Fusion Bank

Fusion Bank Limited

REGULATORY DISCLOSURE STATEMENT

For the year ended 31 December 2024

(UNAUDITED)

FUSION BANK LIMITED

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION
For the year ended 31 December 2024

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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 December 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 IT service to the Bank, has total assets and total equity of HKD 8,589,000 and HKD 6,037,000 respectively.

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. Table OVA: Overview of Risk Management

The Bank is committed to maintaining an appropriate balance between its risk exposures and the level of return it targets to achieve for the Bank's sustainable profitability, financial soundness and viability. The Bank established an Enterprise Risk Management Framework ("the Framework") and the Framework sets out the risk management standard and value for the Bank. 12 principal risks, which include credit, capital, market, liquidity, interest rate risk in the banking book, operational, cyber and technology, reputational, legal, strategic, regulatory compliance and financial crime compliance risks, are identified in the Framework. This ensures the Bank has a consistent approach to measure, monitor, control and mitigate the risks inherent in the business activities.

The Board of Directors ("the Board") has ultimate responsibility for the effective management of risk and approves the risk appetite. Three committees, including Risk Committee, Audit Committee, and Nomination and Remuneration Committee are established in compliance with governance codes and best practice to ensure due attention is given to assist the Board in discharge of its duties and responsibilities stipulated in the respective terms of reference. Risk Committee is responsible for oversight and advise the Board on high level risk related matters, such as risk appetite, risk limits and future risk strategy of the Bank, and risk governance including risk culture-related matters.

Risk appetite is one of the core components under risk management and is defined as the risks that the Bank is willing to accept in achieving the medium and long-term strategic goals. The Bank Risk Appetite Statement is approved by the Board with advisory from Risk Committee. The actual risk appetite report would also be monitored and reviewed through Risk Management Committee, one of the management committees in the Bank, not less than 6 times each year to ensure issue can be escalated to the senior management and the Board, and mitigating actions can be taken in a timely manner.

The Bank adopts a three lines of defence ("3LOD") approach to ensure effective risk management and enables the Bank to separate risk management activities among first LOD who owns the risk and accountable for relevant risk control implementation; second LOD who oversees the First Line, monitors risk management activities and supports controls; third LOD who provides assurance that the risk management process is effectively in place.

The Bank also performs stress testing exercises regularly in order to evaluate the potential adverse impact on the Bank's profitability and capital adequacy due to deterioration in economic condition and this programme is also used to support business and capital planning.

The Bank actively manages its capital position based upon, among other things, business opportunities, risks, capital availability and rates of return together with internal capital policies, regulatory requirements and rating agency guidelines and, therefore, in the future may expand or contract its capital base to address the changing needs of its businesses.

The Bank also aims to adequately capitalise at a legal entity level whilst safeguarding that entity's ability to continue as a going concern and ensuring that it meets all regulatory capital requirements, so that it can continue to provide returns for its shareholders.

1. PILLAR 3 DISCLOSURE (CONTINUED)

a. Table OVA: Overview of Risk Management (continued)

The Bank maintains robust risk management systems to identify, measure and monitor risk exposures and ensure those risks are within the Bank's tolerance level set out in the Bank's Risk Appetite Statement. To assess the capital adequacy, credit, market, operational and technology risk management systems are used. Their features are shown as below:

(1) Credit Risk

Credit risk refers to the risk of loss arising from failure to satisfy financial obligations of a borrower, counterparty, issuer, guarantor or any other forms of obligors. The Bank incurs credit risk mainly from treasury activities (i.e. placements, investments and settlement) and retail lending business. Overall credit risk of the Bank is managed through a comprehensive risk management framework to ensure that risk level of credit portfolio is in line with the Bank's risk appetite and cultivate a sound credit culture while regulatory requirements are fulfilled all the time.

The Bank has established a set of policies and procedures approved by the Board or its delegated committee(s) to identify, measure, monitor and control credit risk at both portfolio level and individual level. These policies and procedures covers various areas including but not limited to governance structure, risk acceptance and tolerance level, credit risk strategy, exposure measurement and credit administration.

Refer to Section CRA for more details in relation to Credit Risk Management.

(2) Market Risk

Market risk is defined as the risk of loss to the Bank resulting from the movements in observable market prices and rates (such as interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices) and indirectly observable market parameters (such as volatilities and correlations). Currently the market risk predominantly arises from the Bank's treasury activities and trading activities.

The Bank has established market risk management policy that outlines the market risk management framework according to the market risk appetite approved by the Board. The market risk management framework is to ensure that the market risk is identified, measured, monitored and reported on a timely basis.

In accordance with the Bank's corporate governance principles, the Board is ultimately responsible for overseeing the market risk in the Bank. Risk Committee ("RC") under the Board provides an independent oversight and guidance to the Board on market risk issues. Under leadership of Chief Executive ("CE"), Executive Committee ("EXCO") is a senior management committee for formulating and recommending the Board and RC to approve the market risk management principles, policies and frameworks.

As authorized by EXCO, Risk Management Committee ("RMC") is the primary committee in managing the market risk profile in the Bank. Business units such as Treasury and Global Market are responsible for carrying out market risk activities and first line of defence in market risk management. Risk Management Department ("RMD") acts as an independent party to perform second line of defence in market risk management. Internal Audit Department ("IAD") is responsible for third line of defence in market risk management.

The Bank monitors the market risk exposures against various types of limit on aggregate or individual unit levels. The limits include Value-at-Risk ("VaR"), stress testing and position limit (e.g. net open position). The VaR limit is set up and reviewed by RC and approved by the Board according to the overall risk appetite of the Bank, while the other key limits are set up and reviewed by RMC/ALCO authority. The risk methodology for VaR and stress testing is properly maintained and reviewed by RMC. The monitoring of the above limits are carried out on daily basis.

1. PILLAR 3 DISCLOSURE (CONTINUED)

a. Table OVA: Overview of risk management (continued)

(3) Operational Risk

Operational risk refers to the loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk event categories as defined by Basel Capital Standards: internal fraud; external fraud; employment practices and workplace safety; clients, products and business practices; business disruption and system failure; damage to physical assets; and execution, delivery and process management.

The Bank establishes an Operational Risk Management Policy to provide minimum standards over the risk management responsibilities including risk identification, risk measurement, risk monitoring, and risk reporting. It defines the mechanism in respect of the various tools for Operational Risk Management. It also clarifies and reinforces the need for clear ownership and accountability for all processes across the Bank.

In addition, the Bank establishes Operational Risk Team within RMD as the independent corporate operational risk management function (i.e. second LOD) to assist the Board and senior management in meeting their responsibility for understanding and managing operational risk. Such team is responsible for designing relevant risk policies and defining relevant tools, assessment matrix and methodology and mechanism and presenting the latest Operational Risk exposure to the Head of RMD and relevant risk management committees to facilitate the management team's oversight of the Bank's Operational Risk profile.

Each new product / service initiative and third party service arrangement (including outsourcing proposal) is subject to a risk review and governance process, where material risks are identified and assessed by Business unit (i.e. first LOD), and reviewed and challenged by relevant second LODs independent to the risk-taking unit proposing the product, service or third party service arrangement. Subsequent changes on the existing products, services and third party service (including outsourcing) arrangements are also subject to a similar process.

The Bank enhances its Operational Risk Management Policy to continually improve its operational resilience ability to identify and protect itself from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events. Business Continuity Management Policy is updated as well to set out the strategic approach of the Bank to business continuity management, covering business impact assessments, recovery strategy, its related governance structure, roles and responsibilities of various parties. It refers to the advance planning and preparations, which are necessary to identify the impact of potential losses arising from an emergency or a disaster, to formulate and implement viable recovery strategies and to develop recovery plans, which ensure continuity of the Bank's service.

In connection with the management of Third Party Risk, the Bank established relevant measure and control to outline the standard of risk assessment to avoid any undue additional operational risk when relying on a Third Party for the performance of an operational function or activity, particularly if process or service is critical to the Bank. The Third Party Risk Management Policy defines the methods by which the Bank manages third party risks. It is to ensure the level security of the Bank's information and information assets are not being lower when sharing information with such third parties or by the introduction of third party products or services into the Bank environment. Such policy describes what processes must be in place before Bank information asset can be released to the third party arrangement, and the mechanism for developing and maintaining contractual agreements with such third parties regarding their responsibilities on protecting Bank's information assets.

1. PILLAR 3 DISCLOSURE (CONTINUED)

a. Table OVA: Overview of Risk Management (continued)

4) Technology Risk

Technology risk is managed through an enterprise technology risk management approach. This covers risk governance, identification, analysis, response, monitoring and reporting, and is supported by a set of Technology policies and standards, control processes and risk mitigation measures. These policies and standards are established to manage and address technology and cyber security risk.

The technology risk management team is the second line of defense within the bank and is responsible for supervising and facilitating the implementation and execution of technology risk management policies and related regulations by the first line of defense.

The technology risk related controls can be categorised into the following aspects which include information asset management, user privileges management, data encryption, system security, end-user and mobile computing, physical and personal security, system development management, information processing on IT operations and resilience management, network communication and services provided by technology vendors. Technology risk team is responsible to assess if the above categories are complied with the Bank's requirements, as well as regulatory requirements. Technology risk register and IT key risk indicators are in place to record the Bank's technology risks and monitor the indicators so that an early warning for technology risk management team can be alerted and take appropriate measures to contain the inherent risks.

Moreover, technology risk assessment is in place to assess both internal and external risk that may impact the Bank's structure, strategic direction, human resources, products and services. Any material impacts must be identified and assessed, and trigger crisis management process whenever it is necessary. For on-boarding new products, major changes to IT systems or engaging third party vendors, they must undergo a proper technology risk assessment carefully before reaching a formal agreement, or putting them into the production environment accordingly.

1. PILLAR 3 DISCLOSURE (CONTINUED)

b. Template KM1: Key prudential ratios

		As at 31 December 2024	As at 30 September 2024	As at 30 June 2024	As at 31 March 2024	As at 31 December 2023
		HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
	Regulatory capital (amount)					
1	Common Equity Tier 1 (CET1)	729,652	806,446	862,448	926,531	982,020
2	Tier 1	729,652	806,446	862,448	926,531	982,020
3	Total capital	737,369	816,081	872,862	938,076	995,558
	RWA (amount)					
4	Total RWA	2,781,364	2,776,093	2,507,445	2,414,224	2,188,759
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5	CET1 ratio (%)	26.2%	29.0%	34.4%	38.4%	44.9%
6	Tier 1 ratio (%)	26.2%	29.0%	34.4%	38.4%	44.9%
7	Total capital ratio (%)	26.5%	29.4%	34.8%	38.9%	45.5%
	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 (%)	0.4%	0.8%	0.8%	0.8%	0.9%
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 (%)	2.9%	3.3%	3.3%	3.3%	3.4%
12	CET1 available after meeting the AI's minimum capital requirements (%)[2]	18.5%	21.4%	26.8%	30.9%	37.5%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	8,032,479	7,490,103	7,127,863	6,445,172	5,695,698
14	LR (%)	9.1%	10.8%	12.1%	14.4%	17.2%
	Liquidity Maintenance Ratio (LMR)					
17a	LMR (%)[1]	181.9%	203.2%	216.2%	235.6%	247.4%

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 CCyB requirement (%) and Total AI-specific CET1 buffer requirements (%) were mainly due to CCyB ratio for Hong Kong being reduced from 1% to 0.5%.

Decrease in CET1 available after meeting the AI's minimum capital requirements (%) and LR (%) were mainly due to capital decrease resulted from losses incurred in the quarter.

Decrease in average LMR during Q4 2024 was mainly due to the decrease in liquifiable assets in Q4 2024, compared to Q3 2024.

1. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template OV1: Overview of risk-weighted assets (“RWA”)

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”.

1. PILLAR 3 DISCLOSURE (CONTINUED)

c. Template OV1: Overview of risk-weighted assets (continued)

		(a)	(b)	(c)
		RWA		Minimum capital requirements
		As at 31 December 2024	As at 30 September 2024	As at 31 December 2024
		HKD'000	HKD'000	HKD'000
1	Credit risk for non-securitization exposures	2,676,013	2,680,655	214,081
2	Of which STC approach	2,676,013	2,680,655	214,081
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	-	-	-
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	563	3,013	45
21	Of which STM approach	563	3,013	45
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	104,788	92,425	8,383
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**	**2,781,364**	**2,776,093**	**222,509**

Increase in operational risk RWA was mainly due to increase in gross income.

