



PAO BANK LIMITED

REGULATORY DISCLOSURE STATEMENT (Unaudited)

AS AT 31 December 2025

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: Exempted under section 22 of BCR;

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.

HK\$'000		(a)	(b)	(c)	(d)	(e)
		At 31 Dec 2025	At 30 Sep 2025	At 30 Jun 2025	At 31 Mar 2025	At 31 Dec 2024
	Regulatory capital (amount)					
1 & 1a	Common Equity Tier 1 (CET1)	1,231,462	823,582	683,705	729,970	788,595
2 & 2a	Tier 1	1,231,462	823,582	683,705	729,970	788,595
3 & 3a	Total capital	1,256,072	843,376	697,903	742,715	803,442
	RWA (amount)					
4	Total RWA	2,190,228	1,787,388	1,313,427	1,182,898	1,358,875
4a	Total RWA (pre-floor)	2,190,228	1,787,388	1,313,427	1,182,898	1,358,875
	Risk-based regulatory capital ratios (as a percentage of RWA)					
5 & 5a	CET1 ratio (%)	56.2%	46.1%	52.1%	61.7%	58.0%
5b	CET1 ratio (%) (pre-floor ratio)	56.2%	46.1%	52.1%	61.7%	58.0%
6 & 6a	Tier 1 ratio (%)	56.2%	46.1%	52.1%	61.7%	58.0%
6b	Tier 1 ratio (%) (pre-floor ratio)	56.2%	46.1%	52.1%	61.7%	58.0%
7 & 7a	Total capital ratio (%)	57.3%	47.2%	53.1%	62.8%	59.1%
7b	Total capital ratio (%) (pre-floor ratio)	57.3%	47.2%	53.1%	62.8%	59.1%
	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 (%)	0.500%	0.499%	0.499%	0.499%	0.499%
10	Higher loss absorbency requirements (%) (applicable only to G-SIBs or D-SIBs)	N/A	NA	NA	NA	NA
11	Total AI-specific CET1 buffer requirements (%)	3.000%	2.999%	2.999%	2.999%	2.999%
12	CET1 available after meeting the AI's minimum capital requirements (%)	49.3%	39.2%	45.1%	54.8%	51.1%
	Basel III leverage ratio					
13	Total leverage ratio (LR) exposure measure	12,367,682	9,444,569	6,714,580	5,691,098	5,243,636
13a	LR exposure measure based on mean values of gross assets of SFTs	-	-	-	-	-
14, 14a & 14b	LR (%)	10.0%	8.7%	10.2%	12.8%	15.0%
14c & 14d	LR (%) based on mean values of gross assets of SFTs	-	-	-	-	-
	Liquidity Coverage Ratio (LCR)/Liquidity Maintenance Ratio (LMR)					
	Applicable to category 1 institutions only:					
15	Total high quality liquid assets (HQLA)	N/A	NA	NA	NA	NA
16	Total net cash outflows	N/A	NA	NA	NA	NA
17	LCR (%)	N/A	NA	NA	NA	NA
	Applicable to category 2 institutions only:					
17a	LMR (%) ¹	325.2%	184.4%	146.7%	161.2%	132.6%
	Net Stable Funding Ratio (NSFR)/Core Funding Ratio (CFR)					
	Applicable to category 1 institutions only:					
18	Total available stable funding	N/A	NA	NA	NA	NA
19	Total required stable funding	N/A	NA	NA	NA	NA
20	NSFR (%)	N/A	NA	NA	NA	NA
	Applicable to category 2A institutions only:					
20a	CFR (%)	N/A	NA	NA	NA	NA

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

The capital ratios and LMR remained well above the minimum regulatory requirements.

Increase in capitals and capital ratios are mainly due to capital injection in Q4 2025 and RWA growth in Bank exposures and customer loans (reflecting the RWA increase in Corporate exposure and Real Estate exposures). The increase in average LMR was due to the growth in liquefiable assets, arising from the enlargement of the debt securities investment portfolios.

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2. Key prudential ratios (Continued)

2.1 KM1: Key prudential ratios (Continued)

Increase in LR exposure measure and LR ratio were in line with the balance sheet growth and capital injection.

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

3.1 OVA: Overview of risk management

The Bank’s Risk Management Framework (“Framework”) is an over-arching framework for the various risk management processes to effect an enterprise risk management. The key risks related to the Bank’s business include capital adequacy, credit risk, liquidity risk, market risk, operational risk, technology risk and anti-money laundering and counter-terrorist financing.

Risk governance

The Board of Directors (“the Board”) has ultimate responsibility for the implementation of this Framework, promoting a sound risk culture for the Bank and ensuring that the governance and other key components of the risk management framework are properly established and effectively implemented. The Board is also responsible for approving the risk appetite statement, the core policies and thresholds that support its operationalisation, and maintaining consistency among business strategy, risk appetite and the long term goals of the Bank. The Board delegates its power to the Board Risk Management Committee (“BRMC”) to supervise the Bank’s major risk areas.

The Board has authorized the Chief Executive to establish Management Committee (“ManCo”) to (i) deal with day-to-day activities of the Bank’s business, (ii) develop and implement business plans, policies and procedures, and budgets that have been approved by the Board, (iii) monitor the Bank’s operating and financial performance, prioritize and allocate investment and resources, (iv) manage and develop talent and (v) manage the risk profile. Under the umbrella of ManCo which is chaired by the Chief Executive, there are several management level sub-committees:

Risk Management Committee (“RMC”)	Supervises the management of the key risks of the Bank at the senior management level and oversees the development and implementation of this Risk Management Framework.
Asset and Liability Committee (“ALCO”)	Responsible for providing risk oversight on capital and liquidity risk by determining the Bank’s approach to balance sheet management.
Compliance Committee	Oversees the legal, regulatory and compliance matters of the Bank. This includes but not limited to treating customer fairly, anti-money laundering, counter terrorist financing and sanctions.
Technology Committee	Oversees the effective implementation of information technology strategies and data protection framework.
Disciplinary Action Committee	Responsible for dealing with formal complaints concerning allegations of misconduct by employees and making decisions on the type of disciplinary action that it considers appropriate in the circumstances.
Related Party Transaction Committee	Responsible for developing, implementing and reviewing related party transactions and exposures, policies and procedures of related party transaction management to ensure effective risk management, compliance with obligations under the relevant regulations and rules.
Wealth Management Committee	Responsible for effective risk management, compliance with regulatory standards, and the development of investment and insurance products that align with customer needs and market trends.
New Product Committee	Oversees key risks associated with the launch of new products and services and ensures the successful and seamless implementation of the New Product.

The Chief Executive, Chief Risk Officer and the senior management have the responsibility to ensure various risk limits are appropriately established according to the risk management strategies set by the Board, and to oversee the effectiveness of managing and controlling risk in the day-to-day management of the Bank.

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

3.1 OVA: Overview of risk management (Continued)

Various business and functional units act as the first line of defence, held accountable for implementing and adhering to policy requirements in their respective functions, ensuring end-to-end preventative and detective controls are designed and operating effectively, escalating material issues and matters of regulatory importance and remediating any control deficiencies. The second line of defence is provided by the Risk Management Department and the Legal & Compliance Department, which are independent from the business units, both are responsible for overseeing the first-line activities, setting policies and procedures, undertaking risk assessments and internal monitoring. Internal Audit Department as the third line of defence is responsible for providing assurance on the effectiveness of the Bank’s risk management framework, including the risk governance arrangements and practices of the first and second lines of defence units.

The Bank recognise the importance of risk culture being one of the key pillars of the risk management framework. The risk culture of the Bank is created through setting the “Tone from the top”, as the statement is clearly articulated by the Board through the established Risk Appetite stating the boundaries which the Bank should operate within, effective communication and challenge through formal governance forums, established whistleblowing channel to encourage ‘Speak up’ culture, appropriate accountability and incentivisation through the three lines of defence model and appropriate remuneration system to ensure that incentives would not create excessive or undue risk exposure and unethical behaviour which could threaten the financial soundness and reputation of the Bank. Risk awareness is promoted to all staff to enhance the Bank’s overall risk management through appropriate training.

Risk measurement systems

Risk profile is an overview of the major business activities, the key issues and common themes identified across the Bank. A concise depiction of the risk profile enables the Board and the management to more effectively evaluate whether the risk taking is healthy, in line with expectation and acceptable from a forward-looking perspective. Risk profiling requires identifications of key business activities, key risk dimensions, representative metrics and their thresholds relevant for health-checking purpose. The risk profile should be regularly monitored, measured against the Bank’s risk appetite, and reported to the Board, the BRMC and the relevant management level committee(s) for their review. The Bank shall maintain a management information system (“MIS”) with adequate technological support and processing capacity to effectively capture, aggregate and report the risks of major business activities, as well as to address information needs arising from regulatory changes and information requests from the Board (or its sub-committees). The risk data aggregation and risk reporting framework and any substantial change to them should be reviewed and approved by the Board and RMC.

Risk management reports including exposure and position information for all significant risk areas are provided to the Board and management on a regular basis, as deemed appropriate. The Board, through various committees, determines the risk reporting requirements that best suit the business. This includes the following:

- Risk exposures and profile against risk limits and risk strategy
- Operational risk trends along with changes in external environment
- New risk models evaluating the readiness for implementation
- Large risk events and subsequent remedial action plans.

A quarterly report on risk exposures and risk management activities of the Bank is presented to the Board, which covers the assessment on major risk exposures including credit risk, market risk, interest rate risk in the banking book, liquidity risk, operational risk, fraud risk and technology risk.

The Bank continues to invest significant resources in IT systems and processes in order to maintain and improve the risk management capabilities. A number of key initiatives and projects to enhance consistent data aggregation, reporting and management, and work towards meeting new regulatory standards are in progress.

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

3.1 OVA: Overview of risk management (Continued)

Risk mitigation

The Bank applies different strategies and processes to hedge and mitigate different risks. Exposure to credit risk is mitigated by guarantee or collateral of which personal guarantee, government guarantee and guarantees given by public sector entities, insurance policy, and physical property 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. The Bank requests these guarantee/collateral based on the presented credit risk and assessment. Subject to the Bank’s full compliance with the relevant terms and conditions, bank can rightfully claim against guarantee/collateral, and remain continuously effective until the facility covered by the guarantee is fully repaid or settled. For liquidity risk management, the Bank uses results of stress-testing to strengthen resilience to liquidity stress and early-warning triggers for the formulation of management actions and contingency funding plan to mitigate potential stress and vulnerability which the Bank might face. 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 would assess and utilize various risk management techniques such as stress testing and imposing exposure limits to manage relevant risks.

