# HAITONG BANK, S.A.

## Market Discipline

Annual Report: 2021

(Disclosure in accordance with Part VIII of 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)

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# 1 DECLARATION OF RESPONSIBILITY

The Basel capital accord is based upon three different and complementary pillars:

- Pillar I – the set of rules for the determination of minimum own funds requirements for hedging credit, market and operational risks;
- Pillar II – principles for supervision and risk management processes, including capital adequacy self-assessment process;
- Pillar III – public disclosure requirements for capital and risk management processes and systems, with the objective of enhancing market discipline.

Haitong Bank 2021 Market Discipline Report was prepared within the scope of Pillar III, in compliance with regulations and legislation in force and following its internal policies and procedures for the disclosure of information, in line with market practices. This report was reviewed by the external auditors of the Bank[1].

The Board of Directors of Haitong Bank hereby declares and certifies that:

- In the present document "Market Discipline", produced with reference to the end of 2021, all procedures deemed necessary for the public disclosure of information were developed and carried out. To the extent of its knowledge, all information disclosed in this document is true and reliable;
- The quality of all information disclosed is adequate, including that concerning or originating from entities included in the economic group of which the institution is part of;
- It undertakes to disclose, in due time, any significant changes that occur in the course of the financial year following the year that this "Market Discipline" report refers to;
- Haitong Bank has in place a risk management and control system to monitor and manage risks, which is appropriate for the nature and size of the Bank.

The Board of Directors

| | |
|---|---|
| Lin Yong | Wu Min |
| Alan Fernandes | Miguel Guiomar |
| Nuno Carvalho | Vasco Câmara Martins |
| António Domingues | Martina Garcia |
| Pan Guangtao | Paulo Martins |
| Vincent Camerlynck | Zhang Xinjun |

[1] Limited assurance review

## 2 IDENTIFICATION OF THE BANKING GROUP

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 authorized by the Portuguese authorities, central banks and regulators 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 Grupo Espírito Santo under the name Espírito Santo – Sociedade de Investimentos, S.A..

In order to widen the scope of its business, the Institution 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 Espírito 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 in 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, Macau and Madrid, and subsidiaries in Brazil and Poland.

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

## 3 SCOPE AND BASIS OF CONSOLIDATION FOR ACCOUNTING AND PRUDENTIAL PURPOSES

The Group companies where the Bank holds, directly or indirectly, voting rights greater 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:

| Name of the entity | Incorporation Date | Acquisition Date | Headquarters | Activity | % Economic interest | Method of accounting consolidation |
|---|---|---|---|---|---|---|
| Haitong Bank, S.A. | 1983 | - | Portugal | Bank | 100% | Full consolidation |
| Haitong Capital - SCR, S.A. | 1988 | 1996 | Portugal | Venture capital | 100% | Full consolidation |
| Haitong Anciliary Services | 2004 | 2021 | Poland | Financial services | 100% | Full consolidation |
| 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 Negócios, SA | 2004 | 2004 | Brazil | Asset management | 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 |

**Table 1 –** Haitong Bank's scope of consolidation

Haitong Bank's prudential consolidation perimeter coincides with its financial statement consolidation perimeter.

In 2013, Haitong Bank started a simplification plan for its group. Several measures were taken within the scope of this process, including the disposal and merger of several holdings. The simplification process continued throughout 2021, and the main changes made to the group's structure are set forth below.

**Subsidiaries**

- In June, 2021, Haitong Bank, S.A. has acquired 50.5% of Polish Hotel Company (PHC) by the amount of 500 thousand euros. The result for the Polish Hotel Company in May 2021 was positive, in the amount of 265 thousand euros, having been determined based on the estimate of the fair value of the assets acquired and liabilities assumed or in accordance with International Standards of Financial Reporting applicable to some assets and liabilities in which that is not the measurement principle provided for in IFRS 3 – Business Combinations. In November of the same year, the PHC changed its corporate name as well as its object and it is in the processing of dissolution since January 2022;
- On July 19th, 2021, the establishment of Haitong Bank's Macau Branch was formally authorized and published at the Macau Official Gazette;
- In September, the CMVM authorized the establishment of Haitong Global Asset Management SGOIC, S.A. as a management company of collective investment undertakings;
- In September and December, 2021, Haitong Banco de Investimento do Brasil, S.A. fully subscribed the capital increase of FI Multimercado Treasury, an investment of BRL 32,000 thousands

**Associates**

- On May 2021, Fundo Espírito Santo IBERIA has been closed by the amount of 1 thousand euros

In addition to the aforementioned, the following should be highlighted:

I. To the extent of the Bank's knowledge, there is no material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities between the Bank and its Subsidiaries.

II. There are no subsidiaries not included in the prudential scope of consolidation whose actual own funds are lower than the minimum required;

III. There are no subsidiaries included in the Bank's scope of consolidation that are deducted from own funds for prudential purposes, in accordance with Regulation (EU) no. 575/2013.

# 4 RISK MANAGEMENT OBJECTIVES AND POLICIES

## 4.1 Statement on Haitong Bank's risk profile and its connection to the business strategy

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

The year of 2021 was still marked by volatility amidst the pandemic, delaying the effective economic and business recovery. Against this challenging backdrop, Haitong Bank was able to overcome the uncertainties and make significant progress in many fronts, both in terms of business performance and other important milestones. This included the effective opening of the Macau Branch, which is expected to accelerate the Bank's cross-border business with a China Angle, and the regulatory permission granted to Haitong Global Asset Management, an important driver for the future expansion of that business area. Also during 2021, S&P improved Haitong Bank's rating outlook in recognition of the Bank's Asset Quality that did not suffer any material impacts from COVID-19 and of the Bank's Operational Performance, which S&P recognized as more sustainable.

Going forward, the Bank remains committed to expanding its domestic business in the markets where it has a local presence, leveraging on a consistent commercial drive, connecting new business opportunities and new clients around three client segments comprising the historical franchises in Europe and Brazil; China; and cross-border.

Regarding business with Chinese clients, the Bank expects a recovery, particularly in the Capital Markets activity. The strategic role of the Macau Branch will also help to improve Group coordination, in addition to supporting the Sino-EU M&A department. In terms of local business, Structured Finance and Fixed Income should see a gradual improvement, resulting from the increasing client base and asset growth.

Haitong Bank safeguards the creation of enough capital to withstand the planned increase of assets and meet the internal and regulatory capital requirements. The Bank is committed to maintaining a prudent capital management approach that has so far led to strong solvency levels that will be maintained over the next three years. Haitong Bank has an adequate and diversified funding structure and an adequate liquidity position, allowing it to maintain both LCR and NSFR levels above internal minimum requirements while accommodating the asset growth strategy.

The figure below illustrates how Haitong Bank structures its Risk Appetite Framework highlighting the critical interconnection between business strategy and risk policy.

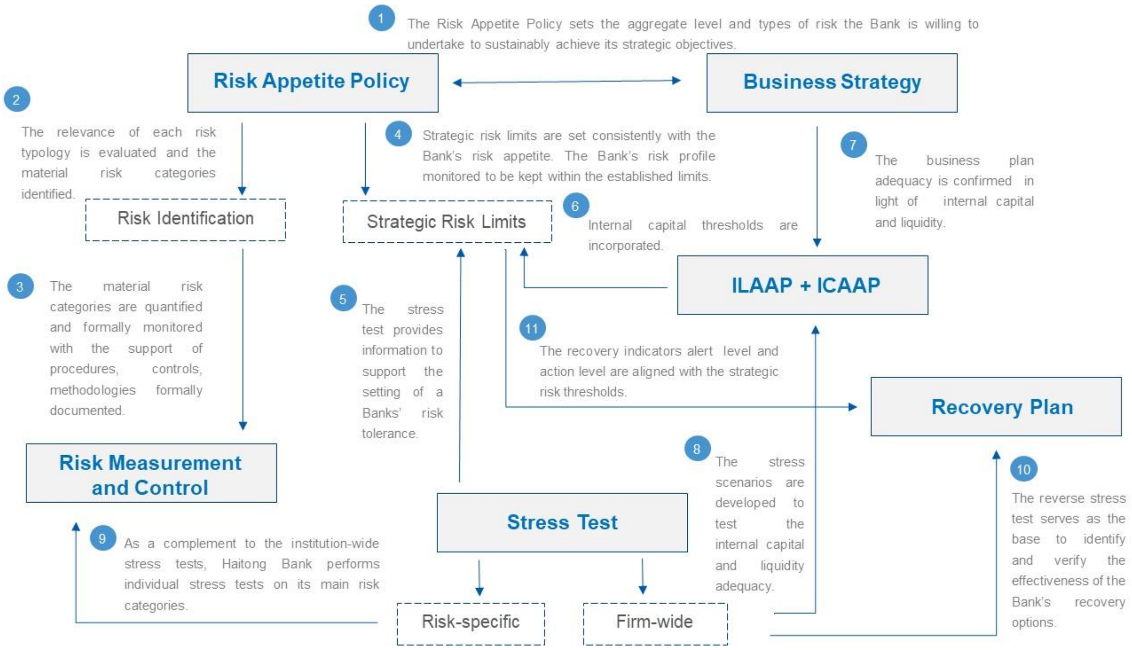


**Figure 1 –** Haitong Bank Risk Architecture

Within the scope of the Risk Appetite Policy, the Board of Directors approved the following Risk Vision Statement for Haitong Bank:

*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 skills and 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 business fronts are the following: DCM, Structured Finance, M&A Advisory, Fixed Income, Corporate Derivatives and Asset Management.*

*Haitong Bank acknowledges that its risk management function is a key factor for the accomplishment of its strategic objectives. The Bank's risk vision 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 and 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.*

In defining the material risks and the limits the Bank is willing to accept, the Board of Directors is deliberately introducing boundaries on the definition and execution of the Bank's strategy, ensuring business activities are pursued within acceptable risk levels.

Thus, the Risk Vision Statement is reflected in the wide set of limits, including alert and action levels, defined by the Board of Directors for all material risks, including Pillar I and Pillar II risks. These limits are set on a consolidated basis, with the Brazilian subsidiary having its own specific limits. Breaches of both alert and action levels should be immediately reported to the Executive Committee, who should inform the Board of Directors and the Supervisory Board. The Board of directors should notify the Bank of Portugal in due time.

Haitong Bank has transactions with third parties, both with third parties that are part of Haitong Securities Group and with related entities where members of the management bodies have significant influence. The tables below summarize these transactions:

| (in thousands ofEUR) | Assets | Guarantees | Liabilities | Income | Expenses |
|---|---|---|---|---|---|
| Haitong International Strategic Investment | | | | 8 000 | |
| Haitong Securities | | | | 24 000 | |
| Haitong International Securities Co. Ltd. | 1 297 | | | 3 918 | 1 |
| Haitong Innovation Securities Investment Co. Ltd. | | | | 1 500 | |
| Haitong International Securities Group Limited | | | | 2 102 | |
| Haitong International (UK) Limited | | | 69 | | 576 |
| Haitong International Advisory Company Limited | | | | 1 292 | |
| Haitong Investment Ireland PLC | 4 298 | 2 728 | 288 616 | 1 717 | 8 107 |
| Haitong Private Equity Fund | | | 5 118 | 15 | |
| **Total** | **5 595** | **2 728** | **293 803** | **42 544** | **8 684** |

**Table 2 –** Related parties transactions – Haitong Securities Group

| (in thousands ofEUR) | Assets | Guarantees | Liabilities | Income | Expenses |
|---|---|---|---|---|---|
| Nos Comunicações, S.A. | | | 17 | 7 843 | 8 013 |
| Mota-Engil SGPS | 11 849 | 29 000 | 10 | 1 175 | 17 |
| Gamalife - Cia. De Seguros de Vida, S.A. | | | | 140 | |
| **Total** | **11 849** | **29 000** | **27** | **9 158** | **8 030** |

**Table 3 –** Related parties transactions – Non-Haitong Securities Group

## 4.2 Capital and liquidity key ratios and figures

Haitong Bank's key metrics, as required by article 447, are presented below:

| | (in thousands of EUR) | 31.12.2021 | 30.09.2021 | 30.06.2021 | 31.03.2021 | 31.12.2020 |
|---|---|---|---|---|---|---|
| | **Available own funds (amounts)** | | | | | |
| 1 | Common Equity Tier 1 (CET1) capital | 433 264 | - | 438 277 | - | 421 756 |
| 2 | Tier 1 capital | 540 195 | - | 545 415 | - | 528 717 |
| 3 | Total capital | 542 216 | - | 547 712 | - | 530 281 |
| | **Risk-weighted exposure amounts** | | | | | |
| 4 | Total risk-weighted exposure amount | 2 297 225 | - | 2 080 086 | - | 1 861 841 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | | | |
| 5 | Common Equity Tier 1 ratio (%) | 18,9% | - | 21,1% | - | 22,7% |
| 6 | Tier 1 ratio (%) | 23,5% | - | 26,2% | - | 28,4% |
| 7 | Total capital ratio (%) | 23,6% | - | 26,3% | - | 28,5% |
| | **Additional own funds requirements to address risks other than the risk of excessive leverage (as a percentage of risk-weighted exposure amount)** | | | | | |
| EU 7a | Additional own funds requirements to address risks other than the risk of excessive leverage (%) | 5,0% | - | 5,0% | - | 5,0% |
| EU 7b | of which: to be made up of CET1 capital (percentage points) | 2,8% | - | 2,8% | - | 2,8% |
| EU 7c | of which: to be made up of Tier 1 capital (percentage points) | 3,8% | - | 3,8% | - | 3,8% |
| EU 7d | Total SREP own funds requirements (%) | 13,0% | - | 13,0% | - | 13,0% |
| | **Combined buffer requirement (as a percentage of risk-weighted exposure amount)** | | | | | |
| 8 | Capital conservation buffer (%) | 2,5% | - | 2,5% | - | 2,5% |
| EU 8a | Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%) | 0,0% | - | 0,0% | - | 0,0% |
| 9 | Institution specific countercyclical capital buffer (%) | 0,0% | - | 0,0% | - | 0,0% |
| EU 9a | Systemic risk buffer (%) | 0,0% | - | 0,0% | - | 0,0% |
| 10 | Global Systemically Important Institution buffer (%) | 0,0% | - | 0,0% | - | 0,0% |
| EU 10a | Other Systemically Important Institution buffer | 0,0% | - | 0,0% | - | 0,0% |
| 11 | Combined buffer requirement (%) | 2,5% | - | 2,5% | - | 2,5% |
| EU 11a | Overall capital requirements (%) | 15,5% | - | 15,5% | - | 15,5% |
| 12 | CET1 available after meeting the total SREP own funds requirements (%) | 11,5% | - | 13,8% | - | |
| | **Leverage ratio** | | | | | |
| 13 | Total exposure measure | 3 174 342 | - | 3 481 494 | - | 3 394 515 |
| **14** | **Leverage ratio (%)** | 17,0% | - | 15,7% | - | 15,5% |
| | **Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)** | | | | | |
| EU 14a | Additional own funds requirements to address the risk of excessive leverage (%) | 0,0% | - | 0,0% | - | - |
| EU 14b | of which: to be made up of CET1 capital (percentage points) | 0,0% | - | 0,0% | - | - |
| EU 14c | Total SREP leverage ratio requirements (%) | 3,0% | - | 3,0% | - | - |
| | **Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)** | | | | | |
| EU 14d | Leverage ratio buffer requirement (%) | 0,0% | - | 0,0% | - | - |
| EU 14e | Overall leverage ratio requirements (%) | 3,0% | - | 3,0% | - | - |
| | **Liquidity Coverage Ratio** | | | | | |
| 15 | Total high-quality liquid assets (HQLA) (Weighted value - average) | 724 096 | 721 700 | 707 485 | 692 497 | 703 868 |
| EU 16a | Cash outflows - Total weighted value | 383 330 | 366 534 | 342 464 | 318 496 | 288 861 |
| EU 16b | Cash inflows - Total weighted value | 81 160 | 74 111 | 66 300 | 59 913 | 50 248 |
| 16 | Total net cash outflows (adjusted value) | 302 171 | 292 423 | 276 164 | 258 583 | 238 612 |
| **17** | **Liquidity coverage ratio (%)** | **247%** | **252%** | **261%** | **274%** | **321%** |
| | **Net Stable Funding Ratio** | | | | | |
| 18 | Total available stable funding | 2 088 029 | 1 879 475 | 1 911 897 | - | - |
| 19 | Total required stable funding | 1 468 677 | 1 102 690 | 1 062 366 | - | - |
| **20** | **NSFR ratio (%)** | **142%** | **170%** | **180%** | - | - |

**Table 4 –** Haitong Bank's key metrics (EU KM1)

As of December 2021, both capital and liquidity ratios stood well above both the regulatory limits for each indicator and the internal limits approved by the Board of Directors within the scope of the Risk Appetite Framework, reflecting the solid capital and liquidity positions of Haitong Bank.

