2019 ANNUAL REPORT

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HAITONG BANK, S.A.
Edifício Quartzo – Rua Alexandre Herculano, 38 | 1269-180 Lisbon | PORTUGAL
Registered Share Capital: 844 769 000 euros
Corporate Registration and Tax Payer Number: 501 385 932

Chairman and CEO's Review

Wu Min | CEO Lin Yong | Chairman

It is with a great sense of pride and achievement that we close another year with strong operating results and profitability. These achievements prove the resilience of our unique business model, combining local expertise in our domestic markets in Europe and Latin America with a strong Chinese heritage. As we have now delivered on our initial goals, we are now ready to embark on a new phase of development as we transition from turnaround to growth.

In 2019, Haitong Bank registered another year of consistent growth with Banking Income increasing by 10% from EUR 99 million to EUR 108 million. Operating Profit increased by 70% from EUR 21 million to EUR 36 million in 2019 as the Bank recorded a further improvement in its efficiency levels with a decrease of almost 7% in Operating Costs to EUR 72 million. This proves that we have been right in focusing on our strengths and avoiding low return businesses. Net Profit for the year has reached EUR 7.5 million, above the EUR 1.1 million registered in 2018. This Net Profit was penalised by one-off charges of EUR 9.9 million related to goodwill impairment in our subsidiary Haitong Capital, which shows our prudent stance in the way we value our assets.

We have also strengthened our Balance Sheet to prepare for our next stage of development. Haitong Bank continues to be one of the most capitalised banks in our industry with a CET1 ratio of 28.4% and Total Capital of 35.9% as at end 2019. From an asset quality perspective, the Bank has improved its NPL ratio from 8.2% in 2018 to 3.6% in 2019 vs a sector average of 7.2%.

"It is with a great sense of pride and achievement that we close another year with strong operating results and profitability."

These results show that we have delivered on our target of building strong foundations, together with a renewed corporate culture driven by performance with integrity.

We are particularly proud of the endorsement by our regulators for the progress achieved so far as well as of the recognition from other entities such as S&P, which upgraded Haitong Bank’s long-term credit rating in October 2019 on the back of our recent performance and improved prospects.

> *“These results show that we have delivered on our target of building strong foundations, together with a renewed corporate culture driven by performance with integrity.”*

As our Board nears the end of its mandate, it is time to look back on the achievements of the last three years. This Board has steered the creation of the building blocks for the Bank’s long-term sustainability. These involved a major overhaul of our Governance framework, a new strategic direction and business model, the emergence of a new corporate culture based on meritocracy and a permanent focus on strengthening the balance sheet in terms of capital, liquidity and asset quality. Thanks to this sense of purpose and determination, the Bank has steadily rebuilt its credibility with all stakeholders, including the regulators, clients, employees and our shareholders.

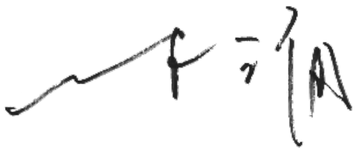
The future of Haitong Bank involves many challenges in a changing world marked by global imbalances, geopolitical issues and the emergence of new risk factors on a global scale.

Haitong Bank will continue striving for revenue consistency by focusing on growing the balance sheet and increasing deal origination both in our domestic markets as well as in China. The future Macau Branch will be an instrumental step in this, together with the continuous support of our shareholder.

This progress can only be delivered through a continuous focus on building the client franchise, offering bespoke innovative solutions, leveraging on the expertise of our professionals and constant improvements in our technology.

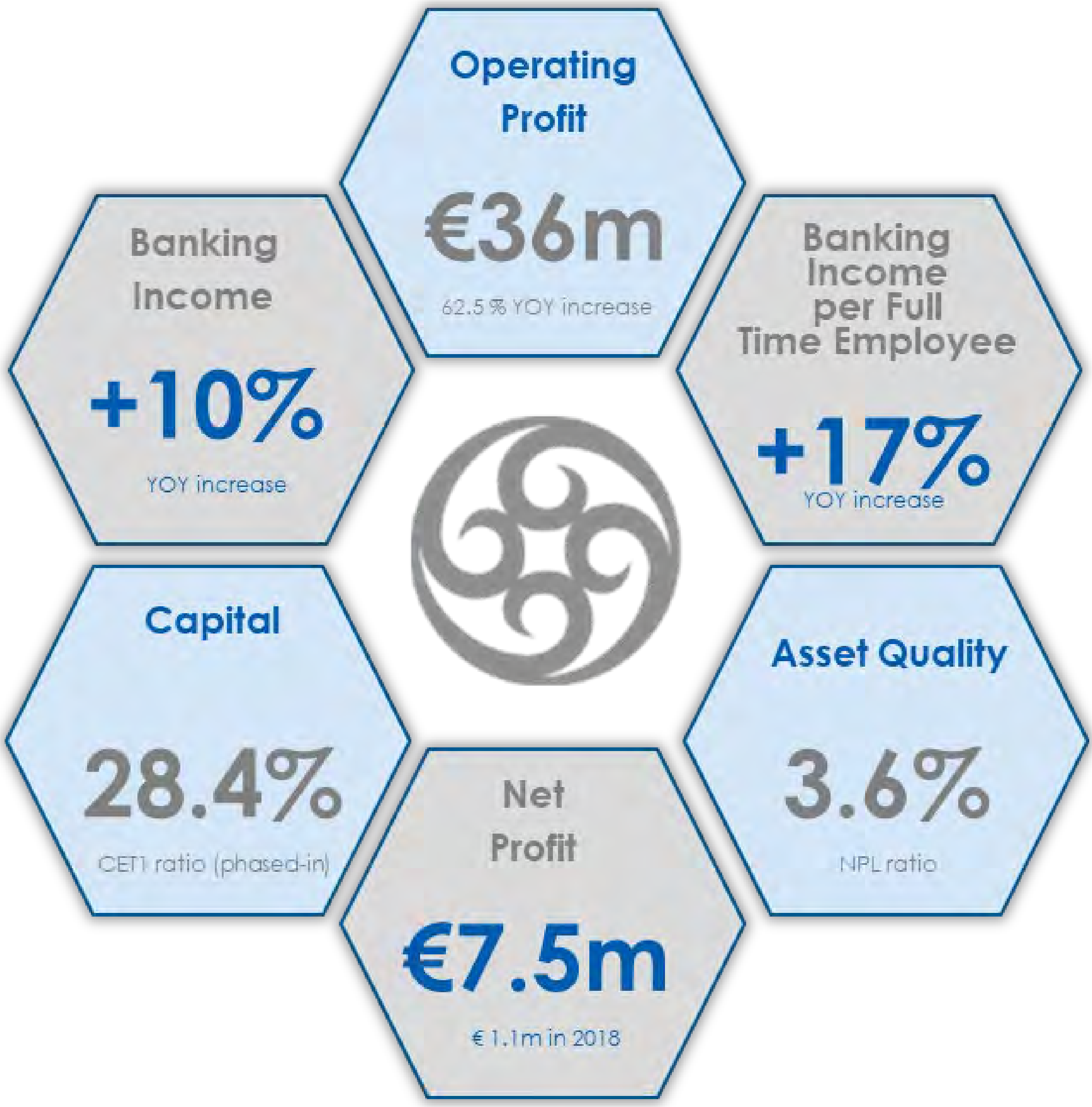
There are significant reasons to continue to be optimistic about the future of Haitong Bank.

Lin Yong



Wu Min

A Successful Turnaround



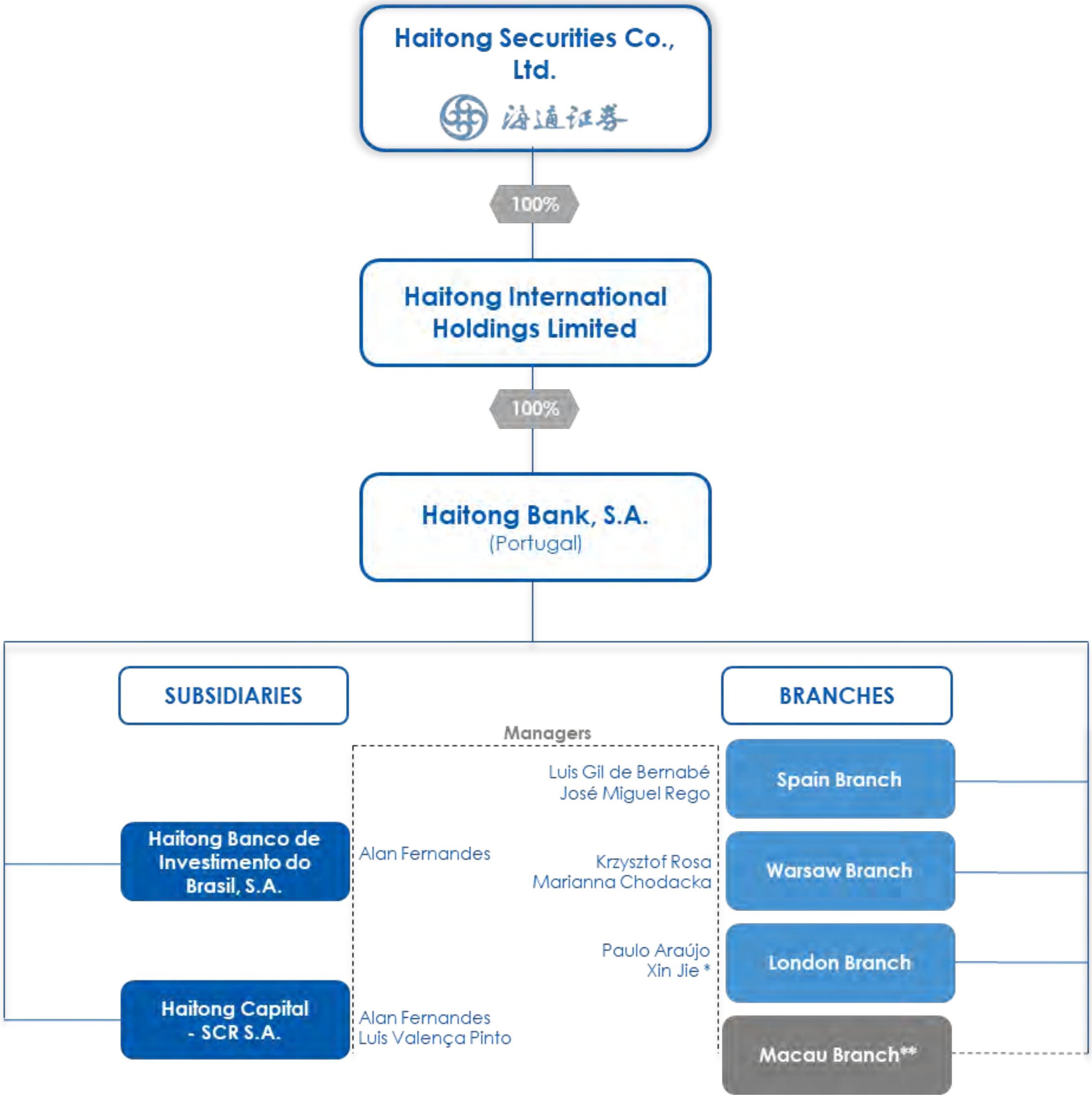
Haitong Bank has succeed in building strong foundations, achieving consistent profitability and becoming simpler and sustainable.

Key Indicators

	2019 December	2018 December	2017 December (restated)
Balance Sheet			
Total Assets	2 607	2 895	3 276
Total Liabilities	1 991	2 279	2 742
Total Equity	616	616	534
Results			
Banking Income	108	99	69
Operating Costs	-72	-78	-126
Operating Profit	36	21	-57
Impairment and Provisions	-23	-26	-79
Net Profit / Loss	8	1	-130
Profitability			
Return on average shareholders' equity (ROE)	1.2%	0.2%	-26.1%
Income before tax and non-controlling interests / Average equity (1)	2.0%	-1.8%	-29.5%
Return on average net assets (ROA)	0.3%	-0.2%	-3.2%
Income before tax and non-controlling interests / Average net asset (1)	0.4%	-0.3%	-3.3%
Banking Income / Average net assets (1)	3.9%	3.0%	1.7%
Efficiency			
Operating costs / Banking income (Cost to Income ratio) (1)	67.0%	82.0%	179.0%
Staff Costs / Banking Income (1)	41.3%	46.9%	110.6%
Credit Quality			
Loan Portfolio (gross)	327	536	750
Loan Loss Charge	2	19	49
Non-Performing Loans Ratio	3.6%	8.2%	37.0%
Non-Performing Loans Coverage	40.6%	35.1%	43.0%
Solvency			
CET1 ratio (phased-in)	28.4%	22.9%	21.2%
Total capital ratio (phased-in)	35.9%	28.9%	21.3%
CET1 ratio (fully-loaded)	28.2%	22.6%	20.3%
Total capital ratio (fully-loaded)	35.5%	28.5%	20.5%
Leverage			
Leverage Ratio (phased-in)	19.8%	18.6%	15.0%
Leverage Ratio (fully-loaded)	19.7%	18.4%	14.5%
Liquidity Position			
Net Stable Funding Ratio (NSFR)	181%	116%	149%
Liquidity Coverage Ratio (LCR)	537%	426%	610%
Loans to deposits ratio ((Gross loans - provisions) / customer deposits) (1)	31%	187%	124%
Total Headcount	364	389	462

(1) Bank of Portugal Reference Indicators (Notice 23/2011).

Organisational Structure



Through its operations located in Iberia, the UK, Poland and Brazil, Haitong Bank is committed to serving its domestic corporate and institutional clients alongside a growing Chinese Clients base through a team of nearly four hundred professionals.

**Bank of Portugal pending process*
*** Pending AMCM approval*

Senior Management

Board of Directors

Lin Yong
Chairman

Wu Min
Chief Executive Officer
CEO Office
Treasury & FICC
Corporate Solutions
Human Resources
Finance

Alan Fernandes
Executive Board Member
CEO Office of Haitong Banco de Investimento do Brasil, S. A.
Investment Banking *
Structured Finance
Asset Management
Haitong Capital – SCR, S.A.

Nuno Carvalho
Executive Board Member
Compliance & AML-FT
Legal
Special Portfolio Management
Information Technology
Administrative
Internal Audit

Vasco Câmara Martins
Executive Board Member
Risk Management
Rating
Operations

António Domingues
Non-Executive Board Member

Paulo Martins
Executive Board Member **

Poon Mo Yiu
Non-Executive Board Member

Pan Guangtao
Non-Executive Board Member

Vincent Camerlynck
Non-Executive Board Member

Zhang Xinjun
Non-Executive Board Member

Senior Managers with a Seat on the Executive Committee

António Pacheco
Head of Finance

Pedro Costa
Head of CEO Office
Head of Corporate Solutions
Secretary to the Executive Committee and Board of Directors

* *M&A and Capital Markets*
** *Mr. Paulo Martins resigned as Executive Director effective December 31st, 2019.*

Business Strategy

Haitong Bank's strategy is to connect clients and business opportunities across its broad network, combining long-standing expertise in Europe and LatAm with the Group's cross-border origination skills with a China Angle.

The Bank's strategy is underpinned by 3 drivers: (i) its domestic franchise in Iberia, Poland and Brazil, (ii) its China Angle, and (iii) the cross-border business among these regions as well as China.

Business Model

DCM

- Cross-border Eurobonds structuring and underwriting
- Local bonds issuance
- Short-term debt instruments

Structured Finance

- Project Finance / Project Bonds
- Acquisition Finance
- Corporate Lending / Bridge Financing
- Guarantees

M&A Advisory

- Sell-side and buy-side advisory
- Advisory on asset disposals
- Company valuations

FICC

- Flow Bond Trading and Sales
- Corporate Hedging Solutions

Investment Services

Asset Management

- Cross-asset Experience: Equity, Fixed Income and Quant
- Local expertise: Europe and China
- Discretionary Mandates and Fund management

Private Equity

- Infrastructure fund
- Growth capital funds

Capital Markets

OVERVIEW

The Capital Markets Division comprises origination, structuring and execution of market-oriented debt and equity instruments. The Bank provides its services to corporates, financial institutions, public companies and state-related entities.

In the Debt Capital Markets (DCM) area, the Bank engages in structuring debt instruments, namely domestic debt issues and cross-border issues, especially related to China and other emerging markets, as well as hybrid products, project bonds and commercial paper programmes.

The Equity Capital Markets (ECM) area comprises privatisations, initial public offerings (IPOs), capital increases, takeover offers, private placements, block trades and delistings as well as equity-linked instruments, such as convertible bonds and equity derivative instruments for corporate clients.

43%

Weight in Total Banking Income

€47.0m

Banking Income Amount

STRATEGY

The Capital Markets business area is mainly focused on DCM activities with a residual ECM origination particularly in markets where the Bank retains some research coverage (Poland).

The DCM business strategy is based on two pillars: (i) Historical franchise (local debt issuance in Portugal, Spain, Poland and Brazil), leveraging on its local underwriting, structuring and distribution capabilities; and (ii) China-related business, leveraging on Haitong Group-wide origination capabilities and Haitong Bank's underwriting, structuring and distribution competences.

OFFERING

- ✓ **Cross-border Eurobonds structuring and underwriting**
- ✓ **Local Bond Issuance**
- ✓ **Short-term debt instruments**

The Bank is well positioned to play the "China House" role leveraging on its prominence over the last 2 years in EUR denominated transactions for Chinese issuers. In addition, the Bank will leverage on the Group's unique access to Asian pools of demand. This includes the growing opportunities in Panda Bond markets as China opens up to foreign issuers in local CNY denominated instruments.

Well positioned to play the "China House" role

2019 MARKET REVIEW

Overall, global DCM activity totalled USD 7.7 trillion during 2019, a 14% increase compared to 2018 and the strongest annual period for global DCM activity since records began in 1980.

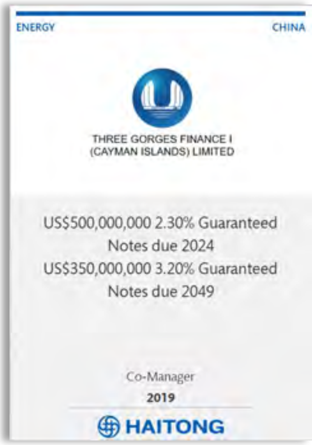
The volume of global high yield corporate debt reached USD 407 billion during 2019, an increase of 54% compared to 2018 and the strongest annual period for global high yield issuance since 2017. China accounted for 12% of global issuance, more than doubling 2018 levels. High yield offerings from European issuers increased 28% compared to 2018 and accounted for 26% of 2019 activity, down significantly from 32% a year ago.

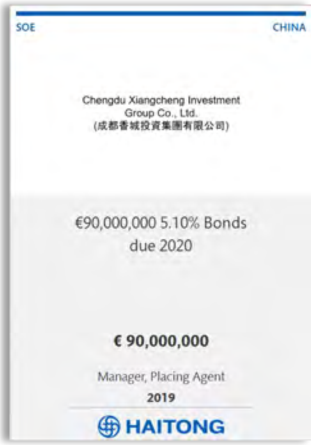
Debt from emerging market corporate issuers totalled USD 333 billion during 2019, up 32% compared to a year ago. Corporate debt issuers from India, Thailand, Mexico and Brazil accounted for 51% of 2019 activity. Issuance from corporations in India, Russia and the United Arab Emirates increased 79%, 7% and 1%, respectively, compared to a year ago.

International bond offerings totalled USD 4.0 trillion during 2019, a 9% increase compared to a year ago and a two-year high. International offerings from issuers in Germany, France and the United Kingdom accounted for 23% of the overall issuance, down from 26% a year ago. International bond issuance from Chinese issuers increased 38% compared to FY2018. Green bond issuance totalled USD 174 billion in FY2019, a 31% increase compared to year ago levels and an all-time record.

Asian local currency bond offerings totalled USD 2.0 trillion during FY2019, a 41% increase compared to a year ago and the strongest annual period for issuance since records began in 1980. China Yuan offerings have increased 47% compared to a year ago.

ACTIVITY HIGHLIGHTS





Haitong Bank continues to successfully bring Chinese borrowers to the international debt capital markets via both public and private placement formats, having participated in over 20 transactions. Some of the cross-border DCM transactions successfully closed by Haitong Bank in 2019 include:

- EUR 90 million 5.1% notes due 2020 for Chengdu Xiangcheng Investment Group Co., Ltd.;
- Two bond issues by Three Gorges Finance I (Cayman Islands) Ltd.: the USD 500 million 2.3% Guaranteed Notes due 2024 and the USD 350 million 3.2% Guaranteed Notes due 2049;
- Two bond issues by Yuyao Economic Development Zone Construction Investment and Development Co., Ltd., guaranteed by Yuyao Shuncai Investment Holding Co., Ltd.: the issue of USD 100 million 7.0% guaranteed bonds due 2021 and the issue of USD 100 million 6.0% guaranteed bonds due 2022;
- The issue by Zunyi Road and Bridge Construction (Group) Limited of USD 120 million 8.0% bonds due 2022 and a following tap of USD 220 million;
- The issue of guaranteed bonds for a company in the metals and mining sector: USD 200 million 7.375% due 2021 issued by New Dian Group Pte. Ltd. unconditionally and irrevocably guaranteed by Kunming Iron & Steel Holding Co., Ltd.;

- EUR 70 million 5.2% due 2019 private placement bonds for Yongcheng Coal & Electricity Holding Group Co., Ltd.; and
- USD 80 million 7.55% due 2020 bonds issued for Guian New District Development And Investment Co., Ltd..

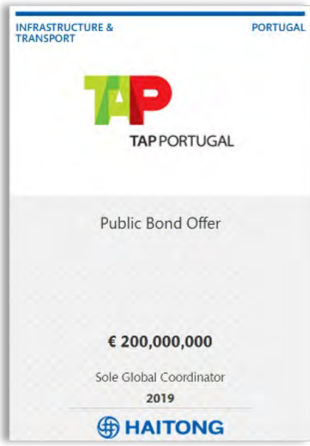
In Portugal, Haitong Bank's DCM activity in 2019 was marked by the leadership of four major transactions:

- Sport Lisboa e Benfica – Futebol, SAD's (Benfica SAD) combined public bond subscription and exchange offer;
- Mota-Engil, SGPS, S.A.'s (Mota-Engil) combined public bond subscription and exchange offer;
- Transportes Aéreos Portugueses, S.A.'s (TAP) debut public bond subscription;
- José de Mello Saúde, S.A.'s (Mello Saúde) private bond offering and exchange offer.

In May, Benfica SAD concluded a dual tranche transaction (public offer of bonds and public exchange offer of bonds) for a total of EUR 40 million. Final total demand reached EUR 118.5 million, via 4,973 investors. The new bonds mature in May 2022 and have a fixed rate coupon of 3.75% per annum, payable semi-annually. This was Benfica SAD's ninth bond issue in the capital markets and its first exchange offer. Haitong Bank acted as Sole Global Coordinator in this transaction.

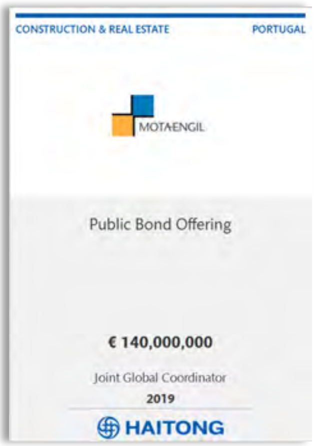
In June, TAP debuted with a public bond issue of EUR 200 million, a 4-year tenor and a fixed rate coupon of 4.375% per annum, payable semi-annually. This was the largest corporate public bond offer in Portugal since 2012. The transaction saw strong investor demand with a high quality and granular order book, generating approximately EUR 162 million in demand from 6,057 retail investors. The strong appetite from investors allowed for a significant increase in the issuance volume. The final volume was increased 4 times to EUR 200 million compared with the initial minimum volume of EUR 50 million. The final allocation split between retail and institutional was EUR 105 million to the retail segment and EUR 95 million to the institutional segment. This was the first public bond offer in the Portuguese debt market with two segments dedicated to a specific investor type (professional investors and TAP clients and employees). Haitong Bank acted as Arranger and Sole Global Coordinator in this transaction.

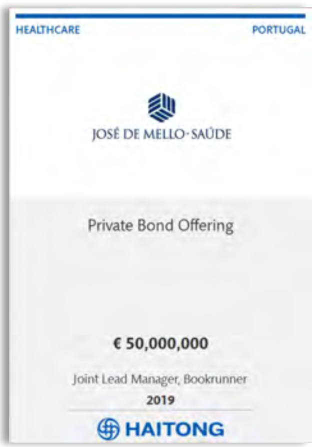
In October, Mota-Engil concluded a public bond issue for the amount of EUR 140 million. The issuance was achieved through two total and voluntary public exchange offers and one public bond offering. The new bonds mature in October 2024 and have a fixed rate coupon of 4.375% p.a., payable semi-annually. Total demand reached approximately EUR 200 million. Haitong Bank acted



as Joint Global Coordinator in this transaction. In December, the original amount was increased through a tap of close to EUR 28 million for which Haitong Bank acted as Joint Arranger.

In November, Mello Saúde concluded a private bond offering for the amount of EUR 50 million. The issuance was achieved through one total and voluntary exchange offer and one private bond offering. The bonds mature in January 2027 and have a floating rate coupon equal to Euribor 6 months +3.875% p.a., payable semi-annually. Total demand reached approximately 1.75x. Haitong Bank acted as Joint Lead Manager and Bookrunner in this transaction.





Given the more benign global environment and the approval of the 2020 budget we expect issuers to tap the markets frequently with benchmark deals as in previous years. After a positive take-up by retail investors of non-rated issues by well-known names in the Portuguese market, we could potentially see a renewed pipeline of similar transactions this year. The increasing trend for green or sustainable bonds has also spread to Portuguese issuers with EDP, Pestana Group and Sociedade Bioelétrica do Mondego (Celbi Group) issuing green bonds during 2019, so we could expect to have more deals that can be classified as green or sustainable during 2020 in our market. The Bank is also making an additional effort to cover a more diversified and enlarged client base that could result in a higher number of opportunities leading to new deals during 2020.

In Spain, 2019 represented a comeback and the consolidation of Haitong Bank as an active player in the capital markets. During the year, the team continued the repositioning of the Bank's DCM business in the country while executing and increasing the pipeline.

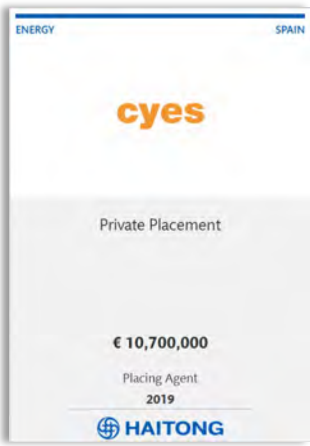
The first half of the year was very intense in terms of new issues from large companies taking advantage of the low interest rates and this generated high competition amongst banks to lead those issues while during the second half of 2019 we saw a slowdown in the number of new issues.

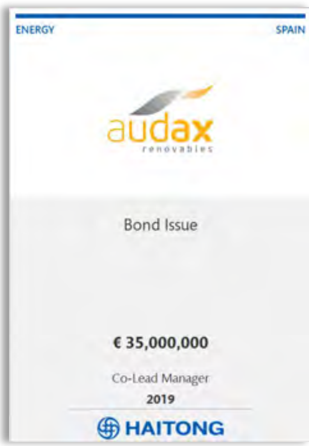
The Bank has been very successful in three main businesses: i) renewable energy sector, financing / refinancing single assets or portfolio of assets; ii) short-term corporate financing; and iii) long-term corporate financing. In all cases, the Bank has been able to execute the transactions with institutional investors.

The most important and executed transactions are the following:

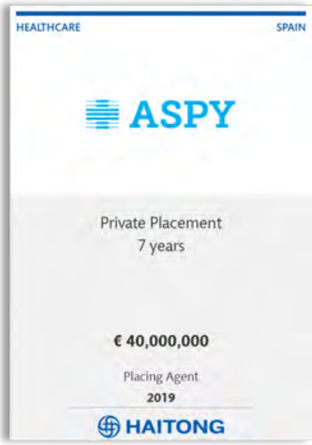
- EUR 60 million financing to CSE SUR, a subsidiary of Clean Sustainable, which manages and operates its own portfolio of biomass plants, cogeneration plants and biomass centres (155 MW). CSE Sur signed a EUR 60 million, 10-year HoldCo Secured private placement with two institutional investors. This transaction represents a new source of financing and CSE's first foray into European capital markets. Haitong Bank advised CSE on structuring and obtaining the financing priced with a fixed coupon to avoid execution and interest risks;

- EUR 50 million commercial paper program for Solaria Energía y Medio Ambiente, a renewables company, focusing in particular on solar photovoltaic power generation. Haitong Bank was one of the three Dealers of the commercial paper program;
- EUR 5 million, 1-year, commercial paper program for Audax Renovables, an independent company that generates electricity using 100% renewable sources, as well as selling electricity and gas. Haitong Bank acted as Dealer for this private placement among its institutional clients;
- EUR 10.7 million, 22-year private placement for CYES Solar, an independent renewable energy generator. In this particular transaction the Bank acted as the Financial Adviser of CYES for arranging and structuring the refinancing of a 3.2 MW photovoltaic plant that was placed with one institutional investor;
- EUR 35 million, 5.5%, 2023 bond tap for Audax Renovables, an independent company that generates electricity using 100% renewable sources, as well as selling electricity and gas. Haitong Bank acted as Dealer for this private placement among its institutional clients and as Co-Lead Manager;
- EUR 20 million (of a total programme of EUR 150 million) 1-year, commercial paper for AEDAS HOMES, a listed Spanish property developer, specialized in modern residential designs. Haitong Bank acted as Dealer;





- EUR 40 million for a Spanish company named ASPY, divided in two tranches: EUR 20 million, 7-year Term Loan fully disbursed at signing and EUR 20 million 3-year, Capex Facility. The whole financing was placed with just one lender and the purpose of these funds was for debt refinancing and acquisition financing. Haitong Bank was the Sole Financial Adviser of ASPY.



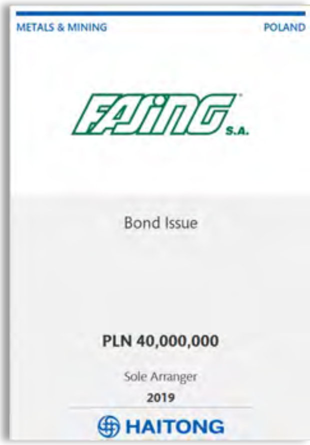
During 2020, we expect to continue to enjoy a favourable market environment for our activity, although it may be affected by the political situation. During the first quarter, we expect to see very strong activity from the large issuers as they take advantage of the low rates.

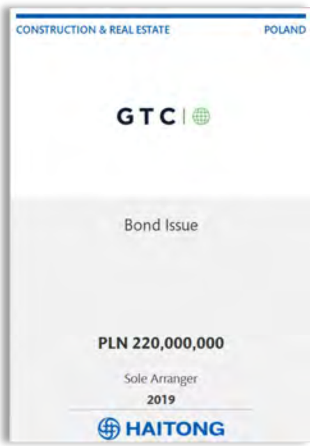
In Poland, after a very difficult 2018 due to turbulence in the capital markets, conditions slowly began to improve. The outflows from the funds halted and demand from institutional investors started to pick up. However, it should be emphasized that spreads are higher, some bond issues require better security and, generally, investors' risk appetite was lower than before 2018.

In this still difficult market conditions, in June Haitong Bank acted as Sole Arranger of a 3-year secured bond issue for Fasing S.A., a producer of chains for mining, shipbuilding and energy industries.

In November, Haitong Bank also acted as Sole Arranger in a 4-year PLN 220 million bond issue for Globe Trade Centre S.A. (leading commercial real estate developer and investor in the CEE and SEE region which currently operates in Poland, Budapest, Bucharest, Belgrade, Sofia and Zagreb). It was one of the largest corporate bond issues in the Polish market during 2019.

The Polish corporate bond market is very different from that of a few years ago. DCM in Poland is becoming more institutional, more transparent and the target investors (professional rather than retail) are changing. This means that there are fewer issuers and issues but in general less risky ones. The legal environment has also changed: the amendment to the law regarding the issue of bonds in Poland, which entered into force last year, also contributed to increasing investor security. Taking all of this into account, we expect 2020 to be a challenging year as the Polish market is undergoing a period of reconstruction, becoming more mature and more similar to the markets of developed countries.





In Brazil, DCM deals totalled BRL 270.1 billion in 2019, corresponding to a 22.3% YoY increase. The number of deals was practically constant at around 900 issues in 2019 and 2018, entailing plain vanilla corporate bonds, infrastructure bonds and securitizations. Debentures (corporate and infrastructure) corresponded to the bulk of the corporate fixed income market with a total amount of BRL 173 billion, which compares with 2018's BRL 158 billion figure.

During the year, Haitong Bank faced an extremely competitive environment in the Brazilian fixed-income markets, with a reduction in the number of deals and high concentration among the top 5 players (including the major privately-owned retail banks), which incurred a substantial reduction in fees and yields, not only with regards to the high-grade frequent issuers, but also those from mid-tier first time issuers shifting from solely bank bi-lateral credit lines.

We highlight that the fourth quarter witnessed a worsening of local DCM conditions, caused by a combination of continuous reduction of basic interest rate (Selic) at historical low levels, around 4.5% p.a. and, consequently, the strong migration movement by institutional investors from fixed income assets in general to other types of assets (i.e. the Brazilian local stock exchange which attained a maximum historical level of 115 thousand points). Such a shift resulted in a strong sell off of several type of debentures and other types of fixed income instruments widening spreads in secondary market and thus, creating higher benchmark yield levels.

This scenario confirms the opportunistic change of strategy carried out by Haitong Bank in Brazil in terms of client coverage for domestic debt capital markets. By mid-first half 2019, the Bank started to focus mainly on second tier companies, not widely covered by the big banks, continuing to yield positive effects. Besides acting as Sole Lead Manager for the BRL 27 million 14.5-year infrastructure bond of Lest, the Bank sustained its high yield pipeline, ending 2019 with an additional 3 mandates of private placement debentures and securitization deals.

In Brazil, the outlook for the Capital Markets business should be positive and promising. Financial markets in general have been stimulated by the fiscal and economic reforms after one year of the new presidential mandate, with a market consensus of 2.30% GDP growth for 2020, still combined with low interest rates. This should improve capex in several sectors and, in light of that, the Bank has identified business opportunities already translating into a realistic pipeline during the upcoming year.

2020 OUTLOOK

We believe 2020 will continue to be a good year for credit, with spreads mostly tighter across the asset class. Macro risks may contribute to some market volatility, but global growth appears to be stabilizing at the more modest levels consistent with the current economic cycle, while a trade deal has been achieved between the US and China.

Structured Finance

14%

Weight in Total Banking Income

€14.9m

Banking Income Amount

OVERVIEW

With a long track record and expertise in project finance, acquisition finance and other credits, the Structured Finance Division develops financing solutions and provides services to its clients through the following main activities:

- Structuring, arranging and underwriting debt facilities – mainly focusing on China-related transactions, acquisition finance and project finance-related deals in the infrastructure and energy sectors;
- Structuring of financing operations through bond issues under a project finance regime (“Project Bonds”);
- Financial advisory services – namely in connection with PPP projects’ structuring and bidding processes;
- Post-closing services – portfolio management and agency roles;
- Performance and payment guarantees.

OFFERING

✓ **Project Finance / Project Bonds**

✓ **Acquisition Finance**

✓ **Corporate Lending / Bridge Financing**

✓ **Guarantees**

STRATEGY

Haitong Bank’s Structured Finance business proposition and strategy are driven by the potential for China-related new business origination as well as by the Bank’s local positioning and execution capabilities in Europe and LatAm.

Taking advantage of Haitong Bank’s expertise in project finance and in the infrastructure sector, a particular focus is placed on cross-border business opportunities in coordination with Haitong Group and other investors.

A Structured Finance and Infrastructure Specialist with a China Angle

2019 MARKET REVIEW

In 2019, the Structured Finance division achieved total banking income of EUR 15 million with a cost to income ratio of 17%. This positive performance allowed for an operating profit of EUR 12 million.

The focus has been kept on the China-related business, while several other structured finance business opportunities have been originated in Portugal, Spain, the UK, Poland and Brazil with a number of mandates being secured.

The successful closing of a major deal in the UK for GBP 35 million with a top tier Chinese real estate developer, where Haitong Bank acted as Mandated Lead Arranger, is one example of the above--mentioned opportunities.

In Portugal, a particularly strong effort has been made and good dynamics have been observed in the areas of corporate lending and acquisition finance. As a result, Haitong Bank participated in the EUR 90 million syndicated credit facility under the form of Commercial Paper for one of the major well established corporate groups in Portugal and secured two additional mandates which the Bank expects to reach financial close in early 2020. In Spain, a number of lending opportunities are currently being developed by the Structured Finance team, including syndicated loans, refinancing deals and bank guarantee lines, while in Poland the Bank continues to be very active in providing banking guarantees to corporate clients and exploring other structured finance opportunities.

The active and careful management of the Bank's existing portfolio of credits and agency services, from both a risk and return perspective, has also continued to be one of the most important tasks for the Structured Finance Division.

Overall, in Structured Finance, the Bank continues to position itself as a solutions provider to its clients, covering both lending and financial advisory needs.

In Brazil, due to the new Federal Government's structural reforms such as the pension reform, the economy grew during 2019, having a very positive impact on the bank loan market and debt issuance in the capital markets. The Government maintained the infrastructure sector agenda with the execution of several auctions in the energy sector for transmission lines and energy generation, in the infrastructure sector (airports, railways and ports) and also in the oil exploration areas of pre-salt.

In this context, the Structured Finance activity was encouraging, especially taking into consideration the granting of financing to companies in the Oil & Gas, Environmental Management and Pulp & Paper sectors, as well as the signing of an advisory mandate for structuring long-term financing for a 286MW thermoelectric plant.

Structured Finance continues to collaborate with the Capital Markets, generating synergies and seeking mandates for bridge loan operations – for which the take-out will be structured through Capital Markets operations.

At the same time, the Bank continues to seek to position itself with investors, mainly Chinese and European, interested in closing structured financing transactions and in partaking in the infrastructure sector, namely in the railroad, transmission, generation, sanitation, highways, subway and waste management sectors.

2020 OUTLOOK

Guided by efficient utilization of the Bank's balance sheet, Haitong Bank's Structured Finance business prospects remain positive based on the Bank's strategic positioning and on the potential from China-related cross-border deals.

During 2020, the pipeline of deals at different stages should result in the successful completion of a number of transactions in several geographies.

In Brazil, the Bank's expectation for 2020 is for an even greater increase in financing activities due to the prospect of even greater GDP growth vs 2019.

The positive prospects for Haitong Bank's Structured Finance activity are also supported by the Bank's improved commercial structure and credit policies, which are likely to contribute to a stronger market positioning of the Structured Finance business as a key product within the full range of services the Bank offers to its clients.

Mergers and Acquisitions

19%
Weight in Total Banking Income

€20.4m
Banking Income Amount

OVERVIEW

The Mergers and Acquisitions (M&A) Division provides financial advisory services on the acquisition, sale or merger of companies. This division also provides services such as valuations, restructuring and feasibility studies.

Haitong Bank's dynamic M&A division leverages upon a team of experienced professionals with a longstanding local network and a strong execution track record in several geographies.

STRATEGY

Global institutional and strategic investors constitute an important part of the Bank's client base, taking advantage of Haitong Group's strong position in various markets, including support provided to Chinese companies in executing their internationalization strategy in Europe and Latin America.

OFFERING

- ✓ **Sell-side and buy-side advisory**
- ✓ **Advisory services on asset disposals**
- ✓ **Company valuations**

Local Player with China Angle

2019 MARKET REVIEW

In 2019, global Mergers & Acquisitions (M&A) activity decreased by 17.0% YoY in terms of value of completed transactions, totalling EUR 2.2 trillion, according to Bloomberg. Following the same trend, the number of completed transactions saw a decrease of circa 6% YoY to 23,163 operations. The financial sector saw the highest number of transactions completed, accounting for a total of EUR 517 billion in value terms. Cross-border transactions represented 40% of total completed transactions at a global level in volume terms, representing an aggregate value of EUR 875 billion.

The European market reflected the slowdown registered in global terms, with M&A in the region experiencing a decrease of 8.9% YoY in the number of completed transactions. Furthermore, the trend was even steeper when looking at the total value of completed transactions, which saw a considerable drop of 42% YoY to EUR 388.4 billion. Cross-border transactions remained the main catalyst for the European M&A market, accounting for 75% of the total value of completed transactions.

According to Bloomberg data, the Iberian M&A market in 2019 remained relatively stable in terms of the number of completed deals, albeit having decreased by a remarkable 73% YoY in value to EUR 23.7 billion. In Portugal, the M&A market registered 68 completed deals in 2019 (69 deals in 2018). However, the value of completed transactions saw a decrease of 23.7%, to EUR 1.8 billion, which can be mainly attributed to the announcement of three large energy and telecom deals in late December, pending completion. Taking into account the announced deals, Portugal recorded a value of EUR 5.7 billion, which represents a 133% increase vs. 2018. Spanish M&A activity reported a considerable decrease in 2019 of 74% in terms of value, achieving EUR 21.9 billion mainly as a consequence of the sharp decrease in foreign investment. Even including the announced deals, the total deal value still falls c.50% short of 2018 figures. Cross-border activity accounted for the most number of transactions in Iberia, representing 88% of the value of the deals in Portugal and 76% in Spain.

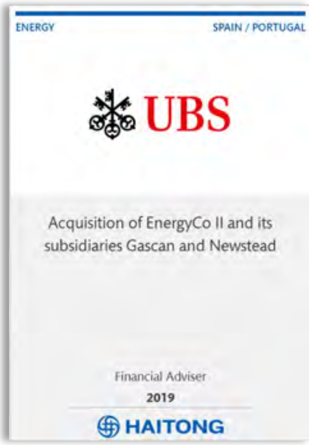
Brazil improved its macroeconomic conditions in 2019. In addition to focusing on the private sector to boost economic growth, the Government approved an essential pension reform and is working on key tax and administrative reforms and on austerity measures expected to be put in place during 2020. As a result, in 2019, Brazil reached the lowest basic interest rate ("Selic") in history. The M&A activity returned to the levels observed in 2014 in terms of value (c.BRL 220 billion) but still below the highs Brazil experienced in 2010 (BRL 302 billion). The competitive landscape was tough, with the largest commercial banks and the North American and European investment banks involved in most of the emblematic deals.

ACTIVITY HIGHLIGHTS

The M&A Division actively supported the Group on its cross-border transactions activity, providing advice and strategic reviews on China outbound transactions run by Haitong Group.

During 2019, Haitong Bank was very active in the Portuguese M&A market, participating in several deals and successfully completing three transactions in distinct sectors of activity, namely:

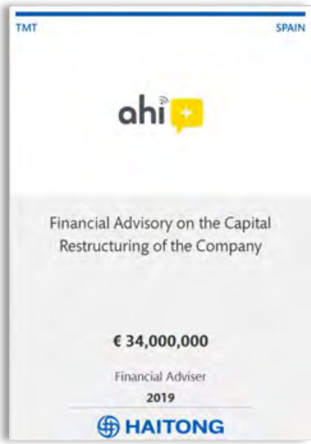
- Advisory Services to UBS Global Asset Management in the acquisition of Gascan – Gases Combustíveis, S.A. from Arta Capital, S.A. (March Group). Gascan is a Portuguese energy infrastructure company holding a leading position in the piped LPG distributor sector. UBS GAM is a global institutional investor with more than EUR 700 billion of assets under management. The deal closed swiftly in February 2019 upon completion of the transaction financing process. This transaction involved both Haitong Bank's teams in Portugal and Spain;
- Financial advisory services to Nutre SGPS, S.A in the sale of 100% of Nutre Indústrias Alimentares, S.A. ("Nutre Foods") to Stator Management. Nutre Foods is the leader in the Portuguese market in the development, production and distribution of innovative vegetable-based beverages and products;
- Financial advisory services to Sonae Capital, SGPS, S.A. on the sale of 70% of Race, SGPS, SA ("Race"). Race is the leading company in Portugal providing industrial and commercial refrigeration and HVAC engineering solutions, from design to installation and after-sales across all business sectors.



In Spain, Haitong Bank advised on the following transactions:

- Financial advisory services on the capital restructuring of Ahimas. This is a Spanish TMT operator that provides internet services and telecommunication solutions in cities/towns of less than 25,000 inhabitants, where it has being able to create its own infrastructure, offering internet access in rural areas and aiming to provide a wide quality range of services (such as FTTH, WiMAX/ Wifi, 4G/LTE and mobile and landline coverage);
- Financial advisory services to the controlling shareholders on the divestment of their stake in a European engineering company. The company is a global leading independent engineering firm with over 45 years in the industry and involved in nuclear, thermoelectric and renewables projects worldwide;
- Financial advisory services to the sale of 100% of the share capital of an asset management company in Spain. The company has over 20 years of asset management experience in the sector and circa EUR 900 million of assets under management. The deal is pending completion;
- Financial advisory services to Aldesa in the sale of a majority stake to CRCC International Investment Group Limited. Aldesa is a top 10 construction group in Spain and Mexico and has completed more than 2,000 contracts worldwide. The deal is pending completion.

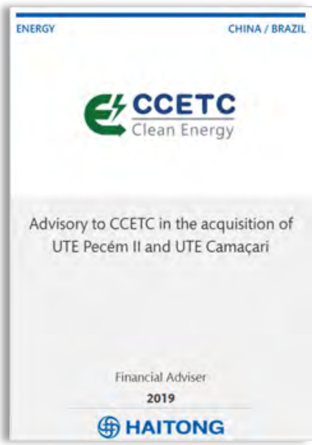
In the UK, Haitong Bank continues to focus on advising the professional services and financial services sectors, in particular raising capital (LP funds, credit facilities and equity). The team continues to support other Haitong Bank geographies on various mandates and opportunities, including currently in China and HK (working with Haitong International). Recent cross-border projects include assisting a Chinese business with identifying financing for its proposed acquisition of a European industrial business. None of these mandates should be impacted by the UK government's ongoing Brexit negotiations. Additionally, the partnership with Noble & Co in Scotland continues to perform well, with two significant fundraising mandates still in progress: advising a private bank now on its 8th funding round and advising an affordable housing fund, for which GBP 130 million has already been successfully raised. The bank is also working together with Noble & Co advising various businesses in the Fintech and LegalTech sectors.



During the year, Haitong Bank was very active in Poland, participating in a number of sell- and buy-side transactions and having successfully carried out two transactions, providing the following services:

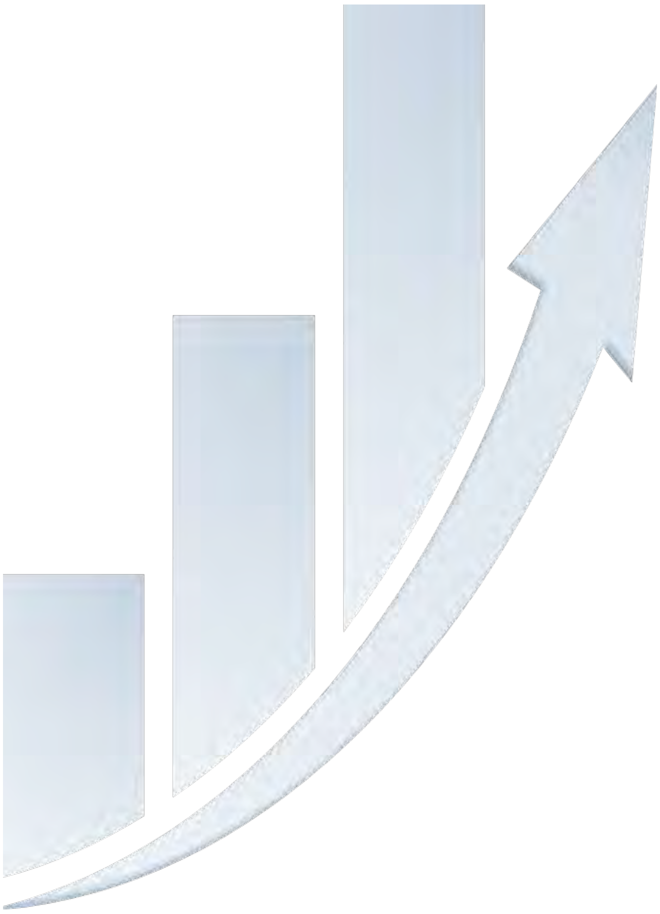
- Advisory services to the owners of Zakłady Chemiczne Permedia S.A. (a leading masterbatch manufacturer in the CEE) on the sale of its 100% stake to Lerg S.A. (a leading privately owned Polish chemical company);
- Advisory services to the owners of Grupa Wistil S.A. (a leading ceramics and textile producer in Poland) in the acquisition of Vertex S.A. (a blinds and curtains producer based in Poland) from Pisla Group (a distributor of decoration and hardware products in Scandinavia and the Baltics).

In Brazil, Haitong Bank acted in several transactions in the M&A market and executed 11 new mandates with focus on the electricity, infrastructure, services, health, pharma and tech sectors. However, the closing of some of the deals are expected to be effective only in 2020. The acquisition of Enérgica Camaçari Muricy II S.A. and Pecém Energia S.A. by Jiangsu Communication Clean Energy Technology Co. Ltd ("CCETC"), announced in 2018, was successfully closed in 2019.



2020 OUTLOOK

Despite macroeconomic uncertainties, M&A activity is expected to improve in 2020 fuelled by the rebound of cross-border activity, the significant amount of capital to be deployed by fund managers and the low interest rates environment. The Bank anticipates a positive year for this activity based on an encouraging deal pipeline.



Fixed Income, Currency and Commodities

OVERVIEW

10%
Weight in Total Banking Income

€11.1m
Banking Income Amount

The Fixed Income, Currency and Commodities (FICC) Division remains an important player in Haitong Bank's key markets (Iberia, Poland, Brazil and the UK). This Division works as a 'product factory' and as a distribution platform for debt products and OTC derivatives, bringing strong local knowledge to an international platform level and capturing the flow between clients in different regions.

The FICC team covers four areas:

- Flow Trading
- Fixed Income Sales
- Corporate Derivatives
- Syndication

STRATEGY

FICC will continue to follow Haitong Bank's strategic guidelines, making the necessary effort and developments to strength our local position in different geographies and add the Chinese Angle to our current offer. By building a strong connection with Chinese local teams and having dynamic teams in our different offices, it will be able to create important synergies and become an execution hub crossing flow and business opportunities from different geographies.

OFFERING

- ✓ **Flow Bond Trading and Sales**
- ✓ **Corporate Hedging Solutions**

Product development and international distribution platform based on strong local expertise

ACTIVITY HIGHLIGHTS

Flow Trading

During 2019, there was significant volatility in rates, which affected client flows and the overall activity, particularly in the first half. During that period, volatility stemming from political risk in Italy created a more difficult environment for the peripheral countries. As that risk faded and a "phase one" trade deal between the US and China became certain, overall risk taking and the chase for yield came back in full force, and spreads ended the year tighter. As a result, the turnover with clients was higher and the number of clients trading via the Bank's electronic platform increased, leading to a stronger client base. Accordingly, the volumes in target companies in Iberia, especially HY, were increased (primary and secondary alike) and Chinese issues in EUR started to get traction.

Fixed Income Sales

In Iberia, the team maintained its focus on strengthening the distribution capacity platform for FICC and investment banking products and was able to increase the number of active clients. During 2019, the team was able to provide relevant market information and obtain client reverse enquiries that helped Syndication and DCM pitch successfully for new primary deals. There was an increasing number of private placements, in particular in short-term debt that helped to strengthen the relationship with the Bank's corporate clients. The sales teams had a significant role in increasing the number of new primary markets deals and consequently made a strong contribution to revamping this activity. TAP, Mello Saúde, Mota-Engil and Mianyang Investment were the most significant bond issues distributed in 2019.

The Polish fixed income market rally started at the beginning of May, driven mainly by strong expectations for ECB easing (bazooka style QE) and possible rate cuts by the FED as well as the trade wars. The peak of the rally in local government bonds came in August/September when the bund hit a yield of -0.74%. In October, the ECB decided against any form of a bazooka-style response and the trend reversed.

The Polish Government bonds (POLGBS) were supported by the issuance policy of the Ministry of Finance. The Ministry decided to lower the amount at different auctions, which had influenced the price of the POLGBS. Thanks to this practice, POLGBS reached historically low rates. The rally was interesting. Foreign investors had decreased their holdings of POLGBS over the last 5-6 months of 2019 and, at the same time, were paying Interest Rate Swaps. In general, the PLN currency remains very stable and most swings were generated by global growth worries and occasional local factors, such as CHF loan rulings. Local investors have been looking for bonds with floating coupons like corporate bonds or government floaters. The lack of foreign investors had a big impact on the liquidity of POLGBS. Many local banks had to change their strategy and start to work with local investment funds more like brokers (intermediaries) and were taking much less risk on their trading positions.

The Brazilian capital markets have been through important changes in the last couple of years. During this period, the main financing channel has migrated from banks to the capital markets where institutional investors are the main players. In this process, new digital platforms were crucial in the emergence of new independent asset management boutiques.

The Brazilian economy has been recovering slowly and interest rates are now at their lowest ever level. This has led to the rebalancing of investors' portfolios in order to keep up returns in the long-term. This process affected the institutional credit market in the fourth quarter and led to the postponement of several transactions.

We believe that the markets will restart more intensive Capital Markets activity in the first quarter of 2020.

Considering the recent evolution in the industry, we think that a focus on second-tier names could bring good business opportunities to the Bank due to lower competition from other banks, leading to higher fees and commissions for Haitong Bank. We will keep pitching for low-fee high-grade deals as well, but in this segment the strategy is to team up with other banks.

Corporate Derivatives

2019 saw two very distinct performances by the Corporate Derivatives desk. In the first half of the year, there was a thorough review of the credit lines approval process based on an updated Risk Appetite Framework, in line with the business plan to expand the customer base. During this stage, the team targeted specific credit renewals, which prepared the landscape for the next period. In the second half, the desk doubled the traded volumes and increased the customer base by 20%. In addition, several demos of the FX platform have been held, significantly increasing the account leads and helping targets to be surpassed.

In terms of concentration by asset class, FX derivatives and energy commodities have been the main contributors to the performance. Interest rate volumes remain low and with no expectations of growth, in line with the macroeconomic backdrop – negative interest rates and no prospects of rate hikes from the EBC. This explains the low weight of this risk factor for corporate companies' decisions. In December, the team went live with the FX platform and there is some expectation that this tool will help the team and the Bank to increase the customer base significantly.

The Brazilian business environment has been undergoing many changes. Interest rates are at their lowest level ever and, at the same time, demand for FX hedging has decreased given the low volatility and lower demand from Tier I corporate names that have changed some long-term funding sources from Eurobonds to local Capital Markets. In the current environment, developing new solutions to meet client needs was crucial.

The team has made considerable sales efforts, targeting companies in the export sector in order to rebuild the derivatives portfolio and to create a more stable flow of transactions and revenues. Speeding up new client approvals was very important. FX transactions significantly increased during the fourth quarter through the opening of new client accounts.

Syndication

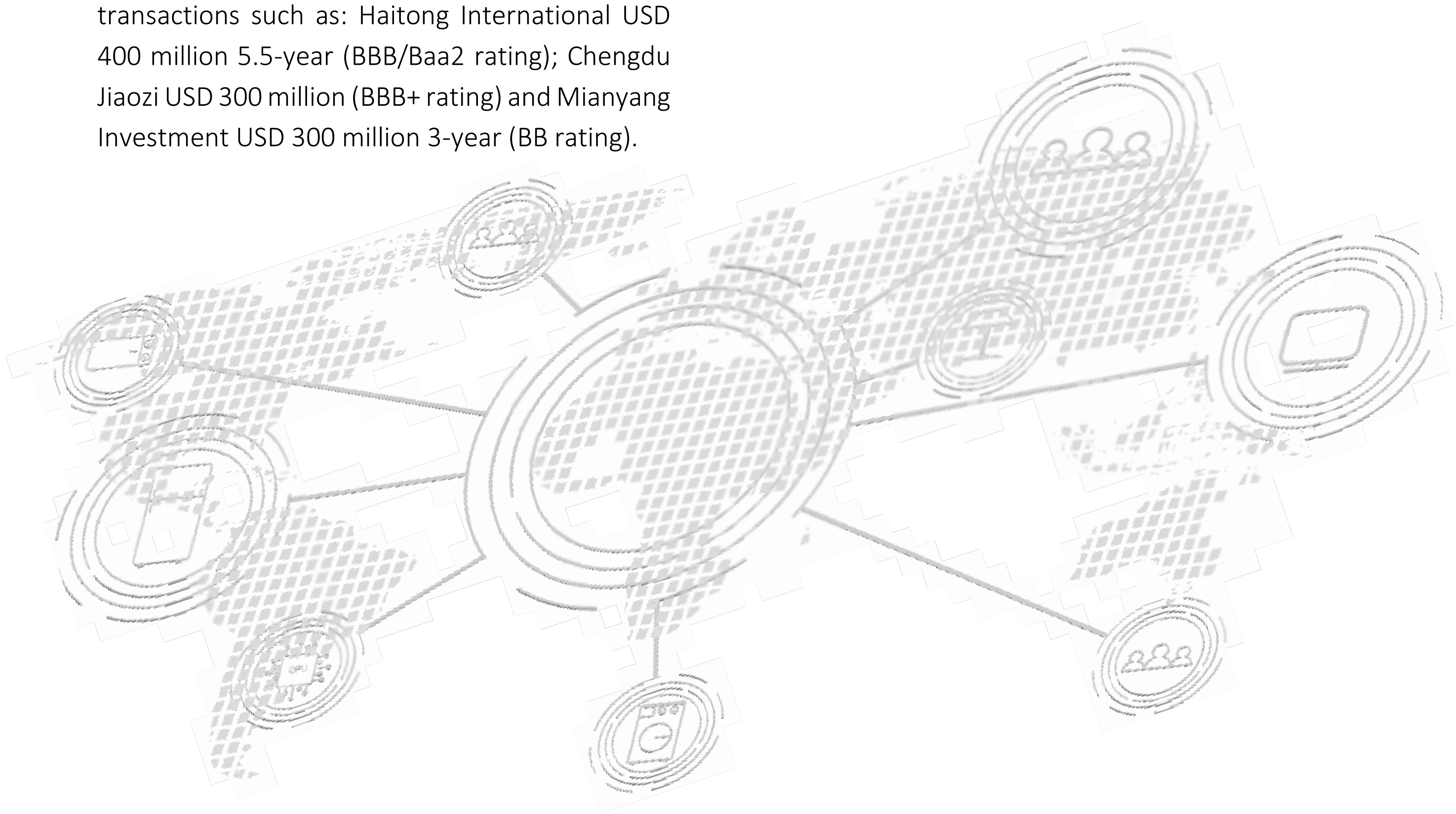
In terms of primary deals both in the Iberian and Chinese markets, 2019 saw a continuation of the improvement that started in the second half of 2018. The Bank was active in new issues from both Iberia and Asia. The syndicate team actively participated in every pitch made by DCM by providing accurate market reading and pricing. It also contributed to the execution of deals including marketing, roadshow organization, pricing and allocation.

Haitong Bank continued to provide access to a broad range of investors with a focus on Iberia. The new bond issued by TAP in June, in which Haitong Bank acted as Arranger and Sole Global Coordinator, should be a benchmark transaction for the future. The dual books (retail and institutional), the size (EUR 200 million after an initial target volume of EUR 50 million) and Haitong Bank's underwriting facility should be elements we expect to see in future issues from Iberian names. Also in the Iberian space, one should highlight the Mello Saúde exchange offer and new issue (EUR 50 million, 7-year), and the Mota-Engil exchange offer and new bond issue with dual books to retail and institutional (EUR 140 million, due 2024).

On the Chinese issuance front, the Bank was active in both private placements and benchmark transactions such as: Haitong International USD 400 million 5.5-year (BBB/Baa2 rating); Chengdu Jiaozi USD 300 million (BBB+ rating) and Mianyang Investment USD 300 million 3-year (BB rating).

2020 OUTLOOK

For 2020, the FICC team will remain committed to the coverage of international Institutional and Corporate clients. This will strengthen the Bank's distribution platform for different products and origination of Chinese-related business flow will arise from our international presence. The team will endeavour to develop infrastructure capabilities in order to provide clients with an efficient, high-quality service incorporating market trends, i.e., technological and regulatory changes.



Asset Management

OVERVIEW

The Asset Management Division acts as an Investment Manager on a range of different mandates and asset portfolios with a view to maximising absolute returns in the long-term, taking into account the risk profile defined by each mandate and the limits established for them.

2%
Weight in Total Banking Income

€1.9m
Banking Income Amount

Leveraging on a long and successful track record

STRATEGY

OFFERING

- ✓ **Discretionary Portfolio Management**
- ✓ **Fixed Income Asia Bonds Fund**
- ✓ **New initiatives: Green Bonds; Quantitative strategies**

The strategy is to expand this business activity by increasing Assets under Management (AuM) both in the equities and in fixed income portfolio.

The Bank's strong performance track record for over 17 years in the European equities portfolio is a key comparative advantage to drive AuM upwards.

2019 MARKET REVIEW

The rally in risk assets continued in the second half of 2019. However, some short-term risk aversion dominated the third quarter and this was owing to two main reasons: the first was the result of persistently weak global economic data, especially the global manufacturing PMI numbers and industrial production figures in some economies.

The other drag on risk sentiment was the back-and-forth of trade negotiations between the two largest economies. The US-China trade conflict was still on a downward path during the third quarter before quick and meaningful progress over a phase-one deal was struck in the fourth quarter. Concerns over global economic growth also alleviated into the last quarter as economic data started to stabilize. The central bank policies continued to be supportive given the uncertainties of growth. The ECB announced new measures to stimulate the economy, including restarting QE. The Federal Reserve balance sheet resumed its expansion in the third quarter. The PBOC of China cut the Required Reserve Ratio (RRR) by another 50bps in the second half of 2019.

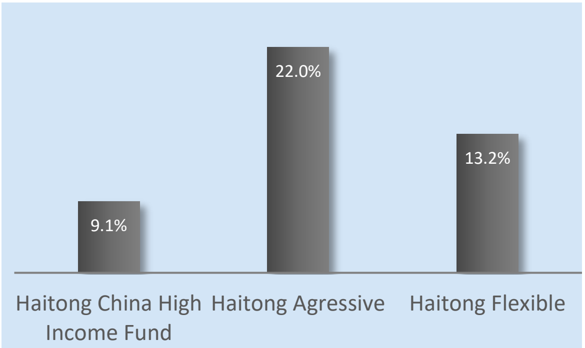
Supported by the accommodative policy environment and improving risk sentiment, the global equity market took an upward turn in the fourth quarter from the third quarter consolidations. US equity indices repeatedly refreshed all-time highs in the last months of the year. Meanwhile, government bond yields in Developed Markets bottomed out in the third quarter and started to rise slowly into the year-end. The US 10-year government bond yield rose from a 3-year bottom of around 1.5% to the year-end level of 1.9%, while the German 10-year Bund yield rose from an all-time low of -0.7% to -0.2% at the year-end.

2020 looks to be another challenging year. Risk drivers such as the trade conflict, Brexit and late-cycle growth concerns will continue to create volatility, but other topics should start to occupy the centre stage. The US presidential election campaign is heating up and geo-political conflict such the US-Iran relationship will be closely watched by market participants.

ACTIVITY HIGHLIGHTS

2019 was a very positive year for the performance of all strategies lead by the Asset Management team: Haitong Flexible ended the year up by 13.2%; Haitong Aggressive rose by 22.0% and the Haitong China High Income Fund, only available to qualified investors, registered a return of 9.1% in USD.

Strategies' performance



Source: Haitong Bank

The newly launched strategies also performed positively: Haitong Baifu Fixed Income Fund, launched on July 17th, rose 4.5% by year-end, while the new quant strategy Carbon Blend (euro hedged), launched at the end of November, gained 1.7%.

Regarding AuM in all strategies, the trend was very positive as global assets grew by more than 50%, benefiting mostly from new money but also from the positive performances.

This year was a game changing one for the Asset Management activity. The team's headcount increased, widening the experience and expertise of its professionals. With an average of 19 years of investment experience, the team now offers extensive equity experience together with Fixed Income and structuring experience as well as Quant programming, allowing Haitong Bank to deal with any challenge and fulfil demand in a robust way.

Two new mandates were launched in 2019: (i) in July, the Haitong Baifu Fixed Income Fund, the second strategy within the Chinese High Yield universe; and (ii) in November, the Carbon Blend (a Société Générale note) the first stand-alone product from the Quant team.

The team continues to work steadfastly to promote the existing strategies and create new ones suitable for target clients through the classic distribution channels (private banking and retail networks), but also with family offices and institutional clients as end clients. To that end, Haitong Bank has hired two new facilitator companies to help develop the distribution in Europe, targeting institutional investors in countries like Germany, Austria, France, among others.

The main objective is always to leverage on the team's long track record, expertise and experience and the thorough knowledge of the Asian market backdrop from our Shareholder, which together makes it possible for the team to create unique and added value products.

It is worth mentioning the very successful partnership with the FICC team in Shanghai that is to be continued in 2020 and from which the Banks expect to generate value for both clients and the Bank itself.

2020 OUTLOOK

The team expects that all the initiatives that have been started, in terms of product development and also in expanding the activity through new distribution channels, will lead to a significant increase in AuM again in 2020. Also in Asia, namely in Singapore, new distribution agreements are on the pipeline and we expect those to help meeting ambitious objectives in terms of growth.

It will continue to leverage on the local expertise of the Bank's Chinese Shareholder to create and develop differentiated products. Most importantly, the team will continue to focus on delivering the best possible risk-adjusted return for its clients.

Private Equity

OVERVIEW

6%
Weight in Total Banking Income

€6.8m
Banking Income Amount

Haitong Capital manages a portfolio of equity stakes in private companies.

Haitong Capital leverages on sector and geographical expertise to support companies wishing to expand their businesses. The ultimate goal is to provide investors with an absolute return on their investments.

Historically, this business area has managed a combination of seed capital from the Group and funds raised from external Tier I investors.

Besides its own equity, the firm manages three private equity funds dedicated to the infrastructure and buyout/capital development market segments across Europe.

STRATEGY

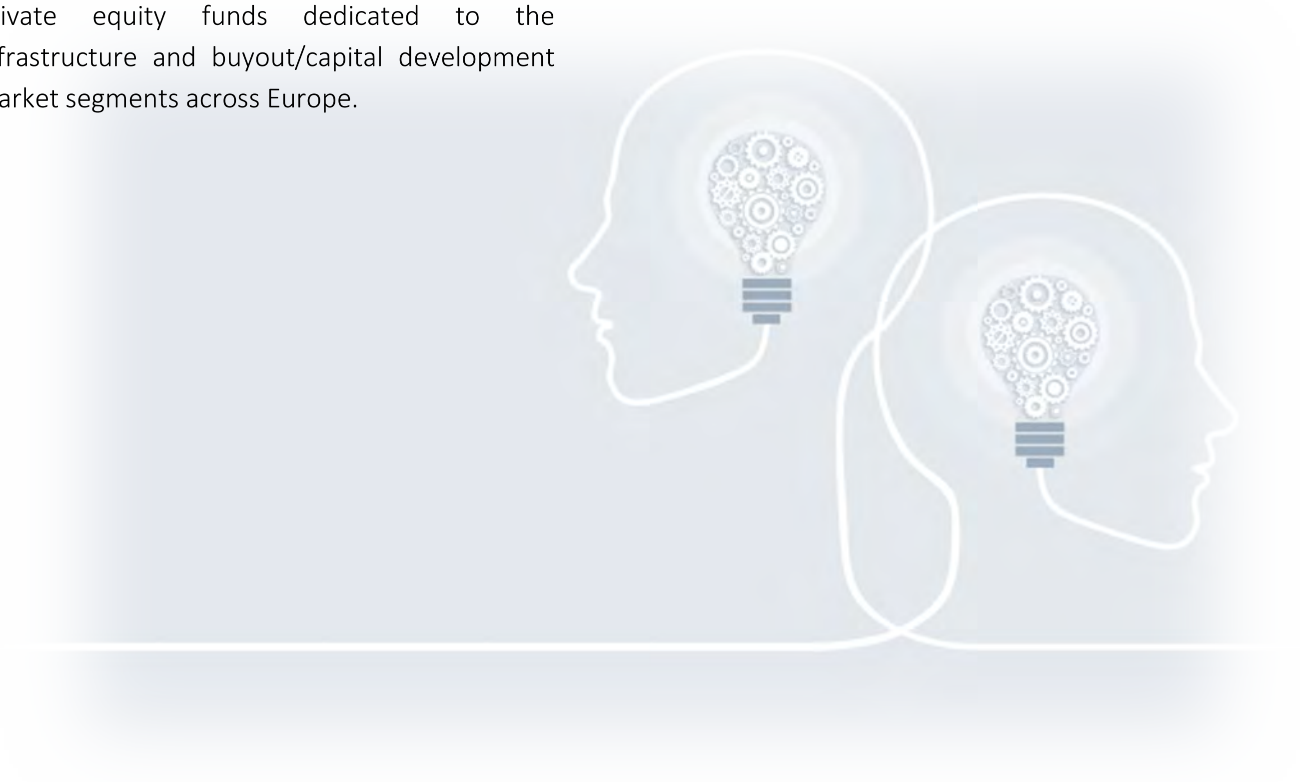
Haitong Capital leverages on its sector and geographical expertise to support companies wishing to expand their businesses.

Haitong Capital holds a differentiated positioning within the East-West trade space. The firm's strategy comprises combining European and Chinese expertise to invest in sectors that can benefit from the dynamics of both worlds.

OFFERING

- ✓ **Infrastructure Fund**
- ✓ **Growth Capital**

Playing a Sino-European role in the market



ACTIVITY HIGHLIGHTS

During 2019, Haitong Capital continued to develop the work streams initiated for the setup of new initiatives compatible with the firm's market positioning.

Taking into account the advanced stage of maturity of the current funds under management - ES Iberia I Fund (liquidation phase), Haitong Infrastructure Fund (liquidation phase), and FCR – PME /Novo Banco (to mature in 2020) - the deal flow sourcing activities were not maximised. Follow on investments were completed for an aggregate equity amount close to EUR 1.7 million. Additional investments in funds managed by third parties were also made for an aggregate amount close to EUR 2.1 million.

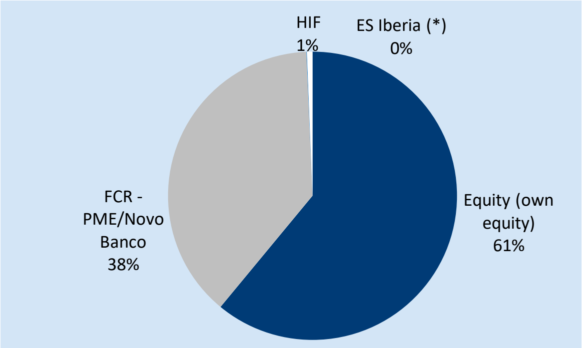
Aggregate disposals of portfolios under management amounted to EUR 4.9 million. Total distributions of funds under management reached EUR 5.7 million. Additional distributions were registered from funds managed by third parties, totalling EUR 6.2 million, essentially from Fondo PPP Italia, an Italian dedicated infrastructure fund.

Haitong Capital maintained a hands-on management approach focused on the value creation of the portfolio of companies.

In December, the fair market valuation of the investment portfolio reached EUR 35.4 million. This compares with EUR 37 million calculated in December 2018, on a like-for-like basis. However, should we include dividends and accrued interests resulting from the same group of securities, the amount would have been EUR 39.5 million.

In 2019, the private equity activity posted a net profit of EUR 3.5 million and total equity amounted to EUR 52.7 million.

Breakdown of Funds under Management (YE2019)



(*) includes ES Iberia I fund alongside its mirror fund Siparex Iberia I fund

Source: Haitong Capital.

2020 OUTLOOK

The Haitong Bank Group is considering a reorganisation in Haitong Capital - Sociedade de Capital de Risco, S.A. with a change in its business model. Going forward, it is expected that Haitong Capital will focus on broad asset management activities beyond the pure private equity focus.

Equities Research

OVERVIEW

Haitong Bank S.A. and Haitong International Securities Company Limited have entered into a Collaboration Agreement to develop the Equities (Iberia and Poland) and Research (Poland) business.

The MiFID II regulatory environment and industry trends mean that the success of the equity business depends on having critical mass in terms of multi-market coverage, as well as the ability to distribute to a broad base of investors globally.

Entering into a partnership with Haitong International

STRATEGY

Haitong Bank and Haitong International Securities' strategic partnership aims to deepen the Group's distribution capacity, increase its relevance and enable Haitong International Securities to service European clients in a post-Brexit scenario. Thus, Haitong Bank will retain its Iberian order execution and sales teams to European investors while, as part of the strategic realignment, equity research activities in Iberia have been terminated and equity research in Poland will remain in place.

Human Capital

In 2019, Haitong Bank's headcount saw a 6.4% adjustment as a result of normal attrition and optimisation of processes. Haitong Bank's long-term economic growth objectives depend on the high quality of its people, which positions Human Resources (HR) as a core support function. The HR strategy follows the vision of a simpler, yet more solid and sustainable Bank.

HR will continue its commitment of building talent based on the Bank's Corporate Values, making continuous efforts to identify and recruit the ideal candidates for every job opening.

Total Headcount

364 (Dec 2019)

389 (Dec 2018)

-6.4%

Haitong Bank continues to support equal opportunity principles. Currently, women represent 37% of the total workforce. There are also a considerable number of female employees in senior positions at the Bank.

Headcount Breakdown

	Headcount		Average (years)		Gender	
	Dec 19	Dec 18	Age	Length of service		
Portugal	197	205	41.1	10.6	75	122
Spain	34	39	45.6	12.9	10	24
UK	6	11	43.0	7.4	2	4
Poland	47	50	38.6	6.1	20	27
Ireland	0	3	--	--	0	0
Brazil	80	81	43.9	9.2	30	50
Total	**364**	**389**	-	-	**137**	**227**

Source: Haitong Bank

HR FUNCTION REDEFINED

In 2019, Haitong Bank started an overhaul of its HR function, covering its essential core processes and focusing on a new HR strategy. The redefined HR function is based on three main building blocks: Talent Management, Employee Management and HR Services and Operations. The main goal is to adapt the HR function by focusing on its core responsibilities and positioning HR as a true Business Partner. The transition for this renewed HR approach requires an ongoing effort to shift minds and culture throughout the whole organisation. With the support of our shareholder, senior management and the Bank's business leaders, the benefits achieved will be considerable - some have already materialised in 2019. In addition, the Bank has continuously increased its efforts on Employee Experience (EX), which is proven to contribute to stronger workforce engagement and improved productivity.

TRAINING

Haitong Bank has a highly qualified workforce – 87% have a bachelor's degree or higher. The Bank continues to encourage and support training, such as Postgraduate studies and Master's degrees.

The Bank has developed new training and development programmes, which include internal sessions delivered by some of our most experienced staff and business leaders. These programmes will be enrichening across the board, focusing on crucial elements such as sound risk management, effective and durable relationships with clients and reputational excellence. Training is also a core part in our annual performance appraisals process, where every employee is assessed on Ethics and Compliance training, and adherence to the Bank's Corporate Values.

In addition, English, Spanish, Chinese and Portuguese lessons are also provided in-house to continue to improve the language skills of all employees.

VARIABLE REMUNERATION MANAGEMENT

In 2019, Haitong Bank improved significantly its Variable Remuneration Scheme for Employees (VRSE).

The redesigned VRSE methodology was carefully designed to be fully compliant, transparent, in line with best market practices and performance driven, aimed at retaining talent and aligning the long-term interests of the employees with those of the various stakeholders in terms of risk taking and business sustainability.

Variable Remuneration is subject to deferral rules, clawback, malus and other conditions as per Haitong Bank's internal policies and regulations.

The new Variable Remuneration methodology was reviewed and approved through the Bank's formal governance channels, such as the Remuneration Committee and the Corporate Governance Committee. In 2019, for the first time in five years, Haitong Bank is proud to have distributed part of the 2018 operating profits to its employees.

OTHER HR ACTIVITY HIGHLIGHTS

The HR Department continued to support the Bank's senior management, the supervisory boards and their respective committees, focusing on the new redefined HR function. The main goals achieved by HR in this period were:

- Further improved the efficiency of HR's responses to queries - "Same day rule", reinforcing the culture of "treating employees like customers";
- Actively managed the acquisition of new talent as per the needs of business lines and departments, including forecasting hiring needs, candidates sourcing (internal and external) and global selection and recruitment processes;

- Continuously improved daily HR services, with a constant focus on efficient data administration and reporting and managing payroll and benefits;
- Continued focus on efficient compensation management, participating in a global salary survey, with the view to performing market benchmarking and trend analysis;
- Supported the Corporate Governance and Remuneration Committees in the implementation of new and updated policies;
- Engaged with renowned universities and defined a plan to participate in several upcoming career fairs, with the goal of recruiting new talent at source and making candidates more aware of the Haitong brand;
- Actively participated in and supported the preparation of business plans for new business initiatives;
- Together with other major national Credit Institutions, HR represented Haitong Bank in the annual negotiations with the Banking Sector unions, which led to a revision of the Portuguese Collective Banking Agreements for 2019;
- Coordination of Internships Programs between the several Haitong Bank regions and Haitong Group, notably Shanghai and Hong Kong.

2020 OUTLOOK

HR will continue pursuing its vision of being a true Business Partner, continuously executing the “HR Function Redefined” strategy. The Bank will continue to build on Employee Experience (EX) with the ultimate goal of driving engagement, retention and productivity.

The main goals for next year are:

- Continued focus on attracting and recruiting the best talent available to ensure the Bank has the right people with the right skills;
- Building on the knowledge, skills and abilities of our workforce and helping them develop and achieve their potential;
- Continue providing options and services required to meet our staff’s professional needs;
- Architect and implement a culture of connection, using innovative digital platforms to establish and consolidate new models of collaboration and productivity;
- Focus on competitive compensation management as a critical element of talent management and employee retention;
- A continued focus on central tasks such as workforce and organisational management, and global mobility;
- A continued focus and optimisation of payroll and benefits management as a core function at Haitong Bank;
- Fine-tune our talent sourcing processes and continuously increasing the Bank’s visibility on Social Media recruiting platforms;
- Continue optimising existing administrative processes, allowing more efficiency, increased automation, consistent data and excellent response times.

Macroeconomic Environment

OVERVIEW

Global economic activity continued to fall in 2019 as we have previously forecasted. According to the latest revision of the IMF estimates, 2019 was expected to post the lowest growth rate since the end of the Great Recession (2008-2009) with 2.9% global GDP growth compared to 3.6% in 2018. Europe underperformed the world's developed regions led by the worst activity level of the German manufacturing industry for a decade with a contraction of -6.7% in 2019. Weakness in the European economies was also aggravated by sluggish business confidence caused by extended geopolitical uncertainties, namely the Brexit negotiations and domestic political tensions in Spain and Italy. According to the preliminary statistics of Eurostat, the euro area's GDP in 2019 decelerated to 1.2% growth vs. 1.9% in 2018, while the UK grew 1.4% in 2019 vs. 1.3% in 2018.

We expect trade-related tensions between the US and China to continue in 2020 with limited concessions from both sides having been achieved during 2019 despite the announcement of the Phase One agreement. This delay has contributed to slower business investment decisions and the deceleration of the world's largest economies in our view. China's economic growth remained above 6% (6.1% GDP growth) and the IMF expects* it to be 6.0% in 2019 (vs 6.6% in 2018) while the US economy should see GDP growth slow from 2.9% in 2018 to 2.4% in 2019. Commodities prices fell 3.4% (vs -4.4% in 2018, CRB index) and emerging economies are expected to see growth of 3.7% in 2019 (vs 4.5% in 2018 and the lowest rate of growth in a decade). Further deceleration of GDP growth is expected for the US economy with growth of 2.0% and China at 6.0% in 2020, according to the IMF (World Economic Outlook Update, January 2020).

Despite the trade-related tensions, the major global currencies posted limited volatility in 2019 with the dollar index falling 0.4%, the EUR/USD gaining 1.2% in 2019, and the CNY/USD sliding 1.5% in 2019. Brexit-related uncertainties led the GBP/USD to be the most volatile transaction currency, dropping 5.2% in 2019. Emerging markets' currencies continued to underperform vs the USD according to the loss of 1.2% in 2019 seen in the Haitong EM FX index (15 most liquid currencies) but less negative than the -11.7% in 2018.

Bond markets tested historical yield lows in Europe and Japan during 2019 as market participants priced in the risk of a weak economic outlook and which could potentially lead these regions into deflation. A recession was avoided in the fourth quarter of 2019 and reduced the magnitude of negative yields in the Eurozone and Japan. The yield of the 10-year German bund fell to a historical low of -0.7% in the third quarter of 2019 and rebounded to -0.18% by the end of 2019. Except for Italy and Greece, the yields of the Eurozone's government bonds remained negative for maturities up to 5 years by the end of 2019.

Central banks resumed monetary stimulus to avoid risks of a recession and managed to maintain global financial conditions with mild volatility combined with strong gains in equity, bond and credit markets. During the second half of 2019, the US FED announced 3 rate cuts of 25bps each and lowered its funds rate to the range of 1.5%-1.75%. The ECB resumed its asset purchasing program in November 2019 at the last meeting led by the former Chair Mario Draghi. At the first meeting presided by the new Chair Christine Lagarde in December 2019, the ECB maintained rates and the pace of QE but left the door open for further easing of monetary and credit conditions to support the Eurozone's economy in the foreseeable future. Despite the prevalence of the downside risks of Brexit, the Bank of England (BOE) kept the benchmark rate unchanged at 0.75% in 2019.

The People's Bank of China (PBOC) continued to carry out liquidity operations in the domestic market to avoid volatility in financial markets and support credit markets in a year marked by rising corporate sector defaults. Emerging market central banks like Brazil's BACEN and the Bank of Poland maintained a supportive stance for monetary conditions in 2019, especially in Brazil where economic activity remained subdued by the carry-over effect of the low capital investment in the recent years.

Global economic fundamentals became more imbalanced in 2019 and will likely require continued support from central banks and fiscal policies in 2020 in our view, especially in the Eurozone. Geopolitical conditions are expected by us to keep limiting business confidence ahead of the US presidential elections in November 2020 and the implementation of Brexit (approved in December 2019).

* *IMF World Economic Outlook (Jan/2020 update). Note: COVID-19 epidemic was not mentioned or used in the statistical review in this update. The views in this report does not include the economic risks of the COVID-19 epidemics.*

2020 OUTLOOK

Economic Activity

The growing consumer market in China should be supportive for emerging markets and the outlook for 3.3% global GDP growth in 2020 (vs the estimate of 2.9% GDP growth in 2019, IMF/WEO January 2020).

However, the recent outbreak of the COVID-19 epidemics raised sizeable obstacles for economic activity in China after the pause of the Lunar New year (from January 24th until February 3rd). GDP growth in China and Asia is expected by us to decelerate below 5% in the 1Q20, due to the quarantine requirements to prevent the spreading of the virus, from travel restrictions to factories' activities. Once the effects of the epidemics become contained, we expect growth to resume with strong incentives from the Chinese government. Such support includes liquidity for domestic financial institutions, credit markets and regions affected by the epidemics.

Medium to long-term downside risks for the global economy to continue to be related to the barriers and tariffs involved in the trade dispute promoted by the US since 2018.

Since 2018 about USD 360 billion worth of Chinese goods have been affected by tariffs in the US while some USD 110 billion worth of US goods have been targeted by Chinese tariffs.

China remains the single largest trading partner for the US with a share of 18% of total imports (October 2019 YTD vs. 21% in October 2018 YTD). Nonetheless, the decline in the volume of imports from China is not enough to balance the strong trade deficit the US still has with 102 countries by first half 0f 2019. In fact, we expect the current account deficit of the US to reach its highest level since 2016 at 2.5% of GDP in 2019 (vs 2.4% in 2018) and the reason why the issue of trade sanctions with China and the EU is unlikely to disappear. In our view, the rising share of imports from the EU (24% of the total YTD by Oct19 vs 19.1% YTD by Oct18) highlights the risks that the US could shift the focus of the trade sanctions to Europe in 2020.

Monetary Policy

Given the prospects of weak growth fundamentals in 2020, we expect the major central banks to maintain a very accommodative stance for monetary conditions with the possibility of further stimulus when needed to prevent deflation. Such an outlook is especially strong for the European central banks (ECB, BOE, and Swiss National Bank). The US FED has maintained forward guidance on additional rate cuts and consensus projections are pricing in an additional 25bps cut to the range of 1.25%-1.50% in 2020. We expect the PBOC to remain on hold regarding the benchmark rates (the lending rate was at 4.35% and the deposit rate at 1.5% by December 2019) and strengthen liquidity operations to reduce the burden of corporate credit defaults and mitigate the impact of the COVID-19 epidemics on the domestic financial markets in 2020. According to our main scenario, the yield of the 10-year US treasury note is expected to trade in the range of 1.60% to 2.00% in 2020 (vs the last trade yield of 1.919% in December 2019). We expect some moderation of the negative yields in the Eurozone with the German 10-year bund yield moving to a range of -0.25% to 0.0% in 2020 (vs the last trade yield of -0.185% in December 2019).

Foreign Exchange

Currency markets are expected by us to be exposed to stronger volatility in the event of a large fluctuation in the USD and CNY in 2020. We expect some weakness of the USD caused by the easing bias of the FED's monetary policy and the outlook for weaker economic activity in 2020.

In such a scenario, the EUR/USD should return to the range of 1.15-1.20 in 2020 vs the range of 1.10-1.15 seen in 2019 (EUR/USD1.12 at the end of 2019).

After breaking the threshold of CNY/USD 7.00 in August 2019 (and at its highest since 2007), the renminbi yuan reached CNY/USD 7.19 (September 2019) and eased to CNY/USD 6.98 by the end of December 2019 (equivalent to a devaluation of 1.5% in 2019). We expect the CNY/USD to trade in the range of 6.90-7.10 in 2020. Emerging market currencies should remain exposed to downside risks in the event of a weak performance by commodities prices and lower growth in developed markets in our view.

Capital Markets

We expect capital markets activity to remain strong for credit issuers and limited in new issuance for equity markets in 2020. Favourable monetary conditions in Europe and the US supported the strong performance of credit issuance in 2019 with preliminary league tables (Bloomberg) recording 20% growth in corporate bond issuances by volume (vs -9.7% in 2018) in our view. New issuances in the Euro bond markets rose 14.6% in 2019 (-8.3% in 2018) with a strong decline in corporate credit spreads of -150bps to 280bps for the iTraxx Xover 5Y CDS (high yield index) and -50bps to 45bps for the iTraxx EUR Generic 5Y CDS (investment grade index).

Initial offerings in equity markets declined slightly by 1.4% in 2019 despite strong gains in global equity markets in 2019 with the S&P 500 (US) rising 28.5%, the EuroStoxx 50 (Eurozone) 24.8%, the Shanghai SE Composite (China) 21.9%, and the Ibovespa (Brazil) 33.4%. We believe most of the gains in global equity markets were driven by low central bank interest rates rather than the quality of growth in 2019. However, due to the weak performance of business confidence indicators caused by the expectations of slower global economic activity in 2020, especially for industrial sectors, we believe IPO activity should remain soft even if equity indexes continue to test new highs during 2020.

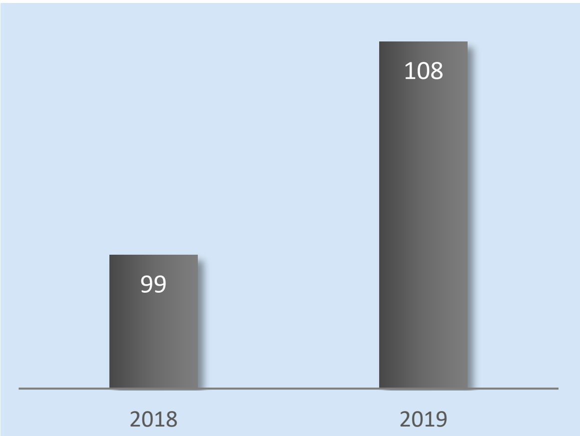
Financial Overview

Haitong Bank's 2019 results show that the Bank has delivered on its goals and is becoming consistently profitable and is sustainable. Important results from the rebuilding of the Bank are already visible.

Haitong Bank has succeed in building strong foundations, achieving consistent profitability and becoming simpler and sustainable.

Banking Income

(EUR million)



Source: Haitong Bank.

The Bank is particularly proud to have rebuilt an organisation with strong foundations: strengthened governance, upgraded systems and controls and a corporate culture underpinned by the principles of transparency, meritocracy, perseverance and integrity.

Banking Income reached EUR 108 million in 2019, 10% above the EUR 99 million last year, confirming the consolidation of its business model.