3.2 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.

		(a)	(b)	(c)
		RWA		Minimum capital requirements
HK\$’000		31 Dec 2025	30 Sep 2025	31 Dec 2025
1	Credit risk for non-securitization exposures	1,968,799	1,583,488	157,504
2	Of which STC approach	1,968,799	1,583,488	157,504
2a	Of which BSC approach	–	–	–
3	Of which foundation IRB approach	–	–	–
4	Of which supervisory slotting criteria approach	–	–	–
5	Of which advanced IRB approach	–	–	–
5a	Of which retail IRB approach	–	–	–
5b	Of which specific risk-weight approach	–	–	–
6	Counterparty credit risk and default fund contributions	–	–	–
7	Of which SA-CCR approach	–	–	–
7a	Of which CEM	–	–	–
8	Of which IMM (CCR) approach	–	–	–
9	Of which others	–	–	–
10	CVA risk	–	–	–
11	Equity positions in banking book under the simple risk-weight method and internal models method	NA	N/A	NA
12	Collective investment scheme (“CIS”) exposures – look-through approach/third-party approach	NA	N/A	NA
13	CIS exposures – mandate-based approach	NA	N/A	NA

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

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

HK\$'000		(a)	(b)	(c)
		RWA		Minimum capital requirements
		31 Dec 2025	30 Sep 2025	31 Dec 2025
14	CIS exposures – fall-back approach	N/A	N/A	N/A
14a	CIS exposures – combination of approaches	N/A	N/A	N/A
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	–	–	–
21	Of which STM approach	–	–	–
22	Of which IMA	–	–	–
22a	Of which SSTM approach	–	–	–
23	Capital charge for moving exposures between trading book and banking book	N/A	N/A	N/A
24	Operational risk	254,925	232,275	20,394
24a	Sovereign concentration risk	N/A	N/A	N/A
25	Amounts below the thresholds for deduction (subject to 250% RW)	–	–	–
26	Output floor level applied	–	–	
27	Floor adjustment (before application of transitional cap)	–	–	
28	Floor adjustment (after application of transitional cap)	N/A	N/A	N/A
28a	Deduction to RWA	33,496	28,375	2,680
28b	Of which portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital	33,496	28,375	2,680
28c	Of which portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	–	–	–
29	Total	2,190,228	1,787,388	175,218

Increase in credit risk RWA as of 31 December 2025 mainly due to higher RWA of Bank Exposures. Increase in Deduction to RWA mainly due to higher collective provisions as of year-end 2025.

4. Linkage between financial statement and regulatory exposure

4.1 L11: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	(a) Carrying values as reported in published financial statements	(b) Carrying values under scope of regulatory consolidation	(c) Carrying values of items:				(f) subject to market risk framework*	(g) not subject to capital requirements or subject to deduction from capital
			(c) subject to credit risk framework	(d) subject to counterparty credit risk framework	(e) subject to the securitization framework	(f) subject to market risk framework*		
As at 31 Dec 2025 HK\$'000								
Assets								
Balances with banks and central bank	1,083,711	1,083,711	1,083,711	-	-	-	-	
Placements with and advances to banks	801,683	801,683	801,683	-	-	-	-	
Investment securities	6,844,655	6,844,655	6,844,655	-	-	-	-	
Loans and advances to customers	3,607,831	3,607,831	3,607,831	-	-	-	-	
Amount due from related companies	775	775	775	-	-	-	-	
Property, plant and equipment	3,886	3,886	3,886	-	-	-	-	
Intangible assets	25,222	25,222	-	-	-	-	25,222	
Right-of-use asset	8,260	8,260	8,260	-	-	-	-	
Other assets	8,508	8,508	8,508	-	-	-	-	
Total assets	12,384,531	12,384,531	12,359,309	-	-	-	25,222	
Liabilities								
Repurchase agreements at amortised cost	150,000	150,000	-	-	-	-	150,000	
Deposits from customers	10,470,442	10,470,442	-	-	-	-	10,470,442	
Amounts due to related companies	30,098	30,098	-	-	-	-	30,098	
Other payables and accruals	468,525	468,525	-	-	-	-	468,525	
Lease liability	8,783	8,783	-	-	-	-	8,783	
Total liabilities	11,127,848	11,127,848	-	-	-	-	11,127,848	

* For the purpose of this template, column (f) also includes items subject to CVA risk framework.

4. Linkage between financial statement and regulatory exposure (Continued)

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

	(a)	(b)	(c)			(d)	(e)
			credit risk framework	securitization framework	counterparty credit risk framework		
			Items subject to:				
	Total						
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	12,384,531	12,359,309	–	–	–	–
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	–	–	–	–	–	–
3	Total net amount under regulatory scope of consolidation	12,384,531	12,359,309	–	–	–	–
4	Off-balance sheet amounts	83,728	83,728	–	–	–	–
5	<i>Differences in valuations</i>	–	–	–	–	–	–
6	<i>Differences due to different netting rules, other than those already included in row 2</i>	–	–	–	–	–	–
7	<i>Differences due to consideration of provisions</i>	58,106	58,106	–	–	–	–
8	<i>Differences due to prudential filters</i>	–	–	–	–	–	–
9	Exposure amounts considered for regulatory purposes	12,526,365	12,501,143	–	–	–	–

4.3 Table LIA: Explanations of differences between accounting and regulatory exposure amounts

Basis of consolidation

The basis of consolidation for regulatory purposes is the same for accounting purposes for the Bank.

Exposure amounts considered for regulatory purposes require adjustments to be made to the carrying value of assets as reported in published financial statements. The only adjustment taken by the Bank is the consideration of provisions.

During the reporting period, the Bank did not have any securitisation exposure. Stage 1 and Stage 2 impairment allowances that are deducted from the carrying amount of exposures in the financial statements need to be reintegrated in the regulatory exposure value under the standardised approach.

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4. Linkage between financial statement and regulatory exposure (Continued)

4.4 PV1: Prudent valuation adjustments

There was no prudent valuation adjustment as at 31 December 2025.

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

5. Composition of regulatory capital

5.1 CC1: Composition of regulatory capital

The following table below provides a breakdown of regulatory capital according to the scope of regulatory consolidation.

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
As at 31 Dec 2025 HK\$'000			
CET1 capital: instruments and reserves			
1	Directly issued qualifying CET1 capital instruments plus any related share premium	2,700,000	(3)
2	Retained earnings	(1,460,927)	(4)
3	Disclosed reserves	17,611	(5)
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	-	
6	CET1 capital before regulatory deductions	1,256,684	

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5. Composition of regulatory capital (Continued)

5.1 CC1: Composition of regulatory capital (Continued)

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
As at 31 Dec 2025 HK\$'000			
CET1 capital: regulatory deductions			
7	Valuation adjustments	–	
8	Goodwill (net of associated deferred tax liabilities)	–	
9	Other intangible assets (net of associated deferred tax liabilities)	25,222	(2)
10	Deferred tax assets (net of associated deferred tax liabilities)	–	
11	Cash flow hedge reserve	–	
12	Excess of total EL amount over total eligible provisions under the IRB approach	NA	NA
13	Credit-enhancing interest-only strip, and any gain-on-sale and other increase in the CET1 capital arising from securitization transactions	–	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	–	
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	–	
16	Investments in own CET1 capital instruments (if not already netted off paid-in capital on reported balance sheet)	–	
17	Reciprocal cross-holdings in CET1 capital instruments	–	
18	Insignificant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
20	Mortgage servicing rights (net of associated deferred tax liabilities)	NA	NA
21	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	NA	NA
22	Amount exceeding the 15% threshold	NA	NA
23	of which: significant investments in the ordinary share of financial sector entities	NA	NA
24	of which: mortgage servicing rights	NA	NA
25	of which: deferred tax assets arising from temporary differences	NA	NA

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5. Composition of regulatory capital (Continued)

5.1 CC1: Composition of regulatory capital (Continued)

As at 31 Dec 2025 HK\$'000		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
26	National specific regulatory adjustments applied to CET1 capital	–	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	–	
26b	Regulatory reserve for general banking risks	–	
26c	Securitization exposures specified in a notice given by the MA	–	
26d	Cumulative losses below depreciated cost arising from the institution's holdings of land and buildings	–	
26e	Capital shortfall of regulated non-bank subsidiaries	–	
26f	Capital investment in a connected company which is a commercial entity (amount above 15% of the reporting institution's capital base)	–	
27	Regulatory deductions applied to CET1 capital due to insufficient AT1 capital and Tier 2 capital to cover deductions	–	
28	Total regulatory deductions to CET1 capital	25,222	
29	CET1 capital	1,231,462	
AT1 capital: instruments			
30	Qualifying AT1 capital instruments plus any related share premium	–	
31	of which: classified as equity under applicable accounting standards	–	
32	of which: classified as liabilities under applicable accounting standards	–	
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidation group)	–	
36	AT1 capital before regulatory deductions	–	
AT1 capital: regulatory deductions			
37	Investments in own AT1 capital instruments	–	
38	Reciprocal cross-holdings in AT1 capital instruments	–	
39	Insignificant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	–	
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
41	National specific regulatory adjustments applied to AT1 capital	–	
42	Regulatory deductions applied to AT1 capital due to insufficient Tier 2 capital to cover deductions	–	

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5. Composition of regulatory capital (Continued)

5.1 CC1: Composition of regulatory capital (Continued)

As at 31 Dec 2025 HK\$'000		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
43	Total regulatory deductions to AT1 capital	–	
44	AT1 capital	–	
45	Tier 1 capital (T1 = CET1 + AT1)	1,231,462	
Tier 2 capital: instruments and provisions			
46	Qualifying Tier 2 capital instruments plus any related share premium	–	
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	–	
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	24,610	
51	Tier 2 capital before regulatory deductions	24,610	
Tier 2 capital: regulatory deductions			
52	Investments in own Tier 2 capital instruments	–	
53	Reciprocal cross-holdings in Tier 2 capital instruments and non-capital LAC liabilities	–	
54	Insignificant LAC investments in Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold and, where applicable, 5% threshold)	–	
54a	Insignificant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (amount formerly designated for the 5% threshold but no longer meets the conditions) (for institutions defined as “section 2 institution” under §2(1) of Schedule 4F to BCR only)	–	
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
55a	Significant LAC investments in non-capital LAC liabilities of financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	–	
56	National specific regulatory adjustments applied to Tier 2 capital	–	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	–	
56b	Regulatory deductions applied to Tier 2 capital to cover the required deductions falling within §48(1)(g) of BCR	–	