In February 2022, Bank of Portugal reduced the SREP add-on requirement to 4%, starting from July, 1, 2022.

Within the scope of its Risk Appetite Framework, Haitong Bank has identified and regularly reviews the set of material risks inherent to its activity, for which it establishes specific management strategies, controls, metrics and limits.

### 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 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 risks.

Credit portfolio management is carried out as an ongoing process that requires the 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 and 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 is considered as one of the key pillars of the Bank risk management and control system.

The monitoring of the credit portfolio is reported on a regular basis to the Board of Directors, the Executive Committee and the Risk Committee of the Bank.

#### 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.

### 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, specifically, equity, interest rates, foreign exchange rates and credit spreads. In the development of its activities, Haitong Bank is exposed to market risk in both its 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.

The identification, measurement, monitoring 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, when appropriate, and the 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. Also, to complement these metrics, the Bank performs scenario analysis and stress testing.

### Trading Book

Haitong Bank measures and quantifies trading market risk by carrying out a full revaluation risk analysis and thus generating a set of scenarios for the risk factor changes (the returns) and repricing the portfolio under each scenario. These scenarios allow for the creation of a P&L distribution. Given this distribution for a specified horizon date, the potential future portfolio price becomes a random variable and thus it is possible to estimate the riskiness based on the statistics of this random variable.

Haitong Bank estimates VaR by taking actual historical changes in the market variables over one-year time interval, a ten-day time horizon and revalues every position for each market scenario considering a 99% confidence level.

### Banking Book

Haitong Bank estimates both credit spread and interest rate risk in the banking book that arise from adverse movements in credit spread and in interest rates, respectively.

The market value of equity securities, mutual funds and real estate in non-trading exposures in the banking book is also considered. 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.

#### Interest Rate Risk of the Banking Book

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 sources of IRRBB (gap risk, basis risk and option risk) and assess the effect of market changes on the scope of its activities and manage IRRBB by measuring the sensitivity of the internal value of its banking book (EVE – Economic Value of Equity) and the sensitivity of its net interest margin expected in a 1 year time horizon (NII – Net Interest Income).

The measurement and reporting of the interest rate risk is performed on a monthly basis and it is based on Bank of Portugal's latest instruction (2020/03) and on the European Banking Authority's (EBA) GL 2018/02 final report on guidelines on the management of interest rate risk arising from non-trading book activities.

#### Credit Spread Risk

Credit spread risk measures the changes in the perceived credit quality of individual instruments, held on the banking book, which may result in fluctuations in spreads relative to underlying interest rates. Only instruments classified at fair value are taken into consideration.

The Bank uses a historical simulation VaR to assess the unexpected losses associated with this risk, based on a 10-day holding period and 1-year historical observations and a 99% confidence interval. For internal capital requirements, the Bank uses different parameters for the calculation of the VaR approach: 99.9% confidence level, 5-year lockdown period and a 1-year time horizon.

### 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).

The pension fund risk management is performed by two independent entities and operates through the following activities:

- Liabilities immunization by hedging of liabilities with fixed-income securities and stocks;
- Regular reports are submitted to the regulatory authorities;
- An independent entity provides an actuarial evaluation report and an integrated Value-at-Risk report (taking into account expected assets and liabilities evolution) and a sensitivity analysis;
- Identification and measurement of risks affecting financial assets, including an analysis of the total investment portfolio and ALM, which aims to appraise the adequacy of the value of assets and liabilities each year;
- Limitation of new entries to the pension fund: where the pension fund only includes employees hired before March 31, 2008; and
- Definition of the investment policy.

## Operational Risk

Haitong Bank defines operational risk as the risk of loss resulting from inadequate internal procedures or its 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 therefore considered as the sum of operational and information systems (IT) risks.

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 guidelines to operational risk management issued by the Basel Committee and ECB Guidelines on ICT Risk Assessment.

The operational risk management model is supported by an exclusively dedicated structure within the organisation that 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 and in the Bank's IT environment, 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.

## 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.

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 and funding 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 minimizing the cost of funding; and

- Continuously develop an appropriate internal framework for the identification, measurement, limitation, monitoring and mitigation of liquidity risk.

### Reputational Risk

Haitong Bank defined Reputational Risk as the probability of negative impacts on earnings or capital arising from a negative perception of the public image of the Bank, founded or not, by customers, suppliers, financial analysts, employees, investors, media outlets or by public opinion in general.

The governance set to address this risk relies on two main pillars, Business Continuity and the approval of new business, products or services committees. The Business Continuity Plan aims to identify the business, support and control departments' self-assessment of the acceptable business recovery time and back-up recovery points in the event of disaster. One of this exercise's goal is to measure the time that the bank's services would be unavailable for and the potential impacts on the business.

The approval of new business, products or services committees is also considered necessary for managing this risk as it sets down the obligation of assessing potential impacts on the client and consequent damage to Haitong's brand.

### Business Strategic Risk

Business Strategic Risk is the probability of having negative impacts on earnings or capital due to inadequate strategic decisions, inadequate implementation of decisions or the inability to address changes in the Bank's business environment.

The Board of Directors and the Executive Committee are the bodies responsible for monitoring this risk, being supported by two main tools: the Business Plan and the Risk Appetite Monitoring.

The governance set to manage this risk consists of the following steps: define the bank's annual budget and business plan through the formalization of the Bank's business plan, monitor the business plan's execution and alignment with risk strategy and finally the decision making by the Board of Directors and Executive Committee if deviations are detected.

### Capital Management

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 executes periodically 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.

### Compliance Risk

Compliance risk is defined as the probability of the results or equity of the Bank being adversely impacted as a result of any breach or non-conformity with laws, regulations, specific determinations, agreements, rules of conduct and relationship with clients, regular practice or ethical principles that leads to legal sanctions, restriction to business opportunities, reduction in the potential for expansion or the impossibility of demanding performance of contractual obligations.

The Compliance function is responsible for monitoring all processes and controls implemented by all business units with a view to managing compliance risk.

Haitong Bank Group's compliance function is led by the Head of the Compliance Function and ensured by the compliance departments of each geography in which the Group has a presence.

The Head of the Compliance Function has a direct reporting line to the Executive Director in charge of compliance in Haitong Bank, to whom he/she ensures the monitoring and operational reporting of the compliance function's activity.

### AML Risk

Haitong Bank’s AML-FT risk model is structured over a mix of policies/procedures, IT systems and recurrent trainings, designed to comply with its lawful obligations given the specificities of the Bank’s business activities over its relevant dimensions (i.e. clients and counterparties’ types of activities, channels used to engage clients, products/transactions, geographies, others specifically identified).

The assessment of AML risk is performed independently by the Compliance function.

### Governance Risk

Internal governance risk is defined as the risks that may arise from inadequate establishment of conduct, culture, organizational structure of the Bank, or internal control systems.

Haitong Bank has a robust, efficient and effective internal governance model as well as a clear organisational structure, with clear defined lines of reporting, accountability and responsibility. The Board of Directors delegates day-to-day management in the Executive Committee and is supported by internal committees advising on specific matters. The decision-making in relation to the business activities is delegated on committees composed by members of senior management.

### Stress Tests

Haitong Bank stress test programme establishes two types of stress test exercises: institution-wide stress tests and; risk specific stress tests.

Institution-wide stress tests aim to deliver a complete and holistic view of the Bank's risks and are conducted at group level and across portfolios, testing impacts on capital and liquidity ratios on a yearly basis.

Risk specific stress tests are performed on a more regular basis and test impacts of stress events on the Bank's main risks.

Stress tests are designed and coordinated by the Risk Management Department and are discussed in the Executive Committee, Assets and Liabilities Committee, Risk Committee and Board of directors.

## 4.4 Structure and organization of the Risk Management Function

The Board of Directors is responsible for Haitong Bank's Risk Management Framework. The Board of Director's 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.

Haitong Bank Risk Management Framework follows a three lines of defense approach:

- the first line of defense is composed of the areas where risks are generated, both financial and non-financial risks, and are the primary responsible for the management, control and mitigation of risk;
- the second line of defense includes the areas that are responsible for the establishment and monitoring of the risk management framework for each risk type;
- Internal Audit Department acts as the third line of defense, being in charge of providing independent assurance that the design effectiveness and efficiency of the Risk Management Framework are adequate.

In Haitong Bank, Compliance Department is in charge of the establishment and monitoring of the risk management framework for AML risk, Compliance risk and Governance risk, while the Risk Management Department is responsible for the establishment and monitoring of the risk management framework for the other material risks.

