



PAO BANK LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2025

PAO Bank Limited

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www.paob.com.hk

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PAO BANK LIMITED

REPORT OF THE DIRECTORS

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2025.

Principal place of business

PAO Bank Limited (the “**Bank**”) is a bank incorporated and domiciled in Hong Kong. The Bank has its registered office and principal place of business at Room 1903-1904, NEO, 123 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

Principal activities

The Bank is a licensed bank registered under the Hong Kong Banking Ordinance (Cap. 155) and its principal activity is to provide banking services through electronic channels instead of physical branches. The Bank is regulated by the Hong Kong Monetary Authority (“**HKMA**”) and needs to comply with the Guideline on Authorization of Digital Banks as well as other supervisory policies, regulations and guidelines issued by the HKMA covering such areas as corporate governance, risk management, anti-money laundering & financing of terrorism, etc. The Bank officially commenced its business to the general public in Hong Kong on 29 September 2020 and is currently providing digital banking services to selected small and medium enterprises, individual customers and other selected corporation entities in Hong Kong.

Change of ultimate holding company

On 2 April 2024, upon completion of the acquisition of the entire issued share capital of Jin Yi Tong Limited (which indirectly holds 100% of the issued share capital of the Bank) by Lufax Holding Ltd (“**Lufax**”) from OneConnect Financial Technology Co., Ltd. (“**OCFT**”), the Bank was wholly-owned by Lufax as the ultimate holding company. On 30 July 2024, Lufax allotted new shares to two wholly-owned subsidiaries of Ping An Insurance (Group) Company of China, Ltd (“**Ping An Group**”). Following the allotment, both Lufax and the Bank were indirectly non-wholly owned by Ping An Group. With effect from 31 July 2024, Ping An Group is the ultimate holding company of the Bank.

Business review

No business review is presented for the year as the Bank has been able to claim an exemption under section 388(3) of the Hong Kong Companies Ordinance (Cap. 622) since it is a wholly-owned subsidiary of Jin Yi Rong Limited (“**Jin Yi Rong**”), a company incorporated in Hong Kong.

Results and appropriations

The results of the Bank for the year ended 31 December 2025 are set out in the statement of comprehensive income on page 7.

The directors do not recommend any payment of dividend in respect of the year ended 31 December 2025 (2024: Nil).

Share capital

Details of share capital of the Bank are set out in Note 23 to the financial statements.

PAO BANK LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Directors

The directors of the Bank during the year and up to the date of this report are:

Non-Executive Directors

LAU James Henry Jr. (Chairman)

LIU Xinyan

(appointed on 12 May 2025)

ZHU Peiqing (Vice Chairman)

(appointed on 3 January 2025 and
resigned on 12 May 2025)

Executive Directors

IU Man Chung (Chief Executive)

(appointed on 28 May 2025)

WANG Meizhou (Alternative Chief Executive)

(appointed on 7 February 2025)

LUI Yuk Lan (Alternative Chief Executive)

(resigned on 16 May 2025)

Independent Non-Executive Directors

IP Koon Wing Ernest

YEUNG Tak Bun

SHEK Lai Him Abraham

SONG Max

Share options granted to directors and selected employees

Details of the share options granted by OCFT and Lufax to the Bank's directors and selected employees are set out in Note 26 of the financial statements.

Directors' interest in shares

Pursuant to the share option scheme of OCFT and Lufax, certain directors of the Bank have been granted options to purchase ordinary shares. During the year, WANG MEIZHOU held options under these schemes.

Save as disclosed above, at no time during the year was the Bank, any of its holding companies, subsidiaries or fellow subsidiaries, a party to any arrangement to enable the Bank's directors to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Directors' interests in transactions, arrangements or contracts

No transaction, arrangement or contract (that is significant in relation to the Bank's business), to which the Bank was a party and in which a director of the Bank had, directly or indirectly, a material interest, subsisted for the year.

Management contracts

No contracts concerning the management or administration of the whole or any substantial part of the business of the Bank were entered into or subsisted for the year.

PAO BANK LIMITED

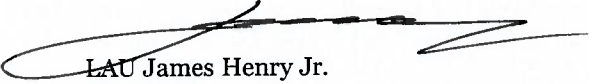
REPORT OF THE DIRECTORS (CONTINUED)

Auditor

The shareholder resolution in lieu of the 2025 annual general meeting (“AGM”) of the Bank in relation to the new appointment of Ernst & Young as the Bank’s auditors was approved on 20 June 2025.

The financial statements of the Bank for the year ended 31 December 2025 have been audited by Ernst & Young who was appointed and, being eligible, offer themselves for re-appointment. A shareholder resolution in lieu of the 2026 AGM will be proposed for approval to re-appoint Ernst & Young as the Bank’s auditors.

On behalf of the Board



LAU James Henry Jr.
Chairman

Hong Kong, 23 March 2026



Ernst & Young
27/F, One Taikoo Place
979 King's Road
Quarry Bay, Hong Kong

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INDEPENDENT AUDITOR'S REPORT

To the member of PAO Bank Limited

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the financial statements of PAO Bank Limited (the "Bank") set out on pages 7 to 60, which comprise the statement of financial position as at 31 December 2025, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2025, and of its financial performance and its cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") as issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (continued)

To the member of PAO Bank Limited

(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with HKFRS Accounting Standards as issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

To the member of PAO Bank Limited

(Incorporated in Hong Kong with limited liability)

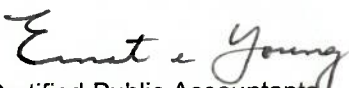
Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor report is Tso Pui Sze (practicing certificate number: P04721).


Certified Public Accountants
Hong Kong
23 March 2026

PAO BANK LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Notes	2025 HK\$'000	2024 HK\$'000
Interest income	5(a)	414,376	266,296
Interest expense	5(b)	(191,675)	(128,568)
Net interest income		222,701	137,728
Fees and commission income	6	990	196
Other income	7	861	14
Net operating income		224,552	137,938
Staff costs	8	(156,101)	(136,897)
Premises and equipment expenses	8	(7,163)	(5,218)
Other operating expenses	8	(197,995)	(252,175)
Total operating expenses	8	(361,259)	(394,290)
Loss before expected credit losses		(136,707)	(256,352)
Charge for expected credit losses	9	(137,700)	(82,308)
Loss before income tax		(274,407)	(338,660)
Income tax expenses	10	–	–
Loss after income tax		(274,407)	(338,660)
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Changes in the fair value of financial assets at fair value through other comprehensive income (“FVOCI”)		8,453	(1,795)
Reclassification adjustments for expected credit losses included in profit or loss		275	21,741
Reclassification adjustments for cumulative gain or loss previously recognized in other comprehensive income		–	(17,556)
Written off of financial assets at FVOCI		–	(10,290)
Other comprehensive income, net of tax		8,728	(7,900)
Total comprehensive income		(265,679)	(346,560)

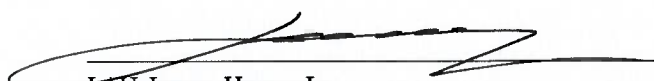
The notes on pages 11 to 60 form part of these financial statements.

PAO BANK LIMITED

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2025**

	Notes	2025 HK\$'000	2024 HK\$'000
Assets			
Balances with banks, central bank and other financial institutions	12	1,083,711	286,858
Placements with banks	13	801,683	544,817
Investment securities	14	6,844,655	1,248,429
Loans and advances to customers	15	3,607,831	3,139,135
Amounts due from related companies	25	775	755
Other assets	19	8,508	11,196
Property, plant and equipment	16	3,886	2,745
Intangible assets	17	25,222	33,751
Right-of-use assets	18	8,260	6,845
Total assets		<u>12,384,531</u>	<u>5,274,531</u>
Liabilities			
Deposits from customers	20	10,470,442	4,350,961
Other payables and accruals	21	468,525	56,033
Repurchase agreements at amortized cost	22	150,000	–
Amounts due to related companies	25	30,098	34,740
Lease liabilities	18	8,783	10,445
Total liabilities		<u>11,127,848</u>	<u>4,452,179</u>
Equity			
Share capital	23(b)	2,700,000	2,000,000
Accumulated losses		(1,460,928)	(1,186,521)
Other reserves		17,611	8,873
Total equity		<u>1,256,683</u>	<u>822,352</u>
Total liabilities and equity		<u>12,384,531</u>	<u>5,274,531</u>

The financial statements were approved by the Board of Directors on 23 March 2026 and were signed on its behalf


LAU James Henry Jr.
Chairman and Non-Executive Director


IU Man CHUNG
Chief Executive and Executive Director

The notes on pages 11 to 60 form part of these financial statements.

PAO BANK LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2025**

			Other reserves			
	Notes	Share capital HK\$'000	Accumulated loss HK\$'000	FVOCI reserve HK\$'000	Share-based compensation reserve (Note a) HK\$'000	Total HK\$'000
At 1 January 2024		1,500,000	(847,861)	6,494	9,370	668,003
Change in equity for the year:						
Loss for the year		-	(338,660)	-	-	(338,660)
Other comprehensive income, net of tax		-	-	(7,900)	-	(7,900)
Total comprehensive income		-	(338,660)	(7,900)	-	(346,560)
Capital contributions from immediate holding company		500,000	-	-	-	500,000
Share-based compensation	26(b)	-	-	-	909	909
At 31 December 2024 and 1 January 2025		2,000,000	(1,186,521)	(1,406)	10,279	822,352
Change in equity for the year:						
Loss for the year		-	(274,407)	-	-	(274,407)
Other comprehensive income, net of tax		-	-	8,728	-	8,728
Total comprehensive income		-	(274,407)	8,728	-	(265,679)
Capital contributions from immediate holding company	23(b)	700,000	-	-	-	700,000
Share-based compensation	26(b)	-	-	-	10	10
At 31 December 2025		<u>2,700,000</u>	<u>(1,460,928)</u>	<u>7,322</u>	<u>10,289</u>	<u>1,256,683</u>

Note a: The share-based compensation reserve is to record the corresponding amount of shares and share options granted by OCFT, former ultimately holding company, and Lufax, the intermediate holding company, to the Bank's employees.

The notes on pages 11 to 60 form part of these financial statements.

PAO BANK LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2025**

	Notes	2025 HK\$'000	2024 HK\$'000
Cash flows from operating activities			
Loss before taxation		(274,407)	(338,660)
Adjustment for:			
Charge for expected credit losses	9	137,700	82,308
Depreciation and amortization	8	15,975	46,325
Loss on disposal of intangible assets	8	1,945	64,814
Share-based compensation	8	10	909
Interest income	5(a)	(414,376)	(266,296)
Interest expense	5(b)	191,675	128,568
Foreign exchange difference		18,993	4,623
Cash flows before changes in operating activities		(322,485)	(277,409)
Changes in repurchase agreements at amortized cost		150,000	(60,000)
Changes in placements with banks with original maturity over three months		(392,293)	303,746
Changes in loans and advances to customers		(612,099)	(1,120,633)
Changes in amounts due from related companies		(19)	153
Changes in other assets		(728)	6,634
Changes in deposits from customers		6,086,468	1,844,884
Changes in amounts due to related companies		(6,016)	799
Changes in other payables and accruals		(5,690)	20,595
Cash generated from operating activities		4,897,138	718,769
Interest received		356,964	255,244
Interest paid		(154,628)	(115,981)
Net cash generated from operating activities		5,099,474	858,032
Cash flows from investing activities			
Purchase of property, plant and equipment	16	(2,672)	(2,057)
Addition of intangible assets	17	(1,771)	(16,363)
Purchases of investment securities at FVOCI		(13,121,566)	(7,375,742)
Proceeds from redemption of investment securities at FVOCI		7,989,817	6,484,022
Net cash used in investing activities		(5,136,192)	(910,140)
Cash flows from financing activities			
Proceeds from capital contribution	23(b)	700,000	500,000
Payment of lease liabilities	27(b)	(7,032)	(5,200)
Net cash generated from financing activities		692,968	494,800
Net increase in cash and cash equivalents		656,250	442,692
Cash and cash equivalents at beginning of the year		698,594	256,391
Effect of foreign exchange differences		1,263	(489)
Cash and cash equivalents at end of the year	27(a)	1,356,107	698,594

The notes on pages 11 to 60 form part of these financial statements.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

PAO Bank Limited (the “**Bank**”) is a licensed bank authorized under the Hong Kong Banking Ordinance since 9 May 2019. The Bank has launched its digital banking services since 2020.

The Bank’s registered office and principal place of business is Room 1903-1904, NEO, 123 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong.

The immediate holding company of the Bank is Jin Yi Rong Limited, a company incorporated in Hong Kong. The intermediate holding company of the Bank is Lufax, a company incorporated in the Cayman Islands. The ultimate holding company of the Bank is Ping An Group, which was registered in Shenzhen, the People’s Republic of China. Both Lufax and the Bank were indirectly non-wholly owned by Ping An Group.