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5. Composition of regulatory capital (Continued)

5.1 CC1: Composition of regulatory capital (Continued)

		(a)	(b)
		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
As at 31 Dec 2025 HK\$'000			
57	Total regulatory adjustments to Tier 2 capital	–	
58	Tier 2 capital (T2)	24,610	
59	Total regulatory capital (TC = T1 + T2)	1,256,072	
60	Total RWA	2,190,228	
Capital ratios (as a percentage of RWA)			
61	CET1 capital ratio	56.2%	
62	Tier 1 capital ratio	56.2%	
63	Total capital ratio	57.3%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	3.000%	
65	of which: capital conservation buffer requirement	2.500%	
66	of which: bank specific countercyclical capital buffer requirement	0.500%	
67	of which: higher loss absorbency requirement	NA	NA
68	CET1 (as a percentage of RWA) available after meeting minimum capital requirements	49.3%	
National minima (if different from Basel 3 minimum)			
69	National CET1 minimum ratio	NA	NA
70	National Tier 1 minimum ratio	NA	NA
71	National Total capital minimum ratio	NA	NA
Amounts below the thresholds for deduction (before risk weighting)			
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	–	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	–	
74	Mortgage servicing rights (net of associated deferred tax liabilities)	NA	NA
75	Deferred tax assets arising from temporary differences (net of associated deferred tax liabilities)	NA	NA

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5. Composition of regulatory capital (Continued)

5.1 CC1: Composition of regulatory capital (Continued)

		(a)	(b)
As at 31 Dec 2025 HK\$'000		Amount	Source based on reference numbers of the balance sheet under the regulatory scope of consolidation
Applicable caps on the inclusion of provisions in Tier 2 capital			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the BSC approach, or the STC approach and SEC-ERBA, SEC-SA and SEC-FBA (prior to application of cap)	58,106	(1)
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	24,610	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	–	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	–	

Notes to the Template

Description	Hong Kong basis	Basel III basis
9 Other intangible assets (net of associated deferred tax liabilities)	25,222	25,222
<p><u>Explanation</u> As set out in paragraph 87 of the Basel III text issued by the Basel Committee (December 2010), mortgage servicing rights (“MSRs”) may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to follow the accounting treatment of including MSRs as part of intangible assets reported in the AI’s financial statements and to deduct MSRs in full from CET1 capital. Therefore, the amount to be deducted as reported in row 9 may be greater than that required under Basel III. The amount reported under the column “Basel III basis” in this box represents the amount reported in row 9 (i.e. the amount reported under the “Hong Kong basis”) adjusted by reducing the amount of MSRs to be deducted to the extent not in excess of the 10% threshold set for MSRs and the aggregate 15% threshold set for MSRs, DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.</p>		

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5. Composition of regulatory capital (Continued)

5.2 CC2: Reconciliation of regulatory capital to balance sheet

The following table below shows the link between the Bank's balance sheet in published financial statements and the numbers that are used in the composition of regulatory capital disclosure template set out in Template CC1 (i.e., composition of regulatory capital).

	(a)	(b)	(c)
As at 31 Dec 2025 HK\$'000	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
Assets			
Balances with banks and central bank	1,083,711	1,083,711	
Placements with and advances to banks	801,683	801,683	
Of which: Collective provision reflected in regulatory capital	–	(58)	(1)
Investment securities	6,844,655	6,844,655	
Of which: Collective provision reflected in regulatory capital	–	–	(1)
Loans and advances to customers	3,607,831	3,607,831	
Of which: Collective provision reflected in regulatory capital	–	(58,048)	(1)
Of which: Special provision reflected in regulatory capital	–	(89,105)	
Amounts due from related companies	775	775	
Property, plant and equipment	3,886	3,886	
Intangible assets	25,222	25,222	(2)
Right-of-use asset	8,260	8,260	
Other assets	8,508	8,508	
Total assets	12,384,531	12,384,531	
Liabilities			
Repurchase agreements at amortised cost	150,000	150,000	
Deposits from customers	10,470,442	10,470,442	
Amounts due to related companies	30,098	30,098	
Other payables and accruals	468,524	468,524	
Lease liability	8,783	8,783	
Total liabilities	11,127,847	11,127,847	
Shareholders' equity			
Share capital	2,700,000	2,700,000	(3)
Retained earnings	(1,460,927)	(1,460,927)	(4)
Other reserves	17,611	17,611	(5)
Total shareholders' equity	1,256,684	1,256,684	
Total equity and liabilities	12,384,531	12,384,531	

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5. Composition of regulatory capital (Continued)

5.3 CCA: Main features of regulatory capital instruments

As at 31 Dec 2025		(a)
		Quantitative/ qualitative information
1	Issuer	PAO Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	Hong Kong
	<i>Regulatory treatment</i>	
4	Transitional Basel III rules	N/A
5	Basel III rules	CET1
6	Eligible at solo/group/solo and group	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	HK\$ 2,700 Million
9	Par value of instrument	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	1 share issued on 7 Dec 2018
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons/dividends</i>	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative

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5. Composition of regulatory capital (Continued)

5.3 CCA: Main features of regulatory capital instruments (Continued)

As at 31 Dec 2025		(a)
		Quantitative/ qualitative information
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	NA
25	If convertible, fully or partially	NA
26	If convertible, conversion rate	NA
27	If convertible, mandatory or optional conversion	NA
28	If convertible, specify instrument type convertible into	NA
29	If convertible, specify issuer of instrument it converts into	NA
30	Write-down feature	No
31	If write-down, write-down trigger(s)	NA
32	If write-down, full or partial	NA
33	If write-down, permanent or temporary	NA
34	If temporary write-down, description of write-up mechanism	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	NA
36	Non-compliant transitioned features	NA
37	If yes, specify non-compliant features	NA

6. Macroprudential supervisory measures

6.1 CCyB1: Geographical distribution of credit exposures used in countercyclical capital buffer (“CCyB”)

The table below provides an overview of the geographical distribution of private sector credit exposures relevant for the calculation of the Bank’s CCyB ratio.

As at 31 Dec 2025 HK\$’000		(a)	(c)	(d)	(e)
		Geographical breakdown by Jurisdiction (J)	Applicable JCCyB ratio in effect (%)	RWA used in computation of CCyB ratio	AI-specific CCyB ratio (%)
1	Hong Kong SAR	0.500%	851,257		
2	Sum		851,257		
3	Total		851,881	0.500%	4,256

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7. Leverage ratio

7.1 LR1: Summary comparison of accounting assets against leverage ratio (“LR”) exposure measure

The table below provides the reconciliation of the total assets in the published financial statement to the LR exposure measure.

As at 31 Dec 2025 HK\$'000		(a)
	Item	Value under the LR framework
1	Total consolidated assets as per published financial statements	12,384,531
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	–
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	–
4	Adjustments for temporary exemption of central bank reserves	Not applicable
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting standard but excluded from the LR exposure measure	–
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	–
7	Adjustments for eligible cash pooling transactions	–
8	Adjustments for derivative contracts	–
9	Adjustment for SFTs (i.e. repos and similar secured lending)	–
10	Adjustment for off-balance sheet (“OBS”) items (i.e. conversion to credit equivalent amounts of OBS exposures)	8,373
11	Adjustments for prudent valuation adjustments and specific and collective provisions that are allowed to be excluded from LR exposure measure	–
12	Other adjustments	(25,222)
13	Leverage ratio exposure measure	12,367,682

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7. Leverage ratio (Continued)

7.2 LR2: Leverage ratio (“LR”)

The table below provides a detailed breakdown of the components of the LR denominator as at 31 Dec 2025.

HK\$'000		(a)	(b)
		As at 31 Dec 2025	As at 30 Sep 2025
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivative contracts and SFTs, but including related on-balance sheet collateral)	12,384,531	9,464,441
2	Gross-up for derivative contracts collateral provided where deducted from balance sheet assets pursuant to the applicable accounting standard	–	–
3	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	–	–
4	Less: Adjustment for securities received under SFTs that are recognised as an asset	–	–
5	Less: Specific and collective provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital	–	–
6	Less: Asset amounts deducted in determining Tier 1 capital	(25,222)	(27,236)
7	Total on-balance sheet exposures (excluding derivative contracts and SFTs) (sum of rows 1 to 6)	12,359,309	9,437,205
Exposures arising from derivative contracts			
8	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	–	–
9	Add-on amounts for PFE associated with all derivative contracts	–	–
10	Less: Exempted CCP leg of client-cleared trade exposures	–	–
11	Adjusted effective notional amount of written credit-related derivative contracts	–	–
12	Less: Permitted reductions in effective notional amount and permitted deductions from add-on amounts for PFE of written credit-related derivative contracts	–	–
13	Total exposures arising from derivative contracts (sum of rows 8 to 12)	–	–
Exposures arising from SFTs			
14	Gross amount of SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	–	–
15	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	–	–
16	CCR exposure for SFT assets	–	–
17	Agent transaction exposures	–	–
18	Total exposures arising from SFTs (sum of rows 14 to 17)	–	–

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7. Leverage ratio (Continued)

7.2 LR2: Leverage ratio (“LR”) (Continued)

HK\$'000		(a)	(b)
		As at 31 Dec 2025	As at 30 Sep 2025
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	83,728	73,639
20	Less: Adjustments for conversion to credit equivalent amounts	(75,355)	(66,275)
21	Less: Specific and collective provisions associated with off-balance sheet exposures that are deducted from Tier 1 capital	–	–
22	Off-balance sheet items (sum of rows 19 to 21)	8,373	7,364
Capital and total exposures			
23	Tier 1 capital	1,231,462	823,582
24	Total exposures (sum of rows 7, 13, 18 and 22)	12,367,682	9,444,569
Leverage ratio			
25 & 25a	Leverage ratio	10.0%	8.7%
26	Minimum leverage ratio requirement	3.0%	3.0%
27	Applicable leverage buffers	Not applicable	Not applicable
Disclosure of mean values			
28	Mean value of gross assets of SFTs, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	–	–
29	Quarter-end value of gross amount of SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	–	–
30 & 30a	Total exposures based on mean values from row 28 of gross assets of SFTs (after adjustment for sale accounting transactions and netted amounts of associated cash payables and cash receivables)	–	–
31 & 31a	Leverage ratio based on mean values from row 28 of gross assets of SFTs (after adjustment for sale accounting transactions and netted amounts of associated cash payables and cash receivables)	–	–

Increase in LR exposure measure and LR ratio were in line with the balance sheet growth and capital injection.