Compliance Department participates in the regular review of the Risk Appetite Framework, both by designing the Risk Appetite Framework for AML and Compliance risks and by reviewing the entire framework. Both Compliance and Internal Audit departments are informed of the risk appetite monitoring on a regular basis by the Head of the Risk Management Department, namely by sharing the Risk Appetite Monitoring monthly report.

Haitong Bank promotes a strong risk culture across the institution, where all employees are required to expressly adopt the Bank's Code of Conduct, which includes a wide set of rules to guide employee conduct. The Bank has a comprehensive compliance and risk training program addressed to all employees, covering a wide set of compliance and risk themes.

Risk Management Department, Compliance Department and Internal Audit Department act with autonomy and independence with appropriate human and technical resources.

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

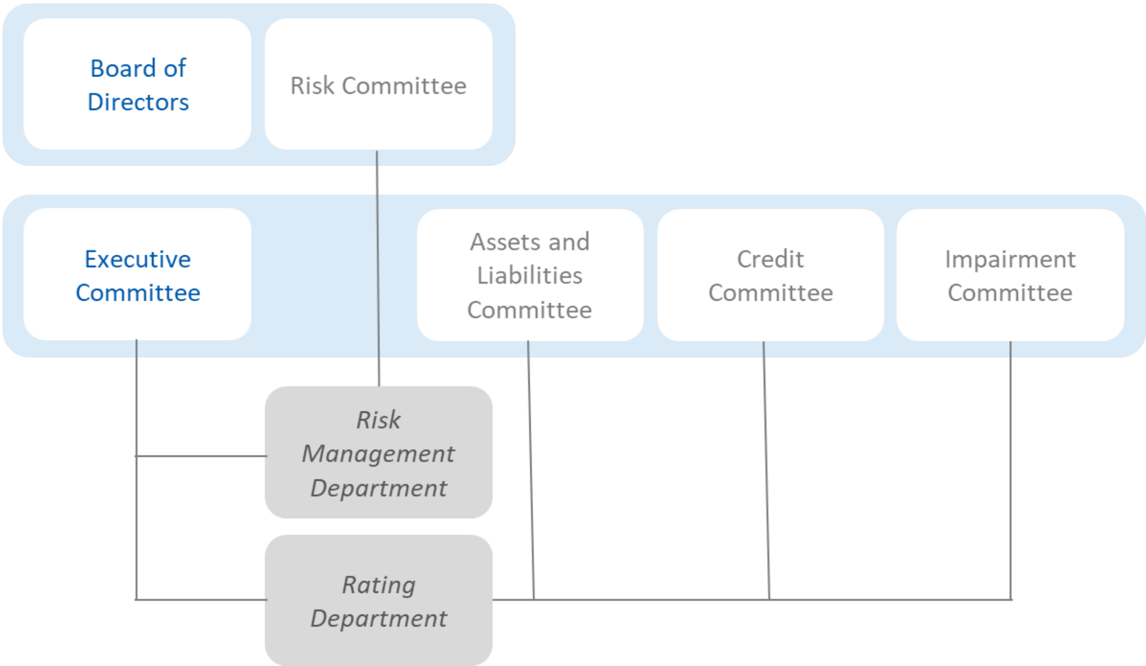


**Figure 2 –** Risk Management Framework

Despite the roles of the different committees established to directly monitor and manage risks, both the Board of Directors and the Executive Committee closely monitor risks across the Bank, through monthly reporting covering all risk appetite limits and metrics.

## Risk Committee

The Risk Committee of the Bank is appointed by the Board of Directors and is composed of three members of the Board of Directors (the majority of which independent directors) who do not perform executive functions. The Risk Committee shall carry out its responsibilities with full independence and authority.

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

The Risk Committee is responsible for:

- Advising 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;

- Assisting the Board of Directors in supervising the execution of the risk strategy of the Bank and in the fulfilment of its respective limits;
- Periodically reviewing the risk profile, risk policies and strategies of the institution;
- Assessing 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;
- Issuing recommendations on adjustments to the risk strategy resulting from changes in the business model, market developments or business context where the Bank operates;
- Analyzing and evaluating the methodology and its results to support the process of identification, evaluation and measurement of risks;
- Examining 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;
- Analyzing whether the conditions of the products offered and services provided to clients take into consideration the transaction model and risk strategy of the Bank, and, if necessary, submitting a correction plan to the Board of Directors whenever, as a result of such analysis, it is established that those conditions do not appropriately reflect the risks;
- Establishing 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;
- Establishing the framework for reporting on risk to the Board of Directors;
- Ensuring the existence of effective procedures for monitoring risk, and monitoring internal control deficiencies related to the risk management framework;
- Specifying and reviewing 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;
- Reviewing and periodically monitoring the scope and nature of the activities carried out by the Haitong Bank Group, related to risk management;
- Ensuring that the risk management function has adequate resources for the performance of its duties.

In 2021, the Risk Committee held 8 meetings. The Risk Committee has its ordinary meetings every two months and meets on an extraordinary basis when necessary to ensure the good performance of its duties upon a reasoned request submitted by any of the corporate bodies of the Bank or of any of the members of the Risk Committee.

### Assets and Liabilities Committee

The purpose of the Assets and Liabilities Committee is to be a consultative forum of the Executive Committee, advising it on matters related to Capital, Funding and Liquidity.

Amongst the competences of the Assets and Liabilities Committee, the following are highlighted:

- To support the Executive Committee in the definition of Capital and Liquidity/Funding Strategy in alignment with the Bank's overall business, strategy, and regulatory requirements;
- To monitor the liquidity and funding positions considering the Bank's operating model while managing the spread between interest income and interest expense;
- To support the Executive Committee in the definition of Market Risk, Interest Rate Risk, FX Risk, Liquidity Risk and Capital Adequacy policies and tolerance levels;
- To revise the funding needs and evaluate alternative funding sources as per Treasury advice;
- To evaluate liquidity and capital risk exposures to stress scenarios and the Bank's Liquidity Contingency Plan;
- To coordinate Regulatory Reporting: FCP; ICAAP; ILAAP; Recovery Plan;
- To propose the Internal Pricing Mechanism Policy to the Executive Committee;
- To review asset allocation for the whole balance sheet;
- To support the Executive Committee in the definition of the investment policy in relation to the Bank 's investment portfolio; and
- To monitor the investment portfolio's performance, benchmarking, total return, risk adjusted returns, and opportunity cost return.

The Assets and Liabilities Committee is chaired by the Executive Board Member responsible for the Brazilian subsidiary. Other members include the Executive Board Member responsible for Risk Management, the Treasury Department Head, the Head of Risk Management Department, the Head of the Finance Department, the Head of the CEO Office, the Head of Corporate Solutions, the Head of Structured Finance, and the Head of the Fixed Income Division and the Head of Corporate Derivatives Desk.

During 2021, the Assets and Liabilities Committee held 5 (five) meetings, one being electronic.

### Credit Committee

The Credit Committee, established by the Executive Committee, is responsible for:

- Assessing and deciding on operations involving credit or counterparty risk taking for the Bank within the Credit Committee's Decision Framework established by the Executive Committee;
- Issuing recommendations to the Executive committee on operations involving credit or counterparty risk regarding operations that fall outside of:
    - (i) the Credit Committee's Decision Framework approved by the Executive Committee;

(ii) the Risk Appetite Framework (“RAF”) approved by the Board of Directors; in which case 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.

The Credit Committee is composed of 8 (eight) members with voting rights (including the Moderator) and, without voting rights, the Head of the Risk Management Function, a Support Assistant and a Secretary. The members are nominated by the Chief Executive Officer (“CEO”) and appointed by the Executive Committee. The Credit Committee may decide to call upon external persons to take part in the meetings.

During 2021 the Credit Committee held 55 (fifty five) meetings.

### Impairment Committee

The Impairment Committee of Haitong Bank is responsible for analyzing and deciding on the individual impairment of financial instruments and or other assets subject to individual impairment, 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). In addition, the Impairment Committee shall analyze the adequacy of the impairment of the most significant exposures of the Bank.

This Committee is also responsible for analyzing and deciding on cash-flows scenarios to be used on financial instruments valuation accounted at Fair Value through P/L when the cash-flows are not certain according to its contractual terms.

This Committee has consultative powers and issues, in relation to the above-mentioned analyses, recommendations for consideration and approval by the Executive Committee. The duties of the Impairment Committee cover all entities of the Haitong Bank Group.