2. Accounting Policies

2.1. Basis of preparation of the financial statements

These financial statements have been prepared in accordance with HKFRS Accounting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations as issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the requirements of the Hong Kong Companies Ordinance (Cap. 622). The financial statements are presented in thousands of units of Hong Kong Dollars (HK\$’000), unless otherwise stated, which is the Bank’s functional and presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost convention, except for investment securities which have been measured at fair value.

The Bank has prepared these financial statements on the basis that it will continue to operate as a going concern.

The preparation of the financial statements in conformity with HKFRS Accounting Standards requires management to make certain judgements, estimates and assumptions that affect the application of policies. It also requires management to exercise its judgement in the process of applying the Bank’s accounting policies. The areas involving higher degree of judgement or complexity are disclosed in Note 4.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

2.2. Changes in accounting policies and disclosures

The Bank has adopted amendments to HKAS 21 *Lack of Exchangeability* for the first time for the current year's financial statements. The Bank has not early adopted any other standards or amendments that has been issued but is not yet effective.

Amendments to HKAS 21 specify how an entity shall assess whether a currency is exchangeable into another currency and how it shall estimate a spot exchange rate at a measurement date when exchangeability is lacking. The amendments did not have any impact on the Bank's financial statements.

2.3. Issued but not yet effective HKFRS Accounting Standards

The Bank has not applied the following new and amended HKFRS Accounting Standards, that have been issued but are not yet effective, in these financial statements. The Bank intends to apply these new and amended HKFRS Accounting Standards, if applicable, when they become effective.

HKFRS 18	<i>Presentation and Disclosure in Financial Statements</i> ²
Amendments to HKFRS 9 and HKFRS 7	<i>Amendments to the Classification and Measurement of Financial Instruments</i> ¹
Amendments to HKAS 21	<i>Translation to a Hyperinflationary Presentation Currency</i> ²
<i>Annual Improvements to HKFRS Accounting Standards – Volume 11</i>	Amendments to HKFRS 1, HKFRS 7, HKFRS 9, HKFRS 10 and HKFRS 7 ¹

¹ Effective for annual periods beginning on or after 1 January 2026

² Effective for annual/reporting periods beginning on or after 1 January 2027

Further information about those HKFRS Accounting Standards that are expected to be applicable to the Bank is described below.

HKFRS 18 replaces HKAS 1 *Presentation of Financial Statements*. While a number of sections have been brought forward from HKAS 1 with limited changes, HKFRS 18 introduces new requirements for presentation within the statement of comprehensive income, including specified totals and subtotals. In addition, there are minor consequential amendments to other HKFRS Accounting Standards. HKFRS 18 and the consequential amendments to other HKFRS Accounting Standards are effective for annual periods beginning on or after 1 January 2027 with earlier application permitted. Retrospective application is required. The Bank is currently analyzing the new requirements and assessing the impact of HKFRS 18 on the presentation and disclosure of the Bank's financial statements.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting Policies (continued)

2.3. Issued but not yet effective HKFRS Accounting Standards (continued)

Amendments to HKFRS 9 and HKFRS 7 *Amendments to the Classification and Measurement of Financial Instruments* clarify the date on which a financial asset or financial liability is derecognized and introduce an accounting policy option to derecognize a financial liability that is settled through an electronic payment system before the settlement date if specified criteria are met. The amendments clarify how to assess the contractual cash flow characteristics of financial assets with environmental, social and governance and other similar contingent features. Moreover, the amendments clarify the requirements for classifying financial assets with non-recourse features and contractually linked instruments. The amendments also include additional disclosures for investments in equity instruments designed at FVOCI and financial instruments with contingent features. The amendments shall be applied retrospectively with an adjustment to opening accumulated loss (or other component of equity) at the initial application date. Prior periods are not required to be restated and can only be restated without the use of hindsight. Earlier application of either all the amendments at the same time or only the amendments related to the classification of financial assets is permitted. The amendments are not expected to have any significant impact on the Bank's financial statements.

Annual Improvements to HKFRS Accounting Standards – Volume 11 set out amendments to HKFRS 1, HKFRS 7 (and the accompanying Guidance on implementing HKFRS 7), HKFRS 9, HKFRS 10 and HKAS 7. Details of the amendments that are expected to be applicable to the Bank are as follows:

- **HKFRS 7 *Financial Instruments: Disclosures*:** The amendments have updated certain wording in paragraph B38 of HKFRS 7 and paragraphs IG1, IG14 and IG20B of the *Guidance on implementing HKFRS 7* for the purpose of simplification or achieving consistency with other paragraphs in the standard and/or with the concepts and terminology used in other standards. In addition, the amendments clarify that the *Guidance on implementing HKFRS 7* does not necessarily illustrate all the requirements in the referenced paragraphs of HKFRS 7 nor does it create additional requirements. Earlier application is permitted. The amendments are not expected to have any significant on the Bank's financial statements.
- **HKFRS 9 *Financial Instruments*:** The amendments clarify that when a lessee has determined that a lease liability has been extinguished in accordance with HKFRS 9, the lessee is required to apply paragraph 3.3.3 of HKFRS 9 and recognize any resulting gain or loss in profit or loss. However, the amendments do not address how a lessee distinguishes between a lease modification as defined in HKFRS 16 and an extinguishment of a lease liability in accordance with HKFRS 9. In addition, the amendments have updated certain wording in paragraph 5.1.3 of HKFRS 9 and Appendix of HKFRS 9 to remove potential confusion. Earlier application is permitted. The amendments are not expected to have any significant impact on the Bank's financial statements.
- **HKAS 7 *Statement of Cash Flows*:** The amendments replace the term “cost method” with “at cost” in paragraph 37 of HKAS 7 following the prior deletion of the definition of “cost method”. Earlier application is permitted. The amendments are not expected to have any impact on the Bank's financial statements.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies

This note provides a list of the material accounting policies adopted in the preparation of these financial statements. These policies have been consistently applied in both periods, unless otherwise stated.

(a) Intangible assets

Intangible assets included acquired software and capitalized development costs of computer software programmes.

Development costs that are directly attributable to the design and testing of identifiable and unique systems and platforms controlled by the Bank are recognized as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell it;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Acquired software and capitalized development costs are recorded as intangible assets and amortized on the straight-line basis from the point at which the asset is ready for use and over its useful life, which usually ranges from 3 to 10 years.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies (continued)

(a) Intangible assets (continued)

The amortization period and the amortization method are reviewed, and adjusted if appropriate, at least at each reporting period end. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Other development expenditure that does not meet the criteria above are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in subsequent periods.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It is recognized in profit or loss when the asset is derecognized. Gains shall be classified as other income.

(b) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Leasehold improvements are depreciated over the unexpired terms of the lease
- Equipment is depreciated over 3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. At each reporting date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Gains and losses on disposals determined by comparing proceeds with the carrying amount are included in the statement of comprehensive income.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies (continued)

(c) Leases

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the lease payment:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- the exercise price of a purchase option if the Bank is reasonably certain to exercise that option; and
- payments of restoration costs for terminating the lease, if the lease term reflects the Bank exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Bank, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies (continued)

(d) Financial assets

(i) Classification

The Bank classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI") or through profit or loss), and
- those to be measured at amortized cost.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income.

If the Bank reclassifies a financial asset out of the fair value through other comprehensive income measurement category and into the amortized cost measurement category, the financial asset is reclassified at its fair value at the reclassification date. However, the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortized cost. This adjustment affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification. For investment in debt instruments, the classification depends on the Bank's business model for managing the financial assets and the contractual terms of the cash flows. The Bank reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Purchases and sales of financial assets are recognized on trade date, the date on which the Bank commits to purchase or sell the asset. The Bank initially recognizes loans and advances to customers on the date on which they are originated. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Bank has transferred substantially all the risks and rewards of ownership.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies (continued)

(d) Financial assets (continued)

(iii) Measurement

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Bank's business model for managing the asset and the cash flows characteristics of the asset. There are three measurement categories into which the Bank classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in interest income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange differences. Impairment losses are presented as separate line item in the statement of comprehensive income.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in interest income using the effective interest rate method. Foreign exchange gains and losses are presented in other operating expenses and charge for expected credit losses are presented as separate line item in the statement of comprehensive income.
- **FVPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt instruments that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(iv) Impairment

The Bank assesses, on a forward-looking basis, the expected credit losses ("ECL") associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 24 details how the Bank determines whether there has been a significant increase in credit risk. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies (continued)

(e) Financial liabilities

Financial liabilities are designated as either FVPL, or at amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Other financial liabilities are carried on the statement of financial position at amortized cost. The Bank derecognizes financial liabilities when the Bank's obligations are discharged or cancelled or when they are expired.

(f) Repurchase agreements

Financial assets sold under agreements to repurchase at a specified future date are not derecognized from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the statement of financial position as an asset with a corresponding obligation to return it, included accrued interest (if applicable) as a liability with cash collateral on repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate.

(g) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months original maturity from the date of acquisition, including balances with banks, central bank and other financial institutions and placements with banks, which are readily convertible to known amount of cash and are subject to an insignificant risk of changes in value.

(h) Interest income

Interest income on financial assets at amortized cost and financial assets at FVOCI calculated using the effective interest method is recognized in profit or loss. The effective interest method (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the effective interest rate.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the ECL provision).

(i) Fee and commission income

The Bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performing obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Bank provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point of time or at the end of the contract period for a service provided over time. The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies (continued)

(j) Employee benefits

(i) Retirement benefits scheme

The Bank operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance (Cap. 485) for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries, with a cap and are charged to the statement of comprehensive income as they become payable in accordance with the rules of the Scheme.

The assets of the Scheme are held separately from those of the Bank in an independently administered fund. The Bank's employer contributions vest fully with the employees when contributed into the Scheme.

(ii) Bonus

Liabilities for bonus plans due after the end of the reporting period are recognized when the Bank has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(k) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities attribute to temporary differences and to unused tax losses.

Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss, except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates, enacted or substantively enacted by the end of the reporting period, taking into consideration, interpretations and practices prevailing in the location in which the Bank operates.

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies (continued)

(k) Income tax (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise to the initial recognition of goodwill. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of the reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if and only if the Bank has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

(l) Share-based payment

Equity-settled share-based compensation plans were operated by OCFT and Lufax, the intermediate holding company of the Bank. Share options or awards were granted to the directors and employees of the Bank, under which the Bank receives services from employees as consideration for equity instruments of the OCFT and Lufax. Information relating to the schemes is set out in Note 26.

The award is treated as an equity-settled share-based payment in the Bank's financial statements as the Bank does not have an obligation to settle the award. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense over the vesting period and with a corresponding adjustment to equity.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies (continued)

(l) Share-based payment (continued)

The total amount to be expensed is determined by reference to the fair value of the options granted:

- a) including any market performance;
- b) excluding the impact of any service and non-market performance vesting conditions;
- c) including the impact of any non-vesting conditions

At the end of each reporting period, the Bank revises its estimates of the number of options that are expected to vest based on the non-market performance and service conditions. It recognizes the impact of the revision to original estimates, if any, in the statement of comprehensive income, with a corresponding adjustment to equity.

If the terms of an equity-settled award are modified, at a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

If an equity-settled award is forfeited, any expenses previously recognized are reversed effective the date of the forfeiture.

(m) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are generally recognized in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on financial assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Material accounting policies (continued)

(n) Related parties

A party is considered to be related to the Bank if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Bank;
 - (ii) has significant influence over the Bank; or
 - (iii) is a member of the key management personnel of the Bank or of a parent of the Bank;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Bank are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of other entity);
 - (iii) the entity and the Bank are joint ventures of the same third party;
 - (iv) one entity is a joint venture a third party and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank;
 - (vi) the entity is controlled or joint controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Bank or to the parent of the Bank.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Significant accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

At 31 December 2025, no deferred tax asset has been recognized on the estimated unused tax losses of approximately HK\$1,404,210,000 (31 December 2024: HK\$996,890,000) due to the unpredictability of future profit streams. In cases where the actual future profits generated are more than expected, recognition of deferred tax assets may arise.

(b) Capitalization of development costs

Costs incurred in developing the new platforms and systems are capitalised as intangible assets when recognition criteria as detailed in Note 3(a) are fulfilled. Management has applied its professional judgement in determining whether these costs fulfilled the recognition criteria and whether the platforms and systems could generate probable future economic benefits to the Bank. Any severe change in market performance or technology advancement will have an impact on the development costs capitalised.

(c) Measurement of the ECL allowance

The measurement of the ECL allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of significant judgements are required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the relative weightings of forward-looking scenarios for each type of product/market and the associated ECL;
- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Assessing data limitation and model uncertainty, and determining post model adjustments, as appropriate.