8. LIQA: Liquidity risk management

Governance of liquidity risk management

The Bank's risk appetite statement describes the level of risk the Bank is prepared to accept and achieve its strategic and business objective. The risk appetite thresholds are established according to the business nature, risk tolerance and the commercial environment in the period, it shall be reviewed by ALCO and RMC and approved by the Board on annual basis. In addition to risk appetite limits, operational level controls are also implemented with reference to the regulatory requirements, industry practices, and the prudent liquidity management manners.

The Board is ultimately responsible for approving the Bank's Liquidity risk management policy and ensuring that these are appropriate to the business and observed within the organisation and delegates its power to RMC and ALCO to manage the Bank 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 ALCO members and attendees consist of the Chief Executive, Chief Risk Officer, Chief Financial Officer and various business lines. The Bank's liquidity is managed by the Treasury Division (the first line of defence) and monitored by Market and Liquidity Risk Division (second line of defence), the independent party to monitor the liquidity regularly. ALCO and RMC are performing high level management in accordance with the guidelines and procedures laid down in the liquidity risk management policy that has been approved by the Board. Internal reports and any excess cases will be submitted to senior management, ALCO and Board for their review and approval, whilst seeking their advices or instruction on mitigating the liquidity risk. Market and Liquidity Risk Division is also responsible to conduct stress tests, develop relevant policies and procedures, and review the assumptions which is related with the risk measures.

Liquidity risk management

The Bank's operation is mainly funded by customer deposits and shareholders' funds. Adequate liquidity with high quality liquid assets will be maintained at all times to meet obligations when they fall due in normal circumstances and provide contingent liquidity in the event of a funding crisis. Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets. In addition, the Bank is also closely monitoring the concentration risk of the liquid assets portfolio.

Stress testing

Stress testing is one of the important tool in the liquidity risk management process. It is to evaluate the Bank's ability to meet its payment obligations under different severe but plausible scenarios. The Bank has set up bank specific, market wide, and combined scenarios to evaluate liquidity healthiness of the Bank in the times of different stress situations. The Board, ALCO, and RMC are the committees to oversee the stress testing results and the implications for balance sheet management, growth plan and, in the extreme, triggering contingency funding plan.

Contingency funding plan

The Contingency Funding Plan is implemented and approved by the Board. It describes the Bank's strategy for dealing with any liquidity problems, and the procedures for making up cash flow deficits in emergency situations. The Bank has designed early warning indicators to alert if there is any potential liquidity crisis situation. If there is any sign of liquidity crisis, ad-hoc ALCO meeting will be called to discuss the situation. If it is defined as a liquidity crisis situation, Crisis Management Team which consist of senior management of the Bank will be formed as instructed by ALCO to tackle the situation until the crisis is over.

8. LIQA: Liquidity risk management (Continued)

The following table shows the Bank's contractual maturity profile as of 31 December 2025, covering on-balance sheet items broken down by maturity buckets and the resultant liquidity gaps. The Bank does not have irrevocable off-balance sheet items as of 31 December 2025. The below information is prepared based on the completion instructions of the MA(BS)23 Return of Liquidity Monitoring Tools.

As at 31 Dec 2025 HK\$'000	Contractual maturity of cash flows and securities flows arising from the relevant items							Total amount
	Next day	Within 1 month	> 1 month up to 3 months	> 3 months up to 1 year	> 1 year up to 5 years	Over 5 years	Balancing amount	
On-balance sheet liabilities								
Deposits from customers	927,056	2,295,353	4,228,715	3,019,312	-	-	-	10,470,436
Repurchase agreements at amortized cost	150,000	-	-	-	-	-	-	150,000
Other liabilities	427,202	37,209	35,600	5,035	1,981	-	-	507,027
Capital and reserves	-	-	-	-	-	-	1,256,329	1,256,329
Total on-balance sheet liabilities	1,504,258	2,332,562	4,264,315	3,024,347	1,981	-	1,256,329	12,383,792
On-balance sheet assets								
Balances with central bank	635,629	-	-	-	-	-	-	635,629
Advances to banks	738,789	163,755	160,552	186,647	-	-	-	1,249,743
Investment securities	6,844,655	-	-	-	-	-	-	6,844,655
Loans and advances to customers	1,119	79,609	191,585	671,861	1,929,039	511,989	369,781	3,754,983
Other assets	-	6,089	-	-	-	-	40,424	46,514
Total on-balance sheet assets	8,220,192	249,453	352,137	858,508	1,929,039	511,989	410,205	12,531,524
Contractual Maturity Mismatch	6,715,934	(2,083,109)	(3,912,178)	(2,165,839)	1,927,058	511,989		
Cumulative Contractual Maturity Mismatch	6,715,934	4,632,825	720,647	(1,445,192)	481,866	993,855		

9. Credit risk for non-securitization exposures

9.1 CRA: General information about credit risk

Credit risk is the risk that a borrower or counterparty fails to meet its obligations. It could exist in both banking and trading books, and both on and off balance sheet of a bank. For the Bank, the types of credit risk exposures are relatively confined. The product suite currently does not include complex products such as private banking, traded products, bank guarantee/letter of credit, etc. A Credit Programme will be established for the purpose of credit extension to a group of customers with similar characteristics, risk profiles and financial needs. It is prescribed by a set of risk parameters which define the conditions under which credit lines may be approved by designated credit authorities. In all Credit Programmes, the credit approving authority required and the credit approval criteria for individual transactions or credit lines are clearly defined. The sponsoring Business Unit ensures that appropriate and adequate control measures are in place to support on-going risk monitoring and programme compliance. All Credit Programmes shall be reviewed, with re-approval by RMC on annual basis from last approval date.

Credit risk management

The key credit strategy adopted to manage down earning volatility is to focus the lending businesses on the more granular types of credits where the exposure sizes are individually small against the portfolio size and the portfolios are reasonably diversified, acknowledging the limitation of the current size of the capital base of the Bank. The target customers are therefore small-and-medium enterprises (“SMEs”). The risk appetite limits for credit loss rates are with respect to the break-even point, with a buffer, under moderate degree of stresses, given our expected pricing and cost of fund. An exception is interbank exposure. This type of exposures arises because of liquidity management needs, as the other core lending businesses may not always use up the available capital and deposits. Its size, therefore, is to some extent passively determined by the sizes of the other lending relative to capital and deposits. In view of this and the very low degree of bank credit risk, we do not set a portfolio risk appetite limit to interbank lending. Instead, obligor concentration limits are set to avoid over concentration in individual name(s).

The Board is ultimately responsible for approving the Bank’s key credit risk policies and strategies and ensuring that these are appropriate to the business and observed within the organisation. BRMC would periodically review the credit risk profile against the agreed risk thresholds, paying attention to large or connected exposures, and determine whether the credit strategy should be re-appraised or adjusted to adapt to external changes and internal risk appetite.

BRMC delegates its credit approving authority to the RMC within the Bank for overseeing different aspects of credit risk management. Actions and changes to the risk thresholds, where appropriate, are directed by RMC. In instances of breaches, the RMC will review the nature of the breaches, changes in the external environment and the associated risks to determine what remedial actions may be needed.

The risk management function, which is directly accountable to the Chief Risk Officer and RMC, is responsible for formulating credit risk management methodologies, strategies and policies and the day-to-day measurement, monitoring and evaluation of credit risk within the Bank. Business units should solicit credit business within laid-down policies and manage the relationship with customers.

The risk management function undertakes the overall administration, credit approval, and review of the credit portfolio, including implementation of relevant risk thresholds with respect to the risk appetite, sector trend analyses and compilation of management information reports.

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9. Credit risk for non-securitization exposures (Continued)

9.1 CRA: General information about credit risk (Continued)

The Legal and Compliance Department advises on and monitors compliance with applicable banking and corporate laws, codes of conduct and other regulatory expectations. All business units shall have a comprehensive knowledge and understanding of the Bank's risks and the legal, regulatory and compliance obligations associated with their businesses. Each business unit shall take all necessary steps to comply with the various rules and regulations under which the Bank operates.

Independent credit reviews and compliance audits are performed by Internal Audit, external auditors and regulator. These audits could involve on-site review of credit and portfolio management functions, credit policies and procedures, MIS reports, account administration practices, as well as the Bank's compliance with applicable laws and regulations.

Content of the reporting on credit risk exposure

The risk management function regularly reports to the BRMC and RMC on the credit risk profile, risk concentrations, and stress testing results:

- Management Information ("MI"). It is an essential tool in portfolio management to effect, through periodic quantification and presentation of the credit risks of the portfolios, a feedback mechanism where effects of decisions previously made and impacts of economic cycles can be systemically tracked and visualised. For this, risk management function would regularly provide MI reports on the up-to-date credit risk profile and performance of the portfolios to RMC.
- Concentration Risk Management. It manages against name concentration and segment portfolio/industry sector concentration, risk appetite thresholds are established. Sub-portfolio limits may be set to maintain a healthy composition for a particular portfolio/credit programme when deemed appropriate. The industry sector and single name concentration limits shall be reviewed annually, by assessing and justify the appropriateness of the existing concentration risk limits on individual industry sectors, taking into account the actual utilisation, latest risk appetite and risk profiles of the Bank.
- Stress Testing. It is an integral part of the Bank's risk management process. It alerts senior management to exceptional but plausible adverse events, assesses their impacts on overall capital adequacy and individual portfolio performances, evaluates our overall resilience to systemic risks and vulnerabilities of certain portfolios, and provides lead time for mitigating actions before the onset of an adverse event. Credit stress testing is conducted once or more every year. Additional stress tests may be requested by RMC as a result of changes in external conditions or internal developments.