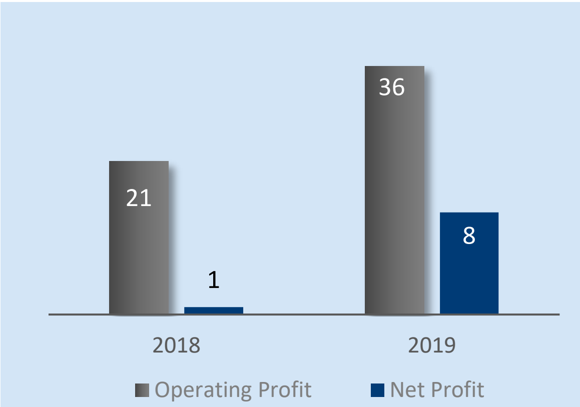
China-related business has showed a strong performance, benefiting from the strong integration within Haitong Group that resulted in the origination of a large number of cross-border transactions for Chinese clients, mainly in the DCM and Structured Finance business areas.

On the domestic side, the Bank was focused on developing a close relationship with Corporate and Institutional clients, having participated in several transactions in Portugal, Spain, Poland and Brazil, some of them landmark transactions such as the EUR 200m TAP issuance, the largest public bond offering in Portugal since 2012.

The Bank remains committed to maintaining a cost discipline policy in order to increase profitability. The Bank recorded a YoY decrease of 7% in Operating Costs to EUR 72 million, despite the payment of variable remuneration and salary increases. The cost to income ratio decreased from 78.7% in 2018 to 67.0% in 2019.

Operating Profit and Net Profit

(EUR million)



Source: Haitong Bank

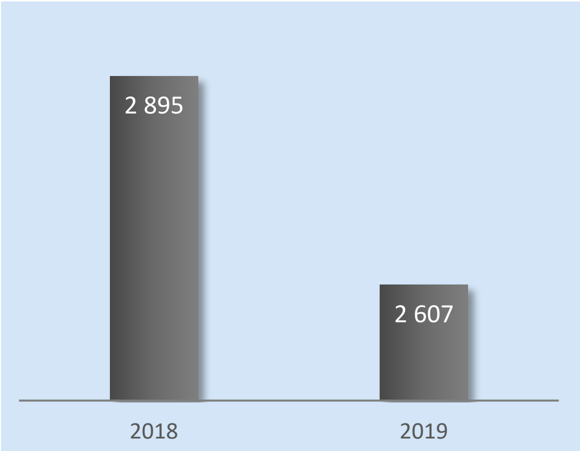
Profitability has recorded a strong improvement YoY in 2019, with particular highlight to the Operating Profit that has reached EUR 36 million, a 70% increase when compared to last year. Net Profit for the year was EUR 7.5 million, above the EUR 1.1 million in 2018. This Net Profit was penalised by one-off charges of EUR 9.9 million related to goodwill impairment in the Bank's subsidiary Haitong Capital.

Total Assets reached EUR 2.6 billion by the end of 2019, a 10% decrease YoY. The slow origination of new assets and the sale of the Bank's subsidiary

Haitong Investment Ireland, p.l.c., in December, and its exit from the consolidation perimeter, were the main reasons for this evolution.

Total Assets

(EUR million)

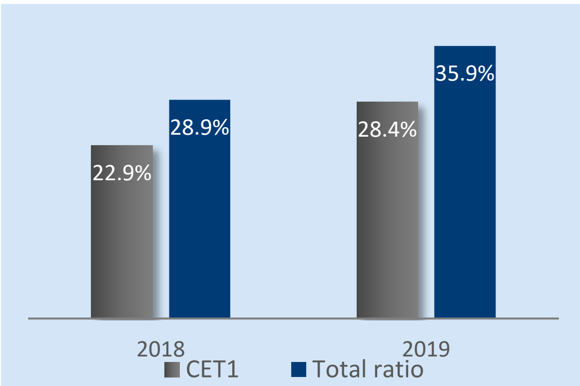


Source: Haitong Bank

The Bank has also registered a significant improvement from an asset quality perspective by reducing the legacy credit portfolio, the stock of non-performing loans and creating some new quality assets.

The NPL ratio fell from 8.2% in 2018 to 3.6% and the NPL coverage ratio reached 40.6% by the end of 2019. During 2019, the Bank has carry out the write-off of some loans allowing to reach a NPL ratio lower than the Portuguese banking sector average (7.7% in the 3Q2019).

Solvency Ratios



Source: Haitong Bank

The Bank's efforts were rewarded when, in October, S&P upgraded the Bank's credit rating to BB with a Stable outlook.

With a decreasing balance sheet, the Bank has strengthened its capital position, reaching a CET1 ratio of 28.4% and a total capital ratio of 35.9% by the end of 2019, making it one of the most capitalised banks in the industry (average CET1 ratio of 13.9% and total capital ratio of 16.5% in the 3Q2019).

Its solid capital and liquidity position offer strong prospects for future growth and an improvement in recurrent revenues.

At the end of June, the Bank of Portugal authorized the establishment of a branch in Macau. The beginning of the activities of the branch is still dependent on the conclusion of the authorization process by the relevant Macau Authorities. The establishment of this branch will represent a key event in the development of the Bank's cross-border strategy, allowing for the strengthening of business with China and enhanced coordination with Haitong Group

Corporate Events

December 2019

On December 19, 2019, Haitong Bank carried out the sale of the entire share capital of Haitong Investment Ireland p.l.c., a company incorporated and headquartered in the Republic of Ireland, to Haitong International Holdings Limited resulting from the share purchase and sale agreement dated September 30, 2019. The sale price was EUR 12,000,000.00.

On December 18, 2019, the liquidation, assets sharing and extinction of SES Iberia Private Equity S.A. were confirmed.

September 2019

On September 30, 2019, Haitong Bank entered into an agreement with its parent company, Haitong International Holdings Limited, an entity fully owned by Haitong Securities Co., Ltd., to sell and transfer the entirety of the shares representing the share capital of its wholly owned subsidiary Haitong Investment Ireland p.l.c.. At that date, the transaction was pending previous standard conditions as well as the non-opposition of the major stakeholders.

June 2019

The Bank of Portugal authorized the establishment of a branch of Haitong Bank, S.A. in Macau. The beginning of the activities of the branch is still dependent on the conclusion of the authorization process by the relevant Macau Authorities (AMCM).

Treasury

MARKET REVIEW

After maintaining rates unchanged during the first half of 2019, the European Central Bank announced an additional 10 basis points cut in the deposit facility, to -0.50%, along with a new TLTRO funding scheme extending the ECB lending facility up to 3 years.

The ECB also restarted the asset purchase program (APP) in November at a monthly pace of EUR 20 billion.

Concerns over the US-China trade war and economic growth indicators during the first half of 2019 led the ECB to first ease its more hawkish tone, adopting more dovish language, and then announce new monetary stimulus in the second half of the year.

Euro area government yields have reacted accordingly, anticipating the ECB's monetary policy decisions in the second half. European yields traded on a clear downward path until August, reaching new historically low levels. Since then, yields have recovered substantially, fuelled by the "Phase 1" deal on trade between the US and China, as well as increasing opposition to new monetary stimulus inside the ECB Governing Council.

In the US, the Federal Reserve cut rates, as expected, in the second half of 2019, from 2.50% to 1.75%, closely monitoring US-China Trade developments and US economic data.

As a result, 10-year US Treasury yields have fallen from 2.7% by the end of 2018 to 1.9% at the end of 2019.

In Brazil, the first year of Mr. Bolsonaro's mandate brought important achievements in terms of improving the Brazilian economy risk perception in the long-term.

A deep Social Security reform was approved and counted on strong support from Congress.

We expect this reformist approach to be reinforced through other important reforms (fiscal, administrative and others).

With growth still lagging and the output gap wide, interest rates are now at their lowest ever level.

These factors are allowing a gradual recovery in economic growth, a process that we expect to gain momentum through 2020, leading GDP growth to accelerate to a level close to 2.60%.

We expect the global economy to continue to have very low interest rates and significant liquidity. Brazil's improving prospects will favour the prices of local assets as well as the BRL currency.

A positive review of the sovereign rating is very likely to occur, in our view, as already indicated by one of the big rating agencies.

10-year Yields

Country	Jan-19	2019 Peak	2019 Low	Dec-19
Germany	0.24%	0.28% (Jan)	-0.71% (Aug)	-0.19%
Italy	2.74%	2.96% (Feb)	0.81% (Sep)	1.41%
Spain	1.41%	1.51% (Jan)	0.03% (Aug)	0.46%
Portugal	1.71%	1.82% (Jan)	0.06% (Aug)	0.43%
Greece	4.35%	4.39% (Jan)	1.15% (Oct)	1.43%

Source: Haitong Bank

ACTIVITY HIGHLIGHTS

During 2019, the Bank maintained a very comfortable liquidity position combined with stable funding costs.

In Portugal, Haitong Bank successfully refinanced and partially reimbursed the existing syndicated lending facility and had access to the new TLTRO III funding scheme, lengthening the average term of debt and improving regulatory liquidity ratios.

The slight changes in the Bank's funding structure reflect the Bank's effort to diversify its funding sources, such as the weight of retail term deposits in overall funding which has increased 10 percentage points since December 2018. At the end of 2019, the Bank had sourced via online platforms active in the German, Austrian and Spanish markets a total of EUR 192 million in retail term deposits versus EUR 96 million at the end of 2018. Going forward, online deposits should continue to be an important source of quality funding and have significance in relation to the Bank's funding profile.

In Brazil, the activity's main focus has been the expansion of the investor base, allowing access to the most suitable instruments to fund the Bank's activities.

Additionally, the team has been working on opening credit lines focused on trade finance deals.

2020 OUTLOOK

The Treasury Division's main goal for 2020 is to ensure the necessary liquidity is available through a stable and diversified funding structure, adjusted to the balance sheet and the business model.

Credit Rating

On October 10, 2019 Standard & Poor’s upgraded the long-term credit rating of the Bank from BB- to BB

According to S&P, this upgrade reflects the improvements registered in the Bank's solvency ratios and the reduction of the balance-sheet risks.

S&P affirmed the outlook as Stable, justified by the rating agency's expectation that the Bank will continue the positive developments of its business model and its sustainability.

From S&P's perspective, Haitong Bank remains a core subsidiary for the strategy of its shareholder, Haitong Securities Co. Ltd. Furthermore, the fact that Haitong Bank has been registering positive net and operational results is an additional factor that provides comfort to the rating agency.

On October 15, 2019, S&P raised its long-term national scale rating on Haitong Banco de Investimento do Brasil, S.A. to 'brAAA' from 'brAA+'. At the same time, S&P affirmed the 'brA-1+' short-term rating and the global scale 'BB-/B' ratings, as well as the stable Outlook for all ratings.

The upgrade of Haitong Banco de Investimento do Brasil, S.A. on the national scale reflects the stronger financial profile of Haitong Bank, the Portugal-based parent.

HAITONG BANK, S.A.

Counterparty Credit Rating	**BB / Stable / B**
Junior Subordinated	**CCC**

HAITONG BANCO DE INVESTIMENTO DO BRASIL, S.A.

Counterparty Credit Rating:	
. Global Scale	**BB- / Stable / B**
. Brazil National Scale	**brAAA / Stable / 'brA-1+**

GOVERNANCE

The Board of Directors is ultimately responsible for Haitong Bank's Risk Management Framework. The Board of Directors is aware of the types of risks to which the Bank is exposed and the processes used to identify, evaluate, monitor and control those risks, as well as the legal obligations and the duties to which the institution is subject. It is accountable for the establishment and maintenance of an appropriate and effective risk management structure.

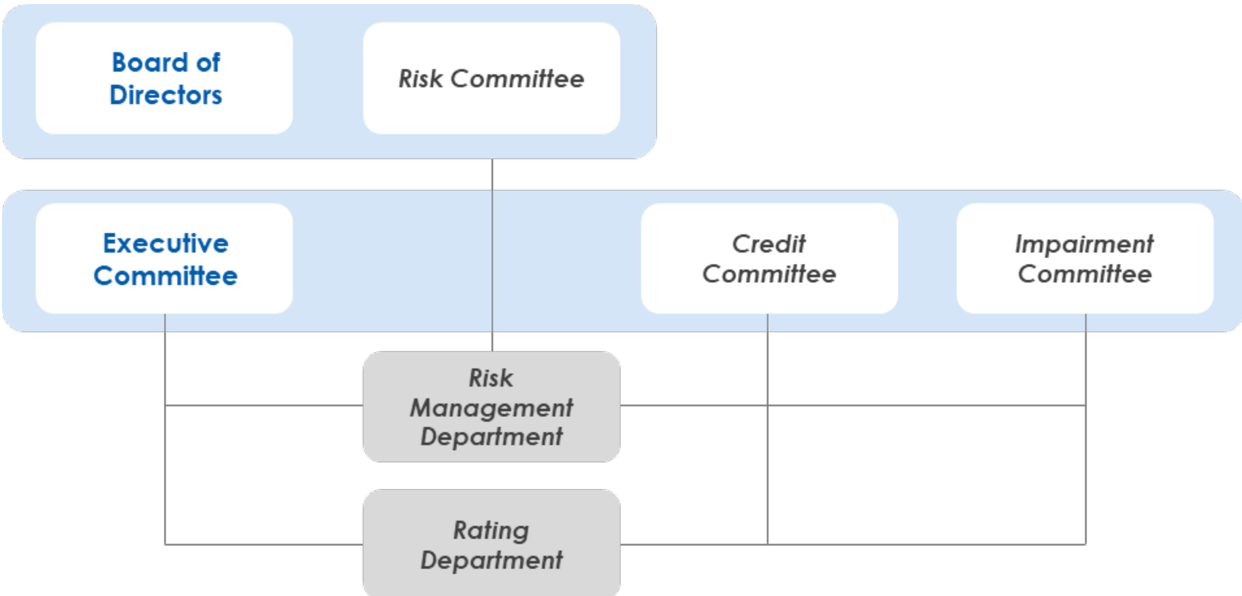
The current structure and relevant Committees for the Bank's Risk Management are summarized below.

Risk Committee

The Risk Committee's mission is to continuously monitor the development and implementation of the Bank's risk strategy and its risk appetite and verify whether they are compatible with a sustainable strategy in the medium and long-term.

Risk Management Department

As an independent control function, the Risk Management Department, being actively involved in all material decisions and aligned with parent guidelines and practices, aims to enable the Bank to make informed decisions and ensure that the risk policies approved by the Board of Directors are duly implemented and followed.



Rating Department

Together with the Risk Management Department, the Rating Department is part of the Risk Control Function of Haitong Bank. The Rating Department plays a key role in supporting the Bank's decision-making process at the Credit Committee and Executive Committee and assisting the Impairment Committee in its impairment assessment on an individual basis.

Credit Committee

The Credit Committee is the Bank's committee established by the Executive Committee with the authorization of the Board of Directors that is responsible for:

- Assessing and deciding on operations involving risk taking for the Bank within the Credit Committee's Decision Framework established by the Executive Committee;
- Issuing non-binding opinions regarding operations that fall outside of: (i) the Credit Committee's Decision Framework approved by the Executive Committee; or (ii) the Risk Appetite Framework ("RAF") approved by the Board of Directors – in these cases operations shall be submitted, respectively, for the Executive Committee's or for the Board of Directors' assessment.

The Executive Committee establishes and periodically reviews the Credit Committee's Decision Framework in order to assure its full alignment with the Bank's credit strategy.

Impairment Committee

The Impairment Committee of Haitong Bank is responsible for the analysis and decisions on impairment amounts to be assigned to credit clients subject to individual analysis.

Risk Appetite

Haitong Bank's strategy is to connect clients and business opportunities across its broad network, combining long-standing expertise in Europe and Latin America with the Group's cross-border origination with a China Angle. Haitong Bank is committed to serving its European and Latin American corporate and institutional clients alongside a growing Chinese client base.

As a Corporate and Institutional Bank, the primary focus is on: DCM / Structured Finance, M&A Advisory, FICC and Asset Management.

Haitong Bank acknowledges that its risk management function is a key factor for the prudent delivery of its strategic objectives by providing an additional line of defence to protect the Bank's enterprise value. Haitong Bank's overall risk vision assessment rests on the following three guiding principles:

- **Capital**: Haitong Bank aims to maintain prudent capital buffers on top of both internal and regulatory capital requirements.
- **Liquidity and Funding**: Haitong Bank as a whole, and all its subsidiaries individually, aim to maintain a solid short-term position and a sustainable medium- to long-term funding profile.
- **Earnings**: The Group has the goal of generating recurrent earnings to guarantee its sustainability and a reasonable level of profitability for shareholders.

CREDIT RISK

Credit risk is the potential financial loss arising from the failure of an obligor or counterparty to honour its contractual obligation. As the major risk category to which the Bank is exposed, credit risk management and control are supported by a complete system that permits it to identify, assess, quantify and report risk.

MANAGEMENT PRACTICES

Credit portfolio management is carried out as an ongoing process that requires full coordination between the various teams/functions responsible for the management of risk during the different stages of the credit process.

Internal Ratings

Internal ratings, which measure the 1-year probability of default, are assigned using the internal rating tools sponsored by Standard & Poor's ('S&P'). Although centralized at the headquarters, the internal rating assignment is carried out by an experienced pool of analysts located in Lisbon, Warsaw and São Paulo.

The annual update and maintenance of the internal rating methodology framework is done through contracted services with S&P.

Monitoring

The credit risk monitoring and control activities aim to quantify and control the evolution of credit risk to allow early definition of situations where there is a deterioration of risk, as well as to outline global strategies for credit portfolio management.

In this context, and with the central goal of complying with the risk appetite framework established by the Board of Directors, the Credit Risk Monitoring function and its implementation are objectively considered as one of the top priorities of the risk management and control system.

Credit Recovery Process

Haitong Bank's Special Portfolio Management Division manages the Bank's non-performing exposures, proposing and implementing the restructuring and or credit recovery strategies with the objective of maximizing the credit recovery.

ASSET QUALITY
Loan Portfolio

Portfolio breakdown

In December 2019, the loan portfolio (gross exposure) amounted to approximately EUR 327 million, which represents an annual reduction of about EUR 209 million.

Loan Portfolio Asset Classes and Geographic Breakdown

(EUR thousand)

	December 2019		
	Domestic	International	Total
Loan Portfolio[1]	**160,071**	**166,657**	**326,728**
Specialized Lending	149,627	46,210	**195,837**
Corporate	2,127	120,427	**122,554**
Others	8,317	20	**8,337**

	December 2018		
	Domestic	International	Total
Loan Portfolio[1]	**216,574**	**319,253**	**535,827**
Specialized Lending	193,325	34,321	**227,646**
Corporate	15,786	122,890	**138,676**
Others	7,463	162,042	**169,505**

[1] Gross of provisions
Source: Haitong Bank.

The breakdown of the loan portfolio by industry sector reflects the Bank's lending activity developed in previous years in the various regions where it operates, with a special emphasis on Specialized Lending in the Transportation Infrastructure and Power sectors. The sectoral classification is distributed according to the industry risk (internal risk sector).

Loan Portfolio Asset Classes by Industry

	December 2019			
	Specialized Lending	Corporate	Others	Total
TOTAL	**59.8%**	**37.6%**	**2.6%**	**100.0%**
Transportation Infrastructure	34.8%	0.9%	0.0%	**35.7%**
Power	24.2%	0.0%	0.0%	**24.2%**
Metals & Mining	0.0%	22.1%	0.0%	**22.1%**
Construction & Engineering	0.0%	4.9%	0.0%	**4.9%**
Agribusiness & Commodity Foods	0.0%	1.7%	0.0%	**1.7%**
Commercial & Prof. Services	0.2%	0.8%	0.0%	**1.0%**
Transportation	0.6%	0.3%	0.0%	**0.9%**
Water Utilities	0.0%	0.2%	0.0%	**0.2%**
Funds & Asset Managers	0.0%	0.0%	0.0%	**0.0%**
Insurance	0.0%	0.0%	0.0%	**0.0%**
Others	0.0%	6.7%	2.6%	**9.3%**

Source: Haitong Bank.

	December 2018			
	Specialized Lending	Corporate	Others	Total
TOTAL	**42.5%**	**25.9%**	**31.6%**	**100.0%**
Transportation Infrastructure	21.9%	2.8%	0.0%	**24.7%**
Power	19.7%	0.0%	0.0%	**19.7%**
Metals & Mining	0.0%	13.4%	0.0%	**13.4%**
Construction & Engineering	0.0%	2.1%	0.0%	**2.1%**
Agribusiness & Commodity Foods	0.0%	2.0%	0.0%	**2.0%**
Commercial & Prof. Services	0.2%	0.5%	0.0%	**0.7%**
Transportation	0.5%	1.8%	0.0%	**2.3%**
Water Utilities	0.0%	2.4%	0.0%	**2.4%**
Funds & Asset Managers	0.0%	0.0%	16.0%	**16.0%**
Insurance	0.0%	0.0%	5.4%	**5.4%**
Others	0.2%	0.9%	10.2%	**11.3%**

Source: Haitong Bank.

Internal Rating Profile

Haitong Bank uses internal rating models to support credit decisions and credit risk monitoring. The loan portfolio was distributed by internal ratings as shown in the table below.

Loan Portfolio Rating Profile

	December 2019	December 2018
[aaa+; a-]	0.8%	7.3%
[bbb+; bbb-]	21.0%	17.0%
[bb+; bb-]	23.1%	20.3%
[b+;b-]	55.1%	55.4%

As a percentage of non-default rated gross portfolio

Source: Haitong Bank.

Risk Indicators

Throughout 2019, Haitong Bank continued to pursue a reduction strategy for non-performing loans (NPL), as well as a conservative approach with regards to the impairment coverage of its credit portfolio.

Credit Risk Indicators

(EUR thousand)

	December 2019	December 2018
Loan Portfolio	**326,728**	**535,827**
Non-Performing Loans (NPL)	**11,882**	**44,006**
NPL Ratio	3.6%	8.2%
Impairment for NPL	**4,830**	**15,437**
NPL coverage	40.6%	35.1%
Gross Exposure	**1,804,836**	**2,027,176**
Non-performing exposures (NPE) (1)	**91,657**	**193,585**
NPE Ratio	5.1%	9.5%
NPE Impairment Coverage	49.4%	42.8%
Forborne Exposures (1)	**64,859**	**229,763**
Of which performing exposure (%)	68.7%	23.5%

(1) The Bank follows the criteria set for non-performing and forborne exposures on EBA's Final Report on Guidelines on Management of Non-Performing and Forborne exposures (EBA/GL/2018/06), as of 21 October 2018, and classification defined on the Part 2 – Template Related Instruction of Annex V – Reporting on Financial Information included in the Commission Implementing Regulation (EU) 2018/1627, of 09 October 2018, amending Implementing Regulation (EU) No. 680/2014, as regards prudent valuation for supervisory reporting.

Source: Haitong Bank.

The improvement of the non-performing loan (NPL) ratio to 3.6% in December 2019 results from the measures undertaken throughout the year to reduce the non-performing loans of the Bank.

Fixed Income Assets

Portfolio breakdown

The fixed income portfolio ended 2019 with a net total of EUR 951 million, representing a decrease of EUR 119 million when compared with December 2018, mainly as a result of a reduction in European sovereign bonds and Brazilian sovereign debt.

Fixed Income Portfolio by Sector

(EUR thousand)

	December 2019	December 2018
Total	**951,250**	**1,070,105**
Governments	696,029	801,624
Real Estate	85,791	1,182
Construction & Engineering	56,412	94,414
Technology Hardware & Equipment	22,289	34,713
Oil & Gas	22,628	21,119
Power	20,804	26,829
Capital Goods	11,896	12,577
Building Materials	8,719	0
Commercial & Prof. Services	6,883	18,972
Paper & Forest Products	6,253	8,532
Banks	4,733	3,125
Metals & Mining	3,737	34,877
Transportation	1,367	2,115
Health Care	1,074	3,587
Retailing	573	5,122
Others	2,062	1,317

Source: Haitong Bank.

Internal Rating Profile

In December 2019, the rating profile of the Bank's fixed income portfolio was the following:

Fixed Income Portfolio Rating Profile

	December 2019	December 2018
[aaa; a-]	0.3%	1.3%
[bbb+; bbb-]	23.5%	27.9%
[bb+; bb-]	74.3%	65.6%
[b+; b-]	1.9%	5.2%

As a percentage of non-default rated portfolio
Source: Haitong Bank.

Derivatives Portfolio

Portfolio Breakdown

The counterparty risk exposure in the Bank's portfolio of interest rate, exchange rate, credit and equity derivatives amounted to EUR 126 million in 2019, which represents a decrease of EUR 10 million in comparison with 2018, mainly due to the decrease of derivatives in the Transportation sector.

In terms of the breakdown by counterparty risk sector, 77% of the global exposure relates to transactions both in Transportation Infrastructure and Banks' counterparties. The sectoral classification is distributed according to the industry risk (internal risk sector).

Derivatives Portfolio by sector

(EUR thousand)

	December 2019	December 2018
Total	**125,603**	**135,816**
Transportation Infrastructure	63,857	62,177
Banks	32,683	22,779
Broker Dealers	5,073	7,927
Power	6,142	7,954
Transportation	4,750	22,915
Agribusiness & Commodity Foods	2,869	6,181
Paper & Forest Products	754	4,484
Food, Beverage & Tobacco	4,735	67
Non Bank Financial Institutions	3,670	742
Health Care	0	199
Commercial & Prof. Services	0	176
Others	1,070	215

Source: Haitong Bank.

Internal Rating Profile

Total exposure to derivative instruments is centred on Specialized Lending interest rate swaps.

Derivatives Portfolio Rating Profile

	December 2019	December 2018
[aaa+;a-]	17.0%	19.3%
[bbb+;bbb-]	52.7%	47.2%
[bb+;bb-]	11.2%	10.4%
[b+;b-]	19.0%	23.1%

As a percentage of non-default rated portfolio
Source: Haitong Bank.

MARKET RISK

Market risk is the possibility of occurrence of losses in on- and off-balance sheet positions resulting from adverse movements in market prices, such as equity, interest rates or foreign exchange rates and credit spreads. In the development of its activities, Haitong Bank is exposed to market risk in the trading and banking books.

Haitong Bank has in place policies, procedures and systems for market risk management, enabling the assessment and control of all the relevant market risk factors to which the Bank is exposed to.

The identification, measurement, monitoring, control and reporting of the Bank's market risk are the responsibility of a specific unit within the Risk Management Department, the Market Risk Control unit, which works in full independence of the Bank's business areas.

In organizational terms, Market Risk Control functions are spread geographically over the Group's different entities, which have the appropriate skills to evaluate the specific activities and risks incurred by each entity.

The Market Risk Control unit is responsible for analysing the relevant factors for each type of risk using statistical techniques; measuring market volatility, analysing depth and liquidity indicators, and simulating the transactions value under different market conditions to advise the Credit Committee and Executive Committee on the establishment of market risk limits.

To provide the organisation with a clear understanding of the risks incurred and of its desired risk appetite, the Bank uses a comprehensive set of risk metrics, and respective limits, complemented by stop loss and concentration limits. These risk metrics include (Value at Risk) VaR and sensitivity metrics for interest rates, credit spreads, foreign exchange rates, equity prices and volatility.

TRADING BOOK RISK

Management Practices

Haitong Bank estimate the potential change in the market value of the trading book positions, by considering an historical simulation VaR, based on a 10-day holding period and a 1-year historical observations and a 99% confidence interval.

As of December 2019 Haitong Bank's VaR amounted to EUR 3.8 million, representing a decrease of EUR 0.3 million when compared with December 2018.

Value at Risk by Risk Factor

(EUR million)

	December 2019	December 2018
Foreign Exchange	1.7	2.0
Interest Risk	1.0	0.2
Shares and Commodities	0.5	0.1
Credit Spread	1.2	2.0
Covariance	-0.6	-0.2
Total	**3.8**	**4.1**

Source: Haitong Bank.

BANKING BOOK RISKS

Other risks in the banking book arise from adverse movements in interest rates, credit spreads and in the market value of equity securities and real estate in non-trading exposures on the balance sheet.

Interest Rate Risk

Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions.

Haitong Bank aims to capture all material source of IRRBB and assess the effect of market changes on the scope of its activities, and manage IRRBB by measuring the sensitivity of the economic value of its banking book and the sensitivity of its net interest margin expected in a 1-year time horizon.

Changes in interest rates can affect the underlying economic value of the bank's assets, liabilities and off-balance sheet instruments, because the present value of future cash flows change when interest rates change. Change in interest rates also affect a bank's earnings by increasing or decreasing its net interest income (NII).

As of December 2019, the impact on the banking book economic value, under a parallel shock on the yield curve of +/- 200 bps was estimated at EUR 10.42 million. A floor of -100 bps was applied to the yield curve to address unrealistic scenarios of extremely negative interest rates.

Credit Spread Risk

The credit spread, which reflects the ability of an issuer to meet its obligations up to their maturity, is one of the factors considered in the assets' valuation. It represents the difference between the interest rate of a risky asset and the interest rate of a risk-free asset in the same currency and with the same maturity.

The Bank is also subject to other types of risk in the banking book, namely the risk of Equity Holdings and the risk of Mutual Funds. These risks may broadly be described as the probability of a loss resulting from an adverse change in the market value of these financial instruments.

PENSION FUND RISK

The pension fund risk stems from the possibility that the pension plan liabilities exceed the value of the pension fund portfolio of assets in such a way that Haitong Bank is required to make an extraordinary contribution to the pension fund. Otherwise, if the pension fund portfolio of assets' return is in line with the liabilities evolution, Haitong Bank is expected only to make the regular annual contribution (the pension plan normal cost). In order to mitigate the risk of a mismatch between the liabilities and the portfolio of assets, Haitong Bank has implemented a strategic asset allocation to the pension fund based on an Asset Liability Modelling exercise and has in place a governance structure that regularly monitors the pension scheme solvency evolution (liabilities growth vs. portfolio of assets).

OPERATIONAL RISK

Operational risk may be defined as the probability of occurrence of events with a negative impact on earnings or capital resulting from inadequate internal procedures or their negligent application, inadequacy or failure of information systems, staff behaviour, or external events. Legal and IT risks are included in this definition. Operational risk is considered as the sum of the operational, information systems and compliance risks.

Management Practices

Operational risk is managed through a set of procedures that standardise, systematise and measure the frequency of actions aimed at the identification, monitoring, control and mitigation of this risk. The priority in operational risk management is to identify and mitigate or eliminate risk sources.

The management methodologies in place are supported by the principles and approaches to operational risk management issued by the Basel Committee and those underlying the Risk Assessment Model implemented by the Bank of Portugal, recognised as reflecting the best practices in this area.

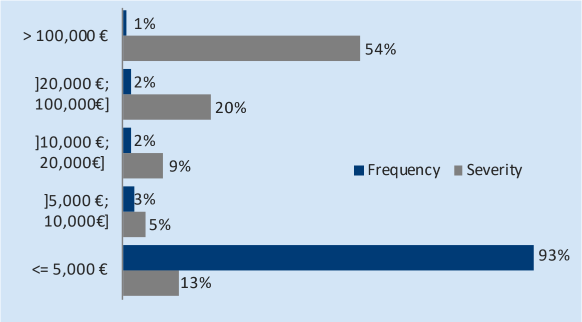
The operational risk management model is supported by an exclusively dedicated structure within the organisation which is responsible for the following processes:

- Identification and assessment of processes, risks and controls through risk and control self-assessment exercises;
- Identification and assessment of operational risks in new products and services, including the need to implement new controls to mitigate identified risks;
- Identification, analysis and reporting of operational risk events;
- Monitoring risk through a selected set of risk indicators;
- Calculation of capital requirements in accordance with the Standardized Approach.

OPERATIONAL RISK ANALYSIS

As shown below, in 2019 93% of all reported events carried losses below EUR 5,000.

Distribution of frequency and severity of events by individual loss bucket

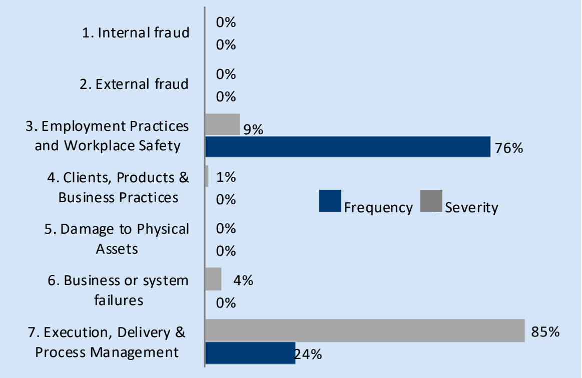


Source: Haitong Bank.

The operational risk events identified are reported to permit their full and systematic categorization and the monitoring of follow-up mitigation actions. Every event is classified in accordance with the risk categories defined in the Bank of Portugal's Risk Assessment Model, by Business Lines and by Basel Event Types.

In 2019, Execution, Delivery & Process Management event type accounted for 85% of total reported events but only for 24% of reported losses. Employment Practices and Workplace Safety events was the event type with higher loss severity accounting for 76% of total reported losses, with these losses generated in Haitong's Brazilian subsidiary.

Distribution of frequency and severity of events by event type



Source: Haitong Bank.

LIQUIDITY RISK

Liquidity risk arises from an institution's present or future inability to meet all payment obligations when they come due or secure such resources only at an excessive cost.

Management Practices

Liquidity and funding management is a key element in Haitong Bank's business strategy and a fundamental pillar, together with capital, in supporting its strength and resilience.

Liquidity management and Haitong Bank's funding strategy are the responsibility of the Executive Committee which ensures the management of the Bank's liquidity in an integrated way, with the treasuries of all Haitong Bank's entities.

To provide protection against unexpected fluctuations and based on a solid organizational and governance model, Haitong Bank's liquidity risk management envisages delivering appropriate term and structure of funding consistent with the following principles:

- Ensure the ability to meet obligations as they come due in a timely manner and at a reasonable cost;
- Comply with regulatory standards on liquidity in each geography the Bank operates in;
- Ensure full alignment with liquidity risk appetite;
- Make available a sufficient immediate liquidity buffer to ensure ability to react to any event of stress that could restrict the ability to access financial markets under both normal and stressed conditions;
- Develop a diversified investors' base and maintain access to a variety of alternative funding sources, while minimising the cost of funding; and
- Continuously develop an appropriate internal framework for the identification, measurement, limitation, monitoring and mitigation of liquidity risk.

LIQUIDITY POSITION

Liquidity Coverage Ratio

The Liquidity Coverage Ratio (LCR) is established by the CRD IV (Directive 2013/36/EU) and it is designed to promote short-term resilience of a bank's liquidity risk profile by measuring how adequate the stock of high-quality liquid assets (that can be easily converted into cash) is to meet liquidity needs for a 30-calendar day liquidity stress scenario.

As of December 2019, Haitong Bank reached an LCR of 537%, which represents a very resilient short-term liquidity position, comfortably complying with regulatory standards.

Liquidity Coverage Ratio

(EUR thousand)

	December 2019	December 2018
High-Quality Liquid Assets	885,719	633 823
30 days Net Outflow	164,981	148 947
Liquidity Coverage Ratio	537%	426%

Source: Haitong Bank.

Net Stable Funding Ratio

The Basel Committee on Banking Supervision established the Net Stable Funding Ratio (NSFR) in October 2014 within the scope of the Basel III regulatory reform. The NSFR constitutes a structural measure that aims at fostering longer-term stability by incentivizing banks to adequately manage their maturity mismatches by funding long-term assets with long-term liabilities.

As of December 2019, Haitong Bank reached a NSFR of 181%, ensuring an adequate medium- to long-term funding profile.

NSFR

	December 2019	December 2018
Net Stable Funding Ratio	181%	116%

Source: Haitong Bank.

The NSFR ratio presented above is based on Haitong Bank's interpretation of the Basel Committee on Banking Supervision NSFR rules.

In May 2019, Regulation (EU) 2019/876 of the European Parliament and of the Council was published, amending Regulation (EU) 575/2013 (CRR), with a specific chapter dedicated to the NSFR, which shall be applied from June 2021.

CAPITAL MANAGEMENT

Capital management seeks to guarantee Haitong Bank's sound solvency and profitability under the strategic objectives and the risk appetite set by the Board of Directors and therefore is of critical importance to Haitong Bank's approach to financial stability and sustainability management.

Management Practices

The capital management practices and guidelines are shaped to accomplish the business' strategic goals and the risk appetite set by the Board of Directors. Accordingly, with the objective of maintaining capital that is suitable in quantity and quality, Haitong Bank has in place a capital management framework based on the following objectives:

- Promote sustainable growth of activity by creating enough capital to withstand the increase of assets;
- Meet the minimum requirements established by the supervising entities in relation to capital adequacy; and
- Ensure the achievement of the strategic goals set by the Group in relation to capital adequacy.

Complementing the regulatory focus, Haitong Bank periodically executes an internal risk-based capital self-assessment (ICAAP) that consists of a forward-looking measurement of all material risks incurred by Haitong Bank (including the ones not covered by Pillar 1 regulatory capital).

Additionally, Haitong Bank, as part of its capital management policy, performs a recovery plan, which provides the escalation path for crisis management governance and identifies the list of actions and strategies designed to respond to a capital stress event.

REGULATORY CAPITAL AND LEVERAGE RATIOS

Solvency

Regulatory capital requirements are determined by the Bank of Portugal under the CRR (Regulation EU nº 575/2013) and CRD IV (Directive 2013/36/EU). Under these regulatory frameworks, capital requirements are set in consideration of the level of risk that the Bank is exposed to, which is measured through both risk weighted assets (RWAs) and leverage.

The regulation provides for a transitional period to exclude some elements previously included (phase-out) and include/deduct new elements (phase-in) in which institutions may accommodate the new requirements. The transitional period for the majority of the elements ended in 2017, with the exception of the deferred tax assets generated prior to 1 January 2014, IFRS9 transition adjustment and both the subordinated debt and all the hybrid instruments not eligible as own funds under the new regulations, which have a longer period (until the end of 2021).

Under this regulatory framework, the minimum CET1 ratio is 4.5%, the minimum Tier1 ratio is 6% and the minimum Total Capital Ratio is 8%. In addition, these minimum ratios are supplemented by the capital conservation buffer. CRD IV requirements permitted banks to phase in the impact of this buffer, beginning on 1 January 2016, in increments of 0.625% per year until reaching 2.5% of RWAs on 1 January 2019.

Also related to the CRD IV capital buffers, in November 2016 the Bank of Portugal decided to impose a capital surcharge on six Portuguese banking groups classified as O-SIIs (Other

Systemically Important Institutions) in the scope of its annual revision of the identification of the imposition of capital buffers, pursuant to Article 138-R (2) of the Legal Framework of Credit Institutions and Financial Companies (RGICSF). Haitong Bank is excluded from the scope of application of this macro-prudential buffer.

The regulation also provides a counter-cyclical capital buffer of up to 2.5% to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth in Portugal. As of 31 December 2019, the Bank of Portugal decided not to impose any additional counter-cyclical capital buffer, by setting it at 0% of the total risk exposure amount. This decision is subject to revision on a quarterly basis.

In addition to the above-mentioned capital buffers, as of 1 July 2018 Haitong Bank became subject to an additional requirement with a specific add-on, determined and annually revised under the Supervisory Review and Evaluation Process performed by the Bank of Portugal.

As of December 2019, Haitong Bank's capital ratios were calculated under the CRR (Regulation EU nº 575/2013) and CRD IV (Directive 2013/36/EU) Standard Approach on both a transitional and fully-loaded basis, and are shown in the following table.

Solvency Ratios

	December 2019	
	Phased-in	**Fully-loaded**
CET1 ratio	28.4%	28.2%
Tier 1 ratio	35.7%	35.4%
Total capital ratio	35.9%	35.5%

	December 2018	
	Phased-in	**Fully-loaded**
CET1 ratio	22.9%	22.6%
Tier 1 ratio	28.7%	28.3%
Total capital ratio	28.9%	28.5%

Source: Haitong Bank.

The prudent capital management implemented by Haitong Bank has allowed the strengthening of solvency levels, ensuring a highly solid capital position.

Leverage

As a supplementary measure, the CRR/CRD framework introduced a non-risk based leverage ratio. The leverage ratio compares Tier 1 capital to a measure of leverage exposure, aiming to constrain the build-up of excessive leverage in the banking sector and to backstop the existing risk-weighted capital requirements with a simple, non-risk-weighted measure.

As of December 2019, Haitong Bank's leverage ratios, calculated under the Basel III Standard Approach on both a transitional and fully-loaded basis, are shown in the following table.

Leverage Ratios

	Dezembro 2019	**Dezembro 2019**
Phased-in	19.8%	18.6%
Fully-loaded	19.7%	18.4%

Source: Haitong Bank

The leverage ratio is based on Haitong Bank's current understanding of the regulatory framework.

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FINANCIAL REPORT

HAITONG

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements are a free translation into English of the original Portuguese version. In case of doubt or misinterpretation, the Portuguese version will prevail.

1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for the financial years ended on the 31st December 2019 and 2018

(thousand euros)

	Notes	31.12.2019	31.12.2018
Interest and similar income	5	80 678	98 174
Interest and similar expenses	5	48 595	60 652
Financial margin		**32 083**	**37 522**
Fees and commissions income	6	87 965	79 142
Fees and commissions expenses	6	(7 253)	(6 776)
Net trading income	7	453	(20 443)
Net income from other financial instruments at fair value through profit or loss	8	7 555	2 927
Net gain/(loss) from derecognition of financial assets measured at fair value through other comprehensive income	9	2 524	3 934
Net gains/(losses) from hedge accounting	19	(28)	-
Net gains / (losses) from foreign exchange differences	10	(6 073)	5 903
Net gain/(loss) from derecognition of financial assets measured at amortised cost	11	301	117
Other operating income and expense	12	(9 142)	(3 806)
Operating Income		**108 385**	**98 520**
Employee costs	13	44 721	44 324
Administrative costs	15	19 582	27 389
Depreciations and amortisations	24 and 25	8 151	5 844
Provisions	31	1 678	2 805
Net impairment loss on financial assets	31	11 600	23 590
Net impairment loss on other assets	31	9 859	-
Operating expenses		**95 591**	**103 952**
Share of profit of associates	26	(200)	12
Profit / (Loss) before Income Tax		**12 594**	**(5 420)**
Income tax			
Current tax	32	2 970	11 912
Deferred tax	32	8 036	(4 558)
		11 006	**7 354**
Net profit of continued operations		**1 588**	**(12 774)**
Net profit of discontinued operations	34	6 291	14 221
Net Profit / (Loss) for the year		**7 879**	**1 447**
Attributable to shareholders of the parent company		**7 508**	**1 159**
Attributable to non-controlling interests	36	**371**	**288**
		7 879	**1 447**
Basic Income per Share (in euros)	16	0.04	0.01
Diluted Income per Share (in euros)	16	0.04	0.01

The Director of the Finance Department

The Board of Directors

Consolidated Statement of Comprehensive Income for the financial years ended on the 31st December 2019 and 2018

(thousand euros)

	31.12.2019	31.12.2018
Net income for the period		
Attributable to shareholders of the parent company	7 508	1 159
Attributable to non-controlling interests	371	288
	7 879	**1 447**
Other comprehensive income for the period		
Items that will not be reclassified to profit and loss		
Actuarial gains/(losses), net of taxes	(3 456)	(2 104)
	(3 456)	**(2 104)**
Items that may be reclassified to profit and loss		
Exchange differences net of taxes		
Foreign currency translation differences for foreign operations	(1 331)	(17 287)
Net gains/(losses) on hedges of net investments in foreign operatons	(3 551)	-
Own credit risk effect on liabilities valuation net of taxes	58	3 322
Other comprehensive income from associates	(272)	(510)
Comprehensive income from discontinued operations net of taxes	(87)	-
Fair value changes of debt instruments measured at fair value through other comprehensive income net of taxes	1 002	(5 086)
Foreign exchange reserve recycled from discontinued operations	-	(285)
	(4 181)	**(19 846)**
Total comprehensive income/(loss) for the period	**242**	**(20 503)**
Attributable to shareholders of the parent company	**(77)**	**(16 862)**
Attributable to non-controlling interests	**319**	**(3 641)**
	242	**(20 503)**

The following notes form an integral part of these consolidated financial statements

Consolidated Statement of Financial Position as at the 31st December 2019 and 2018

(thousand euros)

	Notes	31.12.2019	31.12.2018
Assets			
Cash and cash equivalents	17	637 829	341 255
Financial assets at fair value through profit or loss		623 801	641 358
Financial assets held for trading		586 295	597 104
Securities	18	437 572	466 957
Derivative financial assets	19	148 723	130 147
Non-trading financial assets mandatorily at fair value through profit or loss		37 506	44 254
Securities	20	37 399	38 471
Loans and advances to customers	22	107	5 783
Financial assets at fair value through other comprehensive income	20	177 187	515 813
Financial assets measured at amortised cost		795 839	722 371
Securities	20	335 755	87 085
Loans and advances to banks	21	145 470	126 828
Loans and advances to customers	22	314 614	508 458
Non-current assets held-for-sale	23	2 244	2 533
Assets from discontinuing units	34	-	213 920
Other tangible assets	24	12 777	5 364
Intangible assets	25	6 967	18 243
Investments in associated companies	26	15	487
Tax assets		156 702	172 359
Current income tax assets	32	40 364	44 360
Deferred income tax assets	32	116 337	127 999
Other assets	27	193 549	261 060
Total Assets		**2 606 910**	**2 894 763**
Liabilities			
Financial liabilities held for trading		281 660	304 873
Securities	18	132 758	119 907
Derivative financial liabilities	19	148 902	184 966
Financial liabilities measured at amortised cost		1 540 734	921 775
Resources of credit institutions	28	302 248	358 957
Resources of customers	29	1 041 374	400 206
Debt securities issued	30	197 112	162 612
Hedging derivatives	19	300	-
Liabilities from discontinuing units	34	-	903 169
Provisions	31	21 309	15 202
Tax liabilities		7 988	3 694
Current income tax liabilities	32	7 044	2 817
Deferred income tax liabilities	32	944	877
Other liabilities	33	139 377	130 544
Total Liabilities		**1 991 368**	**2 279 257**
Equity			
Share capital	35	844 769	844 769
Share premium	35	8 796	8 796
Other equity instruments	35	108 773	108 773
Fair-value reserves	36	468	(173)
Other reserves and retained earnings	36	(380 914)	(373 847)
Net profit/(loss) for the year attributable shareholders of the parent company		7 508	1 159
Total equity attributable to the shareholders of the parent company		**589 400**	**589 477**
Non-controlling interests	36	26 142	26 029
Total Equity		**615 542**	**615 506**
Total Equity and Liabilities		**2 606 910**	**2 894 763**

The following notes form an integral part of these consolidated financial statements

The Director of the Finance Department　　　　The Board of Directors

Consolidated Statement of Changes in Equity for the financial years ended on the 31st December 2019 and 2018

(thousand euros)

	Share Capital	Share Premium	Other equity instruments	Fair-value reserves	Other Reserves, Retained Earnings and Other Comprehensive Income	Net profit/(loss) for the period attributable shareholders of the parent company	Equity attributable to shareholders of the parent company	Non-controlling interests	Total Equity
Balance as at 31 December 2017 (Restatement)	**844 769**	**8 796**	**3 731**	**4 787**	**(229 212)**	**(130 187)**	**502 684**	**31 082**	**533 766**
IFRS 9 adoption impact	-	-	-	(234)	(1 152)	-	(1 386)	(19)	(1 405)
Balance as at 1 January 2018	**844 769**	**8 796**	**3 731**	**4 553**	**(230 364)**	**(130 187)**	**501 298**	**31 063**	**532 361**
Other movements recorded directly in equity (see Note 36):									
Changes in fair value, net of taxes	-	-	-	(4 641)	-	-	(4 641)	(447)	(5 088)
Other comprehensive income of associates	-	-	-	-	(510)	-	(510)	-	(510)
Exchange differences, net of taxes	-	-	-	-	(13 805)	-	(13 805)	(3 482)	(17 287)
Own credit risk changes	-	-	-	-	3 322	-	3 322	-	3 322
Actuarial gains/ (losses), net of taxes	-	-	-	-	(2 104)	-	(2 104)	-	(2 104)
Transfer of comprehensive income from discontinuing operations	-	-	-	(85)	86	-	1	-	1
Foreign exchange reserve recycle from discontinued operations	-	-	-	-	(285)	-	(285)	-	(285)
Net profit / (loss) for the year	-	-	-	-	-	1 159	1 159	288	1 447
Total comprehensive income for the year	**-**	**-**	**-**	**(4 726)**	**(13 296)**	**1 159**	**(16 863)**	**(3 641)**	**(20 504)**
Issuance of other equity instruments (see Note 35)	-	-	105 042	-	-	-	105 042	-	105 042
Transfers for reserves and retained earnings	-	-	-	-	(130 187)	130 187	-	-	-
Transactions with non-controlling interests (see Note 36)	-	-	-	-	-	-	-	(1 393)	(1 393)
Balance as at 31 December 2018	**844 769**	**8 796**	**108 773**	**(173)**	**(373 847)**	**1 159**	**589 477**	**26 029**	**615 506**
Other movements recorded directly in equity (see Note 36):									
Changes in fair value, net of taxes	-	-	-	641	-	-	641	361	1 002
Other comprehensive income of associates	-	-	-	-	(272)	-	(272)	-	(272)
Exchange differences, net of taxes	-	-	-	-	(4 469)	-	(4 469)	(413)	(4 882)
Own credit risk changes	-	-	-	-	58	-	58	-	58
Actuarial gains/ (losses), net of taxes	-	-	-	-	(3 456)	-	(3 456)	-	(3 456)
Other comprehensive income of discontinued companies	-	-	-	-	(87)	-	(87)	-	(87)
Net profit / (loss) for the year	-	-	-	-	-	7 508	7 508	371	7 879
Total comprehensive income for the year	**-**	**-**	**-**	**641**	**(8 226)**	**7 508**	**(77)**	**319**	**242**
Transfers for reserves and retained earnings	-	-	-	-	1 159	(1 159)	-	-	-
Transactions with non-controlling interests (see Note 36)	-	-	-	-	-	-	-	(206)	(206)
Balance as at 31 December 2019	**844 769**	**8 796**	**108 773**	**468**	**(380 914)**	**7 508**	**589 400**	**26 142**	**615 542**

The following notes form an integral part of these consolidated financial statements

Consolidated Cash Flow Statement for the financial years ended on the 31st December 2019 and 2018

(thousand euros)

	Notes	31.12.2019	31.12.2018
Cash flows from operating activities			
Interests received		107 338	(5 338)
Interests paid		(35 984)	(88 562)
Fees and commissions received		87 985	73 155
Fees and commissions paid		(7 253)	(7 025)
Loans recovery		134	111
Cash payments to employees and suppliers		(71 831)	(82 057)
		80 389	**(109 716)**
Changes in operating assets and liabilities:			
Resources at central banks		(642)	(1 494)
Trading financial assets and liabilities		1 608	(277 180)
Loans and advances to banks		(19 172)	357 173
Resources of other credit institutions		(57 186)	(71 039)
Loans and advances to customers		213 196	(60 764)
Resources of costumers		(22 238)	(95 119)
Risk management derivatives		300	-
Held-to-maturity investments		-	-
Other operating assets and liabilities		(8 822)	3 689
Net cash flow from operating activities before income tax		**187 433**	**(254 450)**
Income taxes paid		(2 757)	(23 379)
		184 676	**(277 829)**
Net cash flows from investment activities			
Sale of investments in subsidiaries and associates		12 000	25 660
Purchase of securities		(519 532)	(454 290)
Sale and repaymentsof securities		597 761	407 152
Purchase of fixed assets		(2 986)	(1 257)
Sale of of fixed assets		160	212
		87 403	**(22 523)**
Cash flows from financing activities			
Debt securities issued	31	36 190	154 889
Reimbursement of debt securities issued	31	(12 132)	(93 090)
Dividends to non-controlling interests	35	(206)	-
Issuance of other equity instruments	35	-	105 042
Net cash flow from financing activities		**23 852**	**166 841**
Net changes in cash and equivalents		**295 931**	**(133 511)**
Cash and equivalents at the beginning for the year		335 945	469 456
Cash and equivalents at the end for the year		631 876	335 945
		295 931	**(133 511)**
Cash and equivalents includes:			
Cash	18	612 016	309 187
Deposits at other credit institutions	18	25 813	32 069
(-) Minimum Reserves	18	(5 953)	(5 311)
Total		**631 876**	**335 945**

The following notes form an integral part of these consolidated financial statements

2. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Haitong Bank, S.A.

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

Haitong Bank, S.A. (Bank or Haitong Bank) is an investment bank based in Portugal, Lisbon, at Rua Alexandre Herculano, n.º 38. The Bank is duly authorised by the Portuguese authorities, central banks and regulators in order to carry out its business in Portugal and in the countries where it operates through international financial branches.

The Institution was established in February 1983 as an Investment Company, as a foreign investment in Portugal under the company name FINC – Sociedade Portuguesa Promotora de Investimentos, S.A.R.L.. In the 1986 financial year, the Company became part of the Grupo Espírito Santo, under the name Espírito Santo – Sociedade de Investimentos, S.A..

In order to widen the scope of its business, the Institution has obtained a license from the Portuguese official bodies for its conversion into an Investment Bank, by means of Ordinance no. 366/92 of November 23rd, published in the Portuguese Official Gazette – Series II – no. 279, of December 3rd. Its business as an Investment Bank started on the 1st of April, 1993, under the company name Banco ESSI, S.A..

In the 2000 financial year, Banco Espírito Santo, S.A acquired the whole of BES Investimento's share capital in order to reflect all existing synergies between both institutions in its consolidated accounts.

On the 3rd of August, 2014, following the implementation of a resolution measure by the Bank of Portugal, applied to Banco Espirito Santo, S.A., the Bank became held by Novo Banco, S.A..

Haitong International Holdings Limited acquired the whole of BES Investimento's share capital on September 2015, and the Bank's company name was thereby changed into Haitong Bank, S.A..

Haitong Bank currently operates through its headquarters in Lisbon, as well as through branches in London, Warsaw and Madrid, and subsidiaries in Brazil.

Haitong Bank's financial statements are consolidated by Haitong Internacional Holdings Limited, based in Li Po Chun Chambers, n.º 189, Des Voeux Road Central, in Hong Kong.

The Group companies where the Bank holds, directly or indirectly, voting rights grater or equal to 20%, or over which the Bank exercises control or has significant influence, and that were included in the consolidated financial statements, are presented as follows:

	Incorporation date	Acquisition date	Headquarters	Activity	% Economic interest	Consolidation method
Haitong Bank SA	**1983**	**-**	**Portugal**	**Bank**	**100%**	**Full Consolidation**
Haitong Capital - SCR, S.A.	1988	1996	Portugal	Venture capital	100%	Full Consolidation
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	46%	Equity method
Haitong Banco de Investimento do Brasil S.A.	2000	2000	Brazil	Investment bank	80%	Full Consolidation
FI Multimercado Treasury	2005	2005	Brazil	Investment fund	80%	Full Consolidation
Haitong do Brasil Participações Ltda	2004	2004	Brazil	Asset management	80%	Full Consolidation
Haitong Negocios, SA	1996	1999	Brazil	Holding company	80%	Full Consolidation
Haitong do Brasil DTVM, SA	2009	2010	Brazil	Asset management	80%	Full Consolidation
Haitong Securities do Brasil S.A.	2000	2000	Brazil	Brokerage house	80%	Full Consolidation

In 2013, Haitong Bank started a simplification plan for its group. Several measures were taken within the scope of such process, including the disposal and merger of several holdings, with no significant impact on the accounts. The simplification process continued throughout 2019, and the main changes made to the group's structure are set forth below.

Subsidiaries

- On September 30, 2019, Haitong Bank has entered into an agreement with its parent company, Haitong International Holdings Limited, an entity fully owned by Haitong Securities Co., Ltd., to sell and transfer the entirety of the shares representing the share capital of its wholly owned subsidiary Haitong Investment Ireland p.l.c. , a company incorporated and headquartered in the Republic of Ireland. Having at that date the transaction pending to previous standard conditions as well as to the non-opposition of the relevant stakeholders.
- On December 19, 2019, Haitong Bank has carried out the sale of the entire share capital of Haitong Investment Ireland p.l.c., to Haitong International Holdings Limited resulting from the share purchase and sale agreement dated September 30, 2019. The sales price was € 12,000,000.00.
- On December 17, 2019, a public deed was celebrated in a registry office in Spain in which it was approved the liquidation, assets sharing and extinction of SES Iberia Private Equity S.A.. On the same date the notary submitted a copy of the deed to the Registro Mercantil de Madrid and proceed with Ses Iberia´s extinction. The proceeding was confirmed to the Notary on December 18, 2019.

During the 2019 and 2018 financial years, the movements regarding acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(thousand euros)

	31.12.2019	
	Disposals	
	Sale amount	Gains/ (losses) in sales/disposals
Subsidiaries		
Haitong Investment Ireland PLC (Note 34)	12 000	1 967
SES Iberia	3	-
Total	**12 003**	**1 967**

(thousand euros)

	31.12.2018					
	Acquisitions		Disposals			
	Other Investments (a)	Total	Sale amount	Other Reimbursements (b)	Total	Gains/ (losses) in sales/disposals
Subsidiaries						
Haitong (UK) Limited (ver Nota 35)	-	-	10 167	-	10 167	2 902
Haitong Securities USA LLC (ver Nota 35)	-	-	13 642	-	13 642	10 330
Haitong Negócios, S.A.	12 724	12 724	-	-	-	-
Haitong Investimento DTVM, S.A.	8 262	8 262	-	-	-	-
Haitong Banco de Investimento do Brasil, S.A. - (	-	-	-	71 196	71 196	-
FI Multimercado Treasury	1 125	1 125	-	-	-	-
	22 111	**22 111**	**23 809**	**71 196**	**95 005**	**13 232**
Associates						
MCO2	-	-	-	37	37	(13)
Fundo Espírito Santo IBERIA I	-	-	-	1 813	1 813	-
Windart, Lda	-	-	-	1	1	-
	-	**-**	**-**	**1 851**	**1 851**	**(13)**
Total	**22 111**	**22 111**	**23 809**	**73 047**	**96 856**	**13 219**

(a) Share capital increases, supplementary capital and loans to companies.
(b) Share capital decreases, supplementary capital and loans to companies.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of the 19th of July, 2002, and Notice no. 1/2005 of the Bank of Portugal (revoked by Bank of Portugal Notice no. 5/2015), the consolidated financial statements of Haitong Bank, S.A., (Bank, Haitong Bank or Group) are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

The IFRS comprise the accounting standards issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by their predecessor bodies.

Haitong Bank's consolidated financial statements set forth herein refer to the financial year ended on the 31st of December, 2019, which have been prepared in accordance with the IFRS in force, as adopted in the European Union until the 31st of December, 2019.

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1st January 2019. The accounting policies in this note were consistently to all entities of the Group and are consistent with those used in the preparation of the financial statements of the previous period, but it has been introduced changes resulting from the adoption of the following standard IFRS 16 – Leases. This standard replaces IAS 17 – Leases and establishes the new requirements regarding the scope, classification/recognition and measurement of leases.

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes are disclosed in Note 40.

The consolidated financial statements are denominated in thousands of euros, rounded to the nearest thousand, and have been prepared in accordance with the historical cost principle, with the exception of the assets and liabilities accounted for at fair value, such as financial derivatives, financial assets and liabilities at fair value through profit and loss and financial assets and liabilities at fair value through other comprehensive income.

Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount or fair value less costs to sell.

The preparation of financial statements in accordance with the IFRS requires the Group to make judgements and estimates, as well as to use assumptions affecting the implementation of the accounting policies and the amounts corresponding to income, expenses, assets and liabilities. Any changes to such assumptions, or any difference thereof comparing to reality may have an impact on the current estimates and judgements. The areas involving a higher degree of judgement or complexity, or in which significant assumptions and estimates are used when preparing the consolidated financial statements, are analysed in Note 3.

The consolidated financial statements herein have been approved in the Board of Directors meeting held on the 19 of March, 2020.

2.2. BASIS OF CONSOLIDATION

The consolidated financial statements set forth herein reflect the assets, liabilities, income and expenses of Haitong Bank and its subsidiaries (Group or Haitong Bank Group), and the profit or loss attributable to the Group concerning the financial holdings in associates.

The accounting policies have been consistently implemented by all the Group companies in the periods covered by these consolidated financial statements.

Subsidiaries

Subsidiaries are entities (including investment funds) controlled by the Group. The Group controls an entity when it holds the power to direct the relevant activities of the entity, and when it is exposed or entitled to the variability in the returns resulting from its involvement with such entity, and may get hold of such returns through its power over the relevant business of such entity (de facto control). The subsidiaries' financial statements are comprised in the consolidated financial statements from the date in which the Group acquires control, until the date when such control ceases to exist.

The accumulated losses of a subsidiary are attributed to non-controlling interests in the proportions held, which could imply the recognition of negative non-controlling interests.

In a step acquisition transaction resulting in the acquisition of control, any previous minority holding is reassessed at fair value against income statement when calculating goodwill. Upon a partial sale resulting in the loss of control over a subsidiary, any remaining minority holding is reassessed at fair value on the date of the sale, and the profit or loss resulting from such reassessment is accounted for in the income statement.

Associates

Associates are all companies over which the Group holds the right to exercise significant influence, namely over its financial and operating policies, but which the Group does not control. It is normally assumed that the Group has significant influence when it holds the power of exercising over 20% of the voting rights of the associate. However, even when the Group's voting rights are below 20%, it may exercise significant influence by participating in the management of the associate or in the composition of the Administration bodies with executive powers.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

- Representation on the Board of Directors or equivalent governing body of the investee;
- Participation on the policy-making process, including participation in decisions about dividends or other distributions;
- Material transations between the Group and the investee;
- Interchange of the management team;
- Provision of essential technical information.

Investments in associates are accounted for in the consolidated financial statements of the Bank through the equity method, from the moment when the Group acquires significant influence until the moment it ceases to exist. The statement of financial positions value of investments in associates comprises the amount of the corresponding goodwill as determined in the acquisitions, and is shown net of possible impairment losses.

In a step acquisition transaction resulting in the acquisition of significant influence, any previously held stake in that entity is reassessed at fair value through the income statement upon the first implementation of the equity method.

When the amount of the accumulated losses incurred by an associate and attributable to the Group is equal to or exceeds the book value of the holding and of any other medium and long term interests in such associate, the equity method is interrupted, except if the Group is legally or constructively obliged to recognise such losses, or if the Group has made payments on behalf of the associate.

The gains or losses incurred in the sale of share capital in associates are accounted for against income statement, even if such sale does not result in the loss of significant influence.

Goodwill

The goodwill resulting from the acquisitions carried out until the 1st of January, 2004, is deducted from the shareholders' equity, as per the option granted by IFRS 1, adopted by the Group on the date of transition to the IFRS.

Acquisitions of subsidiaries and associates occurred from the 1st of January, 2004, to the 31st of December, 2009 have been accounted for by the Group using the purchase method. The acquisition cost includes the fair values – determined as at the date of purchase – of the assets and equity instruments transferred, and of the liabilities assumed or incurred, plus costs directly attributable to the acquisition.

The goodwill represented the difference between the so determined cost of acquisition of the holding and the fair value attributable to the assets, liabilities and acquired contingent liabilities.

From the 1st of January, 2010, and as per IFRS 3 – Business Combinations, the Group calculates goodwill as the difference between the fair value of the cost of acquisition of the holding held, including the fair value of any previous minority holding, and the fair value attributable to the acquired assets and assumed liabilities. Fair values are determined on the date of acquisition. Costs directly attributable to the acquisition are recognised upon the acquisition in costs of the financial year.

On the date of acquisition, the Group recognises as non-controlling interests the amounts corresponding to the proportion of fair value of the acquired assets and assumed liabilities without the respective goodwill portion. Therefore, the goodwill recognised in the consolidated financial statements herein corresponds solely to the portion attributable to the Bank's shareholders.

In accordance with IFRS 3 – Business Combinations, the positive goodwill is accounted for as an asset at its cost and is not amortised. In the case of investments in associates, goodwill is comprised in the corresponding statement of financial positions value, determined based on the equity method. Negative goodwill is directly recognised in income statement on the period of the acquisition.

The recoverable amount of the goodwill accounted for as an asset is reviewed on an annual basis, regardless of whether there is evidence of impairment. Any losses determined by impairment are recognised in the income statement. The recoverable amount is the larger amount out of the value in use and the market value deducted from selling costs. The value in use is determined by discounting future estimated cash flows, based on a rate reflecting market conditions, time value and risks associated with the business.

Transactions with non-controlling interests

The acquisition of non-controlling interests which do not result in a change in control over a subsidiary is accounted for as a transaction with shareholders and, therefore, no additional goodwill resulting arising from such transaction shall be recognised. The difference between the acquisition cost and the statement of financial positions value of the acquired non-controlling interests is directly recognised in reserves. Similarly, gains or losses arising from disposals of non-controlling interests which do not result in the loss of control over a subsidiary are always recognised against reserves.

The gains or losses arising from the dilution or sale of part of a financial holding in a subsidiary, with the loss of control, are recognised by the Group in the income statement.

Translation of financial statements in foreign currency

The financial statements of each of the Group's subsidiaries and associates are prepared using their functional currency, which is defined as the currency of the economy in which such subsidiaries and associates operate. The Group's consolidated financial statements are prepared in euros, which is Haitong Bank's functional currency.

The Group's financial statements whose functional currency is other than euro are translated into euros, in accordance with the following criteria:

- Assets and liabilities are converted at the exchange rate as at the date of the statement of financial positions;
- Income and expenses are converted based on the application of exchange rates approximated to the real rates as at the date of each transaction;

- Exchange rate differences determined between the conversion amount in euros of the financial position at the beginning of the year and its amount converted at the exchange rate in force as at the date of statement of financial position to which the consolidated accounts relate are accounted for against reserves. Similarly, regarding the subsidiaries' and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and that determined at the statement of financial position date are recorded in reserves. As at the date of the company's divestiture, such differences are recognised in income statement as an integral part of the gain or loss arising from the divestiture.

Balances and transactions eliminated on consolidation

The balances and transactions between companies of the Group, including any unrealised gains or losses arising from intra-group transactions, are eliminated on the consolidation process, except for the cases where the unrealised losses reveal an impairment which should be recognised in the consolidated accounts.

Unrealised gains arising from transactions with associates are eliminated proportionally to the Group's holding in such associates. Unrealised losses are also eliminated, but only in the cases where they do not reveal an impairment.

2.3. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are converted at the exchange rate in force as at the date of the transaction. The monetary assets and liabilities denominated in foreign currency are converted into Euros at the exchange rate in force at the date of the statement of financial position. The exchange rate differences arising from such conversion are recognised in income statement.

Non-monetary assets and liabilities accounted for at historical cost, denominated in foreign currency, are converted at the exchange rate as at the transaction date. Non-monetary assets and liabilities denominated in foreign currency accounted for at fair value are converted at the exchange rate in force as at the date of determination of the fair value. The exchange rate differences resulting thereof are recognised in profit and loss.

2.4. FINANCIAL INSTRUMENTS

2.4.1. Financial Assets Classification

At the initial recognition, financial assets are classified into one of the following categories:

a) Financial assets at amortized cost;
b) Financial assets at fair value through other comprehensive income; or
c) Financial assets ate fair values through profit or loss:
    i. Financial assets held for trading
    ii. Non-trading financial assets mandatorily at fair value through profit or loss
    iii. Financial assets designated at fair value through profit or loss

Financial assets classification and measurement depends on the SPPI test results (assessment if the contractual cash flows characteristics, in order to conclude if it corresponds solely payments of principal and interests) and on the business model.

a) Financial assets measured at amortised cost

A financial asset is classified under the category “Financial assets at amortized cost” if both the following conditions are met:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and;
ii. The contractual terms of the financial asset establish cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The “Financial assets at amortized cost” category includes mainly Loans and advances to banks, Loans and advances to customers, and Debt securities.

b) Financial assets at fair value through other comprehensive income

A financial asset is classified under the category of “Financial assets at fair value through other comprehensive income” if both of the following conditions are met:

i. The financial asset is held within a business model whose objective is to both collect contractual cash flows and sell financial assets and;
ii. The contractual cash flows occur on specified dates and are solely payments of principal and interest on the principal amount outstanding (SPPI).

In addition, in the initial recognition of a capital instrument that is not held for trading, nor a contingent consideration by an acquirer in a concentration of activities to which IFRS 3 applies, the Group may irrevocably choose to classify it in the category of " Financial assets at fair value through other comprehensive income ". This option is exercised on a case-by-case basis, investment by investment and is only available for financial instruments that comply with the definition of equity instruments set forth in IAS 32 and can not be used for financial instruments whose classification as a capital instrument in the issuer is made under the exceptions provided in paragraphs from 16A to 16D of IAS 32. The Bank did not adopt this irrevocable option under IAS 32, and only debt securities were classified in this category.

c) Financial assets at fair value through profit or loss

A financial asset is classified in the category of “Financial assets at fair value through profit and loss” if the business model defined by the Bank for its management or because of the characteristics of its contractual cash flows is not appropriate to be classified in the previous categories.

In addition, the Bank may irrevocably designate a financial asset that meets the criteria to be classified as "Financial assets at amortized cost" or "Financial assets at fair value through other comprehensive income", at fair value through profit or loss, at the time of its initial recognition, if that eliminates or significantly reduces an accounting mismatch, which would otherwise result from the measurement of assets or liabilities or from the recognition of gains and losses thereon on different bases. The Group did not adopt this irrevocable option, having classified in this category:

- Financial assets in the sub-category "Financial assets at fair value through profit or loss - financial assets held for trading", when:

  i. are originated or acquired for the purpose of trading in the short term;
  ii. are part of a group of financial instruments identified and managed jointly for which there is evidence of recent actions with the aim of achieving gains in the short term;

iii. are derivative instruments which do not comply with the definition of a financial guarantee and have not been designated as hedging instruments.

- Financial assets in the sub-category of " Financial assets at fair value through profit or loss - Non-trading financial assets mandatorily at fair value through profit or loss" when:

i. debt instruments whose cash flows do not originate cash flows on specific dates, which are only payments of principal and interest on the amount of outstanding capital (SPPI).
ii. equity instruments, which do not classify as held for trading.

Gains and losses on financial assets and liabilities at fair value through profit or loss, namely, changes in fair value and interest on trading derivatives, as well as the dividends received from these portfolios, are recognized as "Net income from other financial instruments at fair value through profit or loss" in the income statement.

Business model evaluation for financial assets management

In relation to the evaluation of the business model, this does not depend on intentions for an individual instrument, but on a portfolio of instruments, taking into account the frequency, value, sales frequency in previous years, the reasons for such sales and expectations regarding future sales. Infrequent sales, or close to the maturity of the asset and those due to increases in the credit risk of financial assets or to manage concentration risk, among others, may be compatible with the model of holding assets for the collection of contractual cash flows.

Evaluation if the contractual cash flows correspond to solely payments of principal and interest (SPPI)

If a financial asset contains a contractual clause which may modify the timing or value of contractual cash flows (such as early amortization clauses or extension of duration), the Group determines whether the cash flows that will be generated during the life of the instrument, due to the exercise of the contractual clause, are only payments of principal and interest on the value of the capital outstanding.

The contractual conditions of financial assets that, at the time of initial recognition, have an effect on cash flows or depend on the occurrence of exceptional or highly improbable events (such as settlement by the issuer) do not prevent their classification in the portfolios at cost amortized or at fair value through other comprehensive income.

Initial recognition

At initial recognition all financial instruments are recognised at their fair value. For financial instruments that are not recognised at fair value through profit or loss, the fair value is adjusted by adding or subtracting the transaction costs directly attributable to their acquisition or issue. In the case of instruments at fair value through profit or loss, directly attributable transaction costs are recognised immediately in profit or loss.

Transaction costs are defined as expenses directly attributable to the acquisition or disposal of a financial asset or to the issue or assumption of a financial liability that would not have been incurred if the Group had not realized the transaction.

Subsequent measurement

After initial recognition, the Group measures financial assets at amortized cost, at fair value through other comprehensive income, at fair value through profit or loss or at cost.

The fair value of quoted financial assets is their current bid price. In the absence of a quotation, the Bank estimates the fair value using (i) valuation methodologies, such as the use of prices of recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models in order to reflect the particularities and circumstances of the instrument, and (ii) valuation assumptions based on market information. These methodologies also incorporate credit risk and counterparty risk. These methodologies may require the use of assumptions or judgments in the estimate of fair value.

The income and expenses of financial instruments at amortized cost are recognised in accordance with the following criteria:

a) Interest is recognised in the income statement using the effective interest rate of the instrument on the gross book value of the instrument (except for assets with impairment, where the interest rate is applied on the net book value of impairment).
b) Other changes in value will be recognised as income or expense when the instrument is derecognized from the balance sheet, when it is reclassified, and in the case of financial assets, when there are impairment losses or recovery gains.

Income and expenses of financial instruments at fair value through profit or loss are recognised according to the following criterias:

a) Changes in fair value are recognised directly in profit or loss, separating between the portion attributable to the income of the instrument, which is recognised as interest or as dividends according to their nature, and the remainder, which is recognised as results in the corresponding account.
b) Interests on debt instruments are measured using the effective interest rate method.

Income and expenses from financial instruments at fair value through other comprehensive income are recognised according to the following criteria:

a) Interest has a procedure equal to that of assets at amortized cost.
b) Foreign exchange differences are recognised in income statement.
c) Impairment losses or gains on its recovery are recognised in the income statement.
d) The remaining changes in value are recognized in other comprehensive income.

Thus, when a debt instrument is measured at fair value through other comprehensive income, the amounts recognised in profit or loss for the period are the same as those that would be recognized if measured at amortized cost.

When a debt instrument measured at fair value through other comprehensive income is derecognized from the balance sheet, the gain or loss recognised in other comprehensive income is reclassified to income for the year.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or change does not result in derecognition of the financial asset in accordance with the policy adopted by the Bank, the Bank recalculates the gross amount of the financial asset and recognizes a gain or loss arising from the difference from the previous amortized cost against profit or loss. The gross amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate of the asset.

Reclassifications between categories of financial instruments

Only if the Group decides to change its business model for the management of a portfolio of financial assets.

In this case, all financial assets affected would it reclassified in accordance with the requirements of IFRS 9. This reclassification would be applied prospectively from the date of reclassification. According to the approach of IFRS 9, changes in the business model generally occur very infrequently. Financial liabilities cannot be reclassified between portfolios.

Derecognition criteria

The Bank derecognises a financial asset in the following situations:

a) when the contractual rights to the cash flows of this asset expire;
b) when transferring that asset and, as a result of such transfer, all the risks and rewards of that asset are transferred to another entity when a change is found to be significant under the terms and conditions of that asset
c) when a significant change on the asset terms and conditions occur.

Loans written-off

The Group write off a loan when it does not have reasonable expectations to recovering a financial asset in its entirety or a portion thereof. This registration occurs after all the recovery actions developed by the Group prove to be fruitless. Loans written off are recognised in off-balance sheet accounts.

Purchase or originated credit impaired assets

Purchase or originated credit impaired (POCI) assets are credit-impaired assets on initial recognition. An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset.

The two events that lead to the originations of a POCI exposure are presented as follows:

- financial assets arising from a recovery process, where there have been changes to the terms and conditions of the original agreement, which presented objective evidence of impairment that resulted in its derecognition and recognition of a new contract that reflects the credit losses incurred;
- financial assets acquired with a significant discount, that the existence of a significant discount reflects credit losses incurred at the time of its initial recognition.

On initial recognition, POCI assets do not carry an impairment loss. Instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate. Consequently, at initial recognition, the gross book value of POCI (initial balance) is equal to the net book value before being recognised as POCI (difference between the initial balance and total discounted cash flows).

Impairment of financial assets

The Group determines impairment losses on debt instruments that are measured at amortized cost and at fair value through comprehensive income, as well as for other exposures that have associated credit risk such as bank guarantees and commitments.

The IFRS 9 requirements aim to recognize expected losses from operations, assessed on an individual and collective basis, taking into account all reasonable, reliable and reasoned information available, without incurring undue costs or efforts, at each reporting date, including forward-looking information.

Debt instruments' impairment losses for the exercise are recognized as a cost under the heading Impairment of Financial Assets in the income statement. Impairment losses on debt instruments measured at amortized cost are registered against a cumulative balance sheet impairment account, which reduces the book value of the asset. Impairment losses on debt instruments that are measured at fair value through other comprehensive income are recognized against the fair value reserve, whereby their recognition does not reduce the balance sheet value of the instruments.

Impairment losses on exposures that have associated credit risk and which are not debt instruments are registered as a provision under "Provisions" in the liability side. Increases and reversals are recorded against under the heading Provisions net of annulments.

Impairment Model

Under IFRS 9, the Group determines the expected credit losses (ECL) using a forward-looking model. The expected credit losses over the lifetime of financial instruments are required to be measured through a loss allowance. Accordingly, the calculation of ECL incorporates macroeconomic factors, as well as other forward-looking information, whose changes impact expected losses.

The instruments subject to impairment are divided into three stages, taking into account their level of credit risk:

- *Stage 1 – Performing*: financial assets for which there was no significant increase in credit risk from the moment of initial recognition. In this case, the impairment will reflect ECL resulting from default events that may occur in the next 12 months after the reporting date;
- *Stage 2 – Under Performing*: financial assets for which there was a significant increase in credit risk has occurred since the initial recognition but for which there is no objective evidence of impairment. In this stage, impairment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- *Stage 3 – Non Performing*: financial assets for which there is objective evidence of impairment as a result of events that resulted in losses. In this case, the impairment amount will reflect the ECL over the expected residual life of the instrument.

The collective model implemented by the Group is applicable to all instruments without warning signals (in Stage 1) as well to determine the lifetime expected credit loss in the case of exposures with significant increases in credit risk (Stage 2). In addition, the Top 20 performing largest debtors are subject annually to an individual analysis, in order to trace early warning signals that may indicate a transfer to Stage 2. Stage 2 exposures are analysed individually, confirming that there are no indications of unlikeliness to pay of the debtor and the events considered by Capital requirements Regulations (CRR) in its definition of default and by IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3. Stage 2 exposures are subject to the application of a lifetime impairment rate determined using a lifetime collective model. All Stage 3 clients are subject to an individual analysis. At initial recognition, any instrument is allocated to Stage 1 (except for financial instruments purchase or originated credit impaired acquired (POCI) which are allocated to Stage 3). For each of the following reporting dates, an assessment of the change in the risk of a default occurring over the expected life of the financial instrument is required for that contract.

A change in the risk of default may result in a transfer from Stage 1 to Stage 2 or Stage 3. As long as the risk of default of a financial asset is low or has not increase significantly since initial recognition, it remains in Stage 1 with a 12-months ECL. Otherwise, if there is a significant increase in credit risk compared with the initial recognition, the result would be a transfer into Stage 2 and, consequently to the recognition of the lifetime ECL over the residual life of the financial asset. A transfer into Stage 3 is required when objective evidence for a credit loss appears.

When a financial asset is no longer assessed to be impaired (Stage 3), it is reclassified to Stage 2. It is assumed that when a financial asset recovers from Stage 3, it will still have a demonstrated significant increase in credit risk since initial recognition and must therefore be included in Stage 2. From that date on, the impairment will continue to be recognized based on lifetime expected credit losses.

A probation period was established for a financial asset ceases to be classified in Stage 3, which is defined as 3 months from the moment that the obligor is no longer past due more than 90 days on any material credit obligation, if applicable, and no indication of unlikeliness to pay. The probation period for non-performing forborne exposures is longer (12 months). Note that performing forborne exposures should accomplish a minimum 24 months period in order to be reclassified on Stage 1, whereas throughout that period the debt sustainability should be proved.

Expected Credit Losses

According to the IFRS 9 Standard, the expected credit loss for financial assets is the present value of the difference between (1) the contractual cash flows that are due to an entity under the contract, and (2) the cash flows that the entity expects to receive.

The recognition of an impairment allowance is required on financial assets measured on an amortized cost (AC) or Fair Value through Other Comprehensive Income (FVOCI) basis. Given that, the financial asset types that should have impairment assessment are the following:

- Loans and advances to customers;
- Loans and advances to banks;
- Securities;
- Debtors and other receivables;
- Cash and cash equivalents.

In addition, in accordance with IFRS 9, the Bank includes in the calculation of the expected credit losses for the guarantees provided and commitments assumed, and for other assets.

The expected credit losses are estimates of credit loss that will be determined as follows:

- Financial assets with no signs of impairment at the reporting date (Stage 1 – Performing): correspond to expected credit losses that result from a default event that may occur within 12 months after the reporting date (credit losses expected at 12 months);
- Financial assets with a significant increase in credit risk or with impairment at the reporting date (Stage 2 – Under Performing and Stage 3 – Non Performing): correspond to the expected lifetime credit losses calculated by the difference between the gross accounting value and the net present value of the estimated cash flows weighted, for assets in Stage 2, by the prospect of default;
- Unused credit commitments: the amount of the unused commitment as of the reference date multiplied by the credit conversion factor, the probability of default and the loss given default;
- Financial guarantees: the net present value of expected repayments less the amounts that the Bank expects to recover.

Significant increase in credit risk

Under IFRS 9, in order to determine whether there has been a significant increase in credit risk since the initial recognition of the financial instrument, the Group consider all relevant information available without incurring undue costs or efforts.

The Group identifies the occurrence of a significant increase in credit risk exposure through three approaches: (i) comparison between the current rating and the rating at the time of contract recognition, (ii) use of warning signals defined internally and (iii) early warning signals (EWS) assessment in order to trace certain events and/or circumstances that could indicate a SICR.

The internal warning signals are the following: (i) delay of payments (including capital, interest, fees or other charges) of more than 30 days; (ii) registration of at least one debtor's credit under a dispute in the Central Credit Register (CCR) from Banco de Portugal; (iii) debt restructuring towards a debtor facing and/or about to face financial difficulties in meeting its financial commitments (with no indication of unlikeliness to pay); (iv) debts to tax agency, social security and/or to employees under a default; (v) clients with warning signals activated in the last three months; and (vi) other specific situations (ad-hoc) criteria). The Group identifies a SICR in the following circumstances: (a) debtors with one of the triggers (i), (iii), (v) and (vi) activated; and (b) debtors with triggers (ii) and (iv) simultaneously activated.

EWS assessment includes the annual review by the Impairment Committee of the Top 20 performing largest exposures in order to confirm that the largest debtors do not display any warning signals that convene a transfer to Stage 2.

According with internal procedures defined by the Group, when there is a significant increase in the credit risk of a debtor, the financial instruments are subject to individual analysis, confirming that there are no indications of unlikeliness to pay of the debtor and the events considered by CRR in its definition of default and by IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3. Stage 2 , that its proper classification is confirmed, exposures are subject to the use of a lifetime impairment rate determined using a lifetime collective model.

Default definition

Under IFRS 9, the Group considers its financial assets to be in default by applying the same used definition that is applied for prudential purposes. Thus, Haitong Bank defined default as incorporating the following criteria: 1) material exposures which are more than 90-days past due; 2) the debtor is assessed as unlikely to reimburse credit obligations, without collateral claim, regardless of the existence of any past due amount or of the number of days past due; and 3) if 20% of the exposures of one obligor are determined as non-performing, all other exposures should be considered non-performing ("pulling effect").

In what regards unlikeliness to pay criteria, the Bank addresses the following situations: i) distressed restructurings; ii) clients with loans written-off of interest or capital; iii) the Bank sells the credit obligation at a material (more than 5%) credit-related economic loss; iv) the obligor has been placed (or is likely to be placed) in bankruptcy or similar protection; v) interest related to credit obligations is no longer recognized (non-accrued status) in the income statement (part or under conditionality); and vi) other conditions (ad-hoc) that may suggest reduced likelihood of payments by the debtor.

The definition of default followed by the Group follows article 178 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and includes the European Banking Association ("EBA") definition of non-performing exposures ("NPE") requirements according to its final report on the application of definition of default (EBA/GL/2016/07).

Forbearance definition

The internal definition of forbearance follows the ECB guidance, consisting of concessions extended to any exposure towards a debtor facing or about to face difficulties in meeting its financial commitments. An exposure can only be forborne if the debtor is facing financial difficulties that have led the Bank to make some kind of concession.

A concession may entail a loss for the Bank and shall refer to either of the following actions:

i. a modification of the previous terms and conditions of a contract that the debtor is considered unable to comply with due to financial difficulties resulting in insufficient debt service ability and that would not have been granted had the debtor not been experiencing such difficulties;
ii. a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been experiencing financial difficulties.

When granting forbearance measures to performing exposures with significant increase in credit risk, the Bank assesses whether these measures lead to a reclassification of that exposure as non-performing, being this assessment subject to compliance with the following conditions:

a) If the difference between the net present values of cash flows before and after the restructuring arrangement exceeds a certain threshold (1%), the exposure is considered to be non-performing;
b) If there are other indicators that may suggest an unlikeliness to pay of the debtor.

The definition of forbearance followed by the Group follows the guidance to Banks on Non-Performing Loans by the European Central Bank (from March 2017), which address the concept of forborne exposures, and Bank of Portugal's Carta Circular CC/2018/00000062 (from November 2018), addressing the criteria and principles for calculating expected credit losses under IFRS 9, which includes the timely and appropriate identification of forborne exposures.

2.4.2. Hedge Accounting

The Group designates derivatives to hedge its exposure to foreign exchange risk, resulting from investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on revaluation are recognised in accordance with the hedge accounting model adopted by the Group. A hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is valuable in a continuous basis and highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange variations arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative is recognised through profit and loss, as well as changes in currency risk of the monetary items.

Hedge effectiveness

For a hedge relationship to be classified as such according to IFRS 9, effectiveness has to be demonstrated. As such, the Group performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, demonstrating that the variations in fair value of the hedging instrument are hedged by the fair value variations of the hedged item in the portion assigned to the risk covered. Any ineffectiveness is recognised immediately in profit and loss when incurred.

Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The hedge is done using a forward currency instrument. Any exchange gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is immediately recognised in profit and loss. Gains and losses accumulated in equity related to the investment in a foreign operation and to the associated hedge operation are recognised in equity are transferred to profit and loss, on the disposal of the foreign operation as part of the gain or loss from the disposal.

2.4.3. Financial Liabilities

Classification, initial recognition and subsequent measurement

At initial recognition, financial liabilities are classified in one of the following categories:

- Financial liabilities at amortised cost;
- Financial liabilities at fair value through profit or loss;

Financial liabilities at fair value through profit or loss

Classification

Financial liabilities classified under “Financial liabilities at fair value through profit or loss” include:

a) Financial liabilities held for trading

In this balance are classified the issued liabilities with the purpose of repurchasing it in the near term, the ones that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or is a derivative.

b) Financial liabilities designated at fair value through profit or loss (“Fair Value Option”)

The Group may irrevocably assign a financial liability at fair value through profit or loss at the time of its initial recognition if at least one of the following conditions is met:

- The financial liability is managed, evaluated and reported internally at its fair value;
- The designation eliminates or significantly reduces the accounting mismatch of transactions.

Structured products issued by the Group follow are measured at fair value through profit or loss, due to the fact that such structured products always fall within one out of the aforementioned conditions.

The fair value of quoted financial liabilities is their quoted value. In the absence of a quotation, the Group calculates fair value by using valuation techniques considering assumptions based on market information, including in determining the issuer´s own credit risk.

If the Group repurchases an issued debt, it shall be derecognised from the consolidated statement of financial positions, and the difference between the liability's carry amount and the purchase value is accounted for in income statement.

Initial recognition and subsequent measurement

Considering that the transactions carried out by the Group in the normal course of its business are made in market conditions, financial liabilities at fair value through profit or loss are initially recognised at fair value with the costs or income associated with the transactions recognised in profit or loss at the initial moment.

Subsequent changes in the fair value of these financial liabilities are recognised as follows:

- The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income;
- The remaining amount of change in the fair value of the liability shall be presented in profit or loss.

The accrual of interest and the premium / discount (when applicable) is recognised on "Interest expense and similar charges" based on the effective interest rate of each transaction.

Financial liabilities at amortised cost

Classification

Financial liabilities that were not classified at fair value through profit or loss, or correspond to financial guarantee contracts, are measured at amortised cost.

The category "Financial liabilities at amortised cost" includes Resources of credit institutions, Resources of customers and Debt securities issued.

Initial recognition and subsequent measurement

Financial liabilities at amortised cost are initially recognised at fair value, plus transaction costs, and are subsequently measured at amortised cost. Interests on financial liabilities at amortised cost are recognised on "Interest expense and similar charges", based on the effective interest rate method.

Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not allowed.

Derecognition of financial liabilities

The Group derecognises financial liabilities when they are cancelled or extinct.

2.4.4. Interest Recognition

Interest income and expense for financial instruments measured at amortised cost are recognised in "Interest and similar income" and "Interest expense and similar charges" (Net interest income) through the effective interest rate method. The interest at the effective rate related to financial assets at fair value through other comprehensive income are also recognised in net interest income.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

For calculating the effective interest rate, the Group estimates futures cash flows considering all contractual terms of the financial instrument (for example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related to the transaction, except for assets and liabilities at fair value through profit and loss.

Interest income recognised in income associated with contracts classified in stage 1 and 2 are determined by applying the effective interest rate for each contract on its gross book value. The gross balance of a contract is its amortised cost, before deducting the respective impairment. For financial assets included in stage 3, interests are recognised in the income statement based on its net book value (less impairment). The interest recognition is always made in a prospective way, i.e. for financial assets entering in stage 3 interests are recognised on the amortised cost (net of impairment) in subsequent periods.