Further details as detailed in Note 24.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Interest income and interest expense

	2025 HK\$'000	2024 HK\$'000
(a) Interest income		
Financial assets at amortized cost	295,901	131,187
Financial assets at FVOCI	118,475	135,109
	<u>414,376</u>	<u>266,296</u>
(b) Interest expense		
Deposits from customers	191,295	128,209
Lease liabilities (Note 18(b))	380	359
	<u>191,675</u>	<u>128,568</u>

6. Fees and commission income

	2025 HK\$'000	2024 HK\$'000
Provision of banking services at a point-in time	<u>990</u>	<u>196</u>

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. Other income

	2025 HK\$'000	2024 HK\$'000
Sundry income	<u>861</u>	<u>14</u>

8. Operating expenses

	Notes	2025 HK\$'000	2024 HK\$'000
Staff costs (including directors' emolument in Note 11)			
– Salaries and other short term benefits		152,685	132,842
– Pension		3,406	3,146
– Share-based compensation	26	10	909
Premises and equipment expense, excluding depreciation			
– Rental of short-term lease premises		4,752	3,257
– Others		2,411	1,961
Legal and consultancy fee (note a)		5,641	21,661
Software licensing and other IT cost (note b)		67,348	54,901
Depreciation of property, plant and equipment	16	1,531	1,318
Amortization of intangible assets	17	8,355	39,368
Depreciation of right-of-use assets	18	6,089	5,639
Audit fee (note c)		3,425	2,845
Loss on disposal of intangible assets	17	1,945	64,814
Outsourcing expense		50,694	33,165
Exchange difference		19,578	4,783
Other operating expenses		<u>33,389</u>	<u>23,681</u>
		<u>361,259</u>	<u>394,290</u>

Note a: During the year ended 2024, included in legal and consultancy fee was HK\$7,364,000 for professional services rendered by predecessor auditor of the Bank associated with non-audit services.

Note b: During the year, there were in total HK\$69,119,000 (2024: HK\$71,264,000) IT related expenses, in which, HK\$1,771,000 (2024: HK\$16,363,000) of expenses relating to acquired software and internally developed software were capitalized to intangible assets (Note 17) and HK\$67,348,000 (2024: HK\$54,901,000) of expenses relating to software licensing and other IT cost are included in operating expenses.

Note c: For the year ended 2025, amount included audit services fee of HK\$575,000 to predecessor auditor of the Bank.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Charge for expected credit losses

	2025 HK\$'000	2024 HK\$'000
Balances with banks, central bank and other financial institutions and placements with banks	41	(10)
Investment securities	275	72
Loans and advances to customers	137,001	82,246
Undrawn loan commitments	383	-
	<u>137,700</u>	<u>82,308</u>

10. Income tax expenses

(a) Total tax expenses

	2025 HK\$'000	2024 HK\$'000
Current tax	-	-
Deferred tax	-	-
	<u>-</u>	<u>-</u>
Total tax expenses	<u>-</u>	<u>-</u>

The applicable Hong Kong profits tax rate is 16.5% (2024: 16.5%). No provision for Hong Kong profits tax has been made (2024: Nil) as the Bank had no estimated assessable profits for both years.

(b) Reconciliation between taxation and accounting loss at applicable tax rates

	2025 HK\$'000	2024 HK\$'000
Loss before income tax	<u>(274,407)</u>	<u>(338,660)</u>
Tax calculated at Hong Kong profit tax rate	(45,277)	(55,879)
Tax effect of non-deductible expenses	1,126	13,731
Tax effect of non-taxable income	(1,263)	(2,665)
Temporary difference not recognized	3,485	2,522
Tax effect of tax losses not recognized	<u>41,929</u>	<u>42,291</u>
Income tax expenses	<u>-</u>	<u>-</u>

At 31 December 2025, the Bank had estimated unused tax losses of approximately HK\$1,427,141,000 (31 December 2024: HK\$1,096,900,000) available for offset against future profits. No deferred tax assets have been recognized in respect of such losses amounted of approximately to HK\$1,404,210,000 (2024: HK\$996,890,000) due to unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

10. Income tax expenses (continued)

(b) Reconciliation between taxation and accounting loss at applicable tax rates (continued)

Deferred tax assets and deferred tax liabilities

	2025 HK\$'000	2024 HK\$'000
The balance comprises temporary difference attributable to:		
Tax losses	3,784	16,502
Total deferred tax assets at 31 December	3,784	16,502
Property, plant and equipment and intangible assets	(3,784)	(16,502)
Total deferred tax liabilities at 31 December	(3,784)	(16,502)
Net deferred tax assets/liabilities at 31 December	–	–

The movement of deferred tax assets/(liabilities) during the year are as follows:

Deferred tax assets/liabilities movements	Tax losses HK\$'000	Property, plant and equipment and intangible assets HK\$'000	Net deferred tax assets/ liabilities HK\$'000
At 1 January 2024	19,024	(19,024)	–
(Charged)/credited to profit or loss	(2,522)	2,522	–
At 31 December 2024 and 1 January 2025	16,502	(16,502)	–
(Charged)/credited to profit or loss	(12,718)	12,718	–
At 31 December 2025	3,784	(3,784)	–

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Directors' remuneration

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2025 HK\$'000	2024 HK\$'000
Directors' fees	3,550	3,818
Salaries, allowances and benefits in kind	6,604	6,676
Retirement benefits	114	230
Share-based compensation	3	720
	<u>10,271</u>	<u>11,444</u>

All remuneration received by the directors from the Bank are for their services in connection with the management of the affairs of the Bank.

No consideration was provided to or receivable by third parties for making available directors' services. There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities.

No director of the Bank had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Bank's business to which the Bank was or is a party that subsisted at the end of the period or at any time during the period.

There was no significant transactions, arrangements and contracts in relation to the Bank's business to which the Bank was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period.

No termination payments or benefits are made to the directors and no consideration was provided to or receivable by third parties for making available directors' services for both years.

12. Balances with banks, central bank and other financial institutions

	2025 HK\$'000	2024 HK\$'000
Balances with banks	448,003	71,168
Balances with central bank	635,629	215,690
Balances with other financial institutions	80	-
Less: ECL provision – stage 1	(1)	-
	<u>1,083,711</u>	<u>286,858</u>

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Placements with banks

	2025 HK\$'000	2024 HK\$'000
Placements with banks		
– Maturing within 1 month	454,540	291,455
– Maturing between 1 month and one year	347,199	253,378
Less: ECL provision – stage 1	(56)	(16)
	<u>801,683</u>	<u>544,817</u>

There were no overdue, impaired or rescheduled placements with banks for both years.

14. Investment securities

	2025 HK\$'000	2024 HK\$'000
At FVOCI:		
Treasury bills	3,929,052	525,273
Certificate of deposits	2,289,085	723,156
Other debt securities	626,518	–
	<u>6,844,655</u>	<u>1,248,429</u>

15. Loans and advances to customers

	2025 HK\$'000	2024 HK\$'000
At amortized cost (Note 24(a))	3,754,984	3,211,461
Less: ECL provision (Note 24(a))	(147,153)	(72,326)
	<u>3,607,831</u>	<u>3,139,135</u>

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Property, plant and equipment

	Equipment HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
At 1 January 2025			
Opening net book amount	2,745	–	2,745
Additions	2,672	–	2,672
Depreciation charge	(1,531)	–	(1,531)
Closing net book amount	<u>3,886</u>	<u>–</u>	<u>3,886</u>
At 31 December 2025			
Cost	11,985	9,905	21,890
Accumulated depreciation	(8,099)	(9,905)	(18,004)
Net book amount	<u>3,886</u>	<u>–</u>	<u>3,886</u>
	Equipment HK\$'000	Leasehold improvements HK\$'000	Total HK\$'000
At 1 January 2024			
Opening net book amount	2,006	–	2,006
Additions	2,057	–	2,057
Depreciation charge	(1,318)	–	(1,318)
Closing net book amount	<u>2,745</u>	<u>–</u>	<u>2,745</u>
At 31 December 2024			
Cost	9,313	9,905	19,218
Accumulated depreciation	(6,568)	(9,905)	(16,473)
Net book amount	<u>2,745</u>	<u>–</u>	<u>2,745</u>

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Intangible assets

	Acquired Software HK\$'000	Internally developed software HK\$'000	Total HK\$'000
At 1 January 2025			
Opening net book amount	2,268	31,483	33,751
Additions	–	1,771	1,771
Disposals	(405)	(1,540)	(1,945)
Amortization charge	(1,414)	(6,941)	(8,355)
	<u>449</u>	<u>24,773</u>	<u>25,222</u>
At 31 December 2025			
Cost	19,635	75,160	94,795
Accumulated amortization	(19,186)	(50,387)	(69,573)
	<u>449</u>	<u>24,773</u>	<u>25,222</u>
At 1 January 2024			
Opening net book amount	11,095	110,475	121,570
Additions	–	16,363	16,363
Disposals	(3,088)	(61,726)	(64,814)
Amortization charge	(5,739)	(33,629)	(39,368)
	<u>2,268</u>	<u>31,483</u>	<u>33,751</u>
At 31 December 2024			
Cost	25,153	96,109	121,262
Accumulated amortization	(22,885)	(64,626)	(87,511)
	<u>2,268</u>	<u>31,483</u>	<u>33,751</u>

18. Leases

(a) Amount recognised in the statement of financial position

	2025 HK\$'000	2024 HK\$'000
Right-of-use assets	<u>8,260</u>	<u>6,845</u>
Lease liabilities		
– Current	6,282	8,134
– Non-current	2,501	2,311
	<u>8,783</u>	<u>10,445</u>

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Leases (continued)

(b) Amount recognized in the statement of comprehensive income

	2025 HK\$'000	2024 HK\$'000
Depreciation charge of right-of-use assets (Note 8)	<u>6,089</u>	<u>5,639</u>
Interest expense (Note 5(b))	<u>380</u>	<u>359</u>

The Bank's lease comprises of office premises for both years, which is contracted for periods up to 3 years (2024: 3 years). Extension options are currently not included in the lease term as it remains uncertain whether the lease will be extended.

The incremental borrowing rate used to determine the right-of-use asset and lease liabilities is 4.785% (2024: 4.785%).

19. Other assets

	2025 HK\$'000	2024 HK\$'000
Prepaid expenses	3,273	2,460
Deposits and other receivables	5,235	7,174
Prepaid interest	—	1,562
	<u>8,508</u>	<u>11,196</u>

There were no overdue, impaired or rescheduled deposits and other receivables for both years.

20. Deposits from customers

	2025 HK\$'000	2024 HK\$'000
Savings deposits	473,540	610,341
Fixed deposits	9,996,902	3,740,620
	<u>10,470,442</u>	<u>4,350,961</u>

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Other payables and accruals

	2025 HK\$'000	2024 HK\$'000
Accruals for employee benefits	20,173	21,468
Other payables and accruals (note a)	447,969	34,565
ECL provision for undrawn loan commitments	383	–
	<u>468,525</u>	<u>56,033</u>

Note a: At 31 December 2025, balance mainly represented unsettled trades arising from Bank's daily operation.

22. Repurchase agreements at amortized cost

At 31 December 2025, repurchase agreements at amortized cost amounting to HK\$150,000,000 (31 December 2024: Nil) under sale and repurchase arrangements were secured by treasury bills at FVOCI deposited with Hong Kong Monetary Authority ("HKMA") to facilitate settlement operations. At 31 December 2025, the carrying amount of treasury bills at FVOCI pledged by the Bank was HK\$150,649,000 (31 December 2024: Nil) included in "Investment securities".

23. Capital and reserves

(a) Components of the Bank's capital and reserves

The opening and closing balances of each component of the Bank's equity and a reconciliation between these amounts are set out in the statement of changes in equity.

(b) Issued share capital

	No. of shares	HK\$'000
Ordinary shares, issued and fully paid:		
At 1 January 2024	1	1,500,000
Capital contributions from former immediate holding company	–	500,000
	<u>1</u>	<u>2,000,000</u>
At 31 December 2024 and 1 January 2025	1	2,000,000
Capital contributions from immediate holding company	–	700,000
	<u>1</u>	<u>2,700,000</u>
At 31 December 2025	<u>1</u>	<u>2,700,000</u>

In accordance with section 135 of the Hong Kong Companies Ordinance (Cap.622), the ordinary share of the Bank does not have a par value.

Contributions of HK\$200,000,000 and HK\$500,000,000 by cash were injected as share capital of the Bank in July 2025 and December 2025, respectively, without allotting additional shares to the shareholder.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23. Capital and reserves (continued)

(c) Capital management

The Bank's policy is to maintain a strong capital base to support the development of the Bank's business and to ensure compliance with the statutory capital adequacy ratio requirement, a requirement used to assess the capital adequacy of banks. Capital is allocated to the various activities of the Bank depending on the risk taken by each business division.