1. PILLAR 3 DISCLOSURE (CONTINUED)

d. Template PV1: Prudent valuation adjustments

The following table shows a detailed breakdown of the constituent elements of valuation adjustment that have not been taken into account in the calculation of the amount of the Bank's retained earnings or other disclosed reserves. The Bank does not have any valuation adjustments as at 31 December 2024.

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
As at 31 December 2024 (HKD '000)		Equity	Interest rates	FX	Credit	Commodities	Total	Of which: In the trading book	Of which: In the banking book
1	Close-out uncertainty, of which:	-	-	-	-	-	-	-	-
2	*Mid-market value*	-	-	-	-	-	-	-	-
3	*Close-out costs*	-	-	-	-	-	-	-	-
4	*Concentration*	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risks	-	-	-	-	-	-	-	-
8	Investing and funding costs						-	-	-
9	Unearned credit spreads						-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other adjustments	-	-	-	-	-	-	-	-
12	**Total adjustments**	-	-	-	-	-	-	-	-

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1. PILLAR 3 DISCLOSURE (CONTINUED)

e. Template LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

The following table shows the differences between the carrying values as reported in the Bank's financial statements following the scope of accounting consolidation and the carrying values under the scope of regulatory consolidation, with a breakdown into regulatory risk categories of every item of the assets and liabilities reported in financial statements based on the scope of regulatory consolidation. Differences between the carrying values as reported in published financial statements and the exposure amounts used for the calculation of regulatory capital in respect of the assets and liabilities are based on the scope of regulatory consolidation.

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
As at 31 December 2024 (HKD '000)			subject to credit risk framework	subject to counterparty credit risk framework	subject to the securitization framework	subject to market risk framework	not subject to capital requirements or subject to deduction from capital
Assets							
Balances with central bank	236,024	236,024	236,024	-	-	-	-
Placements with and advances to banks	2,176,862	2,172,709	2,172,709	-	-	-	-
Investments in debt securities at amortised cost	753,695	753,695	753,695	-	-	-	-
Financial investments measured at fair value through other comprehensive income ("FVOCI")	3,807,499	3,807,499	3,807,499	-	-	-	-
Loans and advances	987,224	987,224	987,224	-	-	-	-
Prepaid expenses	11,986	11,974	11,974	-	-	-	-
Other deposits and receivables	18,401	18,211	18,211	-	-	-	-
Right-of-use assets	5,681	5,469	5,469	-	-	-	-
Property, plant and equipment	4,545	3,568	3,568	-	-	-	-
Intangible assets	23,060	23,060	-	-	-	-	23,060
Deferred tax asset	1,056	-	-	-	-	-	-
Investment in subsidiary	-	11,685	11,685	-	-	-	-
Total Assets	**8,026,033**	**8,031,118**	**8,008,058**	**-**	**-**	**-**	**23,060**
Liabilities							
Deposits from customers	6,966,060	6,966,060	-	-	-	-	6,966,060
Accruals and other payables	307,282	306,923	-	-	-	-	306,923
Lease liabilities	5,628	5,423	-	-	-	-	5,423
Total Liabilities	**7,278,970**	**7,278,406**	**-**	**-**	**-**	**-**	**7,278,406**

Difference between the carrying values as reported in published financial statements and carrying values under scope of regulatory consolidation was due to investment in subsidiary that is consolidated for accounting purposes but outside the scope of regulatory consolidation.

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1. PILLAR 3 DISCLOSURE (CONTINUED)

f. Template LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

As at 31 December 2024 (HKD '000)		(a)	(b)	(c)	(d)	(e)
		Total	Items subject to:			
			credit risk framework	securitization framework	counterparty credit risk framework	market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	8,008,058	8,008,058	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	**Total net amount under regulatory scope of consolidation**	**8,008,058**	**8,008,058**	**-**	**-**	**-**
4	Off-balance sheet amounts	244,209	-			
5	Differences due to expected credit losses	7,717	7,717	-	-	-
6	**Exposure amounts considered for regulatory purposes**	**8,259,984**	**8,015,775**	**-**	**-**	**-**

1. PILLAR 3 DISCLOSURE (CONTINUED)

g. Template LIA: Explanations of differences between accounting and regulatory exposure amounts

Differences due to expected credit losses

The carrying value of assets under accounting exposure is net of impairment allowance for the expected credit loss for all stages. The regulatory exposure value under STC approaches is net of impairment allowance for Stage 3 financial assets only. Stage 1 and 2 impairment allowance are included in Tier 2 capital for regulatory capital purposes.

Systems and controls applied to assets valuation

The Bank has established and maintained adequate systems and sufficient controls to ensure that the valuation practices are prudent and reliable.

The objective of fair value measurement is to arrive at the price at which an orderly transaction would take place between market participants at the measurement date. A forced liquidation or distressed sale at the measurement date is not an orderly transaction.

The fair values of foreign currency forward contracts are measured by comparing the contracted forward rates and the quoted forward exchange rates, which are observable at the end of the reporting period.

The fair values of debt securities are determined based on the indicative prices provided by the market data service providers. The objective of valuation models is to arrive at a fair value estimation that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

As part of the control process, all market prices or model inputs used in the valuation process are determined or validated by an independent function. Fair values of financial instruments are determined with reference to external quoted market prices or observable model inputs and validated against secondary sources whenever appropriate.

In general, the Bank measures fair values using the following hierarchy of methods:

Level 1 – Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation adjustments

Prices from active markets are most representative of fair values and are to be used generally without adjustments.

(i) Bid offer adjustment:
For debt securities, foreign exchange spot, foreign exchange forward would be adjusted to the prudent side of the bid offer close-out price.

(ii) Liquidity valuation adjustment:
Liquidity valuation adjustment would be applied to level 2 and level 3 financial instruments only.

For the fixed income, liquidity valuation adjustment is being performed for less liquid position based on the product specific nature.

For the foreign exchange portfolio, liquidity valuation adjustment of spot, forward and swap is not being performed due to the highly liquid market and involved mainly in positions on major currencies.

The Bank does not possess any products, which required such valuation adjustments.

1. PILLAR 3 DISCLOSURE (CONTINUED)

h. Template CC1: Composition of regulatory capital

		(a)	(b)
		Amount HKD'000	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,800,001	(1)
2	Retained earnings	(2,069,027)	(2)
3	Disclosed reserves	21,738	(3)
4	*Directly issued capital subject to phase-out arrangements from CET1 (only applicable to non-joint stock companies)*	Not applicable	Not applicable
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	**CET1 capital before regulatory deductions**	752,712	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	-	
8	Goodwill (net of associated deferred tax liabilities)	-	
9	Other intangible assets (net of associated deferred tax liabilities)	23,060	(4)
10	Deferred tax assets (net of associated deferred tax liabilities)	-	
11	Cash flow hedge reserve	-	
12	Excess of total EL amount over total eligible provisions under the IRB approach	-	
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	-	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in CET1 capital instruments	-	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
22	Amount exceeding the 15% threshold	Not applicable	Not applicable
23	of which: significant investments in the ordinary share of financial sector entities	Not applicable	Not applicable
24	of which: mortgage servicing rights	Not applicable	Not applicable
25	of which: deferred tax assets arising from temporary differences	Not applicable	Not applicable
26	National specific regulatory adjustments applied to CET1 capital	-	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	-	
26b	Regulatory reserve for general banking risks	-	

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1. PILLAR 3 DISCLOSURE (CONTINUED)

h. Template CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount HKD'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
26c	Securitization exposures specified in a notice given by the MA	-	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	-	
26e	Capital shortfall of regulated non-bank subsidiaries	-	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	-	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	-	
28	**Total regulatory deductions to CET1 capital**	23,060	
29	**CET1 capital**	729,652	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	*Capital instruments subject to phase-out arrangements from AT1 capital*	-	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	-	
35	*of which: AT1 capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
36	**AT1 capital before regulatory deductions**	-	
	AT1 capital: regulatory deductions		
37	Investments in own AT1 capital instruments	-	
38	Reciprocal cross-holdings in AT1 capital instruments	-	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments applied to AT1 capital	-	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	-	
43	**Total regulatory deductions to AT1 capital**	-	
44	**AT1 capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	729,652	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	-	
47	*Capital instruments subject to phase-out arrangements from Tier 2 capital*	-	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	-	
49	*of which: capital instruments issued by subsidiaries subject to phase-out arrangements*	-	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	7,717	
51	**Tier 2 capital before regulatory deductions**	7,717	

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1. PILLAR 3 DISCLOSURE (CONTINUED)

h. Template CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount HKD'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Tier 2 capital: regulatory deductions		
52	Investments in own Tier 2 capital instruments	-	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	-	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	-	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as "section 2 institution" under §2(1) of Schedule 4F to BCR only)	-	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments applied to Tier 2 capital	-	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	-	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	7,717	
59	**Total regulatory capital (TC = T1 + T2)**	737,369	
60	**Total RWA**	2,781,364	
	Capital ratios (as a percentage of RWA)		
61	**CET1 capital ratio**	26.23%	
62	**Tier 1 capital ratio**	26.23%	
63	**Total capital ratio**	26.51%	
64	**Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)**	2.89%	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: bank specific countercyclical capital buffer requirement	0.39%	
67	of which: higher loss absorbency requirement	0%	
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	18.51%	
	National minima (if different from Basel 3 minimum)		
69	National CET1 minimum ratio	Not applicable	Not applicable
70	National Tier 1 minimum ratio	Not applicable	Not applicable
71	National Total capital minimum ratio	Not applicable	Not applicable
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	-	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	-	

1. PILLAR 3 DISCLOSURE (CONTINUED)

h. Template CC1: Composition of regulatory capital (continued)

		(a)	(b)
		Amount HKD'000	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
74	Mortgage servicing rights (net of associated deferred tax liabilities)	Not applicable	Not applicable
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	Not applicable	Not applicable
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	-	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 capital instruments subject to phase-out arrangements*	Not applicable	Not applicable
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	Not applicable	Not applicable
82	*Current cap on AT1 capital instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 capital due to cap (excess over cap after redemptions and maturities)*	-	
84	*Current cap on Tier 2 capital instruments subject to phase-out arrangements*	-	
85	*Amount excluded from Tier 2 capital due to cap (excess over cap after redemptions and maturities)*	-	

Decrease in capital and the associated ratios were mainly due to increase in accumulated losses and impact offset by the increase in disclosed reserves for share based payment issuance.

Decrease in the institution-specific buffer requirement was a result of the CCyB ratio for Hong Kong being reduced from 1% to 0.5%.

Total RWA increase was mainly due to a rise in credit risk RWA, driven by an increase in customer deposits.

1. PILLAR 3 DISCLOSURE (CONTINUED)

h. Template CC1: Composition of regulatory capital (continued)

Notes to the Template

	Description	Hong Kong basis	Basel III basis
9	**Other intangible assets (net of associated deferred tax liabilities)**	**23,060**	**23,060**
	Explanation As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights (“MSRs”) may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI's financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 9 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
10	**Deferred tax assets (net of associated deferred tax liabilities)**	**-**	**-**
	Explanation As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), DTAs of the bank to be realized are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 10 (i.e. the amount reported under the "Hong Kong basis") adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.		
18	**Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	Explanation For the purpose of determining the total amount of insignificant LAC investments in CET1 capital instruments issued by financial sector entities, an AI is required to aggregate any amount of loans, facilities or other credit exposures provided by it to any of its connected companies, where the connected company is a financial sector entity, as if such loans, facilities or other credit exposures were direct holdings, indirect holdings or synthetic holdings of the AI in the capital instruments of the financial sector entity, except where the AI demonstrates to the satisfaction of the MA that any such loan was made, any such facility was granted, or any such other credit exposure was incurred, in the ordinary course of the AI's business. Therefore, the amount to be deducted as reported in row 18 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 18 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		
39	**Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)**	-	-
	Explanation The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in AT1 capital instruments may be smaller. Therefore, the amount to be deducted as reported in row 39 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 39 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.		