For purchase or originated credit impaired assets (POCIs), the effective interest rate reflects the expected credit losses in determining the expected future cash flows receivable from the financial asset.

2.4.5. Financial Guarantees

Contracts that require the issuer to make payments to compensate the holder for losses incurred as a result of non-compliance with the contractual terms of debt instruments, such as payment of the respective principal and / or interest, are considered as financial guarantees.

The financial guarantees issued are initially recognised at fair value. Subsequently, these guarantees are measured by the higher (i) fair value initially recognised and (ii) the amount of any obligation arising from the guarantee agreement, measured at the balance sheet date. Any change in the amount of the obligation associated with financial guarantees issued is recognized in the income statement.

The financial guarantees issued by the Group usually have a defined maturity and a periodic commission charged in advance, which varies according to the counterparty risk, amount and period of the contract. On that basis, the fair value of the guarantees at the date of their initial recognition is approximately nil considering that the agreed conditions are market. Accordingly, the amount recognised on the date of the engagement equals the amount of the initial commission received which is recognised in the income statement during the period to which it relates. Subsequent commissions are recognised in profit and loss in the period to which they relate.

2.5. ASSETS SOLD WITH REPURCHASE AGREEMENT AND SECURITIES LENDING

Securities sold subject to repurchase agreement (repos) at a fixed price or at a price equal to that of the sale plus interest inherent to the maturity of the transaction are not derecognised from the statement of financial position. The corresponding liability is accounted for in amounts due to banks or to customers, as appropriate. The difference between the sale value and the repurchase value is treated as interest and is deferred while the agreement is in force, using the effective interest rate method.

Securities bought with a resale agreement (reverse repos) at a fixed price or at a price equal to that of the sale plus interest inherent to the maturity of the transaction are not recognised in the statement of financial position, and the purchase value is accounted for as loans and advances to banks or customers, as appropriate. The difference between the purchase value and the resale value is treated as interest and is deferred while the agreement is in force, using the effective interest rate method.

Securities assigned through loan agreements are not derecognised from the statement of financial positions, being classified and measured in accordance with the accounting policy applicable. Securities received through loan agreements are not recognised in the statement of financial positions.

2.6. EQUITY INSTRUMENTS

An instrument is classified as equity instrument only if:

i. The instrument includes no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable conditions for the issuer; and
ii. The instrument will or may be settled in the issuer's own equity instruments, it is either a non-derivative that includes no contractual obligation on the issuer to deliver a variable number of its own equity instruments or a derivative that will be settled only by the issuer exchanging a fixed amount in cash or another financial asset for a fixed number of its own equity instruments.

Costs directly attributable to the issuing of equity instruments are accounted for under equity, as a deduction to the issuing amount. Amounts paid and received by the purchase and sale of equity instruments are accounted for under equity, net of transaction costs.

When declared, distributions to holders of an equity instrument are deducted directly from equity as dividends.

2.7. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are presented in statement of financial position at net value when there is a legal possibility of offsetting the recognised amounts and there is an intent of settlement thereof by their net value, or to simultaneously realise the asset and settle the liability.

2.8. NON-CURRENT ASSETS HELD-FOR-SALE AND ASSETS FROM DISCONTINUING OPERATIONS

Non-current assets or groups of non-current assets held for sale (group of assets to be disposed together in a single transaction, and directly associated liabilities which include at least one non-current asset) and discontinued operations are classified as held-for-sale when exists the intention to realise the a sale transaction (including those acquired exclusively with the purpose to sell), the assets or disposal groups are available for immediate sale and the sale is highly likely to occur, accordingly to IFRS 5 requirements.In order to the sale to be considered highly probable, the Group must be committed to a plan to sell the asset (or disposal group) and should be expected the sale to qualify for derecognition within one year from the date of classification.

Immediately prior to the initial classification of the asset (or disposal group) as held-for-sale, the measurement of non-current assets (or of all the Group's assets and liabilities) is carried out in accordance with the relevant IFRS in force. Subsequently, such assets or disposal groups are re-measured at the lower of their carrying value and fair value less costs to sell.

In 2018, as a result of the Group's decision for the sale of Haitong Investment Ireland PLC, as described in Note 1, the assets and liabilities of this entity was reclassified to "Assets and liabilities of discontinuing units". Also in accordance with the requirements of IFRS 5 - "Non-current assets held for sale and discontinued operations", the results generated by this entity are presented in a single line of the Income Statements ("Net profit of discontinued operations").

2.9. OTHER TANGIBLE ASSETS

The Group's other tangible assets are measured at cost, less their corresponding accumulated amortisations and impairment losses. The cost includes expenses directly attributable to the acquisition of the assets.

The subsequent costs with other tangible assets are only recognised when it is probable that future economic benefits associated with them will flow to the Group. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not amortised. The amortisations of other tangible assets are calculated based on the straight-line method, at the following amortisation rates reflecting the expected useful life of the goods.

	Number of Years
Owned Real Estate	35 to 50
Improvements in leasehold property	5 to 10
Computer Equipment	3 to 8
Indoor Installations	5 to 12
Furniture and supplies	3 to 10
Safety Equipment	4 to 10
Tools and Machines	4 to 10
Transportation Material	4 to 5
Other Equipment	5

As defined in IAS 36, when there is evidence that an asset may be impaired, its recoverable amount is required to be estimated, and an impairment loss shall be recognised whenever the net value of an asset exceeds its recoverable amount. Any impairment losses are recognised in the income statement.

The recoverable amount is determined as the highest amount between its net selling price and its value in use, the latter being calculated based on the net present value of the estimated future cash flows expected to be obtained from the continued use of the asset and of its disposal at the end of its useful life.

2.10. INTANGIBLE ASSETS

Costs incurred with the purchase, production and development of software are capitalised, as well as additional expenses required for its deployment, which are borne by the Group. Such costs are amortised on a linear basis throughout the expected useful life of such assets, which usually ranges from 3 to 8 years.

Costs directly related to the development of software applications are recognised and accounted for as intangible assets if they are expected to create future economic benefits beyond one financial year. Such costs include employee expenses, such employees being from the companies of the Group which are specialised in Information Technology, while they are directly associated with the concerned projects.

All remaining charges associated with Information Technology services are recognised as costs when incurred.

2.11. LEASE TRANSACTIONS (IFRS 16)

As described in note 2.1, the Group adopted IFRS 16 – “Lease transactions” on 1 January 2019, replacing IAS 17 – “Lease transactions”, which was in force until 31 December 2018. The Group did not adopt any of the requirements of IFRS 16 in prior periods.

At inception of a contract, the Banks assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
  - the Bank has the right to operate the asset; or
  - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

The Group chose not to apply this standard to short-term lease contracts which are less or equal to one year, and to lease contracts where the underlying asset has no significant amount (up to €5,000).

As a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

- As a lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'. The accounting policies applicable to the Bank as a lessor in the comparative period were not different from IFRS 16. However, when the Bank was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

2.12. LEASES (IAS 17)

Until December 31, 2018, the Group classified the leasing transactions as financial or operating leases, depending on their substance rather than its legal form, in compliance with the criteria set forth in IAS 17 — Leases. The transactions classified as financial leases um those where the risks and benefits inherent to the ownership of an asset are transferred to the lessee. All remaining leasing transactions um classified as operating leases.

Operating leases

Payments made by the Group under operating lease agreements are accounted for in costs of the relevant periods.

Financial leases

The financial lease agreements are accounted for at the date such agreements take effect, in assets and in liabilities, at the acquisition cost of the leased property, which is equivalent to the net present value of the payable lease rents.

Rents are comprised of (i) the financial expense recognised in income statement and (ii) the financial amortisation of capital, deducted from the liability. Financial expenses are recognised as expenses throughout the lease period, in order to produce a constant periodic interest rate on the remaining balance of the liability in each period.

- As a lessor

Financial lease agreements are accounted for in the statement of financial position as loans granted at an amount equivalent to the net investment carried out in the leased goods.

Interest included in instalments charged to customers are accounted for as income, whereas capital amortisations – which are also included in rents – are deducted at the value of the loans granted. The recognition of interest reflects a periodic and constant rate of return over the remaining net investment of the lessor.

2.13. EMPLOYEE BENEFITS

Pensions

Pensions Pursuant to the signature of the Collective Labor Agreement (“Acordo Coletivo de Trabalho” (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 14, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities’ coverage is assured, for the Bank, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA.

The pension plans of the Group are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semiannually, in 31 December and 30 June of each year, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan’s liabilities.

The Group determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan’s net assets / liabilities (liabilities net of the fair value of the fund’s assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds’ assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund's assets and the actual investment returns, are recognised in equity under the caption other comprehensive income.

The Group recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 years-old (normal retirement age foreseen in the ACT) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65 years-old.

The Group makes payments to the funds in order to assure their solvency, the minimum levels set by Banco de Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Group assesses the recoverability of any excess in a fund regarding he retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Group provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (Serviço de Assistência Médico-Social, SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization and surgeries, in accordance with its funding availability and internal regulations.

Arising from the signature of the new Collective Labor Agreement (ACT) on 5 July 2016, published in Labor Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Group's contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The calculation and recognition of the Group's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits.

Long-term service bonuses

Under the new ACT, signed at the 5th July 2016, the long-term service bonus was replaced by a career bonus, payable immediately prior to the employee´s retirement date, if the employee retires at the service of the Group, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Group in accordance with IAS 19, as a long-term employee benefit. The remeasurement effects and past service costs of this benefit are recognised in the income statement for the year, as occurred with the accounting model for long-term service bonuses.

The amount of the Group's liabilities with this career bonus is likewise periodically estimated based on the Projected Unit Credit Method. The actuarial assumptions used are based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined applying the same methodology described above for retirement pensions.

Variable remuneration paid to employees

In accordance with IAS 19 - Employee benefits, variable remuneration (profit sharing, bonuses and others) granted to employees and, possibly, to executive members of administration bodies, is accounted for in profit or loss of its respective financial year.

2.14. INCOME TAXES

Income taxes comprise current and deferred taxes. Income taxes are recognised in income statement, unless when relating to items not directly recognised in equity, in which case they are also accounted for against equity. Taxes recognised in equity, as a result of the reassessment of financial assets at fair value through other comprehensive income, are subsequently recognised in income statement when the gains and losses which were in their origin are recognised in income statement.

Current taxes are those expected to be paid based on the taxable income which is calculated in accordance with the existing tax rules and by using the tax rate enacted or substantially enacted in each jurisdiction.

Deferred taxes are calculated in accordance with the liability method based on the statement of financial positions, on the temporary differences between the carry amount of assets and liabilities and their tax base, by using the tax rates which have been enacted or substantially enacted on the date of the statement of financial position in each jurisdiction and which are expected to be applied once the temporary differences are reversed.

Deferred tax liabilities are recognised for all taxable temporary differences, except for goodwill not deductible for tax purposes, of the differences arising out of the initial recognition of assets and liabilities which affect neither accounting profit nor taxable profit, and of differences relating to investments in subsidiaries insofar as it is not likely that they reverse in the future. Deferred tax assets are only recognised insofar as it is expected that there will be taxable profit in the future which will absorb the tax losses carried forward and the deductible temporary differences.

The Group offsets assets and liabilities by deferred taxes for each subsidiary, every time (i) the income tax of each subsidiary to be paid to the Tax Authorities is determined on a net basis, i.e., offsetting current asset and liability taxes, and (ii) taxes are collected by the same Tax Authority over the same tax entity. This offset is, therefore, performed at the level of each subsidiary, with the deferred tax asset presented in the consolidated statement of financial position corresponding to the sum of the subsidiaries' amounts which present net deferred tax assets and the deferred tax liability presented in the consolidated statement of financial position corresponding to the sum of the subsidiaries' amounts which present net deferred tax liabilities.

2.15. PROVISIONS

Provisions are recognised when (i) the Group has a current, legal or constructive obligation, (ii) it is likely that its payment will be required and (iii) when the amount of such obligation may be estimated in a reliable manner.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation.

If it is not likely for payment to be required, it is a contingent liability. Contingent liabilities are only subject to disclosure, unless the likelihood of their realization is remote. Provisions for restructuring are recognised once the Group approves a formal and detailed restructuring plan, and such restructuring has been commenced or publically announced on the reference date of the financial statements.

A provision for onerous contracts is recognised when the expected benefits of a formal contract are lower than the costs that the Group will inevitably incur in order to meet the obligations arising therefrom. This provision is measured based on the current lowest value between the contract termination costs or the net estimated costs of continuing the contract.

Until December 31st, 2018, contingencies with the Tax Authority were accounted following with IAS 37, and the estimated amounts arising from these uncertainties were recorded in Provisions. As of January 1st, 2019, as a result of the application of IFRIC 23, the aforementioned situations started to be accounted in separate items.

2.16. RECOGNITION OF FEE AND COMMISSION INCOME

Income from services and commissions are recognised as follows:

- Income from services and commissions obtained from the performance of a significant act, such as commissions in the syndication of loans, are recognised in income once the significant act has been completed;
- Income from services and commissions obtained as the services are being provided are recognised in income for the relevant period;

Income from services and commissions which are an integral part of the effective interest rate of a financial instrument are accounted for in income statement by the effective interest rate method.

2.17. SEGMENT REPORTING

The Group adopted IFRS 8 – Operating Segments for the disclosure of financial information by operating segments (see Note 4).

An operating segment is a component of the Group: (i) which engages in business activities from which it may earn revenues and incur expenses; (ii) whose operating results are regularly reviewed by the Group's chief operating decision makers to make decisions on the allocation of resources to the segment and assess its performance; and (iii) for which discrete financial information is available.

2.18. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the parent company by the weighted average number of ordinary shares outstanding, with the exclusion of the average number of own shares held by the Group.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the effect of all dilutive potential ordinary shares, such as those arising out of convertible debt and of options granted to employees over own shares. The effect of the dilution is a decrease in earnings per share, resulting from the assumption that the convertible instruments are converted or that the granted options are exercised.

2.19. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and its equivalents encompass the amounts accounted for in the statement of financial position whose maturity is less than three months from the date of acquisition/contract, which include cash, deposits in Central Banks and in other credit institutions. Cash and cash equivalents exclude mandatory deposits held with Central Banks.

NOTE 3 – MAIN ESTIMATES AND JUDGEMENTS USED IN THE PREPARATION OF FINANCIAL STATEMENTS

The IFRS set forth a range of accounting treatments and require the Board of Directors to make the necessary judgements and estimates to decide on the most appropriate accounting treatment. The Group's main accounting estimates and judgements used thereby when applying the accounting principles are laid down in this Note with the purpose of improving the understanding on how the implementation thereof affects the Group's reported results and their disclosure.

A broader description of the main accounting policies used by the Group is shown in Note 2 to the consolidated financial statements.

Whereas in many situations there are alternatives to the accounting treatment adopted by the Board of Directors, the results reported by the Group could have differed if it adopted a different treatment. The Board of Directors believes that it made the appropriate choices, and that the financial statements give an adequate description of the Group's financial position and of the result of its operations in all material respects.

3.1. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AT AMORTISED COST AND DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Group periodically reviews financial assets at amortized cost and debt at fair value through other comprehensive income in order to accurately evaluate the existence of impairment, as referred on Note 2.4.1.

Individual Analysis

Taking into consideration the specific characteristics of the credit portfolio, the Group decided that the main approach for impairment calculation is the individual analysis, taking into account relevant and particular factors that may justify an eventual adjustment to the impairment rate.

The Risk Department identifies all exposures subject to individual analysis, encompassing Top 20 performing largest exposures, all under-performing (Stage 2) and non-performing (Stage 3) exposures, and ensures that they are subject of analysis by the Impairment Committee. In the case of Stage 1 exposures, the individual analysis is carried out in order to confirm that the Top 20 largest exposures doesn't show any warning signals that causes a reclassification to Stage 2. Stage 2 exposures are analysed individually, confirming that there are no indications of unlikeliness to pay of the debtor and the events considered by Capital requirements Regulations (CRR) in its definition of default and by standard IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3.

The documentation supporting the individual analysis of cases to be discussed at the Impairment Committee includes: a) historical information (exposure by contract and type, impairment rates in force, collateral and respective valuation); and b) scenarios with expected cash flows discounted to the current date, using the applicable debt cost rate in each period, in order to obtain expected credit losses. For each of the scenarios presented, the respective assumptions and respective explanation is assured based on the activity of the company (incorporating figures from the historical financial statements, certain events and other financial estimates when available), the value of collateral (including the respective valuation methodologies) and sale or execution thereof.

Thus, the individual analysis' process is subject to various estimates and evaluations, including recoveries' predictions and existing collaterals valuation.

The use of scenarios or alternative methodologies with other assumptions and estimates could result in different levels of impairment losses recognized, with a consequent impact on the Group's results.

Collective Analysis

Impairment assessment on the collective basis is based upon the evaluation of the net present value of the expected cash flows for each loan, using pre-defined risk parameters supported by external information.

Taking into account the specificities of Haitong Bank credit portfolio, the collective model is based on external information for all the key risk parameters used. The main parameters used are: (i) Probability of Default (PD), (ii) Loss Given Default (LGD), (iii) Collateral haircut, and (iv) Credit Conversion Factor (CCF) for off-balance exposures.

- Probability of Default (PD) reflects the probability of default at a prospect of time. The Group takes into account Standard & Poor's ("S&P"'s) PD's, whereas the rating assigning process is performed internally based on the S&P methodology, which ensures the alignment between internal risk management and the process of impairment calculation.
- Loss Given Default (LGD) is the magnitude of loss at the time of default. The Bank applies LGD based on Moody's benchmarks (recovery rates) covering a wide historical period.
- Collateral Haircut is based on the regulatory capital requirements (CRR) eligibility criteria and haircut.
- Credit Conversion Factor (CCF) is based on the CRR where CCF applies to all guarantees and lines of credit (off-balance exposures).

The use of scenarios or alternative methodologies with other assumptions and estimates could result in different levels of impairment losses recognized, and a consequent impact on the Group's results.

3.2. INCOME TAXES

The Group is subject to the payment of income taxes in various jurisdictions. Determining the aggregate amount of income taxes requires certain interpretations and estimates. There are several transactions and calculations for which determining the final amount of tax to be paid is uncertain throughout the normal course of business.

Other interpretations and estimates could result in a different level of income taxes recognised in the period, whether current or deferred.

On the other hand, the Bank accounts for deferred taxes in accordance with the policy set forth in Note 2.14, whereby deferred tax assets are accounted for only insofar as it is expected that there will be taxable profit in the future, which are able to absorb tax losses carried forward and deductible temporary differences.

The historical loss calculation in recent years justifies an assessment of the recoverability of deferred tax assets, but these results are significantly affected by extraordinary situations (eg. restructuring) that are not expected to occur in future years.

The assessment of the recoverability of deferred tax assets (including the rate at which they shall be realised) was carried out by the Group based on projections of its future taxable profit, such projections being specified from a business plan.

The estimate of future taxable profit involves a significant level of judgment regarding the future development of the Group's activity and the timing of execution of temporary differences. For such purpose, several assumptions were adopted, in particular the analysis of several scenarios due to a uncertainty about the fiscal treatment of a set of Bank realities.

Tax Authorities are required to review the calculation of the basis of assessment, made by the Bank, for a period of four years, except where any deduction or tax credit has been made, where the time-limit is the exercise of that right. Hence, there is a possibility that the basis of assessment will be corrected, mainly due to differences in the interpretation of the tax legislation. However, it is the belief of the Bank's Board of Directors and its subsidiaries, that there will be no significant corrections to income taxes state on financial statements, with a material impact on its equity and results.

3.3. GOODWILL IMPAIRMENT

The recoverable amount of the goodwill accounted for as an asset of the Group is reviewed on an annual basis, regardless of whether there is evidence of impairment.

For such purpose, the statement of financial positions value of the units of the Group for which their respective goodwill is recognised as an asset, is compared to their fair value. An impairment loss associated with goodwill is recognised when the fair value of the unit to be tested is below its statement of financial positions value.

If no market value is available, it shall be calculated based on discounted cash flows techniques by using a discount rate taking accounting for the risk associated with the unit to be tested. Judgement is involved when determining future cash flows to be discounted, as well as the discount rate to be used.

Variations in expected cash flows and in discount rates to be used could result in conclusions that are different to those which were the basis for preparing the financial statements herein.

3.4. PENSIONS AND OTHER EMPLOYEE BENEFITS

Determining responsibilities for retirement pensions requires the use of assumptions and estimates, including actuarial projections, estimated profitability of investments and other factors which could impact on expenses and responsibilities of the pensions plan.

Any changes to such assumptions could have a significant impact on the determined amounts.

3.5. FAIR VALUE OF FINANCIAL DERIVATIVES AND ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Fair values are based on listed market prices when available; otherwise fair value is determined with reference to similar recent arm's length transaction prices, or in accordance with valuation methodologies based on discounted future cash flows techniques, by taking into account the market conditions, temporal value, yield curve and volatility factors. Such methodologies further incorporate own credit risk as well as the counterparty's credit risk. Such methodologies may require the use of assumptions or judgements when estimating fair value.

Hence, the use of different methodologies or of different assumptions or judgements when applying a certain model could result in financial results that are different from the results reported.

3.6. CLASSIFICATION AND MEASUREMENT

The classification and measurement of financial assets depends on the results of the SPPI test (analysis of the characteristics of the contractual cash flows to determine if they correspond only to payments of principal and interest on the outstanding capital) and the test of the business model.

The Group determines the business model at a level that reflects how financial asset groups are managed together to achieve a specific business objective. This evaluation requires judgment, since the following aspects, among others, have to be considered: the way in which the performance of assets is evaluated; the risks that affect the performance of the assets and way these risks are managed; and how asset managers are rewarded.

The Group monitors the financial assets measured at amortized cost and at fair value through other comprehensive income that are derecognized prior to their maturity to understand the underlying reasons for their disposal and to determine whether they are consistent with the purpose of the business model defined for those assets. This monitoring is part of a process of continuous evaluation made by the Group of the business model of the financial assets that remain in the portfolio, to determine if it is adequate and, if it is not, if there was a change in the business model and consequently a prospective change classification of these financial assets.

NOTE 4 – SEGMENT REPORTING

4.1. DESCRIPTION OF BUSINESS AREAS

Each of the operating segments comprise the following activities, products, customers and structures of the Group:

Mergers and Acquisitions Division

The purpose of the Mergers and Acquisitions Division is to provide financial advisory services to clients in respect of the purchase, sale or merger of companies, generating business and, accordingly, value for the Bank.

In addition, this division also provides advice to clients in the valuation, restructuring and feasibility analysis of projects.

Capital Markets Division

The purpose of the Capital Markets Division is to source mandates to place debt and equity products aimed at the market and organize, structure and arrange the respective transactions.

Additionally, this division promotes synergies with the other business areas and geographies of the Bank, particularly in respect of opportunities resulting from cross-border deals.

Fixed Income Currency and Commodities Division

The purpose of the FICC Division is to provide a professional, differentiated and high-quality product and service to institutional and corporate clients, as well as provide Haitong Bank with a strong multi-client and international distribution platform. Its presence in various geographies and the combination of its origination and distribution capacity stimulate the identification of new business opportunities and promotes cross border activity.

With dedicated Trading, Syndication, Distribution and Derivatives teams, the FICC Division offers market-making services for corporate and sovereign debt securities, multi-product international distribution, Syndication capacity for different products and tailor-made (multi-asset and multi-currency) risk hedging instruments, for both corporate and institutional clients, offering a wide range of products with plain vanilla and structured payoffs.

Equities Division

Equities Division provides an advanced, superior, and global execution for European investors with a wide customized execution solutions available for our institutional clients. Following the collaboration agreement signed with Haitong International the distribution of our Polish and Asian product research have also been reinforced.

Structured Finance Division

The mission of the Structured Finance Division is to develop financing solutions to its Clients, namely under the form of acquisition / leverage finance, asset based and project finance loans, as well as the provision of financial advisory services in the deals structuring and public tenders involving bidding processes and / or the provision of arranging and agency services for financing operations.

Treasury Division

The purpose of the Treasury Division is to ensure an appropriate level of funding to meet the Bank's and the Group's current and future funding needs, as well as an appropriate level of liquidity to meet the financial liabilities.

Additionally, the purpose of the Treasury Division is also to manage the Bank's proprietary treasury portfolio effectively and efficiently.

Private Equity

This segment undertakes to provide support to the private corporate initiative, by promoting productive investment, which is financed mostly by equity.

Corporate Centre

The business area is not exactly an operating segment. It is a combination of corporate transversal structures ensuring basic functions of global management for the Group, such as those associate with the Administration and Supervisory bodies, Compliance, CEO Office, Finance, Customers, among others.

Special Portfolio Management

The purpose of the Special Portfolio Management Division (“SPM”) is to manage all credit operations in which the Bank is involved as finance provider, which under the IFRS9 criteria, are categorized as nonperforming.

This division shall also manage all credit operations in which the Bank is solely involved as agent, in case the operations are in default or classified as nonperforming.

Global Markets

The mission of the Global Markets Division is to manage any market risks to which the Bank is exposed.

Other

Includes all remaining segments of the Group’s Management Information model, which, in accordance with the provisions laid down in IFRS 8, is not subject to mandatory individualisation (Research Division, Asset Management and other revenue centres).

4.2. CRITERIA FOR THE ATTRIBUTION OF THE BUSINESS AND OF THE RESULTS TO THE SEGMENTS

The financial information set forth for each segment has been prepared by reference to the criteria used for the preparation of internal information, on the basis of which the Group’s decisions are made, as provided by the IFRS 8.

The accounting policies used when preparing the information concerning the operating segments are those used when preparing the financial statements herein, as referred to in Note 2.

Measurement of profits or losses from the segments

The Group uses the profit/loss before tax as a measurement tool for the performance assessment of each operating segment.

Haitong Bank’s Structures dedicated to the Segment

Haitong Bank’s business encompasses all operating segments, therefore being subject to disaggregation accordingly.

For the purpose of allocating financial information, the following principles are used: (i) origination of transactions, i.e., the business originated by the commercial structures dedicated to the segment is allocated to each segment, even if the Group makes a subsequent strategic decision to securitize some of these assets originating therefrom; (ii) allocation of direct costs from commercial and central structures dedicated to the segment; (iii) allocation of indirect costs (central support and IT services) determined in accordance with 7 specific parameters and with the internal Information Management model; (iv) allocation of credit risk determined in accordance with the impairment model.

Transactions between legally autonomous units of the Group are carried out at market prices; the price of provisions between the structures of each unit, such as the prices set for the provision or internal assignment of funds, is determined by the margins process referred to above (which vary according to the strategic relevance of the instrument and the balance of the structures between the fundraising and the credit assignment roles); the remaining transactions are allocated to the segments in accordance with the Management Information internal model.

The services rendered by the various units of the Corporate Centre are governed by SLAs (Service Level Agreements).

Interest income and expenses

Since the Group's activities are exclusively related to the financial sector, a substantial amount of generated revenue results from the difference between interest received from its assets and interest borne by the raised financial resources. This situation and the fact that the segments' activity is assessed by management through negotiated or predetermined margins for each instrument, leads to the profits of the brokerage activity being presented, as permitted by IFRS 8, paragraph 23, by the net value of interest, under the designation of Financial Income.

Net profit/(loss) from fee and commission

In accordance with the policy defined by the Group, net profit/(loss) from fee and commission is recognized in the moment that the service is delivered to its customers.

Investments consolidated under the equity method

Investments in associates which are consolidated under the equity method are comprised in the segment designated 'Other', for Haitong Bank's associates. For investments in associates of other entities of the Group, such entities are allocated to the segments they relate to.

Non-current assets

The Corporate Centre segment comprises non-current assets, which, as foreseen in IFRS 8, comprise Other tangible assets, Intangible assets and real estate received as payment in kind not yet falling into the classification of Non-current assets held-for-sale.

Deferred tax assets

The Income tax component is an element for the generating of the Group's income statement which does not have an effect on the assessment of the Operating Segments. Deferred tax assets are allocated to the Corporate Centre segment.

Domestic and International Areas

In the presentation of the financial information by geographical areas, the operating units making up the International Area are the Branches in London, Spain and Poland, as well as the subsidiaries in the consolidation perimeter, with the allocation being made by the Headquarters' country (see Note 1).

The statement of financial position and economical items concerning the international area are those shown in the financial statements of such units, along with their corresponding consolidation eliminations and adjustments.

(thousand euros)

	31.12.2019											
	Structured Finance	Special Portfolio Management	Mergers and Acquisitions	Capital Markets	FICC	Equities	Global Markets	Private Equity	Treasury	Corporate Centre	Other	Total
Net interest income	7 880	(1 716)	(10)	5 846	712	(76)	15 819	(1)	(1 493)	(121)	5 243	32 083
Net fees and comissions	8 429	866	19 126	41 142	7 999	4 925	(303)	910	(4 653)	(875)	3 346	80 912
COMERCIAL OPERATING INCOME	**16 309**	**(850)**	**19 116**	**46 988**	**8 711**	**4 849**	**15 516**	**909**	**(6 146)**	**(996)**	**8 589**	**112 995**
Results on financial operation	(17)	(159)	52	11	5 334	(8)	(2 503)	5 918	(3 035)	(5 305)	550	838
Costs Deducting Banking Income	(345)	-	(112)	(5)	(187)	(22)	(696)	(19)	358	(4 245)	(374)	(5 647)
Intersegment Operating Income	(1 009)	1 009	1 347	2	(2 758)	-	(65)	-	997	280	196	(1)
TOTAL OPERATING INCOME	**14 938**	**-**	**20 403**	**46 996**	**11 100**	**4 819**	**12 252**	**6 808**	**(7 826)**	**(10 266)**	**8 961**	**108 185**
Operation expenses	**2 514**	**1 155**	**5 250**	**2 563**	**6 481**	**2 186**	**1 711**	**1 527**	**1 925**	**44 140**	**3 002**	**72 454**
Staff costs	1 925	738	3 261	1 853	3 504	813	622	1 193	1 048	27 750	2 014	44 721
General administration expenses	451	350	1 655	554	2 270	1 207	925	278	742	10 423	727	19 582
Depreciations and Amortisations	138	67	334	156	707	166	164	56	135	5 967	261	8 151
Gross income	**12 424**	**(1 155)**	**15 153**	**44 433**	**4 619**	**2 633**	**10 541**	**5 281**	**(9 751)**	**(54 406)**	**5 959**	**35 731**
Impairment and Provisions	**657**	**(271)**	**(79)**	**(10 014)**	**(435)**	**-**	**124**	**(10 909)**	**56**	**(2 151)**	**(115)**	**(23 137)**
Credit impairment	(1 190)	-	-	-	8	-	2	(785)	-	86	(115)	(1 994)
Securities impairment	843	-	-	(10 046)	(100)	-	122	-	79	-	-	(9 102)
Net provisions and other impairment	1 004	(271)	(79)	32	(343)	-	-	(10 124)	(23)	(2 237)	-	(12 041)
Income before taxes	**13 081**	**(1 426)**	**15 074**	**34 419**	**4 184**	**2 633**	**10 665**	**(5 628)**	**(9 695)**	**(56 557)**	**5 844**	**12 594**

(thousand euros)

	31.12.2018											
	Structured Finance	Special Portfolio Management	Mergers and Acquisitions	Capital Markets	FICC	Equities	Global Markets	Private Equity	Treasury	Corporate Centre	Other	Total
Net interest income	5 511	(1 640)	-	1 008	4 195	(118)	24 203	-	(3 467)	-	7 830	37 522
Net fees and comissions	14 103	1 003	17 810	31 382	2 581	3 975	283	2 354	(2 340)	-	2 367	73 518
COMERCIAL OPERATING INCOME	**19 614**	**(637)**	**17 810**	**32 390**	**6 776**	**3 857**	**24 486**	**2 354**	**(5 807)**	**-**	**10 197**	**111 040**
Results on financial operation	2 633	(88)	-	47	2 337	(5)	(11 854)	3 350	9 307	-	(10 091)	(4 364)
Costs Deducting Banking Income	(456)	(56)	(206)	(137)	(543)	(33)	(574)	(14)	(741)	2 679	(8 063)	(8 144)
Intersegment Operating Income	(679)	679	(15)	(625)	1 483	66	3	-	(6 225)	-	5 313	-
TOTAL OPERATING INCOME	**21 112**	**(102)**	**17 589**	**31 675**	**10 053**	**3 885**	**12 061**	**5 690**	**(3 466)**	**2 679**	**(2 644)**	**98 532**
Operation expenses	**1 861**	**1 201**	**6 141**	**2 180**	**5 679**	**2 522**	**3 737**	**1 922**	**3 188**	**46 269**	**2 857**	**77 557**
Staff costs	1 409	692	4 393	1 607	2 885	983	1 560	933	589	27 328	1 945	44 324
General administration expenses	401	485	1 549	523	2 238	1 452	1 768	982	2 484	14 684	823	27 389
Depreciations and Amortisations	51	24	199	50	556	87	409	7	115	4 257	89	5 844
Gross income	**19 251**	**(1 303)**	**11 448**	**29 495**	**4 374**	**1 363**	**8 324**	**3 768**	**(6 654)**	**(43 590)**	**(5 501)**	**20 975**
Impairment and Provisions	**(25 975)**	**2 824**	**(122)**	**(754)**	**(73)**	**-**	**(336)**	**(63)**	**101**	**(1 993)**	**(4)**	**(26 395)**
Credit impairment	(18 572)	-	-	-	(8)	-	(88)	-	-	(419)	-	(19 087)
Securities impairment	(3 444)	-	-	(766)	(48)	-	(248)	-	57	-	-	(4 449)
Net provisions and other impairment	(3 959)	2 824	(122)	12	(17)	-	-	(63)	44	(1 574)	(4)	(2 859)
Income before taxes	**(6 724)**	**1 521**	**11 326**	**28 741**	**4 301**	**1 363**	**7 988**	**3 705**	**(6 553)**	**(45 583)**	**(5 505)**	**(5 420)**

As at 31th of December 2018 and 31th of December 2019 "Other" balances include the reclassification of the results of the discontinuing operations.

The reporting of secondary segments is made in accordance with the geographical location of the various business units of the Group:

(thousand euros)

	31.12.2019			
	Portugal	Rest of the Europe	America	Total
Net income	(13 381)	20 317	572	7 508
Net asset	1 684 676	49 641	872 593	2 606 910
Investments in associates	15	-	-	15
Investments in assets				
tangible	591	105	263	959
intangible	1 930	3	94	2 027

(thousand euros)

	31.12.2018			
	Portugal	Rest of the Europe	America	Total
Net income	(13 943)	4 107	10 995	1 159
Net asset	1 485 455	533 436	875 872	2 894 763
Investments in associates	487	-	-	487
Investments in assets				
tangible	85	238	318	641
intangible	515	70	31	616

NOTE 5 – FINANCIAL MARGIN

This heading's amount is composed of:

(thousand euros)

	31.12.2019			31.12.2018		
	From assets/liabilities at amortised cost and at fair-value through other comprehensive income	From assets/liabilities at fair-value through profit and loss	Total	From assets/liabilities at amortised cost and at fair-value through other comprehensive income	From assets/liabilities at fair-value through profit and loss	Total
Interest and similar income						
Interest from loans and advances to customers	21 339	-	21 339	17 811	-	17 811
Interest from deposits and investments in credit institutions	10 219	-	10 219	21 944	-	21 944
Interest from financial assets at fair value through other comprehensive income	3 565	-	3 565	1 647	-	1 647
Interest from financial assets at fair-value through profit and loss	-	39 912	39 912	-	56 110	56 110
Interest from debt securities at amortised cost	5 406	-	5 406	532	-	532
Other interest and similar income	237	-	237	130	-	130
	40 766	**39 912**	**80 678**	**42 064**	**56 110**	**98 174**
Interest and similar expenses						
Interest from deposits from central banks and other credit institutions	17 985	-	17 985	35 093	-	35 093
Interest from debt securities issued	14 868	-	14 868	10 888	-	10 888
Interest from customers accounts	14 682	-	14 682	13 708	-	13 708
Interest from leasing	305	-	305	-	-	-
Other interest and similar expenses	755	-	755	963	-	963
	48 595	**-**	**48 596**	**60 652**	**-**	**60 652**
	(7 829)	**39 912**	**32 082**	**(18 588)**	**56 110**	**37 522**

As at the 31st of December, 2019, interest and similar income includes an amount of 4 517 thousand euros and 2 204 thousand euros concerning contracts flagged as stage 2 and stage 3, respectively (2018: 6,092 thousand euros and 3,484 thousand euros, respectively).

NOTE 6 – NET FEES AND COMMISSIONS INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Fees and commissions income		
From banking services	40 845	51 754
From guarantees provided	3 241	3 976
From transactions with securities	43 879	23 412
	87 965	**79 142**
Fees and commissions expenses		
From banking services rendered by third parties	1 503	343
From transactions with securities	1 483	1 401
From guarantees received	494	445
Other fee and comission expenses	3 773	4 587
	7 253	**6 776**
	80 712	**72 366**

As at 31st December, 2019, the income regarding fees and commission included 30,942 thousand euros (31st December, 2018: 40,692 thousand euros) concern Haitong Group related parties (Note 38).

As at 31th of December 2019 the amount of fees and commissions present the following distribution, by geographical segment:

(thousand euros)

	31.12.2019
Fees and commissions income	
China	38 287
Virgin Islands	11 501
Hong Kong	11 462
Portugal	10 493
Bermuda	2 534
Spain	2 462
Ireland	2 198
United Kingdom	1 895
Luxembourg	1 200
Others	5 932
	87 964

NOTE 7 – NET TRADING INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Trading assets and liabilities		
Securities		
Bonds and other fixed-income securities		
Issued by public entities	2 320	(35 338)
Of other entities	969	1 548
Shares	477	(3 618)
	3 766	**(37 408)**
Financial derivatives		
Foreign-exchange contracts	28 441	25 718
Interest rates contracts	(31 474)	(15 406)
Equity/indexes contracts	(716)	7 199
Credit default contracts	(47)	-
Other	483	(546)
	(3 313)	**16 965**
	453	**(20 443)**

NOTE 8 – NET INCOME FROM OTHER INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Assets and liabilities at fair value through profit or loss		
Securities		
Loans and advances to customers	(124)	604
Shares	4 700	(1 326)
Other variable-income securities	2 977	3 639
	7 553	**2 917**
Financial liabilities at fair value through profit or loss		
Debt securities issued	2	10
	2	**10**
	7 555	**2 927**

NOTE 9 – NET GAIN/ (LOSS) FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT FAIR VALUE TRHOUGH OTHER COMPREHENSIVE INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Bonds and other fixed-income securities		
Issued by public entities	2 443	3 301
Of other entities	85	633
	2 528	**3 934**

NOTE 10 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Currency revaluation	(6 073)	5 903
	(6 073)	**5 903**

This heading includes results arising out of the exchange rate revaluation of monetary assets and liabilities denominated in foreign currency, in accordance with the accounting policy set forth in Note 2.3.

NOTE 11 – NET GAIN/(LOSS) FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

As at the 31th of December, 2018 and 2019 , this heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Sale of loans and advances to customers	134	117
Sale of financial assets at amortised cost	167	-
	301	**117**

NOTE 12 – OTHER OPERATING INCOME AND EXPENSES

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Other customer services	199	1 149
Direct and Indirect taxes	(3 208)	(4 926)
Other operating results	(6 394)	39
Non-financial assets	(63)	(68)
Sub-leasing	324	-
	(9 142)	**(3 806)**

Direct and indirect taxes include 2,761 thousand euros concerning the cost associated with the Bank Levy (2018: 1,781 thousand euros), established pursuant to Law no. 55-A/2010, of the 31st of December.

As at the December 31, 2019, the balance Other operating income and expenses includes, among other costs, the followings:

I. 1,645 thousand euros related to Contributions to the Resolution Fund (1,862 thousand euros at 31 December 2018);

II. 118 thousand euros related to Contributions to the Loan Guarantee Fund applicable to the subsidiary Haitong Banco de Investimento do Brasil S.A. (583 thousand euros as at 31 December 2018); and

III. 3,949 thousand euros related with the repurchase of the debt security issued by Haitong Bank, fully owned by Haitong Investment Ireland PLC.

NOTE 13 – EMPLOYEE COSTS

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Wages and salaries		
Remuneration	32 981	32 061
Career benefits (Note 14)	54	(13)
Changes from termination agreements (see Note 14)	475	1 256
Expenses with retirement pensions (Note 14)	717	784
Other mandatory social charges	6 448	6 186
Other expenses	4 046	4 050
	44 721	**44 324**

At 31st December, 2019 this heading includes 475 thousand euros (31st December, 2018: 1,256 thousand euros) related with the Voluntary Termination Plan called Social Plan.

The costs with remuneration and other benefits granted to key management employees of the Haitong Bank Group are distributed as follows:

(thousand euros)

	Board of Directors	Other key management staff	Total
2019			
Remunerations and other short-term benefits	1 945	9 915	11 860
Variable remunerations	412	1 425	1 837
Total	**2 357**	**11 340**	**13 697**
2018			
Remunerations and other short-term benefits	1 961	11 411	13 372
Variable remunerations	-	584	584
Total	**1 961**	**11 995**	**13 956**

The category "Other Key Employees" considers Managing Directors, Executive Directors, and other members of staff whose actions have a material impact on the Bank's risk profile ("Identified Staff").

On December 31st, 2019, and on December 31st December,2018, the Haitong Bank Group did not present any credit granted to its Management Bodies.

Per professional category, the average number of employees of the Haitong Bank Group can be analysed as follows:

	2019	2018
Directors	202	225
Management	3	3
Specific roles	135	135
Administrative roles	22	23
Support roles	12	12
	374	**398**

As at the 31st of December, 2019 and 2018, the Group had a total of 364 and 389 employees.

NOTE 14 – EMPLOYEES BENEFITS

Retirement pensions and healthcare benefits

Pension and health-care benefits In compliance with the Collective Labor Agreement (“Acordo Coletivo de Trabalho”, ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in accordance with the years of service, applied to each year’s negotiated salary table for the active work force.

Arising from the signature of the new Collective Labor Agreement (“Acordo Coletivo de Trabalho”, ACT) on 5 July 2016, published in Labor Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Group’s contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The measurement and recognition of the Group’s liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liability. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

For employees hired until 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A.

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law no. 1A/2011, of 3 January, all banking employees who were beneficiaries of “CAFEB – Caixa de Abono de Família dos Empregados Bancários” were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the 2nd tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime, that takes into account the number of years of contributions under that regime. The banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees to the General Social Security Regime on the behalf of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks’ liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the “Instrumento de Regulação Colectiva de Trabalho” (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by

Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

The main assumptions used in the calculation of liabilities are as follows:

	Assumptions	
	31.12.2019	31.12.2018
Financial Assumptions		
Expected return rates	1,52%	2,32%
Discount rate	1,52%	2,32%
Pension growth rates	0,50%	0,50%
Salary growth rates	0,75%	1,00%
Demographic Assumptions and Assessment Methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90 -3 years
Actuarial valuation method	Project Unit Credit Method	

Disability decrements are not included in the calculation of responsibilities. The discount rate used as reference to the 31st of December, 2019, was based on: (i) the development sustained by the main indices concerning high quality corporate bonds and (ii) the duration of the responsibilities (21 years).

Recipients of the pensions plan are disaggregated as follows:

	31.12.2019	31.12.2018
Active w orkers	101	109
Former employees w ith vested rights	77	70
Retired	34	33
Survivors	10	7
TOTAL	**222**	**219**

Former employees with vested rights refer to employees who ceased their activity in the Group in 2019 and 2018, under the terms of the Social Plan, and maintained the pension plan rights.

The IAS 19 application implies the following liabilities and coverage levels, which shall be reported on the 31st of December 2019 and 2018:

(thousand euros)

	31.12.2019	31.12.2018
Net Assets / (Liabilities) recognised in the statement of financial position		
Liabilities as at 31st of December		
Pensioners and former employees with vested rights	52 095	40 839
Active workers	31 948	31 820
	84 043	**72 659**
Balance of funds as at 31st of December	**78 792**	**69 641**
Excess of coverage / Contributions to the fund	(5 251)	(3 018)
Assets / (Liabilities) in the statement of financial position (see Note 27 and 33)	**(5 251)**	**(3 018)**
Acummulated actuarial gains / losses recognised in other comprehensive income	38 004	34 616

Retired includes the former employees, with vested rights acquired under the Social Plan.

The evolution of liabilities regarding retirement pensions and healthcare benefits is analysed as follows:

.

(thousand euros)

	31.12.2019	31.12.2018
Liabilities at the beginning of the period	**72 659**	**72 070**
Current service cost (see Note 13)	717	784
Interest expenses	1 678	1 556
Participants contributions	89	94
Actuarial (gains)/losses	9 184	(2 389)
-Changes in assumptions	11 272	(2 401)
- Experience (Gains)/losses	(2 088)	12
Pensions paid by the fund	(759)	(712)
Changes from termination agreements (see Note 13)	475	1 256
Liabilities at the end of the period	**84 043**	**72 659**

Considering the situation on the 31st of December 2019, the analysis to the sensibility and alterations of the actuarial assumptions revealed the following impacts:

- An increase in the discount rate of 25 base points would have represented a reduction in liabilities of approximately 4,303 thousand euros. A discount rate decrease of the same proportion would have represented an increase in liabilities of approximately 4,528 thousand euros;
- An increase of 25 base points in the growth of salaries and pensions would have represented an increase in liabilities of approximately 3,941 thousand euros. A decrease in the growth of salaries of the same proportion would have represented a decrease in liabilities of approximately 3,769 thousand euros.

The evolution of value regarding the pension funds on the financial years ending on the 31st of December 2019 and 2018, may be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Pension Funds at the beginning of the period	**69 641**	**72 552**
Real income of the fund	7 457	(3 619)
Group contributions	2 364	1 326
Participants contributions	89	94
Benefits paid	(759)	(712)
Pension Funds at the end of the period	**78 792**	**69 641**

In early 2020, the Group made an extraordinary contribution for the fund in the amount of 4,504 thousand euros, therefore, the fund is now in the amount of 83,303 thousand euros, thereby representing a liability financing level of 99,12%.

The assets of the pension funds may be analysed in the following manner:

	% Portfolio	
	2019	2018
Bonds	60.00%	66.00%
Shares	31.00%	28.00%
Alternative investment	6.00%	5.00%
Real estate	0.00%	0.00%
Liquidity	3.00%	1.00%
Total	100.00%	100.00%

The assets of the funds are valued at fair value.

On the 31st of December 2019 and 2018 the funds did not contain securities issued by entities of the Group.

The evolution of accumulated actuarial deviations reflected in other comprehensive income may be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Deferred actuarial gains / (losses) as at 1st January	**34 616**	**31 792**
- Actuarial assumptions changes	11 272	(2 401)
- (Gains)/losses in experience	(7 884)	5 225
Deferred actuarial deviations as at 31st of December	**38 004**	**34 616**

The costs of the financial year with retirement pensions and healthcare benefits may be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Current service cost (see Note 13)	717	784
Interest Expenses / (Income)	17	(38)
Expenses of the period	**734**	**746**

The earnings / costs of the interests are recognized according at net value in interest and similar income / expenses.

The evolution of the net assets / (liabilities) on the balance regarding the financial years ending on the 31st of December 2019 and 2018 may be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	**(3 018)**	**482**
Year expenses	(734)	(746)
Actuarial gains / (losses) recognised in other comprehensive income	(3 388)	(2 824)
Group contributions	2 364	1 326
Changes in termination agreements	(475)	(1 256)
Final Balance	**(5 251)**	**(3 018)**

The evolution of liabilities and fund balances, as well as the earnings and losses of experience in the last 5 years shall be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Liabilities	(84 043)	(72 659)	(72 070)	(70 735)	(70 744)
Funds balances	78 792	69 641	72 552	67 349	70 744
(Under) / over funded liabilities	**(5 251)**	**(3 018)**	**482**	**(3 386)**	**-**
Experience (gains) / losses from liabilities	(2 088)	12	(143)	(7 655)	177
Experience (gains) / losses from plan assets	(5 796)	5 213	(1 176)	6 013	6 707

Career bonuses

On the 31st of December, 2019 and 2018, the liabilities assumed by the Group and the costs recognised in the periods with the career bonus are the following:

(thousand euros)

	31.12.2019	31.12.2018
Liabilities at the begining of the period	**485**	**498**
Year expenses (See Note 13)	54	(13)
Liabilities at the end of the period (see Note 33)	**539**	**485**

The actuarial assumptions used for calculation of liabilities are identical for calculation of retirement pensions (when applicable).

The liability regarding career bonuses is registered in other liabilities (see Note 33).

NOTE 15 – ADMINISTRATIVE COSTS

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Communications and expedition	4 822	5 347
Rents and leases	740	4 295
Travels and representation costs	1 180	1 366
Maintenance and related services	806	910
Insurance	265	241
Advertising and publications	100	195
Legal and litigation	147	151
Specialised services		
IT services	4 132	4 190
Temporary labour	22	17
Independent labour	667	1 156
Other specialised services	4 530	5 407
Other expenses	2 171	4 114
	19 582	**27 389**

The Other Specialised Services heading includes, among others, the costs with external consultants and auditors. The item Other Costs includes, among others, the costs with security and surveillance, information, training costs and costs with external suppliers.

Services agreed with the Company of Statutory Auditors and the auditors, according to the provisions of article 508-F of the Commercial Companies Code, are as follows:

(thousand euros)

	31.12.2019	31.12.2018
Statutory audit of annual accounts (Haitong Bank)	382	375
Statutory audit of annual accounts (subsidiaries)	91	145
Other reliability assurance services	153	240
Other non-statutory audit services	180	79
Total value of agreed services	**806**	**839**

Values shown are before taxes. The fees related to the statutory audit of annual accounts correspond to those agreed for the year 2019. The fees presented for the remaining services relate to amounts billed during the 2019 financial year.

NOTE 16 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated by the division of the result to be attributed to the shareholders of the Bank by the average number of ordinary shares issued during the year, excluding the average number of shares bought and held in portfolio as own shares.

(thousand euros)

	31.12.2019	31.12.2018
Consolidated net income attributable to shareholders of the parent company(1)	7 508	1 159
Weighted average number of ordinary shares outstanding (thousand)	**168 954**	**168 954**
Basic earnings per share attributable to shareholders of the parent company (euros)	**0,04**	**0,01**

(1) Net profit/ (loss) for the period attributable to the equity holders of the Bank adjusted by the interest paid from perpetual subordinated bonds atributtable to the period (that are recorded as a change in reserves).

Diluted earnings per share

The diluted earnings per share are calculated by adjusting the effect of all the potential ordinary diluting shares to the considered average number of existing ordinary shares and to the net result attributed to the bank shareholders.

On the 31st of December, 2019 and 2018, the Bank holds instruments issued without diluting effect, therefore diluted earnings per share equals basic earnings per share.

NOTE 17 – CASH AND CASH EQUIVALENTS

As at the 31st of December, 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Cash	8	5
Demand deposit at central banks		
Bank of Portugal	611 915	308 246
Other central banks	93	936
	612 008	**309 182**
Deposits at other credit institutions in Portugal		
Demand deposits	3 765	20 299
	3 765	**20 299**
Deposits at other credit institutions abroad		
Demand deposits	22 048	11 770
	22 048	**11 770**
	637 829	**341 256**
Impairment losses (Note 31)	-	(1)
	637 829	**341 255**

The ‘Demand deposits in central banks – Bank of Portugal’ heading, includes deposits with a mandatory nature, intended to comply with the legal minimum cash deposits requirements. In accordance with Regulation (EU) no. 1358/2011 of the European Central Bank, of the 14th of December 2011, the mandatory minimum deposits in demand deposits in the Bank of Portugal, are paid and represent 1% of the deposits and debt securities with maturity up to 2 years, whereof are excluded deposits and debt securities from entities subject to the minimum reserve requirement scheme of the European System of Central Banks. On the 31st of December, 2019, the average rate of return of such deposits was 0,00% (31st of December, 2018: 0.00%).

The compliance with mandatory minimum deposits, for a specific observation period, is effected by taking into account the medium amount of the balances of the deposits with the Bank of Portugal throughout the aforementioned period. The balance of the account with the Bank of Portugal as at the 31th of December, 2019, has been comprised in the maintenance period from the 18th of December, 2019, to the 28th of January, 2020, which corresponded a mandatory minimum reserve amounting to 5,953 thousand euros (31st of December, 2018: 5,311 thousand euros).

NOTE 18 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING - SECURITIES

As at 31st of December 2019 and 2018, the heading of trading financial assets and liabilities is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Financial assets held-for-trading		
Bonds and other fixed-income securities		
From public issuers	412 057	423 793
From other issuers	25 495	42 707
Shares	20	457
	437 572	**466 957**
Financial liabilities held-for-trading		
Short selling	132 758	119 907
	132 758	**119 907**

As at 31st of December 2019 and 2018, the analysis of financial assets held-for-trading, by residual maturity period, is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	3 830	18 459
From three months to one year	2 378	1 029
From one to five years	120 498	241 066
More than five years	310 846	205 946
Undetermined period	20	457
	437 572	**466 957**

In accordance with the accounting policy described in Note 2.4.1, trading financial assets and liabilities are bought for the purpose of short-term trading, regardless of their maturity.

As at 31st of December 2019 and 2018, the heading of financial assets held-for-trading, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed-income securities						
Issued by public entities	4 141	407 916	412 057	18 325	405 468	423 793
Issued by other entities	14 144	11 351	25 495	5 781	36 926	42 707
Shares	20	-	20	457	-	457
Total book value	**18 305**	**419 267**	**437 572**	**24 563**	**442 394**	**466 957**

Unquoted securities issued by public entities refers mainly to Brazilian public debt instruments, which, despite being quoted, are valued according to internal model and are therefore presented as unquoted securities.

As at 31st of December 2019 and 2018, the exposure to the public debt of "peripheral" countries within the Euro Area is analysed in Note 41.

The short selling represents securities sold by the Group, which had been purchased under a reverse repurchase agreement. In accordance with the accounting policy described in Note 2.5, securities purchased under a repurchase agreement are not recognised in the statement of financial positions. If such securities are sold, the Group recognises a financial liability equivalent to the fair-value of the assets which shall be returned in pursuance of the repurchase agreement.

NOTE 19 – DERIVATIVES

As at 31st of December 2019 and 2018, financial derivatives heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Derivatives financial assets		
Trading derivatives		
Foreign-exchange contracts	4 183	3 423
Interest-rate contracts	126 077	105 278
Other contracts	18 463	21 446
	148 723	**130 147**
Derivatives financial liabilities		
Trading derivatives		
Foreign-exchange contracts	5 011	9 917
Interest-rate contracts	125 825	150 699
Other contracts	18 066	24 350
	148 902	**184 966**
	(179)	**(54 819)**
Hedging Derivatives		
Derivatives financial liabilities		
Foreign-exchange contracts	**300**	**-**
	300	**-**

As at 31st of December 2019 and 2018, trading financial derivatives is analysed as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Notional	Fair value		Notional	Fair value	
		Positive	Negative		Positive	Negative
Foreign-exchange contracts						
Forward	-	287	1 290		179	935
- buy	89 193			138 356		
- sell	89 194			139 482		
Currency Swaps		939	436		340	3 179
- buy	188 248			195 259		
- sell	188 157			198 576		
Currency Futures		-	-		-	-
- buy	402 911			861 160		
- sell	146 962			596 419		
Currency Interest Rate Swaps		2 616	2 944	-	35	2 865
- buy	66 250			13 450		
- sell	66 250			15 400		
Currency Options		341	341		2 869	2 938
- buy	177 835			216 592		
- sell	208 870			250 395		
	1 623 870	**4 183**	**5 011**	**2 625 089**	**3 423**	**9 917**
Interest-rate contracts						
Interest Rate Swaps		124 628	124 368		101 556	146 982
- buy	2 556 051			3 505 912		
- sell	2 556 051			3 505 912		
Interest Rate Caps & Floors		1 449	1 457		3 722	3 717
- buy	88 334			97 442		
- sell	81 594			59 460		
Interest Rate Futures		-	-	-	-	-
- buy	1 290 223			1 019 418		
- sell	1 188 496			1 063 404		
	7 760 749	**126 077**	**125 825**	**9 251 548**	**105 278**	**150 699**
Contracts on shares/indexes						
Equity / Index Swaps		15 285	14 934		19 535	22 465
- buy	159 800			153 968		
- sell	159 734			153 968		
Equity / Index Options		-	-		545	461
- buy	-			7 503		
- sell	-			7 523		
Equity / Index Futures		-	-		-	-
- buy	7 061			-		
- sell	3 095			6 602		
	329 690	**15 285**	**14 934**	**329 564**	**20 080**	**22 926**
Credit agreements						
Credit Default Swaps		3 178	3 132	-	1 366	1 424
- buy	63 229			-		
- sell	97 629			105 423		
	160 858	**3 178**	**3 132**	**105 423**	**1 366**	**1 424**
Total	**9 875 167**	**148 723**	**148 902**	**12 311 624**	**130 147**	**184 966**

As at 31st of December 2019 and 2018, the analysis of trading financial derivatives, by residual maturity period, is as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Notional		Fair Value	Notional		Fair Value
	Sale	Purchase	(net)	Sale	Purchase	(net)
Up to three months	618 277	543 588	2 333	1 543 831	1 284 254	(2 758)
From three months to one year	1 306 987	1 930 294	(2 034)	1 086 406	968 061	3 551
From one to five years	1 631 228	1 581 418	(1 672)	2 123 635	2 660 677	(37 963)
More than five years	1 229 540	1 033 835	1 194	1 348 691	1 296 069	(17 649)
	4 786 032	**5 089 135**	**(179)**	**6 102 563**	**6 209 061**	**(54 819)**

a) Hedging Derivatives

As at 31st of December 2019, the analysis of Hedging Derivatives, by residual maturity period, is as follows:

(thousand euros)

	31.12.2019		
	Hedging Derivatives		
	Notional		Fair Value
	Sell	Buy	
Up to three months	105 048	104 444	(300)
	105 048	**104 444**	**(300)**

As at 31st of December 2018 and 2017, derivatives, both assets and liabilities, include operations collateralized by the constitution of collateral accounts in order to ensure the fair value hedge of the active and liability exposures contracted between the Bank and several financial institutions. The balances related to these collateral are recorded under "Other assets - collateral deposited under clearing agreements" (Note 27) and "Other liabilities - collateral deposited under clearing agreements" (Note 33).

As at 31st of December 2019, the hedge effectiveness recognised in income statement is 28 thousand euros.

As at 31st of December 2019, the hedge accounting relationships are analysed in Note 41.

NOTE 20 – SECURITIES

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Non-trading financial assets mandatorily at fair value through profit or loss		
Bonds and other fixed-income securities		
From public issuers		
From other issuers	759	708
Shares	2 273	11 964
Other variable income securities	34 367	25 799
	37 399	**38 471**
Financial assets at fair value through other comprehensive income		
Bonds and other fixed-income securities		
From public issuers	88 991	377 829
From other issuers	88 196	137 984
	177 187	**515 813**
Financial assets measured at amortised cost		
Securities		
Bonds and other fixed-income securities		
From public issuers	194 981	-
From other issuers	140 774	87 085
	335 755	**87 085**
	550 341	**641 369**

In accordance with the accounting policy described in Note 2.4, the Group regularly assesses whether there is objective evidence of impairment in the investment securities portfolios, following the judgement criteria described in Note 3.1.

The portfolio of Financial assets at fair value through other comprehensive income is analysed as follows:

(thousand euros)

	Cost (1)	Fair value reserve		Impairment (Note 31)	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	86 695	2 663	-	(367)	88 991
Issued by other entities	91 452	1 962	(2 328)	(2 890)	88 196
Balance as at 31st December 2019	**178 147**	**4 625**	**(2 328)**	**(3 257)**	**177 187**
Bonds and other fixed-income securities					
Issued by public entities	378 043	2 404	(1 858)	(760)	377 829
Issued by other entities	139 587	414	(935)	(1 082)	137 984
Balance as at 31 December 2018	**517 630**	**2 818**	**(2 793)**	**(1 842)**	**515 813**

(1) Amortised cost

As at 31st of December 2019, the heading of Financial assets at fair value through other comprehensive income includes: 209,853 thousand euros (31st December 2018: 280,618 thousand euros) in securities pledged as collateral by the Group (see Note 37).

The portfolio of financial assets at amortized cost is analysed as follows:

(thousand euros)

	Cost (1)	Impairment (Note 31)	Book value
Bonds and other fixed-income securities			
Issued by public entities	195 129	(148)	194 981
Issued by other entities	149 325	(8 551)	140 774
Balance as at 31st December 2019	**344 454**	**(8 699)**	**335 755**
Bonds and other fixed-income securities			
Issued by other entities	87 533	(448)	87 085
Balance as at 31st December 2018	**87 533**	**(448)**	**87 085**

(1) Amortised cost

As at 31st of December 2019 and 2018, the analysis of securities portfolios by maturity period, is presented as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	23 634	13 493
From three months to one year	108 994	76 797
From one to five years	361 140	491 033
More than five years	19 936	22 281
Undetermined period	36 637	37 765
	550 341	**641 369**

As at 31st of December 2019 and 2018, the heading of securities, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed-income securities						
Issued by public entities	210 214	73 758	283 972	280 978	96 851	377 829
Issued by other entities	26 017	203 712	229 729	29 535	196 242	225 777
Shares	13	2 260	2 273	-	11 964	11 964
Other variable-income securities	-	34 367	34 367	-	25 799	25 799
Total statement of financial position value	**236 244**	**314 097**	**550 341**	**310 513**	**330 856**	**641 369**

Unquoted securities issued by public entities refers mainly to Brazilian public debt instruments, which, despite being quoted, are valued according to internal model and are therefore presented as unquoted securities.

As at 31st of December 2019 and 2018, the geographic exposure is presented in Note 41.

NOTE 21 - LOANS AND ADVANCES TO BANKS

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Loans and advances to banks in Portugal		
Deposits	56	56
Very short-term deposits	6 231	-
	6 287	**56**
Loans and advances to banks abroad		
Reverse repos	133 957	122 873
Very short-term deposits	2 255	1 048
Other loans and advances	18 586	18 435
	154 798	**142 356**
	161 085	**142 412**
Impairment losses (Note 31)	(15 615)	(15 584)
	145 470	**126 828**

As at 31st of December 2019 and 2018, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	146 009	127 279
From three months to one year	-	56
Undetermined period	15 076	15 077
	161 085	**142 412**

NOTE 22 – LOANS AND ADVANCES TO CUSTOMERS

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
At fair value throught profit and loss		
Foreign loans		
Corporate		
Loans	-	5 499
	-	**5 499**
Overdue loans and interest		
Up to 90 days	-	285
For more than 90 days	233	-
	233	**285**
	233	**5 784**
Revaluation at fair value	(126)	(1)
	107	**5 783**
At amortized cost		
Domestic loans		
Corporate		
Commercial credit lines	-	150
Loans	157 942	206 386
Retail		
Mortgage loans	469	526
	158 411	**207 062**
Foreign loans		
Corporate		
Loans	163 334	191 043
Reverse repos	1 132	116 618
Other loans	1 613	1 422
Retail		
Mortgage loans	20	14
	166 099	**309 097**
Overdue loans and interest		
Up to 90 days	-	845
For more than 90 days	1 985	13 039
	1 985	**13 884**
	326 495	**530 043**
Impairment losses	(11 881)	(21 585)
	314 614	**508 458**
	314 721	**514 241**

As at 31st of December 2019 and 2018, the analysis of loans and advances to costumers, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	1 621	2 482
From three months to one year	74 423	139 772
From one to five years	54 455	133 090
More than five years	194 013	246 314
Undetermined period	2 216	14 169
	326 728	**535 827**

NOTE 23 - NON-CURRENT ASSETS HELD-FOR-SALE

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Subsidiaries acquired exclusively for resale purposes	2 244	2 533
	2 244	**2 533**

Non-current assets held-for-sale only includes the investment in Polish Hotel Company. The Group has implemented a plan for the immediate sale of this subsidiary. However, due to market conditions, it was not possible to carry out the divestiture within the period originally foreseen.

The Group is committed and developing the best efforts to conclude the sale of the company. Haitong Banks is currently in negotiations with a Polish intermediary acting on behalf of three potential investors.

In January, three non-binding offers were received and the negotiation process has started for the sale of 100% of the company. If we reach an agreement regarding the terms of the sale, the transaction is expected to be completed during the first half of 2020.

NOTE 24 – OTHER TANGIBLE ASSETS

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Real Estate		
For own use	954	970
Improvements in leasehold property	8 056	9 053
	9 010	**10 023**
Equipment		
IT equipment	11 227	10 945
Indoor installations	2 432	2 940
Furniture	2 520	2 523
Machinery and tools	1 032	1 055
Motor vehicles	408	414
Security equipment	288	258
Others	180	155
	18 087	**18 290**
	27 097	**28 313**
Work in progress		
Equipment	-	23
	-	**23**
Right-of-use		
IT equipment	97	-
Vehicles	1 139	-
Buildings	10 110	23
	11 346	**23**
	38 443	**28 336**
Accumulated depreciations	(25 666)	(22 972)
	12 777	**5 364**

The movement in this heading was as follows:

(thousand euros)

	Real estate	Equipment	Right-of-use Buildings	Right-of-use IT equipment	Right-of-use Vehicles	Work in progress	Total
Acquisition cost							
Balance as at 31 December 2017	**10 314**	**21 302**	**-**	**-**	**-**	**-**	**31 616**
Acquisitions	133	485	-	-	-	23	641
Write-offs / sales	(3)	(3 313)	-	-	-	-	(3 316)
Transfers	-	(50)	-	-	-	-	(50)
Transfers from discontinued operations	-	24	-	-	-	-	24
Exchange differences and other movements	(421)	(158)	-	-	-	-	(579)
Balance as at 31 December 2018	**10 023**	**18 290**	**-**	**-**	**-**	**23**	**28 336**
Acquisitions	352	548	-	-	-	59	959
Write-offs / sales	(1 367)	(753)	-	-	-	-	(2 120)
Transfers	59	23	-	-	-	(82)	-
IFRS 16 adoption impact	-	-	10 219	94	1 080	-	11 393
Exchange differences and other movements	(57)	(21)	(109)	3	59	-	(125)
Balance as at 31 December 2019	**9 010**	**18 087**	**10 110**	**97**	**1 139**	**-**	**38 443**
Depreciations							
Balance as at 31 December 2017	**5 798**	**18 179**	**-**	**-**	**-**	**-**	**23 977**
Depreciations of period	1 076	1 312	-	-	-	-	2 388
Write-offs / sales	(3)	(3 153)	-	-	-	-	(3 156)
Transfers from discontinued operations	-	(43)	-	-	-	-	(43)
Exchange differences and other movements	(123)	(71)	-	-	-	-	(194)
Balance as at 31 December 2018	**6 748**	**16 224**	**-**	**-**	**-**	**-**	**22 972**
Depreciations of period	472	912	2 916	46	524	-	4 870
Write-offs / sales	(1 362)	(720)	-	-	-	-	(2 082)
Exchange differences and other movements	(27)	(25)	(10)	-	(32)	-	(94)
Balance as at 31 December 2019	**5 831**	**16 391**	**2 906**	**46**	**492**	**-**	**25 666**
Net book value as at 31 December 2019	**3 179**	**1 696**	**7 204**	**51**	**647**	**-**	**12 777**
Net book value as at 31 December 2018	**3 275**	**2 066**	**-**	**-**	**-**	**23**	**5 364**

NOTE 25 – INTANGIBLE ASSETS

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Goodwill	9 859	9 859
Purchased from third parties		
Software	34 594	32 932
Others	916	916
	35 510	**33 848**
Work in progress	626	572
	45 995	**44 279**
Accumulated amortisations	(29 169)	(26 036)
Impairment losses	(9 859)	-
	(39 028)	**(26 036)**
	6 967	**18 243**

Goodwill is registered in accordance with the accounting policy described in Note 2.2, and analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Subsidiaries		
Haitong Capital - Sociedade de Capital de Risco, S.A.	-	9 859
	-	**9 859**

Annually, the Group analyses the goodwill impairment in accordance with IAS 36 - Impairment of Assets.

The Haitong Bank Group is considering a reorganisation in Haitong Capital - Sociedade de Capital de Risco, S.A. with a change in its business model. Going forward, it is expected that Haitong Capital will focus on broad asset management activities beyond the pure private equity focus. These adjustments in the scope of business will likely change the historical business model of Haitong Capital, under which the goodwill was generated. As a consequence, the Board of Directors has considered to record the impairment of the total amount of the goodwill.

The movement in this heading was as follows:

(thousand euros)

	Goodwill	Software	Other fixed assets	Work in progress	Total
Acquisition cost					
Balance as at 31st December 2017	**9 859**	**32 954**	**916**	**466**	**44 195**
Acquisitions:					
Purchased from third parties	-	467	-	149	616
Write-offs / sales	-	(264)	-	(17)	(281)
Transfers from discontinued operations	-	-	-	(24)	(24)
Exchange differences and other movements	-	(225)	-	(2)	(227)
Balance as at 31st December 2018	**9 859**	**32 932**	**916**	**572**	**44 279**
Acquisitions:					
Purchased from third parties	-	1 879	-	148	2 027
Write-offs / sales	-	(133)	-	(94)	(227)
Exchange differences and other movements	-	(84)	-	-	(84)
Balance as at 31st December 2019	**9 859**	**34 594**	**916**	**626**	**45 995**
Amortizations					
Balance as at 31st December 2017	**-**	**21 952**	**916**	**-**	**22 868**
Amortizations of the period	-	3 456	-	-	3 456
Write-offs / sales	-	(229)	-	-	(229)
Exchange differences and other movements	-	(59)	-	-	(59)
Balance as at 31st December 2018	**-**	**25 120**	**916**	**-**	**26 036**
Amortizations of the period	-	3 281	-	-	3 281
Write-offs / sales	-	(105)	-	-	(105)
Exchange differences and other movements	-	(43)	-	-	(43)
Balance as at 31st December 2019	**-**	**28 253**	**916**	**-**	**29 169**
Impairment	-	-	-	-	-
Balance as at 31st December 2018	**-**	**-**	**-**	**-**	**-**
Impairment losses	9 859	-	-	-	9 859
Balance as at 31st December 2019	**9 859**	**-**	**-**	**-**	**9 859**
Net balance as at 31st December 2019	**-**	**6 341**	**-**	**626**	**6 967**
Net balance as at 31st December 2018	**9 859**	**7 812**	**-**	**572**	**18 243**

NOTE 26 – INVESTMENTS IN ASSOCIATED COMPANIES

Financial information regarding associated companies is presented in the following table:

(thousand euros)

	Assets		Liabilities		Equity		Income		Net income	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Fundo Espírito Santo IBERIA I	38	1 076	6	15	32	1 061	3	1 059	(436)	38

(thousand euros)

	Aquisition cost		% held		Book Value		Net income from the associated companies attributable to the Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Fundo Espírito Santo IBERIA I	2 766	2 766	46%	46%	355	827	(200)	17
Other	-	-	-	-	-	-	-	(5)
	2 766	**2 766**			**355**	**827**	**(200)**	**12**
Impairment					**(340)**	**(340)**		
					15	**487**		

The movement of this heading is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	487	2 849
Disposals and other reimbursements	-	(1 851)
Net Income from associated companies	(200)	12
Other comprehensive income from associates	(272)	(510)
Impairment of the financial year	-	(13)
Closing balance	**15**	**487**

NOTE 27 – OTHER ASSETS

As at 31st of December 2019 and 2018, the Other Assets heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Debtors and other assets		
Collateral deposited under collateral agreements (Note 19)	99 598	148 113
Supplies, supplementary capital instalments and subordinated assets	21	21
Public sector	39 975	38 097
Deposits placed under margin accounts (futures contracts)	4 176	6 795
Loans and derivatives receivables	11 431	-
Other sundry debtors	11 240	17 456
	166 441	210 482
Impairment losses for debtors and other investments (Note 31)	(8 012)	(8 781)
	158 429	**201 701**
Other assets		
Gold, other precious metals, numismatic, medals and other liquid assets	3 184	4 631
Other assets	5 474	5 480
	8 658	**10 111**
Income receivable	**19**	**-**
Prepayments and deferred costs	**3 169**	**807**
Other sundry assets		
Exchange transactions pending settlement	1 484	4 444
Market securities transactions pending settlement	18 585	38 228
Other transactions pending settlement	3 205	5 769
	23 274	**48 441**
	193 549	**261 060**

As at the 31st of December, 2019 includes an amount of 26,232 thousand euros (26,004 thousand euros as at 31 December 2018) related with a tax contingency (Note 37).

Stock exchange transactions pending settlement refer to transactions with securities recorded at the trade date pending settlement.

NOTE 28 – RESOURCES OF CREDIT INSTITUTIONS

The resources of credit institutions heading is presented as follows:

(thousand euros)

	31.12.2019	31.12.2018
Resources of central banks		
Banco de Portugal	22 000	60 000
	22 000	**60 000**
Resources of other credit institutions		
Domestic		
Repurchase agreements	397	292
	397	**292**
Foreign		
Deposits	-	2 251
Repurchase agreements	236 223	251 043
Other resources	43 628	45 371
	279 851	**298 665**
	302 248	**358 957**

As at 31st of December 2019 and 2018, the analysis of resources of credit institutions by residual maturity period is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	221 336	237 412
From three months to one year	-	20
From one to five years	44 872	78 530
More than five years	36 040	42 995
	302 248	**358 957**

NOTE 29 – RESOURCES OF CUSTOMERS

The balance of the resources of customers heading is composed, with regard to its nature, as follows:

(thousand euros)

	31.12.2019	31.12.2018
Repayable on demand		
Demand deposits	48 640	11 357
Time deposits		
Fixed-term deposits	978 393	263 149
Other resources		
Repurchase agreements	13 824	124 910
Other Deposits	510	756
Other	7	34
	14 341	**125 700**
	1 041 374	**400 206**

As at 31st of December 2019 and 2018, the analysis of due to customers by residual maturity period is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Demand deposits	48 640	11 357
Fixed-term deposits		
Up to 3 months	137 250	217 151
3 to 12 months	142 368	150 398
1 to 5 years	713 116	21 300
	992 734	388 849
	1 041 374	**400 206**

NOTE 30 – DEBT SECURITIES ISSUED

The debt securities issued heading can be divided as follows:

(thousand euros)

	31.12.2019	31.12.2018
Debt securities issued		
Other Bonds	197 112	162 612
	197 112	**162 612**

The fair-value of the portfolio regarding debt securities issued is presented in Note 39.

During 2019, Haitong Bank Group issued securities amounting to 36,190 thousand euros (31st of December 2018: 154,889 thousand euros), where 12,132 thousand euros were reimbursed (31st of December 2018: 93,090 thousand euros).

The main characteristics of the debit securities issued is as follows:

(thousand euros)

Issuer	Designation	Currency	Issue Date	Book Value	Maturity	Interest Rate
				31.12.2019		
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLF12P2	BRL	2018	55979	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI229	BRL	2017	279	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2F3	BRL	2017	1040	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2G1	BRL	2017	337	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2H9	BRL	2017	410	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2I7	BRL	2018	253	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2J5	BRL	2018	252	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2K3	BRL	2018	1265	2020	CDI 113,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2L1	BRL	2018	252	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2M9	BRL	2018	1003	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2N7	BRL	2018	751	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2O5	BRL	2018	2075	2023	IPCA 100%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Q0	BRL	2018	99	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2R8	BRL	2018	1911	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2S6	BRL	2018	3020	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2T4	BRL	2018	344	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2U2	BRL	2018	541	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2V0	BRL	2018	7380	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2W8	BRL	2018	2458	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2X6	BRL	2018	246	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Y4	BRL	2018	2449	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Z1	BRL	2018	488	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI302	BRL	2018	1953	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI310	BRL	2018	1858	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI328	BRL	2018	110	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI336	BRL	2018	807	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI344	BRL	2018	1760	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI351	BRL	2018	1906	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI369	BRL	2018	916	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI377	BRL	2018	440	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI385	BRL	2018	770	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI393	BRL	2018	733	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3A2	BRL	2018	403	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3B0	BRL	2018	733	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3C8	BRL	2018	1100	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3D6	BRL	2018	1393	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3E4	BRL	2018	1463	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3F1	BRL	2018	3656	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3G9	BRL	2018	2436	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3H7	BRL	2018	732	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3I5	BRL	2018	4148	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3J3	BRL	2018	3653	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3K1	BRL	2018	146	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3L9	BRL	2018	2430	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3M7	BRL	2018	728	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3O3	BRL	2018	6064	2020	CDI 111,25%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3P0	BRL	2018	242	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3Q8	BRL	2018	727	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3R6	BRL	2018	363	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3S4	BRL	2018	726	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3T2	BRL	2018	1209	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3V8	BRL	2018	1814	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3W6	BRL	2018	97	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3X4	BRL	2018	2418	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3Y2	BRL	2018	483	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3Z9	BRL	2018	2413	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI401	BRL	2018	242	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI419	BRL	2018	2174	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI427	BRL	2018	4830	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI435	BRL	2018	145	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI443	BRL	2018	2413	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI450	BRL	2018	154	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI468	BRL	2018	96	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI476	BRL	2018	96	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI484	BRL	2018	145	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI492	BRL	2018	1205	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4A0	BRL	2018	72	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4B8	BRL	2018	1201	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4C6	BRL	2018	1201	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4D4	BRL	2018	192	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4E2	BRL	2018	1196	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4F9	BRL	2018	239	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4G7	BRL	2018	239	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4H5	BRL	2018	956	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4I3	BRL	2018	143	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4J1	BRL	2018	2386	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4K9	BRL	2018	715	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4L7	BRL	2018	2144	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4M5	BRL	2018	71	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4N3	BRL	2018	71	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4O1	BRL	2018	143	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4P8	BRL	2018	535	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4Q6	BRL	2018	2818	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4R4	BRL	2018	1166	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4S2	BRL	2018	95	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4T0	BRL	2018	36	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4U8	BRL	2018	142	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4V6	BRL	2019	46	2021	CDI 110%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4W4	BRL	2019	6857	2021	CDI 110,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4X2	BRL	2019	1828	2021	CDI 110,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4Y0	BRL	2019	457	2021	CDI 110,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4Z7	BRL	2019	2239	2021	CDI 110,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI500	BRL	2019	46	2021	CDI 110,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI518	BRL	2019	2281	2021	CDI 110,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI526	BRL	2019	809	2021	CDI 100%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI534	BRL	2019	1798	2021	CDI 100%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI542	BRL	2019	2832	2021	CDI 100%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI559	BRL	2019	4001	2021	CDI 100%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI567	BRL	2019	9216	2021	CDI 100%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI575	BRL	2019	1123	2021	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI583	BRL	2019	314	2021	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI591	BRL	2019	121	2021	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5A7	BRL	2019	889	2021	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5B5	BRL	2019	1111	2021	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5C3	BRL	2019	221	2022	CDI 100%
				197 112		

As at 31st of December 2019 and 2018, the residual duration of the debt securities issued is as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	4 055	1 312
From three months to one year	154 793	8 194
From one to five years	38 264	153 106
	197 112	**162 612**

As at 31st of December 2019 and 2018, reconciliation of the flows this financing activity is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Open is Balance as at December 31, 2018	**162 612**	**242 786**
Cash Flows	24 058	61 799
Fair Value adjustments	(60)	(3 332)
Transfer to activities to be discontinued	-	(141 787)
Others	10 502	3 146
Closed is Balance as at December 31, 2019	**197 112**	**162 612**

NOTE 31 – PROVISIONS AND IMPAIRMENT

As at 31st of December 2019 and 2018, the Provisions heading presents the following movements:

(thousand euros)

	Provisions for other risks and charges	Provisions for guarantees and other undertakings	TOTAL
Balance as at 31st December 2017	**11 805**	**1 854**	**13 659**
IFRS 9 transition impact	-	27	27
Net charge of the period	2 747	58	2 805
Write back	(2 389)	-	(2 389)
Foreign exchange differences and others	1 214	(114)	1 100
Balance as at 31st December 2018	**13 377**	**1 825**	**15 202**
Net charge of the period	2 392	(714)	1 678
Write back	(575)	-	(575)
Transfer from discontinued operations	-	14 199	14 199
Foreign exchange differences and others	(9 199)	4	(9 195)
Balance as at 31st December 2019	**5 995**	**15 314**	**21 309**

These provisions are meant to cover possible contingencies related to the activity of the Group, including contingencies associated with ongoing tax proceedings.

In 2019, the Group recognized provisions for other risks and charges in the amount of 151 thousand euros related to the Social Plan in progress on that date. (2018: 1,251 thousand euros).

The movements in impairment losses can be analyzed as follows:

(thousand euros)

	31.12.2018	Net charge of the period	Write back	Stage 3	Exchange differences and others	31.12.2019
Cash and cash equivalents (Note 17)	1	-	-	-	(1)	-
Financial assets measured at fair value through OCI (Note 20)	1 842	793	(152)	(189)	963	3 257
Financial assets measured at amortized cost		-	-	-	-	-
Loan and advances to banks (Note 21)	15 584	23	-	-	8	15 615
Loan and advances to customers (Note 22)	21 585	1 994	(11 882)	(28)	212	11 881
Securities (Note 20)	448	8 309	(58)	-	-	8 699
Intagible assets (Note 25)	-	9 859	-	-	-	9 859
Investments in associated companies (Note 26)	340	-	-	-	-	340
Other assets (Note 27)	8 781	481	(1 285)	-	35	8 012
	48 581	**21 459**	**(13 377)**	**(217)**	**1 217**	**57 663**

(thousand euros)

	31.12.2017	IFRS 9 transition impact	Net charge of the period	Write back	Stage 3	Transfer to discontinued operations	Exchange differences and others	31.12.2018
Cash and cash equivalents (Note 17)	-	8	(4)	-	-	(2)	(1)	1
Financial assets measured at fair value through OCI (Note 20)	-	27 470	4 000	(26 998)	424	(85)	(2 969)	1 842
Financial assets held-for-sale	41 454	(41 454)	-	-	-	-	-	-
Financial assets measured at amortized cost								
Loan and advances to banks (Note 21)	15 388	448	(264)	-	-	-	12	15 584
Loan and advances to customers (Note 22)	120 217	185	19 088	(66 237)	370	(51 911)	(127)	21 585
Securities (Note 20)	-	-	448	-	-	-	-	448
Investments in associated companies (Note 26)	340	-	13	(13)	-	-	-	340
Other assets (Note 27)	12 675	274	309	(133)	-	(4 152)	(192)	8 781
	190 074	**(13 069)**	**23 590**	**(93 381)**	**794**	**(56 150)**	**(3 277)**	**48 581**

NOTE 32 – INCOME TAXES

The Bank and its subsidiaries domiciled in Portugal are subject to taxation in accordance with the corporate income tax code (CIT code) and to local taxes.

Income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected in equity items. In these situations, the corresponding tax is also charged to equity, not affecting the net result for the period.

The current tax of 2019 and 2018 were calculated based on a nominal corporate income tax rate and Municipal Surcharge of 22.5%, in accordance with Law no. 82-B/2014, of 31st of December, and Law no. 2/2007, of 15th of January. Additionally there is a State Surcharge which corresponds to an additional rate of 3% of the taxable profit between 1.5 and 7.5 thousand euros, 5% of the profit between 7.5 and 35 thousands euros, 9% of any profit which exceeds this amount (if applicable).

In order to determine the current tax for the year 2019 and the year of 2018, the Decree-Law no. 127/2012 of December 31st, responsible for the normalisation of the transfer of liabilities linked to the burden with retirement and survivor's pensions to Social Security was taken into account together with article 183 of Law no. 64-B/2011 of December 30th (State Budget Law for 2012), establishing a special scheme for tax deduction of expenses and other asset variations from that transfer:

- The impact from the negative equity change associated to the change in the accounting policy relating to the recognition of previously deferred actuarial gains and losses will be fully deductible, in equal parts, for 10 years from the period beginning 1st of January 2012. This impact is booked in equity accounts.
- The impact resulting from liquidation (determined by the difference between liabilities as measured in accordance with the criteria of IAS 19 and the criteria defined in the agreement) will be fully deductible

for the purposes of determining taxable income, in equal parts, based on the average number of years of life expectancy for pensioners whose liabilities have been transferred (17 years), from the period beginning 1st of January 2012. The impact is recorded in income items.

- Deferred tax assets resulting from the transfer of liabilities and from the change in the accounting policy relating to the recognition of non-recoverable actuarial gains/losses are recoverable within 17 and 10 years, respectively.

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date. Thus, for the year 2019 deferred tax was calculated at the rate of 26,24%.

Regarding activity in Portugal, Law No. 98/2019 was published on 4 September 2019, which changed the tax regime applicable to the impairment of financial and credit institution. That law establishes in article 4 an adaptation period of 5 years beginning on or after 1 January 2019, pursuant to which the regime in force on the date of entry into force of this law remains applicable, unless there is communication addressed to the Director-General of the Tax and Customs Authority of the option for the definitive regime. This scheme is optional and the Bank is currently considering possible adoption. Therefore, the Bank considered, for the purpose of calculating taxable income and the recording and analysis of the recoverability of deferred tax assets with reference to December 31, 2019, that the amount of credit impairment and provisions for guarantees recorded, that is deductible for the purposes of CIT (Corporate Income Tax), corresponds to the amount of deductible impairments/provisions that would have been calculated if the reference to Banco de Portugal Notice 3/95 remained in force.The Group's self-assessment declarations relating to the 2019 and previous financial years are subject to inspection and possible adjustment by the Tax Authorities for a period of four years, except where any deduction or tax credit has been made, where the term is the exercise of that right. As a result, additional tax assessments may be possible due to different interpretations of tax legislation. However, it is the Bank's Boards of Directors belief that there will be no additional settlements of significant value in the context of the individual financial statements.

Special Scheme Applicable to Deferred Tax Assets

In 2014, Haitong Bank joined the special scheme applicable to deferred tax assets (REAID) related to impairment losses in credits and post-employment or long-term employee benefits, established by Law no. 61/2014, of August 26th. For the purpose of this scheme, the conversion of the mentioned assets in tax credits is expected in the following situations:

- Determining net losses;
- Voluntary winding-up, court insolvency or, when applicable, with the withdrawal of the corresponding authorisation by the competent supervising authority.

As at 31st of December 2015, Haitong Bank determined a tax credit of 5,281 thousand euros, which corresponds to a special reserve of 5,809 thousand euros recorded during the year of 2016.

As at 31st of December 2016, Haitong Bank determined a tax credit of 20,529 thousand euros, which corresponds to a special reserve of 22,582 thousand euros recorded during the year of 2017.

As at 31st of December 2017, Haitong Bank determined a tax credit of 9,060 thousand euros, which corresponds to a special reserve of 9,966 thousand euros recorded during the year of 2018.

As at 31st of December 2018, Haitong Bank determined a tax credit of 0,232 thousand euros, which corresponds to a special reserve of 0,255 thousand euros recorded during the year of 2019.Note that, in pursuance of the abovementioned scheme, such conversion rights correspond to securities that grant the Government the right to request Haitong Bank to issue and deliver ordinary shares at no charge, following the increase in share capital through the inclusion of the reserve value. However, Haitong Bank´s shareholders are granted the right to acquire those conversion rights in accordance with Ordinance no. 293-A/2016 of 18th of November.

In the event that the shareholders do not exercise the right to acquire the conversion rights issued and attributed to the Portuguese State within the period established for that purpose, in the year in which the State exercises these rights, it will require the Bank to increase its capital by incorporating the amount of the special reserve and consequent issue and free delivery of ordinary shares representing the capital stock of the Bank, and it may be necessary to adjust the amount of the reserve initially constituted.

Indeed, in that year it will be necessary to recalculate the reference value of the rights and if it is different from the nominal value of the shares, it will be necessary to adjust the value of the special reserve. If this were to occur in 2020, and taking into account the amounts of the financial statements as at 31 December 2019, as well as the amount of tax credits converted by reference to the years 2015, 2016 and 2017, 2018 estimated value of 24,085 thousand euros.

The amount of assets by deferred taxes converted into tax credit, the establishment of the special reserve and the issuing and granting of conversion rights to the Government shall be certified by the certified public accountant.

As at 31st of December 2019, Haitong Bank determined a net profit within its individual financial statements, thus there is no possible to recognize tax credit regarding this special regime.

It is important to note that, in accordance with Law no. 23/2016 of 19th of August, the special scheme applicable to deferred tax assets (REAID) stopped being applicable to expenses and other negative asset variations accounted for in previous tax periods starting on or after the 1st of January 2016.

In July 2019 and January 2020, the Bank was notified of the final Reports of the Tax Authority's inspection services, issued for 2015 and 2016, respectively. In these reports, certain procedures adopted by the Bank, namely in association with special regime for differed taxes (REAID) are being challenged.

In this sense, following the Bank disagreement with these corrections, in November 2019, an administrative complaint was submit regarding the 2015 Tax Inspection Report and it is intended, in 2020, to submit an administrative complaint to challenge the 2016 inspection report.