9.2 CR1: Credit quality of exposures

		(a)	(b)	(c)	(d)	(e)	(f)	(g)
		Gross carrying amounts of		Allowances/ impairments	Of which ECL accounting provisions for credit losses on STC approach exposures		Of which ECL accounting provisions for credit losses on IRB approach exposures	Net values (a+b-c)
	As at 31 Dec 2025 HK\$'000	Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		
1	Loans	303,520	4,701,287	147,211	89,105	58,106	-	4,857,596
2	Debt securities	-	6,844,655	-	-	-	-	6,844,655
3	Off-balance sheet exposures	-	-	-	-	-	-	-
4	Total	303,520	11,545,942	147,211	89,105	58,106	-	11,702,251

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9. Credit risk for non-securitization exposures (Continued)

9.3 CR2: Changes in defaulted loans and debt securities

As at 31 Dec 2025 HK\$'000		(a) Amount
1	Defaulted loans and debt securities at end of the previous reporting period	215,779
2	Loans and debt securities that have defaulted since the last reporting period	173,806
3	Returned to non-defaulted status	(542)
4	Amounts written off	(44,121)
5	Other changes	(41,402)
6	Defaulted loans and debt securities at end of the current reporting period	303,520

Other changes included repayment.

9.4 CRB: Additional disclosure related to credit quality of exposures

The Bank adopts the following loan classifications following the Supervisory Policy Manual (“SPM”) of HKMA:

Category	Definition
Pass	Loans where borrowers are current in meeting commitments and full repayment of interest and principal is not in doubt
Special Mention	Loans where borrowers are experiencing difficulties which may threaten the institution’s position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.
Substandard	Loans where borrowers are displaying a definable weakness that is likely to jeopardise repayment. Includes loans where some loss of principal or interest is possible after taking account of the “net realisable value” of security, and rescheduled loans where concessions have been made, on non-commercial terms, to the customer on interest or principal. [Note: Such loans may be upgraded to pass once they have been serviced according to the revised terms for 6 months in the case of monthly repayments or 12 months other than monthly repayments.]
Doubtful	Loans where collection in full is improbable and the institution expects to sustain a loss of principal and/or interest after taking account of the net realisable value of security.
Loss	Loans which are considered uncollectible after exhausting all collection efforts such as realisation of collateral, institution of legal proceedings, etc.

9. Credit risk for non-securitization exposures (Continued)

9.4 CRB: Additional disclosure related to credit quality of exposures (Continued)

The accounting definition of impaired exposures and the regulatory definition of defaulted exposures are generally aligned. In general, loans and advances overdue for more than 90 days are considered impaired unless the Bank has objective evidence showing that facility is credit-impaired significantly impacting the expected future cash flows. Loans and advances repayable by regular instalments are classified as overdue when an instalment payment is past due and remains unpaid. Should there be deviations from the below staging criteria for certain individual cases, approval from the Chief Risk Officer shall be obtained.

Under HKFRS 9, each credit exposure shall be classified into one of the three stages. Below states the requirements and our ways of identifications:

	Requirement	Our Identification
Stage 1	A loss allowance for a financial instrument should be measured at an amount equal to 12-month ECL if the credit risk on that financial instrument has not increased significantly since initial recognition	The contractual cash flow obligations of the facility is fulfilled and there is no objective evidence showing a significant increase in credit risk since initial recognition; or its contractual cash flow obligations is not fulfilled, but the facility is less than 30 days past due
Stage 2	A loss allowance for a financial instrument should be measured at an amount equaling to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition	The facility is 30 days past due; or its loan classification grade is “Special Mention”; or the Bank has any objective evidence showing a significant increase in credit risk since initial recognition
Stage 3	Lifetime ECL are recognised on the financial instrument if the credit risk of a financial instrument increases to the point that it is considered credit-impaired	The facility is 90 days past due; or the Bank has objective evidence showing that facility is credit-impaired significantly impacting the expected future cash flows. The loan classification grades of Stage 3 facilities are either “Substandard”, “Doubtful” or “Loss”

Initial recognition refers to the time of credit origination for retail and regulatory retail portfolios where exposures are not managed individually but on a portfolio basis. Whereas it refers to the time of the last credit review for non-retail portfolios.

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9. Credit risk for non-securitization exposures (Continued)

9.4 CRB: Additional disclosure related to credit quality of exposures (Continued)

It is possible for a customer who faces difficulty in repayment to look for an alternative arrangement from the Bank. In this instance, the Bank may consider restructuring the loan for the customer, provided that there are sufficient evidences showing that the original repayment arrangement is unsustainable under the borrower's worsened financial conditions, whereas these conditions are reasonably compatible with the repayment requirements under a re-arrangement, following the principles given in "Hong Kong Approach to Corporate Difficulties" stated in SPM IC-7. Therefore, before offering a restructured loan to a customer, there has to be an adequate assessment on the customer's long-term repayment ability and the feasibility of a reasonable restructuring arrangement. Restructured exposure will normally require an adverse classification under the loan classification system (i.e. substandard or doubtful).

I. Exposures by geographical location (CRB1)

	At 31 Dec 2025 HK\$'000	Gross carrying amount
1	Hong Kong	5,311,328
2	Mainland China	3,452,784
3	Others	3,085,350
4	Total	11,849,462

II. Exposures by Industry (CRB2)

	At 31 Dec 2025 HK\$'000	Gross carrying amount
1	Official sector	4,099,087
2	Banks and financial institutions	3,995,391
3	Wholesales and retail trade	2,221,771
4	Building and construction, property development and investment	641,626
5	Others	891,587
6	Total	11,849,462

III. Exposures by residual maturity (CRB3)

	At 31 Dec 2025 HK\$'000	Repayable on demand to 1 year	Due between 1 year to 5 years	Due after 5 years	Total
1	Loans	1,781,265	2,448,630	735,888	4,965,783
2	Debt securities	6,363,994	519,685	–	6,883,679
3	Off-balance sheet exposures	–	–	–	–
4	Total	8,145,259	2,968,315	735,888	11,849,462

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9. Credit risk for non-securitization exposures (Continued)

9.4 CRB: Additional disclosure related to credit quality of exposures (Continued)

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

At 31 December 2025 HK\$'000		Gross impaired advances	Specific provisions	Advances written-off in a year
1	Hong Kong	303,520	89,105	44,121
2	Total	303,520	89,105	44,121

V. Impaired exposures and related allowances and write-offs by Industry (CRB5)

At 31 December 2025 HK\$'000		Gross impaired advances	Specific provisions	Advances written-off in a year
1	Wholesales and retail trade	195,610	61,302	28,765
2	Building and construction, property development and investment	43,502	12,365	7,629
5	Other	64,408	15,438	7,727
6	Total	303,520	89,105	44,121

VI. Aging analysis of accounting past due exposures (CRB6)

At 31 December 2025 HK\$'000		Gross carrying amount
1	Past due over 1 month but less than 3 months	62,619
2	Past due over 3 months but less than 6 months	42,569
3	Past due over 6 months but less than 1 year	70,060
4	Past due over 1 year	189,675
5	Total	364,923

VII. Breakdown of restructured exposure (CRB7)

There was no restructured exposure as at 31 December 2025.

9.5 CRC: Qualitative disclosures related to credit risk mitigation Recognition of risk mitigation under the standardised approach

The main types of recognised credit risk mitigant used by the Bank include government guarantee, personal guarantee and guarantees given by public sector entities as well as collateral and other credit enhancement accounts.

For Guarantees

The Bank applies the simple approach for 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.

9. Credit risk for non-securitization exposures (Continued)

9.5 CRC: Qualitative disclosures related to credit risk mitigation Recognition of risk mitigation under the standardised approach (Continued)

For collateral 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 collateral obtained as part of the loan origination process. This assessment is reviewed periodically.

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

For capital calculation, the Bank has not used any on-balance sheet or off-balance sheet recognised netting for credit risk mitigation.

9.6 CR3: Overview of recognised credit risk mitigation

		(a)	(b)	(c)	(d)	(e)
	As at 31 Dec 2025 HK\$'000	Exposures unsecured: carrying amount	Exposures to be secured	Exposures secured by recognized collateral	Exposures secured by recognized guarantees	Exposures secured by recognized credit derivative contracts
1	Loans	2,597,588	2,260,008	–	2,260,008	–
2	Debt securities	6,844,655	–	–	–	–
3	Total	9,442,243	2,260,008	–	2,260,008	–
4	Of which defaulted	89,180	214,340	–	214,340	–

Increase in total exposures was in line with the balance sheet growth during the period.

9. Credit risk for non-securitization exposures (Continued)

**9.7 CRD: Qualitative disclosures on use of ECAI ratings under STC approach
Qualitative disclosures on use of ECAI ratings under STC approach**

Under the standardised approach for the calculation of credit risk within the Basel capital framework, banks are required to use credit assessments provided by external credit assessment institutions (“ECAIs”), recognised by the HKMA for the purposes of regulatory capital calculation, to determine the risk-weights of the banks’ credit exposures.

Standard & Poor’s Ratings Services is the ECAI that the Bank has used for the determination of risk weightings for the following classes of exposure:

- Sovereign exposures;
- Public sector entity exposures;
- Bank exposures;
- Multilateral development bank exposures;
- Unspecified multilateral body exposures;
- Eligible covered bond exposures;
- Qualifying non-bank financial institution (“QNBFI”) exposures;
- General corporate exposures; and
- Specialized lending exposures.

The mapping of ECAI ratings of the above classes of exposure to the risk weights under standardised approach follows the process as prescribed in the BCR. Where an exposure of debt securities has an issue-specific external credit assessment, such assessment will be used. In case there is no specific issue rating published by the ECAI, the issuer rating is applied to the senior unsecured claims of that issuer subject to the conditions prescribed by the BCR.

9. Credit risk for non-securitization exposures (Continued)

9.8 CR4: Credit risk exposures and effects of recognized credit risk mitigation – for STC approach

The following table illustrates the effect of any recognized CRM (including recognized collateral under both comprehensive and simple approaches) on the calculation of credit risk capital requirements under STC approach as of 31 December 2025.