1. PILLAR 3 DISCLOSURE (CONTINUED)

h. Template CC1: Composition of regulatory capital (continued)

Notes to the Template (continued)

<table>
<tr><th></th><th>Description</th><th>Hong Kong basis</th><th>Basel III basis</th></tr>
<tr><td rowspan="2">54</td><td>Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)</td><td>-</td><td>-</td></tr>
<tr><td colspan="3"><u>Explanation</u>

The effect of treating loans, facilities or other credit exposures to connected companies which are financial sector entities as CET1 capital instruments for the purpose of considering deductions to be made in calculating the capital base (see note re row 18 to the template above) will mean the headroom within the threshold available for the exemption from capital deduction of other insignificant LAC investments in Tier 2 capital instruments and non-capital LAC liabilities may be smaller. Therefore, the amount to be deducted as reported in row 54 may be greater than that required under Basel III. The amount reported under the column "Basel III basis" in this box represents the amount reported in row 54 (i.e. the amount reported under the "Hong Kong basis") adjusted by excluding the aggregate amount of loans, facilities or other credit exposures to the AI's connected companies which were subject to deduction under the Hong Kong approach.</td></tr>
<tr><td colspan="4">Remarks:

The amount of the 10% threshold and 5% threshold mentioned above is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.</td></tr>
</table>

1. PILLAR 3 DISCLOSURE (CONTINUED)

i. Template CC2: Reconciliation of regulatory capital to balance sheet

	(a)	(b)	(c)
	Balance sheet as in published financial statements As at 31 December 2024 HKD'000	**Under regulatory scope of consolidation** As at 31 December 2024 HKD'000	**Cross reference to note 1(h) (CC1)**
Assets			
Balances with central bank	236,024	236,024	
Placements with and advances to banks	2,176,862	2,172,709	
Investments in debt securities at amortised cost	753,695	753,695	
Financial investments measured at FVOCI	3,807,499	3,807,499	
Loans and advances	987,224	987,224	
Prepaid expenses	11,986	11,974	
Other deposits and receivables	18,401	18,211	
Right-of-use assets	5,681	5,469	
Property, plant and equipment	4,545	3,568	
Intangible assets	23,060	23,060	(4)
Deferred tax asset	1,056	-	
Investment in subsidiary	-	11,685	
Total assets	**8,026,033**	**8,031,118**	
Liabilities			
Deposits from customers	6,966,060	6,966,060	
Accruals and other payables	307,282	306,923	
Lease liabilities	5,628	5,423	
Total liabilities	**7,278,970**	**7,278,406**	
Shareholders' equity			
Paid-in share capital	2,800,001	2,800,001	
Of which: amount eligible for CET1	2,800,001	2,800,001	(1)
Of which: amount eligible for AT1	-	-	
Accumulated losses	(2,073,557)	(2,069,027)	(2)
Reserves	20,619	21,738	(3)
Total shareholders' equity	**747,063**	**752,712**	

As of 31 December 2024, increase in total assets and total liabilities was mainly due to increase in deposits from customers. The increase in funding led to increase in balances with central bank, placements with and advances to banks, financial investments measured at FVOCI and loans and advances, offset by the decrease in investments in debt securities at amortised cost. Property, plant and equipment decreased mainly due to depreciation. On liabilities side, there was a decrease in deposits from a related party, while accruals and other payables increased mainly due to unsettled securities trade payables. Reserves increased due to the share-based payment reserves.

1. PILLAR 3 DISCLOSURE (CONTINUED)

j. Table CCA: Main features of regulatory capital instruments[1]

		Quantitative / qualitative information
1	Issuer	Fusion Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable
3	Governing law(s) of the instrument	Hong Kong Law
	Regulatory treatment	
4	Transitional Basel III rules[2]	Not Applicable
5	Post-transitional Basel III rules[3]	Common Equity Tier 1
6	Eligible at solo / group / solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HKD2,800 million
9	Par value of instrument	Not applicable
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	1000 Shares 1 share: issued on 31st Jul 2018 999 shares: issued on 1st Aug 2018
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	Not applicable
16	Subsequent call dates, if applicable	Not applicable
	Coupons / dividends	
17	Fixed or floating dividend / coupon	Floating
18	Coupon rate and any related index	Not applicable
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	Not applicable
25	If convertible, fully or partially	Not applicable
26	If convertible, conversion rate	Not applicable
27	If convertible, mandatory or optional conversion	Not applicable
28	If convertible, specify instrument type convertible into	Not applicable
29	If convertible, specify issuer of instrument it converts into	Not applicable
30	Write-down feature	No
31	If write-down, write-down trigger(s)	Not applicable
32	If write-down, full or partial	Not applicable
33	If write-down, permanent or temporary	Not applicable
34	If temporary write-down, description of write-up mechanism	Not applicable
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	Not applicable
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	Not applicable

[1] Information relating to the disclosure of the full terms and conditions of the Bank's capital instruments can be viewed on the website: https://www.fusionbank.com/list.html?key=announcement

[2] Regulatory treatment of capital instruments subject to transitional arrangements provided for in Schedule 4H to the BCR

[3] Regulatory treatment of capital instruments not subject to transitional arrangements provided for in Schedule 4H to the BCR

1. PILLAR 3 DISCLOSURE (CONTINUED)

k. Template CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer

	Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio	AI-specific CCyB ratio (%)	CCyB amount
1	Hong Kong SAR	0.5%	803,012		
2	Sum		803,012		
3	Total		1,041,890	0.39%	10,708

The geographical allocation of private sector credit exposures to the jurisdiction is determined based on the ultimate risk basis where the risk ultimately lies to the best of the knowledge and information obtained by the Bank.

Decrease in CCyB amount was mainly due to CCyB ratio for Hong Kong being reduced from 1% to 0.5%.

l. Template LR1: Summary comparison of accounting assets against leverage ratio exposure measure

	Item	(a) Value under the LR framework (HKD'000 equivalent)
1	Total consolidated assets as per published financial statements	8,026,033
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	5,085
2a	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	-
3a	Adjustments for eligible cash pooling transactions	-
4	Adjustments for derivative contracts	-
5	Adjustment for SFTs (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet ("OBS") items (i.e. conversion to credit equivalent amounts of OBS exposures)	24,421
6a	Adjustments for prudent valuation adjustments	-
7	Other adjustments	(23,060)
8	**Leverage ratio exposure measure**	8,032,479

Difference between the total balance sheet assets as reported in published financial statements and on-balance sheet exposures as stated in LR2 were mainly due to investments in subsidiaries that are consolidated for accounting purposes but outside the scope of regulatory consolidation and regulatory deduction.

Increase in consolidated assets as per published financial statements and leverage ratio exposure measure was mainly due to balance sheet size expansion which was driven by increase in customer deposits. Drop in adjustment for off-balance sheet items was due to decrease in undrawn loan commitment.

1. PILLAR 3 DISCLOSURE (CONTINUED)

m. Template LR2: Leverage Ratio

		As at 31 December 2024	As at 30 September 2024
		HKD'000	HKD'000
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	8,042,454	7,470,710
2	Less: Asset amounts deducted in determining Tier 1 capital	(23,060)	(11,429)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	8,019,394	7,459,281
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 derivatives collateral provided 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 derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit 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	244,209	429,880
18	Less: Adjustments for conversion to credit equivalent amounts	(219,788)	(386,892)
19	**Off-balance sheet items**	24,421	42,988
Capital and total exposures			
20	**Tier 1 capital**	729,652	806,446
20a	**Total exposures before adjustments for specific and collective provisions**	8,043,815	7,502,269
20b	**Adjustments for specific and collective provisions**	(11,336)	(12,166)
21	**Total exposures after adjustments for specific and collective provisions**	8,032,479	7,490,103
Leverage ratio			
22	**Leverage ratio**	**9.1%**	**10.8%**

Leverage ratio decreased mainly due to the drop in Tier 1 capital and increase in assets amounts deducted in determining Tier 1 capital driven by the additions in intangible assets, offset by the decrease in off-balance sheet exposures due to reduction in undrawn loan commitments.

1. PILLAR 3 DISCLOSURE (CONTINUED)

n. Table LIQA: Liquidity Risk Management

Liquidity risk refers to the risk that the Bank is not able to honour its financial obligations when they fall due at a reasonable cost. This may be caused by market disruption or difficulty in liquidating assets. The primary objective of liquidity risk management is to maintain stable, reliable and adequate source of funding to meet liquidity needs under both normal and stressed conditions.

The Bank has established liquidity risk management policy that outlines the liquidity risk management framework according to the liquidity risk appetite approved by the Board and to comply with the regulatory requirements including but not limited to the MA's Supervisory Policy Manuals ("SPM") "LM-1 Regulatory Framework for Supervision of Liquidity Risk" and "LM-2 Sound Systems and Controls for Liquidity Risk Management". The liquidity risk management framework is to ensure that adequate liquidity is maintained at all times.

In accordance with the Bank's corporate governance principles, the Board is ultimately responsible for overseeing the liquidity and funding risk in the Bank. RC under the Board provides an independent oversight and guidance to the Board on liquidity risk issues. Under leadership of the CE, EXCO is a senior management committee for formulating and recommending the Board and RC to approve the liquidity risk management principles, policies and frameworks.

As authorized by EXCO, Asset and Liability Committee ("ALCO") is the primary committee in managing the liquidity and funding profile in the Bank. Under the guidance of ALCO, Treasury is primary responsible for the overall liquidity management for the Bank on a day-to-day basis. RMD coordinates with Treasury and other business units to help ensure a consistent and comprehensive framework for managing liquidity risk across the Bank. Finance is responsible for preparation and submission of the regulatory reports. IAD is responsible for testing the effectiveness of the liquidity risk management framework and system. ALCO is also responsible for reviewing relevant liquidity risk control and monitoring reports on a regular basis.

In accordance with the Banking (Liquidity) Rules and the MA's SPM, the Bank has setup internal risk appetite limits on the liquidity maintenance ratio ("LMR") which is well above the statutory requirements. On top of the regulatory LMR requirements, the Bank minimises the cashflow maturity mismatch by establishing limits on Maximum Cumulative Outflow ("MCO") indicators, which predicts the future 30 days maximum cumulative net cash outflow under normal situation. The Bank maintains certain level of liquidity cushion such as HK Exchange Fund Bills to mitigate potential liquidity risk and meet liquidity needs during liquidity crisis.

The Bank strives to develop a diversified and stable funding base with access to funding sources across retail and wholesale channels. To avoid over reliance of a particular funding source, the Bank imposes funding concentration control measures such as establishing management action triggers for non-bank deposit ratio, single top depositor ratio and top 10 depositors' ratio.

The Bank conducts monthly liquidity stress tests based on institution specific, general market and combined stress scenarios defined according to the MA's SPM LM-2. The results of the stress tests are used to identify potential liquidity vulnerabilities within the Bank, to establish internal limits and to formulate the Contingency Funding Plan ("CFP").

The Bank has formulated a CFP for dealing with a liquidity crisis and detailing the operating procedures for making up funding shortfall under emergency situation. CFP sets out the readily deployable funding sources, funding measures, potential step to meet intraday critical payment, operational procedures and the estimated time of assets disposal for cash. The plan is updated and reviewed at least annually by the ALCO to ensure that it remains robust upon changing business and market conditions.

As at 31 December 2024, the Bank maintained the LMR of 204.02%.