Finally, it is also noted that, within the scope of the tax inspection for the years 2015 and 2016, the tax authority made corrections to the tax credit of these two years in the amount of 10,733 thousand euros. It is estimated that the impact for the year of 2017 and 2018 related to the tax credit, arising to the future tax inspections, is 3,873 thousand euros. Thus, 14,605 thousand euros of the tax credit amount recorded on December 31, 2019 (total amount of 35,103 thousand euros) would be reclassified to the item of deferred tax assets.

The Bank's management considers that the procedures adopted in those years are compliant with the legislation in force, and therefore estimates that it is not likely that the Tax Authority's position will prevail. Even so, this correction materializes in the recognition of deferred tax assets.Additionally, the Board of Directors believes that any other corrections regarding to the fiscal year 2016, if confirmed, will not have a material impact on the Bank's equity and net income as of 31 December 2019, to the extent that they mainly impact on reportable tax losses and tax credits that have yet to be used.

As of 1 January 2019, the Bank adopted the new interpretative standard (IFRIC 23 - 'Uncertainty over Income Tax Treatments') of IAS 12 - 'Income Taxes' and which comes to recommend the measurement requirements and recognition to be applied in the event of uncertainties regarding the acceptance of a given tax treatment by the Tax Administration concerning income tax and should reflect the entity's best estimate of the presumed outcome of the situation under discussion. This estimated value based on the expected value or the most probable value should be recorded by the entity as an asset or liability for income tax based on IAS 12 and not by IAS 37.

The activity of branches abroad is incorporated in the Bank’s accounts for determining the taxable profit. Although, the profit of those branches is subject to taxation in the countries where they are established, local taxes are deductible to the taxes to be paid in Portugal, in accordance with art. 91º of CIT Code, when applicable. The branches’ profits are subject to local taxation at the following nominal rates.

Branch	Nominal income tax rate
London	19%
Madrid	30%
Warsaw	19%

The subsidiary located in Brazil, are subject to tax on their profits under the terms established in the tax rules in force in Brazil, thus in this country profits are subject to nominal rates situated between 34% and 40%.

As at 31st of December 2019 and 2018, current tax assets and liabilities can be analyzed as follows:

(thousand euros)

	Asset		Liabiity	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Corporate income tax	5 261	5 578	(7 044)	(2 817)
Tax Credit (Special Scheme for Deferred Taxes)	35 103	38 782	-	-
Current tax asset / (liability)	**40 364**	**44 360**	**(7 044)**	**(2 817)**

Having Haitong Bank determined, in its individual accounts, a positive net result with reference to December 31, 2019, there will be no conversion to deferred tax assets covered by the special regime for differed taxes (REAID).Deferred tax assets and liabilities recognized in the statement of financial position as 31st of December 2019 and 31st December 2018 can be analyzed as follows:

(thousand euros)

	Asset		Liability		Net	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Derivative financial instruments	(945)	8 624	-	-	(945)	8 624
Securities	(702)	90	(1 502)	(855)	(2 204)	(765)
Loans and advances to customers	47 935	50 666	575	-	48 510	50 666
Provisions	1 362	21 327	-	-	1 362	21 327
Pension Fund	5 478	3 909	-	(1)	5 478	3 908
Other	1	18	(17)	(21)	(16)	(3)
Tax losses carried forward	63 208	43 365	-	-	63 208	43 365
Net deferred tax asset / (liability)	**116 337**	**127 999**	**(944)**	**(877)**	**115 393**	**127 122**

The Group only recognizes deferred tax assets in relation to reportable tax losses when it considers that they are expected to be recovered in the near future.

The movements in deferred taxes, in the balance sheet, had the following impacts:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	127 122	135 953
IFRS 9 transition impact	-	194
Recognised in profit or loss	(8 036)	4 558
Recognised in fair value reserves	(964)	2 470
Recognised in other reserves	(125)	388
Foreign exchange variation and others	(2 604)	(16 441)
Closing balance (Asset / (Liability))	**115 393**	**127 122**

Tax recognised in the income statement and reserves during 2019 and 2018 financial years had the following source:

(thousand euros)

	31.12.2019		31.12.2018	
	Recognised in profit or loss	Recognised in reserves	Recognised in profit or loss	Recognised in reserves
Deferred Taxes				
Derivative financial instruments	9 813	-	(9 267)	-
Securities	320	965	422	(2 485)
Loans and advances to customers	20 257	-	2 562	-
Provisions	(544)	-	10 950	-
Pension Fund	(1 698)	124	208	(373)
Other	210	-	(3 759)	-
Tax losses carried forward	(20 322)	-	(5 674)	-
	8 036	1 089	(4 558)	(2 858)
Current Taxes	2 970	-	11 912	-
Total recognised tax	**11 006**	**1 089**	**7 354**	**(2 858)**

Reconciliation of the tax rate, concerning the recognised amount in the income statement, can be analysed as follows:

(thousand euros)

	31.12.2019		31.12.2018	
	%	Value	%	Value
Profit or loss before tax and Non-controlling interests		**12 594**		**(5 420)**
Income tax rate of Haitong Bank	21,0		21,0	
Tax determined based on the income tax rate of Haitong Bank		2 645		(1 138)
Difference in the tax rate of subsidiaries	41,4	5 210	(35,4)	1 916
Tax-exempt dividends	(3,2)	(409)	0,0	-
Tax benefits	(1,8)	(223)	0,0	-
Profits in units with most favorable tax regimes	0,0	-	9,9	(538)
Capital gains	(18,6)	(2 347)	12,2	(659)
Tax rate difference	5,0	626	(64,7)	3 508
Impairment of subsidiaries	5,5	688	0,0	-
Bank Levy	4,6	580	(6,9)	374
Unrecognized tax losses	41,3	5 199	0,0	-
Tax losses used (but with no deferred tax asset recognised)	(0,7)	(91)	0,0	-
Branches' income tax	3,5	444	0,0	1
Differences arising from consolidation	(6,9)	(867)	21,2	(1 147)
Other movements according to the tax estimation	(1,4)	(174)	(65,9)	3 574
Autonomous taxation	3,0	376	(8,9)	481
Other	(5,2)	(651)	(18,1)	982
	87,5	**11 006**	**(135,6)**	**7 354**

NOTE 33 – OTHER LIABILITIES

As at 31st of December 2019 and 2018, the Other liabilities heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Creditors and other resources		
Public sector	11 422	12 817
Deposited collateral under collateral agreements (Note 20)	33 773	-
Sundry creditors		
Leasing liabilities	8 238	-
Creditors from transactions with securities	16 309	16 683
Suppliers	1 300	1 459
Other sundry creditors	7 384	6 252
	78 426	**37 211**
Accrued expenses		
Career bonuses (see Note 14)	539	485
Other accrued expenses	8 444	9 847
	8 983	**10 332**
Deferred income	**154**	**340**
Other sundry liabilities		
Stock exchange transactions pending settlement	23 009	35 589
Foreign exchange transactions pending settlement	-	4 462
Other transactions pending settlement	23 554	39 592
	46 563	**79 643**
Retirement pensions (see Note 14)	**5 251**	**3 018**
	139 377	**130 544**

As at 31st of December 2019 and 2018, the headings regarding Stock exchange transactions pending settlement refer to transactions with securities pending settlement.

NOTE 34 – DISCONTINUED OPERATIONS

In February 23rd, 2018, after the necessary approvals have been granted, namely from the supervisory authorities, Haitong Bank completed the sale agreement for the entire capital of the subsidiaries Haitong (UK) Limited, Haitong Securities (UK) Ltd and Haitong Securities USA LLC with Haitong International BVI.

In accordance with IFRS 5 - Non-current assets held for sale and discontinued operations, these subsidiaries are no longer consolidated using the full consolidation method and are presented in the financial statements as a discontinued operations. The price for the sale of Haitong Securities USA LLC was 16,778 thousand dollars. The price for the sale of Haitong (UK) Limited and Haitong Securities (UK) Limited was 12,536 thousand dollars.

On September 30th, 2019, Haitong Bank has entered into an agreement with its parent company, Haitong International Holdings Limited, an entity fully owned by Haitong Securities Co., Ltd., to sell and transfer the entirety of the shares representing the share capital of its wholly owned subsidiary Haitong Investment Ireland p.l.c.. Having at that date the transaction pending to previous standard conditions as well as to the non-opposition of the relevant stakeholders. The sale was completed on December 19, 2019. The sale price was € 12,000 thousand euros.

As a consequence of this decision, in December 31st, 2018, the Irish subsidiary's assets and liabilities were reclassified to "Assets and liabilities of discontinuing units". Also in accordance with the requirements of IFRS 5 - "Non-current assets held for sale and discontinued operations", the results generated by this entity is presented in a single line of the Income Statements ("Net profit of discontinued operations").

The Group, until the closing date of the operation, based on the provisions of IFRS 5 has measured these discontinued assets at the lower of two amounts: book value or fair value less costs to sell. As such, and as shown below, the result of discontinuing operations is decomposed as follows:

(thousand euros)

		31.12.2019	31.12.2018
	Sell price *	-	10 167
	Haitong UK Equity as of February 23, 2018	-	7 803
	Consolidated Loss	-	2 364
(+)	Foreign exchange reserve reclassification to profit and loss	-	593
(+)	Haitong (UK) Limited Net Losses of the period	-	(56)
	Haitong (UK) Limited Net Profit of discontinued operations	**-**	**2 901**
	Sell price *	-	13 642
	Haitong Securities USA LLC Equity as of February 23, 2018	-	1 268
	Consolidated Loss	-	12 374
(+)	Foreign exchange reserve reclassification to profit and loss	-	(308)
(+)	Haitong Securities USA LLC Net Losses of the period	-	(1 736)
	Haitong Securities USA LLC Net Profit of discontinued operations	**-**	**10 330**
	Sell price	12 000	-
	Investment Ireland PLC Equity as of December 19, 2019	10 033	-
	Consolidated Gain	1 967	-
(+)	Haitong Investment Ireland PLC Net Losses of the period	3 713	1 123
(+)	Consolidation Adjustments	611	(133)
	Haitong Investment Ireland PLC Net Profit of discontinuing operations	**6 291**	**990**
	Net Profit of discontinuing operations	**6 291**	**14 221**

***** Amounts in dollars converted in euros considering day of transaction exchange rates, February 23, 2018

For consolidation purposes of the discontinued operations assets and liabilities, the intragroup transactions with impact in the statement of financial position are eliminated, according to the following detail:

(thousand euros)

	31.12.2018
Haitong Investment Ireland PLC Total Assets as of December 31, 2018	1 297 954
Intragroup transactions	(1 084 034)
	213 920
Assets of discontinuing operations	**213 920**
Haitong Investment Ireland PLC Total Liabilities as of December 31, 2018	1 141 687
Intragroup transactions	(238 518)
	903 169
Liabilities of discontinuing operations	**903 169**

HAITONG INVESTMENT IRELAND PLC

Individual Income Statement
at 19 December 2019 and 31 December 2018
(Unaudited)

(thousand euros)

	19.12.2019	31.12.2018
Interest and similar income	21 753	30 601
Interest and similar expenses	19 459	30 054
Financial margin	**2 294**	**547**
Fees and commissions income	3 171	2 666
Fees and commissions expenses	(5 644)	(4 059)
Net trading income	3 958	8 197
Resultados de desreconhecimento de activos financeiros ao justo valor através outro rendimento integral	3 950	-
Net gains / (losses) from foreign exchange differences	(288)	324
Net gain/(loss) from derecognition of financial assets measured at amortised cost	(1 302)	(6)
Other operating income and expense	(50)	(67)
Net income from other financial instruments at fair value through profit or loss	(1 034)	(5 556)
Operating Income	**5 055**	**2 046**
Employee costs	308	283
Administrative costs	229	275
Depreciations and amortisations	39	4
Provisões líquidas de anulações	40	-
Net impairment loss on financial assets	196	195
Operating expenses	**812**	**757**
Profit / (Loss) before Income Tax	**4 243**	**1 289**
Income tax		
Current tax	(530)	(166)
	(530)	(166)
Net Profit / (Loss) for the year	**3 713**	**1 123**

NOTE 35 – CAPITAL, SHARE PREMIUM AND OTHER CAPITAL INSTRUMENTS

Ordinary shares

Until August 3rd 2014 the Bank was part of Grupo Banco Espírito Santo, S.A.

On the 3rd of August 2014, the Bank of Portugal applied a resolution action to Banco Espírito Santo, S.A., shareholder of 100% of the capital of the Bank, and established Novo Banco, S.A., with the share capital of 4.9 billion euros, which incorporated assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal. In this regard, the Bank, its branches and subsidiaries were transferred to Novo Banco, S.A.

On the 7th of September 2015, the capital of the Bank was fully purchased by Haitong International Holdings Limited.

On the 17th of December 2015, the Bank increased its capital in 100,000 thousand euros, through the issuance of 20,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 22nd of May 2017, the Bank increased its capital in 40,000 thousand euros, through the issuance of 8,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 25th of May 2017, the Bank increased its capital in 20,000 thousand euros, through the issuance of 4,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 13th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 26th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, resulted from a in the conversion of a shareholder loan in the amount of 80,000 thousand euros and the conversion of the Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments, amounting to 80,000 thousand euros, which was fully subscribed and paid-up by Haitong International Holdings Limited.

On the 31st of August 2017, the Bank increased its capital in 38,500 thousand euros, through the issuance of 7,700,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

As at 31st of December 2019, the share capital of Haitong Bank amounts to 844,769 thousand euros and is represented by 168,953,800 shares with the nominal value of 5 euros each, fully held by Haitong International Holdings Limited.

Share premiums

As at 31th December 2019 and 2018, share premiums are represented by 8,796 thousand euros, corresponding to the amount paid by shareholders in the increase of capital of previous years.

Other equity instruments

During October 2010 the Group issued perpetual subordinated bonds with conditioned interest in the overall amount of 50 million euros. These bonds have a noncumulative conditioned interest, payable only if and when declared by the Board of Directors.

This conditioned interest, corresponding to the applicable annual rate of 8.5% on nominal value, is paid biannually. These securities may be fully, but not partially, reimbursed after the 15th of September 2015, relying solely on the choice of Haitong Bank, upon approval of the Bank of Portugal. These bonds are considered a capital instrument in accordance with the accounting policy described in Note 2.6 due to their characteristics.

During the year of 2011, 46,269 thousand euros in other capital instruments were cancelled due to a transaction regarding owned instruments.

These bonds are subordinated in relation to any liability of Haitong Bank and pari passu regarding any identical subordinated bonds that may be issued by the Bank.

As at 31th of December 2019, 3,731 thousand euros regarding these bonds are in circulation. In the year of 2019 and 2018 the Group haven't paid interest.

In May 2016, the Bank issued perpetual instruments eligible as additional own funds of level 1 (“Additional Tier 1”), in the overall amount of 80,000 thousand euros identified as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments”. Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.6.

In June 2017, the perpetual instruments referred as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments” where converted into Capital.

In March 2018, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of USD 130,000 thousand, corresponding to 105,042 thousand euros, identified as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments”. Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.6.

NOTE 36 – FAIR-VALUE RESERVES, OTHER RESERVES, RETAINED EARNINGS AND NON CONTROLLING INTERESTS

Legal reserve, fair-value reserves and other reserves

Legal reserves can only be used to cover accumulated loss carryover or to increase capital. Under Portuguese legislation applicable to the banking sector (Article 97 of RGICSF [Legal Framework of Credit Institutions and Financial Companies]), the Bank is required to set-up annually a legal reserve equal to a minimum of 10% of annual profits until the reserve equals the share capital.

Fair-value reserves represent the possible capital gains and losses in relation to the financial assets trough other comprehensive income portfolio, net of impairment recognised in the income statement of the year and/or previous years. The value of this reserve is presented net of deferred tax. The movements of these headings were the following:

(thousand euros)

	Fair Value reserves			Other reserves and retained earnings				
	Revaluation reserves	Income tax reserves	Total fair value reserve	Legal Reserve	Actuarial gains/losses (net of taxes)	Exchange differences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31 December 2017 (Reexpressed)	**7 314**	**(2 527)**	**4 787**	**39 878**	**(26 176)**	**(150 719)**	**(92 195)**	**(229 212)**
IFRS 9 transition impact	(250)	16	(234)	-	-	-	(1 152)	(1 152)
Balance as at 1 January 2018	**7 064**	**(2 511)**	**4 553**	**39 878**	**(26 176)**	**(150 719)**	**(93 347)**	**(230 364)**
Actuarial gains/losses (net of taxes)	-	-	-	-	(2 104)	-	-	(2 104)
Own credit risk change	-	-	-	-	-	-	3 322	3 322
Changes in fair value (net of taxes)	(7 098)	2 457	(4 641)	-	-	-	-	-
Foreign exchange differences	(98)	13	(85)	-	-	(13 805)	-	(13 805)
Transfer of comprehensive income from discontinuing operations	-	-	-	-	-	86	-	86
Foreign exchange reserve recycle from discontinued operations	-	-	-	-	-	(285)	-	(285)
Transfer to reserves	-	-	-	-	-	-	(130 187)	(130 187)
Other comprehensive income of associates	-	-	-	-	-	-	(510)	(510)
Balance as at 31 December 2018	**(132)**	**(41)**	**(173)**	**39 878**	**(28 280)**	**(164 723)**	**(220 722)**	**(373 847)**
Actuarial gains/losses (net of taxes)	-	-	-	-	(3 456)	-	-	(3 456)
Own credit risk change	-	-	-	-	-	-	58	58
Changes in fair value (net of taxes)	1 605	(964)	641	-	-	-	-	-
Exchange diferences	-	-	-	-	-	(4 469)	-	(4 469)
Comprehensive income from discontinuing operations	-	-	-	-	-	-	(87)	(87)
Other comprehensive income of associates	-	-	-	-	-	-	(272)	(272)
Transfer to reserves	-	-	-	-	-	-	1 159	1 159
Balance as at 31 December 2019	**1 473**	**(1 005)**	**468**	**39 878**	**(31 736)**	**(169 192)**	**(219 864)**	**(380 914)**

The movement of the fair-value reserve, net of deferred taxes and non-controlling interests can be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	**(173)**	**4 787**
IFRS 9 transition impact	-	(234)
Fair value changes	3 334	(7 165)
Disposals of the period	(2 523)	(3 934)
Impairment recognised in the period	794	4 001
Transfer of comprehensive income from discontinuing operations	-	(98)
Deferred taxes recognised in reserves during the period	(964)	2 470
Closing balance	**468**	**(173)**

Non-controlling interests

The Non-controlling interests heading information per subsidiary is as follows:

(thousand euros)

	31.12.2019		31.12.2018	
	Statement of Financial Position	Income statement	Statement of Financial Position	Income statement
Haitong Banco de Investimento do Brasil S.A.	11 720	109	11 633	(253)
Haitong Securities do Brasil S.A.	4 300	66	4 336	157
Haitong Negócios S.A.	4 276	134	4 213	116
Haitong do Brasil Participações Ltda	2 998	74	2 973	74
FI Multimercado Treasury	970	57	905	291
Others	1 878	(69)	1 969	(97)
	26 142	**371**	**26 029**	**288**

The movement of Non-controlling interests of the periods ended on the 31st of December 2018 and 2017, can be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	**26 029**	**31 082**
IFRS 9 transition impact	-	(19)
Dividends paid	(206)	(1 393)
Changes in fair value reserve	361	(448)
Exchange difference and other	(413)	(3 481)
Net income for the period	371	288
Closing balance	**26 142**	**26 029**

NOTE 37 – CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

As at 31st of December 2019 and 2018, off-balance elements are as follows:

(thousand euros)

	31.12.2019	31.12.2018
Contingent liabilities		
Guarantees and stand by letters of credit	130 227	149 466
Assets pledged as collateral	649 545	694 359
	779 772	**843 825**
Commitments		
Irrevocable commitments	12 082	16 462
	12 082	**16 462**

The rendered guarantees and sureties are banking transactions that do not necessarily represent any outflow for the Group.

As at 31st of December 2019, the heading of financial assets pledged as collateral includes:

- Securities pledged as collateral to the Bank of Portugal (i) within the scope of the Large-Value Payment System, amounting to 10,000 thousand euros as at the 31st of December, 2019 (31st of December, 2018: 120,000 thousand euros), (ii) within the scope of target long-term refinancing operations, amounting to 22,000 thousand euros (31st of December, 2018: 60,000 thousand euros) and (iii) 162,148 thousand euros of collaterals not discounted, being the total of securities eligible for rediscount with the Bank of Portugal amounted to 209,853 thousand euros as at the 31st of December, 2019 (31st of December, 2018: 258,889 thousand euros);
- Securities pledged as collateral to the Portuguese Securities Market Commission within the Investor Compensation Scheme in the amount of 109 thousand euros (31st of December 2018: 109 thousand euros).
- Securities pledged as collaterals to Fundo de Garantia de Depósitos [Deposit Guarantee Fund] in the amount of 100 thousand euros (31st of December 2018: 100 thousand euros).
- Securities pledged as collateral within the scope of transactions with repurchase agreements: 392,516 thousand euros (31st of December 2018: 385,399 thousand euros).
- Securities pledged as collateral within the scope of derivatives compensation contracts 62,447 thousand euros (31st of December 2018: 49,863 thousand euros).

Additionally, the off-balance elements related to banking services provided are as follows:

(thousand euros)

	31.12.2019	31.12.2018
Liabilities related to services provided		
Commercial paper programmes agency	155 700	176 750
Other responsabilities related with services provided	475 990	848 637
	631 690	**1 025 387**

Banco Espírito Santo (BES), Novo Banco and Haitong Bank (and, in some cases, supervisory authorities, auditors and former directors from BES) have been sued in civil proceedings associated with facts of the former Grupo Espírito Santo (GES).

Within this framework, Haitong Bank is a defendant in a proceeding associated with the capital increase of BES, which took place in June 2014. In fact, there were 2 proceedings associated with the capital increase of BES, however, the Court has ruled not to prosecute due to "abandonment" in both of the aforesaid proceedings. The prosecution have appealed both deliberations to higher courts instances and in one of these proceedings the Supreme Court of Justice says that there is a double standard in relation to the decision of the lower court and the Lisbon Court of Appeal [Tribunal da Relação de Lisboa].

However, in this legal proceeding the claimant (DECO) filed an extraordinary appeal for determination of jurisprudence, having been admitted such appeal and the proceedings continued. As the case returned to the judge of the trial court (1st instance) in charge of the case, a sentence was handed down in which it was judged by the "rejection" of the initial petition due to the lack of legitimacy conditions of the Claimant. An appeal was filed against this sentence, pending the judgment by the Lisbon Court of Appeal.

As regards the other legal proceeding (case brought by several Funds), after the decision of the triall court to declare that the case had been "abandonment", the Lisbon Court of Appeal revoked that decision and ordered the continuation of the proceeding. Two of the Defendants in this proceeding appealed to the Supreme Court of Justice that confirmed the decision of the Court of Appeal. Extraordinary Review Appeals were filed to the Constitutional Court, all of them maintaining the previously decided by the Lisbon Court of Appeal. The legal procedure return to the trial court (1st instance) lawsuit for the continuation of its terms, awaiting the appointment of a prior hearing.

Haitong Bank is also a defendant in 25 proceedings, nearly all of which are associated with issues of commercial paper of GES's entities (1 of which concern credit linked notes issued by Haitong Bank's subsidiary based in Ireland (HIIP) whose remuneration and reimbursement were dependent on facts associated with the issuer of the underlying asset, OI, (including insolvency)

In note 38, in what concerns the 2019 first half accounts, it is stated that, in the opinion of Haitong Bank's Legal Department and of the external lawyers to whom the proceedings have been entrusted, such proceedings do not have legal sustainability, wherefore it is considered unlikely that any judgment will be made against Haitong Bank in relation thereto. Such opinion is hereby reasserted.

Such opinion has since been supported by several judicial decisions.

On the 16th July 2019, Haitong Bank has been notified of a new legal action brought against himself and Directors of the former BES, regarding commercial paper issued by Espírito Santo International and Rioforte in 2013, submitted by a credit recovery fund (Fundo de Recuperação de Créditos "FRC – INQ – Papel Comercial ESI e Rio Forte") formed by the credits - resulting from the commercial paper - that were assigned to the Fund by the injured parties/claimants (lesados do BES)The claim amount is € 517.500.099,71 million Euro. The deadline for Haitong Bank to present its written defense is ongoing.

In the opinion of the external lawyers to whom this proceeding, brought by FCR, have been entrusted, such proceeding does not have a solid legal sustainability and therefore it is considered unlikely that any judgment will be made against Haitong Bank.

Without prejudice of the above mentioned regarding the successful outcome for Haitong Bank from such proceedings, and in order to comply with the applicable accounting rules, it is not possible to achieve an amount of expected losses which could eventually arise for Haitong Bank, individually considered, once such legal proceedings are brought against several entities and not only against Haitong Bank.

In Brazil, there is a judicial discussion around the constitutionality of the law applicable to the contributions of PIS ("Programa de Integração Social") and COFINS ("Financiamento da Seguridade Social) taxes which falls over other income that is not originated from sale of goods or from services rendered. Based on a court decision, all Brazilian group entities are monthly depositing to the court the amount under discussion and only are assessing to Tax Authorities the amount of tax related to services rendered, which are not under such discussion. The amounts subject to judicial deposit are recorded on Balance Sheet, in other assets. It's the understanding of the Group, based on external legal opinions, that the chances to obtain an unfavourable judicial decision against the Bank are below 50%, which supports the Group decision to not record any provision for this contingency. At 31st December 2019, the accumulated amount of the mentioned non-assessed contributions, but judicially deposited by the group was 26,232 thousand euros.

Following the above stated, Haitong Bank did not establish any provision related to such legal proceedings.

Resolution Fund

Resolution measures applied to Banco Espírito Santo, S.A. and BANIF – Banco Internacional do Funchal, S.A.

The Board of Directors of the Bank of Portugal decided, on 3rd of August 2014, to apply a resolution measure to Banco Espírito Santo, S.A. ("BES"), having the generality of the activity and net worth of BES been transferred to Novo Banco, S.A. In line with EU regulations, the capitalisation of Novo Banco was secured by the Resolution Fund, established by Decree-Law No. 31-A/2012 of 10 February. As provided for in said Decree-Law, the Resolution Fund's resources come from contributions paid by the institutions participating in the Fund and from the banking sector contribution. Moreover, legislation provides that whenever these resources prove insufficient to fulfil obligations, other means of financing can be use, including: (i) special contributions from credit institutions; and (ii) from loans taken out.

Following the resolution measure, the capital needs of Novo Banco were calculated at 4,900 million euros, having the capital subscription held by the Resolution Fund been funded by the Portuguese State (3,900 million euros) and by eight financial institutions participants of the Fund (700 million euros), in which the Bank is not included(not including the Bank).Subsequently, in view of the resolution process of Banco Espírito Santo, S.A., Bank of Portugal resolved, as announced on 29th of December 2015, the transfer of responsibility to Resolution Fund of "…possible negative outcomes of future decisions, arising from the resolution process [of Banco Espírito Santo, S.A.], with responsibilities or contingencies as a result.".

On July 2016, the Resolution Fund stated that it would analyse and assess the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES as at 3rd of August 2014. Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors, whose credits have not been transferred to Novo Banco suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its winding-up process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

Following BES resolution, there is a relevant set of legal actions in progress against the Resolution Fund. According to Note 23 of the 2018 Resolution Fund Annual Report, "Lawsuits related to the application of resolution measures do not have legal precedents, which makes it impossible to use jurisprudence in their assessment, as well as a reliable estimate of any associated contingent financial effect. However, on March 12, 2019, a judgment was handed down by the Administrative Court of Círculo de Lisboa, unanimously by its twenty judges, which confirmed the constitutionality of the resolution's legal regime and the full legality of the resolution measure applied to BES on December 3. August 2014. Also by judgment of the Supreme Administrative Court, of March 13, 2019, a decision on the merits was rendered entirely in favour of the Resolution Fund related to the impugnation of the Novo Banco sale process. The Steering Committee, supported by the opinion of the lawyers who ensure the sponsorship of these actions and in view of the legal and procedural information available so far, considers that there is no evidence to support its belief that the probability of success is greater than the probability of failure".

On October 18, 2017, the Resolution Fund announced the conclusion of the sale process of 75% of Novo Banco, SA's share capital to Lone Star, whose selection had been communicated by Banco de Portugal on March 31, 2017. The Agreed conditions include the existence of a contingent capitalization mechanism, under which the Resolution Fund undertakes to carry out capital injections up to the maximum total amount of 3,890,000 thousand euros in the event of certain cumulative conditions materializing.

In a statement dated June 17, 2019, the Resolution Fund released a set of clarifications related to the payment due in 2019 under the contingent capitalization agreement entered into with Novo Banco, namely:

- In order for payments to be made by the Resolution Fund (limited to a maximum of 3,890 million euros during the entire life of the mechanism), it is necessary for losses on the assets covered by the contingent mechanism to occur and for Novo Banco's capital ratios to be level below the agreed reference thresholds;

- The payment to be made by the Resolution Fund corresponds to the lowest amount between the accumulated losses on the covered assets and the amount necessary to restore the capital ratios above the minimum reference threshold;

- The reference capital ratios are, in the years 2017, 2018 and 2019, anchored to the regulatory requirements applicable to Novo Banco (ratio of 11.25% and 12.75%, respectively, for CET1 and Tier I), but , as of 2020, the reference ratio corresponds to a CET1 ratio of 12%;

- The initial reference value of the portfolio that integrates the contingent capitalization mechanism was 7,838 million euros at 30 June 2016 (book value of the respective assets, net of impairments), and the value of the portfolio at 31 December in 2018, it amounted to approximately 3,920 million euros (book value of the respective assets net of impairments);

- The accumulated losses for the assets covered and the respective management, between 30 June 2016 (the reference date of the mechanism) and 31 December 2018, correspond to 2,661 million euros. Of this amount, the Resolution Fund paid in 2018, in accordance with the terms and conditions of the contingent capitalization mechanism, approximately 792 million euros, so the amount of losses not supported by the Fund was, at the end of 2018, approximately 1,869 million euros;

- The amount required for Novo Banco's capital ratios to remain at the agreed levels in 2018 is 1,149 million euros. The amount payable by the Resolution Fund results from the comparison between the amount of 1,869 million euros (accumulated loss on covered assets not supported by the Fund) and the amount of 1,149 million euros and corresponds to the lowest of these values, i.e., Euros 1,149 million euros.

On May 24, 2018, the Resolution Fund announced that on the same date the payment to Novo Banco, SA of the amount of approximately 791,695 thousand euros, resulting from the application of the aforementioned contingent capitalization mechanism relating to the results disclosed for 2017, having used own resources for this purpose, complemented by an additional State loan in the amount of 430,000 thousand euros, under the framework agreement signed between the Portuguese State and the Resolution Fund in October 2017.

On May 6, 2019, the Resolution Fund made a payment to Novo Banco of the amount calculated for the financial year of 2018 in the amount of 1,149 million Euros, using its own resources for this purpose and using a loan from the State of 850 million euros. Euros which corresponds to the maximum financing limit agreed. Thus, the amount paid by the Resolution Fund to Novo Banco in two years was 1,941 million euros.

According to the 2018 Resolution Fund Report and Accounts, "With regard to future periods, it is considered that there is significant uncertainty as to the relevant parameters for determining any future liabilities, whether for their increase or reduction , under the terms of the contingent capitalization mechanism agreement with Novo Banco ".

Resolution measures applied to Banif - Banco Internacional do Funchal, S.A.

Additionally, Bank of Portugal established, oOn 19th and 20th of December 2015, a resolution measure was applied over on BANIF – Banco Internacional do Funchal, S.A ("BANIF"). The operation involved State support, including 489 million euros taken over by the Resolution Fund, funded through a loan agreement granted by the Portuguese State. Moreover, the Resolution Fund provided a guarantee relative to bonds issued by the vehicle constituted in the scope of BANIF's resolution, in the amount of 746 million euros, counter-guaranteed by the Portuguese State.

General features

To repay the loans received and other liabilities it may be required to assume relative to the above mentioned resolution measures, the Resolution Fund is financed through the periodic and special contributions of the participating institutions (including the Bank) and from the contribution on the banking sector. Under article 153-I of Decree-Law No. 345/98, of 9 November, if the resources of the Resolution Fund are insufficient to meet its obligations, participating institutions may be called upon, via a separate statute, to make special contributions. The amounts, instalments, deadlines and other terms of those contributions shall also be defined by said statute.

As part of the application of these measures, the Resolution Fund borrowed and assumed other contingent liabilities and responsibilities, in particular:

- The loans obtained from the State recorded on December 31, 2018 the amounts made available (i) in 2014 to finance the resolution measure applied to BES (3,900 million euros); (ii) to finance Banif's loss absorption (353 million euros); (iii) under the framework agreement signed with the State in October 2017, for the financing of measures under the contingent capital mechanism (430 million euros, to which are added 850 million euros of additional funding requested in 2019, as previously described);

- Other financing granted by institutions participating in the Resolution Fund in the amount of 700 million euros, in which the Bank does not participate, within the scope of the application of BES's resolution measure;

- Underwriting by the Resolution Fund of Tier 2 issuance to be carried out by Novo Banco, up to the amount of 400 million euros (this underwriting did not materialize, because the issue was placed with third parties as announced by Novo Banco on 29 July 2018);

- The effects of applying the principle that no credit institution of the credit institution under resolution can assume a greater loss than it would have if it had gone into liquidation;

- The negative effects of the resolution process resulting in additional responsibilities or contingencies for Novo Banco that have to be neutralized by the Resolution Fund;

- Legal proceedings against the Resolution Fund;

- Guarantee provided to the bonds issued by Oitante S.A. This guarantee is counter-guaranteed by the Portuguese State;

- Contingent capital mechanism, in which Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning with the assets belonging to that portfolio, up to a maximum amount of 3,890 million euros, subordinated the fulfillment of the conditions described above, including a reduction in the CET1 capital ratio to less than 8% -13%;

- The Portuguese State may inject capital into Novo Banco, under some conditions and via different instruments, in the event that the total capital ratio reaches values below the capital requirements defined under the SREP, as referred to in the respective European Commission Decision.

According to Note 24 of the 2018 Resolution Fund Annual Report, the Resolution Fund considers that, at the date, there are no elements that allow a reliable estimate of the potential financial effect of these potential liabilities.

On September 28, 2016, the Resolution Fund issued a statement stating that the maturity of the loan due on December 31, 2017 would be adjusted to ensure the Fund's ability to fully meet its obligations based on the his regular income, regardless of the contingencies to which he is exposed, nor the need to collect extraordinary contributions.

According to the FR statement of March 21, 2017:

- “The conditions for loans obtained by the Fund to finance the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed.” These loans amount to 4,953 million euros, of which 4,253 million euros granted by the State and 700 million euros granted by a banking syndicate.
- Those loans now mature in December 2046, without prejudice to the possibility of early repayment based on the use of the Resolution Fund's revenues. The maturity will be adjusted in terms that guarantee the Resolution Fund's ability to fully meet its obligations based on regular revenues and without the need for recourse to special contributions or any other type of extraordinary contributions.
- The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector.
- The new conditions allow the full payment of the Resolution Fund's liabilities to be ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector ”.

On the other hand, and in the context of the sale process of Novo Banco, SA, on October 2, 2017, the Council of Ministers approved a resolution in which it authorized the conclusion, by the Portuguese State, as the final guarantor of financial stability, of an agreement with the Resolution Fund, with a view to making financial resources available to the Resolution Fund, if and when deemed necessary, for the satisfaction of contractual obligations that may eventually arise from the sale of the 75% stake in Novo Mercado Banco, SA It is also mentioned that the respective reimbursement will bear in mind that one of the objectives of this agreement is to ensure the stability of the contributory effort that falls on the banking sector, that is, without the need to be charged, to the participants of the Resolution Fund, contributions special or any other type of extraordinary contributions.

The Resolution Fund's own resources had a negative balance of 6,114 million euros, according to the latest accounts published with the 2018 Resolution Fund Report and Accounts.

In order to meet its responsibilities, the Resolution Fund has revenues from contributions, initial and periodic, from participating institutions (including Haitong Bank) and the contribution on the banking sector established by Law No. 55-A / 2010. It is also foreseen the possibility for the Government to determine, by ordinance, that special contributions be made in the situations provided for by law, specifically in the event that the Resolution Fund does not have its own resources to fulfill its obligations.

In accordance with Decree-Law No. 24/2013 that determines the operation of the Resolution Fund, the Bank has provided mandatory contributions since 2013 pursuant to the aforementioned Decree.

On 3rd of November 2015, Bank of Portugal issued a Circular-Letter according to which the periodical contribution for the Resolution Fund must be recognised as cost at the time of the event that originates mandatory contribution payments, which is in the last day of April of each year, pursuant to article no. 9 of Decree-Law No. 24/2013 of 19 February, ensuring that the Bank recognises the contribution as an expense in the year it is due. In 2019, the Bank made periodic contributions to the Resolution Fund and banking sector contributions in the amounts of 590 thousand euros and 1,782 thousand euros, respectively. On 15th of November 2015, the Resolution Fund issued a press release stating: “it is further explained that it is unlikely that the Resolution Fund shall propose the establishment of a special contribution for the financing of the resolution measure applied to BES. Therefore, the chance of a possible charge of a special contribution is far-flung.”

The regime provided for in Decree-Law No. 24/2013 establishes that Banco de Portugal sets, by instruction, the rate to be applied each year on the basis of the objective levy of periodic contributions. Banco de Portugal Instruction No. 32/2018, published on December 19, 2018, set the base rate to be in force in 2019 for the determination of periodic contributions to the FR at 0.057% compared to the rate of 0.0459% that was in force in 2018.

As of 2015, the Bank also started to make contributions within the scope of the establishment of the European Resolution Fund, with contributions made in 2019 amounting to 1,221 thousand euros. The European Resolution Fund does not cover the situations in progress, at 31 December 2015, with the National Resolution Fund.

In 2019, the Bank made periodic contributions to the Resolution Fund and the banking sector in the amounts of 590 thousand euros and 1,752 thousand euros, respectively, which are recognized as costs under the terms set out in IFRIC 21 - Fees.

In this context, as at 31 December 2019, there is no estimate of the total amount of losses resulting from the process of divestiture of the Novo Banco, of the said litigations and other contingencies associated with the resolution process of Banco Espírito Santo and of any losses to be incurred by the Resolution Fund following the resolution of BANIF.

Not with standing the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the State and by a banking syndicate, and to the public announcements made by the Resolution Fund and the Office of the Minister of Finance, which refer that this possibility will not be used, the financial statements as of

December 31, 2019 reflect the Bank's Board of Directors' expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif or any other contingent liability or liability assumed by the Resolution Fund.

NOTE 38 – RELATED PARTIES TRANSACTIONS

The Group's related parties transactions as at 31st of December 2019 and 2018, as well as the respective expenses and income recognized in the year, are summarized as follows:

(thousand euros)

	31.12.2019					
	Assets					
	Others	Total	Guarantees	Liabilities	Income	Expenses
Shareholders						
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	-	-	1 968	-
Subsidiaries and associates						
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	-	5 000	-
HAITONG SECURITIES	7	7	-	-	13 408	-
HAITONG INTERNATIONAL SECURITIES CO LTD	1 789	1 789	-	-	5 491	-
HAITONG INNOVATION SECURITIES INVESTMENT CO LTD	-	-	-	-	1 500	-
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED	-	-	-	-	2 534	-
HAITONG INTERNATIONAL SECURITIES USA INC	-	-	-	-	9	-
UNICAM LIMITED	-	-	-	-	3 000	-
HAITONG INTERNATIONAL (UK) LIMITED	-	-	-	145	16	413
HAITONG INVESTMENT IREKAND PLC	24 762	24 762	21 458	703 142	-	-
TOTAL	**26 558**	**26 558**	**21 458**	**703 287**	**32 926**	**413**

(thousand euros)

	31.12.2018					
	Assets					
	Others	Total	Guarantees	Liabilities	Income	Expenses
Shareholders						
HAITONG SECURITIES	-	-	15 972	-	-	-
Subsidiaries and associates			-			
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	-	10 870	-
HAITONG SECURITIES	2 776	2 776	-	-	20 685	-
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	-	-	5	-
HAITONG INTERNATIONAL CREDIT COMPANY LTD	-	-	-	-	5 366	-
HAITONG UNITRUST HOLDING LIMITED	-	-	-	-	2 600	-
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED	-	-	-	-	2 016	264
HAITONG INTERNATIONAL SECURITIES USA INC	-	-	-	-	20	-
HAITONG INTERNATIONAL SECURITIES (UK) LIMITED	-	-	-	-	5	-
HAITONG SECURITIES USA LLC	-	-	-	-	31	3
HAITONG SECURITIES (UK) LIMITED	-	-	-	191	-	181
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	-	-	15 023	-
HAITONG INNOVATION SECURITIES INVESTMENT	-	-	-	-	2 800	-
UNICAM LIMITED	-	-	-	-	1 000	-
HAITONG INTERNATIONAL (UK) LIMITED	-	-	-	-	-	162
TOTAL	**2 776**	**2 776**	**15 972**	**191**	**60 421**	**610**

As at 31st of December 2019, the income heading includes 30,942 thousand euros concerning fee and commission income heading from banking services (31st of December 2018: 40,692 thousand euros).

As at 31st December 2018, 3 731 thousand euros of these bonds are in circulation. In the period ended 31st December 2019 and 31st December 2018, the Group did not pay interest.

NOTE 39 – FAIR-VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair-value of financial assets and liabilities

Haitong Bank estimates the fair value of its instruments based on prices quoted in active markets or, when such prices are not available, based on valuation techniques following standard valuation models such as discounted cash flows and option pricing models. The valuation models' parameter inputs are based on observable data, when available, derived from prices of financial instruments actively traded or based on indicative broker quotes.

The Group performs valuation adjustments to reflect counterparty credit risk (CVA) for uncollateralized derivatives assets considering the current exposure, loss given default and the probability of default. This probability of default is based on the Group's credit risk assessment model or market information where applicable.

The fair-value of financial assets and liabilities for the Group is analysed as follows:

(thousand euros)

	Amortised cost	Valued at Fair Value			Total book value	Fair Value
		Level 1	Level 2	Level 3		
Balance as at 30th December 2019						
Cash and cash equivalents	637 829	-	-	-	637 829	637 829
Financial assets at fair value through profit or loss		-				
Financial assets held for trading		-				
Securities	-	18 305	419 267	-	437 572	437 572
Derivative financial assets	-	-	137 870	10 853	148 723	148 723
Non-trading financial assets mandatorily at fair value through profit or loss		-				
Securities	-	776	6 749	29 874	37 399	37 399
Loans and advances to customers	-	-	-	107	107	107
Financial assets at fair value through other comprehensive income	-	40 487	81 432	55 268	177 187	177 187
Financial assets measured at amortised cost		-				
Securities	335 755	-	-	-	335 755	323 003
Loans and advances to banks	145 470	-	-	-	145 470	145 470
Loans and advances to customers	314 614	-	-	-	314 614	310 154
Financial Assets	**1 433 668**	**59 568**	**645 318**	**96 102**	**2 234 656**	**2 217 444**
Financial liabilities held for trading						
Securities	-	1 995	130 763	-	132 758	132 758
Derivative financial liabilities	-	-	140 649	8 253	148 902	148 902
Financial liabilities measured at amortised cost						
Resources of credit institutions	302 248	-	-	-	302 248	302 248
Resources of customers	1 041 374	-	-	-	1 041 374	1 041 374
Debt securities issued	197 112	-	-	-	197 112	197 112
Hedging derivatives	-	-	300	-	300	300
Financial Liabilities	**1 540 734**	**1 995**	**271 712**	**8 253**	**1 822 694**	**1 822 694**
Balance as at 31st December 2018						
Cash and cash equivalents	341 255	-	-	-	341 255	341 255
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Securities	-	24 563	424 671	17 723	466 957	466 957
Derivative financial assets	-	-	104 011	26 136	130 147	130 147
Non-trading financial assets mandatorily at fair value through profit or loss						
Securities	-	707	8 851	28 913	38 471	38 471
Loans and advances to customers	-	-	-	5 783	5 783	5 783
Financial assets at fair value through other comprehensive income	-	309 806	111 113	94 894	515 813	515 813
Financial assets measured at amortised cost						
Securities	87 085	-	-	-	87 085	87 002
Loans and advances to banks	126 828	-	-	-	126 828	126 828
Loans and advances to customers	508 458	-	-	-	508 458	491 852
Financial Assets	**1 063 626**	**335 076**	**648 646**	**173 449**	**2 220 797**	**2 204 108**
Financial liabilities held for trading						
Securities	-	15 924	103 788	195	119 907	119 907
Derivative financial liabilities	-	-	151 333	33 633	184 966	184 966
Financial liabilities measured at amortised cost						
Resources of credit institutions	358 957	-	-	-	358 957	358 957
Resources of customers	400 206	-	-	-	400 206	400 206
Debt securities issued	162 612	-	-	-	162 612	162 612
Financial Liabilities	**921 775**	**15 924**	**255 121**	**33 828**	**1 226 648**	**1 226 648**

Fair-value Hierarchy

Assets and Liabilities at fair-value of the Haitong Bank Group are valued according to the following hierarchy. The Bank's financial instruments are classified under the three levels defined in IFRS 13 according to the following:

Level 1 – Instruments valued using quoted prices observed in active and liquid markets. These include government bonds, credit bonds and exchange traded equities and derivatives.

Level 2 – Instruments valued using valuation techniques based on observable market inputs, quotes prices for similar instruments in active markets or for identical instruments in markets that are neither active nor liquid. These include bonds, plain vanilla OTC derivatives, less liquid equities and funds value at Net Asset Values (NAV) published daily by the fund manager and with possibility of daily redemption. The OTC derivatives includes financial instruments traded in OTC (over-the-counter), in which the counterparty has signed agreements of collateral (ISDA with CSA – Credit Support Annex), with Minimum Transfer Amount (MTS) very low, which allows to mitigate the counterparty's Credit Risk and the CVA (Credit Value Adjustment) does not have to be significant. Additionally, there also included financial derivatives traded in OTC, which do not have CSA signed, but the percentage of information not observable in market (Eg.: Internal Rating , Probability of Default determined by internal models, etc) in CSA valuation is no expressive in value of derivate as an whole. It is consider as significant when the value of CSA bigger than 5%.

Level 3 – Instruments valued using valuation techniques based on non-observable market inputs and that do not comply with the requirements to be classified under Level 1 nor Level 2. These include non-plain vanilla OTC derivatives valued based on non-observable market inputs or on indicative prices published by third parties, distressed and highly illiquid bonds, funds valued at Net Asset Values (NAV) published by the fund manager without possibility of daily redemption and private equity placements. In the Level 3 are included financial instruments traded in OTC market with counterparties which HB doesn't have CSA signed and the percentage of unobservable data incorporated in CVA valuating is considered in the total value of the derivative (value of CVA is 5% bigger than the NPV).

In 2019, there were 683 thousand euros transferred from Level 1 to Level 2 and 2,526 thousand euros transferred from Level 2 to Level 1 of securities based on their liquidity assessment.

For financial instruments recorded in the balance sheet at fair value, the movement occurred between December 31st , 2018 and December 31st , 2019 in assets and liabilities classified in level 3 is as follows:

(thousand euros)

	Financial assets held for trading		Financial assets mandatory at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Securities	Derivative financial assets	Securities	Loans and advances		
Balance as at 31st December 2018	**17 528**	**(7 497)**	**28 913**	**5 783**	**94 894**	**139 621**
Results recognized in Net Interest Margin	366	-	-	-	2 247	**2 613**
Net trading income and from other financial instruments at fair value through profit or loss	7	5 707	6 296	(125)	-	**11 885**
Net gains/(losses) derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	-	1 220	**1 220**
Impairment on other financial assets net of reversal and recoveries	-	-	-	-	441	**441**
Other fair value changes	16	(2 027)	(81)	-	(258)	**(2 350)**
Fair value reserve changes	-	-	-	(52)	560	**508**
Acquisitions	-	-	-	-	17 109	**17 109**
Sales	(17 917)	-	-	-	-	**(17 917)**
Reimbursements	-	-	(5 254)	(5 499)	(53 029)	**(63 782)**
Derivatives financial flows	-	999	-	-	-	**999**
Transferências de actividades em descontinuação	-	3 497	-	-	-	**3 497**
Transfers from other levels	-	1 977	-	-	-	**1 977**
Transfers to other levels	-	(56)	-	-	(7 916)	**(7 972)**
Balance as at 31st December 2019	**-**	**2 600**	**29 874**	**107**	**55 268**	**87 849**

(thousand euros)

	Financial assets held for trading		Financial assets mandatory at fair value through profit or loss		Financial assets held-for-sale	Financial assets at fair value through other comprehensive income	Total
	Securities	Derivative financial assets	Securities	Loans and advances to costumers			
Balance as at 1st January 2018	**43 231**	**(2 570)**	**-**	**-**	**120 947**	**-**	**161 608**
IFRS 9 reclass transition impact	-	-	29 453	5 883	(120 947)	91 494	**5 883**
Results recognized in Net Interest Margin	1 422	-	410	-	-	8 200	**10 032**
Net trading income and from other financial instruments at fair value through profit or loss	14	4 748	3 221	-	-	-	**7 983**
Net gains/(losses) derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(3 985)	**(3 985)**
Impairment on other financial assets net of reversal and recoveries	-	-	-	-	-	(1 278)	**(1 278)**
Other fair value changes	(707)	(212)	(412)	(100)	-	(7 061)	**(8 492)**
Fair value reserve changes	-	-	(169)	-	-	551	**382**
Acquisitions	(194)	-	-	-	-	61 708	**61 514**
Sales	-	-	(139)	-	-	(44 834)	**(44 973)**
Reimbursements	(22 249)	-	(4 562)	-	-	(5 600)	**(32 411)**
Derivatives financial flows	-	5 704	-	-	-	-	**5 704**
Transfers to discontinuing activities	(256)	(15 167)	-	-	-	(4 301)	**(19 724)**
Transfers from other levels	-	-	1 111	-	-	-	**1 111**
Transfers to other levels	(3 733)	-	-	-	-	-	**(3 733)**
Balance as at 31st December 2018	**17 528**	**(7 497)**	**28 913**	**5 783**	**-**	**94 894**	**139 621**

In what concerns Level 3 classification, in 2019 there were derivatives in the amount of 56 thousand which were transferred from level 3 to level 2 as they are being evaluated accordingly with the internal valuation methodology developed by the bank. Additionally, 1,977 thousand Euros in derivatives which CVA level was considered significant accordingly with the bank's internal policy, were transferred from level 2 to 3.

In 2019 7,916 thousand euros of securities were transferred from level 3 to other levels based on their liquidity assessment.

The main parameters used during 2019 in what concerns valuation models were the following:

Yield curves

The short-term rates set out below reflect indicative values of deposit interest rates and/or futures. Swap rates are used for the long-term:

(%)

	31.12.2019			31.12.2018		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0,48	1,56	0,68	-0,42	2,41	0,67
1 month	-0,48	1,77	0,70	-0,39	2,53	0,73
3 months	-0,43	1,92	0,79	-0,34	2,82	0,91
6 months	-0,36	1,77	0,88	-0,33	2,73	1,03
1 year	-0,34	1,72	0,82	-0,27	2,71	1,07
3 years	-0,24	1,64	0,82	-0,07	2,72	1,22
5 years	-0,12	1,72	0,88	0,20	2,56	1,30
7 years	0,02	1,78	0,94	0,47	2,60	1,36
10 years	0,21	1,88	1,02	0,83	2,70	1,44
15 years	0,47	2,01	1,10	1,20	2,80	1,52
20 years	0,61	2,08	1,13	1,39	2,84	1,55
25 years	0,65	2,11	1,12	1,41	2,84	1,55
30 years	0,64	2,10	1,11	1,44	2,82	1,54

Credit spreads

Credit spreads curves and recovery rates used by the Group are sourced on a daily basis from Markit. The table below reflects the evolution of the main CDS indices:

(basis points)

Index	Series	3 years	5 years	7 years	10 years
Year 2018					
CDX USD Main	**31**	54,19	87,75	112,99	132,62
iTraxx Eur Main	**30**	55,63	87,37	111,31	131,15
iTraxx Eur Senior Financial	**30**	-	108,52	-	-
Year 2019					
CDX USD Main	**31**	54,19	87,75	112,99	132,62
iTraxx Eur Main	**30**	55,63	87,37	111,31	131,15
iTraxx Eur Senior Financial	**30**	-	108,52	-	-

Interest rate volatilities

The following figures reflect at-the-money implied volatilities:

(%)

	31.12.2019			31.12.2018		
	EUR	USD	GBP	EUR	USD	GBP
1 year	58,64	58,64	46,03	1,79	11,25	33,95
3 years	59,17	59,17	50,00	1,44	22,87	--
5 years	59,66	59,66	53,48	20,27	27,29	58,01
7 years	59,60	59,60	55,77	34,46	28,35	61,25
10 years	59,83	59,83	57,41	48,13	30,29	--
15 years	59,15	59,15	56,56	60,46	--	--

Foreign exchange rate and volatilities

The table below reflects ECB's (European Central Bank) foreign exchange rates fixings and at-the-money implied volatilities:

	Exchange Rate		Volatiliy (%)				
	31.12.2019	31.12.2018	1 month	3 months	6 months	9 months	1 year
EUR/USD	1,1234	1,1450	5,04	5,16	5,35	5,53	5,78
EUR/GBP	0,8508	0,8945	7,14	6,84	6,78	6,84	6,93
EUR/CHF	1,0854	1,1269	3,97	4,16	4,36	4,54	4,66
EUR/PLN	4,2568	4,3014	3,77	3,91	4,03	4,13	4,21
EUR/CNY	7,8205	7,8751	-	-	-	-	-
USD/BRL a)	4,0197	3,8812	10,35	10,52	10,53	10,65	10,73

a) Determined based on EUR/USD and EUR/BRL

Equity Indexes

The evolution of the main equity indices and the corresponding volatilities are summarised in the following table:

	Quotation			Historical volatility (%)		Implied volatility (%)
	31.12.2019	31.12.2018	Range %	1 month	3 months	
DJ Euro Stoxx 50	3 745	3 001	24,78	11,15	11,68	-
PSI 20	5 214	4 731	10,20	9,67	10,42	-
IBEX 35	9 549	8 540	11,82	12,15	12,24	-
DAX	13 249	10 559	25,48	10,70	12,12	12,59
S&P 500	3 231	2 507	28,88	7,32	9,53	11,14
BOVESPA	115 645	87 887	31,58	11,24	15,03	19,21

The main methods and assumptions used in the abovementioned valuation of the fair-value of financial assets and liabilities are analyzed as follows:

Cash and cash equivalents and Loans and advances to banks

The statement of financial position value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Loans and advances to customers

The fair-value of loans and advances to customers is estimated based on the update of expected cash flows and interest, by taking into account market spreads for similar transactions (if they were entered into in the current moment) considering that the instalments are paid in compliance with the deadlines contractually agreed upon.

Resources of other credit institutions

The balance-sheet value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Resources of customers

The fair-value of these financial instruments is determined based on the update of expected cash flows in capital and interest, considering that the payments are in compliance with the deadlines agreed upon contract. Considering that the applicable interest rates are of variable nature and the maturity period of the deposits is substantially inferior to one year, there are no measurable differences in fair-value.

Debt securities issued and Subordinated Liabilities

The fair-value of these instruments is based in market prices, when available. When unavailable, the fair-value it is estimated based on the update of expected cash flows in capital and interest regarding these instruments in the future.

NOTE 40 – IFRS 16 ADOPTION

The Group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard ("modified retrospective approach"). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1st January 2019.

On adoption of IFRS 16, the Group decided not to apply the practical expedient regarding the definition of a lease, and reassessed whether all relevant contracts were, or contained, a lease. Hence, lease liabilities were recognised for contracts classified as leases under the principles of IFRS 16 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

At the date of initial application, the group only identified contracts classified as 'operating leases', under the principles of IFRS 16 Leases.

The reconciliation of lease liability is showed bellow:

(thousand euros)

	Amount
Operating lease commitments disclosed as at 31 December 2018	**2 036**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(25)
(Less): short-term leases recognised on a straight-line basis as expense	(122)
(Less): low-value leases recognised on a straight-line basis as expense	(97)
Add: operating leases commitments not disclosed	9 643
Lease liability recognised as at 1 January 2019	**11 435**
Of which are:	-
Non-current Lease Liabilities	11 435

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1st January 2019 was 2.87%.

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

The right-of-use assets distribution by topology is the following:

(thousand euros)

	31.12.2019	01.01.2019
Buildings	7 202	10 219
IT Equipment	51	94
Vehicles	647	1 080
Total right-of-use assets	**7 900**	**11 393**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

(thousand euros)

	Amount
Right-of-use assets	11 393
Lease liabilities	11 435

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- The use of a single discount rate curve to a portfolio of leases with reasonably similar characteristics;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;

- The accounting for operating leases with an underlying asset valued at less than EUR 5.000;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- Reliance on previous assessments on whether leases are onerous.

NOTE 41 – RISK MANAGEMENT

In terms of risk management, the following qualitative information of the Haitong Bank Group is presented.

Control and risk management, for the role they have played in active management support, are one of the main strategic axes supporting their balanced and sustained development.

The Risk Department has maintained the following main objectives:

- Identification, quantification and control of the different types of risk assumed, progressively adopting uniform principles and methodologies;
- Continuous contribution to the improvement of tools to support the structuring of operations and the development of internal techniques for evaluating performance and optimizing the capital base;
- Proactive management of situations of significant delay and non-compliance with contractual obligations.

Credit Risk

The Credit Risk results from the possibility of financial losses arising from the default of the customer or counterparty in relation to the contractual financial obligations established with the Group in the scope of its credit activity. Credit risk is mainly present in traditional banking products - loans, guarantees and other contingent liabilities - and in trading products - swaps, forwards and options (counterparty risk).

The Group's credit portfolios are permanently monitored, with interaction between the business teams and risk management throughout the sequential stages of the credit cycle.

The monitoring of the Group's credit risk profile is regularly monitored, namely, in what concerns the evolution of credit exposure, delinquency ratios and provisioning, and concentration metrics.

The Group also controls the approved credit limits and assures the proper functioning of mechanisms related with the credit approval process.

Calculation of ECL

The IFRS 9 standard outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition. According to Haitong Bank model, Expected Credit Loss (ECL) is determined as per the detailed information included in chapter 2.4.1., Impairment of Financial Assets and Financial Model:

- *Stage 1 – Performing*: Impairment assessment is carried out based 12-month expected credit loss (ECL). ECL is determined as the exposure as of the reference date multiplied by the 12-month probability of default and the loss given default;
- *Stage 2 – Under Performing*: Impairment assessment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- *Stage 3 – Non Performing*: Impairment assessment will reflect the ECL over the expected residual life of the instrument.

Inputs in the measurement of ECL

As a result of the characteristics of the Bank's portfolio (reduced number of transactions and high heterogeneity), the calculation of the ECL has as the main vector of measurement the individual analysis assessment. Under the collective model, which is applied to financial instruments classified in Stage 1 and to determine the minimum impairment rate applicable to financial instruments classified in Stage 2, the key inputs for ECL measurement are the following:

- Probability of Default (PD): describes the likelihood of default in a prospect of time. Haitong Bank takes in account the PD's from S&P, whereas the rating assigning process is performed internally based on the S&P methodology. This assures the alignment between the internal risk management and the impairment calculation process.
- Loss Given Default (LGD): is the magnitude of the loss at the time of a default. The Bank applies the LGD based on Moody's LGD benchmarks covering a wide historical period.
- Exposure at Default (EAD): the expected exposure in the event of a default. The calculation of EAD depends of the asset type.

Regarding undrawn loan commitments and financial guarantees, the amount considered in the calculation of impairment at each stage results from the exposure as of the reference date weighted by the credit conversion factor (according with CRR).

Forward-Looking Information

The Group uses forward-looking information based on a simplified approach, grounded on the proportionality and characteristics of the Bank. As such, a single central scenario centered upon external information was implemented, which provides sufficient granularity to meet audit and regulatory requirements in what concerns the forecasting capabilities of the Bank's collective model.

This prospective exercise was defined exclusively for standard IFRS 9, given the specificity of the exercise and the available information.

The forward-looking exercise is applicable to Stage 1 exposures. All the portfolio exposures/obligors are subject to the same forward-looking information assuring all the assets are compliant with standard IFRS 9 guidelines.

The financial instruments subject to standard IFRS 9 impairment requirements are presented below, detailed by stage, as of December 31st, 2019 and December 31st, 2018.

(thousand euros)

Asset Type	31.12.2019									
	Stage 1				Total Stage 1	Stage 2		Total Stage 2	Stage 3	Total Stage 3
	Low to Fair risk [aaa+;a-]	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Not rated		Monitoring [bbb+;b-]	Substandard [ccc+;ccc]		Impaired [d]	
Loans and advances to customers	-	219 778	-	18 705	238 483	76 362	-	76 362	11 883	11 883
Guarantees	-	104 359	-	450	104 809	1 940	-	1 940	23 478	23 478
Securities	-	469 331	-	9 857	479 188	-	-	-	43 413	43 413
Loans and advances to banks	2 255	140 244	-	-	142 499	-	3 509	3 509	15 077	15 077
Cash and cash equivalents	632 188	5 633	-	-	637 821	-	-	-	-	-
Debtors and other assets	1	2 130	285	8 992	11 408	-	-	-	11 263	11 263
Total	**634 444**	**941 475**	**285**	**38 004**	**1 614 208**	**78 302**	**3 509**	**81 811**	**105 114**	**105 114**

(thousand euros)

Asset Type	31.12.2018										
	Stage 1				Total Stage 1	Stage 2			Total Stage 2	Stage 3	Total Stage 3
	Low to Fair risk [aaa+;a-]	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Not rated		Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Doubful [lccc]		Impaired [d]	
Loans and advances to customers	29 142	274 310	-	92 093	395 545	96 276	-	-	96 276	44 006	44 006
Guarantees	-	142 831	-	825	143 656	-	-	2 973	2 973	2 837	2 837
Securities	-	585 055	-	9 288	594 343	-	-	-	-	10 820	10 820
Loans and advances to banks	1 048	91 265	-	-	92 313	31 664	3 358	-	35 022	15 077	15 077
Cash and cash equivalents	317 075	23 061	-	194	340 330	921	-	-	921	-	-
Debtors and other assets	30	8 097	285	14 534	22 946	-	-	-	-	1 305	1 305
Total	**347 295**	**1 124 619**	**285**	**116 934**	**1 589 133**	**128 861**	**3 358**	**2 973**	**135 192**	**74 045**	**74 045**

As of December 31, 2019, the maximum exposure to credit risk of financial assets not subject to impairment requirements amounts to 612 million euros, corresponding to exposures to central banks.

The table below compiles all financial instruments at amortized cost by industry, stage and days of delay as of December 31, 2019.

(thousand euros)

Amortised Costs financial instruments (including Financial Guarantees) by past due status	Stage 1						Stage 2		Stage 3			
	No overdue		1 - 29 days		More than 181 days		No overdue		No overdue		More than 181 days	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Agribusiness & Commodity Foods	-	-	-	-	-	-	5 469	326	268	217	-	-
Banks	812 514	259	-	-	1 650	1 650	3 509	524	21 469	14 199	15 077	15 077
Broker Dealers	1 132	-	-	-	-	-	-	-	-	-	-	-
Building Materials	8 805	86	-	-	192	192	-	-	13	13	-	-
Capital Goods	6 358	4	-	-	40	40	-	-	1 060	222	-	-
Chemicals	813	813	-	-	-	-	-	-	-	-	-	-
Commercial & Professional Services	10 657	229	-	-	105	105	-	-	4 778	1 168	-	-
Construction & Engineering	69 610	172	-	-	407	407	1 940	49	46	46	1 985	1 626
Food, Beverage & Tobacco	772	79	-	-	-	-	-	-	-	-	-	-
Governments	195 129	148	2 574	1	214	214	-	-	-	-	-	-
Health Care	15	-	-	-	-	-	-	-	-	-	-	-
Hotels & Gaming	50	-	-	-	-	-	-	-	2 127	1 086	-	-
Household & Personal Products	6	1	-	-	-	-	-	-	-	-	-	-
Media & Entertainment	7	2	-	-	94	94	-	-	-	-	-	-
Metals & Mining	80 635	1 308	-	-	-	-	-	-	-	-	-	-
Non Bank Financial Institutions	2 143	-	-	-	-	-	-	-	-	-	-	-
Paper & Forest Products	17 920	175	-	-	60	60	-	-	-	-	-	-
Pow er	52 390	444	-	-	57	57	34 927	3 638	-	-	-	-
Real Estate	76 045	233	-	-	166	166	4 143	280	-	-	-	-
Softw are	393	5	-	-	-	-	-	-	-	-	-	-
Technology Hardw are & Equipment	-	-	-	-	-	-	-	-	27 060	8 118	-	-
Telecoms	19 941	178	-	-	-	-	-	-	-	-	-	-
Transportation	8	-	-	-	-	-	1 930	68	635	-	-	-
Transportation Infrastructure	84 063	425	-	-	-	-	29 893	491	14 010	1 123	-	-
Water Utilities	514	3	-	-	-	-	-	-	-	-	-	-
Others	3 739	448	-	-	3 196	3 252	-	-	-	-	-	-
Total	**1 443 659**	**5 012**	**2 574**	**1**	**6 181**	**6 237**	**81 811**	**5 376**	**71 466**	**26 192**	**17 062**	**16 703**

In the following section we present the gross exposure by asset type, impairment stage and internal rating bucket.

Loans and advances to costumers

The table below presents a summary of the portfolio of loans and advances to costumers of Haitong Bank S.A. Group, as of 31st of December 2019 and 31st of December 2018:

(thousand euros)

Loans and advances to customers		31.12.2019				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Monitoring	[bbb+;b-]	219 778	76 362	-	-	**296 140**
Impaired	[d]	-	-	11 013	637	**11 650**
Not rated		18 705	-	-	-	**18 705**
Gross carrying amount		**238 483**	**76 362**	**11 013**	**637**	**326 495**
Loss allow ance (Note 31)		2 374	4 803	4 703	1	**11 881**
Carrying amount		**236 109**	**71 559**	**6 310**	**636**	**314 614**
Fair Value Trough Profit and Loss						
Impaired	[d]	-	-	233	-	**233**
Gross carrying amount		**-**	**-**	**233**	**-**	**233**
Reavaluation		-	-	(126)	-	**(126)**
Carrying amount		**-**	**-**	**107**	**-**	**107**
Total gross carrying amount		**238 483**	**76 362**	**11 246**	**637**	**326 728**
Loss allow ance		2 374	4 803	4 703	**1**	11 881
Reavaluation		-	-	(126)	-	(126)
Total Carrying amount		**236 109**	**71 559**	**6 417**	**636**	**314 721**

(thousand euros)

Loans and advances to customers		31/12/2018 Stage 1	Stage 2	Stage 3	Total
Amortized cost					
Low to fair risk	[aaa+;a-]	29 142	-	-	**29 142**
Monitoring	[bbb+;b-]	274 310	96 276	-	**370 586**
Impaired	[d]	-	-	38 222	**38 222**
Not rated		92 093	-	-	**92 093**
Gross carrying amount		**395 545**	**96 276**	**38 222**	**530 043**
Loss allowance (Note 31)		2 494	3 654	15 436	**21 584**
Carrying amount		**393 051**	**92 622**	**22 786**	**508 459**
Fair Value Trough Profit and Loss					
Impaired	[d]	-	-	5 784	**5 784**
Gross carrying amount		**-**	**-**	**5 784**	**5 784**
Reavaluation		-	-	(1)	**(1)**
Carrying amount		**-**	**-**	**5 783**	**5 783**
Total gross carrying amount		**395 545**	**96 276**	**44 006**	**535 827**
Loss allowance		2 494	3 654	15 437	21 585
Reavaluation		-	-	(1)	(1)
Total Carrying amount		**393 051**	**92 622**	**28 568**	**514 241**

Guarantees

The table below presents a summary of the portfolio of guarantees granted to clients of Haitong Bank S.A. Group, as of 31st of December 2019 and 31st of December 2018:

(thousand euros)

Guarantees		31.12.2019 Estágio 1	Estágio 2	Estágio 3	POCI	Total
Monitoring	[bbb+;b-]	104 359	1 940	-	-	**106 299**
Impaired	[d]	-	-	23 478	-	**23 478**
Not rated		450	-	-	-	**450**
Total gross carrying amount		**104 809**	**1 940**	**23 478**	**-**	**130 227**
Loss allowance (Note 31)		545	49	14 720	-	**15 314**
Total Carrying amount		**104 264**	**1 891**	**8 758**	**-**	**114 913**

(thousand euros)

Guarantees		31/12/2018 Stage 1	Stage 2	Stage 3	Total
Monitoring	[bbb+;b-]	142 831	-	-	**142 831**
Doubtful	[lccc]	-	2 973	-	**2 973**
Impaired	[d]	-	-	2 837	**2 837**
Not rated		825	-	-	**825**
Total gross carrying amount		**143 656**	**2 973**	**2 837**	**149 466**
Loss allowance (Note 31)		741	297	726	**1 764**
Total Carrying amount		**142 915**	**2 676**	**2 111**	**147 702**

Debt securities

The table below presents a summary of the portfolio of debt securities at amortised cost and at fair value through other comprehensive income of Haitong Bank, S.A. Group, as of December 31, 2019 and December 31, 2018:

(thousand euros)

FVOCI and Amortised cost debt Securities		31.12.2019				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Monitoring	[bbb+;b-]	317 394	-	-	-	**317 394**
Substandard	[ccc+;ccc]	-	-	-	-	**-**
Gross carrying amount		**317 394**	**-**	**27 060**	**-**	**344 454**
Loss allowance (Note 31)		581	-	8 118	-	**8 699**
Carrying amount		**316 813**	**-**	**18 942**	**-**	**335 755**
Fair Value through Other Comprehensive Income						
Monitoring	[bbb+;b-]	151 938	-	-	-	**151 938**
Substandard	[ccc+;ccc]	-	-	-	-	**-**
Impaired	[d]	-	-	7 918	8 435	**16 353**
Not rated		9 856	-	-	-	**9 856**
Gross carrying amount		**161 794**	**-**	**7 918**	**8 435**	**178 147**
Loss allowance (Note 31)		739	-	2 375	143	**3 257**
Reavaluation		4 493	-	(2 196)	-	**2 297**
Carrying amount		**165 548**	**-**	**3 347**	**8 292**	**177 187**
Total gross carrying amount		**479 188**	**-**	**34 978**	**8 435**	**522 601**
Loss allowance		1 320	-	10 493	143	11 956
Reavaluation		4 493	-	(2 196)	-	2 297
Total Carrying amount		**482 361**	**-**	**22 289**	**8 292**	**512 942**

(thousand euros)

FVOCI and Amortised cost debt Securities		31/12/2018			
		Stage 1	Stage 2	Stage 3	Total
Amortized cost					
Monitoring	[bbb+;b-]	87 533	-	-	**87 533**
Gross carrying amount		**87 533**	**-**	**-**	**87 533**
Loss allowance (Note 31)		448	-	-	**448**
Carrying amount		**87 085**	**-**	**-**	**87 085**
Fair Value through Other Comprehensive Income					
Monitoring	[bbb+;b-]	497 522	-	-	**497 522**
Impaired	[d]	-	-	929	**10 820**
Not rated		9 288	-	-	**9 288**
Gross carrying amount		**506 810**	**-**	**929**	**517 630**
Loss allowance (Note 31)		1 379	-	145	**1 842**
Reavaluation		661	-	-	**25**
Carrying amount		**506 092**	**-**	**784**	**515 813**
Total gross carrying amount		**594 343**	**-**	**929**	**605 163**
Loss allowance		1 827	-	145	2 290
Reavaluation		661	-	-	25
Total Carrying amount		**593 177**	**-**	**784**	**602 898**

Cash and cash equivalents

The table below presents a summary of the cash and cash equivalents portfolio of Haitong Bank, S.A. Group, as of as of 31st December 2019 and 31st of December 2018:

(thousand euros)

Cash and cash equivalents		31.12.2019				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	632 188	-	-	-	**632 188**
Monitoring	[bbb+;b-]	5 633	-	-	-	**5 633**
Total gross carrying amount		**637 821**	**-**	**-**	**-**	**637 821**
Loss allowance (Note 31)		-	-	-	-	**-**
Total Carrying amount		**637 821**	**-**	**-**	**-**	**637 821**

(thousand euros)

Cash and cash equivalents		31/12/2018 Stage 1	Stage 2	Stage 3	Total
Amortized cost					
Low to fair risk	[aaa+;a-]	317 075	-	-	**317 075**
Monitoring	[bbb+;b-]	23 061	921	-	**23 982**
Not rated		194	-	-	**194**
Total gross carrying amount		**340 330**	**921**	**-**	**341 251**
Loss allowance (Note 31)		1	-	-	**1**
Total Carrying amount		**340 329**	**921**	**-**	**341 250**

Loans and advances to banks

The table below presents a summary of the portfolio of loans and advances to banks of Haitong Bank, S.A. Group, as of 31st December 2019 and 31st of December 2018:

(thousand euros)

Loans and advances to Banks		31.12.2019 Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	2 255	-	-	-	**2 255**
Monitoring	[bbb+;b-]	140 244	-	-	-	**140 244**
Substandard	[ccc+;ccc]	-	3 509	-	-	**3 509**
Impaired	[d]	-	-	15 077	-	**15 077**
Total gross carrying amount		**142 499**	**3 509**	**15 077**	**-**	**161 085**
Loss allowance (Note 31)		14	524	15 077	-	**15 615**
Total Carrying amount		**142 485**	**2 985**	**-**	**-**	**145 470**

(thousand euros)

Loans and advances to Banks		31/12/2018 Stage 1	Stage 2	Stage 3	Total
Amortized cost					
Low to fair risk	[aaa+;a-]	1 048	-	-	**1 048**
Monitoring	[bbb+;b-]	91 265	31 664	-	**122 929**
Substandard	[ccc+;ccc]	-	3 358	-	**3 358**
Impaired	[d]	-	-	15 077	**15 077**
Total gross carrying amount		**92 313**	**35 022**	**15 077**	**142 412**
Loss allowance (Note 31)		9	498	15 077	**15 584**
Total Carrying amount		**92 304**	**34 524**	**-**	**126 828**

Debtors and other assets

The table below presents a summary of the portfolio of debtors and other assets portfolio of Haitong Bank, S.A. Group, as of 31st December 2019 and 31st of December 2018:

(thousand euros)

Debtors and other assets		31.12.2019 Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	1	-	-	-	**1**
Monitoring	[bbb+;b-]	2 130	-	-	-	**2 130**
Substandard	[ccc+;ccc]	285	-	-	-	**285**
Impaired	[d]	-	-	337	10 926	**11 263**
Not rated		8 992	-	-	-	**8 992**
Total gross carrying amount		**11 408**	**-**	**337**	**10 926**	**22 671**
Loss allowance (Note 31)		7 736	-	276	-	**8 012**
Total Carrying amount		**3 672**	**-**	**61**	**10 926**	**14 659**

(thousand euros)

Debtors and other assets		31/12/2018 Stage 1	Stage 2	Stage 3	Total
Amortized cost					
Low to fair risk	[aaa+;a-]	30	-	-	**30**
Monitoring	[bbb+;b-]	8 097	-	-	**8 097**
Substandard	[ccc+;ccc]	285	-	-	**285**
Impaired	[d]	-	-	1 305	**1 305**
Not rated		14 534	-	-	**14 534**
Total gross carrying amount		**22 946**	**-**	**1 305**	**24 251**
Loss allowance (Note 31)		7 476	-	1 305	**8 781**
Total Carrying amount		**15 470**	**-**	**-**	**15 470**

Throughout 2019, there were no modified financial assets since initial recognition for which the expected credit losses have gone from lifetime expected credit losses to 12 month expected credit losses.

As at 31st of December 2019, the modified financial assets that did not result in derecognition are analysed as follows:

(thousand euros)

Financial assets modified during the year	31.12.2019	31.12.2018
Amortised cost before changes	**994**	**30 646**
Impairment losses befores changes	(152)	(153)
Net amortised cost before changes	**842**	**30 493**
Net gain / (loss)	(41)	2 144
Others	1	88
Amortized cost after changes	**802**	**32 725**
Impairment losses after changes	-	(2 237)
Net amortized cost after changes	**802**	**30 488**

The use of credit protection is a key element of the risk policy and credit decision process, influencing the acceptance criteria, the decision levels, and the pricing.

The main risk mitigation techniques used by the Bank are financial pledges (funded credit protection – financial collateral in the form of securities and cash) and personal guarantees (unfunded credit protection with substitution effect).

Other types of guarantees are also used, which, while not eligible as risk mitigating for purposes of calculating regulatory capital requirements, effectively reduce the credit risk to which the Bank is subject. In this respect, we highlight the personal guarantees provided by company's partners ("shareholders") in certain financing operations.

Haitong Bank follows the prescription of CRR in what concerns collateral haircuts for impairment calculation. Thus, instead of using the collateral value, the Bank considers the collateral value after haircut application.

Frequency and methods of collateral valuation depends on the nature of the collateral. For listed equity securities and debt securities, valuation occurs on a daily basis using market prices.

The pledge of bank accounts valuation takes place on a quarterly basis according to information provided by the depositary bank.

Regarding pledges over non listed equity securities, pledges over equipment and mortgages valuation, it is done at least on an annual basis and it is based on financial information of the borrower or on valuation reports of external entities (e.g.: real estate).

The maximum exposure to credit risk at the end of the period and without taking into account any risk mitigating techniques was already been presented on the previous pages. As of December 31, 2019, the amount of financial instruments with no losses identified, due to credit risk's mitigation techniques, was 537 thousand euros, accounted under loans and advances to customers.

The table below disaggregates the financial instrument and financial guarantees' gross exposure, and exposure at default (EAD) separately for each stage and POCI.

(thousand euros)

Rating bucket		Stage 1		Stage 2		Stage 3		POCI	
		Gross Exposure	EAD	Gross Exposure	EAD	Gross Exposure	EAD	Gross Exposure	EAD
Low to fair risk	[aaa+;a-]	634 444	634 444	-	-	-	-	-	-
Monitoring	[bbb+;b-]	941 476	747 202	78 302	74 204	-	-	-	-
Substandard	[ccc+;ccc]	285	285	3 509	3 509	-	-	-	-
Impaired	[d]	-	-	-	-	85 116	81 367	19 998	19 998
Not rated		38 003	36 252	-	-	-	-	-	-
Total		**1 614 208**	**1 418 183**	**81 811**	**77 713**	**85 116**	**81 367**	**19 998**	**19 998**

Breakdown of Non-Performing and Forborne Exposures

In accordance with the definitions set out in Annex V to Commission Implementing Regulation (EU) 2018/1627 of 8 October 2018, amending Implementing Regulation (EU) No 680/2014 as regards prudent valuation for supervisory reporting, the Bank discloses the non-performing exposures and the forborne exposures.

The definition of non-performing exposures are provided under section 2.4.1.

Forborne exposures shall be debt contracts in respect of which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing, or about to experience, difficulties in meeting its financial commitments ("financial difficulties). Exposures shall not be treated as forborne where the debtor is not in financial difficulties.

In this sense, as at December 31, 2019, the breakdown of performing and non-performing exposures was as follows:

	31/12/2019			31/12/2018		
	Gross amount	Impairment, Negative revaluations and Provisions	Coverage	Gross amount	Impairment, Negative revaluations and Provisions	Coverage
Performing exposures	**1 713 179**	**9 637**	**0,6%**	**1 833 590**	**10 651**	**0,6%**
Non-Performing exposures (NPE)	**91 658**	**45 264**	**49,4%**	**193 585**	**82 875**	**42,8%**
Banking Book Debt Securities	41 217	10 636	25,8%	10 820	463	4,3%
Loans and advances to customers	11 883	4 830	40,6%	44 006	15 437	35,1%
Loans and advances to Banks	15 077	15 077	100,0%	15 077	15 077	100,0%
Guarantees	23 478	14 720	62,7%	2 837	726	25,6%
Loan commitments	3	1	33,3%	193	45	23,3%
Assets from discontinuing units	-	-	0,0%	120 652	51 127	42,4%
Total	**1 804 837**	**54 901**	**3,0%**	**2 027 175**	**93 526**	**4,6%**
NPE ratio	**5,1%**			**9,5%**		
NPL ratio	**3,6%**			**8,2%**		

As at December 31, 2019, the breakdown of performing and non-performing forborne exposures was as follows:

	31/12/2019			31/12/2018		
	Gross amount	Impairment, Negative revaluations and Provisions	Coverage	Gross amount	Impairment, Negative revaluations and Provisions	Coverage
Performing exposures	**1 668 640**	**5 392**	**0,3%**	**1 779 497**	**7 526**	**0,4%**
Performing Forborne exposures	**44 539**	**4 245**	**9,5%**	**54 093**	**3 125**	**5,8%**
Loans and advances to customers	44 539	4 245	9,5%	43 322	3 009	6,9%
Assets from discontinuing units	-	-	0,0%	10 771	116	1,1%
Non-Performing Forborne exposures	**20 321**	**4 974**	**24,5%**	**175 671**	**67 072**	**38,2%**
Banking Book Debt Securities	8 435	143	1,7%	10 820	463	4,3%
Loans and advances to customers	11 883	4 830	40,6%	44 006	15 437	35,1%
Loan commitments	3	1	33,3%	193	45	23,3%
Assets from discontinuing units	-	-	0,0%	120 652	51 127	42,4%
Non-Performing exposures	**71 337**	**40 290**	**56,5%**	**17 914**	**15 803**	**88,2%**
Total	**1 804 837**	**54 901**	**3,0%**	**2 027 175**	**93 526**	**4,6%**

Concentration risk

Concerning the concentration risk - that is, the risk arising from the possibility of exposure or from a group of exposures sharing common or interrelated risk factors that produce losses large enough to affect the Bank's solvency - Haitong Bank has internal limits established for the largest solo exhibitions. Regular monitoring of these limits, together with regulatory limits, strengthens the bank's monitoring framework for the concentration of credit risk.

The breakdown of loans and advances to costumers, financial assets held for trading and securities, by sector of activity, for the years ended 31st December 2019 and 31st December 2018, is as follows:

(thousand euros)

	31.12.2019								
	Loans and advances to customers					Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Revaluation				
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Overdue	Securities	Derivative financial assets	Gross amount	Impairment
Agribusiness & Commodity Foods	5 469	-	325	-	-	-	2 249	-	-
Automobiles & Components	-	-	-	-	-	227	7	-	-
Banks	-	-	-	-	-	1 643	68 615	3 107	17
Broker Dealers	1 132	-	-	-	-	-	8 852	-	-
Building Materials	-	-	-	-	-	-	-	8 805	86
Capital Goods	1 060	-	222	-	-	3 604	-	8 435	143
Commercial & Professional Services	3 532	-	658	-	-	-	-	6 913	30
Construction & Engineering	13 739	2 218	40	1 626	126	6 580	-	50 067	215
Containers & Packaging	-	-	-	-	-	373	-	-	-
Food, Beverage & Tobacco	772	-	79	-	-	-	2 797	-	-
Funds & Asset Managers	-	-	-	-	-	620	-	11 165	-
Governments	2 573	-	1	-	-	411 696	-	284 486	514
Health Care	-	-	-	-	-	1 074	-	-	-
Hotels & Gaming	2 127	-	1 086	-	-	-	-	-	-
Insurance									
Investment Holdings	-	-	-	-	-	362	-	-	-
Media & Entertainment	-	-	-	-	-	34	-	-	-
Metals & Mining	72 295	-	1 291	-	-	223	-	3 532	17
Oil & Gas	-	-	-	-	-	1 051	125	21 678	101
Paper & Forest Products	17 882	-	175	-	-	6 253	469	-	-
Power	79 272	-	3 984	-	-	868	5 554	20 000	64
Real Estate	4 143	-	280	-	-	216	-	88 366	276
Retailing	-	-	-	-	-	573	-	-	-
Software	-	-	-	-	-	-	-	13	-
Technology Hardware & Equipment	-	-	-	-	-	-	-	32 782	10 493
Telecoms	-	-	-	-	-	120	-	-	-
Transportation	2 567	-	69	-	-	1 367	222	-	-
Transportation Infrastructure	116 945	-	2 038	-	-	688	59 819	-	-
Water Utilities	514	-	3	-	-	-	-	-	-
Others	488	-	4	-	-	-	-	22 948	-
TOTAL	**324 510**	**2 218**	**10 255**	**1 626**	**126**	**437 572**	**148 709**	**562 297**	**11 956**

(thousand euros)

	31.12.2018							
	Loans and advances to customers				Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Securities	Derivative financial assets	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans				
Agribusiness & Commodity Foods	10 842	-	123	-	-	5 469	-	-
Automobiles & Components	-	-	-	-	103	-	-	-
Banks	-	-	-	-	213	28 831	2 934	22
Broker Dealers	1 942	-	8	-	-	7 581	-	-
Building Materials	258	-	27	-	-	-	-	-
Capital Goods	1 172	-	234	-	3 004	-	9 891	318
Chemicals	4 103	-	663	-	17 723	33	1 251	2
Commercial & Professional Services	8 657	2 446	3 705	1 365	1 042	-	93 834	344
Construction & Engineering	-	-	-	-	-	426	-	-
Consumer Durables & Apparel	994	-	133	-	-	-	-	-
Containers & Packaging	85 534	-	2	-	15	312	13 240	-
Food, Beverage & Tobacco	3 064	-	1	-	423 740	-	378 590	760
Funds & Asset Managers	-	-	-	-	3 587	111	-	-
Governments	2 127	-	302	-	-	-	-	-
Health Care	29 142	-	-	-	-	-	-	-
Hotels & Gaming	-	-	-	-	53	-	-	-
Media & Entertainment	-	-	-	-	367	-	-	-
Metals & Mining	71 544	-	697	-	-	-	35 049	172
Oil & Gas	-	-	-	-	99	-	21 125	106
Paper & Forest Products	-	-	-	-	8 536	4 532	-	-
Pharmaceuticals	105 546	-	2 880	-	4 795	7 091	22 105	72
Power	47 208	2 075	2 244	78	1 894	-	2 690	-
Real Estate	-	-	-	-	-	-	5 131	9
Retailing	814	-	1	-	152	31	21	-
Software	-	-	-	-	-	-	35 057	341
Telecoms	-	-	-	-	303	-	-	-
Transportation	2 636	9 648	27	7 124	1 331	18 416	928	144
Transportation Infrastructure	132 635	-	1 781	-	-	57 186	-	-
Water Utilities	12 900	-	120	-	-	-	-	-
Others	540	-	70	-	-	128	21 813	-
TOTAL	**521 658**	**14 169**	**13 018**	**8 567**	**466 957**	**130 147**	**643 659**	**2 290**

The breakdown of loans and advances to costumers, financial assets held for trading and securities, by country risk, for the years ended 31st December 2019 and 31st December 2018, is as follows:

(thousand euros)

Country	31.12.2019								
	Loans and advances to customers					Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Revaluation	Securities	Derivative financial assets	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Overdue loans				
Andorra	-	-	-	-	-	-	68	-	-
Belgium	-	-	-	-	-	-	165	-	-
Brazil	88 307	-	5 754	-	-	407 916	12 356	132 143	757
China	-	-	-	-	-	-	-	131 288	10 751
France	-	-	-	-	-	300	4 840	1	-
Germany	72 295	-	1 291	-	-	-	8 834	-	-
Italy	-	-	-	-	-	109	-	96 053	72
Luxembourg	-	-	-	-	-	-	-	19 493	-
Poland	-	2 217	-	1 626	126	14 428	264	16 168	79
Portugal	155 896	1	2 338	-	-	10 784	94 365	165 099	297
Spain	6 391	-	869	-	-	2 747	8 748	-	-
Sweden	-	-	-	-	-	11	-	-	-
United Kingdom	1 132	-	-	-	-	-	19 083	-	-
Others	489	-	3	-	-	1 277	-	2 052	-
TOTAL	**324 510**	**2 218**	**10 255**	**1 626**	**126**	**437 572**	**148 723**	**562 297**	**11 956**

(thousand euros)

Industry	31.12.2018							
	Loans and advances to customers				Financial assets held-for-		Securities	
	Gross amount		Impairment		Securities	Derivative financial assets	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans				
Andorra	-	-	-	-	-	107	-	-
Belgium	-	-	-	-	-	65	-	-
Brazil	74 377	1 229	4 974	63	405 468	9 934	150 402	1 173
Chile	-	-	-	-	-	234	-	-
China	42 214	845	749	15	-	-	146 246	644
France	-	-	-	-	-	8 278	5	-
Germany	71 544	-	697	-	9	3 275	-	-
Ireland	-	-	-	-	194	-	-	-
Italy	-	-	-	-	-	-	102 681	75
Luxembourg	-	-	-	-	-	-	14 300	-
Poland	119 581	2 447	74	1 365	47 925	510	-	-
Portugal	204 458	9 648	5 570	7 124	7 048	84 570	225 751	398
Spain	7 002	-	874	-	6 005	6 234	-	-
United Kingdom	1 942	-	8	-	182	16 812	-	-
United States	-	-	-	-	31	-	-	-
Others	540	-	72	-	95	128	4 274	-
TOTAL	**521 658**	**14 169**	**13 018**	**8 567**	**466 957**	**130 147**	**643 659**	**2 290**

Market risk

Market risk is the possibility of losses resulting from adverse movements in market prices, such as equity, interest rates or foreign exchange rates and credit spreads.