The Bank's objectives when managing capital are:

- comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance; and
- support the Bank's stability and business growth so as to provide reasonable returns for the shareholder.

Capital adequacy and the use of regulatory capital are monitored regularly by the Bank.

The HKMA requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum as stipulated in the Banking (Capital) Rules. The capital adequacy ratios are computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance (Cap. 155). The required information is filed with the HKMA on a quarterly basis.

The Bank has established a capital planning process to assess the adequacy of its capital to support current and future activities and to set the Bank's capital adequacy goals in relation to risk, taking into account its strategic focus and business plan. In developing the capital plan, the Bank considers the regulatory requirements, references to the business strategy, new products and risk appetite of the Bank, takes into account both short-term and medium term capital demand, and additional potential capital actions, so as to ensure stable capital level is maintained. During both years, the Bank has complied with externally imposed capital requirements that the Bank is subject to.

24. Financial risk management

Exposure to credit, liquidity, and market risks arises in the normal course of the Bank's business. The Bank's exposure to these risks and the financial risk management policies and practices used by the Bank to manage these risks are described below.

(a) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. The Bank is exposed to credit risk mainly in relation to balances with banks and other financial institutions, placements with banks, loans and advances to customers and investment securities.

Credit risk governance

The Board is ultimately responsible for establishing the credit risk appetite and ensuring the Bank's credit risk is appropriately managed. The Risk Management Committee ("RMC") is responsible for credit policy formulation and portfolio monitoring of the loan and treasury businesses. The committee is chaired by the Chief Risk Officer ("CRO") with senior management and Head of Credit Approval and Risk Management as members. The RMC reports to the Board Risk Management Committee on a quarterly basis. Credit risk measurement, underwriting, approval and monitoring requirements are detailed in the Credit Risk Management Policy.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

Credit risk governance (continued)

The Bank manages credit risk in accordance with the Bank's credit risk related policies. Credit is extended within the parameters set out in the credit policies and are approved by different levels of management based upon established guidelines and delegated authorities. Credit exposures, limits and asset quality are regularly monitored and controlled by senior management and RMC. The Bank's internal auditors also conduct regular reviews and audits to ensure compliance with credit policies and procedures, and regulatory guidelines.

The Bank has also established policies and processes for the approval and review of new products and activities, and credit policies with details of the loan grading, or credit scoring, processes and impairment policies.

Credit risk management

The Bank uses credit risk grading that aligns with HKMA's loan classifications, intending to reflect the credit quality of the borrowers. The credit grading takes into consideration borrower and loan specific information collected at the time of application (such as financial indicators, industry type and qualitative indicators for corporate exposures) as well as changes post origination. Credit officers perform independent reviews and approvals of credit applications by ensuring that a credit proposal meets underwriting standards of the Bank and complies with relevant rules and regulations.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are typically monitored on a revolving basis and are subject to periodic reviews. Limits on the level of credit risk by product, industry sector and by country are approved annually and on need basis by the RMC.

The Bank's loans and advances to customers provide to small and medium enterprises only. Exposure to credit risk is managed through regular reviews of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate, for individually managed credits. The Bank has formulated a comprehensive set of policies and manual related to complex products that outline the governance framework and appropriate credit limits to manage and monitor the credit risk that may arise from different credit portfolios at both portfolio level and individual level. Exposure to credit risk is mitigated in part by obtaining personal guarantees, government guarantees, guarantees given by public sector entities, collaterals and other credit enhancement accounts where relevant.

For debt securities and interbank exposures under the treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated.

As part of the risk management process, the Bank also takes into consideration of emerging risk types (e.g. Climate Risk) which may have implication for existing risk exposure. The bank assesses and utilizes various risk management techniques such as stress testing and imposing exposure limits to manage relevant risks.

Approach for determining ECL

Impairment is calculated in three stages and financial instruments are allocated into one of the three stages where the transfer mechanism depends on whether there is a significant increase/decrease in credit risk in the relevant reporting period.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

Approach for determining ECL (continued)

Financial instruments that are not considered to have significant increase in credit risk ("SICR") since initial recognition or low credit risk at reporting date are classified in Stage 1 and are evaluated for impairment using 12-month ECL. If SICR since initial recognition is identified, the financial instrument will be classified as "Stage 2" but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument will then be classified as "Stage 3". Instruments in Stages 2 or 3 have their ECL measured based on a lifetime basis.

ECL for financial instruments are measured on a collective basis for exposures grouped with similar risk characteristics and product specifications, including channels, collateral types and product setups.

Significant increase in credit risk

The Bank assesses whether there is a SICR of a credit exposure since origination at each reporting date. While determining the SICR, the Bank considers all reasonable and supportable information that is available without undue cost or effort and that is relevant for an individual financial instrument and groups of portfolios.

The Bank follows HKMA's guideline on loan classification. It is required to classify loans and advances to five classification categories, namely "Pass", "Special Mention", "Substandard", "Doubtful" and "Loss". The decision to classify loans into the above five categories is based on the borrower's repayment ability and the likelihood of individual counterparties being default.

The Bank maintains a "Worry, Watch, Monitor" list of accounts which exhibits risks or potential weaknesses requiring closer monitoring, supervision, or attention by management. A credit exposure is considered as experiencing SICR if one or more of the following criteria have been met:

- the borrower is more than 30 days past due on its contractual payments;
- the financial instrument's loan classification grade is "Special Mention";
- the Bank has any objective evidence showing a SICR since initial recognition; or
- significant change in external credit rating, i.e. migrating from investment grade to speculative grade (applicable to treasury portfolios only)

The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the independent Credit Risk team.

Credit exposures can transfer from stage 2 to stage 1 if the indicators of significant credit deterioration no longer prevails at the reporting date and there has been an improvement in credit quality within a reasonable period of time, generally 6 months. Should there be deviations from the above staging criteria for certain individual cases, approval from the CRO shall be obtained.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

Definition of default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- the borrower is more than 90 days past due on its contractual payments;
- the Bank has objective evidence showing that facility is credit-impaired impacting the expected future cash flows; or
- the loan classification grades of Stage 3 facilities are either “Substandard”, “Doubtful” or “Loss”.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis. Currently the Bank does not purchase or originate credit-impaired financial assets.

Explanation of inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired.

ECL is calculated as the product of probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”), which reflects the change in risk of default occurring over the 12-month or remaining life of the financial instruments. PD, LGD and EAD are defined as follows:

- PD represents the likelihood of a borrower defaulting on its financial obligation; either over the next 12 months (“12M PD”), or over the remaining lifetime (“Lifetime PD”) of the obligation.
- LGD refers to the Bank’s expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of EAD.
- EAD refers to the amounts the Bank expects to be owed at the time of default, over the next 12 months (“12M EAD”) or over the remaining lifetime (“Lifetime EAD”).

The ECL is determined by projecting the PD, LGD and EAD for 12-month or lifetime and for each individual exposure. These three components are multiplied together. This effectively calculates the ECL for 12-month or lifetime, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

PD is driven by a set of macroeconomic variables. Their relationship is developed by a statistical regression model, with the lifetime PD derived by factoring in forward-looking macroeconomic variable values. The methodology as to how to derive the PD is the same across all assets within a portfolio.

The 12-month and lifetime EADs are determined based on the expected payment profile and portfolios, which varies by product type. For non-revolving products, this is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. For unsecured products, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

Forward-looking information incorporated in the ECL models

The calculation of ECL incorporates forward-looking information. The Bank has performed analysis and identified a set of key economic variables impacting credit risk and ECL for each portfolio. The economic variables and their associated impact on PD vary by financial instruments. Regression analysis is performed to establish the quantitative relationship between relevant economic factors and PD.

The Bank has taken into account various external factors including the Hong Kong Gross Domestic Product (“GDP”) and unemployment rate. These macro-economic factors have direct impact to the import/export (“IMP/EXP”) volumes and can provide reasonable depictions of the key exogenous factor driving the overall credit cycle in the retail and SME spaces.

According to HKFRS 9, ECL is expected to be assessed over a range of economic scenarios and is an unbiased and probability weighted amount. As such, the Bank developed three macroeconomic scenarios, namely “Baseline”, “Good” and “Bad” scenarios.

In this scenario setting process, the Bank considered the current economic environment and market forecasts in coming years and loss pattern during the historical crisis.

For Baseline Scenario, it was set to have a tepid expansion in real economy while the labour markets remain tight. For Good Scenario, it assumes the expansion of demand and supply translates into solid, above-baseline growth. For Bad Scenario, it assumes a shrinking domestic economy lowers demand and leads to reduced aggregate supply and layoff increment. The scenarios are updated regularly to timely reflect a change in the current economic condition.

The weightings assigned to each economic scenario, “Baseline”, “Good” and “Bad” at 31 December 2025, were 40%, 30% and 30% respectively (2024: 40%, 30% and 30% respectively). Assessments are performed by the Bank’s risk function with reference to historical experience shown by the credit environment statistics to determine the probability weights to be assigned to the three scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a regular basis.

Sensitivity analysis

As described above, the Bank applies 3 alternative macro-economic scenarios (i.e. “Baseline”, “Good” and “Bad” scenarios) to reflect unbiased probability-weighted range of possible future outcomes in estimating ECL.

By assuming 10% scenario weight shift from “Baseline” scenario to “Good” or “Bad” scenario at the year end of 2025, there would be a decrease in ECL provision by approximately HK\$277,000 (2024: HK\$220,000) or an increase in ECL provision of approximately HK\$671,000 (2024: HK\$520,000), respectively.

Nature of credit enhancements

The Bank applies different strategies and processes to hedge and mitigate different risks. Exposure to credit risk is mitigated by guarantees and collaterals. Personal guarantee, government guarantee, guarantees given by public sector entities as well as collaterals and other credit enhancement accounts, are potentially relevant forms of credit risk mitigations adopted by the Bank to manage, hedge and mitigate risks that arise from the Bank’s business model.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

(i) Guarantees

The Bank applies credit risk mitigation to all its on-balance sheet banking book exposures that are subject to risk mitigation, where a claim on a counterparty is secured by a guarantee from an eligible guarantor, the portion of the claim that is supported by the guarantee is to be weighted according to the risk-weight applicable to the guarantor (unless the risk-weight applicable to the original counterparty is lower). The unsecured portion of the claim must be weighted according to the risk-weight applicable to the original counterparty. The Bank ensures that guarantees accepted should be unconditional and irrevocable, represent a direct claim on the guarantor, and remain continuously effective until the facility covered by the guarantee is fully repaid or settled. In determining the ECL impact of the guarantees, the Bank would take into consideration the risk of defect in the guarantee and the likelihood of successful claim, as well as the value of the time it takes to complete the claim.

At 31 December 2025, management of the Bank refined the handling time for the claim recovery process from the HKMC Insurance Limited (backed by The Government of the Hong Kong Special Administrative Region) in relation to the guaranteed portions of loans and advances to customers under the SME Financing Guarantee Scheme. At 31 December 2025 and 2024, the net carrying amount of loans and advances to customers classified as stage 3 represented the guaranteed portions of defaulted exposures under the SME Financing Guarantee Scheme.

(ii) Collaterals and other credit enhancement accounts

The Bank is taking collateral for funds advanced. Then Bank has internal guidelines on the acceptability of specific classes of collateral for credit risk mitigation. Guideline is in place to govern the management of collateral acceptable by the Bank and the guideline is reviewed periodically.

The Bank prepares a valuation of the collaterals obtained as part of the loan origination process. This assessment is reviewed periodically. One of the collateral types for loans and advances is mortgages over properties. The other type is the pledged receiving accounts of the eCommerce store and pledged payment gateway accounts for the purpose of receiving business receivable for all sales made on the whitelisted eCommerce platform.

To minimize credit loss, the Bank will seek additional collaterals from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances which are partially secured or unsecured.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

Management overlays

During the year 2025, the management of the Bank has applied judgemental overlays to the ECL to reflect certain observed risks that are not fully accounted for in the current ECL models due to a number of reasons including model or methodology limitations and limited historical data for selected portfolios.

Maximum exposure to credit risk

The maximum exposures to credit risk of on-balance sheet financial instruments is the gross carrying amount reported in the statement of financial position, net of ECL provision and, if applicable, any offsetting arrangement according to HKAS 32 *Financial Instruments: Presentation*. There are no off-balance sheet instruments except for loan commitments which are unconditionally cancellable.

Credit quality

Balances with banks, central bank and other financial institutions and placements with banks are rated investment grade based on Moody's or equivalent ratings, which are unsecured, neither past due nor impaired.