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1. PILLAR 3 DISCLOSURE (CONTINUED)

n. Table LIQA: Liquidity Risk Management (continued)

In addition, the Bank's analysis of on- and off-balance sheet items by remaining maturity and the resultant liquidity gaps as at 31 December 2024 is shown as follows:

	Breakdown of cash flows by remaining maturity						
As at 31 December 2024	Not more than 1 month HKD'000	More than 1 month but not more than 3 months HKD'000	More than 3 months but not more than 6 months HKD'000	More than 6 months but not more than 1 year HKD'000	More than 1 year but not more than 5 years HKD'000	Over 5 years HKD'000	Balancing amount HKD'000
On-balance sheet items							
Currency notes and coins	43	-	-	-	-	-	-
Due from MA for a/c of Exchange Fund	236,024	-	-	-	-	-	-
Due from overseas central banks	31,770	-	-	-	-	-	-
Due from banks	995,848	895,187	226,776	23,284	-	-	-
Debt securities	4,528,479	-	-	-	-	-	-
Loans and advances to non-bank customers	33,906	49,727	69,021	151,762	689,240	10	4,705
Other assets	8,576	-	-	-	-	-	65,348
Total on-balance sheet assets	5,834,646	944,914	295,797	175,046	689,240	10	70,053
Total off-balance sheet claims	-	-	-	-	-	-	-
On-balance sheet items							
Deposits from customers	2,146,162	3,775,587	565,879	478,432	-	-	-
Lease liability	1,051	2,102	528	282	494	-	966
Accruals and other payables	306,924	-	-	-	-	-	-
Capital and reserves	-	-	-	-	-	-	752,712
Total on-balance sheet liabilities	2,454,137	3,777,689	566,407	478,714	494	-	753,678
Total off-balance sheet obligations	224,209	-	-	-	-	-	-
Contractual Maturity Mismatch	3,136,300	(2,832,775)	(270,610)	(303,668)	688,746	10	**NA**
Cumulative Contractual Maturity Mismatch	3,136,300	303,525	32,915	(270,753)	417,993	418,003	**NA**

1. PILLAR 3 DISCLOSURE (CONTINUED)

o. Table CRA: General information about credit risk

Credit risk refers to the risk of loss arising from failure to satisfy financial obligations of a borrower, counterparty, issuer, guarantor or any other forms of obligors. The Bank incurs credit risk mainly from treasury activities (i.e. placements, investments and settlement), corporate lending business and retail lending business.

Credit risk management

Overall credit risk of the Bank is managed through a comprehensive risk management framework to ensure that risk level of credit portfolio is in line with the Bank's risk appetite and cultivate a sound credit culture while regulatory requirements are fulfilled all the time.

The Bank has established a set of policies and procedures approved by the Board or its delegated committee(s) to identify, measure, monitor and control credit risk at both portfolio level and individual level. These policies and procedures cover various areas including but not limited to governance structure, risk appetite and tolerance level, credit risk strategy, exposure measurement and credit administration.

Credit Initiation and Evaluation

A clear hierarchy of governance structure and mechanism has been established throughout the entire credit initiation and evaluation process. Specifically, credit applications would be evaluated based on established criteria and all other relevant factors including but not limited to nature of transactions, types of obligors, financial conditions, credit ratings, market situations, industry dynamics and corporate governance of obligors. Each credit application is then approved in accordance with a hierarchy of approval authorities, which are ultimately delegated by the Board. Proper risk mitigation measures may also be introduced to protect the Bank's interest.

Credit monitoring and control

A set of credit monitoring and control process and procedures has been established to manage credit risk across the Bank. Exposure limit is set across obligors, products and portfolio level to ensure that credit risk concentration is manageable while regulatory and internal requirements are fulfilled. RMD and applicable business units also closely monitor exposures and progress of execution of risk mitigation measures, as well as perform stress tests to identify, analyse and control credit risk concentrations arising from the Bank’s lending and treasury activities to assess the impact of market shock on the Bank’s credit portfolio and financial position. These exposure limits, exposure amount and stress testing results are reported to the senior management, the Board and/(or) its delegated committee(s) regularly to maintain effective management oversight mechanism across the Bank.

Relationship with compliance and internal audit functions

RMD also closely cooperates with compliance staff to confirm enforceability of relevant legal documents and ensure compliance with all applicable rules and regulations in respect of the Bank’s credit-related matters. Meanwhile, internal audit staff also conducts periodic independent audits to assess individual credits and overall credit portfolio to ensure credit risk is properly managed in accordance with regulatory standards.

1. PILLAR 3 DISCLOSURE (CONTINUED)

p. Template CR1: Credit qualities of exposures

The table below provides an overview of the credit quality of on-and off-balance sheet exposures. Loans included loans and advances to customers and related accrued interest receivables.

An exposure is defined as defaulted if

1. loans are past due for more than 90 days; or
2. no payment of principal or interest of debt securities for more than 30 days when falling due; or
3. any evidence showing that it is credit-impaired and its future cash flows are adversely impacted.

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of		Allowances / impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a + b -c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
As at 31 December 2024		**HKD'000**	**HKD'000**	**HKD'000**	**HKD'000**	**HKD'000**	**HKD'000**	**HKD'000**
1	Loans	3,721	994,650	(11,147)	(3,620)	(7,527)	-	987,224
2	Debt securities	-	4,561,229	(35)	-	(35)	-	4,561,194
3	Off-balance sheet exposures	-	-	-	-	-	-	-
4	**Total**	**3,721**	**5,555,879**	**(11,182)**	**(3,620)**	**(7,562)**	**-**	**5,548,418**

q. Template CR2: Changes in defaulted loans and debt securities

The table below provides information on the changes in defaulted loans and debt securities, including any changes in the amount of defaulted exposures, movements between non-defaulted and defaulted exposures, and reductions in the defaulted exposures due to write-offs as of 31 December 2024:

		(a)
		Amount
1	**Defaulted loans and debt securities at end of the previous reporting period**	1,859
2	Loans and debt securities that have defaulted since the last reporting period	6,132
3	Returned to non-defaulted status	
4	Amounts written off	(4,224)
5	Other changes	(46)
6	**Defaulted loans and debt securities at end of the current reporting period**	3,721

1. PILLAR 3 DISCLOSURE (CONTINUED)

r. Table CRB: Additional disclosure related to credit quality of exposures

Loans and advances are generally managed on portfolio basis for classification (in a quantitative way) and practice as recommended by the MA as below:

Loan Classification	Definition
Performing or Pass	Loans where obligors are current in meeting commitments and full repayment of interest and principal is not in doubt.
Special Mention	Loans where obligors are experiencing difficulties which may threaten the Bank's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.
Substandard	Loans where obligors are displaying a definable weakness that is likely to jeopardize repayment. Includes loans where some loss of principal or interest is possible after taking account of the "net realizable value" of security, and rescheduled loans where concessions have been made to the customer on interest or principal.
Doubtful/Loss	Loans where collection in full is improbable or loans which are considered uncollectible after exhausting all collection efforts such as realization of collateral, institution of legal proceedings, etc. The Bank expects to sustain a loss of principal and/or interest after taking account of the net realisable value of security.

The Bank has set out maximum credit exposure to each individual or counterparty in relation to the BDR.

Expected credit losses

The Bank's impairment requirements are based on a forward-looking expected credit losses ("ECL") approach. This measurement of ECL should reflect: (i) a probability-weighted outcome, (ii) the time value of money and (iii) a reasonable and supportable information model. The Bank is required to recognize an allowance for either 12-month or lifetime ECL, depending on whether there has been a significant increase in credit risk of the exposure since initial recognition.

Subject to classification and measurement, financial assets classified as amortized cost or FVOCI. At the time of reporting, the Bank's financial assets that in scope of HKFRS 9 impairment are mainly loans and advances, debt securities and interbank exposures.

Expected credit loss is determined under three stages:

- Stage 1 applies when there is no significant increase in credit risk since initial recognition. 12-month ECL is required for assets classified in stage 1.

- Stage 2 applies when a significant increase in credit risk has occurred on an individual or collective basis since initial recognition, with no objective evidence of credit event. Lifetime ECL calculation is required for assets classified in stage 2.

- Stage 3 applies when there is objective evidence of credit impairment. Lifetime ECL calculation is required for assets classified in stage 3.

Significant credit deterioration criteria are used for assessing whether there are significant increases in credit risk of the exposures and thus classify them into different stages. The criteria are primarily set based on the key requirements stipulated under HKFRS 9, such as 30 days past due, low credit risk threshold, change of risk of default, etc.

ECL is calculated as a function of probability of default ("PD"), loss given default ("LGD"), exposure at default ("EAD"), expected life and discount factor.

- PD: Probability of an obligor or facility to be defaulted within a specific period of time
- LGD: Loss as a percentage of EAD given the obligor or facility has defaulted
- EAD: predicted outstanding balance and accrued interests as at the point of default
- Expected life: contractual period during which exposed to credit risk
- Discount factor: effective interest rate

1. PILLAR 3 DISCLOSURE (CONTINUED)

r. Table CRB: Additional disclosure related to credit quality of exposures (continued)

The above methodology for expected loss estimation should incorporate historical information, current conditions, as well as forward-looking information. Therefore, obtaining macroeconomic factor ("MEF") projections is critical to estimate the forward-looking element in ECL estimation. The Bank formed a standard framework to project economic scenarios including Base, Good and Bad scenarios to reflect assumptions about future economic conditions. Key macroeconomic variables in Hong Kong, China and United States are considered, including GDP, unemployment rate, interest rate, import and export, inflation, etc. The final macroeconomic response models depending on the best correlation between the PD/LGD and the MEFs are selected to project the forward-looking element for the ECL.

The following table sets out an additional qualitative and quantitative information on the credit quality of exposures to supplement the quantitative information provided under templates CR1 and CR2.

I. Exposures by geographical location (CRB1)

	Gross carrying amount
As at 31 December 2024	HKD'000
Hong Kong	3,356,147
China	1,459,621
Others	743,832
Total	5,559,600

II. Exposures by Industry (CRB2)

	Gross carrying amount
As at 31 December 2024	HKD'000
Banks and financial institutions	2,563,055
Individuals	538,367
Others	2,458,178
Total	5,559,600

III. Exposures by residual maturity (CRB3)

	Repayable on demand to 1 year	Due between 1 year to 5 years	Due after 5 years	Total
As at 31 December 2024	HKD'000	HKD'000	HKD'000	HKD'000
Loans	304,416	689,240	4,715	998,371
Debt securities	4,152,966	408,263	-	4,561,229
Total	4,457,382	1,097,503	4,715	5,559,600

IV. Impaired exposures and related allowances and write-offs by geographical areas (CRB4)

	Gross carrying amount	Specific provision	Write-offs	Geographical location
As at 31 December 2024	HKD'000	HKD'000	HKD'000	
Loans	3,721	3,620	11,862	HK

All impaired exposures are loans and advances to retail customers as at 31 December 2024.

V. Aging analysis of accounting past due exposures (CRB5)

	Gross carrying amount
As at 31 December 2024	HKD'000
overdue more than 3 months and up to 6 months	1,232

VI. Breakdown of restructured exposures (CRB6)

	Gross carrying amount
As at 31 December 2024	HKD'000
Rescheduled but not overdue	1,701

1. PILLAR 3 DISCLOSURE (CONTINUED)

s. Table CRC: Qualitative disclosures related to credit risk mitigation

The Bank has in place policies and procedures covering the management and monitoring of credit risk. Details can be found in the Risk management approach section in note 27 of the 2024 financial statements. Currently, the Bank only takes guarantee as risk mitigants where necessary. No netting of on- and off-balance sheet exposures is used.

t. Template CR3: Overview of recognized credit risk mitigation

The following table presents the extent of credit risk exposures covered by different types of recognized Credit Risk Mitigation ("CRM") as at 31 December 2024:

	HKD'000	Carrying amount of unsecured: exposures	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	663,622	323,602	-	323,602	-
2	Debt securities	4,545,554	15,640	-	15,640	-
3	**Total**	5,209,176	339,242	-	339,242	-
4	Of which defaulted	101	-	-	-	-

Increase in unsecured and secured loans exposures was mainly due to the increase in retail and corporate loans respectively.

u. Table CRD: Qualitative disclosures on use of ECAI ratings under STC approach

The Bank uses the following external credit assessment institutions ("ECAIs"), which are consented by the MA, for counterparties that have external ratings to calculate its capital adequacy requirements under the Standardized (Credit Risk) Approach prescribed in the BCR:

▪ Moody's Investors Service

▪ Standard & Poor's Ratings Services

▪ Fitch Ratings

The Bank performs the mapping of ECAI ratings in accordance to the process as prescribed in Part 4 of the BCR under standardized approach in determining the risk weight of the following exposures:

▪ Sovereign exposures

▪ Public sector entity exposures

▪ Bank exposures

▪ Corporate exposures

1. PILLAR 3 DISCLOSURE (CONTINUED)

v. Template CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

The following table illustrates the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of credit risk capital requirements under STC approach as at 31 December 2024:

	HKD'000	Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM		RWA and RWA density	
	Exposure classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereign exposures	2,256,548	-	2,580,150	-	66,437	3%
2	PSE exposures	285,526	-	285,526	-	57,105	20%
2a	Of which: domestic PSEs	285,526	-	285,526	-	57,105	20%
2b	Of which: foreign PSEs	-	-	-	-	-	0%
3	Multilateral development bank exposures	-	-	-	-	-	0%
4	Bank exposures	3,773,440	-	3,789,080	-	1,501,544	40%
5	Securities firm exposures	-	-	-	-	-	0%
6	Corporate exposures	685,735	-	670,095	-	524,116	78%
7	CIS exposures	-	-	-	-	-	0%
8	Cash items	43	-	43	-	-	0%
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	0%
10	Regulatory retail exposures	980,055	-	656,453	-	492,340	75%
11	Residential mortgage loans	-	-	-	-	-	0%
12	Other exposures which are not past due exposures	34,343	-	34,343	-	34,343	100%
13	Past due exposures	85	-	85	-	128	151%
14	Significant exposures to commercial entities	-	-	-	-	-	0%
15	**Total**	**8,015,775**	**-**	**8,015,775**	**-**	**2,676,013**	**33%**

The increase in credit risk exposures amount as of 31 December 2024 was mainly due to the net effect of the following key drivers:

a) An increase in sovereign, PSE, bank and corporate exposures, driven by increase in customer deposits;
b) An increase in regulatory retail exposures, mainly due to an increase in corporate loan customers categorized as small businesses under regulatory retail exposures;
c) A decrease in other exposures, primarily attributable to the drop in prepayments and fixed assets.