The Impairment Committee is composed of 4 (four) voting members (including the Chair), all of them appointed by the Executive Committee; non-voting members to be designed by the Chair of the Committee and; the Secretary.

During 2021, the Impairment Committee held 12 (twelve) meetings.

### Risk Management Department

The Risk Management Department is the independent structure responsible for the implementation and monitoring of the Risk Appetite Framework, ensuring the development and implementation of a Risk Management Framework based on robust processes of identification, evaluation, monitoring and control of risks inherent to the Bank’s activity, consistently incorporating risk, capital and liquidity concepts into the Bank’s strategy and business decisions.

Risk Management Department key responsibilities are:

- Participate on the Bank's risk strategy definition, and ensure the implementation and monitoring of a comprehensive and solid Risk Appetite Framework;
- Ensure the development and implementation of a Risk Management Framework based on robust processes of identification, evaluation, monitoring and control of risks, as well as to coordinate the development of policies and procedures to support these processes;
- Ensure the development and submit for approval of the Board of Directors, after prior opinion of the Supervisory Board, of policies to support the system of the risk management and its effective application;
- Identify the risks inherent to the developed activity, on an individual, aggregate, current and prospective basis, and evaluate and measure said risks, using appropriate methodologies;
- To permanently monitor risk-taking activities and the inherent risk exposures, assessing their fit in terms of the approved risk appetite and the defined risk limits, and ensuring the planning of the corresponding capital and liquidity needs under normal and adverse circumstances;
- Develop, implement and monitor the Internal Capital Adequacy Assessment Process ("ICAAP") and the Internal Liquidity Adequacy Assessment Process ("ILAAP"), as well as coordinate the preparation of the respective documents;
- To keep members of the management bodies up to date with regard to the amounts, typology and distribution of internal capital and regulatory capital, in order to adequately face the risks to which the Bank is exposed to;
- Participate in the process of approving new products and services, by carrying out an evaluation of the risks associated with them and an analysis of the institution's ability to manage those risks;
- Ensure that transactions with related parties are reviewed and that the actual or potential risks raised by them to the institution are identified and adequately assessed;
- Advise management bodies before decision taking involving material risks, particularly when it involves acquisitions, divestitures, mergers or the launch of new activities or products, in view to ensure a timely and appropriate impact assessment of it in the overall risk profile of the Bank;
- To monitor market developments, legal and regulatory changes related to the Risk Control Function, the strategic planning process and the respective decisions of the Haitong Group, in order to ensure the continuous update of the function;
- Develop and implement alert mechanisms for situations of non-compliance with the risk appetite or the established risk limits;
- Make recommendations based on the results of the evaluations carried out and develop a continuous monitoring of the situations identified, with appropriate frequency to the associated risks;
- Prepare and keep up to date a Risk Management Plan to ensure that all material risks of the Institution and Haitong Group are identified, assessed, monitored and appropriately reported;
- Provide independent information, analysis and expert assessments about risk exposures, as well as issuing an opinion on the compatibility of risk proposals and decisions with the institution's risk tolerance / appetite;
- Participate with inputs in the process of deliberation of the remuneration policy, supporting the management bodies in its dissemination and ensuring the alignment with the Bank's risk appetite framework;
- To assist the governing and supervisory bodies in the promotion of a risk culture, in a transversal way;

- Prepare and submit to the management and supervisory bodies, on a regular basis, reports on risk management issues, including an assessment of the overall risk profile and material risks of the Haitong Group, a summary of key weaknesses detected in control actions, including those that are non-material when considered in isolation but which may indicate tendencies of deterioration of the internal control system, as well as the identification of recommendations that have been (or are not) followed;
- Report to the managing and supervisory bodies any infraction or breach (including its causes, and a legal and economic analysis of the actual cost of eliminating, reducing or offsetting the risk exposure vis-à-vis to the cost of keeping said risk exposure), informing, whenever appropriate, the concerned areas and proposing possible solutions;
- Ensure the groundwork and submission of the prudential reports related to the Risk Management Framework the Haitong Group.

The Department holds its main structure in the Head Office and has local teams in the Polish branch and in the Brazilian subsidiary.

The local team in Poland is an extension of the head office team reporting both to local management structures and to the Risk Management Department in Lisbon.

In Brazil, the local risk team has functions similar to the ones performed in Lisbon, reporting to the local executive board member in charge of risk and to the Group's executive board member in charge of risk.

The Risk Management Department has the following structure:


**Figure 3** – Risk Management Department Structure

### Rating Department

Together with the Risk Management Department, the Rating Department is part of the Risk Control Function of Haitong Bank. Acting with independence from the business units, the Rating Department plays a key role in supporting the Bank's decision-making process through the assignment of internal ratings and non-binding technical recommendations and assisting the Impairment Committee on the impairment assessment on an individual basis.

Rating department key responsibilities include:

- Assigning internal ratings and ensuring the methodological alignment of internal ratings methodology with S&P's Global Ratings criteria;
- Participating and supporting the credit decision process at Credit Committee by informing on the transactions credit risk and issuing non-binding risk advises;
- Participating and assisting the Impairment Committee on assessing the credit impairments on individual analysis.

Both the Risk Management Department and Rating Department report directly to the executive board member in charge of risk.

### Compliance Department

The Compliance Department ensures mechanisms for the communication across the Bank and the Group and the knowledge of all employees of the Bank and the Group.

Compliance department's key responsibilities include:

- Identifying and assessing on an ongoing basis the compliance risks associated with the Bank's and the Group's business;
- Providing compliance risk training programmes, in which all employees of the Bank and the Group must be involved, as well as to welcome and integrate any new employees;
- Monitoring the effectiveness if the procedures adopted in order to detect any risk of non-compliance.

The Compliance department reports directly to the executive board member in charge of compliance.

## 4.5 Risk reporting and measurement systems

Haitong Bank has in place an integrated set of processes that enable the identification, measurement, aggregation and appropriate reporting of the different risks to which the Bank is exposed to. These processes allow the extraction, transformation and population of the Bank's data warehouse with information from the different systems to support the production of both internal and external reports, as well as prudential reports.

Risk Management Department produces reports to monitor and control the risk taking activities, assessing their compliance with the Bank's risk appetite and established risk limits, and distributes them to the risk taking units and the management bodies to support their decision-making process.

Credit Risk

- Daily collection, preparation, control and reporting to the different business areas of credit information on collateral coverage, breached limits and covenants control *vis-à-vis* the approved limits;
- Weekly risk reporting with an overview of the Bank's credit risk, including new/recent approvals by the Credit Committee, breached limits and covenants control *vis-à-vis* the approved limits, and additional credit risk information;
- Monthly report of the Risk Appetite Monitoring, with an overview of the Bank's asset quality and concentration risk;
- Preparation of support material for external and internal reporting on credit.

Market Risk

- Daily collection, preparation, control and reporting to the different trading desks and to the treasury department information on positions, results, exposure and level of limits utilization based on the different risk metrics defined by the Bank such as VaR, Stop Loss, sensitivity exposure to the different risk factors and other complementary concentration metrics;
- Weekly risk reporting with an overview of the Bank's market risk and limits utilization;
- Monthly report of the Bank's Global VaR and Stop Loss exposures vis-à-vis the approved limits;
- Monthly report of the Bank's interest rate risk of the banking book.

Operational Risk

Operational risk report to the management bodies is included in the Risk Appetite Monitoring, being the focus of this report the following data:

- Monthly, the operational events and losses that crystalized. If an event breaches the limit set in the bank's Risk Appetite Framework, the resolution action is also presented in this forum;
- Monthly, the key risk indicators, which enable the bank's monitoring of some of its risks;
- The Risk Control Self-Assessment, which aims for all the departments of the bank to identify, assess and mitigate their risks.

Liquidity Risk

Liquidity risk reporting is included in the Risk Appetite Monitoring report and includes:

- Analysis of the evolution of liquidity prudential ratios – LCR & NSFR on both Individual and Consolidated perimeters;
- Analysis of the composition of the HQLA (High Quality Liquid Assets) portfolio;
- Analysis of balance sheet maturity mismatches;
- Analysis of concentration of funding by counterparty, product and volumes evolution;

- Analysis of deposits evolution;
- Report on liquidity available for new deals.

Pension Fund Risk

- Pension fund risk is monitored in the Risk Appetite Monitoring;
- Pension fund risk is monitored in the Pension Plan Monitoring Committee.

Reputational Risk

- Reputational risk reporting is included in the Risk Appetite Monitoring report upon the occurrence of a material reputational risk event.