As at 31 Dec 2025 HK\$'000		(a)		(b)		(c)		(d)		(e)		(f)
		Exposures pre-CCF and pre-CRM		Exposures pre-CCF and post-CRM		Exposures post-CCF and post-CRM		Off-balance sheet amount		RWA		RWA and RWA density
Exposure classes		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA	RWA density
1	Sovereign exposures	4,564,681	-	6,824,689	-	-	-	-	-	-	-	0%
2	Public sector entity exposures	170,034	-	170,034	-	-	-	-	-	34,007	-	20%
3	Multilateral development bank exposures	-	-	-	-	-	-	-	-	-	-	-
3a	Unspecified multilateral body exposures	-	-	-	-	-	-	-	-	-	-	-
4	Bank exposures	3,995,311	-	3,995,311	-	-	-	-	-	1,082,911	-	27%
4a	Qualifying non-bank financial institution exposures	80	-	80	-	-	-	-	-	40	-	50%
5	Eligible covered bond exposures	-	-	-	-	-	-	-	-	-	-	-
6	General corporate exposures	262,200	50,493	174,214	50,493	5,049	5,049	152,957	152,957	-	-	88%
6a	Of which: non-bank financial institution exposures excluding those reported under row 4a	-	-	-	-	-	-	-	-	-	-	-
6b	Specialized lending	-	-	-	-	-	-	-	-	-	-	-
7	Equity exposures	-	-	-	-	-	-	-	-	-	-	-
7a	Significant capital investments in commercial entities	-	-	-	-	-	-	-	-	-	-	-
7b	Holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities	-	-	-	-	-	-	-	-	-	-	-
7c	Subordinated debits issued by banks, qualifying non-bank financial institutions and corporates	-	-	-	-	-	-	-	-	-	-	-
8	Retail exposures	2,401,170	3,502	443,488	3,502	350	350	332,879	332,879	-	-	75%
8a	Exposures arising from IPO financing	-	-	-	-	-	-	-	-	-	-	-

9. Credit risk for non-securitization exposures (Continued)

9.8 CR4: Credit risk exposures and effects of recognized credit risk mitigation – for SITC approach (Continued)

	(a)	(b)		(c)		(d)	(e)		(f)
		Exposures pre-CCF and pre-CRM		Exposures post-CCF and post-CRM			RWA and RWA density		
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	Off-balance sheet amount	RWA	RWA density	
9	Exposure classes								
	Real estate exposures								
9a	Of which: regulatory residential real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	467,331	17,298	467,331	1,730	128,514		27%	
9b	Of which: regulatory residential real estate exposures (materially dependent on cash flows generated by mortgaged properties)	–	–	–	–	–		–	
9c	Of which: regulatory commercial real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	320,759	12,435	320,759	1,244	215,942		67%	
9d	Of which: regulatory commercial real estate exposures (materially dependent on cash flows generated by mortgaged properties)	–	–	–	–	–		–	
9e	Of which: other real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	–	–	–	–	–		–	
9f	Of which: other real estate exposures (materially dependent on cash flows generated by mortgaged properties)	–	–	–	–	–		–	
9g	Of which: land acquisition, development and construction exposures	–	–	–	–	–		–	
10	Defaulted exposures	214,420	–	80	–	120		150%	
11	Other exposures	21,429	–	21,429	–	21,429		100%	
11a	Cash and gold	–	–	–	–	–		–	
11b	Items in the process of clearing or settlement	–	–	–	–	–		–	
12	Total	12,417,415	83,728	12,417,415	8,373	1,968,799		16%	

Increase in total exposures pre-CCF and pre-CRM was mainly driven by bank exposures, PSE exposures.

Increase in total exposures post-CCF and post-CRM was mainly driven by the increase in sovereign exposures and bank exposure.

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9. Credit risk for non-securitization exposures (Continued)

9.9 CR5: Credit risk exposures by asset classes and by risk weights – for STC approach

The following table presents a breakdown of credit risk exposures under STC approach by asset classes and by risk weights as of 31 December 2025.

As at 31 Dec 2025
HK\$'000

1	Sovereign exposures	0%	20%	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)		
		6,824,689	-	-	-	-	-	6,824,689		
2	Public sector entity exposures	0%	20%	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)		
		-	170,034	-	-	-	-	170,034		
3	Multilateral development bank exposures	0%	20%	30%	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)	
		-	-	-	-	-	-	-		
3a	Unspecified multilateral body exposures	20%	30%	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)		
		-	-	-	-	-	-	-		
4	Bank exposures	20%	30%	40%	50%	75%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		1,783,548	1,898,399	-	313,364	-	-	-	3,995,311	
4a	Qualifying non-bank financial institution exposures	20%	30%	40%	50%	75%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		-	-	-	80	-	-	-	80	
5	Eligible covered bond exposures	10%	15%	20%	25%	35%	50%	100%	Other	Total credit exposure amount (post-CCF and post-CRM)
		-	-	-	-	-	-	-	-	

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9. Credit risk for non-securitization exposures (Continued)

9.9 CR5: Credit risk exposures by asset classes and by risk weights – for STC approach (Continued)

	20%	30%	50%	65%	75%	85%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
6	General corporate exposures	-	-	-	-	-	3,891	-	-	179,263
6a	Of which: non-bank financial institution exposures excluding those reported under row 4a	-	-	-	-	-	-	-	-	-
6b	Specialized lending	20%	50%	75%	80%	100%	130%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		-	-	-	-	-	-	-	-	-
7	Equity exposures	100%		250%		400%		Other		Total credit exposure amount (post-CCF and post-CRM)
		-	-	-	-	-	-	-	-	-
7a	Significant capital investments in commercial entities	250%		400%		1250%		Other		Total credit exposure amount (post-CCF and post-CRM)
		-	-	-	-	-	-	-	-	-
7b	Holdings of capital instruments issued by, and non-capital LAC liabilities of, financial sector entities	150%		250%		400%		Other		Total credit exposure amount (post-CCF and post-CRM)
		-	-	-	-	-	-	-	-	-

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9. Credit risk for non-securitization exposures (Continued)

9-9 CR5: Credit risk exposures by asset classes and by risk weights – for STC approach (Continued)

	0%	20%	25%	30%	35%	40%	45%	50%	60%	65%	70%	75%	85%	90%	100%	105%	110%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
9f	-	-	-	-	-	-	-	-	231,041	-	-	-	90,961	-	-	-	-	-	-	-
9g	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9h	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9i	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9j	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9k	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9l	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9m	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9n	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9o	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
9p	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
10	-	-	80	-	80

9. Credit risk for non-securitization exposures (Continued)

9.9 CR5: Credit risk exposures by asset classes and by risk weights – for STC approach (Continued)

	100%	1250%	Other	Total credit exposure amount (post-CCF and post-CRM)
11 Other exposures	21,429	-	-	21,429
11a Cash and gold	0%	100%	Other	Total credit exposure amount (post-CCF and post-CRM)
	-	-	-	-
11b Items in the process of clearing or settlement	0%	20%	Other	Total credit exposure amount (post-CCF and post-CRM)
	-	-	-	-

Exposure amounts and CCFs applied to off-balance sheet exposures, categorised based on risk bucket of converted exposures (STC version)

	(a)		(b)		(c)		(d)	
	On-balance sheet exposure	Off-balance sheet exposure (pre-CCF)	Off-balance sheet exposure (pre-CCF)	Weighted average CCF*	Exposure (post-CCF and post-CRM)	Exposure (post-CCF and post-CRM)	Exposure (post-CCF and post-CRM)	Exposure (post-CCF and post-CRM)
1 Less than 40%	-	83,728	83,728	10%	8,373	8,373	-	-
2 40-70%	-	-	-	-	-	-	-	-
3 75%	-	-	-	-	-	-	-	-
4 85%	-	-	-	-	-	-	-	-
5 90-100%	-	-	-	-	-	-	-	-
6 105-130%	-	-	-	-	-	-	-	-
7 150%	-	-	-	-	-	-	-	-
8 250%	-	-	-	-	-	-	-	-
9 400%	-	-	-	-	-	-	-	-
10 1,250%	-	-	-	-	-	-	-	-
11 Total exposures	-	83,728	83,728	-	8,373	8,373	-	-

Please refer to note 9.8 for the main drivers of the change in total exposures post-CCF and post-CRM.

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10. Counterparty credit risk

There was no counterparty credit risk exposures as at 31 December 2025.

11. Credit valuation adjustment risk (“CVA”)

CVA represents the risk of mark-to-market losses on the expected counterparty risk to over-the-counter (“OTC”) derivatives. There was no CVA risk exposures as at 31 December 2025.

12. Securitization exposures

There was no securitization exposures as at 31 December 2025.

13. Market risk

As at 31 Dec 2025, the Bank qualifies for the de-minimis exemption in accordance with section 22 of the Banking (Capital) Rules from the calculation of market risk capital charge.

14. IRRBB: Interest Rate Risk in banking book

14.1 IRRBBA: Interest rate risk in banking book – risk management objectives and policies

Interest rate risk in the banking book (“IRRBB”) is the potential adverse impact of changes in interest rates on earnings or economic value. The major sources of interest rate risk are:

- Gap risk: mismatches in the maturity or repricing periods of assets and liabilities that may affect net interest income and economic value;
- Basis risk: different pricing basis for different transactions resulting that the yield on assets and cost of liabilities may change by different amounts within the same repricing period; and
- Option risk: exercise of the options embedded in assets, liabilities or off-balance sheet items that can cause a change in the cash flows of assets and liabilities.

Risk Management and Governance

The Board is ultimately responsible for ensuring the Bank has strong governance and risk management frameworks to properly identify, measure, monitor and control interest rate risk. RMC and ALCO have been delegated by the Board to manage the Bank’s interest rate risk strategy, policies and practices, oversee the interest rate risk framework to ensure proper internal control are in place and in compliance with the regulatory requirements. The Committee membership and attendees consist of the Chief Executive, Chief Risk Officer, Chief Financial Officer and various business lines.

Three lines of defence approach is implemented to ensure effective risk management and enables the Bank to separate risk management activities among first line of defence (Treasury) who owns the risk and accountable for relevant risk control implementation; second line of defence (Market and Liquidity Risk Management) who oversees the first line, monitors risk management activities and supports controls and third line of defence (Internal Audit) who provides assurance that the risk management process is effectively in place.