1. PILLAR 3 DISCLOSURE (CONTINUED)

w. Template CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

HKD'000

	Exposure class / Risk Weight	0%	10%	20%	35%	50%	75%	100%	150%	250%	Others	Total credit risk exposures amount (post CCF and post CRM)
1	Sovereign exposures	2,247,965	-	332,185	-	-	-	-	-	-	-	2,580,150
2	PSE exposures	-	-	285,526	-	-	-	-	-	-	-	285,526
2a	Of which: domestic PSEs	-	-	285,526	-	-	-	-	-	-	-	285,526
2b	Of which: foreign PSEs	-	-	-	-	-	-	-	-	-	-	-
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	-	-	1,309,989	-	2,479,091	-	-	-	-	-	3,789,080
5	Securities firm exposures	-	-	-	-	-	-	-	-	-	-	-
6	Corporate exposures	-	-	6,104	-	282,192	-	381,799	-	-	-	670,095
7	CIS exposures	-	-	-	-	-	-	-	-	-	-	-
8	Cash items	43	-	-	-	-	-	-	-	-	-	43
9	Exposures in respect of failed delivery on transactions entered into on a basis other than a delivery-versus-payment basis	-	-	-	-	-	-	-	-	-	-	-
10	Regulatory retail exposures	-	-	-	-	-	656,453	-	-	-	-	656,453
11	Residential mortgage loans	-	-	-	-	-	-	-	-	-	-	-
12	Other exposures which are not past due exposures	-	-	-	-	-	-	34,343	-	-	-	34,343
13	Past due exposures	-	-	-	-	-	-	-	85	-	-	85
14	Significant exposures to commercial entities	-	-	-	-	-	-	-	-	-	-	-
15	**Total**	**2,248,008**	**-**	**1,933,804**	**-**	**2,761,283**	**656,453**	**416,142**	**85**	**-**	**-**	**8,015,775**

The increase in total credit risk exposures amount as of 31 December 2024 was mainly due to the net effect of the following key drivers:

a) An increase in sovereign, PSE, bank and corporate exposures, driven by increase in customer deposits;
b) An increase in regulatory retail exposures, mainly due to increase in corporate loan customers categorized as small businesses under regulatory retail exposures;
c) A decrease in other exposures, primarily attributable to the drop in prepayments and fixed assets.

1. PILLAR 3 DISCLOSURE (CONTINUED)

x. Table CCRA: Qualitative disclosures related to counterparty credit risk (including those arising from clearing through CCPs)

The Bank's objective to counterparty credit risk management is to ensure credit risk is properly managed and controlled within the general credit risk management framework. The Bank has in place relevant policies that cover the identification, measurement, control and monitoring of counterparty credit risk.

The Bank establishes credit limit through credit approval procedures and monitors closely the credit profile of relevant counterparties throughout the duration of credit exposures. The Bank adopts the current exposure method to measure the credit equivalent amount, which comprises current exposures and potential future exposures. Credit equivalent amount and capital charge for the relevant counterparty credit exposures are determined following the regulatory capital requirements.

The Bank generally avoids entering transactions involving general/specific wrong-way risk.

As at 31 December 2024, the Bank does not have counterparty default risk exposure, credit-related derivative contracts and no CRM concerning counterparty credit risk.

y. Securitization exposures

As at 31 December 2024, the Bank does not have any securitization exposures.

z. Table MRA: Qualitative disclosures related to market risk

Market risk is defined as the risk of loss to the Bank resulting from the movements in observable market prices and rates (such as interest rates, credit spreads, foreign exchange rates, equity prices, commodity prices) and indirectly observable market parameters (such as volatilities and correlations). Currently the market risk predominantly arises from the Bank's treasury activities and trading activities.

The Bank has established market risk management policy that outlines the market risk management framework according to the market risk appetite defined by the Board. The market risk management framework is to ensure that the market risk is identified, measured, monitored and reported on a timely basis.

In accordance with the Bank's corporate governance principles, the Board is ultimately responsible for overseeing the market risk in the Bank. RC under the Board provides an independent oversight and guidance to the Board on market risk issues. Under leadership of CE, EXCO is a senior management committee for formulating and recommending the Board and RC to approve the market risk management principles, policies and frameworks.

As authorized by EXCO, RMC is the primary committee in managing the market risk profile in the Bank. Business units such as Treasury and Global Market are responsible for carrying out market risk activities and first line of defence in market risk management. RMD acts as an independent party to perform second line of defence in market risk management. IAD is responsible for third line of defence in market risk management.

The Bank monitors the market risk exposures against various types of limit on aggregate or individual unit levels. The limits include VaR, stress testing and position limit (e.g. net open position). The VaR limit is set up and reviewed by RC and approved by the Board according to the overall risk appetite of the Bank, while the other key limits are set up and reviewed by RMC/ALCO authority. The risk methodology for VaR and stress testing is properly maintained and reviewed by RMC. The monitoring of the above limits are carried out on daily basis.

1. PILLAR 3 DISCLOSURE (CONTINUED)

aa. Template MR1: Market risk under STM approach

	HKD'000	(a) RWA
	Outright product exposures	
1	Interest rate exposures (general and specific risk)	-
2	Equity exposures (general and specific risk)	-
3	Foreign exchange (including gold) exposures	563
4	Commodity exposures	-
	Option exposures	
5	Simplified approach	-
6	Delta-plus approach	-
7	Other approach	-
8	Securitization exposures	-
9	**Total**	**563**

Decrease in foreign exchange exposures was mainly due to the decrease in the net open position in Renminbi ("RMB").

1. PILLAR 3 DISCLOSURE (CONTINUED)

bb. Table IRRBBA: Interest rate risk in banking book – risk management objectives and policies

Interest Rate Risk in Banking Book ("IRRBB") refers to the risk to both the earnings and the economic value of the Bank arising from adverse movements in interest rates that affects the banking book positions of the Bank. The Bank's interest rate exposures in the banking book may arise from deposit-taking, lending and treasury activities. The major types of interest rate risk could be broadly divided into gap risk, basis risk and option risk.

The Bank has established interest rate risk in banking book policy that outlines the interest risk management framework in banking book according to the IRRBB risk appetite approved by the Board and to comply with the regulatory requirements including but not limited to the MA's SPM "IR-1 Interest Rate Risk in the Banking Book". The IRRBB management framework is to ensure that the Bank is not taking excessive IRRBB exposures, which can pose a significant threat to the Bank's earnings and capital adequacy.

In accordance with the Bank's corporate governance principles, the Board is ultimately responsible for overseeing the IRRBB in the Bank. RC under the Board provides an independent oversight and guidance to the Board on IRRBB issues. Under leadership of CE, EXCO is a senior management committee for formulating and recommending the Board and RC to approve the IRRBB risk management principles, policies and frameworks.

As authorized by EXCO, ALCO is the primary committee in managing the IRRBB profile in the Bank. Under the guidance of ALCO, Treasury is primary responsible for managing overall IRRBB exposures for the Bank on a day-to-day basis. RMD coordinates with Treasury and other business units to help ensure a consistent and comprehensive framework for managing IRRBB exposures across the Bank. Finance is responsible for preparation and submission of the regulatory reports. IAD is responsible for testing the effectiveness of the IRRBB risk management framework and system.

The Bank measures and monitors IRRBB exposures from both the earnings and economic value perspective with two key risk control metrics, namely the change in the economic value of equity ("ΔEVE") and the change in net interest income ("ΔNII"). The two metrics are calculated in accordance with the standardised framework as set out in the MA's SPM IR-1. The risk limits and triggers are setup based on these two measurement metrics.

To supplement with ΔEVE decline and ΔNII sensitivity, the Bank has setup interest rate sensitivity limits using the Present Value of a Basis Point ("PVBP"). The PVBP measures the sensitivity of the net present value of banking book towards movements of interest rate by one basis point. The key IRRBB risk metrics are reported to different committees such as ALCO and RC on a periodic basis. For ΔEVE and ΔNII monitoring, they are calculated on a monthly basis. For PVBP measurement, it is calculated and monitored on a daily basis.

To hedge the IRRBB exposures, actions like market operations or balance sheet restructuring could be potential risk mitigations and when necessary, the mitigations will be discussed in ALCO with advice from various relevant units like RMD and Treasury for endorsement.

The Bank adopts stress-testing techniques to regularly assess the vulnerability to losses due to interest rate change in the prescribed standard interest rate stress scenarios defined in the MA's SPM IR-1.

Key modelling and parametric assumptions used in calculating ΔEVE and ΔNII includes:

(i) for ΔEVE, cash flows including commercial margins and spread components are discounted using risk-free rate;

(ii) no prepayment or early redemption risk is assumed since the Bank only launch its business in 2020 Q4 and more historical data need to be accumulated in order to conduct meaningful customers' behavior analysis;

(iii) ΔEVE and ΔNII are aggregated results of all currencies and not only significant currencies.

There are no difference in the assumptions applied in internal monitoring and regulatory reporting.

The average and longest repricing maturity for Non-Maturity Deposits in 2024 was 1 day.

1. PILLAR 3 DISCLOSURE (CONTINUED)

cc. Template IRRBB1: Quantitative information on interest rate risk in banking book

	HKD'000	ΔEVE		ΔNII	
	Period	**31 December 2024**	**31 December 2023**	**31 December 2024**	**31 December 2023**
1	Parallel up	52,324	21,646	5,247	(7,950)
2	Parallel down	-	304	(5,247)	7,950
3	Steepener	-	193		
4	Flattener	22,563	11,595		
5	Short rate up	37,566	18,034		
6	Short rate down	-	325		
7	**Maximum**	52,324	21,646	5,247	7,950
	Period	**31 December 2024**		**31 December 2023**	
8	**Tier 1 capital**	729,652		982,020	

ΔEVE and ΔNII over next the 12 months were calculated in accordance with the MA's standardised framework under the supervisory prescribed interest rate shock scenarios.

The worst scenario for ΔEVE remained the "Parallel up" scenario for both 31 December 2024 and 31 December 2023. The increase in ΔEVE was due to an increase in asset duration. The most adverse scenario with regard to ΔNII switched to "Parallel up" scenario, resulting in potential adverse changes of HKD 5.25 million as of 31 December 2024. The movement in ΔNII between 31 December 2024 and 31 December 2023 was due to change in asset duration.

dd. International Claims

International claims refers to the sum of the cross-border claims in all currencies and local claims in foreign currencies determined in accordance with the calculation methodology specified in the completion instructions for the Return of International Banking Statistics (MA(BS)29A and MA(BS)29B). Only major geographical segment constituting not less than 10% of the Bank's total international claims after taking into account any recognized risk transfer are disclosed.