Business Strategic Risk

- Business strategic risk monitoring takes place in the Bank's Executive Committee upon the Business Plan execution follow-up.

### 4.6 Information flow on risk to the management body

The Risk Management Department prepares and presents to the management bodies, on a regular basis, a comprehensive report on the overall risk position of the Bank, covering all material risks and monitoring all Risk Appetite Framework metrics – the Risk Appetite Monitoring report.

The Risk Appetite Monitoring report contents are defined in the Global Risk Management Corporate Regulation approved by the Board of Directors.

The Risk Management Department presents the Risk Appetite Monitoring report to the Executive Committee every month. Additionally, the Risk Management Department presents the Risk Appetite Monitoring report to the Board of Directors and to the Risk Committee in their ordinary meetings. Non-regular reporting to the Executive Committee and to the Board of Directors may occur whenever the Head of the Risk Management Department deems necessary or any member of the management bodies requires such reporting.

### 4.7 Policies for hedging and mitigating risk

Haitong Bank has a comprehensive reporting framework covering all material risks, namely regarding the monitoring of the Risk Appetite Framework, as well as a committee structure, described in the previous chapters, designed to monitor and control risks on a permanent basis.

Regarding credit risk and credit concentration risk, the main risk mitigation techniques are financial pledges (funded credit protection – financial collateral) and personal guarantees (unfunded credit protection with a substitution effect). The Bank follows the prescription of CRR regarding collateral haircuts for impairment calculation, considering the collateral value after the haircut application. In markets area, secured financing transactions (repos), netting agreements and margin exchange contracts are the main risk mitigation techniques employed.

To mitigate the market risk arising from the trading and banking books, the Bank establishes limits to the level of exposure of each risk taking unit and employs different strategies to manage and hedge the market risk, such as entering into derivatives transactions that partially or completely offset the risk and/or closing of positions. The Risk Management Department monitors and reports to the different risk taking units exposure to market risk to ensure compliance with the established limits.

Haitong Bank's operational risk is mitigated by the active management of operational risk which includes:

- the processes in place to identify and evaluate operational risks throughout the organization on a regular basis, namely through the Risk Control Self-Assessment, the Key Risk Indicators and the Operational Events collection;
- the collection, analysis and classification of operational risk events ensuring remedial measures are taken when appropriate.

Haitong Bank's liquidity risk mitigation techniques include:

- a process for monitoring and reporting a set of liquidity risk metrics whose limits are established within the Risk Appetite Framework, including prudential liquidity ratios for which a buffer above regulatory limits is established;
- proactive management of liquidity and funding with monthly cash flow and liquid assets position forecast;
- stress test exercises on a monthly basis and within the scope of the ILAAP and the Recovery Plan;
- liquidity contingency plans;
- close monitoring of the liquidity position by the Executive Committee.

For reputational risk, Haitong Bank has in place the following risk mitigation and control techniques:

- Products, Services and Processes Sign-off: the review and assessment of new products, activities, processes and systems prior to its release or deployment is particularly relevant for the mitigation of reputational risk;
- losses Report: the losses database, which contains information on real events, feeds the risk identification and risk monitoring processes. All the reputational events that originate losses are reported;
- policies, codes of conduct, guidelines and procedures: these elements are of vital importance not only to achieve the Bank's business goals, but also to guide the behaviours and actions of all elements of the Bank from top management to staff so that they do not put the Bank's reputation in jeopardy;
- Business Continuity and Crisis Management Plan: the business continuity and crisis management includes the planning and preparation of an effective response to reputational events that may affect the Bank's ability to continue to operate under normal circumstances.

The Bank's business strategic mitigation techniques include:

- the Board of Directors / Executive Committee follow-up of the business evolution on a monthly basis;
- the Risk Committee monitoring of the evolution of the business to ensure alignment between the Bank's business and risk strategies;
- the existence of a reporting system (internal and external to the shareholder) informing on the evolution of business on a monthly basis.

# 5 MANAGEMENT BODY DISCLOSURES

The following table shows the number of directorship positions held by each member of the Board of Directors in 2021, both in Haitong Group companies and not and both executive and non-executive:

| Board of Directors | Number of directorship positions |
|---|---|
| **Chairman** | |
| Lin Yong | 7 |
| **Members** | |
| Wu Min | 3 |
| Alan Fernandes | 3 |
| Miguel Guiomar | 3 |
| Nuno Carvalho | 3 |
| Vasco Câmara Martins | 1 |
| António Domingues | 2 |
| Martina García | 2 |
| Pan Guangtao | 7 |
| Paulo Martins | 4 |
| Vincent Camerlynck | 4 |
| Zhang Xinjun | 6 |

**Table 5 –** Number of directorships held by the members of the Board of Directors

Recruitment policy and diversification policy for the selection of members of the management body

The Policy on the Selection and Assessment of Members of the Board of Directors, Supervisory Board and Key Function Holders of Haitong Bank, S.A." (hereinafter "Policy on Selection and Assessment") was updated and approved by General Meeting resolution on the 30th of April 2021. This Policy aims at complying with provisions in Article 30-A/2 of the Legal Framework of Credit Institutions and Financial Companies (hereinafter "RGICSF") and ensuring that Haitong Bank adopts the highest national and international standards of governance of credit institutions.

This policy aims to ensure the suitability of the members of the corporate bodies and key function holders, not just at the beginning of their duties but also throughout their term of office. In this context, suitability refers to the members' ability to ensure, at all times, a sound and prudent management of the financial institution, viewing, in particular, the safeguarding of the financial system and the interests of its clients, depositors, investors and other creditors. For this end, the said officers must comply with the fit and proper, professional qualification, independence and availability requirements.

The Policy on Selection and Assessment establishes the following:

*i)* Identification of the persons responsible for assessing the suitability of the Bank's officers;
*ii)* Assessment of the adopted procedures;
*iii)* Suitability requirements;

*iv)* Diversity requirements;

*v)* Rules on the prevention, reporting and remedying of conflicts of interest;

*vi)* Assurance that continuous training plan means for the management and supervisory bodies and key functions holders are made available.

The aforementioned Policy establishes also that the Board of Directors and the Supervisory Board must be composed of members who will collectively gather the knowledge, skills and experience in the following areas of banking and financial activities, including but not limited to:

i. Definition and implementation of medium and long term business and strategic plans;
ii. Banking and financial operations;
iii. Financial, foreign exchange and commodities markets;
iv. Securities, derivative financial instruments and structured products;
v. Financial Analysis;
vi. Accounting policies;
vii. Financial audit and operational control;
viii. Capital requirements and liquidity management;
ix. Risk analysis and management;
x. Remuneration policies;
xi. Internal and external disclosure of information;
xii. Legal and regulatory framework;
xiii. Governance systems.

In its Selection and Assessment Policy, Haitong Bank commits to having 30% of women represented in the following positions by 2022:

*i)* The Board of Directors

*ii)* The Supervisory Board

*iii)* In overall key function positions.

By the end of 2021, within the Bank's management bodies and key function holders, around 29% were represented by women. At the same date, women represented 39% of the total workforce and there is also a considerable number of female employees in senior positions at the Bank.

A description of the academic background, professional experience and detailed information on the directorship positions held by the members of the Board of Directors can be found on the annex to the Corporate Governance Report included in the Annual Report of the Bank.

The Selection and Assessment Policy can be found on Haitong Bank's website (through the following link: https://www.haitongib.com/media/4228977/p06_selectionassessment-policy.pdf ).

# 6 OWN FUNDS

The present Market Discipline report is elaborated under the CRR (Regulation (EU) 2019/876 amending Regulation (EU) No 575/2013) and CRD (Directive (EU) 2019/878 amending Directive 2013/36/EU), while the 2021 Annual Report is prepared in accordance with IFRSs.

