



PAO BANK LIMITED

REGULATORY DISCLOSURE STATEMENT (Unaudited)

AS AT 30 September 2024

PAO BANK LIMITED

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1. Introduction

General information

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

Basis of preparation

The capital adequacy ratios of the Bank were calculated in accordance with Banking (Capital) Rules (“BCR”) of the Banking Ordinance. The Bank adopted the following approach to calculate its capital charge for:

Credit risk: Standardised (Credit Risk) Approach;
Market risk: Standardised (Market Risk) Approach;
Operational Risk: Basic Indicator Approach.

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2. Key prudential ratios

2.1 KM1: Key prudential ratios

The table below provides an overview of the Bank's key prudential ratios.

		(a)	(b)	(c)	(d)	(e)
HK\$'000		At 30 Sep 2024	At 30 Jun 2024	At 31 Mar 2024	At 31 Dec 2023	At 30 Sep 2023
Regulatory capital (amount)						
1	Common Equity Tier 1 (CET1)	877,957	797,762	497,579	546,433	593,786
2	Tier 1	877,957	797,762	497,579	546,433	593,786
3	Total capital	890,815	811,582	505,879	554,635	601,590
RWA (amount)						
4	Total RWA	1,237,990	1,297,311	835,412	820,598	772,903
Risk-based regulatory capital ratios (as a percentage of RWA)						
5	CET1 ratio (%)	70.9%	61.5%	59.6%	66.6%	76.8%
6	Tier 1 ratio (%)	70.9%	61.5%	59.6%	66.6%	76.8%
7	Total capital ratio (%)	72.0%	62.6%	60.6%	67.6%	77.8%
Additional CET1 buffer requirements (as a percentage of RWA)						
8	Capital conservation buffer requirement (%)	2.500%	2.500%	2.500%	2.500%	2.500%
9	Countercyclical capital buffer requirement (%)	0.999%	0.999%	0.998%	1.000%	0.998%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	NA	NA	NA	NA	NA
11	Total AI-specific CET1 buffer requirements (%)	3.499%	3.499%	3.498%	3.500%	3.498%
12	CET1 available after meeting the AI's minimum capital requirements (%)	64.0%	54.6%	52.6%	59.6%	69.8%
Basel III leverage ratio						
13	Total leverage ratio (LR) exposure measure	4,957,229	5,105,869	3,237,149	3,183,532	3,129,120
14	LR (%)	17.7%	15.6%	15.4%	17.2%	19.0%
Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)						
Applicable to category 1 institution only:						
15	Total high quality liquid assets (HQLA)	NA	NA	NA	NA	NA
16	Total net cash outflows	NA	NA	NA	NA	NA
17	LCR (%)	NA	NA	NA	NA	NA
Applicable to category 2 institution only:						
17a	LMR (%) ¹	148.0%	97.8%	68.3%	74.1%	85.1%
Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)						
Applicable to category 1 institution only:						
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR (%)	NA	NA	NA	NA	NA
Applicable to category 2A institution only:						
20a	CFR (%)	NA	NA	NA	NA	NA

The capital ratios and LMR remained well above the minimum regulatory requirements. Increase in capital ratios and total leverage ratio were mainly due to capital injection in Q3 2024. Increase in LMR was mainly due to the lower balance of related party deposit, which led to a decrease in qualifying liabilities in Q3 2024 compared to Q2 2024.

¹ The LMR disclosed above represent the arithmetic mean of the average value of its LMR for each calendar month within the quarter.

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3. Overview of risk management and risk-weighted amount (“RWA”)

3.1 OV1: Overview of risk-weighted amount (“RWA”)

The following table provides an overview of capital requirements in terms of a detailed breakdowns of RWAs for various risks.