14. IRRBB: Interest Rate Risk in banking book (Continued)

14.1 IRRBBA: Interest rate risk in banking book – risk management objectives and policies (Continued)

Risk Management and Governance (Continued)

Market and Liquidity Risk Management Division is the independent party to monitor the risk exposure and responsible to conduct stress tests, develop relevant policies and procedures, and review the assumptions which is related with the risk measures.

The Bank monitors the interest rate risk exposures against risk control limits. Sensitivities (“ Δ ”) of net interest income (“NII”) and economic value of equity (“EVE”) are monitored on daily basis with management limits set and approved in committees. The IRRBB exposure is reported to the committees on monthly basis to ensure the activities are within the risk limits.

Sensitivity of net interest income

Δ NII measures the sensitivity of the Bank’s projected net interest income to fluctuations in interest rates across different scenarios, while holding all other economic factors constant. The sensitivity of net interest income reflects the Bank’s earnings vulnerability to shifts in market interest rates. It is derived from the reported interest rate repricing gaps outlined in the Interest Rate Risk Return. The impact on earnings is evaluated over a forward-looking 12-month horizon, applying the standardized interest rate shock scenarios prescribed by the HKMA.

Sensitivity of economic value of equity

Δ EVE represents the estimated change in the economic value of the Bank’s equity resulting from the six standardized interest rate shock scenarios prescribed by the HKMA, while all other economic variables are held constant. Changes in market interest rates affect the economic value of expected future cash flows from the Bank’s on- and off-balance-sheet positions. The economic value of an instrument is defined as the net present value of its projected cash flows, discounted at prevailing market rates. It quantifies the long-term impact of interest rate changes on the economic value of equity.

The Δ NII and Δ EVE shown in section 14.2 are indicative and based on scenarios and assumptions prescribed by the HKMA under its completion instructions for the Return of Interest Rate Risk in the Banking Book – MA(BS)12A, which is completed and reported quarterly.

Key modelling and parametric assumptions used in calculating Δ EVE and Δ NII include:

- a) commercial margins and other spread components are included from the interest cash flows calculation for Δ EVE, and all balance sheet items are discounted at risk free rates back to the reporting date; and
- b) all the positions captured are assumed to run to maturity and slotted into the appropriate time bands according to the earliest interest repricing date for the rest (as per MA(BS)12A); and
- c) prepayment risk is assumed for fixed rate loans with prepayment estimates based on customers behavior; and
- d) no early redemption risk is assumed as the Bank does not have fixed rate deposits subject to early redemption risk; and
- e) negative interest rate floor is set at -2% for all currencies.

The average and the longest repricing maturity assigned to Non-Maturity Deposit (“NMDs”) on 31 December 2025 was one day.

14. IRRBB: Interest Rate Risk in banking book (Continued)

14.2 IRRBB1: Quantitative information on interest rate risk in banking book

At 31 December 2025, the maximum decline in economic value of equity is in the ‘Parallel Up’ shock at HKD73 million. This translates to 5.93% of Tier 1 capital. The most adverse net interest income sensitivity scenario over the next 12 months is the ‘Parallel Up’ shock, resulting in a decrease in projected net interest income of HKD14 million as at 31 December 2025, as compared to HKD23 million as at 31 December 2024.

HKD million		(a)	(b)	(c)	(d)
		Δ EVE ¹		Δ NII ¹	
	Period	31 Dec 2025	31 Dec 2024	31 Dec 2025	31 Dec 2024
1	Parallel up	73	95	14	23
2	Parallel down	–	–	(14)	(23)
3	Steeper	8	–		
4	Flattener	46	31		
5	Short rate up	66	61		
6	Short rate down	–	–		
7	Maximum	73	95	14	23
	Period	31 Dec 2025		31 Dec 2024	
8	Tier 1 capital	1,231		788	

¹ Positive values of Δ EVE and Δ NII indicate losses under the respective scenarios, in accordance with the HKMA’s disclosure requirements.

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15. Operational Risk

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. This includes all non-financial risks such as legal, technology and fraud risks, but excludes strategic and reputational risk.

Operational risk management

The Board is ultimately responsible for establishing the operational risk appetite and ensuring the Bank's operational risk is appropriately managed. Risk Management Committee ("RMC") and Operational Risk Working Group ("ORWG") have been delegated to manage the Bank's operational risk strategy, policies and practices, oversee the operational risk management to ensure proper internal control are in place and in compliance with the regulatory requirements.

The Bank has implemented the "Three Lines of Defence" for its operational risk management. The Policy of The Management of Operational, Technology and Reputation Risk (the "Policy") sets our overall approach for managing operational risk in a structured, systematic and consistent manner. There are policies, guidelines and tools in place to govern operational risk management practices across the Bank. These include internal control policies and standards that are owned by the respective business units.

The Bank manages operational risk by using various tools, including Risk Control Self-Assessment (RCSA), operational risk incident management and risk metrics monitoring. Business continuity plans are established to ensure that critical banking operations and services can continue in the event of unforeseen events or business disruptions. Drills are conducted annually, simulating different scenarios to test business continuity plans and crisis management protocol.

Operational risk exposure

The Bank did not have any significant operational loss event reporting for the year ended 31 December 2025.

The capital adequacy ratios of the Bank were calculated in accordance with Banking (Capital) Rules ("BCR") of the Banking Ordinance. For operational risk, the Bank uses Basic Indicator Approach.

15.1 OR1: Historical losses

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
		T	T-1	T-2	T-3	T-4	T-5	T-6	T-7	T-8	T-9	Average
Using HKD200,000 threshold												
1	Total amount of operational losses net of recoveries (no exclusions)	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
2	Total number of operational risk losses	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
3	Total amount of excluded operational risk losses	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
4	Total number of exclusions	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
5	Total amount of operational losses net of recoveries and net of excluded losses	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-

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15. Operational Risk (Continued)

15.1 OR1: Historical losses (Continued)

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
		T	T-1	T-2	T-3	T-4	T-5	T-6	T-7	T-8	T-9	Average
Using HKD1 million threshold												
6	Total amount of operational losses net of recoveries (no exclusions)	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
7	Total number of operational risk losses	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
8	Total amount of excluded operational risk losses	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
9	Total number of exclusions	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
10	Total amount of operational losses net of recoveries and net of excluded losses	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
Details of operational risk capital charge calculation												
11	Are losses used to calculate the ILM (yes/no)?	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
12	If "no" in row 11, is the exclusion of internal loss data due to non-compliance with the minimum loss data standards (yes/no)?	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-
13	Loss event threshold: HKD200,000 or HKD1 million for the operational risk capital charge calculation if applicable	-	-	-	-	-	N/A	N/A	N/A	N/A	N/A	-

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15. Operational Risk (Continued)

15.2 OR2 : Business indicator and business indicator components breakdown

As at 31 Dec 2025		(a)	(b)	(c)
HK\$'000		T	T-1	T-2
1	Interest, leases and dividend component	82,921		
1a	Interest and leases income	295,901	209,809	144,675
1b	Interest and leases expenses	191,675	128,569	81,379
1c	Interest earning assets	8,131,490	4,449,532	2,790,351
1d	Dividend income	–	–	–
2	Services component	22,866		
2a	Fee and commission income	1,851	210	–
2b	Fee and commission expenses	–	–	–
2c	Other operating income	–	–	–
2d	Other operating expenses	1,810	64,726	–
3	Financial component	64,163		
3a	Net P&L on trading book	–	–	–
3b	Net P&L on banking book	118,475	56,488	17,525
4	BI	169,950		
5	Business indicator component (BIC)	20,394		

		(a)
6a	BI gross of excluded divested businesses and activities	–
6b	Reduction in BI due to excluded divested businesses and activities	–

15.3 OR3 : Minimum operational risk capital requirement

As at 31 Dec 2025		(a)
HK\$'000		
1	Business indicator component (BIC)	20,394
2	Internal loss multiplier (ILM)	1.00
3	Minimum operational risk capital requirement	20,394
4	Total RWA for operational risk	254,925

16. Remuneration

16.1 REMA: Remuneration policy

The Nomination and Remuneration Committee (the “NRC”) is designated by the Board to oversee the design and practice of the Bank’s remuneration system. NRC shall consist of not fewer than three (3) members and the majority of which should be Independent Non-executive Directors.

NRC takes into account of the Bank’s risk tolerance, risk management, business strategy and long term financial soundness in determining the Bank’s remuneration policy. The policy advocates pay-for-performance philosophy to ensure desirable behavior and work ethic that align with the Bank’s risk management framework, long term goals and strategies, with an aim to prevent misconduct behavior.

Remuneration Structure

The remuneration packages of employees comprise of fixed salary and variable remuneration. Following the total reward principle and prevailing market practices, payments of remuneration are required to follow the policy to maintain an appropriate balance that the fixed portion is sufficient to attract and retain competent employees and the variable portion should not induce excessive risk taking. The proportion of variable remuneration is expected to increase in line with the seniority and responsibilities of employees.

Fixed remuneration mainly refers to base salary, pension rights, and benefits-in-kind (if any). Variable remuneration mainly includes cash bonus payments, sales incentives and share-based incentives (if any). Variable remuneration is discretionary and is awarded based on overall performance of the Bank, the relevant business units and the individual employee.

Performance management and determination of variable remuneration

Performance of the Bank will be evaluated against pre-defined and assessable financial and non-financial targets, including but not limited to the Bank’s performance on risk management perspectives. Based on the Bank level targets, performance of individual employees will be determined according to the job responsibilities, contributions covering both financial and non-financial factors, and the full adherence to the code of conduct, compliance standard, risk management requirements and other internal control policies. The overall performance of an employee is therefore measured and determined by not only financial achievement, but also non-financial indicators. For employees with risk control functions, they should be compensated in a manner that is independent of the performance of the business area which they oversee.

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16. Remuneration (Continued)

16.1 REMA: Remuneration policy (Continued)

Payout and deferral of variable remuneration

The award of variable remuneration is subject to deferment in accordance with the remuneration policy. In general, the proportion of variable remuneration with respect to the share-based incentive, sales incentive, and Senior Executive Members' and Key Personnel's annual cash bonus are subject to deferment.

Ongoing monitoring of the remuneration system

The NRC shall oversee the overall remuneration matters of the Bank including the regular review on the adequacy and effectiveness of the remuneration policy. Any material weakness identified shall be reported to the Board. Involvement and inputs from risk management, finance, internal audit and compliance shall be solicited as appropriate in the design and implementation of the remuneration systems, with specific regard to risk considerations at various levels of the Bank.