For loans and advances to customers, the loan classifications given by HKMA's guideline have been followed. For investment securities, credit rating from Moody's, or equivalent, is adopted.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

Loans and advances to customers are analysed by internal credit grade and stage classification as follows:

Loans and advances to customers

At amortized cost

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2025				
Credit grade:				
Pass	3,316,272	–	–	3,316,272
Special Mention	–	135,192	–	135,192
Substandard	–	–	32,664	32,664
Doubtful	–	–	13,124	13,124
Loss	–	–	257,732	257,732
Gross carrying amount (Note 15)	<u>3,316,272</u>	<u>135,192</u>	<u>303,520</u>	<u>3,754,984</u>
ECL provision (Note 15)	<u>(49,434)</u>	<u>(8,614)</u>	<u>(89,105)</u>	<u>(147,153)</u>
Net carrying amount	<u>3,266,838</u>	<u>126,578</u>	<u>214,415</u>	<u>3,607,831</u>
At 31 December 2024				
Credit grade:				
Pass	2,921,970	–	–	2,921,970
Special Mention	–	73,712	–	73,712
Substandard	–	–	52,653	52,653
Doubtful	–	–	14,598	14,598
Loss	–	–	148,528	148,528
Gross carrying amount (Note 15)	<u>2,921,970</u>	<u>73,712</u>	<u>215,779</u>	<u>3,211,461</u>
ECL provision (Note 15)	<u>(37,322)</u>	<u>(4,946)</u>	<u>(30,058)</u>	<u>(72,326)</u>
Net carrying amount	<u>2,884,648</u>	<u>68,766</u>	<u>185,721</u>	<u>3,139,135</u>

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality (continued)

Investment securities

At FVOCI

	2025 HK\$'000	2024 HK\$'000
Credit grade:		
AA+	4,739,530	525,273
A+	1,820,561	424,345
A	–	–
A-	–	221,416
BBB+ and below	<u>284,564</u>	<u>77,395</u>
Carrying amount (Note 14)	<u>6,844,655</u>	<u>1,248,429</u>
ECL provision – stage 1	<u>(355)</u>	<u>(80)</u>

The ECL provision of investment securities at FVOCI are not recognized in the statement of financial position as the carrying amount is their fair value.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

ECL provision

Reconciliation of gross carrying amount and ECL provision for loans and advances to customers are as follows:

Loans and advances to customers

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount HK\$'000	ECL provision HK\$'000	Gross carrying amount HK\$'000	ECL provision HK\$'000	Gross carrying amount HK\$'000	ECL provision HK\$'000	Gross carrying amount HK\$'000	ECL provision HK\$'000
At 1 January 2025	2,921,970	37,322	73,712	4,946	215,779	30,058	3,211,461	72,326
Net new assets originated, assets derecognized or repayment	652,006	14,534	(22,960)	(1,386)	(41,402)	(7,490)	587,644	5,658
Change in staging (including remeasurement from stage change)	(257,704)	(8,471)	84,440	1,775	173,264	43,563	-	36,867
Change in model parameters	-	6,049	-	3,279	-	85,148	-	94,476
Unwind of discount	-	-	-	-	-	(18,053)	-	(18,053)
Written off	-	-	-	-	(44,121)	(44,121)	(44,121)	(44,121)
At 31 December 2025	<u>3,316,272</u>	<u>49,434</u>	<u>135,192</u>	<u>8,614</u>	<u>303,520</u>	<u>89,105</u>	<u>3,754,984</u>	<u>147,153</u>
At 1 January 2024	2,017,018	8,481	31,947	133	67,755	4,793	2,116,720	13,407
Net new assets originated, assets derecognized or repayment	1,118,068	14,274	-	-	-	-	1,118,068	14,274
Change in staging (including remeasurement from stage change)	(213,116)	(4,946)	41,765	4,813	171,351	48,592	-	48,459
Change in model parameters	-	19,513	-	-	-	-	-	19,513
Written-off	-	-	-	-	(23,327)	(23,327)	(23,327)	(23,327)
At 31 December 2024	<u>2,921,970</u>	<u>37,322</u>	<u>73,712</u>	<u>4,946</u>	<u>215,779</u>	<u>30,058</u>	<u>3,211,461</u>	<u>72,326</u>

There are no renegotiation or modification of contractual cash flows.

ECL provision is calculated by applying judgemental overlays where determined appropriate.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

ECL provision (continued)

Investment securities

Reconciliation of gross carrying amount and ECL provision for investment securities are as follows:

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount HK\$'000	ECL provision HK\$'000	Gross carrying amount HK\$'000	ECL provision HK\$'000	Gross carrying amount HK\$'000	ECL provision HK\$'000	Gross carrying amount HK\$'000	ECL provision HK\$'000
At 1 January 2025	1,248,429	80	-	-	-	-	1,248,429	80
Net new assets originated, assets derecognized or repayment	5,596,226	335	-	-	-	-	5,596,226	335
Change in model parameters	-	(60)	-	-	-	-	-	(60)
At 31 December 2025	<u>6,844,655</u>	<u>355</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,844,655</u>	<u>355</u>
At 1 January 2024	353,067	8	-	-	-	-	353,067	8
Net new assets originated, assets derecognized or repayment	895,362	72	-	-	-	-	895,362	72
Change in model parameters	-	-	-	-	-	-	-	-
At 31 December 2024	<u>1,248,429</u>	<u>80</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,248,429</u>	<u>80</u>

All exposures of investment securities are in stage 1 with no stage transition during both years.

Undrawn loan commitments

Reconciliation of gross amount and ECL provision for undrawn loan commitments are as follows:

	Stage 1		Stage 2		Stage 3		Total	
	Gross amount HK\$'000	ECL provision HK\$'000	Gross amount HK\$'000	ECL provision HK\$'000	Gross amount HK\$'000	ECL provision HK\$'000	Gross amount HK\$'000	ECL provision HK\$'000
At 1 January 2025	28,678	-	-	-	-	-	28,678	-
Net new exposures and matured or lapsed	55,050	383	-	-	-	-	55,050	383
Change in staging (including remeasurement from stage change)	(563)	(1)	563	1	-	-	-	-
At 31 December 2025	<u>83,165</u>	<u>382</u>	<u>563</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>83,728</u>	<u>383</u>

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(a) Credit risk (continued)

Write-off policy

The Bank writes off financial assets in whole when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Collection action may be suspended under the following circumstances:

- The Bank has approved the application for debt restructuring and is in the process of handling relevant legal documents and procedures; or
- The account is under litigation and police investigation; or
- The customer death, applied Bankruptcy and Individual Voluntary Arrangement (“IVA”) (with supporting documents).

For written-off accounts, recovery actions shall not cease if recovery opportunity is still present. To cease recovery actions, due diligence on the customer should be done.

(b) Liquidity risk

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Funding risk is the risk that funding, which considered to be sustainable and used to fund assets, is not sustainable over time.

Liquidity Risk Governance

The Board is ultimately responsible for establishing the liquidity risk tolerance and ensuring the Bank's liquidity risk is appropriately managed. Asset and Liability Committee (“ALCO”) and RMC have been delegated to manage the Bank's liquidity risk strategy, policies and practices, oversee the liquidity risk framework to ensure proper internal control are in place and in compliance with the regulatory requirements. The Treasury Division has the primary responsibility for day-to-day funding and monitor the future cash flows to ensure adequate financial resources are available to meet the respective financial obligations. Market and Liquidity Risk Division monitors the liquidity risk position against approved thresholds independently. The structure of the liquidity risk management approach consists of a set of pre-defined boundaries to control and maintain the Bank's liquidity profile, including maintaining high-credit-quality investments with deep market as liquidity cushion, regular monitoring and stress testing, as well as a defined contingency funding plan.

Liquidity Risk Measurement

The Bank monitors and maintains a level of liquefiable assets to fulfill the regulatory requirements and to support the business needs and growth. Risk metrics and thresholds are set to control and monitor the liquidity risk to ensure adequate financial resources are available to meet their respective financial obligations, such as liquidity maintenance ratio, loan to deposit ratio, etc. these are subject to RMC and ALCO's review on a regular basis.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(b) Liquidity risk (continued)

Analysis of assets and liabilities liquidity

The maturity analysis of financial assets and liabilities shown on the statements of financial position, based on the remaining period at the reporting date to the contractual maturity date is shown below:

At 31 December 2025

	Repayable on demand HK\$'000	Within 1 month HK\$'000	Between 1 month to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 year to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Assets							
Balances with banks, central bank and other financial institutions	1,083,711	-	-	-	-	-	1,083,711
Placements with banks	-	454,535	160,538	186,610	-	-	801,683
Investment securities	-	1,592,497	1,851,339	2,886,604	514,215	-	6,844,655
Loans and advances to customers	275,035	79,280	189,353	660,687	1,893,292	510,184	3,607,831
Amounts due from related companies	-	775	-	-	-	-	775
Other assets	2,540	2,695	-	-	-	-	5,235
Total financial assets	1,361,286	2,129,782	2,201,230	3,733,901	2,407,507	510,184	12,343,890
Liabilities							
Deposits from customers	473,541	2,748,873	4,228,715	3,019,313	-	-	10,470,442
Other payables and accruals	8,776	425,513	18,937	14,866	433	-	468,525
Repurchase agreements at amortized cost	-	150,000	-	-	-	-	150,000
Amounts due to related companies	-	-	30,098	-	-	-	30,098
Lease liabilities	577	547	1,100	4,058	2,501	-	8,783
Total financial liabilities	482,894	3,324,933	4,278,850	3,038,237	2,934	-	11,127,848
Net position – total financial assets and liabilities	878,392	(1,195,151)	(2,077,620)	695,664	2,404,573	510,184	1,216,042

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(b) Liquidity risk (continued)

Analysis of assets and liabilities liquidity (continued)

At 31 December 2024

	Repayable on demand HK\$'000	Within 1 month HK\$'000	Between 1 month to 3 months HK\$'000	Between 3 months to 1 year HK\$'000	Between 1 year to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Assets							
Balances with banks, central bank and other financial institutions	286,858	-	-	-	-	-	286,858
Placements with banks	-	291,455	251,242	2,120	-	-	544,817
Investment securities	-	352,579	346,987	421,467	127,396	-	1,248,429
Loans and advances to customers	189,260	71,234	160,679	657,644	1,968,738	91,580	3,139,135
Amounts due from related companies	-	755	-	-	-	-	755
Other assets	-	7,174	-	-	-	-	7,174
Total financial assets	476,118	723,197	758,908	1,081,231	2,096,134	91,580	5,227,168
Liabilities							
Deposits from customers	610,341	223,323	2,408,326	1,108,971	-	-	4,350,961
Other payables and accruals	7,386	34,747	13,900	-	-	-	56,033
Amounts due to related companies	-	-	34,740	-	-	-	34,740
Lease liabilities	761	583	1,304	5,486	2,311	-	10,445
Total financial liabilities	618,488	258,653	2,458,270	1,114,457	2,311	-	4,452,179
Net position – total financial assets and liabilities	(142,370)	464,544	(1,699,362)	(33,226)	2,093,823	91,580	774,989

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(b) Liquidity risk (continued)

The following table details the Bank's remaining contractual maturity for its non-derivative financial liabilities. The table below has been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue, with reference to their respective contractual interest rate.

At 31 December 2025

	Repayable on demand	Within 1 month	Between 1 month to 3 months	Between 3 months to 1 year	Between 1 year to 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits from customers	473,535	2,755,864	4,250,535	3,059,945	-	-	10,539,879
Other payables and accruals	8,776	425,513	18,937	14,866	433	-	468,525
Repurchase agreements at amortized cost	-	150,000	-	-	-	-	150,000
Amounts due to related companies	-	-	30,098	-	-	-	30,098
Lease liabilities	577	577	1,155	4,220	2,485	-	9,014
Total financial liabilities	482,888	3,331,954	4,300,725	3,079,031	2,918	-	11,197,516

At 31 December 2024

	Repayable on demand	Within 1 month	Between 1 month to 3 months	Between 3 months to 1 year	Between 1 year to 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits from customers	610,341	223,737	2,421,943	1,128,136	-	-	4,384,157
Other payables and accruals	7,386	34,747	13,900	-	-	-	56,033
Amounts due to related companies	-	-	34,740	-	-	-	34,740
Lease liabilities	761	583	1,304	5,486	2,596	-	10,730
Total financial liabilities	618,488	259,067	2,471,887	1,133,622	2,596	-	4,485,660

(c) Market risk

Market risk is the risk of losses in assets, liabilities and off-balance sheet positions arising from movements in market rates and prices, including foreign exchange rates and interest rates, etc.

The Bank does not have any trading portfolios. The market risk exposures mainly arise from the foreign exchange risk and interest rate risk of non-trading portfolios.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(c) Market risk (continued)

i. Foreign exchange risk

The Bank is mainly exposed to the foreign exchange risk arising from Renminbi and US dollar assets and liabilities. The following is a summary of the Bank's major foreign currency exposures arising from non-trading positions and is prepared with reference to the completion instructions for the HKMA return of foreign currency position. The Bank has no structural foreign currency position as at 31 December 2025 and 2024.