The Bank estimates the potential losses in its trading book and for the overall commodity and foreign currency positions using the historical Value at Risk (VaR) methodology, calculated considering a 99% confidence level, an investment period of 10 business days and 1 year of historical observation.

(million euros)

	31.12.2019				31.12.2018			
	December	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Foreign Exchange Risk	1,72	2,34	2,43	1,81	1,97	2,09	1,89	1,31
Interest Rate Risk	0,95	0,67	1,01	0,56	0,17	0,45	0,47	0,17
Shares	0,53	0,44	0,34	0,41	0,12	1,29	0,18	1,40
Credit spread	1,19	1,25	2,19	1,07	2,01	1,81	4,92	0,54
Covariance	-0,55	-0,31	-0,29	-0,31	-0,20	-1,03	-0,40	-0,51
Total	**3,84**	**4,39**	**5,68**	**3,54**	**4,06**	**4,60**	**7,06**	**2,91**

The following table presents the average interest rates as well as the average balances and interest for the period, relating to the Group's major financial asset and liability categories, for the periods ended at December 31st 2019 and 2018, as well as the respective average balances and interest of the period:

(thousand euros)

	31.12.2019			31.12.2018		
	Average balance of the period	Interest of the period	Average interest rate	Average balance of the period	Interest of the period	Average interest rate
Monetary assets	618 767	10 219	1,65%	848 141	21 944	2,59%
Loans and advances to customers	421 837	21 339	5,06%	667 417	17 811	2,67%
Investment in securities	967 467	48 883	5,05%	1 032 801	58 289	5,64%
Collateral accounts	123 061	237	0,19%	141 460	130	0,09%
Financial assets	**2 131 132**	**80 678**	**3,79%**	**2 689 819**	**98 174**	**3,65%**
Monetary resources	818 314	17 985	2,20%	1 200 712	35 092	2,92%
Resources of customers	411 962	14 682	3,56%	370 811	13 708	3,70%
Liabilities represented by securities	166 538	14 868	8,93%	266 530	10 888	4,09%
Other resources	119 140	1 060	0,89%	234 442	964	0,41%
Financial liabilities	**1 515 954**	**48 595**	**3,21%**	**2 072 495**	**60 652**	**2,93%**
Financial Result		**32 083**			**37 522**	

As of 31st December 2019 and 31st December 2018, the exposure of assets and liabilities by currency in regards to the foreign exchange risk was as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Spot	Forward	Net Exposure	Spot	Forward	Net Exposure
AUD	14	-	14	14	-	14
BRL	80 825	(54 470)	26 355	104 308	(76 355)	27 953
CAD	(7)	-	(7)	14	-	14
CHF	184	-	184	180	-	180
CNY	(266)	-	(266)	358	-	358
COP	-	-	-	(292)	-	(292)
CZK	25	-	25	24	-	24
DKK	208	-	208	21	-	21
GBP	(1 188)	-	(1 188)	182	-	182
HKD	398	-	398	43 238	(42 888)	350
HUF	17	-	17	17	-	17
JPY	97	-	97	257	-	257
MXN	134	-	134	129	-	129
NOK	23	-	23	22	-	22
PLN	22 368	-	22 368	24 146	-	24 146
SEK	81	-	81	64	-	64
SGD	1	-	1	-	-	-
TRY	16	-	16	17	-	17
USD	125 347	(140 880)	(15 533)	134 499	(150 866)	(16 367)
ZAR	-	-	-	5	-	5
	228 277	**(195 350)**	**32 927**	**307 203**	**(270 109)**	**37 094**

Note: asset (liability)

The main source of risk of Haitong Bank's foreign subsidiary Haitong Banco de Investimento do Brasil S.A. is its value fluctuation resulting from the EUR/BRL exchange rate. This risk represents a long spot position in BRL. To hedge this risk, Haitong Bank enters into short-term derivatives transactions with a third party buying EUR and selling BRL forward (e.g. EUR/BRL NDF), thus creating a short forward position in BRL. The main risk factor of this BRL forward position is the EUR/BRL exchange rate, being the remaining risk factors the EUR and BRL interest rates. As such, there is a clear and observable relation between the hedged item and the hedging instrument.

Haitong Bank establishes the hedge ratio between the asset value and the BRL amount sold in the derivatives transactions, aiming to keep an hedge ratio of 1:1.

As 31st of December 2019, the information of net investments, considered by the Group in total or partial hedging strategies on subsidiaries and on hedging instruments used, is as follows:

(thousand)

		31.12.2019			
	Currency	Net investment Currency	Hedging instruments Currency	Net investment Euros	Hedging instruments Euros
Company					
Haitong Banco de Investimento do Brasil S.A	BRL	474 366	474 366	105 048	105 048

The information on the gains and losses in exchange rates on the derivatives to cover the investments in foreign institutions, accounted for as exchange differences, is presented in the statement of changes in equity. These hedging relationships were considered effective during 2019, as referred in the accounting policy 2.4.2.

Haitong Bank measures interest rate risk in the banking book using income based (NII: Net Interest Income) and value based (EVE: Economic Value of Equity) metrics.

Under the Economic Value of Equity measure, the Bank assesses the impact on the present value of cash flows due to an interest rate movement, considering the current balance sheet run-off profile.

As of December 2019 and 2018, the Bank maintain similar interest-rate risk sensitive assets and liabilities in the banking book. The repricing profile can be seen bellow:

(thousand euros)

	31 December 2019				
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	1 045	144	182	399	11
Liabilities	(1 087)	(44)	(77)	(360)	(1)
Gap	**(42)**	**100**	**105**	**39**	**10**

(thousand euros)

	31 December 2018				
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	674	286	174	463	64
Liabilities	(407)	(522)	(103)	(633)	(42)
Gap	**267**	**(236)**	**71**	**(170)**	**22**

The impact on the banking book portfolio economic value, under a scenario of +/-200 bps movement in interest rates was as follows:

(million euros)

IR Parallel Shift	2019	2018
+200 bps	10,4	1,4
-200 bps	(5,8)	(0,8)

As at 31st of December 2019 and 2018, the exposure of the Group to the public debt of "peripheral" countries within the Euro Area is as follows:

(thousand euros)

	31.12.2019		
	Financial assets held for trading - Securities	Securities	Total
Portugal	1 046	115 249	116 295
Italy	-	94 965	94 965
	1 046	**210 214**	**211 260**

(thousand euros)

	31.12.2018		
	Financial assets held for trading - Securities	Securities	Total
Portugal	3 808	182 495	186 303
Spain	749	-	749
Italy	-	98 483	98 483
	4 557	**280 978**	**285 535**

All presented exposures are recorded in the statement of financial position of the Group at fair-value based on quoted market values or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding investment securities and trading assets is as follows:

(thousand euros

	31.12.2019					
	Nominal	Market value	Accrued Interest	Book Value	Impairment	Fair value reserves
Securities						
Portugal	**90 100**	**110 889**	**4 447**	**115 249**	**(87)**	**-**
Maturity until 1 year	100	102	3	105	-	-
Maturity over 1 year	90 000	110 787	4 444	115 144	(87)	-
Italy	**90 000**	**93 856**	**1 180**	**94 965**	**(71)**	**96**
Maturity over 1 year	90 000	93 856	1 180	94 965	(71)	96
	180 100	**204 745**	**5 627**	**210 214**	**(158)**	**96**
Financial assets held for trading - Securities						
Portugal	1 050	1 042	4	1 046	-	-
	1 050	**1 042**	**4**	**1 046**	**-**	**-**

(thousand euros)

	31.12.2018					
	Nominal	Market value	Accrued Interest	Book Value	Impairment	Fair value reserves
Securities						
Portugal	**165 300**	**179 890**	**2 816**	**182 495**	**(211)**	**1 229**
Maturity over 1 year	165 300	179 890	2 816	182 495	(211)	1 229
Italy	**100 000**	**98 500**	**58**	**98 483**	**(75)**	**(1 858)**
Maturity over 1 year	100 000	98 500	58	98 483	(75)	(1 858)
	265 300	**278 390**	**2 874**	**280 978**	**(286)**	**(629)**
Financial assets held for trading - Securities						
Portugal	3 300	3 749	59	3 808	-	-
Spain	703	726	23	749	-	-
Poland	12 605	13 641	126	13 768	-	-
	16 608	**18 116**	**208**	**18 325**	**-**	**-**

Hedge accounting

As at 31st of December 2019, the table below includes the detail of the hedging and hedged instruments used in the Group's hedging strategies and accounted at the Balance sheet item - Hedging derivatives:

(thousand euros)

	31.12.2019				
	Notional	Book value		Change in fair value (A)	Currency translation reserve
		Assets	Liabilities		
Hedging of net investments in foreign entities					
Hedging instruments					
Foreign exchange risk					
Forward	105 048	-	300	(4 523)	(4 495)
Hedged Itens					
Haitong Banco de Investimento do Brasil S.A	n.a	n.a	n.a	(917)	(917)
Total	**105 048**	**-**	**300**	**(5 440)**	**(5 412)**

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

The table below includes information on the effectiveness of hedging relationships, as well as impacts on results and other comprehensive income, with reference to 31st of December 2019:

(thousand euros)

	31.12.2019	
	Gains / (Losses) realised in Other comprehensive income	Ineffectiveness recognised in Income statement (A)
Hedging of net investments in foreign entities		
Hedging instruments		
Foreign exchange risk		
Forward	(4 495)	(28)

(A) Net gains/(losses) from hedge accounting

Liquidity risk

Liquidity risk arises from an institution’s present or future inability to meet all payment obligations when they come due or secures such resources only at an excessive cost.

Within the scope of the risk vision statement by the Board of Directors, Haitong Bank as whole and all its subsidiaries individually aim to maintain a solid short-term liquidity position and sustainable medium and long-term funding profile.

To achieve these goals, Haitong Bank seeks to develop a diversified investors’ base, ensuring access to alternative funding sources and instruments, and keeping an adequate funding structure to finance its activity.

Haitong Bank’s liquidity and funding management are under the direct responsibility of the Executive Committee coordinated, at Group level, under the ultimate responsibility of the Chief Executive Officer. The Global Coordinator of Treasury is in charge of the operational management of liquidity, with local teams ensuring liquidity daily management in each of the Bank’s treasury hubs (Lisbon, São Paulo and Warsaw).

The Bank manages its liquidity by establishing a liquidity risk policy, monitoring a set liquidity risk metrics, including prudential liquidity ratios, stress testing and liquidity contingency plans, and by setting limits consistent with the Bank's liquidity risk appetite and regulatory requirements.

As of 31 December 2019, the Bank held 886 million Euros of High Quality Liquid Assets (634 million Euros in 31 December 2018), of which 606 million were available demand deposits in the Bank of Portugal (303 million Euros in 31 December 2018). The remainder of the High Quality Liquid Assets (HQLA) was mainly composed by sovereign debt of European Union countries (mainly Portuguese and Italian) and by Brazilian Government bonds denominated in Brazilian Reais owned by Haitong Bank subsidiary in Brazil.

In 31 December 2019, Haitong Bank held a surplus of 721 million Euros of its 30 days stressed net outflows, which corresponded to a LCR of 537% (426% on 31 December 2018) comfortably above both regulatory and internal limits.

Haitong Bank funding from the Bank of Portugal amounts to 22 million Euros on 31 December 2019 (60 million Euros at the end of 2018) obtained through the Targeted Longer-Term Refinancing Operations facility, maturing in 2022.

In 2019, Haitong Bank's main sources of funding were wholesale facilities provided by financial institutions, debt securities issued by the Brazilian subsidiary, sales with repurchase agreements (repos) and deposits from clients (households and corporate clients).

Haitong Bank enters into derivative transactions with corporate clients and financial institutions, most of which under master netting agreements (e.g. ISDA) and margin agreements (e.g. Credit Support Annex). In market stress situations where the value of derivatives is significantly impacted, additional collateral amounts may be required from Haitong Bank. Derivatives positions and collateral received and posted are detailed in notes 19 and 27, respectively.

As of 31st of December 2019, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	31.12.2019						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and cash equivalents	637 829	-	-	-	-	-	637 829
Financial assets held-for-trading (Securities)	-	16 253	15 388	239 554	329 565	-	600 760
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	37	806	-	36 644	37 487
Financial assets at fair value through other comprehensive income	-	8 348	26 679	165 710	17 654	-	218 391
Financial assets at amortised cost	-	22 927	95 070	223 825	-	-	341 822
Loans and advances to banks	-	148 552	-	-	-	-	148 552
Loans and advances to customers	-	5 016	102 072	129 117	205 218	-	441 423
Derivatives Instruments	-	528 331	756 284	205 224	85 201	99 598	1 674 638
	637 829	729 427	995 530	964 236	637 638	136 242	4 100 902
Liabilities							
Resources from credit institutions	1 384	221 891	2 592	68 115	102 488	-	396 470
Resources from customers	49 057	138 957	145 144	724 176	-	-	1 057 334
Debt securities issued	-	4 073	158 892	42 165	-	-	205 130
Financial liabilities held-for-trading (Securities)	828	134 005	-	-	-	-	134 833
Derivatives Instruments	-	528 664	758 163	204 896	85 090	30 940	1 607 753
	51 269	1 027 590	1 064 791	1 039 352	187 578	30 940	3 401 520

As of 31st December 2018, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	31.12.2018						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and cash equivalents	341 217	-	-	-	-	-	341 217
Financial assets held-for-trading (Securities)	-	19 377	3 520	241 510	207 417	-	471 824
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	36	824	-	37 765	38 625
Financial assets at fair value through other comprehensive income	144 033	13 633	55 008	301 443	5 452	-	519 569
Financial assets at amortised cost	-	-	75 009	38 216	-	-	113 225
Loans and advances to banks	-	124 927	-	-	-	-	124 927
Loans and advances to customers	1 943	119 391	52 151	99 320	345 721	-	618 526
Derivatives Instruments	-	299 429	142 573	534 917	36 709	148 113	1 161 741
	487 193	576 757	328 297	1 216 230	595 299	185 878	3 389 654
Liabilities							
Resources of other credit institutions	292	236 950	375 020	453 490	42 995	-	1 108 747
Resources of customers	22 904	214 278	142 202	20 755	-	-	400 139
Debt securities issued	-	20 773	65 711	225 975	699	-	313 158
Financial liabilities held-for-trading (Securities)	119 907	-	-	-	-	-	119 907
Derivatives Instruments	-	308 304	135 669	564 783	36 703	-	1 045 459
	143 103	780 305	718 602	1 265 003	80 397	-	2 987 410

Operational risk

Operational Risk corresponds to the possible loss resulting from inadequate internal procedures or its negligent application, inadequacy or failure of information systems, staff behaviour or external events. Legal risks are included in this definition. Legal and IT risks are included in this definition. Operational risk is therefore considered as the sum of operational, information systems and compliance risks.

The Bank has in place a framework to ensure the standardization and systematization of the regular activities regarding the identification, assessment, response/ mitigation, monitoring, and control and report of operational risk. A team within the Risk Management Department is exclusively dedicated to the management of this framework.

Capital Management and Solvency Ratio

The main purposes of capital management in the Group are (i) to promote sustainable growth of activity by creating enough capital to withstand the increase of assets, (ii) meet the minimum requirements established by the supervising entities in relation to capital adequacy and (iii) ensure the achievement of the strategic goals set by Group in relation to capital adequacy.

In prudential terms, the Group is subject to inspection by the Bank of Portugal who, in accordance with the EU Directive on capital adequacy, establishes the necessary regulations in this regard that must be fulfilled by the different institutions under their inspection. These regulations establish a minimum rate for the own funds total in relation to the requirements associated with the undertaken risks, which the institutions must comply with.

At the moment and for reporting purposes related to prudential effects before the supervising authorities, the Group uses the Standard method for handling credit risk and operational risk ("The Standardized Approach" - TSA method).

The following table summarises the capital adequacy of the Haitong Bank S.A. Group as at 31st of December 2019 and 31st of December 2018:

	31.12.2019		31.12.2018	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	28,4%	28,2%	22,9%	22,6%
Tier 1 ratio	35,7%	35,4%	28,7%	28,3%
Total Capital ratio	35,9%	35,5%	28,9%	28,5%

The assumptions used in the capital adequacy calculations are described in chapter IT & Internal Control | Risk Management | Solvency in the Management Report.

NOTE 42 – SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the upsurge of the COVID-19 virus to be a pandemic situation. As of the date of approval of these financial accounts, the virus continues to spread in Portugal and overall in European countries. This situation and its evolution could have significant impacts on the economic global backdrop and on the Bank, as the impacts on the Portuguese and Chinese economies are especially important for its activity and for the value of its assets. The extent and severity of these events are not yet possible to determine. The Bank's Board of Directors is monitoring the situation and executing a contingency plan to ensure business continuity. As per the information currently available, the liquidity and capital levels are sufficient to carry out the Bank's activities.

NOTE 43 – ACCOUNTING STANDARDS AND RECENT INTERPRETATIONS

Standards, interpretations, amendments and revisions that came into force in this year

Up to the date of approval of these financial statements, the following accounting standards, interpretations, amendments and revisions have been endorsed by the European Union, with mandatory application for the financial year beginning on January 1, 2019:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 16 – Leases	1-jan-19	This standard introduces the principles of recognition and measurement of leases, replacing IAS 17 - Leases. The standard defines a single accounting model for lease contracts that results in the lessee's recognition of assets and liabilities for all lease contracts, except for leases with a period of less than 12 months or for leases that relate to assets of value reduced. Lessors will continue to classify the leases between operational or financial, and IFRS 16 will not entail substantial changes to such entities as defined in IAS 17.
Amendment to IFRS 9: Negative compensation prepayment characteristics	1-jan-19	This amendment allows financial assets subject to contractual conditions which, in their early amortization, allow the payment of a considerable amount by the creditor, can be measured at amortized cost or at fair value for reserves (depending on the business model), since that: (i) on the date of the initial recognition of the asset, the fair value of the early amortization component is insignificant; and (ii) the possibility of negative compensation in early amortization is the only reason for the asset in question not to be considered as an instrument that only includes payments of principal and interests.

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRIC 23 - Uncertainties in the treatment of income tax	1-jan-19	This interpretation provides guidance on the determi-nation of taxable income, tax bases, tax losses to be reported, tax credits to be used and tax rates in scena-rios of uncertainty as to the treatment of income tax.
Improvements to international financial reporting standards (2015-2017 cycle)	1-jan-19	These improvements involve the clarification of some aspects related to: IFRS 3 - Concentration of business activities: it requires remeasurement of interests previously held when an entity obtains control over an investee over which it previously had joint control; IFRS 11 - Joint ventures: clarifies that there should be no remeasurement of interests previously held when an entity obtains joint control over a joint operation; IAS 12 - Income Tax: clarifies that all tax consequen-ces of dividends should be recorded in profit or loss, regardless of how the tax arises; IAS 23 - Borrowing costs: clarifies that the part of the loan directly related to the acquisition / construction of an asset, outstanding after the corresponding asset has been ready for the intended use, is, for the purpose of determining the capitalization rate, considered an integral part of the entity's general funding.
Amendments to IAS 19: Change in Plan, Restriction or Settlement	1-jan-19	If a plan amendment, cut or settlement occurs, it is now mandatory that the current service cost and net interest for the period after remeasurement are determined using the assumptions used for remeasurement. In addition, amendments were included to clarify the effect of a change, reduction or settlement of the plan on the asset ceiling requirements.
Amendment to IAS 28: Long-term investments in associates and joint arrangements	1-jan-19	This amendment clarifies that IFRS 9 should be applied (including related impairment requirements) to investments in associates and joint arrangements when the equity method is not applied in their measurement.

Except for the effects of the implementation of IFRS 16, described in Note 40, no significant effects were recorded in the Group's financial statements for the year ended December 31, 2019, as a result of the adoption of the standards, interpretations, amendments and revisions referred to above.

Standards, interpretations, amendments and revisions that will take effect in future years

The following accounting standards and interpretations, which have to be applied in future financial years, have been endorsed by the European Union up to the date of approval of these financial statements:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
Amendments to references to the Framework in IFRS	1-jan-20	IFRS 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32, IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 34, IAS 37, IAS 37, in accordance with references to the revised Conceptual Framework in March 2018. The revised Conceptual Framework includes revised definitions of an asset and a liability and new guidance on measurement, derecognition, presentation and disclosure.
Amendment to IAS 1 and IAS 8 - Definition of material	1-jan-20	Corresponds to amendments to clarify the definition of material in IAS 1. The definition of material in IAS 8 now refers to IAS 1. The amendment changes the definition of material in other standards to ensure consistency. The information is material if, by its omission, distortion or concealment, it is reasonably expected to influence the decisions of the primary users of the financial statements based on the financial statements.

These standards, although endorsed by the European Union, were not adopted by the Group in 2019, as their application is not yet mandatory. As a result of the application of the aforementioned standards, no relevant impacts are expected.

Standards, interpretations, amendments and revisions not yet adopted by the European Union

The following accounting standards and interpretations have been issued by the IASB and are not yet endorsed by the European Union:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 17 - Insurance Contracts	1-jan-21	This standard establishes, for insurance contracts within its scope, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 - Insurance Contracts.
Amendment to IFRS 3 - Definition of business	1-jan-20	Corresponds to amendments to the definition of business, seeking to clarify the identification of business acquisition or acquisition of a group of assets. The revised definition further clarifies the definition of a business's output as the supply of goods or services to customers. The changes include examples for identifying a business acquisition.
Amendments to IFRS 9, IAS 39 and IFRS 7 - reform of benchmark interest rates (IBOR Reform)	1-jan-20	Corresponds to amendments to IFRS 9, IAS 39 and IFRS 7 related to the benchmark interest rate reform project (known as “IBOR reform”), in order to reduce the potential impact of changes in reference interest rates on financial reporting, namely hedge accounting.

These standards have not yet been endorsed by the European Union and as such have not been applied by the Group for the year ended 31 December 2019.
With respect to these standards and interpretations, issued by the IASB but not yet endorsed by the European Union, it is not estimated that the adoption of these standards will significantly impact the Group financial statements.

Report and Opinion of the Supervisory Board

Haitong Bank, S.A.
for financial year 2019

(Free translation of a report originally issued in Portuguese language: in case of doubt the Portuguese version will always prevail)

To the Shareholder of Haitong Bank, S.A.,

In accordance with the applicable legislation, we hereby present the Report on the audit performed by the Supervisory Board to the Management Report, the individual and the consolidated financial statements and the proposal for the distribution of the annual results presented by the Board of Directors of Haitong Bank (hereinafter Haitong) for the year ended 31 December 2019.

The members of the Supervisory Board appointed for the 2017-2019 three-year period took office on 24 January 2018 after notifying the Bank of Portugal that the legal requirements set forth in no. 3 of Article 30-B of the General Law on Credit Institutions and Financial Companies ("*Regime Geral das Instituições de Crédito e Sociedades Financeiras*") approved by the Decree-Law no. 298/92 of 31 December had been met.

Haitong's Supervisory Board, as part of its functions, monitored, in accordance with the Law and the company's articles of association, the development of Haitong's management and business activities, namely:

(i) assessed the adequacy and effectiveness of the internal control, internal audit and risk management systems;

(ii) attended the Board of Directors meetings whenever invited;

(iii) attended the Internal Audit, Risk, and Corporate Governance Committees' meetings;

(iv) reviewed management information documents that were presented by the Board of Directors;

(v) monitored the verification of the accounting records and respective support documents;

(vi) assessed the accounting policies and valuation criteria adopted by Haitong; and

(vii) held meetings with the Statutory Auditor, whenever necessary, on the assessment of the accounting policies and valuation criteria adopted by Haitong, who always provided the information required and deemed relevant.

In accordance with the applicable legislation, the Supervisory Board also assessed the Auditor's Report and Statutory Audit Certification ("*Certificação Legal de Contas*") prepared by the Statutory Auditor (Deloitte & Associados, SROC, S.A.) on the individual and consolidated financial statements for the financial year 2019 and noted the Additional Report on said financial statements issued by the Statutory Auditor to the Supervisory Board, with which the Supervisory Board agrees.

The Supervisory Board highlights that Deloitte's opinion has a qualification, materialized as an emphasis, whose content derives from the World Health Organization statement issued in March 2020, declaring the "COVID-19" virus spread as a pandemic illness. Considering the extent and severity of this event, it may have an impact on the Bank's activity, which, to this date, is not yet possible to determine. However, the Board of Directors considers that, given the information currently available, the liquidity situation and capital levels will be sufficient to carry out the Bank's activities.

The Supervisory Board also analysed the Management Report submitted by the Board of Directors and considers that the report complies with the applicable legal and statutory requirements and duly mentions the main aspects of Haitong's activities in 2019, both in individual and in consolidated terms.

The Supervisory Board highlights the following:

- On December 19, 2019, Haitong Bank carried out the sale of the entire share capital of Haitong Investment Ireland p.l.c., a company incorporated and headquartered in the Republic of Ireland, to Haitong International Holdings Limited resulting from the share purchase and sale agreement dated September 30, 2019. The sale price was EUR 12,000,000.00. The impact of this transaction is recorded on "Results from operations under discontinuation", of EUR 6,291,000.00. The release of this transaction is disclosed in Note 34 of Notes to the consolidated financial statements.

- On December 18, 2019, the liquidation, assets sharing and extinction of SES Iberia Private Equity S.A. were confirmed, whose public deed dates December 17.

- The Bank has applied IFRS 16 using the modified retrospective approach from January 1, 2019 onwards. However, the comparative information from 2018 has not been restated, according to the transition specific conditions (modified retrospective approach). The reclassifications and the adjustments derived from the new rules of lease transactions were, therefore, recognised in the balance sheet as of January 1, 2019. The impact of the use of this standard is disclosed in Note 40 of Notes to the consolidated financial statements.

- At the end of June, the Bank of Portugal authorized the establishment of a branch in Macau. The beginning of the activities of the branch is still dependent on the conclusion of the authorization process by the relevant Macau Authorities.

- From January 1, 2019 onwards, as a result of the application of IFRIC 23, contingencies with the Tax Authority started to be accounted in separate items. Previously they were accounted following with IAS 37, and the estimated amounts arising from these uncertainties were recorded in Provisions.

- On October 31, 2019, the Bank submitted to the Autoridade de Supervisão de Seguros e Fundos de Pensões ("ASF") a request to change the Pension Fund contract. The framework of this situation is disclosed in Note 14 of the Notes to the consolidated financial statements.

- Law No. 98/2019 was published on 4 September 2019, which changed the tax regime applicable to the impairment of financial and credit institution. The Bank has chosen not to follow the 5 year adaptation regime. Therefore, the Bank considered, for the purpose of calculating taxable income and the recording and analysis of the recoverability of deferred tax assets with reference to December 31, 2019, that the amount of credit impairment and provisions for guarantees recorded, that is deductible for the purposes of CIT (Corporate Income Tax), corresponds to the amount of deductible provisions that would have been calculated if the reference to the Bank of Portugal Notice 3/95 remained in force. This situation is duly disclosed in Note 32 of the Notes to the consolidated financial statements.

- In July 2019 and January 2020, the Bank was notified of the final Reports of the Tax Authority's inspection services, issued for 2015 and 2016, respectively. In these reports, certain procedures adopted by the Bank, namely in association with special regime for differed taxes (REAID) and the acceptance of certain tax costs are being challenged. In this sense, following the Bank disagreement with these corrections, in November 2019, an administrative complaint was submitted regarding the 2015 Tax Inspection Report and the aim is, in 2020, to submit an administrative complaint to challenge the 2016 inspection report. This situation is disclosed in Note 32 of the Notes to the consolidated financial statements.

- The description of relevant audit issues and other issues at both individual and consolidated level that are reported in the Statutory Audit Certification and Audit Report.

In light of the above, it is the Opinion of the Supervisory Board that the following documents should be approved:

- The Management Report and remaining individual and consolidated reporting documents relative to the financial year ended on 31 December 2019;

- The proposal submitted by the Board of Directors on the allocation of the net results for the financial year 2019, of EUR 10,342,472.65.

Lisbon, 20 March 2020

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira (Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

Declaration of Conformity with the Financial Information Reported

The present declaration is submitted under the terms of line c) of no. 1 of Article 245 of the Portuguese Securities Code.

The Supervisory Board hereby declares that, to the best of its knowledge:

- The information referred to in line a) of no. 1 of Article 245 of the Portuguese Securities Code as at 31 December 2019 was prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of Haitong and the companies included within its consolidated scope; and

- The management report faithfully details the evolution of the business and the performance and position of Haitong and the companies included within its consolidation scope, and contains a description of the main risks and uncertainties faced within the framework of ongoing activities.

Lisbon, 20 March 2020

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira (Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

Annual Report on the Activity of the Supervisory Board in 2019

According to the predisposition in line g) of no. 1 of Article 420 of the Portuguese Commercial Companies Code (CSC) and line g) of no. 1 of Article 2 of the Regulation of Haitong's Supervisory Board, the Supervisory Board hereby presents the report on its supervisory works developed throughout 2019.

1. Introduction

The main responsibilities of the Supervisory Board, according to the Regulation, are:

i. Monitoring Haitong's activity ensuring that the law and the company's Articles of Association are complied with, and supervising the company's management;

ii. Supervising compliance with accounting policies and with the process of preparing and disclosing financial information, as well as revising the Bank's accounting books and records;

iii. Monitoring and supervising the effectiveness of the risk management and internal control system;

iv. Proposing the appointment of a Statutory Auditor or firm of Statutory Auditors to the General Meeting; and

v. Monitoring the independency of the Statutory Auditor, namely regarding the provision of additional services.

2. Activities carried out by the Supervisory Board in 2019

i. Monitoring Haitong's activity, ensuring compliance with the law and the company's Articles of Association, and supervising the company's management

During 2019, the Supervisory Board held 34 meetings, some of which with the Board of Directors (2 meetings), with the Internal Audit Committee (5 meetings), with the Risk Committee (8 meetings) and with the Corporate Governance Committee (6 meetings). The Supervisory Board had access to all information requested and obtained all documents and clarifications requested.

ii. Supervising compliance with accounting policies and with the process of preparing and disclosing financial information, as well as revising the Bank's accounting books and records

The Supervisory Board has monitored compliance with accounting policies and the reliability of financial information via the financial information provided by the Finance Department and by the Statutory Auditor (Deloitte & Associados, SROC, S.A.). Several meetings were held with the auditors, in which the reports were analysed and procedures and audit conclusions were assessed.

The Supervisory Board has analysed accounting documentation and the legal certification of accounts related to the 2019 fiscal year, and issued a favourable opinion regarding those documents.

iii. Monitoring and supervising the effectiveness of the risk management and internal control systems

The Supervisory Board has monitored and assessed the adequacy of internal control systems of risk management, of internal audit and of compliance, under the scope of its responsibilities, via meetings and information reporting by the Heads of said functions in Haitong. The Supervisory Board has also monitored and assessed the adequacy of the work carried out by the Bank's Statutory Auditor (Deloitte & Associados, SROC, S.A.) within the assessment of the Internal Control System, and issued its opinion on the adequacy of the internal control system based on the terms of line a) of no. 5 of Article 25 of the Bank of Portugal Notice 5/2008, of June 25.

iv. Monitoring the activity of the Internal Audit Function

The Supervisory Board has monitored the Internal Audit Function activities throughout 2019, and this Function reports functionally to the Internal Audit Committee and the Supervisory Board and hierarchically to the Executive Director responsible for the Function. The Supervisory Board has approved the budget and activity plan and has regularly monitored the execution of the Internal Audit Function activity plan, having received the information deemed necessary for carrying out its duties.

v. Monitoring the activity of Haitong's Statutory Auditor

The Supervisory Board has regularly monitored throughout 2019 the activities developed by the Statutory Auditor, via the critical assessment of the documents drafted within the scope of its functions. The Statutory Auditor confirmed before the Supervisory Board that it has found no irregularities concerning the performance of its duties and that there were no obstacles in pursuing those duties. During the 2019 exercise, the Supervisory Board has assessed the provision of services that do not relate to audit works, and confirmed that the independency of the Statutory Auditor has been safeguarded.

vi. Monitoring Haitong's business with related parties

The Supervisory Board has monitored the enforcement of the policy for related party transactions during 2019. The majority of related party transactions carried out in 2019 concern financial advisory services and other types of deals that do not involve credit or market risk for Haitong.

vii. Whistleblowing

The Supervisory Board is responsible for receiving wrongdoing reports presented by employees, clients, shareholders, or any other entity, under the scope of line j) of Article 420 of the CSC. In October 2018, the Whistleblowing Policy was updated. During the 2019 exercise, the Supervisory Board did not receive any wrongdoing reports.

Lastly, the Supervisory Board thanks the Board of Directors and all Haitong staff members for their cooperation throughout the exercise of its functions.

Lisbon, 20 March 2020

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira (Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

STATUTORY AUDITOR'S REPORT AND AUDIT REPORT
(Amounts stated in thousands of euros – t.euros)

(Free translation of a report originally issued in Portuguese language: in case of doubt the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Haitong Bank, S.A. (the "Bank") and of its subsidiaries (the "Group"), which comprise the consolidated financial position as at 31 December 2019 (that presents a total of 2,606,910 t.euros and total equity of 615,542 t.euros, including a net income attributable to the shareholders of the Bank of 7,508 t.euros), the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Haitong Bank, S.A. as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section. We are independent from the entities that constitute the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of a matter

As described in Note 42, in March 2020, the surge of the new coronavirus ("COVID-19") was declared by the World Health Organization as a pandemic situation. This situation and its evolution may have significant impacts on the global economic environment, and consequently on the Group's activity and the valuation of its assets. The extent and severity of these impacts are not yet determinable. The Board of Directors considers that, in view of the information currently available, the liquidity and the capital levels will be sufficient to continue the Group's activity.

Our opinion is not modified with respect to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

<table>
<tr><th>Description of the most significant risks of material misstatement identified</th><th>Summary of the auditor's responses to the most significant assessed risks of material misstatement</th></tr>
<tr><td colspan="2">Impairment for financial assets (Notes 2.4.1, 20, 22 and 31)</td></tr>
<tr><td>As of 31 December 2019, the Group has recorded accumulated impairment losses for financial assets (securities and loans) in the amount of 39,151 t.euros ("Impairment losses for credit risk"), relating to:

(i) guarantees and other commitments (15,314 t.euros);
(ii) loans to costumers (11,881 t.euros);
(iii) securities classified at amortised cost (8,699 t.euros);
(iv) securities recorded at fair value through other comprehensive income (3,257 t.euros).

The impairment losses for credit risk represent management's best estimate of the expected losses at the reference date of the financial statements, considering the rules laid out in IFRS 9 - Financial Instruments ("IFRS 9").

According to IFRS 9, the Group classifies its financial assets classified at amortized cost and at fair value through other comprehensive income in Stages, based on the changes in its credit risk since initial recognition. This classification determines, among other aspects, the type of analysis (individual or collective) to perform, as well as the parameters used by the Group in the calculation of impairment losses.

Considering the characteristics of the Group's loan and securities portfolios classified at amortised cost and at fair value through other comprehensive income, a significant part of its portfolios are subject to individual analysis, to conclude on the appropriate classification in Stages and to determine the individual impairment loss, if applicable.</td><td>We analysed the relevant internal control procedures implemented by the Group in the process of determining impairment losses for credit risk.

We reviewed the documentation of the impairment methodology implemented by the Group, and analysed its reasonableness considering the requirements of IFRS 9.

We selected a sample of financial assets classified at amortised cost and at fair value through other comprehensive income (securities and loans) and guarantees and other commitments. For the selected sample we analysed, as applicable:

• the classification in stages, considering the criteria defined by the Group.
• the reasonableness of the estimated impairment losses recorded in the financial statements based on the review of the Group's judgments on the economic and financial situation of clients, valuation of the collaterals received and perspectives on the evolution of their activity and on the future management of those loans by the Group.

For a sample of financial assets subject to collective impairment analysis, we recalculated the impairment losses considering the methodology and assumptions defined by the Group.</td></tr>
</table>

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the** assessed risks of material misstatement
Impairment for financial assets (Notes 2.4.1, 20, 22 and 31)	
The classification of financial assets in Stages and the determination of impairment losses for credit risk through individual analysis inherently has a strong judgmental component from management about the information available, namely in the identification of significant increases in credit risk and in estimating the present value of the amount that the Group expects to recover from the financial assets, that incorporates also assumptions about future events that may not occur as expected and reflects management's intentions at each moment regarding management and future holding of the assets. In face of the above, and taking into account the materiality of the amounts in the context of the financial statements, the determination of impairment for financial assets at amortised cost and at fair value through other comprehensive income (securities and loans) and the provisions for guarantees and other commitments were considered a key audit matter.	We reviewed the disclosures related to this subject, considering the applicable accounting framework.
Recoverability of deferred tax assets (Notes 2.14, 3.2 and 32)	
As of 31 December 2019, the Group has recorded deferred tax assets in the amount of 116,337 t.euros, of which: • 87,355 t.euros originated by the Bank, essentially related with: (i) temporary differences arising from impairment for loans to customers (35,471 t.euros); (ii) tax losses carried forward (34,375 t.euros), essentially originated in 2015, 2016 and 2019, that can be used within a period of 12 years (for 2015 and 2016) and 5 years (for 2019), not exceeding 70% of taxable profit in each of those years. • 49,999 t.euros originated by the activity of the subsidiary Haitong Banco de Investimento do Brasil, of which 28,833 t.euros related with tax losses carried forward.	We analysed the relevant internal control procedures implemented by the Group in the process of assessing the recoverability of deferred tax assets. We reviewed the main assumptions considered by the Group to estimate the evolution of pre-tax profits in the period covered by its analysis. We reviewed the reasonableness of the interpretation of the relevant tax legislation considered by the Group in the estimation of future taxable profits. We reviewed the reasonableness of the calculations prepared by the Group to demonstrate the recoverability of deferred tax assets, taking into account the understanding of the assumptions and the review of the interpretation of the tax legislation described above.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the** assessed risks of material misstatement
Recoverability of deferred tax assets (Notes 2.14, 3.2 and 32)	
In accordance with IAS 12 - Income Taxes, deferred tax assets can only be recorded up to the extent that it is probable that future taxable profit will be available against which they can be utilised. The Group prepared a forecast of its future taxable profit to assess the recoverability of deferred tax assets. This estimate is judgmental by nature and depends on the assumptions made by management to estimate the evolution of profits before taxes and its interpretation of the tax legislation, including what concerns deferred tax assets in the scope of the Special Regime applicable to deferred tax assets and the tax deductibility of certain costs. To this extent, the recoverability of deferred tax assets is dependent on the Group's ability to generate the estimated results, and the confirmation of its interpretation of the tax legislation. Any deviations from the estimation of future results or changes in the tax legislation or its interpretation may have a material impact on the recoverability of deferred tax assets. Given the materiality of deferred tax assets in the Group's financial statements and the need to use estimates to determine their recoverability, this area was considered a key audit matter.	We reviewed the disclosures related to deferred taxes, considering the applicable accounting framework.
Legal contingencies (Notes 2.15 and 37)	
As disclosed in Note 37 to the consolidated financial statements, as of 31 December 2019 there are several contingencies involving the Group, including several lawsuits against the Bank related to commercial paper issued by entities of the Espírito Santo Group and a capital increase of Banco Espírito Santo, S.A. According to the opinion of the Group's Legal Department and with external lawyers' opinion, whom are in charge of the lawsuits, management classifies as unlikely an unfavourable outcome, and therefore no provisions were booked for that purpose.	We analysed the relevant internal control procedures implemented by the Group in the process of monitoring legal contingencies. We obtained information from external lawyers accompanying the lawsuits, including the description of disputes and the probability of loss for the Group. We discussed with management, the Group's Legal Department and with the external lawyers the current state of the more relevant lawsuits and expectations regarding their outcome.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the** assessed risks of material misstatement
Taking into account the relevance of the amounts involved, this was considered a key audit matter.	We reviewed the disclosures related to legal contingencies.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the** assessed risks of material misstatement
Resolution Fund (Note 37)	
As described in detail in note 37 to the financial statements, following the resolution measures applied to Banco Espírito Santo, S.A. (BES) and Banif – Banco Internacional do Funchal, S.A. (Banif), as of 31 December 2019 the Resolution Fund owned 25% of the capital share of Novo Banco, S.A. and the total share capital of Oitante, S.A.. In this context, it obtained loans from the Portuguese State and from a banking syndicate (in which the Bank does not participate) and assumed other responsibilities and contingent liabilities, including those related to the litigation associated with these processes, as well as to a contingent capital mechanism defined in the sale in 2017 of 75% of the share capital of Novo Banco, S.A. to Lone Star. In order to reimburse these loans and to meet other responsibilities already assumed or that may have to be assumed, the Resolution Fund has essentially the revenue from the periodic contributions from participating institutions (including the Bank) and the contribution over the banking sector. It is also established the possibility of the member of the Portuguese Government responsible for the finance area to determine, by ministerial order, that the participating institutions make special contributions in the situations established for it in the applicable legislation, particularly in the event that the Resolution Fund does not have enough own resources for the fulfilment of its obligations. According to the latest Report and Accounts available from the Resolution Fund, the Resolution Fund's own resources as of 31 December 2018 were negative. The annual contributions to the Fund and the contribution over the banking sector are recognised as losses on an annual basis, as set out in IFRIC 21 – Levies.	Analysis of public communications on this matter released by the Resolution Fund until the date of our report. Analysis of the public announcement and content of the resolution of the Council of Ministers on 2 October 2017, which authorised the formalisation by the Portuguese State, as ultimate grantor of financial stability, of a framework agreement with the Resolution Fund, intended to made available the financial resources to the Resolution Fund to satisfy contractual obligations in connection with the sale of 75% of Novo Banco's share capital to Lone Star. We analysed the framework agreement established between the Portuguese State and the Resolution Fund. We read the last Report and Accounts of the Resolution Fund that refers to the year 2018. We reviewed the accounting framework of the contributions to the Resolution Fund. We reviewed the disclosures included in the financial statements related to this matter.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the** assessed risks of material misstatement
Resolution Fund (Note 37)	
The financial statements as at 31 December 2019 reflect management's expectation that no special contributions or any other extraordinary contributions will be required from the Bank in order to finance the resolution measures applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund, considering: - The conditions established in the scope of the renegotiation, announced in March 2017, of the loans obtained by the Resolution Fund to finance the referred resolution measures, including the extension of the maturity date to 31 December 2046 and the possibility to adjust that date, with the purpose of guaranteeing the capacity of the Resolution Fund to fully meet its obligations based on regular revenues and without the need to resort to special contributions or any other type of extraordinary contributions from the banking sector; and - The public communications issued by the Resolution Fund and by the Office of the Portuguese Minister of Finance, which refer as an objective ensuring that such contributions will not be necessary. Given the responsibilities of the Resolution Fund and the judgements of management as described above, this area was considered a key audit matter.	

Responsibilities of management and supervisory body for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRS);
- the preparation of the management report, including the corporate governance report, in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;

- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter;

- provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements and the verification of the requirements as provided in numbers 4 and 5 of article 451.º of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

Pursuant to article 451, n.º 3, al. e) of the Portuguese Companies' Code ("Código das Sociedades Comerciais"), it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge of the Group, we have not identified any material misstatements.

On the corporate governance report

Pursuant to article 451, number 4, of the Portuguese Company's Code ("Código das Sociedades Comerciais"), we conclude that the corporate governance report includes the elements required to the Group under the terms of article 245-A of the Portuguese Securities Code ("Código dos Valores Mobiliários"), and we have not identified any material misstatements on the information disclosed therein, which, accordingly, complies with the requirements of items c), d), f), h), i) and m) of that article.

On the consolidated non financial information defined in article 508.º-G of the Portuguese **Company's** Code

Pursuant to article 451, number 6, of the Portuguese Company's Code ("Código das Sociedades Comerciais"), we inform that the Bank prepared a specific report on consolidated non financial information, as required under article 508-G of the Portuguese Company's Code, which is presented together with the management report.

On the additional matters provided in article 10 of Regulation (UE) 537/2014

Pursuant to article 10 of Regulation (UE) 537/2014 of the European Parliament and of the Council of 16 April 2014, in addition to the key audit matters mentioned above, we also report on the following:

- We were appointed auditors of the Bank in the shareholders' general meeting held on 16 November 2016, to conclude the ongoing mandate until the end of 2016. We were reappointed as auditors of the Bank in the shareholder's general meeting held on 17 August 2017 for a mandate from 2017 to 2019.

- Management has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs, we maintained professional skepticism and we designed audit procedures to respond to the risk of material misstatements in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement on the consolidated financial statements due to fraud.

- We confirm that the audit opinion issued is consistent with the additional report that we prepared and delivered to the Group's supervisory body as of this date.

- We declare that we have not provided any prohibited services as described in article 77, number 8, of the Ordem dos Revisores Oficiais de Contas statutes (Legal Regime of the Portuguese Statutory Auditors) and we have remained independent from the Group in conducting the audit.

Lisbon, 20 March 2020

Deloitte & Associados, SROC S.A.
Represented by João Carlos Henriques Gomes Ferreira, ROC

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC S.A. internal procedures, the report is not to be signed. In the event of discrepancies, the Portuguese language version prevails.)

INDIVIDUAL FINANCIAL STATEMENTS AND NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

These individual financial statements are a free translation to English from the original Portuguese version. In case of doubt or misinterpretation, the Portuguese version will prevail.

1. INDIVIDUAL FINANCIAL STATEMENTS

Individual Income Statement for the financial years ended on the 31st December 2019 and 2018

(thousand euros)

	Notes	31.12.2019	31.12.2018
Interest and similar income	4	26 559	19 285
Interest and similar expense	4	14 107	16 191
Financial margin		**12 452**	**3 094**
Dividend income	5	824	5 401
Fees and commissions income	6	83 411	71 007
Fees and commissions expenses	6	(6 993)	(6 406)
Net trading income	7	3 521	(4 631)
Net Income from other financial instruments at fair value trought profit or loss	8	936	(1 380)
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	9	2 457	3 302
Net gains/(losses) from foreign exchange differences	10	(11 923)	7 246
Net gain /(loss) from derecognition of financial assets measured at amortised cost	11	265	117
Other Operating income and expense	12	3 369	(2 293)
Operating Income		**88 319**	**75 457**
Employee costs	13	32 770	32 900
Administrative costs	15	14 965	21 846
Depreciations and amortisations	24 and 25	6 617	4 959
Provisions	31	446	19 823
Net impairment loss on financial assets	31	13 282	(3 765)
Operating expenses		**68 080**	**75 763**
Profit / (Loss) before Income Tax		**20 239**	**(306)**
Income tax			
Current tax	32	725	755
Deferred tax	32	9 172	3 505
		9 897	**4 260**
Net Profit / (Loss) for the year		**10 342**	**(4 566)**
Basic Income per Share (in euros)	16	0,06	-0,03
Diluted Income per Share (in euros)	16	0,06	-0,03

The following notes form an integral part of these financial statements

The Director of the Finance Department

The Board of Directors

Individual Statement of Comprehensive Income the financial years ended on the 31st December 2019 and 2018

(thousand euros)

	31.12.2019	31.12.2018
Net income of the year	**10 342**	**(4 566)**
Other comprehensive income for the year		
Items that will not be reclassified to profit and loss		
Actuarial gains/(losses), net of taxes	(3 456)	(2 104)
	(3 456)	**(2 104)**
Items that may be reclassified to profit and loss		
Exchange differences net of taxes	-	14
Fair value changes of debt instruments measured at fair value through other comprehensive income	(800)	(2 964)
	(800)	**(2 950)**
Total comprehensive income/(loss) of the year	**6 086**	**(9 620)**

The following notes form an integral part of these financial statements

Individual Statement of Financial Position as at the 31st December 2019 and 2018

(thousand euros)

	Notes	31.12.2019	31.12.2018
Assets			
Cash and cash equivalents	17	633 518	317 433
Financial assets at fair value through profit or loss		175 218	240 585
Financial assets held-for-trading		166 023	228 955
Securities	18	29 656	69 996
Derivative financial assets	19	136 367	158 959
Non-trading financial assets mandatorily at fair value through profit or loss		9 195	11 630
Securities	20	9 088	11 346
Loans and advances to customers	22	107	284
Financial assets at fair value through other comprehensive income	20	57 036	371 780
Financial assets measured at amortised cost		572 763	722 270
Loans and advances to banks	21	11 526	3 965
Loans and advances to customers	22	231 021	631 220
Securities	20	330 216	87 085
Non-current assets held-for-sale	23	2 244	153 358
Other tangible assets	24	8 547	2 391
Intangible assets	25	5 628	6 703
Investments in associated companies	26	170 365	173 643
Tax assets		112 082	127 128
Current income tax assets	32	35 986	39 893
Deferred income tax assets	32	76 096	87 235
Other assets	27	143 548	201 688
Total Assets		**1 880 949**	**2 316 979**
Liabilities			
Financial liabilities held for trading		138 037	178 619
Securities	18	1 962	16 119
Derivative financial assets	19	136 075	162 500
Financial liabilities measured at amortised cost		1 002 906	1 346 545
Resources of credit institutions	28	25 012	60 292
Resources of customers	29	977 894	1 035 108
Debt securities issued	30	-	251 145
Provisions	31	17 342	79 809
Tax liabilities		6 447	2 068
Current income tax liabilities	32	6 447	2 068
Deferred income tax liabilities	32	-	-
Other liabilities	33	113 706	113 513
Total Liabilities		**1 278 438**	**1 720 554**
Equity			
Share capital	34	844 769	844 769
Share premium	34	8 796	8 796
Other equity instruments	34	108 773	108 773
Fair-value reserves	35	(1 345)	(545)
Other reserves and retained income	35	(368 824)	(360 802)
Net profit/(loss) of the year		10 342	(4 566)
Total equity		**602 511**	**596 425**
Total Equity and Liabilities		**1 880 949**	**2 316 979**

The following notes form an integral part of these financial statements

The Director of the Finance Department

The Board of Directors

Individual Statement of Changes in Equity for the financial years ended on the 31st December 2019 and 2018

(thousand euros)

	Share Capital	Share premium	Other equity instruments	Fair value reserve	Other Reserves, Retained Income and Other Comprehensive Income	Total	Net profit / (loss) for the year	Total equity
Balance as at 31st of December 2017	**844 769**	**8 796**	**3 731**	**1 967**	**(216 258)**	**(214 291)**	**(140 541)**	**502 464**
IFRS 9 adoption impact	-	-	-	452	(1 368)	(916)	-	(916)
Balance as at 1st of January 2018	**844 769**	**8 796**	**3 731**	**2 419**	**(217 626)**	**(215 207)**	**(140 541)**	**501 548**
Other movements directly recorded in equity (see Note 35):								
Changes in fair value, net of taxes	-	-	-	(2 964)	-	(2 964)	-	(2 964)
Exchange differences	-	-	-	-	14	14	-	14
Actuarial gains / (losses) net of taxes	-	-	-	-	(2 104)	(2 104)	-	(2 104)
Net profit / (loss) for the period	-	-	-	-	-	-	(4 566)	(4 566)
Total of comprehensive income of the year	**-**	**-**	**-**	**(2 964)**	**(2 090)**	**(5 054)**	**(4 566)**	**(9 620)**
Issuance of other equity instruments (see Note 34):	-	-	105 042	-	(545)	(545)	-	104 497
Reserve establishment	-	-	-	-	(140 541)	(140 541)	140 541	-
Balance as at 31st of December 2018	**844 769**	**8 796**	**108 773**	**(545)**	**(360 802)**	**(361 347)**	**(4 566)**	**596 425**
Other movements directly recorded in equity (see Note 35):								
Changes in fair value, net of taxes	-	-	-	(800)	-	(800)	-	(800)
Actuarial gains / (losses) net of taxes	-	-	-	-	(3 456)	(3 456)	-	(3 456)
Net profit / (loss) for the period	-	-	-	-	-	-	10 342	10 342
Total of comprehensive income of the year	**-**	**-**	**-**	**(800)**	**(3 456)**	**(4 256)**	**10 342**	**6 086**
Reserve establishment	-	-	-	-	(4 566)	(4 566)	4 566	-
Balance as at 31st of December 2019	**844 769**	**8 796**	**108 773**	**(1 345)**	**(368 824)**	**(370 169)**	**10 342**	**602 511**

The following notes form an integral part of these financial statements

Individual Cash Flow Statement for the financial years ended on the 31st December 2019 and 2018

(thousand euros)

	Notes	31.12.2019	31.12.2018
Cash flows from operating activities			
Interests received		29 331	16 398
Interests paid		(11 714)	(15 977)
Fees and commission received		83 886	67 249
Fees and commission paid		(6 993)	(6 406)
Cash payments to employees and suppliers		(52 227)	(60 248)
		42 283	**1 016**
Changes in operating assets and liabilities:			
Resources at central banks		(642)	(1 494)
Trading financial assets and liabilities		22 320	52 700
Loans and advances to banks		(7 587)	(30 459)
Resources of other credit institutions		(37 001)	(70 653)
Loans and advances to customers		396 914	(143 881)
Resources of costumers		(57 369)	(2 973)
Other operating assets and liabilities		141 109	4 133
Net cash flow from operating activities before income tax		**500 027**	**(191 611)**
Income taxes paid		(450)	(12 770)
		499 577	**(204 381)**
Net cash flows from investment activities			
Sale of investments in subsidiaries and associates		12 000	23 846
Dividends received		824	-
Purchase of securities		(339 706)	(478 132)
Sale and reimbursement of securities		403 604	294 243
Purchase of fixed assets		(2 627)	(906)
Sale of of fixed assets		62	89
		74 157	**(160 860)**
Cash flows from financing activities			
Debt securities issued	30	-	250 000
Reimbursement of debt securities issued	30	(258 291)	(143 000)
Issuance of other equity instruments	34	-	104 497
Net cash flow from financing activities		**(258 291)**	**211 497**
Net changes in cash and equivalents		**315 443**	**(153 744)**
Cash and equivalents at the beginning of the year		312 122	465 866
Cash and equivalents at the end of the year		627 565	312 122
		315 443	**(153 744)**
Cash and equivalents includes:			
Cash	17	611 923	308 990
Deposits at other credit institutions	17	21 595	8 443
(-) Minimum Reserves	17	(5 953)	(5 311)
Total		**627 565**	**312 122**

The following notes form an integral part of these financial statements

2. NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

Haitong Bank, S.A.

NOTE 1 – ACTIVITY

Haitong Bank, S.A. (Bank or Haitong Bank) is an investment bank based in Portugal, Lisbon, at Rua Alexandre Herculano, n.º 38. The Bank is duly authorised by the Portuguese authorities, central banks and regulators in order to carry out its business in Portugal and in the countries where it operates through international financial branches.

The Institution was established in February 1983 as an Investment Company, as a foreign investment in Portugal under the company name FINC – Sociedade Portuguesa Promotora de Investimentos, S.A.R.L.. In the 1986 financial year, the Company became part of the Grupo Espírito Santo, under the name Espírito Santo – Sociedade de Investimentos, S.A..

In order to widen the scope of its business, the Institution has obtained a license from the Portuguese official bodies for its conversion into an Investment Bank, by means of Ordinance no. 366/92 of November 23rd, published in the Portuguese Official Gazette – Series II – no. 279, of December 3rd. Its business as an Investment Bank started on the 1st of April, 1993, under the company name Banco ESSI, S.A..

In the 2000 financial year, Banco Espírito Santo, S.A acquired the whole of BES Investimento's share capital in order to reflect all existing synergies between both institutions in its individual accounts.

On the 3rd of August, 2014, following the implementation of a resolution measure by the Bank of Portugal, applied to Banco Espirito Santo, S.A., the Bank became held by Novo Banco, S.A..

Haitong International Holdings Limited acquired the whole of BES Investimento's share capital on September 2015, and the Bank's company name was thereby changed into Haitong Bank, S.A..

Haitong Bank currently operates through its headquarters in Lisbon, as well as through branches in London, Warsaw and Madrid, and subsidiaries in Brazil.

Haitong Bank's financial statements are individual by Haitong Internacional Holdings Limited, based in Li Po Chun Chambers, n.º 189, Des Voeux Road Central, in Hong Kong.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. BASES OF PREPARATION

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005, and Regulation no. 5/2015, of 7 December 2015 from the Bank of Portugal, Haitong Bank is required to prepare its financial statements in accordance with the International Financial Reporting Standards (IFRS), as established by the European Union.

The IFRS comprise the accounting standards issued by the International Accounting Standards Board (IASB), as well as the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and by their predecessor bodies.

Haitong Bank's individual financial statements set forth herein refer to the financial year ended on the 31st of December, 2019, which have been prepared in accordance with the IFRS in force, as adopted in the European Union until the 31st of December, 2019.

The Bank has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1st January 2019. The accounting policies in this note were consistently to all entities of the Bank and are consistent with those used in the preparation of the financial statements of the previous period, but it has been introduced changes resulting from the adoption of the following standard IFRS 16 – Leases.

This standard replaces IAS 17 – Leases and establishes the new requirements regarding the scope, classification/recognition and measurement of leases.

The Bank has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes are disclosed in Note 39.

These individual financial statements are expressed in thousands of euro, rounded to the nearest thousand, and have been prepared under the historical cost convention, except for assets and the liabilities accounted for at fair value, namely, derivative contracts, financial assets and financial liabilities at fair value through profit and loss and through other comprehensive income.

Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount or fair value less costs to sell.

The preparation of financial statements in conformity with IFRS requires the application of judgment and the use of estimates and assumptions by management that affects the process of applying the Bank's accounting policies and the reported amounts of income, expenses, assets and liabilities. Changes in the such assumptions or actual results that in the future may differ from those considered in the current financial statements may have an impact over the estimates and judgements reported. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The individual financial statements herein have been approved in the Board of Directors meeting held on the 19th of March 2020.

2.2. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are converted at the exchange rate in force as at the date of the transaction. The monetary assets and liabilities denominated in foreign currency are converted into Euros at the exchange rate in force at the date of the statement of financial position. The exchange rate differences arising from such conversion are recognised in income statement.

Non-monetary assets and liabilities accounted for at historical cost, denominated in foreign currency, are converted at the exchange rate as at the transaction date. Non-monetary assets and liabilities denominated in foreign currency accounted for at fair value are converted at the exchange rate in force as at the date of determination of the fair value. The exchange rate differences resulting thereof are recognised in profit and loss.

2.3. FINANCIAL INSTRUMENTS (IFRS 9)

2.3.1. Financial assets classification

At the initial recognition, financial assets are classified into one of the following categories:

a) Financial assets at amortized cost;
b) Financial assets at fair value through other comprehensive income; or
c) Financial assets ate fair values through profit or loss:

   i. Financial assets held for trading
   ii. Non-trading financial assets mandatorily at fair value through profit or loss
   iii. Financial assets designated at fair value through profit or loss

Financial assets classification and measurement depends on the SPPI test results (assessment if the contractual cash flows characteristics, in order to conclude if it corresponds solely payments of principal and interests) and on the business model.

a) Financial assets measured at amortised cost

A financial asset is classified under the category “Financial assets at amortized cost” if both the following conditions are met:

   i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and;
   ii. The contractual terms of the financial asset establish cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding (SPPI).

The “Financial assets at amortized cost” category includes mainly Loans and advances to banks, Loans and advances to customers, and Debt securities.

b) Financial assets at fair value through other comprehensive income

A financial asset is classified under the category of “Financial assets at fair value through other comprehensive income” if both of the following conditions are met:

i. The financial asset is held within a business model whose objective is to both collect contractual cash flows and sell financial assets and;
ii. The contractual cash flows occur on specified dates and are solely payments of principal and interest on the principal amount outstanding (SPPI).

In addition, in the initial recognition of a capital instrument that is not held for trading, nor a contingent consideration by an acquirer in a concentration of activities to which IFRS 3 applies, the Bank may irrevocably choose to classify it in the category of " Financial assets at fair value through other comprehensive income ". This option is exercised on a case-by-case basis, investment by investment and is only available for financial instruments that comply with the definition of equity instruments set forth in IAS 32 and can not be used for financial instruments whose classification as a capital instrument in the issuer is made under the exceptions provided in paragraphs from 16A to 16D of IAS 32. On the transition date and on December 31, 2019, the Bank did not adopt this irrevocable option under IAS 32, and only debt securities were classified in this category.

c) Financial assets at fair value through profit or loss

A financial asset is classified in the category of “Financial assets at fair value through profit and loss” if the business model defined by the Bank for its management or because of the characteristics of its contractual cash flows is not appropriate to be classified in the previous categories.

In addition, the Bank may irrevocably designate a financial asset that meets the criteria to be classified as "Financial assets at amortized cost" or "Financial assets at fair value through other comprehensive income", at fair value through profit or loss, at the time of its initial recognition, if that eliminates or significantly reduces an accounting mismatch, which would otherwise result from the measurement of assets or liabilities or from the recognition of gains and losses thereon on different bases. On the transition date and on December 31, 2019, the Bank did not adopt this irrevocable option, having classified in this category:

- financial assets in the sub-category "Financial assets at fair value through profit or loss - financial assets held for trading", when:
  i. are originated or acquired for the purpose of trading in the short term;
  ii. are part of a group of financial instruments identified and managed jointly for which there is evidence of recent actions with the aim of achieving gains in the short term;
  iii. are derivative instruments which do not comply with the definition of a financial guarantee and have not been designated as hedging instruments.
- financial assets in the sub-category of "Financial assets at fair value through profit or loss - financial assets not held for trading necessarily at fair value through profit and loss" when:
  i. debt instruments whose cash flows do not originate cash flows on specific dates, which are only payments of principal and interest on the amount of outstanding capital (SPPI).
  ii. equity instruments, which do not classify as held for trading.

Gains and losses on financial assets and liabilities at fair value through profit or loss, namely, changes in fair value and interest on trading derivatives, as well as the dividends received from these portfolios, are recognized as "Net income from other financial instruments at fair value through profit or loss "in the income statement.

Business model evaluation for financial assets management

In relation to the evaluation of the business model, this does not depend on intentions for an individual instrument, but on a portfolio of instruments, taking into account the frequency, value, sales frequency in previous years, the reasons for such sales and expectations regarding future sales. Infrequent sales, or close to the maturity of the asset and those due to increases in the credit risk of financial assets or to manage concentration risk, among others, may be compatible with the model of holding assets for the collection of contractual cash flows.

Evaluation if the contractual cash flows correspond to solely payments of principal and interest (SPPI)

If a financial asset contains a contractual clause which may modify the timing or value of contractual cash flows (such as early amortization clauses or extension of duration), the Bank determines whether the cash flows that will be generated during the life of the instrument, due to the exercise of the contractual clause, are only payments of principal and interest on the value of the capital outstanding.

The contractual conditions of financial assets that, at the time of initial recognition, have an effect on cash flows or depend on the occurrence of exceptional or highly improbable events (such as settlement by the issuer) do not prevent their classification in the portfolios at cost amortized or at fair value through other comprehensive income.

Initial recognition

At initial recognition all financial instruments are recognised at their fair value. For financial instruments that are not recognised at fair value through profit or loss, the fair value is adjusted by adding or subtracting the transaction costs directly attributable to their acquisition or issue. In the case of instruments at fair value through profit or loss, directly attributable transaction costs are recognised immediately in profit or loss.

Transaction costs are defined as expenses directly attributable to the acquisition or disposal of a financial asset or to the issue or assumption of a financial liability that would not have been incurred if the Bank had not realized the transaction.

Subsequent measurement

After initial recognition, the Bank measures financial assets at amortized cost, at fair value through other comprehensive income, at fair value through profit or loss or at cost.

The fair value of quoted financial assets is their current bid price. In the absence of a quotation, the Bank estimates the fair value using (i) valuation methodologies, such as the use of prices of recent transactions, similar and carried out under market conditions, discounted cash flow techniques and customized option valuation models in order to reflect the particularities and circumstances of the instrument, and (ii) valuation assumptions based on market information. These methodologies also incorporate credit risk and counterparty risk. These methodologies may require the use of assumptions or judgments in the estimate of fair value.

The income and expenses of financial instruments at amortized cost are recognised in accordance with the following criteria:

a) Interest is recognised in the income statement using the effective interest rate of the instrument on the gross book value of the instrument (except for assets with impairment, where the interest rate is applied on the net book value of impairment).
b) Other changes in value will be recognised as income or expense when the instrument is derecognized from the balance sheet, when it is reclassified, and in the case of financial assets, when there are impairment losses or recovery gains.

Income and expenses of financial instruments at fair value through profit or loss are recognised according to the following criterias:

a) Changes in fair value are recognised directly in profit or loss, separating between the portion attributable to the income of the instrument, which is recognised as interest or as dividends according to their nature, and the remainder, which is recognised as results in the corresponding account.
b) Interests on debt instruments are measured using the effective interest rate method.

Income and expenses from financial instruments at fair value through other comprehensive income are recognised according to the following criteria:

a) Interest has a procedure equal to that of assets at amortized cost.
b) Foreign exchange differences are recognised in income statement.
c) Impairment losses or gains on its recovery are recognised in the income statement.
d) The remaining changes in value are recognized in other comprehensive income.

Thus, when a debt instrument is measured at fair value through other comprehensive income, the amounts recognised in profit or loss for the period are the same as those that would be recognized if measured at amortized cost.

When a debt instrument measured at fair value through other comprehensive income is derecognized from the balance sheet, the gain or loss recognised in other comprehensive income is reclassified to income for the year.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or change does not result in derecognition of the financial asset in accordance with the policy adopted by the Bank, the Bank recalculates the gross amount of the financial asset and recognizes a gain or loss arising from the difference from the previous amortized cost against profit or loss. The gross amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate of the asset.

Reclassifications between categories of financial instruments

Only if the Bank decides to change its business model for the management of a portfolio of financial assets. In this case, all financial assets affected would it reclassified in accordance with the requirements of IFRS 9. This reclassification would be applied prospectively from the date of reclassification. According to the approach of IFRS 9, changes in the business model generally occur very infrequently. Financial liabilities cannot be reclassified between portfolios.

Derecognition criteria

The Bank derecognises a financial asset in the following situations:

a) when the contractual rights to the cash flows of this asset expire;
b) when transferring that asset and, as a result of such transfer, all the risks and rewards of that asset are transferred to another entity when a change is found to be significant under the terms and conditions of that asset;
c) when a significant change on the asset terms and conditions occur.

Loans written-off

The Bank write off a loan when it does not have reasonable expectations to recovering a financial asset in its entirety or a portion thereof. This registration occurs after all the recovery actions developed by the Bank prove to be fruitless. Loans written off are recognised in off-balance sheet accounts.

Purchase or originated credit impaired assets

Purchase or originated credit impaired (POCI) assets are credit-impaired assets on initial recognition. An asset is credit-impaired if one or more events have occurred that have a detrimental impact on the estimated future cash flows of the asset.
The two events that lead to the originations of a POCI exposure are presented as follows:

- financial assets arising from a recovery process, where there have been changes to the terms and conditions of the original agreement, which presented objective evidence of impairment that resulted in its derecognition and recognition of a new contract that reflects the credit losses incurred;
- financial assets acquired with a significant discount, that the existence of a significant discount reflects credit losses incurred at the time of its initial recognition.

On initial recognition, POCI assets do not carry an impairment loss. Instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate. Consequently, at initial recognition, the gross book value of POCI (initial balance) is equal to the net book value before being recognised as POCI (difference between the initial balance and total discounted cash flows).

Impairment of financial assets

The Bank determines impairment losses on debt instruments that are measured at amortized cost and at fair value through comprehensive income, as well as for other exposures that have associated credit risk such as bank guarantees and commitments.

The IFRS 9 requirements aim to recognize expected losses from operations, assessed on an individual and collective basis, taking into account all reasonable, reliable and reasoned information available, without incurring undue costs or efforts, at each reporting date, including forward-looking information.

Debt instruments' impairment losses for the exercise are recognized as a cost under the heading Impairment of Financial Assets in the income statement. Impairment losses on debt instruments measured at amortized cost are registered against a cumulative balance sheet impairment account, which reduces the book value of the asset. Impairment losses on debt instruments that are measured at fair value through other comprehensive income are recognized against the fair value reserve, whereby their recognition does not reduce the balance sheet value of the instruments.

Impairment losses on debt instruments that are measured at fair value through other comprehensive income are recognized against the fair value reserve, whereby their recognition does not reduce the balance sheet value of the instruments.

Impairment Model

Under IFRS 9, the Bank determines the expected credit losses (ECL) using a forward-looking model. The expected credit losses over the lifetime of financial instruments are required to be measured through a loss allowance. Accordingly, the calculation of ECL incorporates macroeconomic factors, as well as other forward-looking information, whose changes impact expected losses.

The instruments subject to impairment are divided into three stages, taking into account their level of credit risk:

- **Stage 1 – Performing**: financial assets for which there was no significant increase in credit risk from the moment of initial recognition. In this case, the impairment will reflect ECL resulting from default events that may occur in the next 12 months after the reporting date;
- **Stage 2 – Under Performing**: financial assets for which there was a significant increase in credit risk has occurred since the initial recognition but for which there is no objective evidence of impairment. In this

stage, impairment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;

- Stage 3 – Non Performing: financial assets for which there is objective evidence of impairment as a result of events that resulted in losses. In this case, the impairment amount will reflect the ECL over the expected residual life of the instrument.

The collective model implemented by the Bank is applicable to all instruments without warning signals (in Stage 1) as well to determine the lifetime expected credit loss in the case of exposures with significant increases in credit risk (Stage 2). In addition, the Top 20 performing largest debtors are subject annually to an individual analysis, in order to trace early warning signals that may indicate a transfer to Stage 2. Stage 2 exposures are analysed individually, confirming that there are no indications of unlikeliness to pay of the debtor and the events considered by Capital requirements Regulations (CRR) in its definition of default and by IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3. Stage 2 exposures are subject to the application of a lifetime impairment rate determined using a lifetime collective model. All Stage 3 clients are subject to an individual analysis.

At initial recognition, any instrument is allocated to Stage 1 (except for financial instruments purchase or originated credit impaired acquired (POCI) which are allocated to Stages 2 or 3). For each of the following reporting dates, an assessment of the change in the risk of a default occurring over the expected life of the financial instrument is required for that contract.

A change in the risk of default may result in a transfer from Stage 1 to Stage 2 or Stage 3. As long as the risk of default of a financial asset is low or has not increase significantly since initial recognition, it remains in Stage 1 with a 12-months ECL. Otherwise, if there is a significant increase in credit risk compared with the initial recognition, the result would be a transfer into Stage 2 and, consequently to the recognition of the lifetime ECL over the residual life of the financial asset. A transfer into Stage 3 is required when objective evidence for a credit loss appears.

When a financial asset is no longer assessed to be impaired (Stage 3), it is reclassified to Stage 2. It is assumed that when a financial asset recovers from Stage 3, it will still have a demonstrated significant increase in credit risk since initial recognition and must therefore be included in Stage 2. From that date on, the impairment will continue to be recognized based on lifetime expected credit losses.

A probation period was established for a financial asset ceases to be classified in Stage 3, which is defined as 3 months from the moment that the obligor is no longer past due more than 90 days on any material credit obligation, if applicable, and no indication of unlikeliness to pay. The probation period for non-performing forborne exposures is longer (12 months). Note that performing forborne exposures should accomplish a minimum 24 months period in order to be reclassified on Stage 1, whereas throughout that period the debt sustainability should be proved.

Expected Credit Losses

According to the IFRS 9 Standard, the expected credit loss for financial assets is the present value of the difference between (1) the contractual cash flows that are due to an entity under the contract, and (2) the cash flows that the entity expects to receive.

The recognition of an impairment allowance is required on financial assets measured at amortized cost (AC) or Fair Value through Other Comprehensive Income (FVOCI) basis. Given that, the financial asset types that should have impairment assessment are the following:

- Loans and advances to customers;
- Loans and advances to banks;
- Securities;
- Debtors and other receivables;
- Cash and cash equivalents.

In addition, in accordance with IFRS 9, the Bank includes in the calculation of the expected credit losses for the guarantees provided and commitments assumed, and for other assets.
The expected credit losses are estimates of credit loss that will be determined as follows:

- Financial assets with no signs of impairment at the reporting date (Stage 1 – Performing): correspond to expected credit losses that result from a default event that may occur within 12 months after the reporting date (credit losses expected at 12 months);
- Financial assets with a significant increase in credit risk or with impairment at the reporting date (Stage 2 – Under Performing and Stage 3 – Non Performing): correspond to the expected lifetime credit losses calculated by the difference between the gross accounting value and the net present value of the estimated cash flows weighted, for assets in Stage 2, by the prospect of dafault;
- Unused credit commitments: the amount of the unused commitment as of the reference date multiplied by the credit conversion factor, the probability of default and the loss given default;
- Financial guarantees: the net present value of expected repayments less the amounts that the Bank expects to recover.

Significant increase in credit risk

Under IFRS 9, in order to determine whether there has been a significant increase in credit risk since the initial recognition of the financial instrument, the Bank consider all relevant information available without incurring undue costs or efforts.

The Bank identifies the occurrence of a significant increase in credit risk exposure through three approaches: (i) comparison between the current rating and the rating at the time of contract recognition, (ii) use of warning signals defined internally and (iii) early warning signals (EWS) assessment in order to trace certain events and/or circumstances that could indicate a SICR.

The internal warning signals are the following: (i) delay of payments (including capital, interest, fees or other charges) of more than 30 days; (ii) registration of at least one debtor's credit under a dispute in the Central Credit Register (CCR) from Banco de Portugal; (iii) debt restructuring towards a debtor facing and/or about to face financial difficulties in meeting its financial commitments (with no indication of unlikeliness to pay); (iv) debts to tax agency, social security and/or to employees under a default; (v) clients with warning signals activated in the last three months; and (vi) other specific situations (ad-hoc) criteria). The Bank identifies a SICR in the following circumstances: (a) debtors with one of the triggers (i), (iii), (v) and (vi) activated; and (b) debtors with triggers (ii) and (iv) simultaneously activated.

EWS assessment includes the annual review by the Impairment Committee of the Top 20 performing largest exposures in order to confirm that the largest debtors do not display any warning signals that convene a transfer to Stage 2.

According with internal procedures defined by the Bank, when there is a significant increase in the credit risk of a debtor, the financial instruments are subject to individual analysis, confirming that there are no indications of unlikeliness to pay of the debtor and the events considered by CRR in its definition of default and by IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3. Stage 2 , that its proper classification is confirmed, exposures are subject to the use of a lifetime impairment rate determined using a lifetime collective model.

Default definition

Under IFRS 9, the Bank considers its financial assets to be in default by applying the same used definition that is applied for prudential purposes. Thus, Haitong Bank defined default as incorporating the following criteria: 1) material exposures which are more than 90-days past due; 2) the debtor is assessed as unlikely to reimburse credit obligations, without collateral claim, regardless of the existence of any past due amount or of the number of days past due; and 3) if 20% of the exposures of one obligor are determined as non-performing, all other exposures should be considered non-performing ("pulling effect").

In what regards unlikeliness to pay criteria, the Bank addresses the following situations: i) distressed restructurings; ii) clients with loans written-off of interest or capital; iii) the Bank sells the credit obligation at a material (more than 5%) credit-related economic loss; iv) the obligor has been placed (or is likely to be placed) in bankruptcy or similar protection; v) interest related to credit obligations is no longer recognized (non-accrued status) in the income statement (part or under conditionality); and vi) other conditions (ad-hoc) that may suggest reduced likelihood of payments by the debtor.

The definition of default followed by the Bank follows article 178 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and includes the European Banking Association ("EBA") definition of non-performing exposures ("NPE") requirements according to its final report on the application of definition of default (EBA/GL/2016/07).

Forbearance definition

The internal definition of forbearance follows the ECB guidance, consisting of concessions extended to any exposure towards a debtor facing or about to face difficulties in meeting its financial commitments. An exposure can only be forborne if the debtor is facing financial difficulties that have led the Bank to make some kind of concession.

A concession may entail a loss for the Bank and shall refer to either of the following actions:

i. a modification of the previous terms and conditions of a contract that the debtor is considered unable to comply with due to financial difficulties resulting in insufficient debt service ability and that would not have been granted had the debtor not been experiencing such difficulties;
ii. a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been experiencing financial difficulties.

When granting forbearance measures to performing exposures with significant increase in credit risk, the Bank assesses whether these measures lead to a reclassification of that exposure as non-performing, being this assessment subject to compliance with the following conditions:

a) If the difference between the net present values of cash flows before and after the restructuring arrangement exceeds a certain threshold (1%), the exposure is considered to be non-performing.
b) If there are other indicators that may suggest an unlikeliness to pay of the debtor.

The definition of forbearance followed by the Bank follows the guidance to Banks on Non-Performing Loans by the European Central Bank (from March 2017), which address the concept of forborne exposures, and

Bank of Portugal's Carta Circular CC/2018/00000062 (from November 2018), addressing the criteria and principles for calculating expected credit losses under IFRS 9, which includes the timely and appropriate identification of forborne exposures.

2.3.2. Financial liabilities

Classification, initial recognition and subsequent measurement

At initial recognition, financial liabilities are classified in one of the following categories:

- Financial liabilities at amortised cost;
- Financial liabilities at fair value through profit or loss.

Financial liabilities at fair value through profit or loss

Classification

Financial liabilities classified under "Financial liabilities at fair value through profit or loss" include:

a) Financial liabilities held for trading

In this balance are classified the issued liabilities with the purpose of repurchasing it in the near term, the ones that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or is a derivative.

b) Financial liabilities designated at fair value through profit or loss ("Fair Value Option")

The Bank may irrevocably assign a financial liability at fair value through profit or loss at the time of its initial recognition if at least one of the following conditions is met:

- The financial liability is managed, evaluated and reported internally at its fair value;
- The designation eliminates or significantly reduces the accounting mismatch of transactions.

Structured products issued by the Bank follow are measured at fair value through profit or loss, due to the fact that such structured products always fall within one out of the aforementioned conditions.

The fair value of quoted financial liabilities is their quoted value. In the absence of a quotation, the Bank calculates fair value by using valuation techniques considering assumptions based on market information, including in determining the issuer´s own credit risk.

If the Bank repurchases an issued debt, it shall be derecognised from the individual statement of financial positions, and the difference between the liability's carry amount and the purchase value is accounted for in income statement.

Initial recognition and subsequent measurement

Considering that the transactions carried out by the Bank in the normal course of its business are made in market conditions, financial liabilities at fair value through profit or loss are initially recognised at fair value with the costs or income associated with the transactions recognised in profit or loss at the initial moment.

Subsequent changes in the fair value of these financial liabilities are recognised as follows:

- The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability shall be presented in other comprehensive income;
- The remaining amount of change in the fair value of the liability shall be presented in profit or loss.

The accrual of interest and the premium / discount (when applicable) is recognised on "Interest expense and similar charges" based on the effective interest rate of each transaction.

Financial liabilities at amortised cost

Classification

Financial liabilities that were not classified at fair value through profit or loss, or correspond to financial guarantee contracts, are measured at amortised cost.

The category "Financial liabilities at amortised cost" includes Resources of credit institutions, Resources of customers and Debt securities issued.

Initial recognition and subsequent measurement

Financial liabilities at amortised cost are initially recognised at fair value, plus transaction costs, and are subsequently measured at amortised cost. Interests on financial liabilities at amortised cost are recognised on "Interest expense and similar charges", based on the effective interest rate method.

Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not allowed.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when they are cancelled or extinct.

2.3.3. Interest recognition

Interest income and expense for financial instruments measured at amortised cost are recognised in "Interest and similar income" and "Interest expense and similar charges" (Net interest income) through the effective interest rate method. The interest at the effective rate related to financial assets at fair value through other comprehensive income are also recognised in net interest income.

The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, for a shorter period), to the net carrying amount of the financial asset or financial liability.

For calculating the effective interest rate, the Bank estimates futures cash flows considering all contractual terms of the financial instrument (for example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related to the transaction, except for assets and liabilities at fair value through profit and loss.

Interest income recognised in income associated with contracts classified in stage 1 and 2 are determined by applying the effective interest rate for each contract on its gross book value. The gross balance of a contract is its amortised cost, before deducting the respective impairment. For financial assets included in stage 3, interests are recognised in the income statement based on its net book value (less impairment). The interest recognition is always made in a prospective way, i.e. for financial assets entering in stage 3 interests are recognised on the amortised cost (net of impairment) in subsequent periods.

For purchase or originated credit impaired assets (POCIs), the effective interest rate reflects the expected credit losses in determining the expected future cash flows receivable from the financial asset.

2.3.4. Financial guarantees

Financial guarantees are contracts which require its issuing entity to make payments to reimburse the holder for incurred losses resulting from breaches of the contractual terms set forth in debt instruments, namely the payment of the corresponding capital and/or interest.

Issued financial guarantees are initially recognised at their fair value. Subsequently, such guarantees are measured at the higher of (i) the initially recognised fair value and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the statement of financial positions date. Any change in the amount of the liability relating to guarantees is taken to the income statement

Financial guarantees issued by the Bank usually have a set maturity and a periodic fee charged in advance, which varies in accordance with the counterparty risk, amount and maturity date of the contract. On that basis, the guarantees' fair value as at the date of initial recognition thereof is approximately zero, by considering that the agreed conditions are market conditions. Therefore, the amount recognised at the contract date is equal to the amount of the initial received fee, which is recognised in income statement for the period thereof. Subsequent fees are recognised in income statement for the period to which they relate.

2.4. ASSETS SOLD WITH REPURCHASE AGREEMENT AND SECURITIES LENDING

Securities sold subject to repurchase agreement (repos) at a fixed price or at a price equal to that of the sale plus interest inherent to the maturity of the transaction are not derecognised from the statement of financial position. The corresponding liability is accounted for in amounts due to banks or to customers, as appropriate. The difference between the sale value and the repurchase value is treated as interest and is deferred while the agreement is in force, using the effective interest rate method.

Securities bought with a resale agreement (reverse repos) at a fixed price or at a price equal to that of the sale plus interest inherent to the maturity of the transaction are not recognised in the statement of financial position, and the purchase value is accounted for as loans and advances to banks or customers, as appropriate. The difference between the purchase value and the resale value is treated as interest and is deferred while the agreement is in force, using the effective interest rate method.

Securities assigned through loan agreements are not derecognised from the statement of financial positions, being classified and measured in accordance with the accounting policy applicable. Securities received through loan agreements are not recognised in the statement of financial positions.

2.5. EQUITY INSTRUMENTS

An instrument is classified as equity instrument only if:

i. The instrument includes no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable conditions for the issuer; and
ii. The instrument will or may be settled in the issuer's own equity instruments, it is either a non-derivative that includes no contractual obligation on the issuer to deliver a variable number of its own equity instruments or a derivative that will be settled only by the issuer exchanging a fixed amount in cash or another financial asset for a fixed number of its own equity instruments.

Costs directly attributable to the issuing of equity instruments are accounted for under equity, as a deduction to the issuing amount. Amounts paid and received by the purchase and sale of equity instruments

are accounted for under equity, net of transaction costs.
When declared, distributions to holders of an equity instrument are deducted directly from equity as dividends.

2.6. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are presented in statement of financial position at net value when there is a legal possibility of offsetting the recognised amounts and there is an intent of settlement thereof by their net value, or to simultaneously realise the asset and settle the liability.

2.7. NON-CURRENT ASSETS HELD-FOR-SALE AND ASSETS FROM DISCONTINUING OPERATIONS

Non-current assets or groups of non-current assets held for sale (group of assets to be disposed together in a single transaction, and directly associated liabilities which include at least one non-current asset) and discontinued operations are classified as held-for-sale when exists the intention to realise the a sale transaction (including those acquired exclusively with the purpose to sell), the assets or disposal groups are available for immediate sale and the sale is highly likely to occur, accordingly to IFRS 5 requirements.In order to the sale to be considered highly probable, the Bank must be committed to a plan to sell the asset (or disposal group) and should be expected the sale to qualify for derecognition within one year from the date of classification.

Immediately prior to the initial classification of the asset (or disposal group) as held-for-sale, the measurement of non-current assets (or of all the Bank's assets and liabilities) is carried out in accordance with the relevant IFRS in force. Subsequently, such assets or disposal groups are re-measured at the lower of their carrying value and fair value less costs to sell.

In 2018, as a result of the Bank's decision for the sale of Haitong Investment Ireland PLC, as described in Note 1, the assets and liabilities of this entity was reclassified to "Assets and liabilities of discontinuing units". Also in accordance with the requirements of IFRS 5 - "Non-current assets held for sale and discontinued operations", the results generated by this entity are presented in a single line of the Income Statements ("Net profit of discontinued operations"). Comparative period has been restated accordingly.

2.8. OTHER TANGIBLE ASSETS

The Bank other tangible assets are measured at cost, less their corresponding accumulated amortisations and impairment losses. The cost includes expenses directly attributable to the acquisition of the assets.

The subsequent costs with other tangible assets are only recognised when it is probable that future economic benefits associated with them will flow to the Bank. All repair and maintenance costs are charged to the income statement during the period in which they are incurred, on the accrual basis.

Land is not amortised. The amortisations of other tangible assets are calculated based on the straight-line method, at the following amortisation rates reflecting the expected useful life of the goods.

	Number of Years
Owned Real Estate	10
Improvements in leasehold property	4 a 5
Computer Equipment	5 a 12
Indoor Installations	4 a 10
Furniture and supplies	4 a 10
Safety Equipment	4 a 10
Tools and Machines	4
Transportation Material	5
Other Equipment	0

As defined in IAS 36, when there is evidence that an asset may be impaired, its recoverable amount is required to be estimated, and an impairment loss shall be recognised whenever the net value of an asset exceeds its recoverable amount. Any impairment losses are recognised in the income statement.

The recoverable amount is determined as the highest amount between its net selling price and its value in use, the latter being calculated based on the net present value of the estimated future cash flows expected to be obtained from the continued use of the asset and of its disposal at the end of its useful life.

2.9. INTANGIBLE ASSETS

Costs incurred with the purchase, production and development of software are capitalised, as well as additional expenses required for its deployment, which are borne by the Bank. Such costs are amortised on a linear basis throughout the expected useful life of such assets, which usually ranges from 3 to 8 years.

Costs directly related to the development of software applications are recognised and accounted for as intangible assets if they are expected to create future economic benefits beyond one financial year. Such costs include employee expenses, such employees being from the companies of the Bank which are specialised in Information Technology, while they are directly associated with the concerned projects.

All remaining charges associated with Information Technology services are recognised as costs when incurred.

2.10. LEASE TRANSACTIONS (IFRS 16)

As described in note 2.1, the Bank adopted IFRS 16 – Lease transactions on 1 January 2019, replacing IAS 17 – Lease transactions, which was in force until 31 December 2018. The Bank did not adopt any of the requirements of IFRS 16 in prior periods.

At inception of a contract, the Banks assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare

cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:

- the Bank has the right to operate the asset; or
- the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

The Bank chose not to apply this standard to short-term lease contracts which are less or equal to one year, and to lease contracts where the underlying asset has no significant amount (up to € 5,000). The option of not applying this standard to intangible assets leases was also used.

As a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'. The accounting policies applicable to the Bank as a lessor in the comparative period were not different from IFRS 16. However, when the Bank was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

2.11. LEASES (IAS 17)

The Bank classifies the leasing transactions as financial or operating leases, depending on their substance rather than its legal form, in compliance with the criteria set forth in IAS 17 — Leases. The transactions classified as financial leases are those where the risks and benefits inherent to the ownership of an asset are transferred to the lessee. All remaining leasing transactions are classified as operating leases.

Operating leases

Payments made by the Bank under operating lease agreements are accounted for in costs of the relevant periods.

Financial leases

The financial lease agreements are accounted for at the date such agreements take effect, in assets and in liabilities, at the acquisition cost of the leased property, which is equivalent to the net present value of the payable lease rents.

Rents are comprised of (i) the financial expense recognised in income statement and (ii) the financial amortisation of capital, deducted from the liability. Financial expenses are recognised as expenses throughout the lease period, in order to produce a constant periodic interest rate on the remaining balance of the liability in each period.

- As a lessor

Financial lease agreements are accounted for in the statement of financial position as loans granted at an amount equivalent to the net investment carried out in the leased goods.

Interest included in instalments charged to customers are accounted for as income, whereas capital amortisations – which are also included in rents – are deducted at the value of the loans granted. The recognition of interest reflects a periodic and constant rate of return over the remaining net investment of the lessor.

2.12. EMPLOYEE BENEFITS

Pensions

Pensions Pursuant to the signature of the Collective Labor Agreement (“Acordo Coletivo de Trabalho” (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 14, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities’ coverage is assured, for most of the Bank companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA.

The pension plans of the Bank are defined benefit plans, as they establish the criteria to determine the pension benefit to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level.

The retirement pension liabilities are calculated semiannually, in 31 December and 30 June of each year, for each plan individually, using the Projected Unit Credit Method, being annually reviewed by qualified independent actuaries. The discount rate used in this calculation is determined with reference to market rates associated with high-quality corporate bonds, denominated in the currency in which the benefits will be paid out and with a maturity similar to the expiry date of the plan’s liabilities.

The Bank determines the net interest income / expense for the period incurred with the pension plan by multiplying the plan’s net assets / liabilities (liabilities net of the fair value of the fund’s assets) by the discount rate used to measure the retirement pension liabilities referred to above. On that basis, the net interest income / expense was determined based on the interest cost on the retirement pension liabilities net of the expected return on the funds’ assets, both calculated using the discount rate applied in the determination of the retirement pension liabilities.