			Non-bank private sector		
	Bank	Official Sector	Non-bank financial institutions	Non-financial private sector	Total
As at 31 December 2024	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Developed Countries	1,052,844	7,931	-	-	1,060,775
Offshore Centres	822,602	1,921,983	465,889	1,125,849	4,336,323
of which: Hong Kong	675,962	1,916,222	465,889	1,125,801	4,183,874
Developing Asia and Pacific	1,898,003	332,185	11,699	2,288,012	4,529,899
of which: China	1,549,739	332,185	11,699	2,287,524	4,181,147

ee. Off-balance Sheet Exposures (other than derivative transactions)

	As at 31 December 2024 HKD'000
Commitments that are unconditionally cancellable without prior notice	244,209
RWA	-

1. PILLAR 3 DISCLOSURE (CONTINUED)

ff. Loans and Advances to customers

I. Sector Information

The analysis of gross loans and advances to customers by industry sectors are based on the categories and definitions as stated in the MA(BS)2A "Quarterly Analysis of Loans and Advances and Provisions".

	As at 31 December 2024	
	Gross loans and advances to customers	% of gross loans and advances covered by collateral or other security
	HKD'000	
Industrial, commercial and financial		
Wholesale and retail trade	183,793	68%
Manufacturing	58,563	39%
Transport and transport equipment	41,888	79%
Information technology	17,892	83%
Others	156,584	82%
Individuals		
Others	537,056	-
Gross loans and advances for use in Hong Kong	995,776	32%

II. Geographical Information

Loans and advances are exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. The risk transfers have been made if the loans and advances are guaranteed by a party in a geographical area, which is different from that of the counterparty. Only major geographical segment constitutes not less than 10% of the Bank's total amount of loans and advances to customers after taking into account any recognized risk transfer are disclosed.

	Gross loans and advances to customers	Impaired loans and advances to customers	Overdue loans and advances to customers	Specific provisions	Collective provisions
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
As at 31 December 2024					
Hong Kong	995,645	(3,588)	(1,155)	(3,493)	(7,465)

III. Overdue loans and advances

	As at 31 December 2024	
	Gross loans and advances to customers which have been overdue for	% of total amount of loans and advances to customers
	HKD'000	
Overdue more than 3 months but not more than 6 months	1,155	0.12%

IV. Rescheduled loans and advances

	As at 31 December 2024	
	Gross loans and advances to customers which have been rescheduled for	% of total amount of loans and advances to customers
	HKD'000	
Rescheduled but not overdue	1,685	0.17%

1. PILLAR 3 DISCLOSURE (CONTINUED)

gg. Loans and Advances to Banks

No loans and advances to banks have been overdue or rescheduled as at 31 December 2024.

hh. Other Assets

	As at 31 December 2024 HKD'000
Loan interest receivable	
Overdue more than 3 months but not more than 6 months	77

ii. Rescheduled Assets

	As at 31 December 2024 HKD'000
Loan interest receivable	
Rescheduled but not overdue	16

jj. Repossessed Assets

No repossessed assets as at 31 December 2024.

kk. Currency Risk

The Bank is exposed to foreign exchange risk, primarily United States dollar ("USD") and RMB. The exposure is considered immaterial.

The Bank's exposure to foreign currency risk at the end of the reporting period, expressed in Hong Kong dollar, was as follows:

As at 31 December 2024

	RMB HKD'000	USD HKD'000
Spot Assets	464,796	2,036,035
Spot Liabilities	(474,088)	(1,694,130)
Forward Purchases	-	8,154
Forward Sales	(1,831)	-
Net long/(short) position	(11,123)	350,059
Structural Positions	11,685	-

The Bank's structural FX positions as at 31 December 2024 represents investment in a subsidiary denominated in RMB.

1. PILLAR 3 DISCLOSURE (CONTINUED)

ll. Mainland Activities

The following illustrates the disclosure that the Bank is required to make under the prevailing Return of Mainland Activities (MA(BS)20) in respect of its Non-bank Mainland China exposures.

	As at 31 December 2024		
	On-balance sheet exposure	Off-balance sheet exposure	Total
Type of counterparties	HKD'000	HKD'000	HKD'000
1. Central government, central government-owned entities and their subsidiaries and joint ventures	-	-	-
2. Local governments, local government-owned entities and their subsidiaries and joint ventures	152,135	-	152,135
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and joint ventures	334,783	-	334,783
4. Other entities of central government not reported in item 1 above	-	-	-
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	-	-	-
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	-	-	-
Total	486,918	-	486,918
Total assets after provision	8,046,540		
On-balance sheet exposures as percentage of total assets	6.05%		

mm. Assets under security

The Bank does not have any secured liabilities and assets used as security as at 31 December 2024.

1. PILLAR 3 DISCLOSURE (CONTINUED)

nn. Table REMA: Remuneration Policy

Disclosure of Remuneration Policy

The Board has established a Nomination and Remuneration Committee (the "NRC"). According to the Terms of Reference ("ToR") of the NRC, it works as a preparatory committee for the Board and prepares the Board with respect to remuneration issues and monitors compliance with the Remuneration Policy. The Board has delegated responsibility to the NRC to oversee the design and operation of the Bank's remuneration system. The Committee consists of three Independent Non-Executive Directors of the Bank (each an "INED") and one Non-Executive Director ("NED") appointed by the Board. As at 31 December 2024, there are four members in the NRC and three of them were Independent Non-Executive Directors. The NRC was chaired by Mr. Kenneth FOK Kai Kong, an Independent Non-Executive Director of the Bank. The other members were Charles CHAN Sheung-wai (INED), XIAO Sui-ning (INED) and PU Hai Tao (NED).

The NRC shall meet at least once every quarter, and shall present a report on its activities to the Board. In 2024, the NRC met four times.

The NRC is independent of management and the main responsibilities of the NRC include but not limited to:

a) consider remuneration matters for the Bank in the context of the Bank's remuneration policy and to provide advice to the Board on the remuneration policy and structure relevant to the Bank and, in particular, its Directors, senior management, key personnel based on the regulatory context as well as the financial and future prospects and market conditions;
b) review and propose for the Board's approval the specific remuneration packages (including but not limited to compensation plan with specific goal achievements and a breakdown of each remuneration package) of all Executive Directors, senior management and key personnel, including benefits in kind, pension rights and compensation payments, and in so doing, the Committee should ensure that remuneration for employees in risk management and compliance functions is determined independently of other business areas. The Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Executive Directors, senior management, employment conditions and desirability of performance-based remuneration. The Committee should also evaluate any practices by which remuneration is paid in respect of potential future revenues whose timing and likelihood remain uncertain;
c) review performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time, and consider the relevant issues, if any, and proposals relevant to the Bank so as to complete the annual pay review process of the Bank;
d) ensure that no Director or senior management or key personnel or any of his/her associates is involved in deciding his/her own remuneration;
e) review and propose for the Board's approval the compensation payable to Executive Directors, senior management and key personnel, in connection with any loss or termination of office or appointment, and compensation arrangements relating to dismissal or removal for misconduct, to ensure that such compensation or arrangements are consistent with contractual terms and that any such compensation is otherwise fair and not excessive, and any such arrangements are otherwise reasonable and appropriate;
f) review and approve any statement required by the Bank's regulators from the Committee on the Bank's remuneration policy;
g) review and endorse the content of the remuneration report (if any) in the annual report and accounts for submission to the Board as a whole;
h) ensure that a regular (at least annually) review of the Bank's remuneration system and its operation, either internally conducted or externally commissioned, is carried out independently of the senior management and the result is submitted to the relevant regulators. Such review should include an assessment of the extent to which the remuneration system is consistent with the guidance issued by the relevant regulators;
i) periodically review (at least annually), independently of the senior management, the adequacy and effectiveness of the Bank's remuneration policy and its implementation, to ensure that the operation of the remuneration system is consistent with the intended purposes and the Bank's long-term interests. The internal audit function of the Bank and other relevant committees of the Board (e.g. Risk Committee, and Audit Committee) should provide support to the Committee in the review process and report any material weaknesses which are identified;

1. PILLAR 3 DISCLOSURE (CONTINUED)

nn. Table REMA: Remuneration Policy (continued)

To emphasize the role of remuneration in governance and risk control at the Bank, establish and develop strategies, risk management, efficiency, corporate responsibility, and a scientific and reasonable remuneration system that aligns with corporate culture, promoting the Bank's stable operation and sustainable development, the Bank develops the Remuneration Policy which is based on the sound remuneration principles and practices applied by the Bank and in accordance with the MA's SPM, legal and regulatory requirements.

The Policy applies to all permanent employees of the Bank and its subsidiary outside Hong Kong, as well as secondees who are seconded from the Bank's shareholders. For avoidance of any doubt, contractual, interns and part time staff who are not identified as senior management and key personnel are not covered by this policy, their remuneration package will be decided by the Head of Human Resources and General Management Department, Department Head and Chief Executive.

The Bank defines senior management are those who are responsible for the Bank's strategy, business and people management at the bank level and those of specific roles in risk management based on regulatory requirements (including, but not limited to, Executive directors, Chief Executive, Alternate Chief Executive, Head of RMD, Chief Compliance Officer and Head of Internal Audit Department). Key personnel are those employees whose duties or activities in the course of their employment involving the assumption of material risk or the taking on of material exposures on behalf of the Bank, the list of senior management and key personnel has been presented in NRC.

General Principles

The Bank has set out management principals of the Policy as follows:

a) The Renumeration system must comply with laws and regulatory requirements and be adjusted promptly and effectively based on the latest legal and regulatory changes.

b) The compensation levels and standards should be established and aligned with market practices to attract, retain, motivate, and develop excellent talent. The renumeration system should balance the Bank's competitiveness and sustainable capabilities.

c) The internal grading system of the Bank is formed based on the Bank's business and management needs. The pay scale of the different job grade ensures the internal fairness of the renumeration system.

d) The renumeration system is supported by a corresponding risk control mechanism, through a deferral policy, to clarify the role and responsibilities of risk control personnel and other ways to promote effective risk management, such as the treatment of misconduct. The system ensures the Bank complies with laws and regulations in risk control requirements including credit, market, operational, liquidity, and reputational risks, and will not encourage excessive risk-taking by employees. Taking into account of short-term and long-term risks and returns, scale and quality, the renumeration of risk control personnel should be determined in accordance with their performance objectives and should be independent of business performance.

e) The renumeration system is linked with the performance of the company, team, and individuals to encourage teamwork and performance-driven initiatives.

1. PILLAR 3 DISCLOSURE (CONTINUED)

nn. Table REMA: Remuneration Policy (continued)

Remuneration Structure

The Bank's remuneration package comprises fixed remuneration and variable remuneration to motivate, reward and retain both high individual contribution and sound team performance. The proportion and amount of fixed and variable remuneration shall vary according to employees' seniority, roles and responsibilities within the Bank as well as the Bank's past year's performance, coming year's prospect and the risks associated.

Fixed remuneration refers to basic salary, the year-end double pay, and other fixed income while variable remuneration refers to discretionary bonus and sales incentives provided to relationship managers which are offered in cash. Some employees are offered variable remuneration in the form of shares by Tencent Holdings Limited ("Tencent Group"). The remuneration packages are determined by taking into consideration the evaluation of the job's responsibilities and contribution, the market pay levels for benchmark positions, and employee's performance.

Employees' Performance Measurements and the Award of Variable Remuneration

The Bank uses a comprehensive performance measurement framework that incorporate both financial and non-financial performance in determining the size and allocation of variable remuneration. The financial factors link the variable remuneration to the revenue, profits, costs, number of customers and other performance measures of the Bank as a whole, and the contribution of business units or departments and an individual employee to the Bank. The non-financial factors capture the performance on qualitative aspects such as the compliance with risk management policies, adherence to legal, regulatory and ethical standards. Given the importance in both financial achievements and non-financial factors, poor performance will result in reduction of or elimination to the variable remuneration. Adverse performance in non-financial factors will override outstanding financial achievement, and thus, the employee's performance can be assessed comprehensively.

The performance-based remuneration motivates employees to drive the right behavior and better performance at work. Expectations on the performance at the Bank, business unit and individual levels would be clearly set to ensure the effectiveness. Performance-based remuneration is awarded in a manner, which promotes sound risk management, include exposit risk adjustments and does not induce excessive risk-taking. Remuneration of risk and compliance employees are determined in accordance with their performance objectives, and should be independent of the performance of the business areas, which they oversee. In order to protect the Bank from avoiding some risks, which may need to take more than a year to be discovered, deferral and clawback mechanism would be applied for the Performance-based Remuneration to senior management, key personnel, Material Risk Taker and Risk Control Function.