	2025		2024	
	Renminbi HK\$'000	US dollar HK\$'000	Renminbi HK\$'000	US dollar HK\$'000
Spot assets	1,467	6,748,473	2,113	853,044
Spot liabilities	27,287	2,214,626	36,593	811,557
Forward purchases	–	–	–	–
Forward sales	–	–	–	–
Net option position	–	–	–	–
Net (short)/long position	<u>(25,820)</u>	<u>4,533,847</u>	<u>(34,480)</u>	<u>41,487</u>

The following tables detail the Bank's sensitivity to a 5% (2024: 5%) increase and decrease in Hong Kong dollars against Renminbi. As Hong Kong dollar is pegged to US dollar, the Bank considers the risk of movements in exchange rates between Hong Kong dollar and US dollar to be insignificant.

Foreign currency	Movement in foreign currency	Impact in pre-tax loss	
		2025 HK\$'000	2024 HK\$'000
Renminbi	-5%	Decrease by 1,291	Decrease by 1,724
	+5%	Increase by 1,291	Increase by 1,724

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(c) Market risk (continued)

ii. Interest rate risk

Interest rate risk in the banking book (“IRRBB”) arises from mismatches in the interest rate profiles of assets, liabilities and capital instruments. Generally, there are gap, option and basis risks. At this stage, the Bank does not carry out proprietary trading, hence, the Bank’s interest rate risk exposure is contributed by banking book portfolio.

The Bank measures its IRRBB exposure mainly through the change of Economic Value of Equity (“EVE”), Net Interest Income (“NII”), Interest Rate Gap (“IRG”) and stress testing. EVE, NII and stress testing are monitored on monthly basis and weekly for IRG. Except for saving deposits without a fixed maturity, all the products tenors follow the earliest repricing date, contractual maturity or behavioral maturity (with the consideration of the potential prepayment behavior) for retail fixed rate loans. The Bank’s interest rate risk is managed by the Treasury Division (first line of defense) and monitored by Market and Liquidity Risk Division (second line of defense).

The Bank’s IRRBB model uses historical data of loans and advances to customers to conduct behavioral analysis for the purpose of monitoring and reporting the interest rate risk position.

The Board holds the ultimate responsibilities to the banking book interest rate risk. ALCO and RMC have been delegated the authority to manage the risk in accordance with the guidelines and procedures laid down in the Market and Interest Rate Risk Management Policy that has been approved by the Board.

The Bank has internal control process and Internal Audit Department (third line of defense) to support the Bank’s risk management monitoring. The efficiency and effectiveness of the control process are reviewed regularly to ensure the Bank is in compliance with the regulations and in response to changing market condition.

HK\$ million	31 December 2025		31 December 2024	
	HK dollar	US dollar	HK dollar	US dollar
Impact on earnings over the next 12 months if interest rates rise by 100 (2024: 200) basis points (Note a)	50	(43)	35	(12)
Impact on economic value if interest rates rise by 100 (2024: 200) basis points (Note a)	15	23	86	9
Impact on earnings over the next 12 months if interest rates decrease by 100 (2024: 200) basis points (Note a)	(50)	43	(35)	12
Impact on economic value if interest rates decrease by 100 (2024: 200) basis points (Note a)	(12)	(22)	(88)	(8)

To better align with prevailing market practices and industry standards, the Bank’s management has refined the presentation of interest rate risk sensitivity metrics used for assessing interest rate risk in the banking book.

Note a: Positive values indicate losses and only major currencies are disclosed in accordance with HKMA’s disclosure requirement.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Financial risk management (continued)

(d) Fair value hierarchy

(i) Financial instruments carried at fair value

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy as defined in HKFRS 13 *Fair value measurement*. The following paragraph and table give information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation techniques and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- 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); and
- 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).

For financial instruments that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value of loans and advances to customers reflects ECL provision at the end of the reporting period and the fair value effect of repricing between origination and the reporting date. For credit impaired loans and advances to customers, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

The following table shows an analysis of financial instruments recorded at fair value on a recurring basis by level of the fair value hierarchy:

	At 31 December 2025			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets measured at FVOCI				
– Investment securities	6,844,655	–	–	6,844,655
	At 31 December 2024			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets measured at FVOCI				
– Investment securities	1,248,429	–	–	1,248,429

There were no transfers between Level 1, 2 and 3 during both years.

(ii) Financial instruments carried at amortized cost

All financial instruments carried at amortized cost are approximate to their fair value at 31 December 2025 and 2024.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Material related party transactions

Related parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

As disclosed in Note 1 to the financial statements, the Bank is ultimately wholly-owned by Ping An Group. The subsidiaries owned by Ping An Group are the fellow subsidiaries of the Bank. Associates of Ping An Group are referred as “affiliated companies”. Description of fellow subsidiaries and affiliated companies disclosed were based on the shareholding structure during respective year end and year end date for 2025 and 2024.

The Bank entered services agreements with its fellow subsidiaries and affiliated companies. The related party transactions were carried out in the normal course of business and at terms negotiated between the Bank and the respective related parties.

The Bank entered into the following material transactions with related parties:

	2025 HK\$'000	2024 HK\$'000
Intangible assets acquired from fellow subsidiaries and affiliated companies	1,771	10,038
IT expenses to fellow subsidiaries and affiliated companies	30,323	17,655
Premises expenses to a fellow subsidiary	4,752	2,448
Interest expenses to deposits placed by intermediate holding company and fellow subsidiaries	506	2,725
Administrative expenses to fellow subsidiaries and affiliated companies	10,201	4,442
Management fee income from intermediate holding company and fellow subsidiaries included in Note 7	350	–

At the end of reporting period, the Bank had the following material outstanding balances with related parties:

	2025 HK\$'000	2024 HK\$'000
Amount due from fellow subsidiaries (Note a)	720	325
Amount due to fellow subsidiaries (Note a)	30,098	15,884
Deposits from fellow subsidiaries	47	103,634
Amount due from affiliated companies (Note a)	–	430
Amount due to affiliated companies (Note a)	–	18,856
Deposits from intermediate holding company	12	–
Amount due from intermediate holding company (Note a)	55	–

Note a: The outstanding balances are unsecured, non-interest bearing and expected to be settled within one year.

For the year ended 31 December 2025 and 2024, the Bank has banking transactions with directors and key management personnel of the Bank and their close family members. These transactions are the taking of deposit which are conducted in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing or, when applicable, other employees.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

25. Material related party transactions (continued)

Key management personnel remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank. It includes members of the Board of Directors and senior management of the Bank.

	2025 HK\$'000	2024 HK\$'000
Salaries and short-term employee benefits	29,177	28,055
Post-employment benefits	299	340
Share-based compensation	10	836
	<u>29,486</u>	<u>29,231</u>

26. Share-based compensation

On 7 November 2017, equity-settled share-based compensation plan (the “OCFT Share Option Scheme” and “OCFT Performance Share Units Scheme”) was set up by OCFT (former ultimate holding company of the Bank and now is a fellow subsidiary of the Bank after the change of the ultimate holding company of the Bank in 2024) with the objective to recognize and reward the contribution of eligible directors, employees and other persons for the growth and development of OCFT and its subsidiaries (the “OneConnect Group”).

On 24 June 2022, the Board of Directors of OCFT approved to amend the equity-settled share-based compensation plan to supplement the OCFT Share Option Scheme with performance-based shares (the “Performance Share Units Scheme”).

Upon completion of the acquisition of the entire issued share capital of JYT, which indirectly holds 100% of the issued share capital of the Bank, by Lufax from OCFT on 2 April 2024, the unvested portion of OCFT Share Option Scheme and OCFT Performance Share Units Scheme were cancelled with no replacement, modification or direct compensation.

On 1 August 2024, equity-settled share-based compensation plan (the “Lufax 2014 Share Incentive Plan” and “Lufax 2019 Performance Share Unit (“PSU”) Plan”) set up by Lufax were measured by the Bank for employees whose employments were transferred during the vesting period. The Bank measured the services received from employees based on the fair value of the equity instruments at the original grant date and the proportion of the vesting period the employees served with the Bank.

(a) Share Option Scheme

(i) OCFT Share Option Scheme

During year 2017 to 2019, share options were granted to directors and employees (“OCFT Share Option Scheme Grantees”) of the OneConnect Group, in which 1,075,000 share options are for directors and employees of the Bank, for the subscription of the new ordinary shares of OCFT.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Share-based compensation (continued)

(a) Share Option Scheme (continued)

(i) OCFT Share Option Scheme (continued)

Subject to the Grantees continuing to be a service provider, 100% of these options will be vested over 4 years upon fulfilling the service conditions and non-market performance conditions prescribed in the grantee agreement.

The options should be exercised no earlier than 12 months after OCFT successfully completes an initial public offering and OCFT's shares get listed in the stock exchange ("IPO and Listing") and no later than 10 years from the grant date. The vesting date is determined by the Board of Directors of OCFT.

Movements in the number of share options granted are as follows:

	2025	2024
At the beginning of the year	817,793	1,019,144
– Transferred (Note a)	–	–
– Forfeited	(817,793)	(201,351)
Outstanding at the end of the year	–	817,793

Note a: Refer to employees who were transferred their employment to the Bank during the vesting period. The Bank measured the services received from employees by reference to the fair value of the equity instruments at the originally grant date, and the proportion of the vesting period the employees served with the Bank.

Share options outstanding at the balance sheet date have the following expiry dates and exercise prices.

Grant date	Exercise period	Exercise price	Fair value of options	2025	2024
7 November 2017	13 December 2020 to 7 November 2027	RMB1.33	RMB0.62	–	–
7 November 2017	13 December 2020 to 7 November 2027	RMB2.00	RMB0.52	–	772,293
8 November 2018	13 December 2020 to 8 November 2028	RMB52.00	RMB26.00	–	–
1 June 2019	13 December 2020 to 1 June 2029	RMB52.00	RMB23.42	–	45,500
				–	817,793

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Share-based compensation (continued)

(a) Share Option Scheme (continued)

(i) OCFT Share Option Scheme (continued)

Valuation of options granted for OCFT Share Option Scheme

The fair value of the share option is determined based on fair value of the underlying ordinary share of OCFT using Binomial option-pricing model at the grant dates. Key assumptions are set as below:

	Date of grant			
	7 November 2017	8 November 2018	1 June 2019	26 July 2019
Discount rate	24.0%	17.0%	17.0%	17.0%
Risk-free interest rate	3.9%	3.6%	3.3%	3.3%
Volatility	51.6%	51.2%	46%	46%
Dividend yield	0.0%	0.0%	0.0%	0.0%

The Binomial Model requires the input of highly subjective assumptions. The risk-free rate for periods within the contractual life of the option is based on the China Treasury yield curve in effect at the time of grant. The expected dividend yield was estimated based on the OCFT's expected dividend policy over the expected life of the options. The volatility of its ordinary shares at the date of grant is estimated based on the historical volatility of similar U.S. public companies for a period equal to the expected life preceding the grant date.

(ii) Lufax 2014 Share Incentive Plan

In December 2014 and August 2015, the Board of Directors of Lufax approved the establishment of the Phase I Share Incentive Plan (the "2014 Plan") to eligible directors and employees of Lufax. Unless otherwise approved by the Board of Directors of Lufax, the vesting schedule for each grant is four years, and each grant may start to vest on the first anniversary of the date of grant, with the maximum number of options vested for each year being 25% of such grant, subject to certain exceptions provided in the 2014 Plan. Vesting is subject to performance targets. In determining vested options for each grant, the Board of Directors of Lufax considers the operating results of the company and related entities and the individual performance of the participants in the most recent appraisal and their performance ranking. The Board of Directors of Lufax may adjust the performance targets attached to each grant. Options remain valid for ten years from the grant date and lapse automatically at the term's end unless exercised or already lapsed.

Movements in the number of share options granted are as follows:

	2025	2024
At the beginning of the year	82,500	3,073
– Transferred (Note a)	–	82,500
– Forfeited	(22,500)	(3,073)
Outstanding at the end of the year	60,000	82,500

Note a: Refer to employees who were transferred their employment to the Bank during the vesting period. The Bank measured the services received from employees by reference to the fair value of the equity instruments at the originally grant date, and the proportion of the vesting period the employees served with the Bank.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Share-based compensation (continued)

(a) Share Option Scheme (continued)

(ii) Lufax 2014 Share Incentive Plan (continued)

Share options outstanding at the balance sheet date have the following expiry dates and exercise prices.