Re-measurement gains and losses, namely (i) actuarial gains and losses arising due to differences between actuarial assumptions used and real values verified (experience adjustments) and changes in actuarial assumptions and (ii) gains and losses arising due to the difference between the expected return on the fund’s assets and the actual investment returns, are recognised in equity under the caption other comprehensive income.

The Bank recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 years-old (normal retirement age foreseen in the ACT) and which forms the basis of the actuarial calculation of pension fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65 years-old.

The Bank makes payments to the funds in order to assure their solvency, the minimum levels set by Banco de Portugal being: (i) the liability with pensioners must be totally funded at the end of each period, and (ii) the liability relating to past service costs for active employees must be funded at a minimum level of 95%.

The Bank assesses the recoverability of any excess in a fund regarding he retirement pension liabilities, based on the expectation of reductions in future contributions.

Health-care benefits

The Bank provides to its banking employees health-care benefits through a specific Social-Medical Assistance Service. This Social-Medical Assistance Service (Serviço de Assistência Médico-Social, SAMS) is an autonomous entity which is managed by the respective Union.

SAMS provides its beneficiaries services and/or contributions with medical assistance expenses, diagnostics, medication, hospitalization and surgeries, in accordance with its funding availability and internal regulations.

Until 1 February 2017, the Bank's annual mandatory contribution to SAMS amounted to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

Arising from the signature of the new Collective Labor Agreement (ACT) on 5 July 2016, published in Labor Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The calculation and recognition of the Bank's liability with post-retirement health-care benefits is similar to the calculation and recognition of the pension liability described above. These benefits are covered by the Pension Fund, which presently covers all liabilities with pensions and health-care benefits.

Long-term service bonuses

Under the new ACT, signed on the 5th July 2016, the long-term service bonus was replaced by a career bonus, payable immediately prior to the employee´s retirement date, if the employee retires at the service of the Bank, corresponding to 1.5 of his/her salary at the time of its payment.

The career bonus is accounted for by the Bank in accordance with IAS 19, as a long-term employee benefit. The remeasurement effects and past service costs of this benefit are recognised in the income statement for the year, as occurred with the accounting model for long-term service bonuses.

The amount of the Bank's liabilities with this career bonus is likewise periodically estimated based on the Projected Unit Credit Method. The actuarial assumptions used are based on expectations of future salary increases and mortality tables. The discount rate used in this calculation is determined applying the same methodology described above for retirement pensions.

Variable remuneration paid to employees

In accordance with IAS 19 - Employee benefits, variable remuneration (profit sharing, bonuses and others) granted to employees and, possibly, to executive members of administration bodies, is accounted for in profit or loss of its respective financial year.

2.13. INCOME TAXES

Income taxes comprise current and deferred taxes. Income taxes are recognised in income statement, unless when relating to items not directly recognised in equity, in which case they are also accounted for against equity. Taxes recognised in equity, as a result of the reassessment of financial assets at fair value through other comprehensive income, are subsequently recognised in income statement when the gains and losses which were in their origin are recognised in income statement.

Current taxes are those expected to be paid based on the taxable income which is calculated in accordance with the existing tax rules and by using the tax rate enacted or substantially enacted in each jurisdiction.

Deferred taxes are calculated in accordance with the liability method based on the statement of financial positions, on the temporary differences between the carry amount of assets and liabilities and their tax base, by using the tax rates which have been enacted or substantially enacted on the date of the statement of financial position in each jurisdiction and which are expected to be applied once the temporary differences are reversed.

Deferred tax liabilities are recognised for all taxable temporary differences, except for goodwill not deductible for tax purposes, of the differences arising out of the initial recognition of assets and liabilities which affect neither accounting profit nor taxable profit, and of differences relating to investments in subsidiaries insofar as it is not likely that they reverse in the future. Deferred tax assets are only recognised insofar as it is expected that there will be taxable profit in the future which will absorb the tax losses carried forward and the deductible temporary differences.

The Bank offsets assets and liabilities by deferred taxes for each subsidiary, every time (i) the income tax of each subsidiary to be paid to the Tax Authorities is determined on a net basis, i.e., offsetting current asset and liability taxes, and (ii) taxes are collected by the same Tax Authority over the same tax entity. This offset is, therefore, performed at the level of each subsidiary, with the deferred tax asset presented in the individual statement of financial position corresponding to the sum of the subsidiaries' amounts which present net deferred tax assets and the deferred tax liability presented in the individual statement of financial position corresponding to the sum of the subsidiaries' amounts which present net deferred tax liabilities.

2.14. PROVISIONS

Provisions are recognised when (i) the Bank has a current, legal or constructive obligation, (ii) it is likely that its payment will be required and (iii) when the amount of such obligation may be estimated in a reliable manner.

When the effect of the passage of time (discounting) is material, the provision corresponds to the net present value of the expected future payments, discounted at an appropriate rate considering the risk associated with the obligation.

If it is not likely for payment to be required, it is a contingent liability. Contingent liabilities are only subject to disclosure, unless the likelihood of their realization is remote. Provisions for restructuring are recognised once the Bank approves a formal and detailed restructuring plan, and such restructuring has been commenced or publically announced on the reference date of the financial statements.

A provision for onerous contracts is recognised when the expected benefits of a formal contract are lower than the costs that the Bank will inevitably incur in order to meet the obligations arising therefrom. This provision is measured based on the current lowest value between the contract termination costs or the net estimated costs of continuing the contract.

Until December 31st, 2018, contingencies with the Tax Authority were accounted following with IAS 37, and the estimated amounts arising from these uncertainties were recorded in Provisions. As of January 1st, 2019, as a result of the application of IFRIC 23, the aforementioned situations started to be accounted in separate items.

2.15. RECOGNITION OF FEE AND COMMISSION INCOME

Income from services and commissions are recognised as follows:

- Income from services and commissions obtained from the performance of a significant act, such as commissions in the syndication of loans, are recognised in income once the significant act has been completed;
- Income from services and commissions obtained as the services are being provided are recognised in income for the relevant period;

Income from services and commissions which are an integral part of the effective interest rate of a financial instrument are accounted for in income statement by the effective interest rate method.

2.16. SEGMENT REPORTING

According to paragraph 4 of IFRS 8 – Operating segments, the Bank is exempt from submitting a report on an individual basis by segement, since the individual financial stataments are presented together with the individual financial statements.

2.17. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit attributable to shareholders of the parent company by the weighted average number of ordinary shares outstanding, with the exclusion of the average number of own shares held by the Bank.

For the calculation of diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the effect of all dilutive potential ordinary shares, such as those arising out of convertible debt and of options granted to employees over own shares. The effect of the dilution is a decrease in earnings per share, resulting from the assumption that the convertible instruments are converted or that the granted options are exercised.

2.18. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and its equivalents encompass the amounts accounted for in the statement of financial position whose maturity is less than three months from the date of acquisition/contract, which include cash, deposits in Central Banks and in other credit institutions. Cash and cash equivalents exclude mandatory deposits held with Central Banks.

2.19. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

These assets are recorded at acquisition cost, being subject to periodic analyses of impairment.
Dividends are recorded as an income in the year in which its distribution is decided by the subsidiaries and associated companies.

NOTE 3 – MAIN ESTIMATES AND JUDGEMENTS USED IN THE PREPARATION OF FINANCIAL STATEMENTS

The IFRS set forth a range of accounting treatments and require the Board of Directors to make the necessary judgements and estimates to decide on the most appropriate accounting treatment. The Bank main accounting estimates and judgements used thereby when applying the accounting principles are laid down in this Note with the purpose of improving the understanding on how the implementation thereof affects the Bank reported results and their disclosure.

A broader description of the main accounting policies used by the Bank is shown in Note 2 to the individual financial statements.

Whereas in many situations there are alternatives to the accounting treatment adopted by the Board of Directors, the results reported by the Bank could have differed if it adopted a different treatment. The Board of Directors believes that it made the appropriate choices, and that the financial statements give an adequate description of the Bank financial position and of the result of its operations in all material respects.

3.1. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AT AMORTISED COST AND DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The Bank periodically reviews financial assets at amortized cost and debt at fair value through other comprehensive income in order to accurately evaluate the existence of impairment, as referred on Note 2.3.1.

Individual analysis

Taking into consideration the specific characteristics of the credit portfolio, the Bank decided that the main approach for impairment calculation is the individual analysis, taking into account relevant and particular factors that may justify an eventual adjustment to the impairment rate.

The Risk Department identifies all exposures subject to individual analysis, encompassing Top 20 performing largest exposures, all under-performing (Stage 2) and non-performing (Stage 3) exposures, and ensures that they are subject of analysis by the Impairment Committee. In the case of Stage 1 exposures, the individual analysis is carried out in order to confirm that the Top 20 largest exposures doesn’t show any warning signals that causes a reclassification to Stage 2. Stage 2 exposures are analysed individually, confirming that there are no indications of unlikeliness to pay of the debtor and the events considered by Capital requirements Regulations (CRR) in its definition of default and by standard IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3.

The documentation supporting the individual analysis of cases to be discussed at the Impairment Committee includes: a) historical information (exposure by contract and type, impairment rates in force, collateral and respective valuation); and b) scenarios with expected cash flows discounted to the current date, using the applicable debt cost rate in each period, in order to obtain expected credit losses. For each of the scenarios presented, the respective assumptions and respective explanation is assured based on the activity of the company (incorporating figures from the historical financial statements, certain events and other financial estimates when available), the value of collateral (including the respective valuation methodologies) and sale or execution thereof.

Thus, the individual analysis' process is subject to various estimates and evaluations, including recoveries' predictions and existing collaterals valuation.

The use of scenarios or alternative methodologies with other assumptions and estimates could result in different levels of impairment losses recognized, with a consequent impact on the Bank results.

Collective analysis

Impairment assessment on the collective basis is based upon the evaluation of the net present value of the expected cash flows for each loan, using pre-defined risk parameters supported by external information.
Taking into account the specificities of Haitong Bank credit portfolio, the collective model is based on external information for all the key risk parameters used. The main parameters used are: (i) Probability of Default (PD), (ii) Loss Given Default (LGD), (iii) Collateral haircut, and (iv) Credit Conversion Factor (CCF) for off-balance exposures.

- Probability of Default (PD) reflects the probability of default at a prospect of time. The Bank takes into account Standard & Poor's ("S&P"'s) PD's, whereas the rating assigning process is performed internally based on the S&P methodology, which ensures the alignment between internal risk management and the process of impairment calculation.
- Loss Given Default (LGD) is the magnitude of loss at the time of default. The Bank applies LGD based on Moody's benchmarks (recovery rates) covering a wide historical period.
- Collateral Haircut is based on the regulatory capital requirements (CRR) eligibility criteria and haircut.
- Credit Conversion Factor (CCF) is based on the CRR where CCF applies to all guarantees and lines of credit (off-balance exposures).

The use of scenarios or alternative methodologies with other assumptions and estimates could result in different levels of impairment losses recognized, and a consequent impact on the Bank results.

3.2. INCOME TAXES

The Bank is subject to the payment of income taxes in various jurisdictions. Determining the aggregate amount of income taxes requires certain interpretations and estimates. There are several transactions and calculations for which determining the final amount of tax to be paid is uncertain throughout the normal course of business.

Other interpretations and estimates could result in a different level of income taxes recognised in the period, whether current or deferred.

On the other hand, the Bank accounts for deferred taxes in accordance with the policy set forth in Note 2.13, whereby deferred tax assets are accounted for only insofar as it is expected that there will be taxable profit in the future, which are able to absorb tax losses carried forward and deductible temporary differences.

The historical loss calculation in recent years justifies an assessment of the recoverability of deferred tax assets, but these results are significantly affected by extraordinary situations (eg. restructuring) that are not expected to occur in future years.

The assessment of the recoverability of deferred tax assets (including the rate at which they shall be realised) was carried out by the Bank based on projections of its future taxable profit, such projections being specified from a business plan.

The estimate of future taxable profit involves a significant level of judgment regarding the future development of the Group's activity and the timing of execution of temporary differences. For such purpose, several assumptions were adopted, in particular the analysis of several scenarios due to a uncertainty about the fiscal treatment of a set of Bank realities.

Tax Authorities are required to review the calculation of the basis of assessment, made by the Bank, for a period of four years, except where any deduction or tax credit has been made, where the time-limit is the exercise of that right. Hence, there is a possibility that the basis of assessment will be corrected, mainly due to differences in the interpretation of the tax legislation. However, it is the belief of the Bank's Board of Directors and its subsidiaries, that there will be no significant corrections to income taxes state on financial statements, with a material impact on its equity and results.

3.3. IMPAIRMENT LOSSES IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in subsidiaries and associated companies are analysed periodically for the purpose of identifying signs of impairment. If any, the impairment is determined in accordance with the rules set forth in IAS 36. In the absence of an available market value, the recoverable amount is normally determined based on discounted value techniques using a discount rate that considers the risk associated with unit to be tested. The determination of the future cash flows to be discounted and the discount rate to be used involves judgment. Changes in expected cash flows and in the discount rates to be used could lead to different conclusions from those that formed the basis of the preparation of these financial statements.

3.4. PENSIONS AND OTHER EMPLOYEE BENEFITS

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, responsabilities discount rate, and other factors that could impact the cost and liability of the pension plan.
Any changes to such assumptions could have a significant impact on the determined amounts.

3.5. FAIR VALUE OF FINANCIAL DERIVATIVES AND ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Fair values are based on listed market prices when available; otherwise fair value is determined with reference to similar recent arm's length transaction prices, or in accordance with valuation methodologies based on discounted future cash flows techniques, by taking into account the market conditions, temporal value, yield curve and volatility factors. Such methodologies further incorporate own credit risk as well as the counterparty's credit risk. Such methodologies may require the use of assumptions or judgements when estimating fair value.

Consequently, the use of a different model or different assumptions or judgements in applying a particular model may have produced different financial results from the ones reported.

3.6. CLASSIFICATION AND MEASUREMENT

The classification and measurement of financial assets depends on the results of the SPPI test (analysis of the characteristics of the contractual cash flows to determine if they correspond only to payments of principal and interest on the outstanding capital) and the test of the business model.

The Bank determines the business model at a level that reflects how financial asset groups are managed together to achieve a specific business objective. This evaluation requires judgment, since the following aspects, among others, have to be considered: the way in which the performance of assets is evaluated; the risks that affect the performance of the assets and way these risks are managed; and how asset managers are rewarded.

The Bank monitors the financial assets measured at amortized cost and at fair value through other comprehensive income that are derecognized prior to their maturity to understand the underlying reasons for their disposal and to determine whether they are consistent with the purpose of the business model defined for those assets. This monitoring is part of a process of continuous evaluation made by the Bank of the business model of the financial assets that remain in the portfolio, to determine if it is adequate and, if it is not, if there was a change in the business model and consequently a prospective change classification of these financial assets.

NOTE 4 – FINANCIAL MARGIN

This heading's amount is composed of:

(thousand euros)

	31.12.2019			31.12.2018		
	Assets/Liabilities at Amortised Cost and at fair value through other comprehensive income	Assets/Liabilities at Fair Value Through Profit or Loss	Total	Assets/Liabilities at Amortised Cost and at fair value through other comprehensive income	Assets/Liabilities at Fair Value Through Profit or Loss	Total
Interest and similar income						
Interest from loans and advances to customers	14 950	-	14 950	12 154	-	12 154
Interest from deposits and investments in credit institutions	204	-	204	286	-	286
Interest from financial assets at fair value through other comprehensive income	3 376	-	3 376	2 071	-	2 071
Interest from financial assets at fair-value through profit and loss	-	2 386	2 386	-	4 112	4 112
Interest from debt securities measured at amortised cost	5 406	-	5 406	532	-	532
Other interest and similar income	237	-	237	130	-	130
	24 173	**2 386**	**26 559**	**15 173**	**4 112**	**19 285**
Interest and similar expenses						
Interest from deposits from central banks and other credit institutions	26	-	26	478	-	478
Interest from debt securities issued	3 197	-	3 197	4 078	-	4 078
Interest from customers accounts	10 012	-	10 012	10 672	-	10 672
Interest from leasing	117	-	117	-	-	-
Other interest and similar expenses	755	-	755	963	-	963
	14 107	**-**	**14 107**	**16 191**	**-**	**16 191**
	10 066	**2 386**	**12 452**	**(1 018)**	**4 112**	**3 094**

As at the 31st of December, 2019, interest and similar income includes an amount of 649 thousand euros and 235 thousand euros concerning contracts flagged as stage 2 and stage 3, respectively (31st of December, 2018: 809 thousand euros and 328 thousand euros).

NOTE 5 – INCOME FROM EQUITY INSTRUMENTS

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Dividend income		
HAITONG BANCO DE INVESTIMENTO DO BRASIL S.A.	824	5 401
	824	**5 401**

NOTE 6 – NET FEES AND COMMISSIONS INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Fees and commissions income		
From banking services	37 564	45 369
From guarantees provided	1 968	2 226
From transactions with securities	43 879	23 412
	83 411	**71 007**
Fees and commissions expenses		
From banking services rendered by third parties	1 503	343
From transactions with securities	1 223	1 031
From guarantees received	494	445
Other fee and comission expenses	3 773	4 587
	6 993	**6 406**
	76 418	**64 601**

As at 31st December, 2019, the income regarding fees and commission included 29,667 thousand euros (31st December, 2018: 39,672 thousand euros) concern Haitong Group related parties (Note 37).

As at 31th of December 2019 the amount of fees and commissions present the following distribution, by operational segment:

(thousand euros)

	31.12.2019	31.12.2018
Fees and commissions income		
Capital Markets Division	41 112	30 306
Mergers and Acquisitions Division	18 721	15 627
Structured Finance Division	6 371	11 563
Equities Division	5 673	5 527
Fixed Income Currency and Commodities Division	7 234	5 163
Private Equity	-	1 040
Global Markets	30	508
Treasury Division	7	607
Other	4 263	666
	83 411	**71 007**

Mergers and Acquisitions Division

The purpose of the Mergers and Acquisitions Division is to provide financial advisory services to clients in respect of the purchase, sale or merger of companies, generating business and, accordingly, value for the Bank.

In addition, this division also provides advice to clients in the valuation, restructuring and feasibility analysis of projects.

Capital Markets Division

The purpose of the Capital Markets Division is to source mandates to place debt and equity products aimed at the market and organize, structure and arrange the respective transactions.

Additionally, this division promotes synergies with the other business areas and geographies of the Bank, particularly in respect of opportunities resulting from cross-border deals.

Fixed Income Currency and Commodities Division

The purpose of the FICC Division is to provide a professional, differentiated and high-quality product and service to institutional and corporate clients, as well as provide Haitong Bank with a strong multi-client and international distribution platform. Its presence in various geographies and the combination of its origination and distribution capacity stimulate the identification of new business opportunities and promotes cross border activity.

With dedicated Trading, Syndication, Distribution and Derivatives teams, the FICC Division offers market-making services for corporate and sovereign debt securities, multi-product international distribution, Syndication capacity for different products and tailor-made (multi-asset and multi-currency) risk hedging instruments, for both corporate and institutional clients, offering a wide range of products with plain vanilla and structured payoffs.

Equities Division

Equities Division provides an **advanced, superior,** and **global** execution for European investors with a wide customized execution solutions available for our institutional clients. Following the collaboration agreement signed with Haitong International the distribution of our Polish and Asian product research have also been reinforced.

Structured Finance Division

The mission of the Structured Finance Division is to develop financing solutions to its Clients, namely under the form of acquisition / leverage finance, asset based and project finance loans, as well as the provision of financial advisory services in the deals structuring and public tenders involving bidding processes and / or the provision of arranging and agency services for financing operations.

Treasury Division

The purpose of the Treasury Division is to ensure an appropriate level of funding to meet the Bank's and the Group's current and future funding needs, as well as an appropriate level of liquidity to meet the financial liabilities.

Additionally, the purpose of the Treasury Division is also to manage the Bank's proprietary treasury portfolio effectively and efficiently.

Global Markets

The mission of the Global Markets Division is to manage any market risks to which the Bank is exposed.

Private Equity

This segment undertakes to provide support to the private corporate initiative, by promoting productive investment, which is financed mostly by equity.

Other

Includes all remaining segments of the Group's Management Information model, which, in accordance with the provisions laid down in IFRS 8, is not subject to mandatory individualisation (Research Division, Asset Management and other revenue centres).

As at 31th of December 2019 the amount of fees and commissions present the following distribution, by geographical segment:

(thousand euros)

	31.12.2019
Fees and commissions income	
China	37 922
Hong Kong	11 462
Portugal	10 493
Virgin Islands	10 165
Bermuda	2 534
Spain	2 462
Ireland	2 198
United Kingdom	1 895
Luxembourg	1 200
Others	3 080
	83 411

NOTE 7 – NET TRADING INCOME

This heading's amount is composed of:

(thousand euros)

	Losses	31.12.2019	31.12.2018
Assets and liabilities held for trading			
Securities held for trading			
Bonds and other fixed income securities			
Issued by public entities	2 109	62	(48)
Of other entities	2 780	837	466
Shares	262	(131)	(3 865)
	5 151	**768**	**(3 447)**
Financial derivatives held for trading			
Foreign-exchange contracts	5 369	4 116	(7 408)
Interest rates contracts	36 729	(514)	(450)
Equity/indexes contracts	352 775	(1 423)	7 222
Credit default contracts	93	(47)	-
Other	(621)	621	(548)
	394 345	**2 753**	**(1 184)**
	399 496	**3 521**	**(4 631)**

NOTE 8 – NET INCOME FROM OTHER INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Assets and liabilities at fair value through profit or loss		
Securities		
Loans and advances to customers	(123)	(1)
Other variable income securities	1 059	(1 379)
	936	**(1 380)**

NOTE 9 – NET GAIN/(LOSS) FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT FAIR VALUE TRHOUGH OTHER COMPREHENSIVE INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Bonds and other fixed income securities		
Issued by public entities	2 442	3 302
Of other entities	15	-
	2 457	**3 302**

NOTE 10 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Currency revaluation	(11 923)	7 246
	(11 923)	**7 246**

This heading includes results arising out of the exchange rate revaluation of monetary assets and liabilities denominated in foreign currency, in accordance with the accounting policy set forth in Note 2.2.

NOTE 11 – NET GAIN/(LOSS) FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

As at the 31th of December, 2019 and 2018 , this heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Sale of loans and advances to customers	99	117
Sale of investments at amortised cost	166	-
	265	**117**

NOTE 12 – OTHER OPERATING RESULTS

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Other customer services	185	1 094
Direct and Indirect taxes	(2 384)	(2 824)
Other operating results	(5 915)	(1 911)
Non-current assets held-for-sale (Note 23)	11 175	1 417
Non-financial assets	(62)	(69)
Sub-leasing	370	-
	3 369	**(2 293)**

Direct and indirect taxes include 2,761 thousand euros concerning the cost associated with the Bank Levy (2018: 1,781 thousand euros), established pursuant to Law no. 55-A/2010, of the 31st of December (see Note 32).

As at the December 31, 2019, the balance Other operating income and expenses includes, among other costs, the following contributions:

I. 1,645 thousand euros related to Contributions to the Resolution Fund (1,862 thousand euros at 31 December 2018); and
II. 3,949 thousand euros related with the repurchase of the debt security issued by Haitong Bank, fully owned by Haitong Investment Ireland PLC.

NOTE 13 – EMPLOYEE COSTS

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Wages and salaries		
Remuneration	24 859	25 124
Career benefits (see Note 14)	54	(13)
Changes from termination agreements (see Note 14)	475	1 256
Expenses with retirement pensions (see Note 14)	717	784
Other mandatory social charges	4 586	4 351
Other expenses	2 079	1 398
	32 770	**32 900**

At 31st December, 2019 this heading includes 475 thousand euros (31st December, 2018: 1,256 thousand euros) related with the Voluntary Termination Plan called Social Plan.

The costs with remuneration and other benefits granted to key management employees of the Haitong Bank are distributed as follows

(thousand euros)

	Board of Directors	Other Key Management staff	Total
2018			
Remuneration and other short-term benefits	1 605	9 147	10 752
Variable remuneration	312	1 261	1 573
Total	**1 917**	**10 408**	**12 325**
2017			
Remunerations and other short-term benefits	1 560	10 420	11 980
Variable remunerations	-	566	566
Total	**1 560**	**10 986**	**12 546**

The category "Other Key Employees" considers Managing Directors, Executive Directors, and other members of staff whose actions have a material impact on the Bank's risk profile ("Identified Staff").

On December 31st, 2019 and December 31st, 2018, the Haitong Bank did not present any credit granted to its Management Bodies.

Per professional category, the average number of employees of the Haitong Bank can be analysed as follows:

	31.12.2019	31.12.2018
Directors	147	164
Management	3	3
Specific roles	104	105
Administrative roles	16	17
Support roles	12	12
	282	**301**

As at the 31st of December, 2019, the Bank had a total of 275 employees.

NOTE 14 – EMPLOYEES BENEFITS

Retirement pensions and healthcare benefits

Pension and health-care benefits In compliance with the Collective Labor Agreement ("Acordo Coletivo de Trabalho", ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pensions on retirement, disability and survival. These payments consist of a percentage that increases in accordance with the years of service, applied to each year's negotiated salary table for the active work force.

Arising from the signature of the new Collective Labor Agreement ("Acordo Coletivo de Trabalho", ACT) on 5 July 2016, published in Labor Bulletin (Boletim do Trabalho) no. 29, of 8 August 2016, the Bank's contributions to SAMS as from 1 February 2017, correspond to a fixed amount (as per Annex VI of the new ACT) for each employee, 14 times a year.

The measurement and recognition of the Bank's liability with post-retirement health-care benefits is similar to the measurement and recognition of the pension liability. These benefits are covered by the Pension Fund, which currently covers all liabilities with pensions and health-care benefits.

For employees hired until 31 December 2008, the retirement pension and the disability, survival and death pensions consecrated under the ACT, as well as the liabilities for health-care benefits (SAMS), are covered by a closed pension fund, managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A.

Protection of employees in the event of maternity, paternity and adoption, as well as old age, is covered by the General Social Security Regime, given that with the publication of Decree-Law no. 1A/2011, of 3 January, all banking employees who were beneficiaries of "CAFEB – Caixa de Abono de Família dos Empregados Bancários" were integrated in the General Social Security Regime as from 1 January 2011.

Employees hired after 31 December 2008 are covered by the Portuguese General Social Security Regime.

Retirement pensions of banking employees integrated in the General Social Security Regime within the scope of the 2nd tripartite agreement continue to be calculated in accordance with the provisions of the ACT and other conventions; however, banking employees are entitled to receive a pension under the General Regime, that takes into account the number of years of contributions under that regime. The banks are responsible for the difference between the pension determined in accordance with the provisions of the ACT and that which the banking employees are entitled to receive from the General Social Security Regime.

The contribution rate is 26.6%, 23.6% paid by the employer and 3% paid by the employees to the General Social Security Regime on the behalf of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by said Decree-law. In consequence of this change, pension entitlements of active employees are to be covered on the terms defined under the General Social Security Regime, for the length of their employment between 1 January 2011 and their retirement date. The differential required to make up the pension guaranteed under the ACT is paid by the Banks.

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Colectiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

The agreement further established that the financial institutions' pension fund assets relating to the part allocated to the satisfaction responsibilities for those pensions, be transferred to the State.

The main assumptions used in the calculation of liabilities are as follows:

	Assumptions	
	31.12.2019	31.12.2018
Financial Assumptions		
Expected return rates	1,52%	2,32%
Discount rate	1,52%	2,32%
Pension growth rates	0,50%	0,50%
Salary growth rates	0,75%	1,00%
Demographic Assumptions and Assessment Methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 - 3 years	TV 88/90 - 3 years
Actuarial valuation method	Project Unit Credit Method	

Disability decrements are not included in the calculation of responsibilities. The discount rate used as reference to the 31st of December, 2019, was based on: (i) the development sustained by the main indices concerning high quality corporate bonds and (ii) the duration of the responsibilities (21 years).

Recipients of the pensions plan are disaggregated as follows:

	31.12.2019	31.12.2018
Active workers	101	109
Former employees with vested rights	77	70
Retired	34	33
Survivors	10	7
TOTAL	**222**	**219**

Former employees with vested rights refer to employees who ceased their activity in the Bank in 2019 and 2018, under the terms of the Social Plan, and maintained the pension plan rights.

The IAS 19 application implies the following liabilities and coverage levels, which shall be reported on the 31st of December 2019 and 2018:

(thousand euros)

	31.12.2019	31.12.2018
Net Assets / (Liabilities) recognised in the statement of financial position		
Liabilities as at 31st of December		
Pensioners and former employees with vested rights	52 095	40 839
Active workers	31 948	31 820
	84 043	**72 659**
Balance of the Funds at 31 December	**78 792**	**69 641**
Excess of coverage / (Contributions to the fund)	(5 251)	(3 018)
Assets / (Liabilities) in the statement of financial position (see Note 33)	**(5 251)**	**(3 018)**
Acummulated actuarial gains / losses recognised in other comprehensive income	38 004	34 616

Retired includes the former employees, with vested rights acquired under the Social Plan.

The evolution of liabilities regarding retirement pensions and healthcare benefits is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Liabilities at the beginning of the year	**72 659**	**72 070**
Current service cost (see Note 13)	717	784
Interest expenses	1 678	1 556
Participants contributions	89	94
Actuarial (gains)/losses	9 184	(2 389)
-Changes in assumptions	11 272	(2 401)
- Experience (Gains)/losses	(2 088)	12
Pensions paid by the fund	(759)	(712)
Changes from termination agreements (see Note 13)	475	1 256
Liabilities at the end of the year	**84 043**	**72 659**

Considering the situation on the 31st of December 2019, the analysis to the sensibility and alterations of the actuarial assumptions revealed the following impacts:

- An increase in the discount rate of 25 base points would have represented a reduction in liabilities of approximately 4,303 thousand euros. A discount rate decrease of the same proportion would have represented an increase in liabilities of approximately 4,528 thousand euros;
- An increase of 25 base points in the growth of salaries and pensions would have represented an increase in liabilities of approximately 3,941 thousand euros. A decrease in the growth of salaries of the same proportion would have represented a decrease in liabilities of approximately 3,769 thousand euros.

The evolution of value regarding the pension funds on the financial years ending on the 31st of December 2019 and 2018, may be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Pension Funds at the beginning of the year	**69 641**	**72 552**
Real income of the fund	7 459	(3 619)
Bank contributions	2 364	1 326
Participants contributions	89	94
Benefits paid	(759)	(712)
Pension Funds at the end of the year	**78 794**	**69 641**

In early 2020, the Group made an extraordinary contribution for the fund in the amount of 4,504 thousand euros, therefore, the fund is now in the amount of 83,303 thousand euros, thereby representing a liability financing level of 99,12%

On October 31, 2019, the Bank submitted to the Autoridade de Supervisão de Seguros e Fundos de Pensões ("ASF") a request to change the Pension Fund contract, which intends, among others, (i) to delimit the Plan 2 in order to be confined to its current Beneficiaries and to possible future Beneficiaries, due to their death, and (ii) to introduce a new Pension Plan (Plan 3), with a defined contribution regime, to which the current Participants of Plan 2 carry over, both those who have already ceased their relationship, with acquired rights, and those who are currently active.

The assets of the pension funds may be analysed in the following manner:

	% Portfolio	
	31.12.2019	31.12.2018
Bonds	59,80%	66,00%
Shares	31,00%	28,00%
Alternative investment	6,50%	5,00%
Liquidity	2,80%	1,00%
Total	**100%**	**100%**

The assets of the funds are valued at fair value.

On the 31st of December 2019 and 2018 the funds did not contain securities issued by entities of the Bank.

The evolution of accumulated actuarial deviations reflected in other comprehensive income may be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Accumulated actuarial gains / (losses) as at 1st January	**34 616**	**31 792**
- Actuarial assumptions changes	11 272	(2 401)
- (Gains)/losses in experience	(7 884)	5 225
Accumulated actuarial deviations as at 31st of December	**38 004**	**34 616**

The costs of the financial year with retirement pensions and healthcare benefits may be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Current service cost (See Note 13)	717	784
Interest Expenses / (Income)	17	(38)
Expenses of the period	**734**	**746**

The earnings / costs of the interests are recognized according at net value in interest and similar income / expenses.

The evolution of the net assets / (liabilities) on the balance regarding the financial years ending on the 31st of December 2019 and 2018 may be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	**(3 018)**	**482**
Year expenses	(734)	(746)
Actuarial gains / (losses) recognised in other comprehensive income	(3 388)	(2 824)
Bank contributions	2 364	1 326
Changes in termination agreements (see Note 13)	(475)	(1 256)
Closing balance	**(5 251)**	**(3 018)**

The evolution of liabilities and fund balances, as well as the earnings and losses of experience in the last 5 years shall be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
Liabilities	(84 043)	(72 659)	(72 070)	(70 735)	(70 744)
Funds balances	78 792	69 641	72 552	67 349	70 744
(Under) / over funded liabilities	**(5 251)**	**(3 018)**	**482**	**(3 386)**	**-**
Experience (gains) / losses from liabilities	(2 088)	12	(143)	(7 655)	177
Experience (gains) / losses from plan assets	(5 796)	5 213	(1 176)	6 013	6 707

Career bonuses

On the 31st of December, 2019 and 2018, the liabilities assumed by the Bank and the costs recognised in the periods with the career bonus are the following:

(thousand euros)

	31.12.2019	31.12.2018
Liabilities at the begining of the period	**485**	**498**
Year expenses (See Note 13)	54	(13)
Liabilities at the end of the period (see Note 33)	**539**	**485**

The actuarial assumptions used for calculation of liabilities are identical for calculation of retirement pensions (when applicable).

The liability regarding career bonuses is registered in other liabilities (see Note 33).

NOTE 15 – ADMINISTRATIVE COSTS

This heading's amount is composed of:

(thousand euros)

	31.12.2019	31.12.2018
Lease and rental	629	3 559
Marketing and advertisement	35	131
Press releases and expedition	4 116	4 602
Travelling and representation	918	1 074
Maintenance and related services	670	778
Insurances	176	171
Legal and litigation	131	119
Specialised services		
IT services	3 227	3 173
Temporary labour	21	13
Independent work	630	1 156
Other specialised services	3 237	3 939
Other expenses	1 175	3 131
	14 965	**21 846**

The Other Specialised Services heading includes, among others, the costs with external consultants and auditors. The item Other Costs includes, among others, the costs with security and surveillance, information, training costs and costs with external suppliers.

Services agreed with the Company of Statutory Auditors and the auditors, according to the provisions of article 508-F of the Commercial Companies Code, are as follows:

	31.12.2019	31.12.2018
Statutory audit of annual accounts (Haitong Bank)	382	375
Other reliability assurance services	92	151
Other non-statutory audit services	133	79
Total amount of agreed services	**607**	**605**

Values shown are before taxes. The fees related to the statutory audit of annual accounts correspond to those agreed for the year 2019. The fees presented for the remaining services relate to amounts billed during the 2019 financial year.

NOTE 16 – EARNINGS PER SHARE

Basic earnings per share

The basic earnings per share are calculated by the division of the result to be attributed to the shareholders of the Bank by the average number of ordinary shares issued during the year, excluding the average number of shares bought and held in portfolio as own shares.

(thousand euros)

	31.12.2019	31.12.2018
Net Profit / (Loss) [(1)]	10 342	(4 566)
Weighted average number of ordinary shares outstanding (thousands)	**168 954**	**168 954**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**0,06**	**-0,03**

[(1)] Net profit/ (loss) for the period attributable to the equity holders of the Bank adjusted by the interest paid from perpetual subordinatec attributable to the period (that are recorded as a change in reserves)

Diluted earnings per share

The diluted earnings per share are calculated by adjusting the effect of all the potential ordinary diluting shares to the considered average number of existing ordinary shares and to the net result attributed to the bank shareholders.

On the 31st of December, 2019 and 2018, the Bank holds instruments issued without diluting effect, therefore diluted earnings per share equals basic earnings per share.

NOTE 17 – CASH AND CASH EQUIVALENTS

As at the 31st of December, 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Cash	6	3
Demand deposit at central banks		
Bank of Portugal	611 914	308 245
Other central banks	3	742
	611 917	**308 987**
Deposits at other credit institutions in Portugal		
Demand deposits	3 271	4 474
	3 271	**4 474**
Deposits at other credit institutions abroad		
Demand deposits	18 324	3 969
	18 324	**3 969**
	633 518	**317 433**

The ‘Demand deposits in central banks – Bank of Portugal’ heading, includes deposits with a mandatory nature, intended to comply with the legal minimum cash deposits requirements. In accordance with Regulation (EU) no. 1358/2011 of the European Central Bank, of the 14th of December, 2011, the mandatory minimum deposits in demand deposits in the Bank of Portugal, are paid and represent 1% of the deposits and debt securities with maturity up to 2 years, whereof are excluded deposits and debt securities from entities subject to the minimum reserve requirement scheme of the European System of Central Banks. On the 31st of December, 2019, the average rate of return of such deposits was 0,00% (31st of December, 2018: 0.00%).

The compliance with mandatory minimum deposits, for a specific observation period, is effected by taking into account the medium amount of the balances of the deposits with the Bank of Portugal throughout the aforementioned period. The balance of the account with the Bank of Portugal as at the 31th of December, 2019, has been comprised in the maintenance period from the 18th of December, 2019, to the 28th of January, 2020, which corresponded a mandatory minimum reserve amounting to 5,953 thousand euros (31st of December, 2018: 5,311 thousand euros).

NOTE 18 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING - SECURITIES

As at 31st of December 2019 and 2018, the heading of trading financial assets and liabilities is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Financial assets held-for-trading		
Securities		
Bonds and other fixed-income securities		
From public issuers	4 141	18 325
From other issuers	25 495	51 214
Shares	20	457
	29 656	**69 996**
Financial liabilities held-for-trading		
Securities		
Short-selling	1 962	16 119
	1 962	**16 119**

As at 31st of December 2019 and 2018, the analysis of financial assets held-for-trading, by residual maturity period, is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	3 714	19 416
From three months to one year	1 470	4 566
From one to five years	23 069	34 728
More than five years	1 383	10 829
Undetermined period	20	457
	29 656	**69 996**

In accordance with the accounting policy described in Note 2.3.1, trading financial assets and liabilities are bought for the purpose of short-term trading, regardless of their maturity.

As at 31st of December 2019 and 2018, the heading of financial assets held-for-trading, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by public entities	4 141	-	4 141	18 325	-	18 325
Issued by other entities	14 145	11 350	25 495	5 781	45 433	51 214
Shares	20	-	20	457	-	457
Total book value	**18 306**	**11 350**	**29 656**	**24 563**	**45 433**	**69 996**

As at 31st of December 2019 and 2018, the exposure to the public debt of "peripheral" countries within the Euro Area is analysed in Note 41.

The short selling represents securities sold by the Bank, which had been purchased under a reverse repurchase agreement. In accordance with the accounting policy described in Note 2.4, securities purchased under a repurchase agreement are not recognised in the statement of financial position. If those securities are sold, the Bank recognises a financial liability equivalent to the fair-value of the assets which shall be returned in pursuance of the repurchase agreement.

NOTE 19 – DERIVATIVES

As at 31st of December 2019 and 2018, financial derivatives heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Trading derivatives (assets)		
Foreign-exchange contracts	4 183	6 268
Interest-rate contracts	113 721	127 395
Other contracts	18 463	25 296
	136 367	**158 959**
Trading derivatives (liabilities)		
Interest-rate contracts	4 307	9 744
Equity / index contracts	113 702	126 846
Other contracts	18 066	25 910
	136 075	**162 500**
	292	**(3 541)**

As at 31st of December 2019 and 2018, trading financial derivatives is analysed as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Notional	Fair value		Notional	Fair value	
		Positive	Negative		Positive	Negative
Foreign-exchange contracts						
Forward		287	587		182	789
- buy	166 943			115 240		
- sell	167 547			116 366		
Currency Swaps	-	940	436		340	3 179
- buy	188 248			195 259		
- sell	188 157			198 576		
Currency Interest Rate Swaps		2 616	2 943		2 900	2 900
- buy	66 250			28 850		
- sell	66 250			28 850		
Currency Options		340	341		2 846	2 876
- buy	177 835			231 784		
- sell	208 870			261 311		
	1 230 100	**4 183**	**4 307**	**1 176 236**	**6 268**	**9 744**
Interest rate contracts						
Interest Rate Swaps	-	112 272	112 245		120 299	119 750
- buy	2 192 963			2 805 122		
- sell	2 192 963			2 805 122		
Interest Rate Caps & Floors	-	1 449	1 457		7 096	7 096
- buy	88 334			121 442		
- sell	81 594			121 442		
Interest Rate Futures	-					
- buy	-			3 000		
- sell	4 670			8 677		
	4 560 524	**113 721**	**113 702**	**5 864 805**	**127 395**	**126 846**
Equity / index contracts						
Equity / Index Swaps		15 285	14 934		22 093	22 707
- buy	159 799			193 948		
- sell	159 733			193 948		
Equity / Index Options		-	-		415	413
- buy	-			3 247		
- sell	-			3 247		
Equity / Index Futures		-	-		-	-
- sell	3 095			6 602		
	322 627	**15 285**	**14 934**	**400 992**	**22 508**	**23 120**
Credit default contracts						
Credit Default Swaps		3 178	3 132		2 788	2 790
- buy	63 229			105 423		
- sell	97 629			105 423		
	160 858	**3 178**	**3 132**	**210 846**	**2 788**	**2 790**
Total	**6 274 109**	**136 367**	**136 075**	**7 652 879**	**158 959**	**162 500**

As at 31st of December 2019 and 2018, the analysis of trading financial derivatives, by residual maturity period, is as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Sale	Purchase		Sale	Purchase	
Up to three months	310 879	297 744	11	605 891	577 077	(2 222)
From three months to one year	789 318	729 787	360	636 529	620 585	(1 772)
From one to five years	1 054 060	1 053 080	(1 271)	1 144 174	1 142 685	(463)
More than five years	1 016 250	1 022 991	1 192	1 462 969	1 462 969	916
	3 170 507	**3 103 602**	**292**	**3 849 563**	**3 803 316**	**(3 541)**

As at 31st of December 2019 and 2018, derivatives, both assets and liabilities, include operations collateralized by the constitution of collateral accounts in order to ensure the fair value hedge of the active and liability exposures contracted between the Bank and several financial institutions. The balances related to these collateral are recorded under "Other assets - collateral deposited under clearing agreements" (Note 27) and "Other liabilities - collateral deposited under clearing agreements" (Note 33).

NOTE 20 – SECURITIES

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Non-trading financial assets mandatorily at fair value through profit or loss		
Securities		
Shares	63	8 900
Other variable income securities	9 025	2 446
	9 088	**11 346**
Financial assets at fair value through other comprehensive income		
Securities		
Bonds and other fixed-income securities		
From public issuers	15 233	280 978
From other issuers	41 803	90 802
	57 036	**371 780**
Financial assets measured at amortised cost		
Securities		
Bonds and other fixed-income securities		
From public issuers	194 981	-
From other issuers	135 235	87 085
	330 216	**87 085**
	396 340	**470 211**

In accordance with the accounting policy described in Note 2.3, the Bank regularly assesses whether there is objective evidence of impairment in the investment securities portfolios, following the judgement criteria described in Note 3.1.

The portfolio of Financial assets at fair value through other comprehensive income is analysed as follows:

(thousand euros)

	Cost (1)	Fair value reserve		Impairment (Note 31)	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	15 148	97	-	(12)	15 233
Issued by other entities	46 242	335	(2 258)	(2 516)	41 803
Balance as at 31st December 2019	**61 390**	**432**	**(2 258)**	**(2 528)**	**57 036**
Bonds and other fixed-income securities					
Issued by public entities	281 891	1 229	(1 858)	(284)	280 978
Issued by other entities	91 309	328	(450)	(385)	90 802
Balance as at 31st December 2018	**373 200**	**1 557**	**(2 308)**	**(669)**	**371 780**

(1) Amortised cost

As at 31st of December 2019, the heading of financial assets includes: 209,853 thousand euros (31st December 2018: 280,618 thousand euros) in securities pledged as collateral by the Bank.

The portfolio of financial assets at amortized cost is analysed as follows:

(thousand euros)

	Cost (1)	Impairment (Note 31)	Book value
Bonds and other fixed-income securities			
Issued by public entities	195 129	(148)	194 981
Issued by other entities	143 758	(8 523)	135 235
Balance as at 31st December 2019	**338 887**	**(8 671)**	**330 216**
Bonds and other fixed-income securities			
Issued by other entities	87 532	(447)	87 085
Balance as at 31st December 2018	**87 532**	**(447)**	**87 085**

(1) Amortised cost

As at 31st of December 2019 and 2018, the analysis of securities portfolios by maturity period, is presented as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	23 635	13 493
From three months to one year	98 353	76 013
From one to five years	248 487	298 644
More than five years	16 777	70 715
Undetermined period	9 088	11 346
	396 340	**470 211**

As at 31st of December 2019 and 2018, the heading of securities, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed-income securities						
Issued by public entities	210 213	1	210 214	280 978	-	280 978
Issued by other entities	-	177 038	177 038	5 122	172 765	177 887
Shares	13	50	63	8 829	71	8 900
Other variable-income securities	-	9 025	9 025	-	2 446	2 446
Total book value	**210 226**	**186 114**	**396 340**	**294 929**	**175 282**	**470 211**

As at 31st of December 2019 and 2018, the exposure to the public debt of "peripheral" countries within the Euro Area is presented in Note 41.

NOTE 21 - LOANS AND ADVANCES TO BANKS

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Loans and advances to banks in Portugal		
Deposits	56	56
Very short-term deposits	6 231	-
	6 287	**56**
Loans and advances to banks abroad		
Very short-term deposits	2 255	1 048
Other loans and advances	18 585	18 435
	20 840	**19 483**
Impairment losses (Note 31)	(15 601)	(15 574)
	11 526	**3 965**

As at 31st of December 2019 and 2018, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	12 050	4 406
From three months to one year	-	56
Undetermined period	15 077	15 077
	27 127	**19 539**

NOTE 22 – LOANS AND ADVANCES TO CUSTOMERS

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
At fair value throught profit and loss		
Overdue loans and interest		
Up to 90 days	-	285
For more than 90 days	233	-
	233	**285**
Loans fair value revaluation	(126)	(1)
	107	**284**
At amortized cost		
Domestic loans		
Corporate		
Commercial lines of credit	-	150
Loans	158 121	206 360
Retail		
Mortgage loans	469	526
	158 590	**207 036**
Foreign loans		
Corporate		
Loans	79 319	316 604
Operations with reverse repo	1 132	116 618
Other credits	1 613	1 422
Retail		
Mortgage loans	20	14
	82 084	**434 658**
Overdue loans and interest		
Up to 90 days	-	845
For more than 90 days	75 084	77 541
	75 084	**78 386**
	315 758	**720 080**
Impairment losses (Note 31)	(84 737)	(88 860)
	231 021	**631 220**

As at 31st of December 2019 and 2018, the analysis of loans and advances to costumers, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	1 621	166 787
From three months to one year	-	5 461
From one to five years	79 532	271 881
More than five years	159 521	197 565
Undetermined period	75 317	78 670
	315 991	**720 364**

NOTE 23 - NON-CURRENT ASSETS HELD-FOR-SALE

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Polish Hotel Company	2 244	2 533
Haitong Investment Ireland Public Limited Company	-	150 825
	2 244	**153 358**

Non-current assets held-for-sale only includes the investment in Polish Hotel Company. The Bank has implemented a plan for the immediate sale of this subsidiary. However, due to market conditions, it was not possible to carry out the divestiture within the period originally foreseen.

The Bank is committed and developing the best efforts to conclude the sale of the company. Haitong Banks is currently in negotiations with a Polish intermediary acting on behalf of three potential investors.

In Janurary, three non-binding offers were received and the negotiation process has started for the sale of 100% of the company. If we reach an agreement regarding the terms of the sale, the transaction is expected to be completed during the first half of 2020.

The movement in this heading was as follows:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	**153 358**	**25 185**
PHC reduction	(289)	-
Foreign exchange revaluation of HAITONG (UK) LIMITED	-	(260)
Sell Price of (UK) LIMITED	-	(10 167)
Sell price of HAITONG SECURITIES USA	-	(13 642)
Net gains /(loss) from selling HAITONG (UK) LIMITED (Note 12)	-	(26)
Net gains /(loss) from selling HAITONG SECURITIES USA (Note 12)	-	1 443
Investment transfer in HAITONG INVESTMENT IRELAND PLC	-	150 825
Additional capital reimbursement	(150 000)	-
Sell price of HAITONG INVESTMENT IRELAND PLC+	(12 000)	-
Net gains /(loss) from selling HAITONG INVESTMENT IRELAND PLC+ (Note 12)	11 175	-
Closing balance	**2 244**	**153 358**

In February 2018 the Haitong Securities USA LLC, Haitong UK Limited and Haitong Securities (UK) Limited subsidiaries were sold to Haitong International BVI. The sale price of Haitong Securities USA LLC. was 16 778 thousand dollars (13 642 thousand euros). The sales value of Haitong UK Limited and Haitong Securities (UK) Limited amounted to 12 536 thousand dollars (10 167 thousand euros).

On September 30, 2019, Haitong Bank has entered into an agreement with its parent company, Haitong International Holdings Limited, an entity fully owned by Haitong Securities Co., Ltd., to sell and transfer the entirety of the shares representing the share capital of its wholly owned subsidiary Haitong Investment Ireland p.l.c.. Having at that date the transaction pending to previous standard conditions as well as to the non-opposition of the relevant stakeholders. The sale was concluded on December 19st, 2019. The sales value of Haitong Investment Ireland p.l.c was 12 000 thousand euros.

NOTE 24 – OTHER TANGIBLE ASSETS

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Real Estate		
Improvements in leasehold property	5 543	6 446
	5 543	**6 446**
Equipment		
IT equipment	10 776	10 576
Indoor installations	2 432	2 918
Furniture	2 236	2 233
Machinery and tools	816	772
Motor vehicles	68	68
Security equipment	252	252
Others	179	154
	16 759	**16 973**
	22 302	**23 419**
Work in progress		
Equipment	-	23
	-	**23**
	22 302	**23 442**
Right of use (Note 39)		
Property	7 889	-
Equipment	97	-
Vehicles	1 139	-
	9 125	**-**
	31 427	**23 442**
Accumulated depreciation	(22 880)	(21 051)
	8 547	**2 391**

The movement in this heading was as follows:

(thousand euros)

	Property	Equipment	Right of use Property	Right of use Equipment	Right of use Vehicles	Work in progress	Total
Acquisition cost							
Balance as at 31st December 2017	**6 317**	**19 641**	**-**	**-**	**-**	**-**	**25 958**
Acquisitions	133	165	-	-	-	23	321
Write offs / Sales	(3)	(2 833)	-	-	-	-	(2 836)
Exchange variation and other movements	(1)	-	-	-	-	-	(1)
Balance as at 31st December 2018	**6 446**	**16 973**	**-**	**-**	**-**	**23**	**23 442**
Acquisitions	352	343	-	-	-	-	695
Write offs / Sales	(1 255)	(579)	-	-	-	-	(1 834)
Transfers	-	23	-	-	-	(23)	-
IFRS 16 adoption impact	-	-	7 900	94	1 080	-	9 074
Exchange variation and other movements	-	(1)	(11)	3	59	-	50
Balance as at 31st December 2019	**5 543**	**16 759**	**7 889**	**97**	**1 139**	**-**	**31 427**
Depreciations							
Balance as at 31st December 2017	**4 712**	**17 293**	**-**	**-**	**-**	**-**	**22 005**
Depreciations of the year	753	1 092	-	-	-	-	1 845
Write offs / Sales	(4)	(2 795)	-	-	-	-	(2 799)
Balance as at 31st December 2018	**5 461**	**15 590**				**-**	**21 051**
Depreciations of the year	130	714	2 246	46	524	-	3 660
Write offs / Sales	(1 255)	(545)	-	-	-	-	(1 800)
Exchange variation and other movements	-	(25)	26	-	(32)	-	(31)
Balance as at 31st December 2019	**4 336**	**15 734**	**2 272**	**46**	**492**	**-**	**22 880**
Net book value as at 31set December 2019	**1 207**	**1 025**	**5 617**	**51**	**647**	**-**	**8 547**
Net book value as at 31set December 2018	**985**	**1 383**	**-**	**-**	**-**	**23**	**2 391**

NOTE 25 – INTANGIBLE ASSETS

As at 31st of December 2019 and 2018, this heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Purchased from third parties		
Software	32 256	30 557
Others	916	916
	33 172	**31 473**
Work in progress	625	571
	33 797	**32 044**
Accumulated depreciation	(28 169)	(25 341)
	(28 169)	**(25 341)**

The movement in this heading was as follows:

(thousand euros)

	Software	Other	Work in progress	Total
Acquisition cost				
Balance as at 31st December 2017	**30 242**	**916**	**466**	**31 624**
Acquisitions:				
Purchased from third parties	461	-	124	585
Write-offs / sales	(208)	-	(17)	(225)
Exchange rate variation and other movements	62	-	(2)	60
Balance as at 31st December 2018	**30 557**	**916**	**571**	**32 044**
Acquisitions:				
Purchased from third parties	1 878	-	54	1 932
Write-offs / sales	(133)	-	-	(133)
Exchange rate variation and other movements	(46)	-	-	(46)
Balance as at 31st December 2019	**32 256**	**916**	**625**	**33 797**
Accumulated depreciation				
Balance as at 31st December 2017	**21 484**	**916**	**-**	**22 400**
Amortisations of the financial year	3 114	-	-	3 114
Write-offs / sales	(173)	-	-	(173)
Balance as at 31st December 2018	**24 425**	**916**	**-**	**25 341**
Amortisations of the financial year	2 957	-	-	2 957
Write-offs / sales	(105)	-	-	(105)
Exchange rate variation and other movements	(24)	-	-	(24)
Balance as at 31st December 2019	**27 253**	**916**	**-**	**28 169**
Net book value as at 31st December 2019	**5 003**	**-**	**625**	**5 628**

NOTE 26 – INVESTMENTS IN ASSOCIATED COMPANIES

Financial information regarding associated companies is presented in the following table:

(thousand euros)

	31.12.2019				31.12.2018			
	Number of shares	by the bank	Par Value (Euro)	Acquisition Cost	Number of shares	by the bank	Par Value (Euro)	Acquisition Cost
Subsidiaries								
HAITONG BANCO DE INVESTIMENTO DO BRASIL S.A.	101 870 930	80,00%	0,44	174 496	101 870 930	80,0%	0,45	174 496
HAITONG CAPITAL - SCR, S.A.	5 000 000	100,00%	5,00	42 660	5 000 000	100,0%	5,00	42 660
				217 156				**217 156**
Impairment losses (Note 31				(46 791)				(43 513)
				170 365				**173 643**

During the period 2019, the balance Investments in subsidiaries and associates presented the following changes:

- In December 2019, Haitong Banco de Investimento do Brasil, S.A. approved the payment of interest on own capital in the amount of 4 650 thousand reais. From this amount 80% will be received by Haitong Bank S.A (see Note 5).

During the period 2018, the balance Investments in subsidiaries and associates presented the following changes:

- In May 2018, MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A. has been closed, by the amount of 37 thousand euros.
- In December 2018, Haitong Banco de Investimento do Brasil, S.A. approved the payment of interest on own capital in the amount of 30,000 thousand reais. From this amount 80% will be received by Haitong Bank S.A (see Note 5).
- In December 2018, Haitong Bank S.A. decided to sell its subsidiary Haitong Investment Ireland PLC (see note 24), in a period under one year.

In 2019, the Bank recognized an impairment increase of 3 278 thousand euros (In 2018 the Bank recognized an impairment reversion of 7,683 thousand euros) for the investment in Haitong Banco de Investimento do Brasil S.A.

NOTE 27 – OTHER ASSETS

As at 31st of December 2019 and 2018, the Other Assets heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Debtors and other assets		
Collateral deposited under collateral agreements (Note 19)	88 692	120 215
Public sector	4 276	4 040
Deposits placed under margin accounts (futures contracts)	4 176	6 795
Loans and derivatives receivables	10 972	-
Other sundry debtors	10 174	22 249
	118 290	153 299
Impairment losses for debtors and other investments (Note 31)	(6 796)	(6 562)
	111 494	**146 737**
Other assets		
Gold, other precious metals, numismatic, medals and other liquid assets	3 184	4 631
Other assets	5 127	5 368
	8 311	**9 999**
Income receivable	**63**	**418**
Prepayments and deferred costs	**358**	**338**
Other sundry assets		
Exchange transactions pending settlement	1 466	4 442
Market securities transactions pending settlement	18 521	36 293
Other transactions pending settlement	3 335	3 461
	23 322	**44 196**
	143 548	**201 688**

Stock exchange transactions pending settlement refer to transactions with securities recorded at the trade date pending settlement.

NOTE 28 – RESOURCES OF CREDIT INSTITUTIONS

The resources of credit institutions heading is presented as follows:

(thousand euros)

	31.12.2019	31.12.2018
Resources of central banks		
Banco de Portugal	22 000	60 000
	22 000	**60 000**
Resources of other credit institutions		
Domestic		
Deposits	397	292
	397	**292**
Foreign		
Repurchase agreements	2 615	-
	2 615	**-**
	25 012	**60 292**

As at 31st of December 2019 and 2018, the analysis of resources of credit institutions by residual maturity period is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Up to three months	3 012	292
From one to five years	22 000	60 000
	25 012	**60 292**

NOTE 29 – RESOURCES OF CUSTOMERS

The balance of the resources of customers heading is composed, with regard to its nature, as follows:

(thousand euros)

	31.12.2019	31.12.2018
Repayable on demand		
Demand deposits	51 122	16 724
Time deposits		
Fixed-term deposits	925 266	897 319
Other resources		
Repurchase agreements	988	120 277
Other Deposits	510	756
Other	8	32
	1 506	**121 065**
	977 894	**1 035 108**

As at 31st of December 2019 and 2018, the analysis of due to customers by residual maturity period is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Demand deposits	51 130	16 756
Fixed-term deposits		
Up to 3 months	119 830	158 469
3 to 12 months	118 284	478 978
1 to 5 years	688 650	380 905
	926 764	1 018 352
	977 894	**1 035 108**

NOTE 30 – DEBT SECURITIES ISSUED

The debt securities issued heading can be divided as follows:

(thousand euros)

	31.12.2018
Debt securities issued	
Euro Medium Term Notes	251 145
	251 145

The fair-value of the portfolio regarding debt securities issued is presented in Note 38.

During 2019, Haitong Bank repurchase the amount of 258,291 thousand euros of debt securities issued, and there were no securities issued (31st of December 2018: 250,000 thousand euros).

As at 31st of December 2019 and 2018, the residual duration of the debt securities issued is as follows:

(thousand euros)

	31.12.2018
From three months to one year	-
From one to five years	251 145
	251 145

As at 31st of December 2019 and 2018, reconciliation of the flows this financing activity is as follows:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	**251 145**	**143 127**
Cash Flows	(258 291)	107 000
Repurchase cost (Note 12)	3 949	-
Interests costs (Note 4)	3 197	4 078
Other	-	(3 060)
Closing balance	**-**	**251 145**

The main characteristics of the debit securities issued is as follows:

(thousand euros)

Issuer	Designation	Currency	Issue Date	31.12.2018 Book	Maturity	Interest Rate
HT Bank	HTB FLOATING RATE DEC18 (HTB-S-905)	EUR	2018	251 145	2021	1,35%
				251 145		

NOTE 31 – PROVISIONS AND IMPAIRMENT

As at 31st of December 2019 and 2018, the Provisions heading presents the following movements:

(thousand euros)

	Provisions for other risks and charges	Provisions for guarantees and other undertakings	TOTAL
Balance as at 31st December 2017	**10 375**	**52 400**	**62 775**
IFRS 9 transition impact	-	118	118
Net charge of the period	3 408	16 415	19 823
Write back	(2 389)	(625)	(3 014)
Foreign exchange differences and others	14	93	107
Balance as at 31st December 2018	**11 408**	**68 401**	**79 809**
Net charge of the period	42	404	446
Write back	(211)	(52 587)	(52 798)
Foreign exchange differences and others	(10 124)	9	(10 115)
Balance as at 31st December 2019	**1 115**	**16 227**	**17 342**

These provisions are meant to cover possible contingencies related to the activity of the Bank, including contingencies associated with ongoing tax proceedings.

In 2019, the Bank recognized provisions for other risks and charges in the amount of 151 thousand euros related to the Social Plan in progress on that date. (2018: 1,251 thousand euros).

The movements in impairment losses can be analyzed as follows:

(thousand euros)

	31.12.2018	Net charge of the period	Write back	Stage 3	Exchange differences and others	31.12.2019
Financial assets measured at fair value through profit or loss (Note 20)	669	1 858	-	-	1	2 528
Financial assets measured at amortized cost						
Securities (Note 20)	447	8 280	(56)	-	-	8 671
Loan and advances to banks (Note 21)	15 574	18	-	-	9	15 601
Loan and advances to customers (Note 22)	88 860	(314)	(3 989)	2	178	84 737
Investments in associated companies (Note 26)	43 513	3 278	-	-	-	46 791
Other assets (Note 27)	6 562	162	-	-	72	6 796
	155 625	**13 282**	**(4 045)**	**2**	**260**	**165 124**

(thousand euros)

	31.12.2017	IFRS 9 adoption impact	Net charge of the period	Write back	Exchange differences and others	Stage 3	31.12.2018
Cash and cash equivalents (Note 17)	-	2	(2)	-	-	-	-
Financial assets measured at fair value through profit or loss (Note 20)	-	452	203	-	14	-	669
Financial assets available-for-sale	6 030	(6 030)	-	-	-	-	-
Financial assets measured at amortized cost							
Securities (Note 20)	-	-	447	-	-	-	447
Loan and advances to banks (Note 21)	15 388	142	8	-	36	-	15 574
Loan and advances to customers (Note 22)	138 957	395	3 479	(55 490)	1 467	52	88 860
Investments in associated companies (Note 26)	51 934	-	(7 683)	(738)	-	-	43 513
Other assets (Note 27)	6 589	260	(217)	(93)	23	-	6 562
	218 898	**(4 779)**	**(3 765)**	**(56 321)**	**1 540**	**52**	**155 625**

NOTE 32 – INCOME TAXES

The Bank and its subsidiaries domiciled in Portugal are subject to taxation in accordance with the corporate income tax code (CIT code) and to local taxes.

Income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected in equity items. In these situations, the corresponding tax is also charged to equity, not affecting the net result for the period.

The current tax of 2019 and 2018 were calculated based on a nominal corporate income tax rate and Municipal Surcharge of 22.5%, in accordance with Law no. 82-B/2014, of 31st of December, and Law no. 2/2007, of 15th of January. Additionally there is a State Surcharge which corresponds to an additional rate of 3% of the taxable profit between EUR 1.5 and EUR 7.5, 5% of the profit between EUR 7.5 and EUR 35 and 9% of any profit which exceeds this amount.

In order to determine the current tax for the year 2019 and the year of 2018, the Decree-Law no. 127/2012 of December 31st, responsible for the normalisation of the transfer of liabilities linked to the burden with retirement and survivor's pensions to Social Security was taken into account together with article 183 of Law no. 64-B/2011 of December 30th (State Budget Law for 2012), establishing a special scheme for tax deduction of expenses and other asset variations from that transfer:

- The impact from the negative equity change associated to the change in the accounting policy relating to the recognition of previously deferred actuarial gains and losses will be fully deductible, in equal parts, for 10 years from the period beginning 1st of January 2012. This impact is booked in equity accounts.
- The impact resulting from liquidation (determined by the difference between liabilities as measured in accordance with the criteria of IAS 19 and the criteria defined in the agreement) will be fully deductible for the purposes of determining taxable income, in equal parts, based on the average number of years

of life expectancy for pensioners whose liabilities have been transferred (17 years), from the period beginning 1st of January 2012. The impact is recorded in income items.

- Deferred tax assets resulting from the transfer of liabilities and from the change in the accounting policy relating to the recognition of non-recoverable actuarial gains/losses are recoverable within 17 and 10 years, respectively.

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date. Thus, for the year 2019 deferred tax was calculated at the rate of 26,24%.

Regarding activity in Portugal, Law No. 98/2019 was published on 4 September 2019, which changed the tax regime applicable to the impairment of financial and credit institution. That law establishes in article 4 an adaptation period of 5 years beginning on or after 1 January 2019, pursuant to which the regime in force on the date of entry into force of this law remains applicable, unless there is communication addressed to the Director-General of the Tax and Customs Authority of the option for the definitive regime.This scheme is optional and the Bank is currently considering possible adoption. Therefore, the Bank considered, for the purpose of calculating taxable income and the recording and analysis of the recoverability of deferred tax assets with reference to December 31, 2019, that the amount of credit impairment and provisions for guarantees recorded, that is deductible for the purposes of CIT (Corporate Income Tax), corresponds to the amount of deductible impairments/provisions that would have been calculated if the reference to Banco de Portugal Notice 3/95 remained in force.

The Bank's self-assessment declarations relating to the 2019 and previous financial years are subject to inspection and possible adjustment by the Tax Authorities for a period of four years, except where any deduction or tax credit has been made, where the term is the exercise of that right. As a result, additional tax assessments may be possible due to different interpretations of tax legislation. However, it is the Bank's Boards of Directors belief that there will be no additional settlements of significant value in the context of the individual financial statements.

Special Scheme Applicable to Deferred Tax Assets

In 2014, Haitong Bank joined the special scheme applicable to deferred tax assets (REAID) related to impairment losses in credits and post-employment or long-term employee benefits, established by Law no. 61/2014, of August 26th. For the purpose of this scheme, the conversion of the mentioned assets in tax credits is expected in the following situations:

- Determining net losses;
- Voluntary winding-up, court insolvency or, when applicable, with the withdrawal of the corresponding authorisation by the competent supervising authority.

As at 31st of December 2015, Haitong Bank determined a tax credit of 5,281 thousand euros, which corresponds to a special reserve of 5,809 thousand euros recorded during the year of 2016.

As at 31st of December 2016, Haitong Bank determined a tax credit of 20,529 thousand euros, which corresponds to a special reserve of 22,582 thousand euros recorded during the year of 2017.

As at 31st of December 2017, Haitong Bank determined a tax credit of 9,060 thousand euros, which corresponds to a special reserve of 9,966 thousand euros recorded during the year of 2018.

As at 31st of December 2018, Haitong Bank determined a tax credit of 0,232 thousand euros, which corresponds to a special reserve of 0,255 thousand euros recorded during the year of 2019.Note that, in pursuance of the abovementioned scheme, such conversion rights correspond to securities that grant the Government the right to request Haitong Bank to issue and deliver ordinary shares at no charge, following the increase in share capital through the inclusion of the reserve value. However, Haitong Bank´s shareholders are granted the right to acquire those conversion rights in accordance with Ordinance no. 293-A/2016 of 18th of November.

In the event that the shareholders do not exercise the right to acquire the conversion rights issued and attributed to the Portuguese State within the period established for that purpose, in the year in which the State exercises these rights, it will require the Bank to increase its capital by incorporating the amount of the special reserve and consequent issue and free delivery of ordinary shares representing the capital stock of the Bank, and it may be necessary to adjust the amount of the reserve initially constituted.

Indeed, in that year it will be necessary to recalculate the reference value of the rights and if it is different from the nominal value of the shares, it will be necessary to adjust the value of the special reserve. If this were to occur in 2020, and taking into account the amounts of the financial statements as at 31 December 2019, as well as the amount of tax credits converted by reference to the years 2015, 2016 and 2017, 2018 estimated value of 24,085 thousand euros.

The amount of assets by deferred taxes converted into tax credit, the establishment of the special reserve and the issuing and granting of conversion rights to the Government shall be certified by the certified public accountant.

It is important to note that, in accordance with Law no. 23/2016 of 19th of August, the special scheme applicable to deferred tax assets (REAID) stopped being applicable to expenses and other negative asset variations accounted for in previous tax periods starting on or after the 1st of January 2016.

In July 2019 and January 2020, the Bank was notified of the final Reports of the Tax Authority's inspection services, issued for 2015 and 2016, respectively. In these reports, certain procedures adopted by the Bank, namely in association with special regime for differed taxes (REAID) are being challenged.

In this sense, following the Bank disagreement with these corrections, in November 2019, an administrative complaint was submit regarding the 2015 Tax Inspection Report and it is intended, in 2020, to submit an administrative complaint to challenge the 2016 inspection report.

Finally, it is also noted that, within the scope of the tax inspection for the years 2015 and 2016, the tax authority made corrections to the tax credit of these two years in the amount of 10,733 thousand euros. It is estimated that the impact for the year of 2017 and 2018 related to the tax credit, arising to the future tax inspections, is 3,873 thousand euros. Thus, 14,605 thousand euros of the tax credit amount recorded on December 31, 2019 (total amount of 35,103 thousand euros) would be reclassified to the item of deferred tax assets.

The Bank's management considers that the procedures adopted in those years are compliant with the legislation in force, and therefore estimates that it is not likely that the Tax Authority's position will prevail. Even so, this correction materializes in the recognition of deferred tax assets.

Additionally, the Board of Directors believes that any other corrections regarding to the fiscal year 2016, if confirmed, will not have a material impact on the Bank's equity and net income as of 31 December 2019, to the extent that they mainly impact on reportable tax losses and tax credits that have yet to be used.

As of 1 January 2019, the Bank adopted the new interpretative standard (IFRIC 23 - 'Uncertainty over Income Tax Treatments') of IAS 12 - 'Income Taxes' and which comes to recommend the measurement requirements and recognition to be applied in the event of uncertainties regarding the acceptance of a given tax treatment by the Tax Administration concerning income tax and should reflect the entity's best estimate of the presumed outcome of the situation under discussion. This estimated value based on the expected value or the most probable value should be recorded by the entity as an asset or liability for income tax based on IAS 12 and not by IAS 37.

The activity of branches abroad is incorporated in the Bank's accounts for determining the taxable profit. Although, the profit of those branches is subject to taxation in the countries where they are established, local taxes are deductible to the taxes to be paid in Portugal, in accordance with art. 91º of CIT Code", when applicable. The branches' profits are subject to local taxation at the following nominal rates:

Branch	Nominal income tax rate
London	19%
Madrid	30%
Warsaw	19%

As at 31st of December 2019 and 2018, current tax assets and liabilities can be analyzed as follows:

(thousand euros)

	Asset		Liability	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Corporate income tax	883	1 111	(6 447)	(2 068)
Tax Credit (Special Scheme for Deferred Taxes)	35 103	38 782	-	-
Current tax asset / (liability)	**35 986**	**39 893**	**(6 447)**	**(2 068)**

Having Haitong Bank determined, in its individual accounts, a positive net result with reference to December 31, 2019, there will be no conversion to deferred tax assets covered by the special regime for differed taxes (REAID).Deferred tax assets and liabilities recognized in the statement of financial position as 31st of December 2019 and 31st December 2018 can be analyzed as follows:

(thousand euros)

	Asset	
	31.12.2019	31.12.2018
Securities	479	195
Loans and advances to customers	35 471	50 666
Provisions	293	1 108
Pension Fund	5 478	3 909
Other	-	7
Tax losses carried forward	34 375	31 350
Net deferred tax asset / (liability)	**76 096**	**87 235**

The Bank only recognizes deferred tax assets in relation to reportable tax losses when it considers that they are expected to be recovered in the near future.

The movements in deferred taxes, in the balance sheet, can be presented as follows:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	87 235	99 434
Recognised in profit or loss	(9 172)	(3 505)
Recognised in fair value reserves	272	952
Recognised in other reserves	(124)	373
Foreign exchange variation and others	(2 115)	(10 019)
Closing balance (Asset / (Liability))	**76 096**	**87 235**

The amount reported as "foreign exchange variation and others" at 31st December 2019 corresponds to the tax credit under the special regime applicable to deferred tax assets.

Tax recognised in the income statement and reserves during 2019 and 2018 financial years had the following sources:

(thousand euros)

	31.12.2019		31.12.2018	
	Recognised in profit or loss	Recognised in reserves	Recognised in profit or loss	Recognised in reserves
Deferred Taxes				
Securities	-	(272)	-	(952)
Loans and advances to customers	13 080	-	2 562	-
Provisions	815	-	644	-
Pension Fund	(1 699)	124	208	(373)
Others	-	-	5	-
Tax loss carried forward	(3 024)	-	86	-
	9 172	**(148)**	**3 505**	**(1 325)**
Current Taxes	725	-	755	-
Total recognised taxes	**9 897**	**(148)**	**4 260**	**(1 325)**

Reconciliation of the tax rate, concerning the recognised amount in the income statement, can be analysed as follows:

(thousand euros)

	31.12.2019		31.12.2018	
	%	Value	%	Value
Profit or loss before taxes		**20 239**		**(1 723)**
				-
Income tax rate of Haitong Bank	21,0		21,0	-
Tax determined based on the income tax rate of Haitong Bank		4 250		(362)
Capital gains	(11,6)	(2 347)	(7,0)	(1 417)
Unrecognized tax losses	25,7	5 199	2,3	467
Impairment of subsidiaries	3,4	688	0,0	-
Bank Levy	2,9	580	1,8	374
Tax rate difference	3,1	626	17,3	3 508
Other movements according to the tax estimation	0,7	149	(0)	(25)
A tax losses generated in the year	1,9	376	2,4	481
Branches' income tax	2,2	444	0,0	1
O tax losses	(0,3)	(68)	6,1	1 233
	49,0	**9 897**	**43,8**	**4 260**

NOTE 33 – OTHER LIABILITIES

As at 31st of December 2019 and 2018, the Other liabilities heading is analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Creditors and other resources		
Public sector	3 043	4 220
Deposited collateral under collateral agreements (Note 24)	30 940	-
Sundry creditors	-	-
Creditors from transactions with securities	16 309	16 683
Suppliers	1 300	1 398
Lease liability	6 540	-
Other sundry creditors	1 955	2 386
	60 087	**24 687**
Accrued expenses		
Career bonuses (see Note 15)	539	485
Other accrued expenses	6 762	7 471
	7 301	**7 956**
Deferred income	**35**	**108**
Other sundry liabilities		
Stock exchange transactions pending settlement	18 488	33 671
Foreign exchange transactions pending settlement	-	4 462
Other transactions pending settlement	22 544	39 611
	41 032	**77 744**
Retirement pensions (Note 14)	**5 251**	**3 018**
	113 706	**113 513**

As at 31st of December 2019 and 2018, the headings regarding Stock exchange transactions pending settlement refer to transactions with securities pending settlement.

NOTE 34 – CAPITAL, SHARE PREMIUM AND OTHER CAPITAL INSTRUMENTS

Ordinary shares

Until August 3rd 2014 the Bank was part of Grupo Banco Espírito Santo, S.A.

On the 3rd of August 2014, the Bank of Portugal applied a resolution action to Banco Espírito Santo, S.A., shareholder of 100% of the capital of the Bank, and established Novo Banco, S.A., with the share capital of 4.9 billion euros, which incorporated assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal. In this regard, the Bank, its branches and subsidiaries were transferred to Novo Banco, S.A.

On the 7th of September 2015, the capital of the Bank was fully purchased by Haitong International Holdings Limited.

On the 17th of December 2015, the Bank increased its capital in 100,000 thousand euros, through the issuance of 20,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 22nd of May 2017, the Bank increased its capital in 40,000 thousand euros, through the issuance of 8,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 25th of May 2017, the Bank increased its capital in 20,000 thousand euros, through the issuance of 4,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 13th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 26th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, resulted from a in the conversion of a shareholder loan in the amount of 80,000 thousand euros and the conversion of the Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments, amounting to 80,000 thousand euros, which was fully subscribed and paid-up by Haitong International Holdings Limited.

On the 31st of August 2017, the Bank increased its capital in 38,500 thousand euros, through the issuance of 7,700,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

As at 31st of December 2019, the share capital of Haitong Bank amounts to 844,769 thousand euros and is represented by 168,953,800 shares with the nominal value of 5 euros each, fully held by Haitong International Holdings Limited.

Share premiums

As at 31th December 2019 and 2018, share premiums are represented by 8,796 thousand euros, corresponding to the amount paid by shareholders in the increase of capital of previous years.

Other equity instruments

During October 2010 the Bank issued perpetual subordinated bonds with conditioned interest in the overall amount of 50 million euros. These bonds have a noncumulative conditioned interest, payable only if and when declared by the Board of Directors.

This conditioned interest, corresponding to the applicable annual rate of 8.5% on nominal value, is paid biannually. These securities may be fully, but not partially, reimbursed after the 15th of September 2015, relying solely on the choice of Haitong Bank, upon approval of the Bank of Portugal. These bonds are considered a capital instrument in accordance with the accounting policy described in Note 2.5 due to their characteristics.

During the year of 2011, 46,269 thousand euros in other capital instruments were cancelled due to a transaction regarding owned instruments.

These bonds are subordinated in relation to any liability of Haitong Bank and *pari passu* regarding any identical subordinated bonds that may be issued by the Bank.

As at 31th of December 2019, 3,731 thousand euros regarding these bonds are in circulation. In the year of 2019 and 2018 the Bank haven't paid interest.

In May 2016, the Bank issued perpetual instruments eligible as additional own funds of level 1 ("Additional Tier 1"), in the overall amount of 80,000 thousand euros identified as "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments". Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.5.

In June 2017, the perpetual instruments referred as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments” where converted into Capital.

In March 2018, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of USD 130,000 thousand, corresponding to 105,042 thousand euros, identified as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments”. Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.5.

NOTE 35 – FAIR-VALUE RESERVES, OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

Legal reserve, fair-value reserves and other reserves

Legal reserves can only be used to cover accumulated loss carryover or to increase capital. Under Portuguese legislation applicable to the banking sector (Article 97 of RGICSF [Legal Framework of Credit Institutions and Financial Companies]), the Bank is required to set-up annually a legal reserve equal to a minimum of 10% of annual profits until the reserve equals the share capital.

Fair-value reserves represent the possible capital gains and losses in relation to the financial assets trough other comprehensive income portfolio, net of impairment recognised in the income statement of the year and/or previous years. The value of this reserve is presented net of deferred tax.

The movements of these headings were the following:

(thousand euros)

	Fair value reserves			Other reserves and retained earnings			
	Available for-sale financial assets	Income tax reserves	Total fair value reserve	Legal reserve	Actuarial deviations (net of taxes)	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31st December 2017 (Restatement)	**2 712**	**(745)**	**1 967**	**39 878**	**(26 175)**	**(229 961)**	**(216 258)**
IFRS 9 transition impact	452	-	452	-	-	(1 368)	(1 368)
Balance as at 1st January 2018	**3 164**	**(745)**	**2 419**	**39 878**	**(26 175)**	**(231 329)**	**(217 626)**
Actuarial deviations net of taxes	-	-	-	-	(2 104)	-	(2 104)
Fair value changes	(3 916)	952	(2 964)	-	-	-	-
Exchange diferences	-	-	-	-	-	14	14
Transfer to reserves	-	-	-	-	-	(140 541)	(140 541)
Issuance of other equity instruments	-	-	-	-	-	(545)	(545)
Balance as at 31st December 2018	**(752)**	**207**	**(545)**	**39 878**	**(28 279)**	**(372 401)**	**(360 802)**
Actuarial deviations net of taxes	-	-	-	-	(3 456)	-	(3 456)
Fair value changes	(1 072)	272	(800)	-	-	-	-
Transfer to reserves	-	-	-	-	-	(4 566)	(4 566)
Balance as at 31st December 2019	**(1 824)**	**479**	**(1 345)**	**39 878**	**(31 735)**	**(376 967)**	**(368 824)**

The movement of the fair-value reserve, net of deferred taxes and non-controlling interests can be analysed as follows:

(thousand euros)

	31.12.2019	31.12.2018
Opening balance	**(545)**	**1 967**
IFRS 9 transition impact	-	452
Balance at 01.01.2018	**(545)**	**2 419**
Fair value changes	(5 387)	(817)
Disposals of the period	2 457	(3 302)
Impairment recognised in the period (Note 31)	1 858	203
Deferred taxes recognised in reserves during the period	272	952
Closing balance	**(1 345)**	**(545)**

NOTE 36 – CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

As at 31st of December 2019 and 2018, off-balance elements are as follows:

(thousand euros

	31.12.2019	31.12.2018
Contingent liabilities		
Guarantees and stand by letters of credit	107 972	374 612
Assets pleged as collateral	198 297	379 754
	306 269	**754 366**
Commitments		
Irrevocable commitments	8 818	11 105
	8 818	**11 105**

The rendered guarantees and sureties are banking transactions that do not necessarily represent any outflow for the Bank.

As at 31st of December 2019, the heading of financial assets pledged as collateral includes:

- Securities pledged as collateral to the Bank of Portugal (i) within the scope of the Large-Value Payment System, amounting to 10,000 thousand euros as at the 31st of December, 2019 (31st of December, 2018: 120,000 thousand euros), (ii) within the scope of target long-term refinancing operations, amounting to 22,000 thousand euros (31st of December, 2018: 60,000 thousand euros) and (iii) 162,148 thousand euros of collaterals not discounted, being the total of securities eligible for rediscount with the Bank of Portugal amounted to 209,853 thousand euros as at the 31st of December, 2019 (31st of December, 2018: 258,889 thousand euros);
- Securities pledged as collateral to the Portuguese Securities Market Commission within the Investor Compensation Scheme in the amount of 109 thousand euros (31st of December 2018: 109 thousand euros).
- Securities pledged as collaterals to Fundo de Garantia de Depósitos [Deposit Guarantee Fund] in the amount of 100 thousand euros (31st of December 2018: 100 thousand euros).

- Securities pledged as collateral within the scope of transactions with repurchase agreements: 3,715 thousand euros (31st of December 2018: 120,656 thousand euros).

Additionally, the off-balance elements related to banking services provided are as follows:

(thousand euros)

	31.12.2019	31.12.2018
Liabilities related to services provided		
Commercial paper agency	155 700	176 750
Other responsabilities related with services provided	469 447	848 637
	625 147	**1 025 387**

Banco Espírito Santo (BES), Novo Banco and Haitong Bank (and, in some cases, supervisory authorities, auditors and former directors from BES) have been sued in civil proceedings associated with facts of the former Grupo Espírito Santo (GES).

Within this framework, Haitong Bank is a defendant in a proceeding associated with the capital increase of BES, which took place in June 2014. In fact, there were 2 proceedings associated with the capital increase of BES, however, the Court has ruled not to prosecute due to "abandonment" in both of the aforesaid proceedings. The prosecution have appealed both deliberations to higher courts instances and in one of these proceedings the Supreme Court of Justice says that there is a double standard in relation to the decision of the lower court and the Lisbon Court of Appeal [Tribunal da Relação de Lisboa].

However, in this legal proceeding the claimant (DECO) filed an extraordinary appeal for determination of jurisprudence, having been admitted such appeal and the proceedings continued. As the case returned to the judge of the trial court (1st instance) in charge of the case, a sentence was handed down in which it was judged by the "rejection" of the initial petition due to the lack of legitimacy conditions of the Claimant. An appeal was filed against this sentence, pending the judgment by the Lisbon Court of Appeal.

As regards the other legal proceeding (case brought by several Funds), after the decision of the triall court to declare that the case had been "abandonment", the Lisbon Court of Appeal revoked that decision and ordered the continuation of the proceeding. Two of the Defendants in this proceeding appealed to the Supreme Court of Justice that confirmed the decision of the Court of Appeal. Extraordinary Review Appeals were filed to the Constitutional Court, all of them maintaining the previously decided by the Lisbon Court of Appeal. The legal procedure return to the trial court (1st instance) lawsuit for the continuation of its terms, awaiting the appointment of a prior hearing

Haitong Bank is also a defendant in 25 proceedings, nearly all of which are associated with issues of comercialcommercial paper of GES's entities (31 of which concern credit linked notes issued by Haitong Bank's subsidiary based in Ireland (HIIP) whose remuneration and reimbursement were dependent on facts associated with the issuer of the underlying asset, OI, (including insolvency)

In note 38, in what concerns the 2019 first half accounts, it is stated that, in the opinion of Haitong Bank's Legal Department and of the external lawyers to whom the proceedings have been entrusted, such proceedings do not have legal sustainability, wherefore it is considered unlikely that any judgment will be made against Haitong Bank in relation thereto. Such opinion is hereby reasserted.

Such opinion has since been supported by several judicial decisions.

On the 16th July 2019, Haitong Bank has been notified of a new legal action brought against himself and Directors of the former BES, regarding commercial paper issued by Espírito Santo International and Rioforte in 2013, submitted by a credit recovery fund (Fundo de Recuperação de Créditos "FRC – INQ – Papel Comercial ESI e Rio Forte") formed by the credits - resulting from the commercial paper - that were assigned to the Fund by the injured parties/claimants (lesados do BES)The claim amount is € 517.500.099,71 million Euro. The deadline for Haitong Bank to present its written defense is ongoing.

In the opinion of the external lawyers to whom this proceeding, brought by FCR, have been entrusted, such proceeding does not have a solid legal sustainability and therefore it is considered unlikely that any judgment will be made against Haitong Bank.

Without prejudice of the above mentioned regarding the successful outcome for Haitong Bank from such proceedings, and in order to comply with the applicable accounting rules, it is not possible to achieve an amount of expected losses which could eventually arise for Haitong Bank, individually considered, once such legal proceedings are brought against several entities and not only against Haitong Bank.

Following the above stated, Haitong Bank did not establish any provision related to such legal proceedings.

Resolution Fund

Resolution measures applied to Banco Espírito Santo, S.A. and BANIF – Banco Internacional do Funchal, S.A.

The Board of Directors of the Bank of Portugal decided, on 3rd of August 2014, to apply a resolution measure to Banco Espírito Santo, S.A. ("BES"), having the generality of the activity and net worth of BES been transferred to Novo Banco, S.A. In line with EU regulations, the capitalisation of Novo Banco was secured by the Resolution Fund, established by Decree-Law No. 31-A/2012 of 10 February. As provided for in said Decree-Law, the Resolution Fund's resources come from contributions paid by the institutions participating in the Fund and from the banking sector contribution. Moreover, legislation provides that whenever these resources prove insufficient to fulfil obligations, other means of financing can be use, including: (i) special contributions from credit institutions; and (ii) from loans taken out.

Following the resolution measure, the capital needs of Novo Banco were calculated at 4,900 million euros, having the capital subscription held by the Resolution Fund been funded by the Portuguese State (3,900 million euros) and by eight financial institutions participants of the Fund (700 million euros), in which the Bank is not included(not including the Bank).Subsequently, in view of the resolution process of Banco Espírito Santo, S.A., Bank of Portugal resolved, as announced on 29th of December 2015, the transfer of responsibility to Resolution Fund of "…possible negative outcomes of future decisions, arising from the resolution process [of Banco Espírito Santo, S.A.], with responsibilities or contingencies as a result.".

On July 2016, the Resolution Fund stated that it would analyse and assess the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES as at 3rd of August 2014. Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors, whose credits have not been transferred to Novo Banco suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its winding-up process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

Following BES resolution, there is a relevant set of legal actions in progress against the Resolution Fund. According to Note 23 of the 2018 Resolution Fund Annual Report, "Lawsuits related to the application of resolution measures do not have legal precedents, which makes it impossible to use jurisprudence in their assessment, as well as a reliable estimate of any associated contingent financial effect. However, on March 12, 2019, a judgment was handed down by the Administrative Court of Círculo de Lisboa, unanimously by its twenty judges, which confirmed the constitutionality of the resolution's legal regime and the full legality of the resolution measure applied to BES on December 3. August 2014. Also by judgment of the Supreme Administrative Court, of March 13, 2019, a decision on the merits was rendered entirely in favour of the Resolution Fund related to the impugnation of the Novo Banco sale process. The Steering Committee, supported by the opinion of the lawyers who ensure the sponsorship of these actions and in view of the legal and procedural information available so far, considers that there is no evidence to support its belief that the probability of success is greater than the probability of failure".

On October 18, 2017, the Resolution Fund announced the conclusion of the sale process of 75% of Novo Banco, SA's share capital to Lone Star, whose selection had been communicated by Banco de Portugal on March 31, 2017. The Agreed conditions include the existence of a contingent capitalization mechanism, under which the Resolution Fund undertakes to carry out capital injections up to the maximum total amount of 3,890,000 thousand euros in the event of certain cumulative conditions materializing.In a statement dated June 17, 2019, the Resolution Fund released a set of clarifications related to the payment due in 2019 under the contingent capitalization agreement entered into with Novo Banco, namely:

- In order for payments to be made by the Resolution Fund (limited to a maximum of 3,890 million euros during the entire life of the mechanism), it is necessary for losses on the assets covered by the contingent mechanism to occur and for Novo Banco's capital ratios to be level below the agreed reference thresholds;
- The payment to be made by the Resolution Fund corresponds to the lowest amount between the accumulated losses on the covered assets and the amount necessary to restore the capital ratios above the minimum reference threshold;
- The reference capital ratios are, in the years 2017, 2018 and 2019, anchored to the regulatory requirements applicable to Novo Banco (ratio of 11.25% and 12.75%, respectively, for CET1 and Tier I), but , as of 2020, the reference ratio corresponds to a CET1 ratio of 12%;
- The initial reference value of the portfolio that integrates the contingent capitalization mechanism was 7,838 million euros at 30 June 2016 (book value of the respective assets, net of impairments), and the value of the portfolio at 31 December in 2018, it amounted to approximately 3,920 million euros (book value of the respective assets net of impairments);
- The accumulated losses for the assets covered and the respective management, between 30 June 2016 (the reference date of the mechanism) and 31 December 2018, correspond to 2,661 million euros. Of this amount, the Resolution Fund paid in 2018, in accordance with the terms and conditions of the contingent capitalization mechanism, approximately 792 million euros, so the amount of losses not supported by the Fund was, at the end of 2018, approximately 1,869 million euros;
- The amount required for Novo Banco's capital ratios to remain at the agreed levels in 2018 is 1,149 million euros. The amount payable by the Resolution Fund results from the comparison between the amount of 1,869 million euros (accumulated loss on covered assets not supported by the Fund) and the amount of 1,149 million euros and corresponds to the lowest of these values, i.e., Euros 1,149 million euros.