Deferral Arrangements

When the amount of annual variable remuneration payout exceeds a predetermined amount, a determent period of 3 years will be imposed in order to align the incentive awards to be granted to an individual employee with the long-term value creation and the time horizons of risk.

Subject to the decision of the NRC in accordance with the remuneration guidelines, the deferred remuneration during the vesting period will be deducted, and/or the paid variable remuneration can be clawed back, while the unvested variable remuneration will not be paid when it is later established that the data on which the performance measurement for a particular year was based is subsequently proven to have been manifestly misstated, or it is later established that the employee concerned has committed fraud or other malfeasance, or violated any legislation, code or internal control policies of the Bank; or there has been a significant downward restatement of the financial performance of the Bank.

Specific position can formulate separate sales incentive scheme or deferral policy based on business needs, and relevant approvals should be implemented in accordance with the Bank's renumeration policy.

The award of variable remuneration to the senior management, key personnel and risk taking employees is subject to the aforesaid deferral mechanism. The variable remuneration of senior management and key personnel will be reviewed by the NRC at least annually, and subject to change when necessary.

1. PILLAR 3 DISCLOSURE (CONTINUED)

nn. Table REMA: Remuneration Policy (continued)

On-going Monitoring of the Remuneration System

The Board holds the ultimate responsibility for the Policy adoption and correct implementation. The NRC conducts review on the Policy and its implementation on an annual basis or when necessary to ensure that the Policy remains adequate and effective. Remuneration review is submitted to the Board of the Bank by the NRC for approval each year. The NRC of the Bank also works closely with the Audit Committee, Risk Committee and other dedicated committees and departments to review if there are any material non-compliance issues in relation to internal policy and statutory requirements and make adjustments to payments of remuneration whenever necessary, and decide upon the appraisal system which fairly measures the performance of each key personnel, and make changes to the system when necessary to meet the changing needs of the Bank. Regular compliance monitoring is imposed to review the management and operation of the remuneration system. Internal Audit would provide assistance in such review process, and the NRC would also engage external independent consultants to assist in the review if deemed necessary.

In 2024, an independent review of the Bank's remuneration policy and its implementation with reference to the MA's SPM CG-5 'Guideline on a Sound Remuneration System' is conducted by Internal Audit Department of the Bank and the results was reviewed by the NRC. The annual review of the remuneration system and the Remuneration Policy of the Bank was also conducted by the NRC in 2024.

1. PILLAR 3 DISCLOSURE (CONTINUED)

oo. Template REM1: Remuneration awarded during financial year

The table below provides the quantitative information on remuneration for the Bank's senior management and key personnel, split into fixed and variable remuneration. In 2024, senior management team was relatively stable. However, the management changes in 2023 led to some positions being recorded more than once for both predecessors and successors. As a result, the total number of senior management employees and fixed remuneration decreased compared to the previous year.

To expand the loan business, the Bank hired additional relationship managers in 2024, resulting in an increase in the number of key personnel. Their variable remuneration was paid and deferred based on business achievement according to the sales incentive scheme.

In 2024, several senior management members were granted listed shares by Tencent Group, resulting in an increase in variable remuneration compared to last year. The fair value of the shares was based on the fair value of the listed share of Tencent Group at the grant date. The shares are fully vested upon issuance and a portion of the shares will be deferred according to the Renumeration Policy of the Bank.

HKD'000

Remuneration amount and quantitative information			Senior management[4]	Key personnel[4]
1	Fixed remuneration	Number of employees	8	28
2		Total fixed remuneration	15,661	20,592
3		Of which: cash-based	15,661	20,592
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	8	28
10		Total variable remuneration	21,422	5,565
11		Of which: cash-based	925	5,565
12		Of which: deferred	-	527
13		Of which: shares or other share-linked instruments	20,497	-
14		Of which: deferred	11,421	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total remuneration**		**37,083**	**26,157**

[4] Included staff newly joined or left the Bank during the financial year.

1. PILLAR 3 DISCLOSURE (CONTINUED)

pp. Template REM2: Special payments

For the year ended 31 December 2024, no senior management had been paid guaranteed bonuses, awarded sign-on awards or severance payments. To attract experienced bank talent, one key personnel joined the Bank in 2024 who had been awarded sign-on awards, which shows in the table below.

HKD'000 Special payments		Guaranteed bonuses		Sign-on awards		Severance payments	
		Number of employee	Total amount	Number of employee	Total amount	Number of employee	Total amount
1	Senior management	-	-	-	-	-	-
2	Key personnel	-	-	1	18	-	-

qq. Template REM3: Deferred Remuneration

In 2024, several senior management members were granted listed shares by Tencent Group, resulting in an increase in the total amount of outstanding deferred remuneration compared to last year, please refer to REM1 for details. The table below shows the deferred and retained remuneration for senior management and key personnel for the year ended 31 December 2024:

HKD '000

Deferred and retained remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management	13,383	-	-	-	981
2	Cash	1,962	-	-	-	981
3	Shares	11,421	-	-	-	-
4	Cash-linked instruments	-	-	-	-	-
5	Other	-	-	-	-	-
6	Key personnel	527	-	-	-	-
7	Cash	527	-	-	-	-
8	Shares	-	-	-	-	-
9	Cash-linked instruments	-	-	-	-	-
10	Other	-	-	-	-	-
11	**Total**	**13,910**	**-**	**-**	**-**	**981**

1. PILLAR 3 DISCLOSURE (CONTINUED)

rr. Corporate Governance

Corporate Governance Practices

The Bank is committed to upholding high standards in its corporate governance practices. The MA has issued SPM on "Corporate Governance of Locally Incorporated Authorised Institutions" ("CG-1") under section 7(3) of the Banking Ordinance applicable to all locally incorporated Authorised Institutions. The Bank has in place an effective framework, which is consistent with the principles and best practices in corporate governance as set forth in the guidelines on CG-1.

Board of Directors

The Board of the Bank comprises of 6 members as at 31 December 2024, including three Independent Non-Executive Directors. All Directors have the appropriate experience, competence, personal and professional integrity to discharge their responsibilities effectively. The Directors have sufficient independence, expertise and experience to oversee the Bank's operations and manage risks appropriately. According to the MA's SPM on CG-1, the Board should review the structure, size and composition (including the skills, knowledge and experience) of the Board and its specialized committees at least annually and make recommendations on any proposed changes to the Board to complement the Bank's corporate strategy. The Bank has been in material compliance with the MA's SPM on CG-1.

MR. PU, Hai Tao
Chairman and Non-Executive Director
Member of: Audit Committee, Nomination and Remuneration Committee, Risk Committee

<u>Qualifications and Profile</u>
Mr. Pu is currently the Joint General Counsel of Tencent Group and is responsible for all round legal risk management for Tencent Group's investment, corporate, financial and Fintech businesses. Mr. Pu possesses rich experience in legal and compliance management in PRC and international Fintech sectors, including digital bank, insurance, wealth management and cross-border payment businesses.

Mr. Pu is the Chairperson of the Board of Directors of China Literature Limited (a HK listed company) and a Director of Huya Inc. (a US listed company). He also serves as a director in various Tencent Group entities, including Tenpay Payment Technology Co., Ltd. (a third-party payment service provider in the PRC).

From July 2018 to July 2023, Mr. Pu served as a member of the Listing Committee of the Stock Exchange of Hong Kong Limited, and a member of First ChiNext Board Listing Committee of Shenzhen Stock Exchange.

Before joining Tencent Group, Mr. Pu had worked as a corporate and mergers and acquisitions lawyer in international law firms. Mr. Pu holds a Juris Doctor from the University of Melbourne and was admitted as a solicitor and barrister in the courts of Australia. He is a full member of CPA Australia.

MR. SHU Jared
Executive Director and Chief Executive

<u>Qualifications and Profile</u>
Mr. Shu brings with him extensive working experience in the financial services industry. Prior to joining Fusion Bank, Mr. Shu held senior management positions at global consulting firm McKinsey and China's first digital bank WeBank, where he demonstrated exceptional leadership skills and strategic mindset. During his tenure at McKinsey, Mr. Shu provided comprehensive consulting services to CEOs of large domestic and multinational banks, covering a wide range of areas including strategy formulation, transformation, M&A, and restructuring. While at WeBank, Mr. Shu played an instrumental role in formulating the bank's strategic vision and development roadmap. He successfully led multiple teams to achieve outstanding results, which included launching innovative businesses.

1. PILLAR 3 DISCLOSURE (CONTINUED)

rr. Corporate Governance (continued)

Board of Directors (continued)

MS. TANG Ling
Non-Executive Director
Member of: Audit Committee, Risk Committee

Qualifications and Profile
Ms. Tang is a Vice General Manager in Strategy Development Department of Tencent Group. Ms. Tang joined Tencent Group since March 14, 2014, and is responsible for the strategies of fintech landscape, across payment, wealth management, insurance, and credit businesses. Also, she helps evaluate other initiatives related to internet finance.

Before joining Tencent Group, Ms. Tang worked for BNP Paribas as research analyst on Taiwan financials and China insurance sectors. Prior to that, Ms. Tang was an engagement manager in McKinsey consulting, serving financial institutions in Greater China area.

Ms. Tang graduated from Indiana University with a Master of Business Administration degree and National Taiwan University with Bachelor degree in accounting.

MR. CHAN Sheung Wai Charles
Independent Non-Executive Director
Member of: Audit Committee (Chairman), Nomination and Remuneration Committee, Risk Committee

Qualifications and Profile
Mr. Chan has more than 40 years of experience in corporate finance, financial regulations and risk management. Mr. Chan started his career as an auditor at the Canadian office of Arthur Andersen in 1977 and was promoted to partnership in 1988. He subsequently joined the China & Hong Kong office of Arthur Andersen as an audit partner in 1994. From July 2002 to June 2012, Mr. Chan was a partner of the China & Hong Kong office of PricewaterhouseCoopers. Mr. Chan served as a member of the Listing Committee of the Hong Kong Stock Exchange from 1998 to 2001 and also as a member of the Election Committee for the first Legislative Council of Hong Kong in 1998. From 1996 to 1999, Mr. Chan was a council member of the Hong Kong Institute of Certified Public Accountants. He also served as a member of the Accounting Standards Committee, Auditing Standards Committee and the chairman of the China Technical Committee of the Hong Kong Institute of Certified Public Accountants.

Mr. Chan is currently an independent non-executive director of the following companies which are all listed on the Hong Kong Stock Exchange, namely Hansoh Pharmaceutical Group Company Limited (HKSE: 3692), Maoyan Entertainment (HKSE: 1896) and Sun Art Retail Group Limited (HKSE: 6808), and he is currently an independent non-executive director of the following company which is listed on the Shenzhen Stock Exchange, namely S.F. Holding Co., Ltd. (SZSE: 002352). From September 2013 to April 2020, he served as an independent director of Changyou.com Ltd, a company listed on the NASDAQ (NASDAQ: CYOU). From May 2016 to May 2019 and from July 2012 to October 2022, he served as an independent non-executive director of CITIC Securities Company Limited (HKSE: 6030), a company listed on the Hong Kong Stock Exchange and SRE Group Limited (HKSE: 1207), a company listed on the Hong Kong Stock Exchange respectively.

1. PILLAR 3 DISCLOSURE (CONTINUED)

rr. Corporate Governance (continued)

Board of Directors (continued)

The Hon. Kenneth Kai Kong Fok, JP
Independent Non-Executive Director
Member of: Audit Committee, Nomination and Remuneration Committee (Chairman), Risk Committee

Qualifications and Profile
The Hon. Kenneth Kai Kong Fok, JP joined the family business as Vice President of the Fok Ying Tung Group in 2003. He is responsible for overseeing various investments including real estate, education, hotels and leisure developments in both Hong Kong and the Mainland, especially in the Nansha free trade zone of Guangdong province.

Mr. Fok was appointed as a member of the 13th National Committee of the Chinese People’s Political Consultative Conference in 2018. He was then elected as a member of the Legislative Council of the HKSAR representing the functional constituency of sports, performing arts, culture and publication sectors in 2021 and a deputy to National People's Congress in 2022.

Mr. Fok is passionate about sports development, and he joined the Sports Federation & Olympics Committee of Hong Kong, China in 2009. He is currently serving as the bodies’ Vice President, working on initiatives to engage youth through sports and support athletes’ development. Mr. Fok has been the President of the Asian Electronic Sports Federation since 2017, who believes in the power of technology in shaping future sports development. He led the Federation to organize the e-sports demonstration event in the 2018 Jakarta – Palembang Asian Games; and successfully promoted e-sports as the first ever historical medal event in 2022 Hangzhou Asian Games.

