29.3%
6	Tier 1 ratio (%)	38.4%	44.9%	58.0%	36.8%	29.3%
7	Total capital ratio (%)	38.9%	45.5%	58.5%	37.3%	29.9%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical capital buffer requirement (%)	0.8%	0.9%	0.9%	1.0%	1.0%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total AI-specific CET1 buffer requirements (%)	3.3%	3.4%	3.4%	3.5%	3.5%
12	CET1 available after meeting the AI's minimum capital requirements (%) ²	30.9%	37.5%	50.5%	29.3%	21.9%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	6,445,172	5,695,698	5,006,229	3,462,747	3,110,304
14	LR (%)	14.4%	17.2%	21.3%	17.2%	15.0%
Liquidity Maintenance Ratio (LMR)						
17a	LMR (%) ¹	235.6%	247.4%	155.1%	117.9%	111.5%

Note 1: The LMR disclosed above represent the arithmetic mean of the average LMR of the 3 calendar months within each quarter respectively. The Bank is not required, under the Banking (Liquidity) Rules, to calculate Liquidity Coverage Ratio, Net Stable Funding Ratio, and Core Funding Ratio for its liquidity risk.

Note 2: CET1 available after meeting the AI's minimum capital requirements is calculated as the CET1 ratio less the sum of the 4.5% minimum CET1 requirement under BCR s3B and other CET1 capital required to meet the 8% minimum total capital requirements.

Decrease in CET1 ratio, Tier 1 ratio and Total capital ratio was mainly due to increase in total RWA. Increase in total RWA was mainly due to the increase in bank exposures as driven by customer deposits increment. This reason also led to increase in on-balance sheet exposures, which resulted in LR decrease.

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1. PILLAR 3 DISCLOSURE (CONTINUED)

b. Template OV1: Overview of Risk-Weighted Assets

The CAR of the Bank were calculated in accordance with the BCR. The Bank uses the following approaches to calculate its capital charge for:

- (a) credit risk: STC approach;
- (b) market risk: STM approach; and
- (c) operational risk: BI approach pursuant to Division 2 of Part 9 of the BCR.

The disclosure on minimum capital requirement is made by multiplying the Bank's RWA derived from the relevant calculation approach by 8%, not the Bank's actual "regulatory capital".

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1. PILLAR 3 DISCLOSURE (CONTINUED)

b. Template OV1: Overview of Risk-Weighted Assets (Continued)

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		As at 31 March 2024	As at 31 December 2023	As at 31 March 2024
		HKD'000	HKD'000	HKD'000
1	Credit risk for non-securitization exposures	2,358,761	2,111,546	188,701
2	Of which STC approach	2,358,761	2,111,546	188,701
2a	Of which BSC approach	-	-	-
3	Of which foundation IRB approach	-	-	-
4	Of which supervisory slotting criteria approach	-	-	-
5	Of which advanced IRB approach	-	-	-
6	Counterparty default risk and default fund contributions	-	-	-
7	Of which SA-CCR approach	-	-	-
7a	Of which CEM	-	-	-
8	Of which IMM(CCR) approach	-	-	-
9	Of which others	-	-	-
10	CVA risk	-	-	-
11	Equity positions in banking book under the simple risk-weight method and internal models method	-	-	-
12	Collective investment scheme ("CIS") exposures – LTA	Not applicable		
13	CIS exposures – MBA	Not applicable		
14	CIS exposures – FBA	Not applicable		
14a	CIS exposures – combination of approaches	Not applicable		
15	Settlement risk	-	-	-
16	Securitization exposures in banking book	-	-	-
17	Of which SEC-IRBA	-	-	-
18	Of which SEC-ERBA (including IAA)	-	-	-
19	Of which SEC-SA	-	-	-
19a	Of which SEC-FBA	-	-	-
20	Market risk	4,063	5,775	325
21	Of which STM approach	4,063	5,775	325
22	Of which IMM approach	-	-	-
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	Not applicable		
24	Operational risk	51,400	71,438	4,112
24a	Sovereign concentration risk	-	-	-
25	Amounts below the thresholds for deduction (subject to 250% RW)	-	-	-
26	Capital floor adjustment	-	-	-
26a	Deduction to RWA	-	-	-
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	-	-	-
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	-	-	-
27	Total	2,414,224	2,188,759	193,138

The increase in total RWA was mainly due to the increase in credit risk of bank exposures as driven by customer deposits expansion.

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1. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template LR2: Leverage Ratio

		As at 31 March 2024	As at 31 December 2023
		HKD'000	HKD'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	6,438,001	5,697,489
2	Less: Asset amounts deducted in determining Tier 1 capital	(19,007)	(22,796)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	6,418,994	5,674,693
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
5	Add-on amounts for PFE associated with all derivative contracts	-	-
6	Gross-up for collateral provided in respect of derivative contracts where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted CCP leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit-related derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	-	-
11	Total exposures arising from derivative contracts	-	-
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	391,579	378,073
18	Less: Adjustments for conversion to credit equivalent amounts	(352,421)	(340,266)
19	Off-balance sheet items	39,158	37,807
Capital and total exposures			
20	Tier 1 capital	926,531	982,020
20a	Total exposures before adjustments for specific and collective provisions	6,458,152	5,712,500
20b	Adjustments for specific and collective provisions	(12,980)	(16,802)
21	Total exposures after adjustments for specific and collective provisions	6,445,172	5,695,698
Leverage ratio			
22	Leverage ratio	14.4%	17.2%

For the key drivers of decrease in Leverage Ratio, please refer to Template KM1 for details.

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Glossary

<u>Abbreviations</u>	<u>Descriptions</u>
AI	Authorized Institution
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BI	Basic Indicator
BSC	Basic
CAR	Capital Adequacy Ratio
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CIS	Collective Investment Scheme
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Banks
FBA	Fall-Back Approach
G-SIB	Global Systemically Important Banks
HKD	Hong Kong Dollar
IAA	Internal Assessment Approach
IMM	Internal Models Method
IRB	Internal Ratings-Based
LMR	Liquidity Maintenance Ratio
LR	Leverage Ratio
LTA	Look-through Approach
MBA	Mandate-Based Approach
PFE	Potential Future Exposure
RW	Risk Weight
RWA	Risk Weighted Amount
SA-CCR	Standardized Approach (Counterparty Credit Risk)
SEC-ERBA	Securitization External Ratings-Based Approach
SEC-FBA	Securitization Fall-Back Approach
SEC-IRBA	Securitization Internal Ratings-Based Approach
SEC-SA	Securitization Standardized Approach
SFT	Securities Financing Transaction
STC	Standardized (Credit Risk)
STM	Standardized (Market Risk)
the Bank	Fusion Bank Limited
the MA	Hong Kong Monetary Authority