On May 24, 2018, the Resolution Fund announced that on the same date the payment to Novo Banco, SA of the amount of approximately 791,695 thousand euros, resulting from the application of the aforementioned contingent capitalization mechanism relating to the results disclosed for 2017, having used own resources for this purpose, complemented by an additional State loan in the amount of 430,000 thousand euros, under the framework agreement signed between the Portuguese State and the Resolution Fund in October 2017.

On May 6, 2019, the Resolution Fund made a payment to Novo Banco of the amount calculated for the financial year of 2018 in the amount of 1,149 million Euros, using its own resources for this purpose and using a loan from the State of 850 million euros. Euros which corresponds to the maximum financing limit agreed. Thus, the amount paid by the Resolution Fund to Novo Banco in two years was 1,941 million euros.

According to the 2018 Resolution Fund Report and Accounts, “With regard to future periods, it is considered that there is significant uncertainty as to the relevant parameters for determining any future liabilities, whether for their increase or reduction , under the terms of the contingent capitalization mechanism agreement with Novo Banco ”.

Resolution measures applied to Banif - Banco Internacional do Funchal, S.A.

Additionally, Bank of Portugal established, oOn 19th and 20th of December 2015, a resolution measure was applied over on BANIF – Banco Internacional do Funchal, S.A (“BANIF”). The operation involved State support, including 489 million euros taken over by the Resolution Fund, funded through a loan agreement granted by the Portuguese State. Moreover, the Resolution Fund provided a guarantee relative to bonds issued by the vehicle constituted in the scope of BANIF’s resolution, in the amount of 746 million euros, counter-guaranteed by the Portuguese State.

General features

To repay the loans received and other liabilities it may be required to assume relative to the above mentioned resolution measures, the Resolution Fund is financed through the periodic and special contributions of the participating institutions (including the Bank) and from the contribution on the banking sector. Under article 153-I of Decree-Law No. 345/98, of 9 November, if the resources of the Resolution Fund are insufficient to meet its obligations, participating institutions may be called upon, via a separate statute, to make special contributions. The amounts, instalments, deadlines and other terms of those contributions shall also be defined by said statute.

As part of the application of these measures, the Resolution Fund borrowed and assumed other contingent liabilities and responsibilities, in particular:

- The loans obtained from the State recorded on December 31, 2018 the amounts made available (i) in 2014 to finance the resolution measure applied to BES (3,900 million euros); (ii) to finance Banif's loss absorption (353 million euros); (iii) under the framework agreement signed with the State in October 2017, for the financing of measures under the contingent capital mechanism (430 million euros, to which are added 850 million euros of additional funding requested in 2019, as previously described);
- Other financing granted by institutions participating in the Resolution Fund in the amount of 700 million euros, in which the Bank does not participate, within the scope of the application of BES's resolution measure;
- Underwriting by the Resolution Fund of Tier 2 issuance to be carried out by Novo Banco, up to the amount of 400 million euros (this underwriting did not materialize, because the issue was placed with third parties as announced by Novo Banco on 29 July 2018);
- The effects of applying the principle that no credit institution of the credit institution under resolution can assume a greater loss than it would have if it had gone into liquidation;
- The negative effects of the resolution process resulting in additional responsibilities or contingencies for Novo Banco that have to be neutralized by the Resolution Fund;
- Legal proceedings against the Resolution Fund;
- Guarantee provided to the bonds issued by Oitante S.A. This guarantee is counter-guaranteed by the Portuguese State;

- Contingent capital mechanism, in which Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning with the assets belonging to that portfolio, up to a maximum amount of 3,890 million euros, subordinated the fulfillment of the conditions described above, including a reduction in the CET1 capital ratio to less than 8% -13%;
- The Portuguese State may inject capital into Novo Banco, under some conditions and via different instruments, in the event that the total capital ratio reaches values below the capital requirements defined under the SREP, as referred to in the respective European Commission Decision.

According to Note 24 of the 2018 Resolution Fund Annual Report, the Resolution Fund considers that, at the date, there are no elements that allow a reliable estimate of the potential financial effect of these potential liabilities.

On September 28, 2016, the Resolution Fund issued a statement stating that the maturity of the loan due on December 31, 2017 would be adjusted to ensure the Fund's ability to fully meet its obligations based on the his regular income, regardless of the contingencies to which he is exposed, nor the need to collect extraordinary contributions.

According to the FR statement of March 21, 2017:

- The conditions for loans obtained by the Fund to finance the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed." These loans amount to 4,953 million euros, of which 4,253 million euros granted by the State and 700 million euros granted by a banking syndicate.
- Those loans now mature in December 2046, without prejudice to the possibility of early repayment based on the use of the Resolution Fund's revenues. The maturity will be adjusted in terms that guarantee the Resolution Fund's ability to fully meet its obligations based on regular revenues and without the need for recourse to special contributions or any other type of extraordinary contributions.
- The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector.
- The new conditions allow the full payment of the Resolution Fund's liabilities to be ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector ".

On the other hand, and in the context of the sale process of Novo Banco, SA, on October 2, 2017, the Council of Ministers approved a resolution in which it authorized the conclusion, by the Portuguese State, as the final guarantor of financial stability, of an agreement with the Resolution Fund, with a view to making financial resources available to the Resolution Fund, if and when deemed necessary, for the satisfaction of contractual obligations that may eventually arise from the sale of the 75% stake in Novo Mercado Banco, SA It is also mentioned that the respective reimbursement will bear in mind that one of the objectives of this agreement is to ensure the stability of the contributory effort that falls on the banking sector, that is, without the need to be charged, to the participants of the Resolution Fund, contributions special or any other type of extraordinary contributions.

The Resolution Fund's own resources had a negative balance of 6,114 million euros, according to the latest accounts published with the 2018 Resolution Fund Report and Accounts.

In order to meet its responsibilities, the Resolution Fund has revenues from contributions, initial and periodic, from participating institutions (including Haitong Bank) and the contribution on the banking sector established by Law No. 55-A / 2010. It is also foreseen the possibility for the Government to determine, by ordinance, that special contributions be made in the situations provided for by law, specifically in the event that the Resolution Fund does not have its own resources to fulfill its obligations.

In accordance with Decree-Law No. 24/2013 that determines the operation of the Resolution Fund, the Bank has provided mandatory contributions since 2013 pursuant to the aforementioned Decree.

On 3rd of November 2015, Bank of Portugal issued a Circular-Letter according to which the periodical contribution for the Resolution Fund must be recognised as cost at the time of the event that originates mandatory contribution payments, which is in the last day of April of each year, pursuant to article no. 9 of Decree-Law No. 24/2013 of 19 February, ensuring that the Bank recognises the contribution as an expense in the year it is due.

On 15th of November 2015, the Resolution Fund issued a press release stating: "it is further explained that it is unlikely that the Resolution Fund shall propose the establishment of a special contribution for the financing of the resolution measure applied to BES. Therefore, the chance of a possible charge of a special contribution is far-flung."

The regime provided for in Decree-Law No. 24/2013 establishes that Banco de Portugal sets, by instruction, the rate to be applied each year on the basis of the objective levy of periodic contributions. Banco de Portugal Instruction No. 32/2018, published on December 19, 2018, set the base rate to be in force in 2019 for the determination of periodic contributions to the FR at 0.057% compared to the rate of 0.0459% that was in force in 2018.

As of 2015, the Bank also started to make contributions within the scope of the establishment of the European Resolution Fund, with contributions made in 2019 amounting to 1,221 thousand euros. The European Resolution Fund does not cover the situations in progress, at 31 December 2015, with the National Resolution Fund.

In 2019, the Bank made periodic contributions to the Resolution Fund and the banking sector in the amounts of 590 thousand euros and 1,752 thousand euros, respectively, which are recognized as costs under the terms set out in IFRIC 21 - Fees.

In this context, as at 31 December 2019, there is no estimate of the total amount of losses resulting from the process of divestiture of the Novo Banco, of the said litigations and other contingencies associated with the resolution process of Banco Espírito Santo and of any losses to be incurred by the Resolution Fund following the resolution of BANIF.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the State and by a banking syndicate, and to the public announcements made by the Resolution Fund and the Office of the Minister of Finance, which refer that this possibility will not be used, the financial statements as of June 30, 2019 reflect the Bank's Board of Directors' expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif or any other contingent liability or liability assumed by the Resolution Fund.

NOTE 37 – RELATED PARTIES TRANSACTIONS

The Bank's related parties transactions as at 31st of December 2019 and 2018, as well as the respective expenses and income recognized in the year, are summarized as follows:

(thousand euros)

	31.12.2019						
	Assets						
	Loans	Others	Total	Guarantees	Liabilities	Income	Expenses
Subsidiaries							
HAITONG BANCO DE INVESTIMENTO DO BRASIL SA	-	747	747	10 696	-	946	1 413
HAITONG CAPITAL - SCR, S.A.	-	-	-	-	29 511	100	45
SES IBERIA PRIVATE EQUITY, SA	-	-	-	-	-	4	-
TOTAL	**-**	**747**	**747**	**10 696**	**29 511**	**1 050**	**1 458**

(thousand euros)

	31.12.2018						
	Assets						
	Loans	Others	Total	Guarantees	Liabilities	Income	Expenses
Subsidiaries							
HAITONG BANCO DE INVESTIMENTO DO BRASIL SA	-	-	-	-	1 020	-	1 020
HAITONG CAPITAL - SCR, S.A.	-	77	77	656	9 854	126	96
HAITONG INVESTMENT IRELAND PLC	189 658	190 686	380 344	284 303	765 070	9 644	29 742
SES IBERIA PRIVATE EQUITY, SA	-	1	1	-	-	7	-
TOTAL	**189 658**	**190 764**	**380 422**	**284 959**	**775 944**	**9 777**	**30 858**

The Bank’s related parties transactions the group Haitong as at 31st of December 2019 and 2018, as well as the respective expenses and income recognized in the year, are summarized as follows:

(thousand euros)

	31.12.2019					
	Assets					
	Others	Total	Garantees	Liabilities	Income	Expenses
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	-	-	1 968	-
Subsidiaries and associates						
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	-	3 725	-
HAITONG SECURITIES	7	7	-	-	13 408	-
HAITONG INTERNATIONAL SECURITIES CO LTD	1 789	1 789	-	-	5 491	-
HAITONG INNOVATION SECURITIES INVESTMENT CO LTD	-	-	-	-	1 500	-
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED	-	-	-	-	2 534	0
HAITONG INTERNATIONAL SECURITIES USA INC	-	-	-	-	9	-
UNICAM LIMITED	-	-	-	-	3 000	-
HAITONG INTERNATIONAL (UK) LIMITED	-	-	-	145	16	413
HAITONG INVESTMENT IREKAND PLC	24 762	24 762	21 458	703 142	9 023	29 193
TOTAL	**26 558**	**26 558**	**21 458**	**703 287**	**40 674**	**29 606**

(thousand euros)

	31.12.2018					
	Assets					
	Others	Total	Garantees	Liabilities	Income	Expenses
Subsidiaries and associates						
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	-	10 870	-
HAITONG SECURITIES	2 776	2 776	-	-	20 685	-
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	-	-	5	-
HAITONG INTERNATIONAL CREDIT COMPANY LTD	-	-	-	-	5 366	-
HAITONG UNITRUST HOLDING LIMITED	-	-	-	-	2 600	-
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED	-	-	-	-	2 016	264
HAITONG INTERNATIONAL SECURITIES USA INC	-	-	-	-	20	-
HAITONG INTERNATIONAL SECURITIES (UK) LIMITED	-	-	-	-	5	-
HAITONG SECURITIES USA LLC	-	-	-	-	31	3
HAITONG SECURITIES (UK) LIMITED	-	-	-	191	-	181
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	-	-	15 023	-
HAITONG INNOVATION SECURITIES INVESTMENT	-	-	-	-	1 780	-
UNICAM LIMITED	-	-	-	-	1 000	-
HAITONG INTERNATIONAL (UK) LIMITED	-	-	-	-	-	162
TOTAL	**2 776**	**2 776**	**-**	**191**	**59 401**	**610**

As at 31st December, 2019, the income regarding fees and commissions in 2019 included 58,282 thousand euros that relate to deals originated with China-related counterparties. From this total, 29,667 thousand euros concern Haitong Group related parties (Note 39).

NOTE 38 – FAIR-VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair-value of financial assets and liabilities

Haitong Bank estimates the fair value of its instruments based on prices quoted in active markets or, when such prices are not available, based on valuation techniques following standard valuation models such as discounted cash flows and option pricing models. The valuation models' parameter inputs are based on observable data, when available, derived from prices of financial instruments actively traded or based on indicative broker quotes.

The Bank performs valuation adjustments to reflect counterparty credit risk (CVA) for uncollateralized derivatives assets considering the current exposure, loss given default and the probability of default. This probability of default is based on the Bank's credit risk assessment model or market information where applicable.

The fair value of the Banks's financial liabilities in the form of structured notes incorporates Haitong Bank's own credit risk adjustment in the form of Debt Valuation Adjustment (DVA). This adjustment is performed by discounting cash flows considering a risk free yield curve and a credit spread. As Haitong Bank does not have a credit default swap level observable in the market, the credit spread is estimated based on proxies.

The fair-value of financial assets and liabilities for the Bank is analysed as follows:

(thousand euros)

	Amortised cost	Valuated at fair value			Total book value	Fair value
		Level 1	Level 2	Level 3		
Balance as at 31st December 2019						
Cash and cash equivalents	633 518	-	-	-	633 518	633 518
Financial assets at fair value through profit or loss						
Financial assets held-for-trading						
Securities	-	18 306	11 350	-	29 656	29 656
Derivative financial assets	-	-	125 514	10 853	136 367	136 367
Non-trading financial assets mandatorily at fair value through profit or loss						
Securities	-	13	6 754	2 321	9 088	9 088
Loans and advances to customers	-	-	-	107	107	107
Financial assets at fair value through other comprehensive income	-	15 233	7 675	34 128	57 036	57 036
Securities	330 216	-	-	-	330 216	330 280
Loans and advances to banks	11 526	-	-	-	11 526	11 526
Loans and advances to customers	231 021	-	-	-	231 021	228 536
Financial Assets	**1 206 281**	**33 552**	**151 293**	**47 409**	**1 438 535**	**1 436 114**
Financial liabilities held for trading						
Securities	-	1 962	-	-	1 962	1 962
Derivative financial assets	-	-	127 822	8 253	136 075	136 075
Financial liabilities measured at amortised cost	-	-	-	-	-	-
Resources of credit institutions	25 012	-	-	-	25 012	25 012
Resources of customers	977 894	-	-	-	977 894	977 894
Financial liabilities	**1 002 906**	**1 962**	**127 822**	**8 253**	**1 140 943**	**1 140 943**
Balance as at 31st December 2018						
Cash and cash equivalents	317 433	-	-	-	317 433	317 433
Financial assets at fair value through profit or loss						
Financial assets held-for-trading						
Securities	-	24 563	27 710	17 723	69 996	69 996
Derivative financial assets	-	-	122 612	36 347	158 959	158 959
Non-trading financial assets mandatorily at fair value through profit or loss						
Securities	-	8 829	21	2 496	11 346	11 346
Loans and advances to customers	-	-	-	284	284	284
Financial assets at fair value through other comprehensive income	-	286 100	13 493	72 187	371 780	371 780
Financial assets measured at amortised cost						
Securities	87 085	-	-	-	87 085	87 534
Loans and advances to banks	3 965	-	-	-	3 965	3 965
Loans and advances to customers	631 220	-	-	-	631 220	626 471
Financial assets	**408 483**	**319 492**	**163 836**	**129 037**	**1 020 848**	**1 021 297**
Financial liabilities held for trading						
Securities	- -	15 924	-	195	16 119	16 119
Derivative financial assets	-	-	124 386	38 114	162 500	162 500
Financial liabilities measured at amortised cost						
Resources of credit institutions	60 292	-	-	-	60 292	60 292
Resources of customers	1 035 108	-	-	-	1 035 108	1 035 108
Debt securities issued	251 145	-	-	-	251 145	252 078
Financial liabilities	**1 346 545**	**15 924**	**124 386**	**38 309**	**1 525 164**	**1 526 097**

Fair-value Hierarchy

Assets and Liabilities at fair-value of the Haitong Bank are valued according to the following hierarchy:

The Bank's financial instruments are classified under the three levels defined in IFRS 13 according to the following:

Level 1 – Instruments valued using quoted prices observed in active and liquid markets. These include government bonds, credit bonds and exchange traded equities and derivatives.

Level 2 – Instruments valued using valuation techniques based on observable market inputs, quotes prices for similar instruments in active markets or for identical instruments in markets that are neither active nor liquid. These include bonds, plain vanilla OTC derivatives, less liquid equities and funds value at Net Asset Values (NAV) published daily by the fund manager and with possibility of daily redemption. The OTC derivatives includes financial instruments traded in OTC (over-the-counter), in which the counterparty has signed agreements of collateral (ISDA with CSA – Credit Support Annex), with Minimum Transfer Amount (MTS) very low, which allows to mitigate the counterparty's Credit Risk and the CVA (Credit Value Adjustment) does not have to be significant. Additionally, there also included financial derivatives traded in OTC, which do not have CSA signed, but the percentage of information not observable in market (Eg.: Internal Rating , Probability of Default determined by internal models, etc) in CSA valuation is no expressive in value of derivate as an whole. It is consider as significant when the value of CSA bigger than 5%.

Level 3 – Instruments valued using valuation techniques based on non-observable market inputs and that do not comply with the requirements to be classified under Level 1 nor Level 2. These include non-plain vanilla OTC derivatives valued based on non-observable market inputs or on indicative prices published by third parties, distressed and highly illiquid bonds, funds valued at Net Asset Values (NAV) published by the fund manager without possibility of daily redemption and private equity placements. In the Level 3 are included financial instruments traded in OTC market with counterparties which HB doesn't have CSA signed and the percentage of unobservable data incorporated in CVA valuating is considered in the total value of the derivative (value of CVA is 5% bigger than the NPV).

In 2019, there were 683 thousand euros transferred from Level 1 to Level 2,and 1,759 thousand euros from Level 2 to Level 1 of securities based on their liquidity assessment.

For financial instruments recorded in the balance sheet at fair value, the movement occurred between December 31st , 2018 and December 31st , 2019 in assets and liabilities classified in level 3 is as follows:

(thousand euros)

	Financial assets held for trading		Financial assets mandatory at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Securities	Derivative financial assets	Securities	Loans		
Opening Balance	**17 723**	**(1 767)**	**2 496**	**284**	**72 187**	**90 923**
Results recognized in Net Interest Margin	364	-	-	-	2 247	2 611
Net trading income and from other financial instruments at fair value through profit or loss	9	305	(175)	(177)	-	(38)
Impairment on other financial assets net of reversal and recoveries	-	-	-	-	189	189
Other fair value changes	16	(2 076)	-	-	72	(1 988)
Fair value reserve changes	-	-	-	-	337	337
Acquisitions	-	-	-	-	17 109	17 109
Sales	-	-	-	-	-	-
Reimbursements	(18 112)	-	-	-	(50 097)	(68 209)
Derivatives financial flows	-	3 931	-	-	-	3 931
Transfers from other levels	-	2 182	-	-	-	2 182
Transfers to other levels	-	25	-	-	(7 916)	(7 891)
Closing Balance	**-**	**2 600**	**2 321**	**107**	**34 128**	**39 156**

In what concerns Level 3 classification, in 2019 there were derivatives in the amount of 25 thousand which were transferred from level 3 to level 2 as they are being evaluated accordingly with the internal valuation methodology developed by the bank. Additionally, 2,182 thousand euros in derivatives which CVA level was considered significant accordingly with the bank's internal policy, were transferred from level 2 to 3.

In 2019 7,916 thousand euros of securities were transferred from level 3 to other levels based on their liquidity assessment

The main parameters used during 2019 in what concerns valuation models were the following:

Yield curves

The short-term rates set out below reflect indicative values of deposit interest rates and/or futures. Swap rates are used for the long-term:

(%)

	31.12.2019			31.12.2018		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0,48	1,56	0,68	-0,42	2,41	0,67
1 month	-0,48	1,77	0,70	-0,39	2,53	0,73
3 months	-0,43	1,92	0,79	-0,34	2,82	0,91
6 months	-0,36	1,77	0,88	-0,33	2,73	1,03
1 year	-0,34	1,72	0,82	-0,27	2,71	1,07
3 years	-0,24	1,64	0,82	-0,07	2,72	1,22
5 years	-0,12	1,72	0,88	0,20	2,56	1,30
7 years	0,02	1,78	0,94	0,47	2,60	1,36
10 years	0,21	1,88	1,02	0,83	2,70	1,44
15 years	0,47	2,01	1,10	1,20	2,80	1,52
20 years	0,61	2,08	1,13	1,39	2,84	1,55
25 years	0,65	2,11	1,12	1,41	2,84	1,55
30 years	0,64	2,10	1,11	1,44	2,82	1,54

Credit spreads

Credit spreads curves and recovery rates used by the Bank are sourced on a daily basis from Markit. The table below reflects the evolution of the main CDS indices:

(basis points)

Index	Series	3 year	5 year	7 year	10 year
2018					
CDX USD Main	**31**	54,19	87,75	112,99	132,62
iTraxx Eur Main	**30**	55,63	87,37	111,31	131,15
iTraxx Eur Senior Financial	**30**	-	108,52	-	-
2019					
CDX USD Main	**31**	54,19	87,75	112,99	132,62
iTraxx Eur Main	**30**	55,63	87,37	111,31	131,15
iTraxx Eur Senior Financial	**30**	-	108,52	-	-

Interest rate volatilities

The following figures reflect at-the-money implied volatilities:

(%)

	31.12.2019			31.12.2018		
	EUR	USD	GBP	EUR	USD	GBP
1 ano	58,64	58,64	46,03	1,79	11,25	33,95
3 years	59,17	59,17	50,00	1,44	22,87	--
5 years	59,66	59,66	53,48	20,27	27,29	58,01
7 years	59,60	59,60	55,77	34,46	28,35	61,25
10 years	59,83	59,83	57,41	48,13	30,29	--
15 years	59,15	59,15	56,56	60,46	--	--

Foreign exchange rate and volatilities

The table below reflects ECB's (European Central Bank) foreign exchange rates fixings and at-the-money implied volatilities:

	Quotation		Volatiliy (%)				
	31.12.2019	31.12.2018	1 month	3 months	6 months	9 months	1 year
EUR/USD	1,1234	1,1450	5,04	5,16	5,35	5,53	5,78
EUR/GBP	0,8508	0,8945	7,14	6,84	6,78	6,84	6,93
EUR/CHF	1,0854	1,1269	3,97	4,16	4,36	4,54	4,66
EUR/PLN	4,2568	4,3014	3,77	3,91	4,03	4,13	4,21
EUR/CNY	7,8205	7,8751	-	-	-	-	-
USD/BRL a)	4,0197	3,8812	10,35	10,52	10,53	10,65	10,73

a) Calculation based in EUR/USD and EUR/BRL exchange rates

Equity Indexes

The evolution of the main equity indices and the corresponding volatilities are summarised in the following table:

	Prices			Historical volatility (%)		Implied volatility (%)
	31.12.2019	31.12.2018	% Variation	1 month	3 months	
DJ Euro Stoxx 50	3 745	3 001	24,8	11,15	11,68	-
PSI 20	5 214	4 731	10,2	9,67	10,42	-
IBEX 35	9 549	8 540	11,8	12,15	12,24	-
DAX	13 249	10 559	25,5	10,70	12,12	12,59
S&P 500	3 231	2 507	28,9	7,32	9,53	11,14
BOVESPA	115 645	87 887	31,6	11,24	15,03	19,21

The main methods and assumptions used in the abovementioned valuation of the fair-value of financial assets and liabilities are analyzed as follows:

Cash and cash equivalents and Loans and advances to banks

The statement of financial position value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Loans and advances to customers

The fair-value of loans and advances to customers is estimated based on the update of expected cash flows and interest, by taking into account market spreads for similar transactions (if they were entered into in the current moment) considering that the instalments are paid in compliance with the deadlines contractually agreed upon.

Resources of other credit institutions

The balance-sheet value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Resources of customers

The fair-value of these financial instruments is determined based on the update of expected cash flows in capital and interest, considering that the payments are in compliance with the deadlines agreed upon contract. Considering that the applicable interest rates are of variable nature and the maturity period of the deposits is substantially inferior to one year, there are no measurable differences in fair-value.

Debt securities issued and Subordinated Liabilities

The fair-value of these instruments is based in market prices, when available. When unavailable, the fair-value it is estimated based on the update of expected cash flows in capital and interest regarding these instruments in the future.

NOTE 39 – IFRS 16 ADOPTION

The Bank has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard ("modified retrospective approach"). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1st January 2019.

On adoption of IFRS 16, the Bank decided not to apply the practical expedient regarding the definition of a lease, and reassessed whether all relevant contracts were, or contained, a lease. Hence, lease liabilities were recognised for contracts classified as leases under the principles of IFRS 16 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

At the date of initial application, the Bank only identified contracts classified as 'operating leases', under the principles of IFRS 16 Leases.

The reconciliation of lease liability is showed bellow:

(thousand euros)

	Amount
Operating lease commitments disclosed as at 31 December 2018	**2 002**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(25)
(Less): short-term leases recognised on a straight-line basis as expense	(122)
(Less): low-value leases recognised on a straight-line basis as expense	(82)
Add: operating leases commitments not recognized under IAS 17	-
Lease liability recognised as at 1 January 2019	**7 343**
Of which are:	-
Non-current Lease Liabilities	9 116

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1st January 2019 was 1.39%.

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2019.

The right-of-use assets distribution by topology is the following:

(thousand euros)

	31.12.2019	01.01.2019
Property	5 617	7 900
IT Equipment	51	94
Vehicles	647	1 080
Total right-of-use assets (Note 24)	**6 315**	**9 074**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

(thousand euros)

	Amount
Right-of-use assets	9 074
Lease liabilities	9 116

In applying IFRS 16 for the first time, the Bank has used the following practical expedients permitted by the standard:

- The use of a single discount rate curve to a portfolio of leases with reasonably similar characteristics;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The accounting for operating leases with an underlying asset valued at less than EUR 5.000;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- Reliance on previous assessments on whether leases are onerous.

NOTE 40 – RISK MANAGEMENT

In terms of risk management, the following qualitative information of the Haitong Bank is presented. Control and risk management, for the role they have played in active management support, are one of the main strategic axes supporting their balanced and sustained development.

The Risk Department has maintained the following main objectives:

- Identification, quantification and control of the different types of risk assumed, progressively adopting uniform principles and methodologies;
- Continuous contribution to the improvement of tools to support the structuring of operations and the development of internal techniques for evaluating performance and optimizing the capital base;
- Proactive management of situations of significant delay and non-compliance with contractual obligations.

Credit Risk

The Credit Risk results from the possibility of financial losses arising from the default of the customer or counterparty in relation to the contractual financial obligations established with the Bank in the scope of its credit activity. Credit risk is mainly present in traditional banking products - loans, guarantees and other contingent liabilities - and in trading products - swaps, forwards and options (counterparty risk).

The Bank’s credit portfolios are permanently monitored, with interaction between the business teams and risk management throughout the sequential stages of the credit cycle.

The monitoring of the Bank’s credit risk profile is regularly monitored, namely, in what concerns the evolution of credit exposure, delinquency ratios and provisioning, and concentration metrics.

The Bank also controls the approved credit limits and assures the proper functioning of mechanisms related with the credit approval process.

Calculation of ECL

The IFRS 9 standard outlines a “three-stage” model for impairment based on changes in credit quality since initial recognition. According to Haitong Bank model, Expected Credit Loss (ECL) is determined as per the detailed information included in chapter 23.1., Impairment of Financial Assets and Financial Model.

- Stage 1 – Performing: Impairment assessment is carried out based 12-month expected credit loss (ECL). ECL is determined as the exposure as of the reference date multiplied by the 12-month probability of default and the loss given default;
- Stage 2 – Under Performing: Impairment assessment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- Stage 3 – Non Performing: Impairment assessment will reflect the ECL over the expected residual life of the instrument.

Inputs in the measurement of ECL

As a result of the characteristics of the Bank's portfolio (reduced number of transactions and high heterogeneity), the calculation of the ECL has as the main vector of measurement the individual analysis assessment. Under the collective model, which is applied to financial instruments classified in Stage 1 and to determine the minimum impairment rate applicable to financial instruments classified in Stage 2, the key inputs for ECL measurement are the following:

- Probability of Default (PD): describes the likelihood of default in a prospect of time. Haitong Bank takes in account the PD's from S&P, whereas the rating assigning process is performed internally based on the S&P methodology. This assures the alignment between the internal risk management and the impairment calculation process.
- Loss Given Default (LGD): is the magnitude of the loss at the time of a default. The Bank applies the LGD based on Moody's LGD benchmarks covering a wide historical period.
- Exposure at Default (EAD): the expected exposure in the event of a default. The calculation of EAD depends of the asset type.

Regarding undrawn loan commitments and financial guarantees, the amount considered in the calculation of impairment at each stage results from the exposure as of the reference date weighted by the credit conversion factor (according with CRR).

Forward-Looking Information

The Bank uses forward-looking information based on a simplified approach, grounded on the proportionality and characteristics of the Bank. As such, a single central scenario centered upon external information was implemented, which provides sufficient granularity to meet audit and regulatory requirements in what concerns the forecasting capabilities of the Bank's collective model.

This prospective exercise was defined exclusively for IFRS 9, given the specificity of the exercise and the available information.

The forward-looking exercise is applicable to Stage 1 exposures. All the portfolio exposures/obligors are subject to the same forward-looking information assuring all the assets are compliant with IFRS 9 guidelines.

The financial instruments subject to IFRS 9 impairment requirements are presented below, detailed by stage, as of December 31, 2019 and December 31, 2018.

(thousand euros)

Asset Type	Stage 1				Total Stage 1	Stage 2		Total Stage 2	Stage 3	Total Stage 3
	Low to Fair risk [aaa+;a-]	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Not rated		Monitoring [bbb+;b-]	Substandard [ccc+;ccc]		Impaired [d]	
Loans and advances to customers	-	190 099	-	4 194	194 293	35 966	-	35 966	85 732	85 732
Guarantees	-	82 105	-	450	82 555	1 939	-	1 939	23 478	23 478
Securities	-	365 299	-	-	365 299	-	-	-	34 978	34 978
Loans and advances to banks	2 254	6 287	-	-	8 541	-	3 509	3 509	15 077	15 077
Cash and cash equivalents	629 388	4 124	-	-	633 512	-	-	-	-	-
Debtors and other assets	1	2 074	285	7 801	10 161	-	-	-	10 985	10 985
Total	**631 643**	**649 988**	**285**	**12 445**	**1 294 361**	**37 905**	**3 509**	**41 414**	**170 250**	**170 250**

(thousand euros)

Asset Type	Stage 1				Total Stage 1	Stage 2		Total Stage 2	Stage 3	Total Stage 3
	Low to Fair risk [aaa+;a-]	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Not rated		Monitoring [bbb+;b-]	Substandard [ccc+;ccc]		Impaired [d]	
Loans and advances to customers	29 142	461 295	-	91 080	581 517	45 931	-	45 931	92 917	92 917
Guarantees	-	248 506	-	1 106	249 612	-	-	-	125 000	125 000
Securities	-	460 732	-	-	460 732	-	-	-	-	-
Loans and advances to banks	1 048	56	-	-	1 104	-	3 358	3 358	15 077	15 077
Cash and cash equivalents	309 952	7 478	-	-	317 430	-	-	-	-	-
Debtors and other assets	30	14 209	285	13 319	27 843	-	-	-	1 201	1 201
Total	**340 172**	**1 192 276**	**285**	**105 505**	**1 638 238**	**45 931**	**3 358**	**49 289**	**234 195**	**234 195**

As of December 31, 2019, the maximum credit risk's exposure to financial instruments non subject to impairment analysis is, approximately, 612 million Euros, corresponding to exposures to central Banks.

The table below compiles all financial instruments at amortized cost by industry, stage and days of delay as of December 31, 2019.

(thousand euros)

Amortised Costs financial instruments (including Financial Guarantees) by past due status	Stage 1						Stage 2		Stage 3			
	No overdue		1 - 29 days		More than 181 days		No overdue		No overdue		More than 181 days	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Banks	686 719	1 359	-	-	1 661	1 650	3 509	523	21 458	14 200	15 077	15 077
Broker Dealers	1 132	-	-	-	-	-	-	-	-	-	-	-
Building Materials	8 805	86	-	-	192	192	-	-	13	13	-	-
Capital Goods	6 358	4	-	-	40	40	-	-	1 060	222	2 200	2 200
Chemicals	-	-	-	-	-	-	-	-	4 308	4 308	-	-
Commercial & Professional Services	4 318	190	-	-	105	105	-	-	5 427	1 816	3 892	3 892
Construction & Engineering	55 872	132	-	-	407	407	1 940	49	46	46	1 985	1 626
Containers & Packaging	-	-	-	-	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	-	-	-	-	-	-	-	-	-	-	-	-
Governments	195 129	148	2 574	1	214	214	-	-	-	-	-	-
Health Care	15	-	-	-	-	-	-	-	-	-	-	-
Hotels & Gaming	50	-	-	-	-	-	-	-	-	-	5 950	5 950
Insurance	-	-	-	-	-	-	-	-	-	-	-	-
Media & Entertainment	7	2	-	-	94	94	-	-	-	-	-	-
Metals & Mining	74 647	1 303	-	-	-	-	-	-	-	-	-	-
Non Bank Financial Institutions	368	-	-	-	-	-	-	-	-	-	242	242
Oil & Gas	-	-	-	-	-	-	-	-	-	-	10 324	10 324
Paper & Forest Products	1	-	-	-	60	60	-	-	-	-	-	-
Power	45 340	423	-	-	57	57	-	-	-	-	-	-
Real Estate	76 045	233	-	-	166	166	4 143	280	-	-	44 879	44 879
Retailing	-	-	-	-	-	-	-	-	-	-	-	-
Software	393	5	-	-	-	-	-	-	-	-	-	-
Technology Hardware & Equipment	-	-	-	-	-	-	-	-	27 060	8 118	-	-
Telecoms	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	8	-	-	-	-	-	1 930	68	-	-	7 252	7 252
Transportation Infrastructure	73 554	68	-	-	-	-	29 892	491	10 926	-	-	-
Others	3 404	354	-	-	3 154	3 154	-	-	-	-	-	-
Total	**1 232 165**	**4 307**	**2 574**	**1**	**6 150**	**6 139**	**41 414**	**1 411**	**70 298**	**28 723**	**91 801**	**91 442**

In the following section we present the gross exposure by asset type, impairment stage and internal rating bucket.

Loans and advances to costumers

The table below presents a summary of the portfolio of loans and advances to costumers of Haitong Bank S.A., as of 31st of December 2019 and 31st of December 2018:

Loans and advances to customers		31.12.2019 Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	-	-	-	-	**-**
Monitoring	[bbb+;b-]	190 099	35 966	-	-	**226 065**
Impaired	[d]	-	-	85 499	-	**85 499**
Not rated	Not Rated	4 194	-	-	-	**4 194**
Gross carrying amount		**194 293**	**35 966**	**85 499**	**-**	**315 758**
Loss allowance (Note 31)		1 707	839	82 191	-	**84 737**
Carrying amount		**192 586**	**35 127**	**3 308**	**-**	**231 021**
Fair Value Trough Profit and Loss						**-**
Impaired	[d]	**-**	-	233	-	**233**
Gross carrying amount		**-**	**-**	**233**	**-**	**233**
Revaluation		**-**	**-**	(126)	-	**(126)**
Carrying amount		**-**	**-**	**107**	**-**	**107**
Total gross carrying amount		**194 293**	**35 966**	**85 732**	**-**	**315 991**
Loss allowance		1 707	839	82 191	-	**84 737**
Total revaluation		-	-	(126)	-	**(126)**
Total Carrying amount		**192 586**	**35 127**	**3 415**	**-**	**231 128**

Loans and advances to customers		31.12.2018 Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	29 142	-	-	-	**29 142**
Monitoring	[bbb+;b-]	461 295	45 931	-	-	**507 226**
Impaired	[d]	-	-	92 632	-	**92 632**
Not rated	Not Rated	91 080	-	-	-	**91 080**
Gross carrying amount		**581 517**	**45 931**	**92 632**	**-**	**720 080**
Loss allowance (Note 31)		2 333	866	85 661	-	**88 860**
Carrying amount		**579 185**	**45 065**	**6 971**	**-**	**631 220**
Fair Value Trough Profit and Loss						
Impaired	[d]	-	-	285	-	**285**
Gross carrying amount		**-**	**-**	**285**	**-**	**285**
Revaluation		**-**	**-**	(1)	-	**(1)**
Carrying amount		**-**	**-**	**284**	**-**	**284**
Total gross carrying amount		**581 517**	**45 931**	**92 917**	**-**	**720 365**
Loss allowance		2 333	866	85 661	-	**88 860**
Total revaluation		-	-	(1)	-	**(1)**
Total Carrying amount		**579 184**	**45 065**	**7 255**	**-**	**631 504**

Guarantees

The table below presents a summary of the portfolio of guarantees granted to clients of Haitong Bank S.A. , as of 31st of December 2019 and 31st of December 2018:

Guarantees		Stage 1	Stage 2	31.12.2019 Stage 3	POCI	Total
Monitoring	[bbb+;b-]	82 105	1 939	-	-	**84 044**
Impaired	[d]	-	-	23 478	-	**23 478**
Not rated	Not Rated	450	-	-	-	**450**
Total gross carrying amount		**82 555**	**1 939**	**23 478**	**-**	**107 972**
Loss allowance (Note 31)		1 449	49	14 720	-	**16 218**
Total Carrying amount		**81 106**	**1 890**	**8 758**	**-**	**91 754**

Guarantees		Stage 1	Stage 2	31.12.2018 Stage 3	POCI	Total
Monitoring	[bbb+;b-]	248 506	-	-		**248 506**
Impaired	[d]	-	-	125 000		**125 000**
Not rated	Not Rated	1 106	-	-		**1 106**
Total gross carrying amount		**249 612**	**-**	**125 000**		**374 612**
Loss allowance (Note 31)		385	**-**	67 952		**68 337**
Total Carrying amount		**249 227**	**-**	**57 048**		**306 275**

Debt securitites

The table below presents a summary of the portfolio of banking book debt securities at amortised cost and at fair value through other comprehensive income of Haitong Bank, S.A., as of 31st December 2019 and 31st of December 2018:

Debt Securities		Stage 1	Stage 2	31.12.2019 Stage 3	POCI	Total
Custo amortizado						
Monitoring	[bbb+;b-]	311 827	-	-	**-**	**311 827**
Impaired	[d]	-	-	27 060	**-**	**27 060**
Gross carrying amount		**311 827**	**-**	**27 060**	**-**	**338 887**
Loss allowance (Note 31)		553	-	8 118	-	**8 671**
Carrying amount		**311 274**	**-**	**18 942**	**-**	**330 216**
Fair Value through Other Comprehensive Income						
Monitoring	[bbb+;b-]	53 472	-	-	-	**53 472**
Not rated	Not Rated	-	-	7 918	-	**7 918**
Gross carrying amount		**53 472**	**-**	**7 918**	**-**	**61 390**
Loss allowance (Note 31)		153	-	2 375	-	**2 528**
Revaluation		371	(2 197)	-	-	**(1 826)**
Carrying amount		**53 690**	**(2 197)**	**5 543**	**-**	**57 036**
Total gross carrying amount		**365 299**	**-**	**34 978**	**-**	**400 277**
Loss allowance		706	-	10 493	-	**11 199**
Total Revaluation		371	(2 197)	-	-	**(1 826)**
Total Carrying amount		**364 964**	**(2 197)**	**24 485**	**-**	**387 252**

Debt Securities		Stage 1	Stage 2	31.12.2018 Stage 3	POCI	Total
Custo amortizado						
Monitoring	[bbb+;b-]	87 532	-	-	-	**87 532**
Gross carrying amount		**87 532**	**-**	**-**	**-**	**87 532**
Loss allowance (Note 31)		447	-	-	-	**447**
Carrying amount		**87 085**	**-**	**-**	**-**	**87 085**
Fair Value through Other Comprehensive Income						
Monitoring	[bbb+;b-]	373 200	-	-	-	**373 200**
Gross carrying amount		**373 200**	**-**	**-**	**-**	**373 200**
Loss allowance (Note 31)		669	-	-	-	**669**
Revaluation		(751)	-	-	-	**(751)**
Carrying amount		**371 780**	**-**	**-**	**-**	**371 780**
Total gross carrying amount		**460 732**	**-**	**-**	**-**	**460 732**
Loss allowance		1 116	-	-	-	**1 116**
Total Revaluation		(751)	-	-	-	**(751)**
Total Carrying amount		**458 865**	**-**	**-**	**-**	**458 865**

Cash and cash equivalents

The table below presents a summary of the cash and cash equivalents portfolio of Haitong Bank, S.A., as of as of 31st December 2019 and 31st of December 2018:

Cash and cash equivalents		Stage 1	Stage 2	31.12.2019 Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	629 388	-	-	-	**629 388**
Monitoring	[bbb+;b-]	4 124	-	-	-	**4 124**
Total gross carrying amount		**633 512**	**-**	**-**	**-**	**633 512**
Total Carrying amount		**633 512**	**-**	**-**	**-**	**633 512**

Cash and cash equivalents		Stage 1	Stage 2	31.12.2018 Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	309 952	-	-	-	**309 952**
Monitoring	[bbb+;b-]	7 478	-	-	-	**7 478**
Total gross carrying amount		**317 430**	**-**	**-**	**-**	**317 430**
Total Carrying amount		**317 430**	**-**	**-**	**-**	**317 430**

Loans and advances to banks

The table below presents a summary of the portfolio of loans and advances to banks of Haitong Bank, S.A., as of 31st December 2019 and 31st of December 2018:

Loans and advances to Banks		Stage 1	Stage 2	31.12.2019 Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	2 254	-	-	-	**2 254**
Monitoring	[bbb+;b-]	6 287	-	-	-	**6 287**
Substandard	[ccc+;ccc]	-	3 509	-	-	**3 509**
Impaired	[d]	-	-	15 077	-	**15 077**
Total gross carrying amount		**8 541**	**3 509**	**15 077**	**-**	**27 127**
Loss allowance (Note 31)		**1**	523	15 077	-	**15 601**
Total Carrying amount		**8 540**	**2 986**	**-**	**-**	**11 526**

Loans and advances to Banks		Stage 1	Stage 2	31.12.2018 Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	1 048	-	-	-	**1 048**
Monitoring	[bbb+;b-]	56	-	-	-	**56**
Substandard	[ccc+;ccc]	-	3 358	-	-	**3 358**
Impaired	[d]	-	-	15 077	-	**15 077**
Total gross carrying amount		**1 104**	**3 358**	**15 077**	**-**	**19 539**
Loss allowance (Note 31)		-	497	15 077	-	**15 574**
Total Carrying amount		**1 104**	**2 861**	**-**	**-**	**3 965**

Debtors and other assets

The table below presents a summary of the debtors and other assets portfolio of Haitong Bank, S.A., as of 31st December 2019 and 31st of December 2018:

Debtors and other assets		Stage 1	Stage 2	31.12.2019 Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	1	-	-	-	**1**
Monitoring	[bbb+;b-]	2 074	-	-	-	**2 074**
Substandard	[ccc+;ccc]	285	-	-	-	**285**
Impaired	[d]	-	-	59	10 926	**10 985**
Not rated		7 801	-	-	-	**7 801**
Total gross carrying amount		**10 161**	**-**	**59**	**10 926**	**21 146**
Loss allowance (Note 31)		6 737	-	59	-	**6 796**
Total Carrying amount		**3 424**	**-**	**-**	**10 926**	**14 350**

Debtors and other assets		Stage 1	Stage 2	31.12.2018 Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	30	-	-	-	**30**
Monitoring	[bbb+;b-]	14 209	-	-	-	**14 209**
Substandard	[ccc+;ccc]	285	-	-	-	**285**
Impaired	[d]	-	-	1 201	-	**1 201**
Not rated		13 319	-	-	-	**13 319**
Total gross carrying amount		**27 843**	**-**	**1 201**	**-**	**29 044**
Loss allowance (Note 31)		5 384	-	1 178	-	**6 562**
Total Carrying amount		**22 459**	**-**	**23**	**-**	**22 482**

Throughout 2019, there were no modified financial assets since initial recognition for which the expected credit losses have gone from lifetime expected credit losses to 12 month expected credit losses.

The use of credit protection is a key element of the risk policy and credit decision process, influencing the acceptance criteria, the decision levels, and the pricing.

The main risk mitigation techniques used by the Bank are financial pledges (funded credit protection – financial collateral in the form of securities and cash) and personal guarantees (unfunded credit protection with substitution effect).

Other types of guarantees are also used, which, while not eligible as risk mitigating for purposes of calculating regulatory capital requirements, effectively reduce the credit risk to which the Bank is subject. In this respect, we highlight the personal guarantees provided by company's partners ("shareholders") in certain financing operations.

Haitong Bank follows the prescription of CRR in what concerns collateral haircuts for impairment calculation. Thus, instead of using the collateral value, the Bank considers the collateral value after haircut application.

Frequency and methods of collateral valuation depends on the nature of the collateral. For listed equity securities and debt securities, valuation occurs on a daily basis using market prices.

The pledge of bank accounts valuation takes place on a quarterly basis according to information provided by the depositary bank.

Regarding pledges over non listed equity securities, pledges over equipment and mortgages valuation, it is done at least on an annual basis and it is based on financial information of the borrower or on valuation reports of external entities (e.g.: real estate).

The maximum exposure to credit risk at the end of the period and without taking into account any risk mitigating techniques was already been presented on the previous pages. As of December 31, 2019, the amount of financial instruments with no losses identified, due to credit risk's mitigation techniques, was 469 thousand euros, accounted under loans and advances to customers.

The table below disaggregates the financial instrument and financial guarantees' gross exposure and exposure at default (EAD) separately for each Stage and POCI.

(milhares de euros)

Rating bucket		Stage 1		Stage 2		Stage 3		POCI	
		Gross Exposure	EAD	Gross Exposure	EAD	Gross Exposure	EAD	Gross Exposure	Exposure at Default
Low to fair risk	[aaa+;a-]	631 643	631 638	-	-	-	-	-	-
Monitoring	[bbb+;b-]	649 988	589 506	37 905	33 807	-	-	-	-
Substandard	[ccc+;ccc]	285	285	3 509	3 509	-	-	-	-
Doubtful	[lccc]	-	-	-	-	-	-	-	-
Impaired	[d]	-	-	-	-	159 324	151 774	10 926	10 926
Not Rated		12 445	10 883	-	-	-	-	-	-
Total		**1 294 361**	**1 232 312**	**41 414**	**37 316**	**159 324**	**151 774**	**10 926**	**10 926**

Breakdown of Non-Performing and Forborne Exposures

In accordance with the definitions set out in Annex V to Commission Implementing Regulation (EU) 2018/1627 of 8 October 2018, amending Implementing Regulation (EU) No 680/2014 as regards prudent valuation for supervisory reporting, the Bank discloses the non-performing exposures and the forborne exposures.

The definitions of non-performing and forborne exposures are provided under section 2.3.1.

Forborne exposures shall be debt contracts in respect of which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing, or about to experience, difficulties in meeting its financial commitments ("financial difficulties). Exposures shall not be treated as forborne where the debtor is not in financial difficulties.

In this sense, as at December 31, 2019, the breakdown of performing and non-performing exposures was as follows:

	31.12.2019			31.12.2018		
	Gross amount	Impairment, Negative revaluations and Provisions	Coverage	Gross amount	Impairment, Negative revaluations and Provisions	Coverage
Performing exposures	**1 349 301**	**5 253**	**0,4%**	**1 686 054**	**5 216**	**0,3%**
Non-Performing exposures (NPE)	**157 071**	**122 608**	**78,1%**	**233 187**	**168 736**	**72,4%**
Banking Book Debt Securities	32 781	10 493	32,0%	0	0	0,0%
Loans and advances to customers	85 732	82 317	96,0%	92 917	85 662	92,2%
Loans and advances to Banks	15 077	15 077	100,0%	15 077	15 077	100,0%
Cash & Cash Equivalents	0	0	0,0%	0	0	0,0%
Guarantees	23 478	14 720	62,7%	125 000	67 952	54,4%
Loan commitments	3	1	33,3%	193	45	23,3%
Total	**1 506 372**	**127 861**	**8,5%**	**1 919 241**	**173 952**	**9,1%**
NPE ratio	**10,4%**			**12,1%**		
NPL ratio	**27,1%**			**12,9%**		

As at December 31, 2019, the breakdown of performing and non-performing forborne exposures was as follows:

	31.12.2019			31.12.2018		
	Gross amount	Impairment, Negative revaluations and Provisions	Coverage	Gross amount	Loss allowance	Coverage
Performing exposures	**1 345 158**	**4 973**	**0,4%**	**1 681 059**	**4 567**	**0,3%**
Performing Forborne exposures	**4 143**	**280**	**6,8%**	**4 995**	**649**	**13,0%**
Loans and advances to customers	4 143	280	6,8%	4 995	649	13,0%
Non-Performing Forborne exposures	**85 735**	**82 318**	**96,0%**	**93 110**	**85 707**	**92,0%**
Banking Book Debt Securities	0	0	0,0%	0	0	0,0%
Loans and advances to customers	85 732	82 317	96,0%	92 917	85 662	92,2%
Loan commitments	3	1	33,3%	193	45	23,3%
Non-Performing exposures	**71 336**	**40 290**	**56,5%**	**140 077**	**83 029**	**59,3%**
Total	**1 506 372**	**127 861**	**8,5%**	**1 919 241**	**173 952**	**9,1%**

Concentration risk

Concerning the concentration risk - that is, the risk arising from the possibility of exposure or from a group of exposures sharing common or interrelated risk factors that produce losses large enough to affect the Bank's solvency - Haitong Bank has internal limits established for the largest solo exhibitions. Regular monitoring of these limits, together with regulatory limits, strengthens the bank's monitoring framework for the concentration of credit risk.

The breakdown of loans and advances to customers, financial assets held for trading and securities, by sector of activity for the years ended 1 December 2019 and 31 December 2018 is as follows

(thousand

Industry	31.12.2019								
	Loans and advances to customers					Financial assets held for		Securities	
	Gross amount		Impairment		Revaluation				
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Overdue loans	Securities	Derivative financial assets	Gross amount	Impairment
Automobiles & Components	-	-	-	-	-	226	-	-	-
Banks	-	-	-	-	-	1 643	58 529	-	-
Broker Dealers	1 132	-	-	-	-	-	8 852	-	-
Building Materials	-	-	-	-	-	-	-	8 805	86
Capital Goods	2 656	604	1 818	604	-	3 604	-	-	-
Chemicals	4 310	-	4 310	-	-	-	-	-	-
Commercial & Professional Services	3 407	3 892	1 295	3 892	-	-	-	-	-
Construction & Engineering	-	2 217	-	1 626	126	6 580	-	40 281	118
Containers & Packaging	-	-	-	-	-	373	-	-	-
Food, Beverage & Tobacco	-	-	-	-	-	-	2 797	-	-
Funds & Asset Managers	-	-	-	-	-	620	-	6 754	-
Governments	2 573	-	1	-	-	3 779	-	210 373	159
Health Care	-	-	-	-	-	1 074	-	-	-
Hotels & Gaming	-	5 950	-	5 950	-	-	-	-	-
Investment Holdings	-	-	-	-	-	362	-	-	-
Media & Entertainment	-	-	-	-	-	34	-	-	-
Metals & Mining	72 295	-	1 291	-	-	223	-	3 532	18
Non Bank Financial Institutions	42	200	42	200	-	-	-	-	-
Oil & Gas	-	10 324	-	10 324	-	1 051	125	-	-
Paper & Forest Products	-	-	-	-	-	6 253	470	-	-
Power	44 345	-	346	-	-	868	5 554	16 827	49
Real Estate	4 143	44 879	280	44 879	-	216	-	88 123	276
Retailing	-	-	-	-	-	574	-	-	-
Software	-	-	-	-	-	-	-	13	-
Technology Hardware & Equipment	-	-	-	-	-	-	-	32 783	10 493
Telecoms	-	-	-	-	-	120	-	-	-
Transportation	1 931	7 251	68	7 252	-	1 367	222	-	-
Transportation Infrastructure	103 351	-	556	-	-	689	59 818	-	-
Others	489	-	3	-	-	-	-	48	-
TOTAL	**240 674**	**75 317**	**10 010**	**74 727**	**126**	**29 656**	**136 367**	**407 539**	**11 199**

(thousand euros)

Industry	31.12.2018							
	Loans and advances to customers				Financial assets held for trading		Securities	
	Gross amount		Impairment					
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Securities	Derivative financial assets	Gross amount	Impairment
Automobiles & Components	-	-	-	-	103	-	-	-
Banks	-	-	-	-	213	27 562	-	-
Broker Dealers	1 942	-	8	-	-	7 581	-	-
Building Materials	258	-	27	-	-	-	-	-
Capital Goods	2 900	472	1 962	472	3 004	-	-	-
Chemicals	4 089	-	4 089	-	-	-	-	-
Commercial & Professional Services	3 743	3 954	1 615	3 954	17 723	-	-	-
Construction & Engineering	8 657	2 446	3 705	1 365	1 042	-	84 636	253
Containers & Packaging	-	-	-	-	-	426	-	-
Food, Beverage & Tobacco	-	-	-	-	-	-	-	-
Funds & Asset Managers	85 534	-	2	-	15	312	8 829	-
Governments	3 064	-	1	-	18 272	-	281 264	286
Health Care	-	-	-	-	3 587	111	-	-
Hotels & Gaming	-	5 950	-	5 950	-	-	-	-
Insurance	29 142	-	-	-	-	-	-	-
Investment Holdings	-	-	-	-	53	-	-	-
Media & Entertainment	-	-	-	-	367	-	-	-
Metals & Mining	71 544	-	697	-	-	-	35 049	172
Non Bank Financial Institutions	189 748	152	90	152	8 507	38 875	-	-
Oil & Gas	-	10 324	-	10 324	99	-	-	-
Paper & Forest Products	-	-	-	-	8 536	1 368	-	-
Power	72 561	-	644	-	4 795	7 091	18 847	56
Real Estate	47 208	45 724	1 397	44 894	1 894	-	2 446	-
Retailing	-	-	-	-	-	-	5 131	9
Software	814	-	1	-	152	31	21	-
Technology Hardware & Equipment	-	-	-	-	-	-	35 054	341
Telecoms	-	-	-	-	303	-	-	-
Transportation	2 560	9 648	25	7 124	1 331	18 416	-	-
Transportation Infrastructure	117 389	-	290	-	-	57 186	-	-
Others	541	-	72	-	-	-	51	-
TOTAL	**641 694**	**78 670**	**14 625**	**74 235**	**69 996**	**158 959**	**471 328**	**1 117**

As of December 2018, Loans and advances to customers includes fair value to profit and loss exposures.

The breakdown of loans and advances to costumers, financial assets held for trading and securities, by country risk, for the years ended 31st December 2019 and 31st December 2018, is as follows:

(thousand euros)

Country	31.12.2019								
	Loans and advances to customers					Financial assets held for trading		Securities	
	Gross amount		Impairment		Revaluation				
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Overdue loans	Securities	Derivative financial assets	Gross amount	Impairment
Andorra	-	-	-	-	-	-	68	-	-
Belgium	-	-	-	-	-	-	164	-	-
Brazil	-	3 892	-	3 892	-	-	-	-	-
Chile	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	131 289	10 750
France	-	-	-	-	-	300	4 840	-	-
Germany	72 295	-	1 292	-	-	-	8 834	-	-
Italy	-	-	-	-	-	109	-	95 037	72
Luxembourg	-	-	-	-	-	-	-	4 702	-
Panama	-	-	-	-	-	-	-	-	-
Poland	-	2 217	-	1 626	126	14 428	265	16 168	80
Portugal	158 122	52 331	5 603	52 331	-	10 784	94 365	158 293	297
Singapore	-	-	-	-	-	-	-	-	-
Spain	8 636	16 877	3 115	16 878	-	2 747	8 748	-	-
Sweden	-	-	-	-	-	11	-	-	-
United Kingdom	1 132	-	-	-	-	-	19 083	-	-
United States	-	-	-	-	-	-	-	-	-
Others	489	-	-	-	-	1 277	-	2 052	-
TOTAL	**240 674**	**75 317**	**10 010**	**74 727**	**126**	**29 656**	**136 367**	**407 541**	**11 199**

(thousand

Industry	31.12.2018							
	Loans and advances to customers				Financial assets held for trading		Securities	
	Gross amount		Impairment					
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Securities	Derivative financial assets	Gross amount	Impairment
Andorra	-	-	-	-	-	107	-	-
Belgium	-	-	-	-	-	65	-	-
Brazil	-	3 954	-	3 954	-	-	-	-
Chile	-	-	-	-	-	234	-	-
China	42 213	845	749	15	-	-	146 246	644
Colombia	-	-	-	-	-	-	-	-
France	-	-	-	-	-	8 278	-	-
Germany	71 544	-	697	-	9	3 275	-	-
Ireland	-	-	-	-	194	-	-	-
Italy	-	-	-	-	-	-	98 558	75
Luxembourg	-	-	-	-	-	-	4 554	-
Panama	-	-	-	-	-	-	-	-
Poland	119 581	2 446	74	1 365	47 924	510	-	-
Portugal	396 168	54 679	9 447	52 155	15 556	123 446	217 694	398
Spain	9 706	16 746	3 578	16 746	6 005	6 233	-	-
United Kingdom	1 942	-	8	-	182	16 811	-	-
United States	-	-	-	-	31	-	-	-
Others	540	-	72	-	95	-	4 276	-
TOTAL	**641 694**	**78 670**	**14 625**	**74 235**	**69 996**	**158 959**	**471 328**	**1 117**

Market risk

Market risk is the possibility of losses resulting from adverse movements in market prices, such as equity, interest rates or foreign exchange rates and credit spreads

The Bank estimates the potential losses in its trading book and for the overall commodity and foreign currency positions using the historical Value at Risk (VaR) methodology, calculated considering a 99% confidence level, an investment period of 10 business days and 1 year of historical observation.

	31.12.2018				31.12.2017			
	December	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Foreign Exchange Risk	4,82	8,89	11,04	4,82	10,06	5,82	11,16	3,94
Interest Rate Risk	0,09	0,11	0,06	0,09	0,12	0,18	0,22	0,25
Shares	0,01	0,04	0,03	0,01	0,07	1,43	1,47	2,85
Credit spread	0,07	0,18	0,15	0,07	0,38	0,29	0,40	0,13
Covariance	-0,01	-0,13	-0,07	-0,01	-0,17	-1,45	-1,35	-3,22
Total	**4,98**	**9,09**	**11,21**	**4,98**	**10,47**	**6,27**	**11,90**	**3,96**

The following table presents the average interest rates as well as the average balances and interest for the period, relating to the Banks's major financial asset and liability categories, for the periods ended at December 31st 2019 and 2018, as well as the respective average balances and interest of the period:

(thousand euros)

	31.12.2019			31.12.2018		
	Average balance of the period	Interest of the period	Average interest rate	Average balance of the period	Interest of the period	Average interest rate
Monetary assets	502 362	204	0,04%	511 991	286	0,06%
Loans and advances to customers	544 397	14 950	2,75%	430 399	12 154	2,82%
Investment in securities	580 106	11 168	1,93%	629 641	6 715	1,07%
Collateral accounts	133 519	237	0,18%	258 515	130	0,05%
Financial assets	**1 760 384**	**26 559**	**1,51%**	**1 830 546**	**19 285**	**1,05%**
Monetary resources	498 224	26	0,01%	819 283	478	0,06%
Deposits from customers	1 040 258	10 012	0,96%	307 670	10 672	3,47%
Liabilities represented by securities	229 167	3 197	1,40%	175 667	4 078	2,32%
Other resources	18 630	872	4,68%	23 701	963	4,06%
Financial liabilities	**1 786 279**	**14 107**	**0,79%**	**1 326 321**	**16 191**	**1,22%**
Financial result		**12 452**			**3 094**	

As of 31st December 2019 and 31st December 2018, the exposure of assets and liabilities by currency in regards to the foreign exchange risk was as follows:

(thousand euros)

	31.12.2019			31.12.2018		
	Spot	Forward	Net Exposure	Spot	Forward	Net Exposure
AUD	14	-	14	14	-	14
BRL	(367)	(105 048)	(105 415)	6 659	(109 128)	(102 469)
CAD	(33)	-	(33)	(854)	-	(854)
CHF	184	-	184	179	-	179
CNY	(267)	-	(267)	(218)	-	(218)
CZK	25	-	25	24	-	24
DKK	208	-	208	21	-	21
GBP	(1 197)	-	(1 197)	(125)	-	(125)
HKD	398	-	398	43 238	(42 888)	350
HUF	17	-	17	17	-	17
JPY	56	-	56	193	-	193
MXN	21	-	21	(13)	-	(13)
NOK	23	-	23	22	-	22
PLN	22 368	-	22 368	24 145	-	24 145
SEK	81	-	81	64	-	64
TRY	1	-	1	-	-	-
USD	16	-	16	17	-	17
UYU	89 593	(88 971)	622	109 686	(114 370)	(4 684)
	111 141	**(194 019)**	**(82 878)**	**183 069**	**(266 386)**	**(83 317)**

It should be noted that the amounts of BRL position in long term are high, resulting from the economic coverage of the exposure of the investee in Brazil. The Bank hedges a net investment in a foreign entity in an amount proportional to the percentage held in the capital.

Haitong Bank measures interest rate risk in the banking book using income based (NII: Net Interest Income) and value based (EVE: Economic Value of Equity) metrics.

Under the Economic Value of Equity measure, the Bank assesses the impact on the present value of cash flows due to an interest rate movement, considering the current balance sheet run-off profile.

As of December 2019 and 2018, the Bank maintain similar interest-rate risk sensitive assets and liabilities in the banking book. The repricing profile can be seen bellow:

(million euros)

	31.12.2019				
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	786	143	175	262	3
Liabilities	(525)	(43)	(76)	(341)	-
Gap	261	100	99	(79)	3

(million euros)

	31.12.2018				
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	594	287	110	736	5
Liabilities	(86)	(495)	(101)	(898)	(1)
Gap	508	(208)	9	(162)	4

The impact on the banking book portfolio economic value, under a scenario of +/-200bps bps movement in interest rates was as follows:

As at 31st of December 2019 and 2018, the exposure of the Bank to the public debt of "peripheral" countries within the Euro Area is as follows:

(million euros)

IR Parallel Shift	December 2019	December 2018
+100 bps	3,7	7,1
-100 bps	(2,1)	(7,1)

(thousand euros)

	31.12.2019		
	Financial assets at fair value through profit or loss	Securities	Total
Portugal	-	115 249	115 249
Italy	-	94 965	94 965
	-		
	-	**210 214**	**210 214**

(thousand euros)

	31.12.2018		
	Financial assets at fair value through profit or loss	Securities	Total
Portugal	3 808	182 495	186 303
Italy	-	98 483	98 483
	3 808	**280 978**	**284 786**

All presented exposures are recorded in the statement of financial position of the Bank at fair-value based on quoted market values or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding investment securities and trading assets is as follows:

	31.12.2019					
	Nominal	Market value	Accrued interest	Book value	Impairment	Fair value reserve
Securities						
Portugal	**90 100**	**110 889**	**4 447**	**115 249**	**(87)**	**-**
Maturity until 1 year	100	102	3	105	-	-
Maturity up to 1 year	90 000	110 787	4 444	115 144	(87)	-
Italy	**90 000**	**93 856**	**1 180**	**94 965**	**(71)**	**96**
Maturity up to 1 year	90 000	93 856	1 180	94 965	(71)	96
	180 100	**204 745**	**5 627**	**210 214**	**(158)**	**96**
Trading financial assets						
Portugal	-	-	-	-	-	-
	-	-	-	-	-	-

(thousand euros)

	31.12.2018					
	Nominal	Market value	Accrued interest	Book value	Impairment	Fair value reserve
Securities						
Portugal						
Maturity over 1 year	165 300	179 890	2 816	182 495	(211)	1 229
	165 300	**179 890**	**2 816**	**182 495**	**(211)**	**1 229**

Liquidity risk

Liquidity risk arises from an institution's present or future inability to meet all payment obligations when they come due or secures such resources only at an excessive cost.

Within the scope of the risk vision statement by the Board of Directors, Haitong Bank as whole and all its subsidiaries individually aim to maintain a solid short-term liquidity position and sustainable medium and long-term funding profile.

To achieve these goals, Haitong Bank seeks to develop a diversified investors' base, ensuring access to alternative funding sources and instruments, and keeping an adequate funding structure to finance its activity.

Haitong Bank's liquidity and funding management are under the direct responsibility of the Executive Committee coordinated, at Group level, under the ultimate responsibility of the Chief Executive Officer. The Global Coordinator of Treasury is in charge of the operational management of liquidity, with local teams ensuring liquidity daily management in each of the Bank's treasury hubs (Lisbon, São Paulo and Warsaw).

The Bank manages its liquidity by establishing a liquidity risk policy, monitoring a set liquidity risk metrics, including prudential liquidity ratios, stress testing and liquidity contingency plans, and by setting limits consistent with the Bank's liquidity risk appetite and regulatory requirements.

As of 31 December 2019, the Bank held 782 million Euros of High Quality Liquid Assets (512 million Euros in 31 December 2018), of which 606 million were available demand deposits in the Bank of Portugal (303 million Euros in 31 December 2018). The remainder of the High Quality Liquid Assets (HQLA) was mainly composed by sovereign debt of European Union countries.

In 31 December 2019, Haitong Bank held a surplus of 682 million Euros of its 30 days stressed net outflows, which corresponded to a LCR of 787% (2,462% on 31 December 2018) comfortably above both regulatory and internal limits.

Liquidity Coverage Ratio	31.12.2019	31.12.2018
High Quality Liquid Assets	782	512
Surplus over stressed net outflows	682	492
Liquidity coverage Ratio	**787%**	**2462%**

Haitong Bank funding from the Bank of Portugal amounts to 22 million Euros on 31 December 2019 (60 million Euros at the end of 2018) obtained through the Targeted Longer-Term Refinancing Operations facility, maturing in 2022.

In 2019, Haitong Bank's main sources of funding were wholesale facilities provided by financial institutions, debt securities issued, sales with repurchase agreements (repos),deposits from clients (households and corporate clients) and equity.

Haitong Bank enters into derivative transactions with corporate clients and financial institutions, most of which under master netting agreements (e.g. ISDA) and margin agreements (e.g. Credit Support Annex). In market stress situations where the value of derivatives is significantly impacted, additional collateral amounts may be required from Haitong Bank. Derivatives positions and collateral received and posted are detailed in notes 19 and 27, respectively.

As of 31st of December 2019, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	31.12.2019						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and cash equivalents	633 518	-	-	-	-	-	633 518
Financial assets held-for-trading (Securities)	-	3 972	1 902	22 870	2 729	-	31 473
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	9 088	9 088
Financial assets at fair value through other comprehensive income	-	7 500	11 391	36 603	16 940	-	72 433
Financial assets at amortised cost	-	22 807	93 410	215 510	-	-	331 727
Loans and advances to banks	-	11 974	-	-	-	-	11 974
Loans and advances to customers	-	4 437	92 010	90 280	79 694	-	266 420
Derivatives Instruments	-	500 634	390 004	195 396	85 090	86 811	1 257 935
	633 518	551 324	588 717	560 659	184 453	95 899	2 614 568
Liabilities							
Resources from credit institutions	988	2 615	-	22 000	-	-	25 603
Resources from customers	51 935	121 313	120 447	697 673	-	-	991 368
Debt securities issued	-	-	-	-	-	-	-
Financial liabilities held-for-trading (Securities)	828	1 135	-	-	-	-	1 962
Derivatives Instruments	-	500 634	390 004	195 396	85 090	30 940	1 202 064
	53 751	625 697	510 451	915 069	85 090	30 940	2 220 998

As of 31st December 2018, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	31.12.2018						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and cash equivalents	317 372	-	-	-	-	-	317 372
Financial assets held-for-trading (Securities)	-	20 356	7 235	34 270	12 126	457	74 444
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	-	-	11 346	11 346
Financial assets at fair value through other comprehensive income	-	13 550	52 183	339 659	5 452	-	410 843
Financial assets at amortised cost	-	-	73 352	-	-	-	73 352
Loans and advances to banks	-	55 014	-	138 500	-	-	193 514
Loans and advances to customers	1 943	119 334	51 819	95 052	194 291	-	462 439
Derivatives Instruments	-	167 129	71 648	62 907	34 926	120 215	456 824
	319 314	375 384	256 236	670 387	246 794	132 018	2 000 133
Liabilities							
Resources of other credit institutions	292	-	375 000	435 000	-	-	810 292
Resources of customers	28 887	155 844	100 415	5 907	-	-	291 053
Debt securities issued	-	-	3 375	256 750	-	-	260 125
Financial liabilities held-for-trading (Securities)	16 119	-	-	-	-	-	16 119
Derivatives Instruments	-	166 978	72 165	62 159	35 115	-	336 417
	45 298	322 821	550 954	759 816	35 115	-	1 714 005

Operational risk

Operational Risk corresponds to the possible loss resulting from inadequate internal procedures or its negligent application, inadequacy or failure of information systems, staff behaviour or external events. Legal risks are included in this definition. Legal and IT risks are included in this definition. Operational risk is therefore considered as the sum of operational, information systems and compliance risks.

The Bank has in place a framework to ensure the standardization and systematization of the regular activities regarding the identification, assessment, response/ mitigation, monitoring, and control and report of operational risk. A team within the Risk Management Department is exclusively dedicated to the management of this framework.

Capital Management and Solvency Ratio

The main purposes of capital management in the Bank are (i) to promote sustainable growth of activity by creating enough capital to withstand the increase of assets, (ii) meet the minimum requirements established by the supervising entities in relation to capital adequacy and (iii) ensure the achievement of the strategic goals set by Bank in relation to capital adequacy.

In prudential terms, the Bank is subject to inspection by the Bank of Portugal who, in accordance with the EU Directive on capital adequacy, establishes the necessary regulations in this regard that must be fulfilled by the different institutions under their inspection. These regulations establish a minimum rate for the own funds total in relation to the requirements associated with the undertaken risks, which the institutions must comply with.

At the moment and for reporting purposes related to prudential effects before the supervising authorities, the Bank uses the Standard method for handling credit risk and operational risk ("The Standardized Approach" - TSA method).

The following table summarises the capital adequacy of the Haitong Bank S.A. as at 31st of December 2019 and 31st of December 2018:

	31.12.2019		31.12.2018	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	34,9%	34,9%	23,6%	23,0%
Tier 1 ratio	43,1%	42,9%	29,1%	28,4%
Total capital ratio	43,1%	42,9%	29,1%	28,4%

The assumptions used in the capital adequacy calculations are described in chapter IT & Internal Control | Risk Management | Solvency in the Management Report.

NOTE 41 – SUBSEQUENT EVENTS

In March 2020, the World Health Organization declared the upsurge of the COVID-19 virus to be a pandemic situation. As of the date of approval of these financial accounts, the virus continues to spread in Portugal and overall in European countries. This situation and its evolution could have significant impacts on the economic global backdrop and on the Bank, as the impacts on the Portuguese and Chinese economies are especially important for its activity and for the value of its assets. The extent and severity of these events are not yet possible to determine. The Bank's Board of Directors is monitoring the situation and executing a contingency plan to ensure business continuity. As per the information currently available, the liquidity and capital levels are sufficient to carry out the Bank's activities.

NOTE 42 – ACCOUNTING STANDARDS AND RECENT INTERPRETATIONS

Standards, interpretations, amendments and revisions that came into force in this year

Up to the date of approval of these financial statements, the following accounting standards, interpretations, amendments and revisions have been endorsed by the European Union, with mandatory application for the financial year beginning on January 1, 2019:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 16 – Leases	1-jan-19	This standard introduces the principles of recognition and measurement of leases, replacing IAS 17 - Leases. The standard defines a single accounting model for lease contracts that results in the lessee's recognition of assets and liabilities for all lease contracts, except for leases with a period of less than 12 months or for leases that relate to assets of value reduced. Lessors will continue to classify the leases between operational or financial, and IFRS 16 will not entail substantial changes to such entities as defined in IAS 17.

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
Amendment to IFRS 9: Negative compensation prepayment characteristics	1-jan-19	This amendment allows financial assets subject to contractual conditions which, in their early amortization, allow the payment of a considerable amount by the creditor, can be measured at amortized cost or at fair value for reserves (depending on the business model), since that: (i) on the date of the initial recognition of the asset, the fair value of the early amortization component is insignificant; and (ii) the possibility of negative com-pensation in early amortization is the only reason for the asset in question not to be considered as an instrument that only includes payments of principal and interests.
IFRIC 23 - Uncertainties in the treatment of income tax	1-jan-19	This interpretation provides guidance on the determi-nation of taxable income, tax bases, tax losses to be reported, tax credits to be used and tax rates in scena-rios of uncertainty as to the treatment of income tax.
Improvements to international financial reporting standards (2015-2017 cycle)	1-jan-19	These improvements involve the clarification of some aspects related to: IFRS 3 - Concentration of business activities: it requires remeasurement of interests previously held when an entity obtains control over an investee over which it previously had joint control; IFRS 11 - Joint ventures: clarifies that there should be no remeasurement of interests previously held when an entity obtains joint control over a joint operation; IAS 12 - Income Tax: clarifies that all tax consequen-ces of dividends should be recorded in profit or loss, regardless of how the tax arises; IAS 23 - Borrowing costs: clarifies that the part of the loan directly related to the acquisition / construction of an asset, outstanding after the corresponding asset has been ready for the intended use, is, for the purpose of determining the capitalization rate, considered an integral part of the entity's general funding.

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
Amendments to IAS 19: Change in Plan, Restriction or Settlement	1-jan-19	If a plan amendment, cut or settlement occurs, it is now mandatory that the current service cost and net interest for the period after remeasurement are determined using the assumptions used for remeasurement. In addition, amendments were included to clarify the effect of a change, reduction or settlement of the plan on the asset ceiling requirements.
Amendment to IAS 28: Long-term investments in associates and joint arrangements	1-jan-19	This amendment clarifies that IFRS 9 should be applied (including related impairment requirements) to investments in associates and joint arrangements when the equity method is not applied in their measurement.

Except for the effects of the implementation of IFRS 16, described in Note 40, no significant effects were recorded in the Bank's financial statements for the year ended December 31, 2019, as a result of the adoption of the standards, interpretations, amendments and revisions referred to above.

Standards, interpretations, amendments and revisions that will take effect in future years

The following accounting standards and interpretations, which have to be applied in future financial years, have been endorsed by the European Union up to the date of approval of these financial statements:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
Amendments to references to the Framework in IFRS	1-jan-20	IFRS 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32, IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 34, IAS 37, IAS 37, in accordance with references to the revised Conceptual Framework in March 2018. The revised Conceptual Framework includes revised definitions of an asset and a liability and new guidance on measurement, derecognition, presentation and disclosure.
Amendment to IAS 1 and IAS 8 - Definition of material	1-jan-20	Corresponds to amendments to clarify the definition of material in IAS 1. The definition of material in IAS 8 now refers to IAS 1. The amendment changes the definition of material in other standards to ensure consistency. The information is material if, by its omission, distortion or concealment, it is reasonably expected to influence the decisions of the primary users of the financial statements based on the financial statements.

These standards, although endorsed by the European Union, were not adopted by the Bank in 2019, as their application is not yet mandatory. As a result of the application of the aforementioned standards, no relevant impacts are expected.

Standards, interpretations, amendments and revisions not yet adopted by the European Union

The following accounting standards and interpretations have been issued by the IASB and are not yet endorsed by the European Union:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 17 - Insurance Contracts	1-jan-21	This standard establishes, for insurance contracts within its scope, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 - Insurance Contracts.
Amendment to IFRS 3 - Definition of business	1-jan-20	Corresponds to amendments to the definition of business, seeking to clarify the identification of business acquisition or acquisition of a group of assets. The revised definition further clarifies the definition of a business's output as the supply of goods or services to customers. The changes include examples for identifying a business acquisition.
Amendments to IFRS 9, IAS 39 and IFRS 7 - reform of benchmark interest rates (IBOR Reform)	1-jan-20	Corresponds to amendments to IFRS 9, IAS 39 and IFRS 7 related to the benchmark interest rate reform project (known as "IBOR reform"), in order to reduce the potential impact of changes in reference interest rates on financial reporting, namely hedge accounting.

These standards have not yet been endorsed by the European Union and as such have not been applied by the Bank for the year ended 31 December 2019.

With respect to these standards and interpretations, issued by the IASB but not yet endorsed by the European Union, it is not estimated that the adoption of these standards will significantly impact the Bank financial statements.

Report and Opinion of the Supervisory Board

Haitong Bank, S.A.
for financial year 2019

(Free translation of a report originally issued in Portuguese language: in case of doubt the Portuguese version will always prevail)

To the Shareholder of Haitong Bank, S.A.,

In accordance with the applicable legislation, we hereby present the Report on the audit performed by the Supervisory Board to the Management Report, the individual and the consolidated financial statements and the proposal for the distribution of the annual results presented by the Board of Directors of Haitong Bank (hereinafter Haitong) for the year ended 31 December 2019.

The members of the Supervisory Board appointed for the 2017-2019 three-year period took office on 24 January 2018 after notifying the Bank of Portugal that the legal requirements set forth in no. 3 of Article 30-B of the General Law on Credit Institutions and Financial Companies ("*Regime Geral das Instituições de Crédito e Sociedades Financeiras*") approved by the Decree-Law no. 298/92 of 31 December had been met.

Haitong's Supervisory Board, as part of its functions, monitored, in accordance with the Law and the company's articles of association, the development of Haitong's management and business activities, namely:

(i) assessed the adequacy and effectiveness of the internal control, internal audit and risk management systems;

(ii) attended the Board of Directors meetings whenever invited;

(iii) attended the Internal Audit, Risk, and Corporate Governance Committees' meetings;

(iv) reviewed management information documents that were presented by the Board of Directors;

(v) monitored the verification of the accounting records and respective support documents;

(vi) assessed the accounting policies and valuation criteria adopted by Haitong; and

(vii) held meetings with the Statutory Auditor, whenever necessary, on the assessment of the accounting policies and valuation criteria adopted by Haitong, who always provided the information required and deemed relevant.

In accordance with the applicable legislation, the Supervisory Board also assessed the Auditor's Report and Statutory Audit Certification ("*Certificação Legal de Contas*") prepared by the Statutory Auditor (Deloitte & Associados, SROC, S.A.) on the individual and consolidated financial statements for the financial year 2019 and noted the Additional Report on said financial statements issued by the Statutory Auditor to the Supervisory Board, with which the Supervisory Board agrees.

The Supervisory Board highlights that Deloitte's opinion has a qualification, materialized as an emphasis, whose content derives from the World Health Organization statement issued in March 2020, declaring the "COVID-19" virus spread as a pandemic illness. Considering the extent and severity of this event, it may have an impact on the Bank's activity, which, to this date, is not yet possible to determine. However, the Board of Directors considers that, given the information currently available, the liquidity situation and capital levels will be sufficient to carry out the Bank's activities.

The Supervisory Board also analysed the Management Report submitted by the Board of Directors and considers that the report complies with the applicable legal and statutory requirements and duly mentions the main aspects of Haitong's activities in 2019, both in individual and in consolidated terms.

The Supervisory Board highlights the following:

- On December 19, 2019, Haitong Bank carried out the sale of the entire share capital of Haitong Investment Ireland p.l.c., a company incorporated and headquartered in the Republic of Ireland, to Haitong International Holdings Limited resulting from the share purchase and sale agreement dated September 30, 2019. The sale price was EUR 12,000,000.00. The impact of this transaction is recorded on "Results from operations under discontinuation", of EUR 6,291,000.00. The release of this transaction is disclosed in Note 34 of Notes to the consolidated financial statements.

- On December 18, 2019, the liquidation, assets sharing and extinction of SES Iberia Private Equity S.A. were confirmed, whose public deed dates December 17.

- The Bank has applied IFRS 16 using the modified retrospective approach from January 1, 2019 onwards. However, the comparative information from 2018 has not been restated, according to the transition specific conditions (modified retrospective approach). The reclassifications and the adjustments derived from the new rules of lease transactions were, therefore, recognised in the balance sheet as of January 1, 2019. The impact of the use of this standard is disclosed in Note 40 of Notes to the consolidated financial statements.

- At the end of June, the Bank of Portugal authorized the establishment of a branch in Macau. The beginning of the activities of the branch is still dependent on the conclusion of the authorization process by the relevant Macau Authorities.

- From January 1, 2019 onwards, as a result of the application of IFRIC 23, contingencies with the Tax Authority started to be accounted in separate items. Previously they were accounted following with IAS 37, and the estimated amounts arising from these uncertainties were recorded in Provisions.

- On October 31, 2019, the Bank submitted to the Autoridade de Supervisão de Seguros e Fundos de Pensões ("ASF") a request to change the Pension Fund contract. The framework of this situation is disclosed in Note 14 of the Notes to the consolidated financial statements.

- Law No. 98/2019 was published on 4 September 2019, which changed the tax regime applicable to the impairment of financial and credit institution. The Bank has chosen not to follow the 5 year adaptation regime. Therefore, the Bank considered, for the purpose of calculating taxable income and the recording and analysis of the recoverability of deferred tax assets with reference to December 31, 2019, that the amount of credit impairment and provisions for guarantees recorded, that is deductible for the purposes of CIT (Corporate Income Tax), corresponds to the amount of deductible provisions that would have been calculated if the reference to the Bank of Portugal Notice 3/95 remained in force. This situation is duly disclosed in Note 32 of the Notes to the consolidated financial statements.

- In July 2019 and January 2020, the Bank was notified of the final Reports of the Tax Authority's inspection services, issued for 2015 and 2016, respectively. In these reports, certain procedures adopted by the Bank, namely in association with special regime for differed taxes (REAID) and the acceptance of certain tax costs are being challenged. In this sense, following the Bank disagreement with these corrections, in November 2019, an administrative complaint was submitted regarding the 2015 Tax Inspection Report and the aim is, in 2020, to submit an administrative complaint to challenge the 2016 inspection report. This situation is disclosed in Note 32 of the Notes to the consolidated financial statements.

- The description of relevant audit issues and other issues at both individual and consolidated level that are reported in the Statutory Audit Certification and Audit Report.

In light of the above, it is the Opinion of the Supervisory Board that the following documents should be approved:

- The Management Report and remaining individual and consolidated reporting documents relative to the financial year ended on 31 December 2019;

- The proposal submitted by the Board of Directors on the allocation of the net results for the financial year 2019, of EUR 10,342,472.65.

Lisbon, 20 March 2020

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira (Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

Declaration of Conformity with the Financial Information Reported

The present declaration is submitted under the terms of line c) of no. 1 of Article 245 of the Portuguese Securities Code.

The Supervisory Board hereby declares that, to the best of its knowledge:

- The information referred to in line a) of no. 1 of Article 245 of the Portuguese Securities Code as at 31 December 2019 was prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of Haitong and the companies included within its consolidated scope; and

- The management report faithfully details the evolution of the business and the performance and position of Haitong and the companies included within its consolidation scope, and contains a description of the main risks and uncertainties faced within the framework of ongoing activities.

Lisbon, 20 March 2020

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira (Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

Annual Report on the Activity of the Supervisory Board in 2019

According to the predisposition in line g) of no. 1 of Article 420 of the Portuguese Commercial Companies Code (CSC) and line g) of no. 1 of Article 2 of the Regulation of Haitong's Supervisory Board, the Supervisory Board hereby presents the report on its supervisory works developed throughout 2019.

1. Introduction

The main responsibilities of the Supervisory Board, according to the Regulation, are:

i. Monitoring Haitong's activity ensuring that the law and the company's Articles of Association are complied with, and supervising the company's management;

ii. Supervising compliance with accounting policies and with the process of preparing and disclosing financial information, as well as revising the Bank's accounting books and records;

iii. Monitoring and supervising the effectiveness of the risk management and internal control system;

iv. Proposing the appointment of a Statutory Auditor or firm of Statutory Auditors to the General Meeting; and

v. Monitoring the independency of the Statutory Auditor, namely regarding the provision of additional services.

2. Activities carried out by the Supervisory Board in 2019

i. Monitoring Haitong's activity, ensuring compliance with the law and the company's Articles of Association, and supervising the company's management

During 2019, the Supervisory Board held 34 meetings, some of which with the Board of Directors (2 meetings), with the Internal Audit Committee (5 meetings), with the Risk Committee (8 meetings) and with the Corporate Governance Committee (6 meetings). The Supervisory Board had access to all information requested and obtained all documents and clarifications requested.

ii. Supervising compliance with accounting policies and with the process of preparing and disclosing financial information, as well as revising the Bank's accounting books and records

The Supervisory Board has monitored compliance with accounting policies and the reliability of financial information via the financial information provided by the Finance Department and by the Statutory Auditor (Deloitte & Associados, SROC, S.A.). Several meetings were held with the auditors, in which the reports were analysed and procedures and audit conclusions were assessed.

The Supervisory Board has analysed accounting documentation and the legal certification of accounts related to the 2019 fiscal year, and issued a favourable opinion regarding those documents.

iii. Monitoring and supervising the effectiveness of the risk management and internal control systems

The Supervisory Board has monitored and assessed the adequacy of internal control systems of risk management, of internal audit and of compliance, under the scope of its responsibilities, via meetings and information reporting by the Heads of said functions in Haitong. The Supervisory Board has also monitored and assessed the adequacy of the work carried out by the Bank's Statutory Auditor (Deloitte & Associados, SROC, S.A.) within the assessment of the Internal Control System, and issued its opinion on the adequacy of the internal control system based on the terms of line a) of no. 5 of Article 25 of the Bank of Portugal Notice 5/2008, of June 25.

iv. Monitoring the activity of the Internal Audit Function

The Supervisory Board has monitored the Internal Audit Function activities throughout 2019, and this Function reports functionally to the Internal Audit Committee and the Supervisory Board and hierarchically to the Executive Director responsible for the Function. The Supervisory Board has approved the budget and activity plan and has regularly monitored the execution of the Internal Audit Function activity plan, having received the information deemed necessary for carrying out its duties.

v. Monitoring the activity of Haitong's Statutory Auditor

The Supervisory Board has regularly monitored throughout 2019 the activities developed by the Statutory Auditor, via the critical assessment of the documents drafted within the scope of its functions. The Statutory Auditor confirmed before the Supervisory Board that it has found no irregularities concerning the performance of its duties and that there were no obstacles in pursuing those duties. During the 2019 exercise, the Supervisory Board has assessed the provision of services that do not relate to audit works, and confirmed that the independency of the Statutory Auditor has been safeguarded.

vi. Monitoring Haitong's business with related parties

The Supervisory Board has monitored the enforcement of the policy for related party transactions during 2019. The majority of related party transactions carried out in 2019 concern financial advisory services and other types of deals that do not involve credit or market risk for Haitong.

vii. Whistleblowing

The Supervisory Board is responsible for receiving wrongdoing reports presented by employees, clients, shareholders, or any other entity, under the scope of line j) of Article 420 of the CSC. In October 2018, the Whistleblowing Policy was updated. During the 2019 exercise, the Supervisory Board did not receive any wrongdoing reports.

Lastly, the Supervisory Board thanks the Board of Directors and all Haitong staff members for their cooperation throughout the exercise of its functions.

Lisbon, 20 March 2020

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira (Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

STATUTORY AUDITOR'S REPORT

(Amounts expressed in thousands of euros – t.euros)

(Free translation of a report originally issued in Portuguese language: In case of doubt the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE INDIVIDUAL FINANCIAL STATEMENTS

Opinion

We have audited the accompanying individual financial statements of Haitong Bank, S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2019 (that presents a total of 1,880,949 t.euros and total equity of 602,511 t.euros, including a net income of 10,342 t.euros), the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the accompanying notes to the financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Haitong Bank, S.A. as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent from the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of a matter

As described in Note 41, in March 2020, the surge of the new coronavirus ("COVID-19") was declared by the World Health Organization as a pandemic situation. This situation and its evolution may have significant impacts on the global economic environment, and consequently on the Group's activity and the valuation of its assets. The extent and severity of these impacts are not yet determinable. The Board of Directors considers that, in view of the information currently available, the liquidity and the capital levels will be sufficient to continue the Group's activity.