HK\$'000		(a)	(b)	(c)
		RWA		Minimum capital requirements
		30 Sep 2024	30 Jun 2024	30 Sep 2024
1	Credit risk for non-securitization exposures	1,028,618	1,105,565	82,289
2	Of which STC approach	1,028,618	1,105,565	82,289
2a	Of which BSC approach	–	–	–
3	Of which foundation IRB approach	–	–	–
4	Of which supervisory slotting criteria approach	–	–	–
5	Of which advanced IRB approach	–	–	–
6	Counterparty default risk and default fund contributions	–	–	–
7	Of which SA-CCR	–	–	–
7a	Of which CEM	–	–	–
8	Of which IMM(CCR) approach	–	–	–
9	Of which others	–	–	–
10	CVA risk	–	–	–
11	Equity positions in banking book under the simple risk-weight method and internal models method	–	–	–
12	Collective investment scheme (“CIS”) exposures – LTA	NA	NA	NA
13	CIS exposures – MBA	NA	NA	NA
14	CIS exposures – FBA	NA	NA	NA
14a	CIS exposures – combination of approaches	NA	NA	NA
15	Settlement risk	–	–	–
16	Securitization exposures in banking book	–	–	–
17	Of which SEC-IRBA	–	–	–
18	Of which SEC-ERBA (including IAA)	–	–	–
19	Of which SEC-SA	–	–	–
19a	Of which SEC-FBA	–	–	–
20	Market risk	33,763	26,888	2,701
21	Of which STM approach	33,763	26,888	2,701
22	Of which IMM approach	–	–	–
23	Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)	NA	NA	NA
24	Operational risk	183,263	166,900	14,661
24a	Sovereign concentration risk	NA	NA	NA
25	Amounts below the thresholds for deduction (subject to 250% RW)	–	–	–
26	Capital floor adjustment	–	–	–
26a	Deduction to RWA	7,654	2,042	612
26b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	7,654	2,042	612
26c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	–	–	–
27	Total	1,237,990	1,297,311	99,039

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4. Leverage ratio

4.1 LR2: Leverage ratio (“LR”)

The table below provides a detailed breakdown of the components of the LR denominator as at 30 Sep 2024.

HK\$'000		(a)	(b)
		As at 30 Sep 2024	As at 30 Jun 2024
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and SFTs, but including collateral)	5,048,830	5,246,258
2	Less: Asset amounts deducted in determining Tier 1 capital	(56,319)	(113,028)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	4,992,511	5,133,230
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	–	–
5	Add-on amounts for PFE associated with all derivative contracts	–	–
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	–	–
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	–	–
8	Less: Exempted CCP leg of client-cleared trade exposures	–	–
9	Adjusted effective notional amount of written credit derivative contracts	–	–
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	–	–
11	Total exposures arising from derivative contracts	–	–
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	–	–
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
14	CCR exposure for SFT assets	–	–
15	Agent transaction exposures	–	–
16	Total exposures arising from SFTs	–	–
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	11,459	16,409
18	Less: Adjustments for conversion to credit equivalent amounts	(10,313)	(14,768)
19	Off-balance sheet items	1,146	1,641
Capital and total exposures			
20	Tier 1 capital	877,957	797,762
20a	Total exposures before adjustments for specific and collective provisions	4,993,657	5,134,871
20b	Adjustments for specific and collective provisions	(36,428)	(29,002)
21	Total exposures after adjustments for specific and collective provisions	4,957,229	5,105,869
Leverage ratio			
22	Leverage ratio	17.7%	15.6%

The decrease in Asset amounts deducted in determining Tier 1 capital was due to the disposal of intangible assets in Q3 2024. The decrease in Off-balance sheet exposure was due to decrease in unconditionally cancellable commitments.

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5. Abbreviations

Abbreviations	Brief Description
AI	Authorized Institution
BCR	Banking Capital Rules
BDR	Banking Disclosure Rules
BSC	Basic Approach
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CFR	Core Funding Ratio
CIS	Collective Investment Scheme
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Authorized Institution
FBA	Fall-Back Approach
G-SIB	Global Systemically Important Authorized Institution
HQLA	High Quality Liquid Assets
IAA	Internal Assessment Approach
IMM	Internal Models Method
IMM (CCR)	Internal Models Method (Counterparty Credit Risk)
IRB	Internal Ratings-Based
LCR	Liquidity Coverage Ratio
LMR	Liquidity Maintenance Ratio
LR	Leverage Ratio
LTA	Look Through Approach
MBA	Mandate-based Approach
NA	Not Applicable
NSFR	Net Stable Funding Ratio
PFE	Potential Future Exposure
RW	Risk Weight
RWA	Risk Weighted Amount
SA-CCR	Standardized Approach (Counterparty Credit Risk)
SEC-ERBA	Securitization External Ratings-Based Approach
SEC-FBA	Securitization Fall-back Approach
SEC-IRBA	Securitization Internal Ratings-Based Approach
SEC-SA	Securitization Standardized Approach
SFT	Securities Financing Transaction
STC	Standardized (Credit Risk)
STM	Standardized (Market Risk)