Grant date	Exercise period	Exercise price	2025	2024
22 December 2014	22 December 2014 to 22 December 2024	RMB8.00	–	–
14 August 2015	14 August 2015 to 14 August 2025	RMB50.00	–	22,500
1 August 2016	1 August 2016 to 1 August 2026	RMB98.06	40,000	40,000
29 December 2017	29 December 2017 to 29 December 2027	RMB118.00	20,000	20,000
			<u>60,000</u>	<u>82,500</u>

(b) Performance Share Units Scheme

(i) OCFT Performance Share Units Scheme

Subject to the OCFT Share Options Scheme Grantees continuing to be a service provider, 100% of these performance share units will be vested over 4 years upon fulfilling the service conditions and non-market performance conditions prescribed in the grantee agreement.

Movements in the number of performance share units granted are as follows:

	2025	2024
At the beginning of the year	718,894	1,965,644
– Granted	–	–
– Transferred (Note a)	–	300,000
– Forfeited	(563,505)	(245,000)
– Cancelled	–	(1,301,750)
– Exercised	(155,389)	–
Outstanding at the end of the year	<u>–</u>	<u>718,894</u>

Note a: Refer to employees who were transferred their employment to the Bank during the vesting period. The Bank measured the services received from employees by reference to the fair value of the equity instruments at the originally grant date, and the proportion of the vesting period the employees served with the Bank.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Share-based compensation (continued)

(b) Performance Share Units Scheme (continued)

(i) OCFT Performance Share Units Scheme (continued)

Discounted cash flows method was used to determine the fair value of the underlying ordinary share before OCFT's IPO and Listing. Key assumptions, such as discount rate and projections of future performance, are estimated. Based on fair value of the underlying ordinary share, Monte Carlo method is used to determine the fair value of the performance share units at the grant date. Key assumptions are set as below:

	Date of grant								
	2-Jan-23	16-Dec-22	2-Apr-22	2-Jan-22	12-Oct-21	10-Sep-21	25-Jun-21	21-Jun-21	10-Sep-19
Discount rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15.0%
Risk-free interest rate	2.5%	2.6%	2.5%	2.5%	2.7%	2.6%	2.8%	2.8%	2.9%
Volatility	48.9%	49.0%	45.0%	46.4%	43.2%	43.0%	43.7%	45.7%	43.9%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

The Monte Carlo method requires the input of highly subjective assumptions. The risk-free interest rate for periods within the contractual life of the performance share units is based on the China Treasury yield curve in effect at the time of grant. The expected dividend yield was estimated based on OCFT's expected dividend policy over the expected life of the performance share units. The volatility of its ordinary shares at the date of grant is estimated based on the historical volatility of similar U.S. public companies for a period equal to the expected life preceding the grant date.

During the year ended 2024, a total of HK\$907,000 share-based compensation cost were recognized in the profit or loss during the year.

(ii) Lufax 2019 PSU Plan

Lufax adopted the 2019 PSU Plan in September 2019.

Unless otherwise approved by the Board of Directors of Lufax, the unlocking schedule for each grant is four years, and each grant may start to unlock on the first anniversary of the date of grant, with the maximum number of PSUs unlocked for each year being 25% of such grant, subject to certain exceptions provided in the 2019 PSU Plan. Unlocking is subject to performance targets. In determining unlocked performance share units for each grant, the Board of Directors of Lufax considers the operating results of the company and related entities, the market price of the ordinary shares and American Depositary Shares, and the individual performance of the participants in the most recent appraisal and their performance ranking. The Board of Directors of Lufax may adjust the performance targets attached to each grant. Performance share units remain valid for ten years from the grant date and lapse automatically at the term's end unless vested or already lapsed.

Movements in the number of restricted share units granted are as follows:

	2025	2024
At the beginning of the year	10,676	–
– Transferred (Note a)	4,175	10,676
Outstanding at the end of the year	14,851	10,676

Note a: Refer to employees who were transferred their employment to the Bank during the vesting period. The Bank measured the services received from employees by reference to the fair value of the equity instruments at the originally grant date, and the proportion of the vesting period the employees served with the Bank.

PAO BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Share-based compensation (continued)

(b) Performance Share Units Scheme (continued)

(ii) Lufax 2019 PSU Plan (continued)

The fair value of the underlying ordinary share was determined based on the stock price of the grant date. Based on fair value of the underlying ordinary share, Monte Carlo method is used to determine the fair value of the restricted share units at the grant date. Key assumptions, such as discount rate and projections of future performance, are estimated and set as below:

	<u>Date of Grant</u>
	1-Aug-21
Risk-free interest rate	6.2%
Volatility	48.98%
Dividend yield	3.57%

The risk-free rate was estimated based on the yield of the U.S treasury bond with a maturity date similar to the maturity date of the share unit plus the country risk premium of China. Volatility was estimated at grant date based on the average of the historical volatilities of the comparable companies over a period of time commensurable in length to the time to maturity of the share unit. Dividend yield was estimated based on management's best estimate at the grant date.

A total of HK\$10,000 (2024: HK\$2,000) share-based compensation cost were recognized in the profit or loss during the year.

27. Notes to the statement of cash flows

(a) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with original maturity of three months or less from the date of acquisition.

	2025	2024
	HK\$'000	HK\$'000
Balances with banks, central bank and other financial institutions	1,083,711	286,858
Placements with banks with original maturities within three months	<u>272,396</u>	<u>411,736</u>
	<u>1,356,107</u>	<u>698,594</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Notes to the statement of cash flows (continued)

(b) Reconciliation of lease liabilities arising from financing activities in the statement of cash flows

	2025 HK\$'000	2024 HK\$'000
At 1 January	10,445	11,155
Additions	8,884	4,131
Lease termination	(997)	–
Principal portion of lease payments	(6,652)	(4,841)
Interest portion of lease payments	(380)	(359)
Interest expense charged to profit or loss	380	359
Other changes	(2,897)	–
	<u>8,783</u>	<u>10,445</u>
At 31 December	<u>8,783</u>	<u>10,445</u>

28. Approval of financial statements

The financial statements were approved and authorized for issue by the Board of Directors on 23 March 2026.

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Appendix I: CORPORATE GOVERNANCE REPORT (unaudited)

1. Corporate Governance Practices and Objectives

PAO Bank Limited (the “**Bank**”) is fully committed to effective corporate governance in order to safeguard the interest of its stakeholders. The Bank is subject to, and has complied in all material aspects with, the guidelines set out in the Hong Kong Monetary Authority (“**HKMA**”) Supervisory Policy Manual CG-1 “Corporate Governance of Locally Incorporated Authorized Institutions” for the year ended 31 December 2025 and 2024. The Bank’s objective is to provide banking services to selected small and medium enterprises, individual customers and other selected corporation entities in Hong Kong.

2. Corporate Ownership Information

The Bank is an indirect wholly-owned subsidiary of Lufax Holding Limited (“**Lufax**”) and a group member of the Ping An Insurance (Group) Company of China, Ltd (the “**Ping An Group**”). At 31 December 2024, the immediate holding company of the Bank was Jin Yi Rong Limited (“**JYR**”), a company incorporated in Hong Kong. JYR is controlled by Jin Yi Tong Limited, being the intermediate holding company of the Bank and is incorporated in the British Virgin Islands. The Bank is indirectly wholly owned by Lufax as the intermediate holding company, a company incorporated in the Cayman Islands, and listed on the New York Stock Exchange since October 2020 and on the Stock Exchange of Hong Kong Limited (“**Stock Exchange**”) since April 2023. Lufax, together with the Bank, are also subsidiaries of the Ping An Group.

A system of shareholder rights is an integral part of the Bank’s corporate governance system. According to the Articles of Association, shareholders representing at least 5% of the total voting shares of the Bank may request the directors to call a general meeting. All shareholders have the right to vote at the shareholders’ general meeting or written resolutions of members.

3. The Board and Board Committees

The Board of Directors of the Bank (“**Board**”) directs the Bank in the conduct of its affairs and ensures that corporate responsibility and ethical standards underpin the conduct of the Bank’s business. The Board provides sound leadership to the senior executive members of the Bank (“**Senior Executive Members**”) in setting the strategic visions, directions and long-term goals of the Bank and ensuring there is an appropriate balance between promoting long-term growth and delivering short-term financial gains. The Board bears the ultimate responsibility for the Bank’s governance, strategy, risk management, financial performance and key personnel decisions. Board meetings are held at least four times a year, with one in each quarter. During the year of 2025, the Board held six meetings.

PAO BANK LIMITED

Appendix I: CORPORATE GOVERNANCE REPORT (unaudited) (CONTINUED)

Board Composition

At 31 December 2025, the Board comprised eight members: two Non-Executive Directors, two Executive Directors, and four Independent Non-Executive Directors. All Directors possess appropriate experience and competence to discharge their responsibilities effectively in the report period. Set out below is the qualification and profile of the Board members, and composition of the Board and Board committees, as of the end of the reporting period.

Mr LAU James Henry Jr. GBS, JP

Chairman and Non-Executive Director

Qualifications and Profile

Mr LAU had held senior positions in the Hong Kong Special Administrative Region Government, including that of Under Secretary and then Secretary for Financial Services and the Treasury. During his tenure at Financial Services and the Treasury Bureau, Mr LAU led numerous policy and legislative initiatives for the financial service sector and worked closely with different regulators.

Prior to his appointment with Hong Kong government, he was the Chief Executive Officer of the Hong Kong Mortgage Corporation Limited and an Executive Director at the Hong Kong Monetary Authority. Mr LAU received a Gold Bauhinia Star awarded by the Hong Kong Special Administrative Region Government and he was appointed a Justice of the Peace. He served as the Chairman and Non-Executive Director of OneConnect Financial Technology (HongKong) Co., Limited, which is a wholly-owned subsidiary of OneConnect Financial Technology Co., Ltd (“OCFT”) from August 2021 to November 2023. He currently serves as an Independent Non-Executive Director of Bowtie Life Insurance Company Limited, China Taiping Life Insurance (Hong Kong) Company Limited and Greater Bay Area Homeland Investments Limited. He is also a member of the Policy Research Centre for Innovation and Technology, Advisory Committee at the Polytechnic University of Hong Kong, as well as a committee member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council.

Ms LIU Xinyan (appointed on 12 May 2025)

Non-Executive Director

Qualification and Profile

Ms LIU has extensive experience in the U.S. and Hong Kong capital market and regulatory compliance, corporate governance, investment and financing, and mergers and acquisitions. Ms LIU joined Lufax in July 2020 as a senior legal consultant and has been serving as the general manager of the board office of the company since July 2022. Prior to joining Lufax, Ms LIU had more than 10 years’ experience in U.S. law firms and Internet industry. From October 2014 to July 2020, Ms LIU served as senior investment legal manager of Trip.com Group Limited (Nasdaq: TCOM; SEHK: 9961), General Counsel of Baidu Capital and LinkSure Group successively; from February 2006 to June 2008, and from September 2009 to November 2013, Ms Liu worked as legal consultant and associate at Skadden, Arps, Slate, Meagher & Flom LLP and Ropes & Gray LLP. Ms LIU received a Bachelor of Laws degree from Fudan University in 2004, a Master of Laws degree from University College London in 2005, and a Master of Laws degree from Columbia Law School in 2009. She was admitted to practice law in People’s Republic of China in 2008 and in the State of New York, the U.S. in 2010.

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Appendix I: CORPORATE GOVERNANCE REPORT (unaudited) (CONTINUED)

Mr IU Man Chung (appointed on 28 May 2025)

Chief Executive and Executive Director

Qualification and Profile

Mr IU has over 20 years of solid experience in banking and finance. He held various leadership positions in global and local financial institutions, including China CITIC Bank International, Standard Chartered, PrimeCredit and GE Capital (HK). Prior to joining the Bank, Mr IU served as the Chief Executive of Airstar Bank and ZA Bank. His extensive experience spanning business management and strategies, risk management and product innovation has given him a deep understanding of customer needs and market trends, bringing unique insights and substantial experience in the development of digital banks.

Mr WANG Meizhou (appointed on 7 February 2025)

Alternative Chief Executive and Executive Director

Qualification and Profile

Mr WANG joined Ping An Group in 2010. He has held positions at Ping An Life Insurance, Ping An Property & Casualty Insurance, and Lufax, covering areas such as loans, insurance, and wealth management. He has experience in strategic planning, financial management, project management, and M&A. Mr WANG holds a Bachelor of Economics degree from University of International Business and Economics and a Master of Business Administration (MBA) degree from Shanghai Jiao Tong University.

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Appendix I: CORPORATE GOVERNANCE REPORT (unaudited) (CONTINUED)

Mr YEUNG Tak Bun

Independent Non-Executive Director

Qualifications and Profile

Mr YEUNG is the former Government Chief Information Officer (head of department), Justice of the Peace; he was responsible for formulation of policies and strategies for Hong Kong's overall digital technology; digital government; cyber-security; development of the digital economy, particularly for information technology industries; and formulation of the blueprint for developing Hong Kong into the world's leading smart city.