The table below provides a full reconciliation of the balance sheet figures between the financial accounting statements and the prudential treatment, allocated to the different risk frameworks.

| 31 Dec. 2021 | | Carrying values of items | | | | | (in thousands of EUR) | |
|---|---|---|---|---|---|---|---|---|
| | **Carrying values as reported in published financial statements and under scope of regulatory consolidation** | **Subject to the credit risk framework** | **Subject to the CCR framework** | **Subject to the securitisation framework** | **Subject to the market risk framework** | **Not subject to capital requirements or subject to deduction from capital** | **Balance amounts used for Own funds** | **(*)** |
| **Assets** | | | | | | | | |
| Cash and deposits at central banks | 488 544 | 488 544 | - | - | - | - | - | |
| **Financial assets at fair value through profit or loss** | **455 753** | **19 799** | **89 914** | **-** | **435 954** | **-** | **-** | |
| Financial assets held-for-trading | 435 954 | - | 89 914 | - | 435 954 | - | - | |
| Securities | 346 040 | - | - | - | 346 040 | - | - | (k) |
| Derivatives financial assets | 89 914 | - | 89 914 | - | 89 914 | - | - | (k) |
| Non-trading financial assets mandatorily ar fair value through profit or loss | 19 799 | 19 799 | - | - | - | - | - | |
| Securities | 19 777 | 19 777 | - | - | - | - | - | (k) |
| Loans and advances to customers | 22 | 22 | - | - | - | - | - | (k) |
| **Financial assets at fair value through other comprehensive income** | **259 769** | **259 769** | **-** | **-** | **-** | **-** | **-** | (k) |
| **Financial assets measured at amortised cost** | **1 207 036** | **1 207 036** | **-** | **-** | **-** | **-** | **-** | |
| Securities | 532 773 | 532 773 | - | - | - | - | - | |
| Loans and advances to banks | 54 022 | 54 022 | - | - | - | - | - | |
| Loans and advances to customers | 620 241 | 620 241 | - | - | - | - | - | |
| Hedging derivatives | - | - | - | - | - | - | - | |
| Non-current assets held-for-sale | 6 538 | 6 538 | - | - | - | - | - | |
| Other tangible assets | 9 975 | 9 975 | - | - | - | - | - | |
| Intangible assets | 3 618 | - | - | - | - | 3 618 | - | (h) |
| Investments in associated companies | - | - | - | - | - | - | - | |
| Tax assets | 120 051 | 45 440 | - | - | - | 74 611 | - | |
| Current income tax assets | 24 819 | - | - | - | - | 24 819 | - | |
| Deferred income tax assets | 95 232 | 45 440 | - | - | - | 49 792 | - | (e) (j) (n) |
| Other assets | 195 368 | 195 368 | - | - | - | - | - | |
| **Total Assets** | **2 746 652** | **2 232 469** | **89 914** | **0** | **435 954** | **78 229** | **0** | |
| **Liabilities** | | | | | | | | |
| **Financial liabilities held-for-trading** | **75 638** | **-** | **74 602** | **-** | **75 638** | **-** | **-** | |
| Securities | 1 036 | - | - | - | 1 036 | - | - | (i) |
| Derivatives financial liabilities | 74 602 | - | 74 602 | - | 74 602 | - | - | (i) |
| **Financial liabilites Measured at amortised cost** | **1 950 147** | **72 856** | **-** | **-** | **-** | **1 877 291** | **-** | |
| Resources from credit institutions | 759 397 | 22 577 | - | - | - | 736 820 | - | |
| Resources from customers | 1 164 000 | 50 278 | - | - | - | 1 113 722 | - | |
| Debt securities issued | 26 750 | - | - | - | - | 26 750 | - | |
| Provisions | 19 939 | - | - | - | - | 19 939 | - | |
| Tax liabilities | 7 568 | - | - | - | - | 7 568 | - | |
| Current income tax liabilities | 7 267 | - | - | - | - | 7 267 | - | |
| Deferred income tax liabilities | 301 | - | - | - | - | 301 | - | |
| Other liabilities | 86 513 | - | - | - | - | 86 513 | - | |
| **Total Liabilities** | **2 139 805** | **72 856** | **74 602** | **0** | **75 638** | **1 991 311** | **0** | |
| **Equity** | | | | | | | | |
| Share capital | 844 769 | | | | | | 844 769 | (a) |
| Share premium | 8 796 | | | | | | 8 796 | (a) |
| Other equity instruments | 108 773 | | | | | | 105 415 | ∑(d) |
| Fair-value reserves | ( 1 926) | | | | | | ( 1 926) | (b) |
| Other reserves and retained income | ( 376 071) | | | | | | ( 376 071) | (b) |
| Net profit/(loss) of the year attributable shareholders of the parent company | 3 552 | | | | | | 3 552 | (c) |
| **Total equity attributable to the shareholders of the parent company** | **587 893** | | | | | | | |
| Non-controlling interests | 18 954 | | | | | | 10 611 | (f) (g) (m) |
| **Total Equity** | **606 847** | | | | | | | |
| **Total Equity and Liabilities** | **2 746 652** | | | | | | | |

*(*) The references (a) – (n) identify balance sheet components that are used in the calculation of regulatory capital.*

**Table 6** – Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (EU LI1)

A description of the main components of Haitong Bank Own Funds as of December 31, 2021, is given below. This is described in Note 34 of the 2021 Annual Report.

| | 31 Dec. 2021 | Items subject to | | | (in thousands of EUR) |
|---|---|---|---|---|---|
| | **Total** | **Subject to the credit risk framework** | **Subject to the securitisation framework** | **Subject to the CCR framework** | **Subject to the market risk framework** |
| | | **Assets** | | | |
| **Assets carrying value amount under the scope of prudential consolidation (as per template LI1)** | 2 668 423 | 2 232 469 | - | 89 914 | 435 954 |
| **Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)** | 148 494 | 72 856 | - | 74 602 | 75 638 |
| **Total net amount under the scope of prudential consolidation** | 2 519 929 | 2 159 613 | - | 15 312 | 360 316 |
| **Off-balance-sheet amounts** | 290 399 | 290 399 | - | - | - |
| *Differences in valuations* | ( 701) | - | - | - | - |
| *Differences due to different netting rules, other than those already included in row 2* | - | - | - | - | - |
| *Differences due to consideration of provisions* | ( 39 875) | ( 39 875) | - | - | - |
| *Differences due to the use of credit risk mitigation techniques (CRMs)* | ( 105 397) | - | - | - | - |
| *Differences due to credit conversion factors* | ( 89 194) | ( 89 194) | - | - | - |
| *Differences due to Securitisation with risk transfer* | - | - | - | - | - |
| *Other differences* | - | - | - | - | - |
| **Exposure amounts considered for regulatory purposes** | 2 995 551 | 2 619 923 | **-** | **15 312** | **360 316** |

**Table 7 -** Main sources of differences between regulatory exposure amounts and carrying values in financial statements (EU LI2)

## Share Capital

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 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 2021 and 2020, 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 premium

As at 31st December 2021 and 2020, 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 2021 Haitong Bank Financial Statements 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 31st of December 2021 and 2020, 3,731 thousand euros regarding these bonds are in circulation. In the year of 2021 and 2020 the Group haven't paid interest.

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, described in 2021 Haitong Bank Financial Statements, laid down in Note 2.6.

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 lasted until the end of 2017, with the exception of the deferred tax assets generated prior to January 1, 2014, and both the subordinated debt and all the hybrid instruments not eligible as own funds under the new regulations, which have a longer transitional period (until the end of 2021).

On December 31, 2021, Haitong Bank's Regulatory Own Funds and deductions were as follows:

| (in thousands of EUR) | | Amounts at 31 Dec. 2021 | Source based on reference numbers of the balance sheet under the regulatory scope of |
|---|---|---|---|
| | **Common Equity Tier 1 (CET1) capital: instruments and reserves** | | |
| 1 | Capital instruments and the related share premium accounts | 853 565 | (a) |
| | of which: Instrument type 1 | - | |
| | of which: Instrument type 2 | - | |
| | of which: Instrument type 3 | - | |
| 2 | Retained earnings | 0 | |
| 3 | Accumulated other comprehensive income (and other reserves) | -377 997 | (b) |
| EU-3a | Funds for general banking risk | 0 | |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | 0 | |
| 5 | Minority interests (amount allowed in consolidated CET1) | 7 074 | (f) |
| EU-5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 3 552 | (c) |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | 486 195 | |
| | **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | |
| 7 | Additional value adjustments (negative amount) | -701 | (j) |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -3 618 | (h) |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | -49 792 | (e) |
| 11 | Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value | 0 | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | 0 | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | 0 | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | 0 | |
| 15 | Defined-benefit pension fund assets (negative amount) | 0 | |
| 16 | Direct and indirect holdings by an institution of own CET1 instruments (negative amount) | 0 | |
| 17 | Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | |
| 18 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | |
| EU-20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | 0 | |
| EU-20b | of which: qualifying holdings outside the financial sector (negative amount) | 0 | |
| EU-20c | of which: securitisation positions (negative amount) | 0 | |
| EU-20d | of which: free deliveries (negative amount) | 0 | |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount) | 0 | |
| 22 | Amount exceeding the 17,65% threshold (negative amount) | 0 | |
| 23 | of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | 0 | |
| 25 | of which: deferred tax assets arising from temporary differences | 0 | |
| EU-25a | Losses for the current financial year (negative amount) | 0 | |
| EU-25b | Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount) | 0 | |
| 27 | Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount) | 0 | |
| 27a | Other regulatory adjusments | 1 181 | |
| 28 | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **-52 931** | |
| 29 | **Common Equity Tier 1 (CET1) capital** | **433 264** | |