Our opinion is not modified with respect to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the assessed risks of material misstatement**
Impairment for financial assets (Notes 2.3.1, 20, 22 and 31)	
As of 31 December 2019, the Bank has recorded accumulated impairment losses for financial assets (securities and loans) in the amount of 122,164 t.euros ("Impairment losses for credit risk"), relating to: (i) Loans to costumers (84,737 m.euros); (ii) guarantees and other commitments (16,227 t.euros); (iii) securities classified at amortised cost (8,671 t.euros); (iv) securities recorded at fair value through other comprehensive income (2,528 t.euros). The impairment losses for credit risk represent management's best estimate of the expected losses at the reference date of the financial statements, considering the rules laid out in IFRS 9 - Financial Instruments ("IFRS 9"). According to IFRS 9, the Bank classifies its financial assets classified at amortized cost and at fair value through other comprehensive income in Stages, based on the changes in its credit risk since initial recognition. This classification determines, among other aspects, the type of analysis (individual or collective) to perform, as well as the parameters used by the Bank in the calculation of impairment losses. Considering the characteristics of loan and securities portfolios classified at amortised cost and at fair value through other comprehensive income of the Bank, a significant part of its portfolios are subject to individual analysis, to conclude on the appropriate classification in Stages and to determine the individual impairment loss, if applicable.	We analysed the relevant internal control procedures implemented by the Bank in the process of determining impairment losses for credit risk. We reviewed the documentation of the impairment methodology implemented by the Bank, and analysed it reasonableness considering the requirements of IFRS 9. We selected a sample of financial assets classified at amortised cost and at fair value through other comprehensive income (securities and loans) and guarantees and other commitments. For the selected sample we analysed, as applicable: • the classification in stages, considering the criteria defined by the Bank. • the reasonableness of the estimated impairment losses recorded in the financial statements based on the review of the Bank's judgments on the economic and financial situation of clients, valuation of the collaterals received and perspectives on the evolution of their activity and on the future management of those loans by the Bank. For a sample of financial assets subject to collective impairment analysis, we recalculated the impairment losses considering the methodology and assumptions defined by the Bank.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
Impairment for financial assets (Notes 2.3.1, 20, 22 and 31)	
The classification of financial assets in Stages and the determination of impairment losses for credit risk through individual analysis inherently has a strong judgmental component from management about the information available, namely in the identification of significant increases in credit risk and in estimating the present value of the amount that the Bank expects to recover from the financial assets, that incorporates also assumptions about future events that may not occur as expected and reflects management's intentions at each moment regarding management and future holding of the assets. In face of the above, and taking into account the materiality of the amounts in the context of the financial statements, the determination of impairment for financial assets at amortised cost and at fair value through other comprehensive income (securities and loans) and the provisions for guarantees and other commitments were considered a key audit matter.	We reviewed the disclosures related to this subject, considering the applicable accounting framework.
Recoverability of deferred tax assets (Notes 2.13, 3.2 and 32)	
As of 31 December 2019, the Bank has recorded deferred tax assets in the amount of 76,096 t.euros, essentially related with: (i) temporary differences arising from impairment for loans to customers (35,471 t.euros); (ii) tax losses carried forward (34,375 t.euros), essentially originated in 2015, 2016 and 2019, that can be used within a period of 12 years (for 2015 and 2016) and 5 years (for 2019), not exceeding 70% of taxable profit in each of those years. In accordance with IAS 12 - Income Taxes, deferred tax assets can only be recorded up to the extent that it is probable that future taxable profit will be available against which they can be utilised.	We analysed the relevant internal control procedures implemented by the Bank in the process of assessing the recoverability of deferred tax assets. We reviewed the main assumptions considered by the Bank to estimate the evolution of pre-tax profits in the period covered by its analysis. We reviewed the reasonableness of the interpretation of the relevant tax legislation considered by the Bank in the estimation of future taxable profits. We reviewed the reasonableness of the calculations prepared by the Bank to demonstrate the recoverability of deferred tax assets, taking into account the understanding of the assumptions and the review of the interpretation of the tax legislation described above.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the assessed risks of material misstatement**
Recoverability of deferred tax assets (Notes 2.13, 3.2 and 32)	
The Bank prepared a forecast of its future taxable profit to assess the recoverability of deferred tax assets. This estimate is judgmental by nature and depends on the assumptions made by management to estimate the evolution of profits before taxes and its interpretation of the tax legislation, including what concerns deferred tax assets in the scope of the Special Regime applicable to deferred tax assets and the tax deductibility of certain costs. To this extent, the recoverability of deferred tax assets is dependent on the Bank ability to generate the estimated results, and the confirmation of its interpretation of the tax legislation. Any deviations from the estimation of future results or changes in the tax legislation or its interpretation may have a material impact on the recoverability of deferred tax assets. Given the materiality of deferred tax assets in the Group's financial statements and the need to use estimates to determine their recoverability, this area was considered a key audit matter.	We reviewed the disclosures related to deferred taxes, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
Legal contingencies (Notes 2.14 and 36)	
As disclosed in Note 36 to the individual financial statements, as of 31 December 2019 there are contingencies involving several lawsuits against the Bank, including some related to commercial paper issued by entities of the Espírito Santo Group and a capital increase of Banco Espírito Santo, S.A. According to the opinion of the Bank's Legal Department and with external lawyers' opinion, whom are in charge of the lawsuits, management classifies as unlikely an unfavourable outcome, and therefore no provisions were booked for that purpose. Taking into account the relevance of the amounts involved, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of monitoring legal contingencies. We obtained information from external lawyers accompanying the lawsuits, including the description of disputes and the probability of loss for the Bank. We discussed with management, the Bank's Legal Department and with the external lawyers the current state of the more relevant lawsuits and expectations regarding their outcome. We reviewed the disclosures related to legal contingencies.
Impairment for investments in subsidiaries and associates (Notes 2.19, 3.3 and 26)	
As of 31 December 2019, the caption "Investments in subsidiaries and associates" presents a balance of 170,365 t.euros net of impairment. Investments in subsidiaries and associates are recorded at acquisition cost net of impairment losses. Whenever impairment triggers are identified, these investments are subject to impairment tests. The determination of its recoverable amount carries a high degree of judgment by management, including the estimation of future results of the investees, the determination of the discount rate and the definition of market inputs. Therefore, and given the materiality of the amounts involved, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of determining impairment losses for its investments in subsidiaries and associates. We reviewed the impairment tests prepared by the Bank for the subsidiaries and associates where it identified impairment triggers, including a critical analysis of profit forecasts and of the main assumptions made by management.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the assessed risks of material misstatement**
Resolution Fund (Note 36)	
As described in detail in note 36 to the financial statements, following the resolution measures applied to Banco Espírito Santo, S.A. (BES) and Banif – Banco Internacional do Funchal, S.A. (Banif), as of 31 December 2019 the Resolution Fund owned 25% of the capital share of Novo Banco, S.A. and the total share capital of Oitante, S.A.. In this context, it obtained loans from the Portuguese State and from a banking syndicate (in which the Bank does not participate) and assumed other responsibilities and contingent liabilities, including those related to the litigation associated with these processes, as well as to a contingent capital mechanism defined in the sale in 2017 of 75% of the share capital of Novo Banco, S.A. to Lone Star. In order to reimburse these loans and to meet other responsibilities already assumed or that may have to be assumed, the Resolution Fund has essentially the revenue from the periodic contributions from participating institutions (including the Bank) and the contribution over the banking sector. It is also established the possibility of the member of the Portuguese Government responsible for the finance area to determine, by ministerial order, that the participating institutions make special contributions in the situations established for it in the applicable legislation, particularly in the event that the Resolution Fund does not have enough own resources for the fulfilment of its obligations. According to the latest Report and Accounts available from the Resolution Fund, the Resolution Fund's own resources as of 31 December 2018 were negative. The annual contributions to the Fund and the contribution over the banking sector are recognised as losses on an annual basis, as set out in IFRIC 21 – Levies.	Analysis of public communications on this matter released by the Resolution Fund until the date of our report. Analysis of the public announcement and content of the resolution of the Council of Ministers on 2 October 2017, which authorised the formalisation by the Portuguese State, as ultimate grantor of financial stability, of a framework agreement with the Resolution Fund, intended to made available the financial resources to the Resolution Fund to satisfy contractual obligations in connection with the sale of 75% of Novo Banco's share capital to Lone Star. We analysed the framework agreement established between the Portuguese State and the Resolution Fund. We read the last Report and Accounts of the Resolution Fund that refers to the year 2018. We reviewed the accounting framework of the contributions to the Resolution Fund. We reviewed the disclosures included in the financial statements related to this matter.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the assessed risks of material misstatement**
Resolution Fund (Note 36)	
The financial statements as at 31 December 2019 reflect management's expectation that no special contributions or any other extraordinary contributions will be required from the Bank in order to finance the resolution measures applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund, considering: - The conditions established in the scope of the renegotiation, announced in March 2017, of the loans obtained by the Resolution Fund to finance the referred resolution measures, including the extension of the maturity date to 31 December 2046 and the possibility to adjust that date, with the purpose of guaranteeing the capacity of the Resolution Fund to fully meet its obligations based on regular revenues and without the need to resort to special contributions or any other type of extraordinary contributions from the banking sector; and - The public communications issued by the Resolution Fund and by the Office of the Portuguese Minister of Finance which refer as an objective ensuring that such contributions will not be necessary. Given the responsibilities of the Resolution Fund and the judgements of management as described above, this area was considered a key audit matter.	

Other matters

The accompanying individual financial statements refer to the activity of the Bank at the individual level and have been prepared for approval and publication in accordance with the legislation in force. As indicated in Note 2.19, financial investments in subsidiaries and associates are recorded at acquisition cost less impairment losses. The accompanying individual financial statements do not include the effect of full consolidation, nor the application of the equity method, which will be done in consolidated financial statements to be approved and published separately.

Responsibilities of management and supervisory body for the individual financial statements

Management is responsible for:

- the preparation of individual financial statements that give a true and fair view of the Bank's financial position, financial performance and cash flows in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union;

- the preparation of the management report, including the corporate governance report, in accordance with applicable laws and regulations;

- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

- the adoption of accounting policies and principles appropriate in the circumstances; and

- assessing the Bank's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Bank's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the individual financial statements

Our responsibility is to obtain reasonable assurance about whether the individual financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these individual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the individual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the individual financial statements, including the disclosures, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- we communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiency in internal control that we identify during our audit;

- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the individual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter;

- provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the Management report is consistent with the individual financial statements and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management report

Pursuant to article 451, number 3.e) of the Portuguese Companies Code ("Código das Sociedades Comerciais"), it is our opinion that the Management report was prepared in accordance with the applicable law and regulatory requirements and the information contained therein is consistent with the audited individual financial statements and, having regard to our knowledge of the Bank, we have not identifed material misstatements.

On the Corporate governance report

Pursuant to article 451, number 4, of the Portuguese Companies Code ("Código das Sociedades Comerciais"), we conclude that the corporate governance report includes the elements required to the Bank under the terms of article 245-A of the Portuguese Securities Code ("Código dos Valores Mobiliários"), and we have not identified any material misstatements on the information disclosed therein which, accordingly, complies with the requirements of items c), d), f), h), i) and m) of that article.

On the additional matters provided in article 10 of Regulation (UE) 537/2014

Pursuant to article 10 of Regulation (UE) 537/2014 of the European Parliament and of the Council of April 16th, 2014, in addition to the key audit matters mentioned above, we also report on the following:

- We were appointed auditors of the Bank in the shareholders' general meeting held on 16 November 2016, to conclude the ongoing mandate until the end of 2016. We were reappointed as auditors of the Bank in the shareholder's general meeting held on 17 August 2017 for a mandate from 2017 to 2019.

- Management has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the individual financial statements. In planning and executing our audit in accordance with ISAs, we maintained professional skepticism and we designed audit procedures to respond to the risk of material misstatements in the individual financial statements due to fraud. As a result of our work, we have not identified any material misstatement in the individual financial statements due to fraud.

- We confirm that the audit opinion issued is consistent with the additional report that we prepared and delivered to the Bank’s supervisory body as of this date.

- We declare that we have not provided any prohibited services as described in article 77, number 8, of the Ordem dos Revisores Oficiais de Contas statutes (Legal Regime of the Portuguese Statutory Auditors) and we have remained independent from the Bank in conducting the audit.

Lisbon, 20 March 2020

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Deloitte & Associados, SROC S.A.
Represented by João Carlos Henriques Gomes Ferreira, ROC

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC S.A. internal procedures, the report is not to be signed. In the event of discrepancies, the Portuguese language version prevails.)

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CORPORATE GOVERNANCE REPORT

HAITONG

This report constitutes an integral part of Haitong Bank's 2019 Annual Report and aims to disclose the structure and corporate governance practices adopted by Haitong Bank, S.A.. This report was prepared in accordance with Articles 7 and 245-A of the Portuguese Securities Code.

PART I – SHAREHOLDER STRUCTURE

1. Capital Structure (Article 245-A/1/a)

As at 31 December 2019, the share capital of the Bank was EUR 844,769,000.00 (eight hundred and forty four million, seven hundred and sixty nine thousand euros), fully subscribed and paid up. The share capital is divided into 168,953,800 (one hundred and sixty eight million, nine hundred and fifty three thousand and eight hundred shares registered and book-entry with a nominal value of EUR 5.00 (five euros) each.

Haitong International Holdings Limited, a Hong-Kong based subsidiary of Haitong Securities Co., Ltd. holds 100% (less 4 shares) of the share capital of the Bank with voting rights. The remaining 4 shares are held by Haitong International Global Strategic Investment Limited (incorporated in the Cayman Islands); Haitong Capital International Investment Co., Ltd (incorporated in Hong Kong); Haitong Innovation International Capital Management Co., Ltd (incorporated in the Cayman Islands) and Haitong Capital International Investment Fund L.P. (incorporated in the Cayman Islands).

The Bank's share capital is entirely represented by ordinary shares.

2. Restrictions on the transfer of shares (Article 245-A/1/b)

The Articles of Association of the Bank do not provide for restrictions on the transferability of shares.

3. Possible restrictions on voting rights, such as limitations on the voting rights dependent on holding a certain number or percentage of shares, deadlines imposed on the right to vote, or key rights of patrimonial content (Article 245-A/1/f)

Pursuant to the Bank's Articles of Association, Shareholders or groups of shareholders who hold a minimum of one hundred shares at least five days prior to the date of the Bank's Annual General Meeting are entitled to participate in the meeting. Each one hundred shares are entitled to one vote.

4. Rules governing the appointment and replacement of members of the management body and the amendment of the Articles of Association (Article 245-A/1/h)

The members of the Board of Directors are selected and approved at the General Meeting. There are no specific rules concerning the replacement of Board Members. Any replacements shall be made in accordance with the terms set out in the Portuguese Commercial Companies Code.

There are no specific rules concerning changes to the Bank's Articles of Association. Any such changes shall be made under the general terms foreseen in the Portuguese Commercial Companies Code.

5. Powers of the management body, particularly with regards to resolutions on capital increases (Article 245-A/1/i)

The Board of Directors does not hold any powers with regard to resolutions on capital increases.

6. Agreements between the Bank and members of the management body or senior staff which foresee indemnity payments in case of unilateral termination of the employment contract by the employee or dismissal with no cause (Article 245-A/1/l)

The Bank is not aware of the existence of these agreements.

7. Shares and Bonds held by members of the Board of Directors and Supervisory bodies

(Annex referred to in paragraph 5 of Article 447 of the Portuguese Commercial Companies Code)

Shareholders / Bondholders	Securities	Securities held as of 31/12/2018	Transactions in 2019			Securities held as of 31/12/2019
			Date	Acquisitions	Disposals	
Lin Yong	**Haitong International Securities Group Limited** - Ordinary Shares	5 269 706	15/03/2019 19/03/2019 13/05/2019 25/10/2019	173,349 (Note 1) 132,534 (Note 2) 177,729 (Note 3) 224,865 (Note 6)		5 978 183
	Haitong International Securities Group Limited - Share Options	3 409 098	27/06/2019 25/10/2019	900,000 (Note 4) 2,162 (Note 7)		4 311 260
	Haitong International Securities Group Limited - Awarded Shares (unvested)	971 606	15/03/2019 19/03/2019 04/04/2019 13/05/2019	 749,755 (Note 5) 	173,349 (Note 1) 132,534 (Note 2) 177,729 (Note 3)	1 237 749
Wu Min	-	-	-	-	-	-
Alan do Amaral Fernandes	-	-	-	-	-	-
António Domingues	-	-	-	-	-	-
Nuno Miguel Sousa Figueiredo Carvalho	-	-	-	-	-	-
Pan Guangtao	-	-	-	-	-	-
Paulo José Lameiras Martins (Note 13)	-	-	-	-	-	-
Poon Mo Yiu	**Haitong International Securities Group Limited** - Ordinary Shares	2 309 935	15/03/2019 19/03/2019	94,533 (Note 8) 11,976 (Note 9)		2 416 444
	Haitong International Securities Group Limited - Share Options	1 706 044	27/06/2019 25/10/2019	350,000 (Note 4) 1,031 (Note 7)		2 057 075
	Haitong International Securities Group Limited - Awarded Shares (unvested)	118 485	15/03/2019 19/03/2019 04/04/2019	 224,926 (Note 5)	94,533 (Note 8) 11,976 (Note 9)	236 902
Vasco Câmara Pires dos Santos Martins	-	-	-	-	-	-
Vincent Marie L. Camerlynck	-	-	-	-	-	-
Xinjun Zhang	**Haitong International Securities Group Limited** - Ordinary Shares	476 349	15/03/2019 19/03/2019 13/05/2019 25/10/2019	73,772 (Note 10) 37,345 (Note 11) 67,650 (Note 12) 25,604 (Note 6)		680 720
	Haitong International Securities Group Limited - Share Options	2 005 685	27/06/2019 25/10/2019	300,000 (Note 4) 1,157 (Note 7)		2 306 842
	Haitong International Securities Group Limited - Awarded Shares (unvested)	351 413	15/03/2019 19/03/2019 13/05/2019		73,772 (Note 10) 37,345 (Note 11) 67,650 (Note 12)	172 646
Mário Paulo Bettencourt de Oliveira	-	-	-	-	-	-
Cristina Maria da Costa Pinto	-	-	-	-	-	-
Maria do Rosário Mayoral Robles Machado Simões Ventura	-	-	-	-	-	-
Paulo Ribeiro da Silva	-	-	-	-	-	-
Deloitte & Associados, SROC, S.A.	-	-	-	-	-	-

Notes:

Note 1 173,349 unvested awarded shares were vested on 15/3/2019
Note 2 132,534 unvested awarded shares were vested on 19/3/2019
Note 3 177,729 unvested awarded shares were vested on 13/5/2019
Note 4 Grant of share options
Note 5 Grant of awarded shares
Note 6 Scrip Dividend
Note 7 Share option adjustment as a result of the allotment of ordinary shares under the interim dividend for the 6 months ended 30 June 2019 in the form of scrip dividend.
Note 8 94,533 unvested awarded shares were vested on 15/3/2019
Note 9 11,976 unvested awarded shares were vested on 19/3/2019
Note 10 73,772 unvested awarded shares were vested on 15/3/2019
Note 11 37,345 unvested awarded shares were vested on 19/3/2019
Note 12 67,650 unvested awarded shares were vested on 13/5/2019
Note 13 Mr. Paulo Martins resigned as Executive Director effective 31/12/2019.

PART II – CORPORATE BODIES AND COMMITTEES

As of 31 December 2019

General Meeting Board

President
Maria João Ricou

Secretary
Sara Begonha

Supervisory Board

Chairman
Mário Paulo Bettencourt de Oliveira

Members
Cristina Maria da Costa Pinto
Maria do Rosário Mayoral Robles
Machado Simões Ventura

Alternate
Paulo Ribeiro da Silva

Statutory Auditor

Member in office
Deloitte & Associados, SROC, S.A.[1]

Remuneration Committee

Chairman
Vincent Camerlynck

Members
António Domingues
Poon Mo Yiu

Risk Committee

Chairman
Vincent Camerlynck

Members
António Domingues
Pan Guangtao

Board of Directors

Chairman
Lin Yong

Members
Wu Min
Alan do Amaral Fernandes
António Domingues
Nuno Miguel Sousa Figueiredo Carvalho
Pan Guangtao
Paulo José Lameiras Martins
Poon Mo Yiu
Vasco Câmara Martins
Vincent Marie L. Camerlynck
Zhang Xinjun

Secretary
Pedro Alexandre Martins Costa

Internal Audit Committee

Chairman
António Domingues

Members
Zhang Xinjun
Vincent Camerlynck

Corporate Governance Committee

Chairman
António Domingues

Members
Lin Yong
Vincent Camerlynck

Credit Committee

Voting Members (8)
Head of Risk Management Function
Moderator
Secretary

Executive Committee

CEO
Wu Min

Members
Alan do Amaral Fernandes
Nuno Miguel Sousa Figueiredo Carvalho
Paulo José Lameiras Martins [2]
Vasco Câmara Martins

Senior Managers with a Seat on the Executive Committee
António Carlos Gomes Pacheco
Pedro Alexandre Martins Costa

Secretary
Pedro Alexandre Martins Costa

IBK Global Adoption Committee

Chairman
IBK Executive Board Member

Secretary

Members
Head of Risk Management Function
Brazil Executive Board Member
Branch Managers
IBK and SF Global Coordinators
Global Head of Compliance
CEO Office Representative(s)
Head of Cross-Border M&A

Impairment Committee

Chairman
CEO

Voting Members (3)
Non-Voting Members (2)
Secretary

New Business Committee

Chairman
Head of CEO Office

Members
Global Coordinators of Product Areas
Head of Middle Office
CEO Office
Support and Control Areas

[1] Deloitte & Associados, SROC, S.A. nominated João Carlos Henriques Gomes Ferreira

Mr. Paulo Martins resigned as Executive Director effective December 31st, 2019.

8. General Meeting

Composition of the General Meeting Board

Under the terms of article 7 of the Bank's Articles of Association, the General Meeting Board is composed of one Chairman and one Secretary appointed by the General Meeting for a period of three years and they can always be re-elected, provided that legal requirements are met.

The Chairman and Secretary of the General Meeting Board were appointed on 17 August 2017 by Shareholder Resolution for their first term of office for the three-year period of 2017-2019. The appointment of the Chairman and Secretary of the General Meeting Board for the 2020-2022 mandate is expected to occur in the first half of 2020.

The General Meeting Board is composed as follows:

Chairman	Maria João Ricou
Secretary	Sara de Almeida Azevedo Begonha

Voting Rights

Under the terms of the Bank's Articles of Association, the General Meeting is made up of all shareholders who within five business days prior to the date of the respective General Meeting and in relation to at least one hundred shares: (i) register the shares in their name in the Bank's register of shares; or (ii) in case of de-materialized shares, provide evidence of a respective deposit or registration into a de-materialized securities account with a financial intermediate.

Each lot of one hundred shares corresponds to one vote. Under the terms of the Bank's Articles of Association, resolutions of the General Meeting shall require absolute majority of the votes cast at each meeting, except where the law or the Articles of Association require a qualified majority.

The Bank has a single voting Shareholder and in 2019 all Shareholder resolutions were taken by written resolution.

The General Meeting deliberates on matters specially assigned by law or the Articles of Association – including the election of corporate bodies, the approval of the annual report and accounts for the year, distribution of profits and capital increases – as well as, if so requested by the Board of Directors, management matters of the Bank.

9. Management and Supervision

9.1. Governance Model

The Bank currently has in place a governance model that includes a Board of Directors (*Conselho de Administração*) and a Supervisory Board (*Conselho Fiscal*), with a separate Statutory Auditor (*Revisor Oficial de Contas*). This is the so-called Latin model of corporate governance, considered the most suitable model taking into consideration the current situation of the Bank.

The Board of Directors, which includes an Executive Committee to which the Board delegated broad management powers to conduct day-to-day activity, is responsible for management of the company.

Four specialised committees function within the Board of Directors, which are responsible for monitoring specific matters.

9.2. Board of Directors

The Statutes do not contain any rules governing procedural or material requirements related to the appointment or replacement of members of the Board of Directors. The RGICSF (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*) lays down the suitability requisites (integrity, professional qualifications, independence and availability) that the members of the Management and Supervisory Board must possess to exercise the respective functions.

Pursuant to the provisions of article 30-A(2) of the RGICSF the most recent "Policy on the Selection and Assessment of Members of the Management and Supervisory bodies and Key Function Holders", which contain the legal requirements and requisites applicable to the members of the Board of Directors, was approved by the General Meeting on 14 February 2020.

The composition of the Board of Directors and of its advisory committees as at 31 December 2019 is presented in the organizational chart included on the beginning of Part II of this report.

Mr. Paulo Martins resigned as Executive Director effective December 31st, 2019.

The date of the first term of office and qualification of each of the Non-Executive Members is identified in the following table:

Composition of the Board of Directors (Non-Executive Members)	First Term of Office Starting Date	Qualification
Lin Yong	Apr-16	Non-Independent
Poon Mo Yiu	Nov-15	Non-Independent
Pan Guangtao	Nov-15	Non-Independent
Zhang XinJun	Jan-18	Non-Independent
Vincent Marie L. Camerlynck	Nov-16	Independent*
António Domingues	Jan-18	Independent*
% of Non-independent Members		**71.43%**
% of Independent Members		**28.57%**

* Without prejudice to the other criteria for assessing the quality of "Independent", particularly those arising from joint recommendations of the ESMA (European Securities and Markets Authority) and EBA (European Banking Authority) of 26 September 2017 (EBA / GL / 2017 / 12) and those resulting from the "Guide to fit and proper assessments" published by the ECB (European Central Bank) in May 2017, the qualification indicated in the table reflects the internal judgment of the Board of Directors of Haitong Bank, S.A..
Pursuant to CMVM Regulation 4/2013, a member of the Board of Directors is considered to be independent if he or she is not associated with any specific interest group and is not in any circumstance likely to affect his or her exemption from analysis or decision, particularly by virtue of:
a) Having been an employee of the company or of a company controlled by it or with which there has been a group relationship in the preceding three years;
b) Having, in the preceding three years, rendered services or established a significant commercial relationship with the company or a company controlled by it or with which there has been a group relationship, whether directly or as member, administrator, director or officer of a corporate entity;
c) Being a beneficiary of remuneration paid by the company or by a company controlled by it or with which there has been a group relationship, besides the remuneration derived from the exercise of directorship functions;
d) Living under a common law union or being the spouse, relative or direct relative up to the 3rd degree of lineage, inclusive, of directors or natural persons who are the direct or indirect holders of a qualified holding;
e) Being the holder of a qualified holding or the representative of a shareholder with a qualified holding.
The directors concerned are not covered by any of the situations referred to in sub-paragraphs a) to e) which constitute the norm in question.

Board of Directors		2019 Attendance
Chairman	Lin Yong	11/11
	Wu Min	11/11
	Alan Fernandes	11/11
Executive Members	Paulo Martins *	11/11
	Nuno Carvalho	11/11
	Vasco C. Martins	11/11
	António Domingues	11/11
	Vincent Camerlynck	11/11
Non-Executive Members	Zhang Xinjun	11/11
	Pan Guangtao	11/11
	Poon Mo Yiu	11/11

** Mr. Paulo Martins resigned as Executive Director effective December 31st, 2019.*

The professional qualifications and other curricular details of each member of the Board of Directors is presented in Annex 1 to this Corporate Governance Report.

There is no family relationship between the members of the Board of Directors.

The Board of Directors met 11 times (including 7 electronic meetings) in 2019.

9.3. Executive Committee

The organization chart on the beginning of Part II of this report presents the composition of the Board of Directors, indicating the members who make up the Executive Committee.

The Board of Directors delegates to the Chairman of the Executive Committee (CEO) the powers to distribute the responsibilities among the members of the Executive Committee.

On 19 December 2019, the CEO approved a redistribution of the responsibilities among the members of the Executive Committee for the remaining mandate, effective from the 1st of January 2020.

Mr. Paulo Martins resigned as Executive Director effective December 31st, 2019.

Executive Committee	Main areas of responsibility from 1st January 2020
Chairman	
Wu Min	CEO Office Proprietary Activities (Treasury and FICC) Corporate Solutions Human Resources Finance
Members	
Alan do Amaral Fernandes	Haitong Brazil Investment Banking (M&A and Capital Markets) Structured Finance Asset Management Haitong Capital
Nuno Miguel Sousa Figueiredo Carvalho	Compliance & AML-FT Legal Special Portfolio Management IT Administrative
Vasco Câmara Pires dos Santos Martins	Risk Management Rating Operations

All the members of the Executive Committee play an active role in the day-to-day management of the Bank's business, having under their stewardship one or more specific business areas, in accordance with the respective profile and with individual expertise, and corresponding to the distribution of responsibilities that at any moment best contributes to that body's effective balanced functioning.

The Executive Committee normally meets on a weekly basis to deal with matters of general interest relating to the Bank and its subsidiaries.

The Executive Committee met a total 56 times in 2019, including 22 electronic meetings:

Executive Committee		2019 Attendance
CEO	Wu Min	56/56
Members	Alan Fernandes	53/56
	Paulo Martins	48/56
	Nuno Carvalho	53/56
	Vasco C. Martins	54/56

The individual and collective ongoing assessment of the management body of the Bank is carried out by the Corporate Governance Committee.

The professional qualifications and other curricular details of each member of the Executive Committee and the list of positions occupied in other companies and other important functions is presented in Annex 1 to this Corporate Governance Report.

9.4. Consultative Committees of the Board of Directors

Risk Committee

The purpose of the Risk Committee is to continuously monitor the development and implementation of the risk strategy and the risk appetite of the institution, and verifying whether these are compatible with a sustainable strategy in the medium and long term, in addition to the action program and budget approved, while advising the Executive Committee in these areas.

Amongst the competences of the Risk Committee, the following are highlighted:

- To advise the Board of Directors on the risk appetite and risk strategy of the Bank, both current and future, taking into account all categories of risk, ensuring its alignment with the business strategy, objectives, corporate culture and values;
- To assist the Board of Directors in supervising the execution of the risk strategy of the Bank and in the fulfilment of its respective limits;
- To periodically review the risk profile, risk policies and strategies of the institution;
- To assess the consistency between the business model, strategy, recovery plan, remuneration policies, and the budget, as well as the efficiency and effectiveness of the structure, procedures and instruments associated with the implementation and execution of the strategies regarding risk;
- To issue recommendations on adjustments to the risk strategy resulting from changes in the business model, market developments or business context where the Bank operates;
- To analyse and evaluate the methodology and its results to support the process of identification, evaluation and measurement of risks;
- To examine scenarios, including stress tests, in order to determine their impact on the risk profile of the Bank and to assess the resilience of the changes within the institution caused by idiosyncratic, systemic or mixed factors;
- To analyse if the conditions of the products offered and services provided to clients take into consideration the business model and risk strategy of the Bank;
- To establish if the incentives set forth in the remuneration policy of the Bank take into consideration risk, capital, liquidity and the expectations regarding results, including revenue dates;
- To establish the framework for reporting on risk to the Board of Directors;

- To ensure the existence of effective procedures for monitoring risk, and monitoring internal control deficiencies related to the risk management framework;
- To specify and review the conditions of authority and independence to support the exercise of responsibilities for risk management, including the adoption of the work plan of the risk management function, ensuring it has adequate resources for the performance of its duties; and
- To review and periodically monitor the scope and nature of the activities carried out by the Haitong Bank Group, related to risk management.

The Risk Committee is composed of 3 members of the Board of Directors who are not members of the Executive Committee and are appointed by the Board of Directors. The majority of these members is independent.

During 2019, the Risk Committee held 9 meetings, received logistical and technical support from the CEO Office with secretarial services being administered by this office.

During 2019, the Risk Committee was composed as follows:

Risk Committee		**Attendance** (present or represented)
Chairman	Vincent Camerlynck	9/9
Members	António Domingues	9/9
	Pan Guangtao	9/9

Remuneration Committee

The purpose of the Remuneration Committee is to make informed and independent judgements on the Bank's and the Haitong Bank Group's remuneration policies and practices, as well as on the incentives created for risk, capital and liquidity management purposes, and prepare the decisions pertaining to remuneration, including decisions with implications in terms of the Bank's risk and risk management, which must be made by the General Meeting.

Amongst the competences of the Remuneration Committee, the following are highlighted:

- To draw up proposals and recommendations on the setting of the remuneration of the members of the Board of Directors and Supervisory Board, and of the officers with the highest total remuneration in the Bank;
- To assess the compliance of members of the Board of Directors who perform executive functions with the criteria set out in the Remuneration Policy of the Members of the Management and Supervisory Bodies;
- To provide all necessary assistance and issuing recommendations to support the approval process by the Board of Directors of the Bank's general remuneration policy and its affiliates, promoting its revision when needed;
- To assess the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels and that the overall remuneration policy is in line with the business strategy, objectives, corporate culture and values, and the long-term interest of the Bank;
- To test the capacity of the remuneration system implemented to react to external and internal events; and
- To ensure the implementation, adequacy and annual revision of the Remuneration Policy of the Bank and its subsidiaries.

The Remuneration Committee is composed of 3 members of the Board of Directors who are not members of the Executive Committee and are appointed by the Board of Directors. The majority of these members is independent.

During 2019, the Remuneration Committee held 6 meetings (1 electronic meeting), received logistical and technical support from the CEO Office, with secretarial services being administered by this office.

During 2019, the Remuneration Committee was composed as follows:

Remuneration Committee		**Attendance** (present or represented)
Chairman	Vincent Camerlynck	6/6
Members	Poon Mo Yiu	6/6
	António Domingues	6/6

Corporate Governance Committee

The purpose of the Corporate Governance Committee is to monitor the application and ensure the full effectiveness of the "Selection and Assessment Policy", the "Succession Policy", the "Conflicts of Interest Policy", the "Related Parties Policy", and the Governance System and Bank's Internal Controls.

Amongst the competences of the Corporate Governance Committee, the following are highlighted and summarized:

- To identify and recommend the candidates for Officers, evaluate the boards' composition, prepare a description of the functions and qualifications for the offices under consideration and evaluate the time to be dedicated to the exercise of the relevant functions;
- To make the initial assessment of the suitability of the candidates for members of the Board of Directors or of the Supervisory Board and of the candidates for key function holders and presenting it to the Shareholder Meeting;
- To annually carry out an ongoing assessment of the individual and collective suitability of the members of the Board of Directors and of the Supervisory Board and of the key function holders;
- To annually preparing a report on the individual and the collective suitability of the members of the Board of Directors and of the Supervisory Board, as well as the individual suitability of key function holders;
- To appraise and review the execution of the Succession Plan of the Bank and to report on the individual evaluation of each of the candidates to successors to key function holders identified within the Succession Plan;
- To issue a prior and reasoned opinion on any Relevant Business with a related party and provide a decision regarding the execution of the projected Relevant Business (*see Part V of the Corporate Governance Report*);
- To make a regular assessment of the Conflicts of Interest Policy and monitor its implementation, as well as for proposing any updates; and
- To annually assess the suitability of the Bank's Corporate Governance to develop the defined business strategy and to support the implementation of an efficient internal control system, as well as to propose measures to improve the Bank's Corporate Governance to the Board of Directors.

The Corporate Governance Committee is composed of 3 members of the Board of Directors, who do not form part of the Executive Committee. The majority of its members is independent and they are appointed by the Board of Directors.

During 2019, the Corporate Governance Committee held 8 meetings (2 electronic), received logistical and technical support from the CEO Office, with secretarial services being administered by this office.

During 2019, the Corporate Governance Committee was composed as follows:

Corporate Governance Committee		Attendance (present or represented)
Chairman	António Domingues	8/8
Members	Lin Yong	8/8
	Vincent Camerlynck	7/8

Internal Audit Committee

The purpose of the Internal Audit Committee is to ensure that the Internal Audit Function is effective, ongoing and independent, is provided with material, human and financial resources appropriate to comprehensively pursue the mission entrusted to it and for promoting the authority of this function across the Bank and the Haitong Bank Group.

Amongst the competences of the Internal Audit Committee, the following are highlighted:

- To approve the proposal for the Annual Plan, Training and Budget for the function;
- To take any decision necessary to fully implement the budget and training plan of the Internal Audit function;

- To request and assess the results of quality reviews to the Internal Audit Function;
- To discuss and monitor the Audit Plan with the Head of the Internal Audit function; and
- To take any other decisions necessary for the proper operation of the Internal Audit function.

The Internal Audit Committee is composed of 3 members of the Board of Directors, who do not form part of the Executive Committee. The majority of its members must be independent and they are appointed by the Board of Directors.

During 2019, the Internal Audit Committee held 5 meetings, received logistical and technical support from the CEO Office, with secretarial services being administered by this office.

During 2019, the Internal Audit Committee was composed as follows:

Internal Audit Committee		Attendance (present or represented)
Chairman	António Domingues	5/5
Members	Vincent Camerlynck	5/5
	Zhang Xinjun	4/5

9.5. Other Committees

Credit Committee

The purpose of the Credit Committee is to decide on operations involving risk taking for the Bank within the Credit Committee's Decision Framework established by the Executive Committee and to issue non-binding opinions in the remaining cases.

Amongst the competences of the Credit Committee, the following are highlighted:

- To assess and decide on the approval of operations involving risk taking for the Bank within the Credit Committee's Decision Framework established by the Executive Committee; and
- To issue non-binding opinions regarding operations that fall outside of (i) the Credit Committee's Decision Framework, which have to be approved at the Executive Committee; or (ii) the Risk Appetite Framework approved by the Board of Directors, which have to be approved at the Board of Directors.

The Executive Committee will set up and periodically review the Credit Committee's Decision Framework in order to assure its full alignment with the Bank's credit strategy.

The Credit Committee is composed of 8 members and a Moderator, with voting rights, and the Head of the Risk Management Function (HRMF) and a representative of the Rating Department, without voting rights. The Credit Committee may decide to call upon external persons to take part in the meetings.

During 2019, the Credit Committee held 56 meetings, with secretarial services being administered by the CEO Office.

Impairment Committee

The purpose of the Impairment Committee is to analyse the individual impairment of financial instruments, accounted at the amortized costs and/or the Fair Value through Other Comprehensive Income ("FVOCI") and with impairments triggers (i.e., Under-Performing and Non-Performing exposures).

This Committee has deliberative powers as part of its duties established by the Executive Committee. The duties of the Impairment Committee cover all entities of the Haitong Bank Group.

Amongst the competences of the Impairment Committee, the following are highlighted:

- To analyse and decide on the level of impairment to be granted to financial instruments accounted at the amortized costs and/or the FVOCI and with impairments triggers (i.e., Under-Performing and Non-Performing exposures);
- To analyse and decide on cash-flows scenarios to be used on financial instruments valuation accounted at Fair Value thought P/L when the

cash-flows are not certain according to its contractual terms;

- To discuss at least every six months all above-mentioned positions identified by the Risk Department. The managers in charge of managing the exposures are responsible for presenting the impairment proposals, which should be duly justified and documented;
- To have the conclusions reached by the Impairment Committee presented at the Executive Committee by the Finance and Risk Departments;
- To review the 20 largest corporate exposures on an annual basis; and
- To approve the annual update/monitoring exercises of the collective impairment analysis model performance by the Risk Department.

The Impairment Committee is composed of a Chairman, who has voting rights; 3 voting members appointed by the Executive Committee; 2 non-voting members; and the Secretary.

During 2019, the Impairment Committee held 12 meetings, secretaried by the Head of the Legal Department.

Investment Banking Global Adoption Committee

The purpose of the IBK Global Adoption Committee is to approve all prospective Investment Banking mandates in relation to proposed transactions or new clients that do not involve credit or market risk.

Amongst the competences of the Investment Banking Global Adoption Committee, the following are highlighted:

- To serve as a discussion forum on the overall direction of the investment banking business, cross-border matters and prospective transactions;
- To approve all prospective Investment Banking mandates in relation to proposed transactions or new clients that do not involve credit nor market risk. This includes all Merger & Acquisitions (“M&A”), Equity Capital Markets (“ECM”) and Debt Capital Markets (“DCM”) transactions with which the Bank is associated, with the exception of mandates involving Privileged Information that the Chairman of the Committee considers that should not be submitted to this Committee. In such cases, the mandate shall be approved by the Executive Committee;
- To approve other advisory mandates;
- To approve proposals where the Bank has solely a reputational risk;
- To identify restrictions to be implemented throughout the Bank and its subsidiaries.

The Investment Banking Global Adoption Committee is composed of: The Executive Board Member with the responsibility for Investment Banking, who chairs the Committee (the “Chairman”); the Executive Board Member with the responsibility of Brazil; the Spanish, Warsaw and London Branch managers; the Head of the Risk Management Function; the Global Head of Compliance; the Global Coordinators of Investment Banking products and of Structured Finance; the Head of Cross-Border M&A; the CEO Office representatives with the responsibility of (i) China Business Development; and (ii) Business Development; and a Secretary.

During 2019, the Investment Banking Global Adoption Committee has analysed and decided on 105 transactions, with secretarial services being administered by the Legal Department.

New Business Committee

The purpose of the New Business Committee is to encourage, promote and analyse new ideas, new business or support initiatives and new products, acting as a brainstorming forum and providing all the necessary means to support their respective development.

After an overall assessment, such ideas and initiatives will be submitted for approval and implementation by the Executive Committee.

Amongst the competences of the New Business Committee, the following are highlighted:

- To encourage, promote and analyse new ideas, new business or support initiatives and new products, acting as a brainstorming forum and providing all the necessary means to support their respective development based on the following key elements: Strategy; Business Plan; Risk; Balance Sheet needs; Finance; Infrastructure; Operations; Compliance framework; and Human Resources; and

- To present for the approval of the Executive Committee the proposals analysed and advise the Executive Committee on that regard, considering the internal New Product Approval procedure.

The New Business Committee is chaired by the Head of the CEO Office. Other members include the Global Coordinators of each product area, the Head of Risk Management Department, CEO Office representatives (China Business Development, Business Development and Business Management), the Data Protection Officer (DPO), the Head of Compliance and the Secretary. Whenever New Product proposals are on the agenda, participants from all the Support and Control Functions shall be present. External persons can be called to take part in the meetings if deemed necessary and suitable.

During 2019, the New Business Committee held 9 meetings, with secretarial services being administered by the CEO Office.

9.6. Supervisory Board

In accordance with article 15 of the Articles of Association, the Supervisory Board is composed of “three full members, one of whom shall be appointed as Chairman, and an alternate”. The Supervisory Board shall be elected for a three-year period. The elected members are deemed to be sworn in after the election and will continue to perform their duties until the election of those replacing them.

The General Meeting of 17 August 2017 elected members of the Supervisory Board to the 2017-2019 term of office. However, as under the terms of the law, the commencement of the duties of the elected members requires authorisation from the Bank of Portugal, which was granted on 19 January 2018, the elected members of the Supervisory Board took office on such date.

The Supervisory Board’s key powers are:

- To supervise the Bank's management and being entitled to request any information from the Executive Committee whenever it so deems necessary;
- To ensure compliance with the law and the company's Articles of Association;
- To inspect the correctness of the accounting books, records and their supporting documentation;
- To verify the size of cash and stocks of goods or valuables of any description belonging to the Bank or received by way of security, deposit or otherwise;
- To verify whether the accounting policies and valuation criteria adopted by the company lead to an accurate valuation of its assets and results;
- To convene the General Meeting when its direction is under an obligation to convene it, but fails to do so;
- To monitor the process of preparation and disclosure of financial information and submit recommendations or proposals to ensure its integrity;
- To draw up each year a report on its inspection actions and issue an opinion on the report, accounts and proposals submitted by the Board of Directors;
- To inform the Board of Directors of the outcome of the legal review of the accounts and explain how it contributed to the integrity of the process of preparation and disclosure of financial information, as well as the role performed by the Supervisory Board in this process;
- To examine the effectiveness of the risk management system, the internal control system and the internal audit system, if any, notably with regard to the process of preparation and disclosure of financial information, without breaching its

independence, to which end it shall: (i) assess the operational procedures with a view to ascertaining whether the respective activities are efficiently managed through appropriate risk management and comprehensive accounting and financial information; (ii) monitor the annual activity reports of the control functions, conveying to the Board of Directors any recommendations it may deem appropriate on the matters concerned by these reports; and (iii) hold periodic meetings with the Control Functions;

- To receive reports of breaches submitted by shareholders, employees or other persons;
- To retain the services of any experts to assist one or several of its members in performing their duties, provided that the retaining and remuneration of these experts must take into account the significance of the matters entrusted to them and the economic condition of the company;
- To propose the appointment of a Statutory Auditor or firm of Statutory Auditors to the General Meeting, duly substantiating its proposal;
- To supervise the review of the company's accounts and related documents;
- To assess the opinion of the Statutory Auditor on the suitability and effectiveness of internal controls underlying the process of preparation and disclosure of financial information;
- To scrutinise the independence of the Statutory Auditor or the firm of Statutory Auditors in accordance with the law and, in particular, in respect of provision of other additional services;
- To issue an annual opinion on:
  - The effectiveness, suitability and consistency of the internal control, risk management and audit systems;
  - The anti-money laundering and terrorist financing internal control system.

The members of the Supervisory Board must make any direct reports to the Bank of Portugal which are mandatory under the law or any other regulations or regulatory provisions and must report to the Public Prosecution Service any offences that may come to their knowledge and correspond to offences subject to prosecution by the Public Prosecution Service.

During 2019, the Supervisory Board has held 34 meetings:

Supervisory Board		Attendance
Chairman	Mário Paulo Bettencourt de Oliveira	34/34
Members	Cristina Maria da Costa Pinto	33/34
	Maria do Rosário Mayoral Robles Machado Simões Ventura	33/34
Alternate	Paulo Ribeiro da Silva	0/34

In addition to participating in the Supervisory Board meetings, members of the Supervisory Board were present at 2 meetings of the Board of Directors, at 5 meetings of the Internal Audit Committee, at 6 meetings of the Corporate Governance Committee and at 8 meetings of the Risk Committee.

In terms of article 414(5) of the Portuguese Commercial Companies Code, independent within the meaning of a company means a person who is not associated with any group of specific interests of the company, nor are there any of circumstances capable of affecting his / her impartiality of analysis or decision, namely by virtue of:

a) Being the holder or acting in the name or on behalf of the holders of qualified holdings of 2% or more of the company's capital; or

b) Having been re-elected for more than two terms of office, continuous or interspersed.

The following table identifies the Supervisory Board members who, not being associated with any group of specific interests of the company, as at 31 December 2019 comply or do not comply with the independence criteria in terms of the abovementioned sub-paragraphs (a) or (b):

Satisfaction of independence criteria of the members of the Supervisory Board		(a)	(b)
Chairman	Mário Paulo Bettencourt de Oliveira	Complies	Does not comply
Members	Cristina Maria da Costa Pinto	Complies	Complies
	Maria do Rosário Mayoral Robles Machado Simões Ventura	Complies	Complies
Alternate	Paulo Ribeiro da Silva	-	-

The professional qualifications and other curricular details of each member of the Supervisory Board and the list of positions occupied in other companies and other important functions is presented in Annex 1 to this Corporate Governance Report.

9.7. Statutory Auditor

The entity responsible for auditing the accounts is appointed by the General Meeting, on the proposal of the Supervisory Board. Deloitte & Associados, SROC, S.A. – which is part of the international network of Deloitte Touche Tohmatsu Limited and registered at the CMVM under no. 231 – was appointed as the Bank's Statutory Auditor by the General Meeting, on the proposal of the Supervisory Board, on 17 August 2017 for the 2017-2019 period. Deloitte is represented by Mr. João Carlos Henriques Gomes Ferreira. The process for the appointment of the Bank's Statutory Auditor for the 2020-2022 period is underway.

9.8. EXTERNAL AUDITOR

The External Auditor is appointed by the Executive Committee. Deloitte & Associados, SROC, S.A. – which is part of the international network of Deloitte Touche Tohmatsu Limited and registered at the CMVM under no. 231 – was appointed as the Bank's External Auditor by the Executive Committee on 14 June 2016. In the preceding years, the Bank had a different external auditor.

The Supervisory Board is responsible for evaluation of the Statutory Auditor / External Auditor.

As at 31 December 2019, the remuneration attributable to Deloitte and its network, to the amount of EUR 806 thousand is composed as follows, according to the nature and the company to which services were provided:

(thousand euros)

	31.12.2019
Statutory audit of annual accounts (Haitong Bank)	382
Statutory audit of annual accounts (subsidiaries)	91
Other reliability assurance services	153
Other non-statutory audit services	180
Total value of agreed services	**806**

PART III – INTERNAL ORGANISATION

10. Articles of Association

See point 4.

11. Reporting of Irregularities

The Supervisory Board is responsible in terms of article 420 j) of the Portuguese Commercial Companies Code, for the receiving the communications of irregularities presented by employees, customers, shareholders and any other entities.

The whistleblowing policy of the Bank was updated in October 2018.

Employees must communicate to the Supervisory Board, any wilful or negligent events or behaviours which they detect or are aware of, or have justified suspicions of so, that may suggest a breach of a legal obligation of the Bank or one of its employees. According to the Bank's policy, employees may also inform their line manager of any wrongdoing or irregular behaviour which might come to their knowledge. The communication of an irregularity shall be made orally (in which case, a written report shall be prepared and signed by those who are physically present) or in writing and be treated with confidentiality. The report must contain all the details and information that the employee has available, including the identification of the individual(s) accused or involved; the wrongdoing(s) observed; a description of the events or indications subject to reporting and whether it is possible to obtain evidence or not.

The communications of irregularities are received, opened and processed by the Head of the Compliance Department, who prepares an investigation report to be submitted to the Board of Directors. The Board of Directors, having heard the other members of the Supervisory Board, when deemed necessary, shall decide on what course of action to take.

12. Internal control

The Bank has in place an effective internal control system that is populated by the relevant control areas as set out in Notice 5/2008 of the Bank of Portugal.

The Bank's internal control system is based on the objectives and guidelines defined by the Board of Directors and the Internal Audit Committee, corresponding to a structure that includes a Risk Management Function (includes Operational Risk and a Rating Department), an Internal Audit Function and a Compliance Function.

The Head of the Internal Audit Function is directly dependent on the Board of Directors, reporting functionally to the Board of Directors, the Internal Audit Committee and the Supervisory Board, and operationally to the Executive Board Member responsible for monitoring the Function. All the Internal Audit Function activities carried out in the entities constituting the Haitong Bank Group are coordinated and supervised by the Internal Audit Function of Haitong Bank, so as to guarantee an adequate consistency of the internal audit practices and supporting norms, compliance with the professional and regulatory requirements of the Function and a consolidated and global evaluation of the Internal Control system of the Haitong Bank Group. The affiliate in Brazil (Haitong Banco de Investimento do Brasil) is the only structure that has its own internal audit team.

The reporting line of the Risk Management Function is the Board of Directors and the Supervisory Board. The Head of the Risk Management Function and the Head of the Rating Department report hierarchically and functionally to the Executive Director responsible for risk control. The risk team in Lisbon has direct risk management responsibilities in the branches in Spain and in the United Kingdom, while the branch in Poland has a local risk management team acting with Lisbon oversight.

The Compliance Function reports hierarchically to the Executive Director and functionally to the full Board of Directors of the Bank, as well as to its Supervisory Board. Local heads of branches and subsidiaries of the respective units located in the geographies where the Bank is present report functionally to the Head of the Compliance Function. As at the date of this report, there are local heads of compliance in the branches in Spain, United Kingdom and Poland and in the affiliate in Brazil (Haitong Banco de Investimento do Brasil).

The Supervisory Board, in full coordination with the Internal Audit Committee, supervises and evaluates this internal control system by:

- Assessing the operational procedures in order to ascertain whether the respective activities are efficiently managed through appropriate risk management and comprehensive accounting and financial information;
- Monitoring the annual activity reports by each of the control functions; and
- Holding periodic meetings with the heads of the control functions, and conveys to the Board of Directors any recommendations it may deem appropriate.

The CEO Office and the Finance Department are responsible for preparing the Bank's semi-annual and annual reports and accounts. The process takes place in permanent dialogue with the Executive Committee and persons with lead responsibilities in the departments involved. The documents to be disclosed and their timing – depending on the specific document – require express approval of the shareholder (annual report and accounts) and / or the Board of Directors (semi-annual report and accounts). The Representative for Investor Relations is responsible for the release of the financial information.

13. Risk control

The Board of Directors is ultimately responsible for the Bank's Risk Management Framework.

The Risk Committee is responsible for monitoring the development and implementation of the risk strategy and the risk appetite of the Bank and verifying whether they are compatible with a sustainable strategy in the medium and long-term.

As an independent control function, the Risk Management Department supports the Bank to make informed decisions and ensures implementation of and compliance with the risk policies approved by the management body.

For further details, please refer to Risk Management section in the Management Report.

14. Investor relations

The main functions of the Representative for Investor Relations are assuring authorities and the market that the Bank is compliant with legal and regulatory reporting obligations and responding to requests for information from investors, bondholders, financial analysts and other agents.

Since 2018, Mr. Pedro Alexandre Martins Costa, is the Representative for Investor Relations.

Within the scope of regulatory reporting obligations, the dissemination of information within the framework of "privileged information", the preparation of annual and semi-annual reports and accounts should be emphasised.

All public information about the Bank can be requested from the Representative for Investor Relations through the contact indicated on the Bank's website.

15. Website

The Bank's website is as follows: www.haitongib.com

The location where the information about the firm, its status as a public limited company, the registered office and the other details referred to in article 171 of the Commercial Companies Code is provided: http://www.haitongib.com/en/about-haitong/legal-information

The place where information is provided on the identity of members of the corporate bodies and the market relations representative:

http://www.haitongib.com/en/about-haitong/corporate-information

http://www.haitongib.com/en/contacts/

The place where the financial statements of the previous five years are made available: https://www.haitongib.com/en/investor-relations/annual-report/

PART IV – REMUNERATION

1) *Fixed remuneration*

Annual amounts paid by Haitong Bank, S.A. or companies under its control in 2019 to each of the members of the Bank's corporate bodies:

BOARD OF DIRECTORS

(euros)

Executive Members of the Board of Directors	Haitong Bank and Branches	Subsidiaries and Affiliates	Total
Wu Min	552,191	-	552,191
Paulo José Lameiras Martins[1]	395,725	-	395,725
Nuno Miguel Sousa Figueiredo Carvalho	253,806	-	253,806
Vasco Câmara Pires Santos Martins	251,557	-	251,557
Alan do Amaral Fernandes	-	340,000	340,000
Total	**1,453,279**	**340,000**	**1,793,279**

[1] Mr. Paulo Martins resigned as Executive Director effective December 31st, 2019.

(euros)

Independent Non-Executive Board of Directors	Haitong Bank and Branches	Subsidiaries and Affiliates	Total
António Domingues	110,000	-	110,000
Vincent Camerlynck	110,000	-	110,000
Total	**220,000**	-	**220,000**

Note: The non-executive (and non-independent) Board members who perform functions at Haitong Securities Group and/or at Haitong International Securities are not authorized, in accordance with local legislation, to receive remuneration for their position at Haitong Bank.

SUPERVISORY BOARD

(euros)

Supervisory Board Members	Haitong Bank and Branches Total Remuneration
Mário Paulo Bettencourt de Oliveira	20,000
Maria do Rosário Simões Ventura	17,000
Cristina Maria da Costa Pinto	17,000
Total[2]	**54,000**

GENERAL MEETING BOARD

(euros)

General Meeting Chairman	36,250 [3]

STATUTORY AUDITORS

(euros)

Statutory Auditors	Haitong Bank and Branches Total Remuneration
Deloitte e Associados SROC S.A.	382,200

[2] The deputy member of the Supervisory Board did not receive any fixed remuneration paid by Haitong Bank, S.A. or companies under its control for the year 2019.
[3] This amount corresponds to the remuneration awarded to for the years 2017, 2018 and 2019 which was fully disbursed in 2019.

2) Variable remuneration attributed to Bank's corporate bodies

a) General remarks

The Executive Members of the Board of Directors may be entitled to receive a variable remuneration pursuant to the terms of the remuneration policy. Under the terms of the remuneration policy, the variable remuneration is subject to deferral, i.e., one part thereof is paid in the year in which it is attributed and another over subsequent years.

No variable remuneration was attributed to other members of the Bank's corporate bodies.

b) Variable remuneration for the years before 2018

No variable remuneration was attributed in the years before 2018.

c) Variable remuneration for the year 2018

(euros)

Executive Members of the Board of Directors	Amount paid in 2019
Wu Min	162,000
Paulo José Lameiras Martins	30,000
Nuno Miguel Sousa Figueiredo Carvalho	90,000
Vasco Câmara Pires Santos Martins	30,000
Alan do Amaral Fernandes	60,000
Total	**372,000**

3) Relevant Staff of the Bank or companies under its control

a) Fixed and variable remunerations paid by Haitong Bank, S.A. or companies under its control in 2019 to Control Functions Staff:

(euros)

Relevant Staff	Fixed Remuneration	Variable Remuneration attributed in 2019	Variable Remuneration paid in 2019	Deferred Amount
Risk Control Function	758,087	87,942	81,771	6,172
Compliance Function	787,442	91,441	74,066	17,375
Internal Audit Function	530,136	74,908	57,135	17,773

b) Fixed and variable remunerations paid by Haitong Bank, S.A. or companies under its control in 2019 to other members of staff whose actions have a material impact on the risk profile of the institution ("Identified Staff")

(euros)

Employees	Fixed Remuneration	Variable Remuneration attributed in 2019	Variable Remuneration paid in 2019	Deferred amount
Identified Staff [(1)]	4,007,000	869,756	525,644	344,112

(1) This includes the staff approved as Identified Staff by the Corporate Governance Committee in 2019

4) Number Relevant Staff hired by the Bank or by companies under its control in 2019

New Staff	Nr.
Risk Control Function	5
Compliance Function	1
Internal Audit Function	1
Other Identified Staff	0

5) Payments made in 2019 by the Bank or by companies under its control to Board members that resigned their mandate or for early termination of the labour contract, Identified Staff or Control Functions Staff, with the number of beneficiaries of such payments and the largest payment made

(euros)

Employees Departures	Nr.	Amount
Board Members	1	395,725
Risk Control Function	5	219,334
Compliance Function	1	9,644
Internal Audit Function	1	58,462
Identified Staff	3	751,178

The largest payment made was 533,473 euros.

6) Payments made in 2019 by the Bank or by companies under its control to Board Members related to expatriation allowances:

(euros)

Executive Members of the Board of Directors	From Current Year	From Previous Years	Total
CEO	60,000	91,667	151,667

PART V – TRANSACTIONS WITH RELATED PARTIES

The Bank's Policy of Transactions with Related Parties ("Policy") lays down the internal procedures and limitations for approval of transactions between the Bank or companies in a parent-subsidiary or group relationship with the Bank and a related party. The Corporate Governance Committee is responsible for the assessment and approval of related parties' transactions. For this purpose, according to the Bank's Policy and in line with IAS 24, "related parties" are (i) members of management or supervisory bodies of the Bank; (ii) key function holders and senior managing directors of the Bank; (iii) any person or entity, independently of the legal status they have, holding a family, business or legal tie with the persons referred to in (i) and (ii).

These rules ensure stringent control over compliance with the legal rules set out in the RGICSF, including the arm's-length rule and prevention of conflicts of interest.

The Policy describes the procedure to be followed regarding these transactions: a Prior Notice needs to be provided to the Corporate Governance Committee with a description of the envisaged transaction, before the Committee issues an opinion on the business.

The Corporate Governance Committee Regulations define that the Committee is responsible for issuing a prior and reasoned opinion on any Related Party Transaction (the outcome being one of "no objections raised", "conditions imposed" or "objections raised"), based on an assessment of compliance with the arm's-length rules and with the Bank's Conflicts of Interest Policy. Transactions in which one of the Bank's members participates, and which do not refer to a Haitong Group Related Party, will also have to be reviewed by the Supervisory Board and by the Board of Directors, according to the Policy.

The Corporate Governance Committee approved a framework of Transactions with Related Parties involving companies from the Haitong Group (i.e., Haitong Securities Co. Ltd and all the companies under its control) which shall not raise objections and are deemed as pre-approved. This framework is only applicable to advisory services that do not bear any credit or market risk for the Bank. Therefore, no Prior Notice needs to be submitted to the Corporate Governance Committee in relation to all transactions that qualify according to the Framework and no objections will be raised by the Corporate Governance Committee in relation to those transactions.

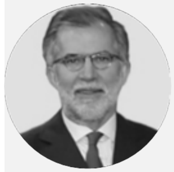
The majority of the related parties' transactions concluded in 2019 consisted of financial advisory services and other transactions without credit or market risk for the Bank, to the amount of close to EUR 25 million and corresponding to 36 transactions. These transactions were presented to the Corporate Governance Committee with a solely informative purpose, as they fell within the above-mentioned framework.

As for the Related Party Transactions that fell outside the scope of the framework, there were six transactions that were analysed individually. All members of the Corporate Governance Committee unanimously endorsed those six transactions, meaning that the Committee did not object nor approve with conditions any Related Party Transaction carried out in the year 2019.

ANNEX

BOARD OF DIRECTORS

Board of Directors of Haitong Bank, S.A.	Professional Experience	Academic Background	Positions in Haitong Group companies	Positions in companies outside the Haitong Group
 **Lin Yong** *Chairman*	Doctor Lin Yong has over 20 years of experience in the investment banking industry. He joined Haitong Securities Co., Ltd in 1996 and was a general manager of the Investment Banking Department of Haitong Securities from 2001 to 2007. Since 2011, Doctor Lin has been the Deputy Chairman and the Chief Executive Officer of Haitong International Securities Group Limited based in Hong Kong. He is one of the first set of sponsor representatives of the China Securities Regulatory Committee and has been an assistant professor at the Management College of Xiamen University since 2010. Doctor Lin Yong has been a non-Executive Board Member of Haitong Bank since April 2016 and became the Chairman in October 2017.	Doctor Lin Yong gained a PhD in Economics from Xi'an Jiaotong University in 2004.	CEO of Haitong International Holdings Limited Member and Deputy Chairman of Haitong International Securities Group Limited Assistant to General Manager of Haitong Securities Company Limited Non-Executive Board Member of Haitong Banco de Investimento do Brasil, S.A.	Hong Kong Financial Services Development Council
 **Wu Min** *Chief Executive Officer (CEO)*	Mr. Wu Min has substantial experience in management functions in the financial services industry. After having worked as a fixed income investment manager in Taiyang Securities Co., LTD. and Jinyuan Securities Co., LTD., Mr. Wu Min worked as a general manager for the bond financing department in Haitong Securities Co. Ltd from 2005 to 2017. Mr. Wu Min founded the largest Debt Capital Market ("DCM") team in China with over 500 professionals, underwriting around 500 billion RMB bond in 2014, 2015 and 2016, with a client coverage network encompassing all the Chinese corporations and enterprises with credit rating above AA- and an institutional sales network, covering over 3000 institutional accounts.	Mr. Wu Min has a strong European academic background, with degrees from well-regarded UK universities. Mr. Wu Min obtained his bachelor's degree in International Trade & Finance from Sichuan University in 2000. Subsequently, in 2001, he obtained a Master's in Investment & Finance from Middlesex University and in 2003 a Master's in Mathematical Trading & Finance from London City University. Mr. Wu Min holds the following certifications: • Registered with the China Securities Regulatory Commission (since 2003) • Qualified Trader License in China Inter-Bank Market (since 2005) • Assessment expert of government procurement, Ministry of Finance, China (since 2016) • Registered expert of the fourth non-financial institution bond committee, NAFMII – 2017.	Non-Executive Board Member of Haitong Banco de Investimento do Brasil, S.A. Non-Executive Board Member of Haitong Investment Ireland p.l.c.	n.a.

Board of Directors of Haitong Bank, S.A.	Professional Experience	Academic Background	Positions in Haitong Group companies	Positions in companies outside the Haitong Group
 **Alan do Amaral Fernandes** *Executive Director*	Mr. Alan Fernandes has more than 25 years of professional experience in the financial sector. He has strong experience in Structured Finance involving all infrastructure sectors, including private-public partnerships, and has had an active role in the privatisation of companies in the electricity, telecommunications, mining and natural gas distribution sectors in Brazil, including the privatization process of natural gas services in the State of S. Paulo. He was also deeply involved in the restructuring of the energy sector in Brazil (distribution, transmission and generation). Alan has also deep experience in M&A and Capital Markets covering different sectors in Brazil and abroad. Mr. Alan Fernandes has been an Executive Board Member of Haitong Bank since March 2013 and an Executive Board Member of Haitong Brasil since March 2014. He has also been the Chief Executive Officer of Haitong Brasil since April 2016. Previously Alan worked for Banco Itaú S.A., Banco Itaú BBA S.A., Unibanco S.A., Algar Telecom S.A., Deloitte & Touche Tohmatsu and the BNDES.	Mr. Fernandes gained a degree in mechanical engineering from Federal University of Rio de Janeiro and Aeronautical Engineering from ITA, the Technological Institute of Aeronautics, with a specialization in finance from IBMEC.	CEO of Haitong Banco de Investimento do Brasil S.A.	Non-Executive Member of Empresa Brasileira de Projectos, S.A. – EBP
 **António Domingues** *Non-Executive Director*	Mr. António Domingues has extensive experience in the banking sector. Over the past 30 years he has held Senior Management roles in different institutions such as CGD (Chairman of the Board of Directors and of the Executive Committee), BPI (Deputy CEO and CFO at Banco BPI) and Companhia de Seguros Allianz Portugal, S.A. (member of the Board of Directors). Mr. António Domingues was also Vice-Chairman of BPI S.A., Vice-Chairman of BCI - Banco Comercial e de Investimentos, S.A., Deputy General Director of the BPA - Banco Português do Atlântico in France; Adviser in the Department of Foreign Affairs of the Bank of Portugal and Economist at the Ministry of Industry and Energy. Currently, he is a member of the Board of Directors of NOS, S.A., Vice-Chairman of BFA – Banco de Fomento Angola and chairman of the Audit and Finance Committee of EFACEC.	Mr. Domingues has a degree in Economics from the Instituto Superior de Economia in Lisbon.	n.a.	Vice-Chairman of BFA Chairman of Audit and Finance Committee of EFACEC Non-Executive Board Member of NOS, S.A.

Board of Directors of Haitong Bank, S.A.	Professional Experience	Academic Background	Positions in Haitong Group companies	Positions in companies outside the Haitong Group
 **Nuno Miguel Sousa Figueiredo Carvalho** *Executive Director*	Mr. Nuno Carvalho has over 20 years of professional experience in the Legal and Financial sectors, particularly in Investment Banking, as a Lawyer, MLRO or Head of Compliance, having also held a number of other Corporate Functions such as Investor Relations and Representative with the CMVM. Mr. Carvalho re-joined the Bank in 2017, from Barclays Capital Investment Banking, and was appointed to the Board of Directors in May 2018.	Mr. Carvalho has a law degree from the University of Lisbon, Faculty of Law and a Post-Graduate degree in Accounting and Finance from ISCTE Business School, Lisbon.	Non-Executive Board Member of Haitong Banco de Investimento do Brasil, S.A. Non-Executive Board Member of Haitong Inventment Ireland p.l.c	n.a.
 **Pan Guangtao** *Non-Executive Director*	Mr. Pan has 25 years of experience in the securities industry, including 4 years in information system development and management and 20 years in equity and derivatives investment. Mr. Pan was appointed Assistant General Manager of Haitong Securities in March 2017. He originally joined the company in 2002 and has had management roles in the Equity Investment Department and Asset Management Department.	Mr. Pan graduated in 1994 with a degree in Mechatronics and Engineering from Shanghai University of Engineering Science and gained an MBA in China Commerce from Macau University of Science and Technology.	Assistant General Manager of Haitong Securities Co. Ltd. Deputy Chairman of Proprietary Investment Committee of Haitong Securities Co. Ltd. General Manager of Equity Investment and Trading Department of Haitong Securities Co. Ltd.	Member of Trading Committee of CFFEX (China Financial Futures Exchange)
 **Paulo Martins** *Executive Director*	Mr. Paulo Martins was the Global Head of Corporate Finance from 2009 to 2019, leading a team across Haitong Bank geographies and having played a major role in several landmark M&A transactions. Since joining Haitong Bank, Mr. Martins liaised with many renowned institutions, including key clients, establishing strong relationships with them. Mr. Paulo Martins, resigned as Executive Director effective December 31st 2019.	Mr. Martins graduated in Industrial Production Engineering from the Universidade Nova de Lisboa and has a Post-Graduation in Management from the ISCTE - Instituto Superior de Ciências e Trabalho de Empresas, in Lisbon.	n.a.	n.a.

Board of Directors of Haitong Bank, S.A.	Professional Experience	Academic Background	Positions in Haitong Group companies	Positions in companies outside the Haitong Group
 **Poon Mo Yiu** **(Patrick Poon)** *Non-Executive Director*	Mr. Poon has extensive experience in financial management, management of information systems, accounting projects as well as various aspects of mergers and acquisitions. Prior to joining Haitong Securities, Mr. Poon worked for Sun Hung Kai & Co. Limited as the Group Chief Operating Officer and the Group Chief Financial Officer. Previously, Mr. Poon was also a Vice President in Finance of JPMorgan Chase Bank and the Group Financial Controller of Jardine Fleming Group in Asia before its merger with JPMorgan Chase Bank. Mr. Poon joined Haitong International Securities Group Limited in August 2008 and was appointed as an Executive Director of the company in July 2009. Mr. Poon was the Chief Operating Officer as well as a member of the Executive Committee of Haitong International Securities Group Limited prior to his re-designation as a Non-Executive Director in February 2016. Since then and up to February 2018, Mr. Poon assumed the position of Executive Board Member and CFO of Haitong Bank, S.A..	Mr. Poon holds an MBA from the Chinese University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England & Wales.	Executive Director of Haitong International Securities Group Ltd.	n.a.
 **Vasco C. Martins** *Executive Director*	Mr. Vasco Câmara Martins has extensive experience of working in Financial Institutions, approximately 20 years, in multiple Risk Management roles, with a particular focus on the (Risk related) activities pursued by the Bank. A significant part of the roles held by Mr. Vasco Martins (from the past 10 years) were senior managerial positions in Risk Management, with Lead Functions and direct reporting to the Board of Directors.	Mr. Vasco Câmara Martins holds an Inter-Alpha Banking Program Institution qualification from INSEAD, a Master's of Science in Finance from Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE), a Post-Graduate qualification in Financial Institutions from Centro de Investigação de Activos e Mercados Financeiros (CEMAF) and a degree in Management, from Lusíada University.	n.a.	n.a.

Board of Directors of Haitong Bank, S.A.	Professional Experience	Academic Background	Positions in Haitong Group companies	Positions in companies outside the Haitong Group
 **Vincent Camerlynck** *Non-Executive Director*	Mr. Vincent Camerlynck has 33 years of extensive global business, management and board experience in capital markets and the asset management industry. During this time, he worked for some renowned investments banks (HSBC, Goldman Sachs, BNP Paribas) in the major financial markets (NY, London, HK and Paris). Mr. Vincent Camerlynck currently serves on a number of Boards as an Independent Non-Executive Director and provides advisory services to business leaders by leveraging on his deep understanding of the asset management industry's fundamentals and business and change management experience.	Mr. Camerlynck has a law degree from University of Leuven (Belgium) and a Master's in Economics from University of Louvain la Neuve (Belgium) and in International and Comparative Politics from London School of Economics (England).	n.a.	Non-Executive Board Member of C Worldwide Asset Management Non-Executive Board Member of CAPFI Delen Asset Management NV Non-Executive Board Member of EdtechX Holdings Non-Executive Board Member Equity Trustees UK
 **Zhang Xinjun** **(Jeff Zhang)** *Non-Executive Director*	Mr. Zhang is currently the Chief Financial Officer of Haitong Securities Co. Ltd. and has 18 years of experience in the Financial, Treasury and Risk departments of Haitong Group. He joined Haitong Securities Co. Ltd. in 2001 and he moved first to Haitong International Holdings Limited as CFO in 2007 and then to Haitong International Securities Group Limited in 2010. He was the Deputy CEO of Haitong International Holdings Limited since 2015 until he moved back to Haitong Securities in 2018.	Mr. Zhang has a degree in Economics (Accounting) and a Master's in Management (Accounting) from Nankai University, in China.	Non-Executive Board Member of Fullgoal Fund Management CO., LTD. CFO of Haitong Securities Company Limited (P.R. China) Non-Executive Board Member of Haitong International Limited CFO of Haitong International Holdings Limited (Hong Kong) Non-Executive Board Member of Haitong Investment Ireland p.l.c.	n.a.

SUPERVISORY BOARD

Supervisory Board of Haitong Bank, S.A.	Professional Experience	Academic Background	Positions in Haitong Bank Group companies	Positions in companies outside the Haitong Bank Group
Mário Paulo Bettencourt de Oliveira *Chairman of the Supervisory Board*	Doctor Mário de Oliveira is an auditor and partner at Ribeiro da Cunha da Associados - Sociedade de Revisores Oficiais de Contas. He has been an auditor since 2001.	Doctor Mário de Oliveira obtained his degree in economics from the Faculdade de Economia at Oporto University in 1996. He obtained a master's degree in economics and science and technology management in 2004 from ISEG. Doctor Mário de Oliveira has also obtained several postgraduate degrees in economics (in 2000 from ISCTE) and in commercial law and securities law (in 2005 from the Catholic University and in 2006 from the University of Lisbon), as well as several professional training courses. In 2019, Doctor Mário de Oliveira has accomplished his PhD in Economic and Organizational Sociology from ISEG	Member of the Supervisory Board of Haitong Capital, SCR, S.A.	Member of the Supervisory Board of SILVIP – Sociedade Gestora de Fundos de Investimento Imobiliário, S.A. Alternate Member of the Supervisory Board of the: Agroleite De Canha – Sociedade Agro Pecuária, Lda; Bigempire, S.A.; Casa Do Guincho - Sociedade De Administração De Bens, S.A.;Citydomus Ii – Investimentos Imobiliários E Ambientais, S.A.; Coruche 1a Fotovoltaica, S.A.; Coruche 1b Fotovoltaica, S.A.; Coruche 1c Fotovoltaica, S.A.; Dunas Capital, S.A.; Duncap – Sgps, Sa; Egeo – Sgps, Sa; Espírito Santo Resources (Portugal), S.A.; Esporão, S.A.; Esporão – Vendas e Marketing, S.A.; Gesparte, S.A.; Gotan, Sgps, S.A.; Grow Advisory, S.A.; Grow Solar Upp, S.A.; Imobiliária Construtora Grão Pará, Sa; J.B.S. - Consulting Services, Serviços De Consultoria, S.A.; Jhr – Sociedade Gestora De Participações Sociais, Sa; Just Bright Solutions, S.G.P.S., S.A.; Lake Louise - Actividades Turísticas, S.A.; Localimão – Sociedade Imobiliária, S.A.; Maislar, Sociedade De Gestão Imobiliária, S.A.; Monte Da Várzea – Sociedade Agrícola E Florestal, S.A.; Mqp Ambiente, S.A.; Murças, S.A; Novo Banco Dos Açores, S.A.; N.R.D. - Núcleo De Rádio-Diagnóstico, S.A.; Rendimento Seguro - Investimentos Imobiliários, S.A.; Risgil, S.A.; Rectius, S.A.; Silpredil - Sociedade Predial, S.A.; Sociedade Agrícola Da Carregueira Do Mato, S.A.; Sociedade Administração De Bens Monte Da Várzea Do Moinho, S.A.; S.T.D.A. – Sociedade Turística do Alentejo, Sgps, S.A.; Viapetro – Gestão De Resíduos, S.A.; Agência De Gestão Da Tesouraria E Da Dívida Publica – IGCP EPE; Quinta Do Ameal, S.A.; Multiparques A Céu Aberto, S.A.; Pinhal Dos Corvos, S.A.; Machrent, S.A.; Egeo Oil Gestão e Investimentos SGPS., S.A.; Egeo International Sgps, S.A.; Imospel, S.A.; Stellamare, S.A.
Cristina Maria da Costa Pinto *Member of the Supervisory Board*	Ms. Cristina Costa Pinto is a tax consultant and has been working for Pinheiro Pinto Consultadoria, Lda. since 2010. From that year Ms. Costa Pinto has also been working as a professor at the Catholic University and at the Católica Porto Business School.	Ms. Cristina Costa Pinto obtained her management degree from the Faculdade de Economia at Oporto University in 1996, having also obtained a law degree from the Catholic University Law School in 2014.		Member of the Supervisory Board of Sogrape SGPS, S.A. Member of the Supervisory Board of Super Bock Group SGPS, S.A. Member of the Supervisory Board of Mota-Engil SGPS, S.A. Professor at Universidade Católica Portuguesa Consultant at Pinheiro Pinto Consultoria Limitada
Maria do Rosário Mayoral Robles Machado Simões Ventura *Member of the Supervisory Board*	Ms. Maria do Rosário Ventura has extensive experience in the financial sector, having worked at Banco Mello and later Millennium BCP from 1991 to 2002. From 2002 to 2004 she was a Senior member of the Portuguese Government – Secretary of State for Commerce, Services and industry. From 2004 to 2005 Ms. Ventura was Chairman of the Board of EMPORDEF Group, State Owned Defense Contractor. From 2005 to 2016 Ms. Ventura has held several CFO positions in large Portuguese companies.	Ms. Maria do Rosário Ventura obtained her degree in Management from the Universidade Católica in 1982 and her AMP – Advanced Management Program from IESE in 2006.		Chairman of the Supervisory Board of Bondalti Capital, S.A.

Supervisory Board of Haitong Bank, S.A.	Professional Experience	Academic Background	Positions in Haitong Bank Group companies	Positions in companies outside the Haitong Bank Group
Paulo Ribeiro da Silva *Alternate Member of the Supervisory Board*	Mr. Ribeiro da Silva is an auditor and partner at Amável Calhau, Ribeiro da Cunha e Associados. Mr. Ribeiro da Silva has been an auditor since 1994.	Mr. Ribeiro da Silva obtained his degree in accounting and management from ISCAL (Lisbon) in 1990. Mr. Silva also acquired a degree in financial auditing in 1993 from ISCAL, a postgraduate degree in computer security & auditing and in corporate finance from ISCTE in 2000 as well as several training courses.		Member of the Supervisory Board of the*:* GNB – Companhia de Seguros de Vida, S.A.; ACP – Mobilidade, Sociedade de Seguros de Assistência, S.A.; Popular Seguros – Companhia de Seguros, S.A.; 4 Travellers, Lda.; Azicapital - SGPS. S.A.; Azicoast - Empreendimentos Turísticos, Lda.; Azigep - SGPS, S.A.; Azilis - Empreendimentos Hoteleiros, S.A.; Azimar - Investimentos Turísticos, S.A.; Azinor - Comércio Internacional e Representações, Lda.; Azinor - Middle East, SGPS, S.A.; Azinor - Sociedade Gestora de Participações Sociais, S.A; Azinor - Sociedade Gestora de Participações Sociais, S.A; Azinor Cconsulting & Services, S.A.; Azinor Distribuição SGPS, S.A.; Azinor Finance – SGPS, S.A.; Azinor Lmobiliária, Lda.; Azinor Intercontinental, Lda. (Zfm); Azinor Turismo, SGPS, S.A; Azioni – Mobiliário e Decoração, S.A.; Azipalace – Investimentos Turísticos, S.A.; Aziparque • Empreendimentos Turísticos, S.A.; Azitejo - Empreendimentos Turísticos, S.A.; Azitrust-Comércio Internacional e Investimentos, Lda.; Bread & Friends Company, Lda.; Carl & Dittgen, S.A.; Chatoyant, Lda.; Copta - Companhia Portuguesa de Turismo do Algarve, S.A.; Deigest - SGPS, S.A.; Domus Tagus - Turismo e Lazer, Lda.; Du Tage - Animação Turística e Lazer, Lda.; Exfa - Sociedade de Iniciativas Turísticas, S.A.; Forus Premium Projects, S.A.; Garotel - Sociedade de Iniciativas Turísticas, S.A.; Hotel Paris· Sociedade Hoteleira e Turística, S.A.; Intra Douro - Investimentos Turísticos, S.A.; Ivol - Sociedade de Investimentos Hoteleiros, S.A.; Mascota Imobiliária, S.A.; Modus Turis - Empreendimentos Turísticos, Lda.; Município de Alcobaça; Nazgest – SGPS, S.A.; Património Crescente- Investimentos Turísticos, S.A.; Portas de Lisboa - Soc. de Invest. Imobiliários, S.A.; Portas de Lisboa Dois - Soc. de Invest. Imobiliários, S.A.; Sana Hotels Portugal, S.A.; Sep Sancho - Equipamentos Pecuários e Construção, S.A.; Sérgio Martins - Com. Prod. p/ Agric. e Pecuária, Lda.; Sesimbrotel · Sociedade de Iniciativas Turísticas, S.A.; SMA - Serviços Municipalizados de Alcobaça; Sociedade de Banhos Miramar S. Julião da Barra, Lda.; Sociedade Hoteleira de Sete-Rios, S.A.; Trigo "In Situ" Torre Vasco da Gama, S.A.; Vanguarda - Mobiliário e Decoração, Lda.; Villageplace – Promoção Imobiliária, Lda.; Wellness Concepts, Lda.

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ANNEXES

Non-Financial Information and Diversity

(*Article 508º G – Portuguese Corporate Code)*

This section discusses the development, performance, position and impact of the group's activities in relation to environmental, social and worker issues; equality between women and men; non-discrimination; respect for human rights; corruption and bribery prevention.

Social Responsibility

Haitong Bank endeavours to ensure that it has, at all times, a responsible relationship with all its stakeholders, particularly Employees, Customers, and Shareholders. It aims to develop its activities alongside a sound culture of social responsibility and to contribute to the social benefit and development of the sectors and communities with which it interacts in the course of its activities.

In 2019, Haitong Bank remained committed to its social responsibilities and has continued to participate, support and encourage its employees and related parties to be active and fully engaged. According to its “BUILDING A BRIGHTER FUTURE TOGETHER” motto, the Bank was involved in the following social initiatives:

- “Cyclone Idai” - Haitong Bank donated EUR 5,000 to the Portuguese Red Cross to support this Institution’s work on behalf of the Mozambique population suffering from the impact of Tropical Cyclone Idai;
- “Liga Portuguesa Contra o Cancro” - Haitong Bank’s employees made donations to the Red Cross and Portuguese League Against Cancer (EUR 5,000);
- “Comunidade Vida e Paz” - Donating food for a charity’s Christmas party;
- “Corpo Nacional de Escutas” - Haitong Bank donated tableware to help this National Scouts institution reduce the use of disposable items and help it become more environmentally friendly;
- “Toneladas de Ajuda” - Plastic Cap Collection Campaign for charity.

In February 2020, the Bank approved a policy to support charity institutions and social causes, giving priority to children at risk. The support should be given namely through: 1) the promotion of good social practices, internally and externally; (ii) involvement of employees in social causes; and (iii) monetary donations.

Environment

Haitong Bank is a Credit Institution and Financial Intermediary, operating mostly in the Investment Banking Sector, with minimal exposure to retail customers. It has no significant infrastructure and a limited headcount and hence has a very limited environmental footprint.

Notwithstanding this limited footprint, Haitong Bank is committed to operating based on sustainable and environmentally friendly practices, such as the secure and confidential destruction of documentation. Haitong Bank generated 6 tons of recycled paper, thereby reducing its ecological footprint, through the safe and confidential destruction of documents.

Minimizing its environmental footprint is of utmost importance for the Bank, both in terms of reducing the environmental impact and costs. It is with this purpose that the Bank continuously seeks to implement new measures related to the reduction of energy, water and materials consumption.

During 2019 and in order to reduce single-use plastic on the Bank’s premises, Haitong Bank replaced the plastic cups and stirrers in use in all its pantries with paper cups and wooden stirrers.

Employee-Related Issues

Please see "People" section of the Management Report.

Equality and Diversity

The Bank advocates diversity of skills, geography and generations in the composition of its corporate bodies. It puts a special focus on gender diversity in the Bank's management bodies in order to promote equal opportunities and socially responsible behaviour at the Bank. Diversity in general promotes efficiency and an atmosphere of constructive challenge and debate amongst senior management.

In the Bank's "Policy on the Selection and Assessment of Members of the Management and Supervisory Bodies and Key Function Holder" (https://www.haitongib.com/media/4227746/_policy-on-the-selection-and-assessment.pdf), Haitong Bank commits to having 30% of women represented in the following by 2022:

- The Board of Directors
- The Supervisory Board
- In overall key function positions.

Currently, women represent 37% of the total workforce and there are also a considerable number of female employees in senior positions at the Bank. Within the Bank's management bodies, around 25% are represented by women.

Corruption and Bribery Prevention

Haitong Bank is an international financial institution active in multiple geographies and jurisdictions. As such, its responsibility is to ensure that its employees conduct themselves with the utmost integrity and due diligence while carrying out their activities. As per the Bank's Code of Conduct, employees must perform their functions according to the highest standards of professionalism, competence, due diligence and loyalty, and in strict compliance with the relevant legal and regulatory provisions in force in the geographies where they operate.

The Bank has approved an Anti-Bribery Policy aimed at establishing specific internal guidance for the prevention of bribery. This is based on national and international legal provisions including, but not limited to, the Portuguese Laws on bribery prevention, the Organisation for Economic Cooperation and Development (OECD) Convention on bribery of foreign public officials in international business transactions, the Convention on the fight against bribery involving officials of the European Communities or officials of member states of the European Union, the Criminal Law Convention on bribery of the Council of Europe and the United Nations Convention against bribery.

Given the Bank's presence and/or operations in different geographies, this policy also encompasses a set of anti-bribery rules and principles in force in such jurisdictions, notwithstanding the obligation of each employee to acknowledge the anti-bribery laws applicable in each case and take the necessary steps to comply with such laws. In this respect, the following acts in force in the United States and the United Kingdom, respectively, are particularly noteworthy: U.S. Foreign Corrupt Practices Act and the UK Bribery Act.

Overall Assessment

Haitong Bank understands that a serious commitment with Environmental, Social and Governance (ESG) matters is key to the Bank's success and incorporates them as part of its overall business strategy. In 2019, Haitong Bank has fully embraced various initiatives to achieve this goal, consistently with the Bank's size, exposure and limited footprint, and going forward will continue to integrate its commitment to a sustainable growth into the internal policies, principles and processes.

Earnings Distribution Proposal

Considering that, as of 31 December 2019, the Bank showed a consolidated net profit of EUR 7,508,154.94 (seven million, five hundred and eight thousand, one hundred and fifty- four euros and ninety-four cents) and an individual net profit of EUR 10,342,472.65 (ten million, three hundred and forty-two thousand, four hundred and seventy-two euros and sixty-five cents), the Board of Directors proposes to the Annual General Meeting that the net profit showed in the individual accounts be allocated to:

- Legal Reserve: EUR 517,123.63 (five hundred and seventeen thousand, one hundred and twenty-three euros and sixty-three cents);
- Other Reserves and Retained Earnings: EUR 9,825,349.02 (nine million, eight hundred and twenty-five thousand, three hundred and forty-nine euros and two cents);
- Total: EUR 10,342,472.65 (ten million, three hundred and forty-two thousand, four hundred and seventy-two euros and sixty-five cents).

Declaration of Conformity

In accordance with Article 245, number 1, paragraph c, of the Portuguese Securities Code, the Members of the Board of Directors of Haitong Bank, S.A. hereby declare that, to the best of their knowledge:

a) The individual financial statements of Haitong Bank, S.A. for the year ended on 31 December 2019 were prepared in accordance with the legally applicable accounting standards and with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of July 19th, as set forth in Article 245, number 3, of the Portuguese Securities Code;

b) The consolidated financial statements of Haitong Bank, S.A. for the year ended on 31 December 2019 were prepared in accordance with the legally applicable accounting standards and with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of July 19th, as set forth in Article 245, number 3, of the Portuguese Securities Code;

c) The financial statements referred to in paragraphs a) and b) above give a true and fair view of Haitong Bank, S.A. and consolidated companies' assets, liabilities, equity and earnings;

d) The Management Report describes faithfully Haitong Bank, S.A. and the consolidated companies' business evolution, performance and financial position for the year ended on 31 December 2019, and includes a description of the main risks and uncertainties that could affect the business.

Lisbon, 19 March 2020

Lin Yong
Chairman of the Board of Directors

Wu Min
Chief Executive Officer

Alan do Amaral Fernandes
Executive Board Member

Nuno Miguel Sousa Figueiredo Carvalho
Executive Board Member

Paulo José Lameiras Martins
Executive Board Member

Vasco Câmara Pires Santos Martins
Executive Board Member

António Domingues
Non-Executive Board Member

Pan Guangtao
Non-Executive Board Member

Poon Mo Yiu
Non-Executive Board Member

Vincent Marie L. Camerlynck
Non-Executive Board Member

Zhang Xinjun
Non-Executive Board Member

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