He served as the Chief Corporate Development Officer of the Hong Kong Science and Technology Parks Corporation and was responsible for the development strategy of the science park, incubation programmes for start-ups, and nurturing technology enterprises. Mr YEUNG started his career in Silicon Valley and had worked for several high-tech companies. Thereafter, he held several senior management positions in multinational corporations, Hong Kong listed companies and private equity funds, with operations throughout Asia. Mr YEUNG is currently an Independent Non-Executive Director of Yau Lee Holdings Limited (SEHK: 406), Chinasoft International Limited (SEHK: 354), UMP Healthcare Holdings Limited (SEHK: 722), and these companies are listed on the Main Board of the Stock Exchange.

Mr YEUNG holds a Bachelor of Science in Electrical Engineering from the University of Texas (Austin), a Master of Science in Electrical Engineering from Purdue University, and an Executive MBA from the Kellogg School of Management of the University of Northwestern in conjunction with the Hong Kong University of Science and Technology.

Mr SHEK Lai Him Abraham

Independent Non-Executive Director

Qualifications and Profile

Mr SHEK was a Non-Executive Director of the Mandatory Provident Fund Schemes Authority.

He served as an Independent Non-Executive Director of the MTR Corporation Limited. Mr SHEK also holds independent non-executive directorships at 16 listed companies. Mr SHEK was also a Member of Legislative Council, HKSAR, representing the Real Estate and Construction Functional Constituency from 2000 to the end of December 2021 and a Member of Advisory Committee on Corruption of the Independent Commission Against Corruption from January 2017 to the end of December 2022.

In recognition of his distinguished effort in community services, Mr SHEK was made a Justice of the Peace in 1995, received a Silver Bauhinia Star in 2007 and awarded a Gold Bauhinia Star in 2013.

Mr SHEK is a Court Member of Hong Kong Metropolitan University, a Court Member of City University of Hong Kong and an Honorary Member of the Court of The Hong Kong University of Science and Technology. He holds a Bachelor of Arts, a Diploma in Education from the University of Sydney and a Juris Doctor degree from City University of Hong Kong. Mr SHEK is also a member of the Court and Council of The University of Hong Kong. Mr SHEK is an Honorary Fellow of Lingnan University, The Hong Kong University of Science and Technology, The University of Hong Kong and The Education University of Hong Kong.

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Appendix I: CORPORATE GOVERNANCE REPORT (unaudited) (CONTINUED)

Mr IP Koon Wing Ernest

Independent Non-Executive Director

Qualifications and Profile

Mr IP joined PricewaterhouseCoopers in 1985 and became a partner in 1993. Mr IP retired from PricewaterhouseCoopers in July 2019. In August 2019, Mr IP joined the Fung Group, which comprises, amongst others, Li & Fung Limited (a company formerly listed on the Main Board of the Stock Exchange), Fung (1937) Management Limited and Convenience Retail Asia Limited (a company listed on the Main Board of the Stock Exchange (SEHK: 0831)). Mr IP is currently the Group Chief Financial Officer of the Fung Group. Mr IP has held various key positions in regulatory authorities and business associations. Mr IP was a member of the Listing Committee of the Stock Exchange from 2003 to 2009. Mr IP was a member of the Dual Filing Advisory Group of the Securities and Futures Commission from 2008 to 2014. Currently, Mr IP is a member of the Takeovers and Mergers Panel and the Takeovers Appeal Committee. Mr IP is the Past President of the Hong Kong Business Accountants Association. He is also a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference and a Vice President of the Council for the Promotion of Guangdong-Hong Kong-Macao Cooperation. Mr IP is currently an Independent Non-Executive Director of OneConnect Financial Technology Co., Ltd. and an Independent Non-Executive Director of Media Chinese International Limited, a company listed on the Main Board of the Stock Exchange (SEHK: 685) and the Main Market of Bursa Malaysia Securities Berhad in Malaysia (stock code: 5090).

Mr IP is a fellow member of each of the Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants and Certified Practising Accountant Australia.

Mr SONG Max

Independent Non-Executive Director

Qualifications and Profile

Mr SONG is the founder and Chief Executive Officer of Carbonbase (carbonbase.co), an APAC based climate technology start up leveraging data science and blockchain for enterprise solutions for measuring, managing and reducing carbon emissions. Mr SONG is also a venture partner of Pacific Century Group. He was formerly a data scientist in Silicon Valley, Paris, and New York, where he helped to perform data analysis for a Fortune 10 financial institution to satisfy regulatory requirements. Previously, he worked in investment-related firms for Hong Kong family offices, where he had exposure in areas including TMT, AI, blockchain, and healthcare. Mr SONG worked as a data scientist in Silicon Valley for Ayasdi, Inc, where he helped with data analysis applications for finance, biotech and healthcare industries. Mr SONG obtained a Masters of Public Administration at Schwarzman College of Tsinghua University, and a Bachelor of Science degree from Brown University, where he majored in Applied Math. Mr SONG was a recipient of the 2021 Generation T Tatler List, and was a 2021 Forbes 30U30 recipient.

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Appendix I: CORPORATE GOVERNANCE REPORT (unaudited) (CONTINUED)

Board Committees

To discharge its responsibilities in specific areas, the Board may delegate authority to specialized Board Committees through the relevant Terms of Reference for each Board Committee to contribute more efficiently and effectively to the strategic and operational development of the Bank. At the date of this report, the composition, roles and functions of the Board Committees are set out below.

(a) Audit Committee (“AC”)

AC comprises three members, of whom two are Independent Non-Executive Directors and one is a Non-Executive Director, namely Mr IP Koon Wing Ernest (Chairman), Mr SHEK Lai Him Abraham and Ms LIU Xinyan. AC members collectively possess relevant technical expertise and experience in audit practices, financial reporting and accounting. Chaired by an Independent Non-Executive Director, AC reviews the Bank’s internal financial controls to identify, assess, manage and monitor financial risks and to review the Bank’s internal control systems. AC also reviews financial reporting and the internal audit function, oversees the work of the external auditors, discusses matters raised by internal auditors and external auditors and ensures that audit recommendations are implemented accordingly. During the year of 2025, AC held four meetings.

(b) Board Risk Management Committee (“BRMC”)

BRMC comprises five members, of whom three are Independent Non-Executive Directors and one is a Non-Executive Director and one is an Executive Director, namely Mr Yeung Tak Bun (Chairman), Mr IP Koon Wing Ernest, Mr SONG Max, Ms. LIU Xinyan and Mr IU Man Chung. BRMC members collectively possess relevant technical expertise and experience in risk disciplines that are adequate to enable them to discharge their responsibilities effectively. Chaired by an Independent Non-Executive Director, BRMC exercises oversight on behalf of the Board of the overall risk appetite, risk exposure, risk management strategy and risk culture, makes recommendations to the Board on the Bank’s Risk Appetite Statement and key Risk Appetite Limits governing Credit Risk, Liquidity Risk, Market Risk and Operational Risk, and approves on behalf of the Board the Bank’s Internal Capital Adequacy Assessment Process. BRMC reviews the appropriateness, effectiveness and implementation of the Bank’s risk management systems and controls. During the year of 2025, BRMC held four meetings.

(c) Nomination and Remuneration Committee (“NRC”)

NRC comprises three members, of whom two are Independent Non-Executive Director and one is a Non-Executive Director, namely Mr SONG Max (Chairman), Mr SHEK Lai Him Abraham and Ms. LIU Xinyan. Chaired by an Independent Non-Executive Director, NRC identifies individuals suitably qualified to become members of the Board or key Senior Executive Members, and recommends such individuals to the Board. It also reviews the structure, size and composition of the Board and its effectiveness by annual evaluation and makes recommendations to the Board with regard to any adjustments that are deemed necessary for improvement. It is responsible for reviewing the framework and policies for remuneration, and determining remuneration packages of all individual Executive Directors and Senior Executive Members. NRC is also responsible for the bank culture aspects in ensuring that the Bank maintains a sound corporate culture that supports prudent risk management and that all levels of staff in the Bank have a strong commitment to achieving high ethical and professional standards and positive customer outcomes. During the year of 2025, NRC held one meeting.

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Appendix I: CORPORATE GOVERNANCE REPORT (unaudited) (CONTINUED)

Risk Appetite Framework

The risk appetite framework consists of a Risk Appetite Statement (“RAS”), which represents the direction set from the Board articulating the risk boundaries that businesses should stay within. It encompasses the major risk categories around capital adequacy, liquidity, earning volatility, operational, technology, conduct and reputation, and anti-money laundering and counter-terrorist financing. It aims to control the maximum amount of risks that the Bank is willing to take in pursuing its business objectives.

The operationalization of RAS is supported by Risk Appetite Limit Policy (“RALP”) which established the key Risk Appetite Limits governing Capital Adequacy, Credit Risk, Liquidity Risk, Market Risk and Operational Risk.

Both RAS and RALP were approved by the Board through the recommendation by Board Risk Management Committee.

Remuneration Information CG-5

According to HKMA’s SPM CG-5 “Guideline on a Sound Remuneration System”, authorized institutions are required to make disclosures in relation to their remuneration systems as appropriate. The Bank has fully complied with HKMA’s disclosure requirements set out in Part 3 of the said Guideline.

Please refer to Notes to the Financial Statements Note 11 and 25 of the Bank’s annual report for the year ended 31 December 2025 for more details regarding Directors’ remuneration¹ and key management personnel remuneration.

Recruitment and Selection of Members of the Board

The Board is required to have plans for orderly succession in respect of appointments to the Board, Senior Executive Members and other key senior executives, so as to maintain an appropriate balance of skills and experience on the Board level and management level. As such, the Board had approved a Board Succession and Evaluation Policy which sets out the qualifications and competences required for each Director including but not limited to:

- Balance of skills
- Knowledge and expertise on material business activities and associated risks
- Bank’s strategy and operation
- Economic and market forces and the legal and regulatory environment
- Financial, regulatory or risk-related experience
- Time and commitment
- Understanding Director’s duties and corporate governance
- Profile and reputation

¹ As the total number of Directors involved are relatively small, to avoid individual figures being deduced from the disclosure, aggregate figures are disclosed.

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Appendix I: CORPORATE GOVERNANCE REPORT (unaudited) (CONTINUED)

Board Evaluation

In order to comply with the Supervisory Policy Manual module CG-1 “Corporate Governance of Locally Incorporated Authorized Institutions” and the circular issued by the HKMA dated 1 August 2021 in relation to the assessment of the Directors’ outside mandates and potential conflicts of interest, the Board conducted such assessment for the first time in June 2022. 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 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, attention, and effort to fulfil their responsibilities.

4. Management Level Committees

In addition to Board committees, the Board has authorized the Chief Executive to set up various management committees to oversee and implement business strategies, risk management systems and internal controls. Under the umbrella of the Management Committee (“**ManCo**”) which is chaired by the Chief Executive, there are eight ManCo sub-committees namely, (i) Risk Management Committee, (ii) Asset and Liability Committee, (iii) Compliance Committee, (iv) Technology Committee, (v) New Product Committee, (vi) Disciplinary Action Committee, (vii) Related Parties Transaction Committee and (viii) Wealth Management Committee. Senior Management of the Bank consists of a group of highly competent and experienced individuals responsible and accountable to the Board for the sound and prudent day-to-day management of the Bank in accordance with the business strategy, regulations, risk appetite and policies approved by the Board.

5. Code of Conduct

The Bank adopts a high standard of ethical conduct and professional competence. Every employee has to adhere to the code of conduct through the employee handbook when dealing with customers, business partners, regulators and colleagues. The code of conduct sets out professional standards and corporate values to promote ethical, professional and responsible behavior within the Bank by stating the relevant policy requirements and making reference to other policy documents such as the Compliance Manual which contains provisions relating to “Conflict of Interest”, “Anti-Corruption” and other compliance matters. The Bank also has various corporate governance related policies including Terms of Reference for the Board, all Board Committees and all management level committees, policies on delegation of authority for reviewing and signing documents and for expenses, the Mission and Culture Statement of the Bank, the Conflict of Interest Policy, the Outside Business Interest and Conflict Management Policy, the Board Succession and Evaluation Policy, the Related Parties Transaction Policy, the Information Disclosure Policy and the Connected Lending Policy approved by the Board and they set the framework of governance and code of conduct on a Board’s level.

PAO BANK LIMITED

Appendix I: CORPORATE GOVERNANCE REPORT (unaudited) (CONTINUED)

6. Bank Culture

The bedrock of the Bank's culture is a set of strong and clearly defined values that are set by the Board, and acts as a guide to the Bank's employees in the way they conduct themselves in their daily work. The Board has endorsed the adoption of the Bank's Mission and Culture Statement and ensures adherence to it. The Board also reviewed the update on implementation of HKMA's guidance on bank culture reform and the progress update on the Bank's culture action dashboard.

7. Related Party Transactions

Please refer to Note 25 of the Notes to Financial Statements for details on the material related party transactions.