Mr. Fok is also active in public service activities in Hong Kong. He is appointed as a member of Culture Commission of the Culture, Sports and Tourism Bureau, HKSAR, the Chairman of Hong Kong Art Development Council and a board director of the West Kowloon District Authority. Mr. Fok is also the President of the Federation of District Sports Association of Hong Kong.

He has also been appointed as the Vice Chairman of the national organization, All China Youth Federation, and a member of the China Federation of Literary and Art Circles.

Mr. Fok graduated from Oxford University with a Bachelor Degree in Economics and Management.

MR. XIAO Suining
Independent Non-Executive Director
Member of: Audit Committee, Nomination and Remuneration Committee, Risk Committee (Chairman),

Qualifications and Profile
Mr. Xiao was graduated from Yunnan Finance and Management College, majoring in enterprise management. He is familiar with financial industry with 20+ years of experience in commercial banking and 12 years in public listed companies. He is also a pioneer in bringing foreign capital into the domestic banking sector.

From 2013 to Present, he is the partner of PAG Asia Capital, China region. Mr. Xiao is also a director of Zhuhai Huajin Capital Co.,Ltd（SZSE:000532）.

1. PILLAR 3 DISCLOSURE (CONTINUED)

rr. Corporate Governance (continued)

Recruitment and Selection of Members of the Board

The Bank uses a formal, considered and transparent procedure for the appointment of new directors. The proposed appointment will first be reviewed by the Nomination and Remuneration Committee ("NRC"), taking into account the balance of skills, knowledge and experience on the Board. Upon recommendation of the NRC, the proposed appointment will then be reviewed and, if thought fit, approved by the Board after due deliberation.

The Board or NRC will satisfy itself that a candidate nominated for appointment as director is a fit and proper person for appointment, taking into account the following features and attributes of the candidate:

- age
- education background and professional qualification
- experience, especially working and commercial experience
- capability
- professional and/ or business management skills
- track record
- independence of mind (particularly in the case of INEDs)
- any financial or other interest in the business of the Bank
- other directorships

Candidates as proposed Board members should not have any conflict of interest that may impede their ability to perform their duties independently and objectively or subject them to undue influence from:

- personal, professional or other economic relationships with other members of the Board or management (or with other entities within the group)
- other persons including shareholders
- relationship arising from or connected to past or present positions held

In accordance with the requirement under the Banking Ordinance, approval from the MA will need to be sought prior to the appointment of any person as a Director of the Bank.

1. PILLAR 3 DISCLOSURE (CONTINUED)

rr. Corporate Governance (continued)

Board Evaluation

In order to comply with the MA's SPM on CG-1 and the circular issued by the MA dated 15 December 2021 in relation to the assessment of the Directors' outside mandates and potential conflicts of interest, the Board conducted such assessment for the year ended 31 December 2023 in the year 2024. A questionnaire was also sent to the Board at the same time to collate the Directors' views on Board composition, bank culture, quality of information provided to the Board, risk management and effectiveness of Board committees. The Board subsequently conducted assessment of the Directors' outside mandates and potential conflicts of interest, and reviewed the board evaluation results for the year ended 31 December 2023. The same for the year ended 31 December 2024 will be conducted in the year 2025.

Based on such evaluation and assessment conducted, the Board is satisfied with the evaluation results and that the Directors are able to commit sufficient time to fulfil their responsibilities.

Board Practices

Board meetings are held at least four times a year, with one in each quarter. Notice of each Board meeting is given to all Directors in advance and the agenda is sent to the Directors before the date of each Board meeting. Minutes of each Board meeting are circulated to all Directors for their comments prior to confirmation of the minutes at the following Board meeting. Minutes of Board meetings are kept by the Company Secretary and are available for inspection by the Directors.

There are three Board committees: (a) Audit Committee, (b) Nomination and Remuneration Committee and (c) Risk Committee.

Key Board Committees

(a) Audit Committee

Five Board members sit on the Audit committee including three Independent Non-Executive Directors and two Non-Executive Director. The Audit Committee is chaired by an Independent Non-Executive Director and meets at least four times a year. The Audit Committee's mandate is to ensure effective oversight of the Bank's financial reporting processes, systems of internal controls and internal audit function. The Audit Committee also reviews and endorses the recommendation on the appointment or re-appointment of external auditors and reviews the financial statements before recommending approval by the Board.

(b) Nomination and Remuneration Committee

The Nomination and Remuneration Committee ("NRC") consists of three Independent Non-Executive Directors and one Non-Executive Director. The NRC is chaired by an Independent Non-Executive Director and meets at least four times a year. The NRC's responsibility is to assist the Board with respect to remuneration issues and monitors compliance with the Remuneration Policy. The NRC also reviews whether the Bank's remuneration policy complies with all relevant legal or regulatory requirements and is appropriate and consistent with the Bank's culture, long-term business and risk appetite, performance and control environment. The Board has delegated to the NRC the responsibility to oversee the design and operation of the Bank's remuneration system.

(c) Risk Committee

The Risk Committee consists of five Board members, including three Independent Non-Executive Directors and two Non-Executive Directors. The Risk Committee meets at least four times a year and is chaired by an Independent Non-Executive Director. The Risk Committee oversees key financial and non-financial risk related matters and risk governance and recommends to the Board the Bank's risk appetite statements for Board's approval. It also reviews annually the Bank's risk management strategy and policy, and reviews and ensures that the Bank has appropriate manpower resources, infrastructure and other resources and systems to identify, assess, monitor, and manage risks.

1. PILLAR 3 DISCLOSURE (CONTINUED)

rr. Corporate Governance (continued)

Key Management Committees

(a) Executive Committee

The Executive Committee ("EXCO") is chaired by the Chief Executive of the Bank and meets at least every three months. The EXCO oversees the operations of the Bank and provides a regular forum for the department heads of the Bank to identify and discuss key issues and actions that need to be taken to fulfill the Bank's strategy.

(b) Risk Management Committee

The Risk Management Committee ("RMC") is a formal governance committee established to provide recommendations and advice to the Head of RMD, the Chair of the Committee, on enterprise-wide management of all risks, including key policies and frameworks for the risk management. It serves as a governance body authorized by the EXCO for an enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank's strategic objectives. It assesses how risks are controlled and monitored in the Bank and provide clear, explicit and dedicated focus to current and forward looking aspect of risk. Additionally, the RMC is accountable to the Risk Committee ("RC") and will provide reports to RC through the Head of RMD and other members of the risk management functions as determined by the Head of RMD. An effective Risk Management Committee should oversight and manage enterprise-wide risks efficiently so as to ensure that the Bank would continue to operate within a strong and robust risk culture.

(c) Product Approval Committee

The Product Approval Committee ("PC") of the Bank is a formal governance committee to establish, implement, and review effective business initiatives, product oversight and governance arrangement. It ascertains introduction of new products are analyzed carefully to identify risks and the appropriate policies, procedures, systems, and controls are in place prior to embarking on the new initiative, and ensure existing products are effectively monitored through post implementation review and annual review requirements stipulated in the new business initiative and product approval policy. The members of the Committee comprise of representatives from various key departments of the Bank, including Corporate Banking, Consumer Lending, Retail Banking, Risk Management, Legal and Compliance, Finance and Treasury, Information Technology Development, Customer Service and Operations, who shall have relevant technical expertise and experience in risk disciplines that are adequate to enable them to discharge their responsibilities effectively. The Chairman of the Committee is the Head of RMD. An effective Product Approval Committee should oversight and manage product risks efficiently so as to ensure that customer would be fairly treated, which is central to the Bank's corporate culture.

(d) Information Technology Committee

The Information Technology Committee ("IT Committee") is chaired by the Chief Technology Officer of the Bank and meets bi-monthly. The IT Committee reviews and, where appropriate, approves the Bank's technology strategy and oversee its implementation. In its oversight of the implementation of the Bank's technology strategy, including major programs, the IT Committee may exercise such powers or authorities as the EXCO may confer on the IT Committee from time to time.

1. PILLAR 3 DISCLOSURE (CONTINUED)

rr. Corporate Governance (continued)

(e) Compliance and Financial Crime Compliance Committee

The Compliance and Financial Crime Compliance Committee ("CFCCC") is a formal governance committee to provide oversight on matters in relation to compliance and financial crime compliance of the Bank. Chaired by the Chief Compliance Officer, CFCCC aims at assuring that the Bank follows prevailing statutory and regulatory requirements, applicable guidelines and code of practice of applicable regulators; overseeing legal, regulatory and compliance matters of the Bank's businesses and operations; developing, enhancing and maintaining the Bank's compliance culture and raising the compliance awareness of the Bank's staff. CFCCC reports to the EXCO and the Risk Committee of the Board.

(f) Asset and Liability Committee

The Asset and Liability Committee ("ALCO") is chaired by the Chief Financial Officer ("CFO") of the Bank and meets at least monthly. ALCO serves as a governance body authorized by the EXCO to provide recommendations and advice for the efficient management of the Bank's assets, liabilities and capital within the constraints of liquidity and funding ratios, capital ratios, and key balance sheet risks such as interest rate risk, market risk and equity risk. In addition, ALCO manages and monitors the structure of the Bank's assets and liabilities to create a stable and flexible balance sheet for the implementation of Bank's business strategy. The Committee consists of Chief Executive, CFO, Head of Corporate Banking Department, Head of Consumer Lending Department, Head of Retail Banking Department, Head of Legal and Compliance Department, Head of RMD, Director of Global Market Section, Director of Financial Accounting and Reporting Section, Director of Treasury Management Section, Director of Asset-Liability Management Section.

Internal Audit

The IAD reports to the Audit Committee and is independent of the Business Units and Support and Control Functions and Risk Management. IAD provides an independent assessment of the design, implementation and operating effectiveness of the Bank's control environment and risk management processes using a risk- based audit coverage model and audit execution methodology developed from professional auditing standards. Internal Audit also reviews and tests the Bank's compliance with internal guidelines set for risk management and risk monitoring, as well as external rules and regulations governing the industry. It effects these responsibilities through risk-based periodic reviews of the Bank's processes, activities, products or information systems; targeted reviews of specific controls and activities; pre-implementation or initiative reviews of new or significantly changed processes, activities, products or information systems; and special investigations required as a result of internal factors or regulatory requests. Internal Audit conducts independent closure verification of significant Internal Audit and regulatory issues.

Compliance

The Bank is committed to maintaining and upholding high standards of corporate governance. The Bank has been in compliance with the MA's SPM on CG-1 as well as other relevant regulatory guidance.

Disclosure policy

The Bank has in place the disclosure policy, which is reviewed and approved by the Board of the Bank. It sets out (a) the process and approach in determining the content, appropriateness, frequency, relevance and adequacy of the information disclosed, and (b) governance and oversight of the Bank's disclosures for verifying or reviewing the accuracy of the information disclosed.

Glossary

Abbreviations	Descriptions
AI	Authorized Institution
AT1	Additional Tier 1
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BI	Basic Indicator
BSC	Basic
CAR	Capital Adequacy Ratio
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CIS	Collective Investment Scheme
CRM	Credit Risk Mitigation
CUSIP	Committee on Uniform Securities Identification Procedures
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Banks
DTA	Deferred Tax Asset
ECL	Expected Credit Loss
EL	Expected Loss
EVE	Economic Value of Equity
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
ISIN	International Securities Identification Number
JCCyB	Jurisdiction Countercyclical Buffer
LAC	Loss-absorbing Capability
LMR	Liquidity Maintenance Ratio
LR	Leverage Ratio
LTA	Look-through Approach
MBA	Mandate-Based Approach
MSR	Mortgage Servicing Right
NII	Net Interest Income
OBS	Off-balance Sheet
PFE	Potential Future Exposure

Glossary (continued)

Abbreviations	Descriptions
PRC	People's Republic of China
PSE	Public Sector Entity
RMB	Chinese Renminbi
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)
T1	Tier 1 Capital
T2	Tier 2 Capital
TC	Total Regulatory Capital
the Bank	Fusion Bank Limited
the MA	Hong Kong Monetary Authority
USD	United States Dollar
VaR	Value-at-Risk