16.2 REM1: Remuneration awarded during financial year

As at 31 Dec 2025

HK\$'000

Remuneration amount and quantitative information			(a)	(b)
			Senior Executive Member ¹	Key personnel ²
1	Fixed remuneration	Number of employees	11	6
2		Total fixed remuneration	12,417	6,929
3		Of which: cash-based	12,417	6,929
4		Of which: deferred	–	–
5		Of which: shares or other share-linked instruments	–	–
6		Of which: deferred	–	–
7		Of which: other forms	–	–
8		Of which: deferred	–	–
9	Variable remuneration	Number of employees	11	6
10		Total variable remuneration	5,229	1,062
11		Of which: cash-based	5,219	1,062
12		Of which: deferred	1,391	326
13		Of which: shares or other share-linked instruments	10	0
14		Of which: deferred	10	0
15		Of which: other forms	–	–
16		Of which: deferred	–	–
17	Total remuneration		17,646	7,991

¹ Senior Executive Member refers to the Chief Executive, Alternative Chief Executives and all voting members of the Management Committee of the Bank.

² Key Personnel refers to employees whose duties or activities in the course of the employment involve the assumption of material risk or taking on of material exposures on behalf of the Bank.

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16. Remuneration (Continued)

16.3 REM2: Special payment

As at 31 Dec 2025

HK\$'000		(a)	(b)	(c)	(d)	(e)	(f)
		Guaranteed bonuses		Sign-on awards		Severance payments	
Special payments		Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
1	Senior management	–	–	2	700	–	–
2	Key personnel	–	–	–	–	–	–

16.4 REM3: Deferred remuneration

As at 31 Dec 2025

HK\$'000		(a)	(b)	(c)	(d)	(e)
Deferred and retained remuneration		Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to explicit and/or implicit adjustment	Total amount of amendment during the year due to explicit adjustments	Total amount of amendment during the year due to implicit adjustments	Total amount of deferred remuneration paid out in the financial year
1	Senior management	2,250	2,250	–	–	–
2	Cash	2,240	2,240	–	–	–
3	Shares	10	10	–	–	–
4	Cash-linked instruments	–	–	–	–	–
5	Other	–	–	–	–	–
6	Key personnel	559	559	–	–	–
7	Cash	559	559	–	–	–
8	Shares	0	0	–	–	–
9	Cash-linked instruments	–	–	–	–	–
10	Other	–	–	–	–	–
11	Total	2,809	2,809	–	–	–

17. Asset encumbrance

ENC : Asset encumbrance

As at 31 Dec 2025

HK\$'000	(a)	(c)	(d)
	Encumbered assets	Unencumbered assets	Total
Balances with banks and central bank	–	1,083,711	1,083,711
Placements with and advances to banks	–	801,683	801,683
Investment securities	150,000	6,694,655	6,844,655
Loans and advances to customers	–	3,607,831	3,607,831
Amount due from related companies	–	775	775

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17. Asset encumbrance (Continued)

ENC : Asset encumbrance (Continued)

As at 31 Dec 2025

HK\$'000	(a)	(c)	(d)
	Encumbered assets	Unencumbered assets	Total
Property, plant and equipment	–	3,886	3,886
Intangible assets	–	25,222	25,222
Right-of-use asset	–	8,260	8,260
Other assets	–	8,508	8,508
Total	150,000	12,234,531	12,384,531

18. Off-balance sheet exposures (other than derivative transactions)

As at 31 Dec 2025

HK\$'000	Contractual amount	RWA
Direct credit substitutes	–	–
Transaction-related contingencies	–	–
Trade-related contingencies	–	–
Note issuance and revolving underwriting facilities	–	–
Forward asset purchases, amounts owing on partly paid-up shares and securities, forward forward deposits placed and asset sales with recourse	–	–
Other commitments		
– Which are unconditionally cancellable	83,728	6,480
– With an original maturity of not more than one year	–	–
– With an original maturity of more than one year	–	–
	<u>83,728</u>	<u>–</u>

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19. International claims

International claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account any risk transfer. Transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country. Only regions constituting 10% or more of the aggregate international claims after taking into account any recognised risk transfer are disclosed.

As at 31 Dec 2025 HK\$'000			Non-bank private sector		Total
	Bank	Official sector	Non-bank financial institutions	Non-financial private sector	
Offshore centres					
of which: Cayman Islands	181,414	–	1,460,982	74	1,642,470
Developing Asia and Pacific					
of which: China	989,950	–	–	568	990,518
Developed countries					
of which United States	207,597	3,167,154	–	–	3,374,751

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20. Loan and advances

(a) Sector information

As at 31 Dec 2025 HK\$'000	Outstanding balance	Balance covered by collateral/ other security
Gross loans and advances for use in Hong Kong	3,749,385	–
– Manufacturing	92,554	–
– Building and construction, property development and investment	642,368	–
– Electricity and gas	–	–
– Recreational activities	34,142	–
– Information technology	92,596	–
– Wholesale and retail trade	2,214,472	–
– Transport and transport equipment	166,061	–
– Miscellaneous	507,192	–
	<u>3,749,385</u>	<u>–</u>

The amount of impaired and overdue advances to customers and expected credit loss provision for industry sectors which constitute not less than 10% of the Bank's total advances to customers are as follows:

As at 31 Dec 2025 HK\$'000	Impaired advances to customers	Overdue > 3 months advances to customers	Stage 3 expected credit loss provision	Stage 1 & 2 expected credit loss provision
Gross loans and advances for use in Hong Kong				
– Building and construction, property development and investment	43,286	43,286	12,365	9,451
– Wholesale and retail trade	194,931	194,916	61,301	32,926
– Others	64,103	64,102	15,439	16,054
	<u>302,320</u>	<u>302,304</u>	<u>89,105</u>	<u>58,431</u>

(b) Geographical information

The following table shows the gross loans and advances to customers by country or geographical area in accordance with the location of counterparties after taking into account any risk transfers. Risk transfers in relation to loans and advances to customers means that the loans and advances are guaranteed by a person different from that of the customer. Major geographical segment constitutes not less than 10% of the Bank's total amount of loans and advances to customers after taking into account any recognized risk transfer is as follow.

As at 31 Dec 2025 HK\$'000	Gross loans and advances to customers	Impaired loans and advances to customers	Overdue loans and advances to customers > 3 months	Specific provisions	Collective provisions
Hong Kong	3,749,385	302,320	302,304	89,105	58,431
	<u>3,749,385</u>	<u>302,320</u>	<u>302,304</u>	<u>89,105</u>	<u>58,431</u>

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21. Overdue and rescheduled assets

(a) Loans and advances overdue for more than 3 months

As at 31 Dec 2025 HK\$'000		% of gross loans and advances to customers
Balances which have been overdue for:		
– 6 months or less but over 3 months	42,569	1.14%
– 1 year or less but over 6 months	70,060	1.87%
– over 1 year	189,675	5.06%
	302,304	8.06%
Current market value of collateral	–	
Covered portion by collateral	–	
Uncovered portion by collateral	–	
Credit impairment allowances	89,105	

Credit risk mitigation against such loans and advances are guarantees under the SME Financing Guarantee Scheme by HKMC Insurance Limited

- (a) There were no rescheduled assets as at 31 December 2025.
- (b) There were no repossessed assets held as at 31 December 2025.
- (c) There were no advances to bank which were overdue for over 3 months.

22. Non-bank mainland exposures

The analysis of Mainland activities exposures is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Banking (Disclosure) Rules with reference to the HKMA Return of Mainland Activities, which includes the Mainland activities exposures extended by the Bank.

As at 31 Dec 2025 HK\$'000	Types of Counterparties	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
1	Central government, central government-owned entities and their subsidiaries and Joint Ventures	–	–	–
2	Local governments, local government-owned entities and their subsidiaries and JVs	192	–	192

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22. Non-bank mainland exposures (Continued)

As at 31 Dec 2025 HK\$'000 Types of Counterparties	On-balance sheet exposure	Off-balance sheet exposure	Total exposures
3 PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	450	–	450
4 Other entities of central government not reported in item 1 above	–	–	–
5 Other entities of local governments not reported in item 2 above	–	–	–
6 PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	–	–	–
7 Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	–	–	–
Total	642	–	642
Total assets after provisions	12,409,988		
On-balance sheet exposures as % of total assets	0.01%		

23. Foreign currency exposures

As at 31 Dec 2025 HK\$'000	USD	CNY	Total
Spot assets	6,748,473	1,467	6,749,940
Spot liabilities	2,214,626	27,287	2,241,913
Forward purchases	–	–	–
Forward sales	–	–	–
Net options position	–	–	–
Net long/(short) position	4,533,847	(25,820)	4,508,027

The Bank had no structural position as of 31 December 2025.

24. Abbreviations

Abbreviations	Brief Description
ALCO	Asset and Liability Committee
AT1	Additional Tier 1
BCR	Banking Capital Rules
BDR	Banking Disclosure Rules
BSC	Basic Approach
BRMC	Board Risk Management Committee
CCF	Credit Conversion Factor
CCP	Central Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Capital Buffer
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CFR	Core Funding Ratio
CIS	Collective Investment Scheme
CRM	Credit Risk Mitigation
CVA	Credit Valuation Adjustment
D-SIB	Domestic Systemically Important Authorized Institution
DTA	Deferred Tax Assets
ECL	Expected Credit Loss
EL	Expected Loss
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
JCCyB	Jurisdictional Countercyclical Capital Buffer
LAC	Loss-absorbing Capacity
LCR	Liquidity Coverage Ratio
LMR	Liquidity Maintenance Ratio
LR	Leverage Ratio
LTA	Look Through Approach
MBA	Mandate-based Approach
MI	Management Information
MIS	Management Information System
MSR	Mortgage Servicing Rights
NA	Not Applicable
NSFR	Net Stable Funding Ratio
PFE	Potential Future Exposure
RW	Risk Weight
RWA	Risk Weighted Amount

24. Abbreviations (Continued)

Abbreviations	Brief Description
RMC	Risk Management Committee
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
SME	Small and Medium Enterprises
STC	Standardized (Credit Risk)
STM	Standardized (Market Risk)