| (in thousands of EUR) | | Amounts at 31 Dec. 2021 | Source based on reference numbers of the balance sheet under the regulatory scope of |
|---|---|---|---|
| | **Additional Tier 1 (AT1) capital: instruments** | | |
| 30 | Capital instruments and the related share premium accounts | 105 042 | |
| 31 | of which: classified as equity under applicable accounting standards | 105 042 | (d) |
| 32 | of which: classified as liabilities under applicable accounting standards | 0 | |
| 33 | Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 | 373 | (d) |
| EU-33a | Amount of qualifying items referred to in Article 494a(1) subject to phase out from AT1 | 0 | |
| EU-33b | Amount of qualifying items referred to in Article 494b(1) subject to phase out from AT1 | 0 | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties | 1 516 | (g) |
| 35 | of which: instruments issued by subsidiaries subject to phase out | 0 | |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | 106 931 | |
| | **Additional Tier 1 (AT1) capital: regulatory adjustments** | | |
| 37 | Direct and indirect holdings by an institution of own AT1 instruments (negative amount) | 0 | |
| 38 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | |
| 39 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | |
| 40 | Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | 0 | |
| 42 | Qualifying T2 deductions that exceed the T2 items of the institution (negative amount) | 0 | |
| 42a | Other regulatory adjustments to AT1 capital | 0 | |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | 0 | |
| **44** | **Additional Tier 1 (AT1) capital** | 106 931 | |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | 540 195 | |
| | **Tier 2 (T2) capital: instruments** | | |
| 46 | Capital instruments and the related share premium accounts | 0 | |
| 47 | Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 as described in Article 486 (4) CRR | 0 | |
| EU-47a | Amount of qualifying items referred to in Article 494a (2) subject to phase out from T2 | 0 | |
| EU-47b | Amount of qualifying items referred to in Article 494b (2) subject to phase out from T2 | 0 | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | 2 021 | (m) |
| 49 | of which: instruments issued by subsidiaries subject to phase out | 0 | |
| 50 | Credit risk adjustments | 0 | |
| **51** | **Tier 2 (T2) capital before regulatory adjustments** | 2 021 | |
| | **Tier 2 (T2) capital: regulatory adjustments** | | |
| 52 | Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount) | 0 | |
| 53 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | 0 | |
| 54 | Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | 0 | |

| (in thousands of EUR) | | Amounts at 31 Dec. 2021 | Source based on reference numbers of the balance sheet under the regulatory scope of |
|---|---|---|---|
| 55 | Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | 0 | |
| EU-56a | Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount) | 0 | |
| 56b | Other regulatory adjusments to T2 capital | 0 | |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | 0 | |
| **58** | **Tier 2 (T2) capital** | 2 021 | |
| **59** | **Total capital (TC = T1 + T2)** | 542 216 | |
| **60** | **Total risk exposure amount** | 2 297 225 | |
| | **Capital ratios and requirements including buffers** | | |
| 61 | Common Equity Tier 1 | 18,9% | |
| 62 | Tier 1 | 23,5% | |
| 63 | Total capital | 23,6% | |
| 64 | Institution CET1 overall capital requirements | 9,8% | |
| 65 | of which: capital conservation buffer requirement | 2,5% | |
| 66 | of which: countercyclical capital buffer requirement | 0,0% | |
| 67 | of which: systemic risk buffer requirement | 0,0% | |
| EU-67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement | 0,0% | |
| EU-67b | of which: additional own funds requirements to address the risks other than the risk of excessive leverage | 2,8% | |
| 68 | **Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements** | 11,5% | |
| | **Amounts below the thresholds for deduction (before risk weighting)** | | |
| 72 | Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 1 692 | |
| 73 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions) | 0 | |
| 75 | Deferred tax assets arising from temporary differences (amount below 17.65% threshold, net of related tax liability where the conditions in Article 38 (3) are met) | 25 468 | (n) |
| | **Applicable caps on the inclusion of provisions in Tier 2** | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | 0 | |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | 0 | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the | 0 | |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | 0 | |
| | **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)** | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | 0 | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | 0 | |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | 373 | |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | -3 358 | |
| 84 | Current cap on T2 instruments subject to phase out arrangements | 0 | |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | 0 | |

*(*) The references (a) – (n) identify balance sheet components, which are used in the calculation of regulatory capital.*

**Table 8 –** Own Funds (EU CC1)

Minority interest means the amount of Common Equity Tier 1 capital of a subsidiary of an institution that is attributable to natural or legal persons other than those included in the prudential scope of consolidation of the institution. On December 31, 2021, the Minority Interest adjustments to own funds were as detailed below:

| (in thousands of EUR) | (*) | Dec. 21 | % | Dec. 20 | % |
|---|---|---|---|---|---|
| Haitong Banco de Investimento do Brasil S.A. | | 18 954 | 20% | 18 793 | 20% |
| **Non-Controlling Interest** | | **18 954** | | **18 793** | |

| (in thousands of EUR) | | Dec. 21 | | Dec. 20 | |
|---|---|---|---|---|---|
| | (*) | Fully Loaded | Phased-in | Fully Loaded | Phased-in |
| Minority interests (amount allowed in consolidated CET1) | (f) | 7 074 | 7 074 | 5 473 | 5 473 |
| Instruments issued by subsidiaries that are given recognition in AT1 Capital (minority Interests) | (g) | 1 516 | 1 516 | 1 173 | 1 173 |
| Instruments issued by subsidiaries that are given recognition in T2 Capital | (m) | 2 021 | 2 021 | 1 564 | 1 564 |

*(*) The references (a) – (n) identify balance sheet components which are used in the calculation of regulatory capital.*

**Table 9 –** Minority Interests' own funds regulatory adjustments

On 31 December 2021 and 31 December 2020 the DTA prudential treatment is detailed below:

| (in thousands of EUR) | (*) | Dec. 21 | Deducted to Own Funds | Not Deducted to Own Funds | Dec. 20 | Deducted to Own Funds | Not Deducted to Own Funds |
|---|---|---|---|---|---|---|---|
| **Deferred Tax Assets that rely on future profitability** | | **75 261** | | | **74 089** | | |
| Not resulting from temporary differences | (e) | 49 792 | 49 792 | - | 49 841 | 49 841 | - |
| Resulting from temporary differences | (n) | 25 468 | - | 25 468 | 24 247 | - | 24 247 |
| **Deferred Tax Assets that do not rely on future profitability** | (j) | **19 971** | - | **19 971** | **21 610** | - | **21 610** |
| **Total Deferred Tax Assets** | | **95 232** | **49 792** | **45 440** | **95 699** | **49 841** | **45 858** |

*(*) The references (a) – (n) identify balance sheet components which are used in the calculation of regulatory capital.*

**Table 10 –** Deferred Tax Assets (DTA) CET1 Regulatory Adjustment

When calculating the amount of their regulatory capital, CRR requires banks to apply prudent valuation standards to all positions that are measured at fair value. The difference between the values obtained when applying a prudent valuation and the fair value recognized in accounting is known as additional valuation adjustment (AVA), which is directly deducted from the Common Equity Tier 1 (CET1). On December 31, 2021, Haitong Bank's AVA adjustment was as detailed in the tables below:

| (in thousands of EUR) | | Risk category | | | | | Category level AVA - Valuation uncertainty | | **Total category level post-diversification** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Category level AVA | Equity | Interest Rates | Foreign exchange | Credit | Commodities | Unearned credit spreads AVA | Investment and funding costs AVA | | Of which: **Total core approach** in the trading book | Of which: **Total core approach** in the banking book |
| 1 | Market price uncertainty | | | | | | | | | | |
| 3 | Close-out cost | | | | | | | | | | |
| 4 | Concentrated positions | | | | | | | | | | |
| 5 | Early termination | | | | | | | | | | |
| 6 | Model risk | | | | | | | | | | |
| 7 | Operational risk | | | | | | | | | | |
| 10 | Future administrative costs | | | | | | | | | | |
| 12 | **Total Additional Valuation Adjustments (AVAs)** | | | | | | | | 701 | | |

**Table 11** – Prudent valuation adjustments (PVA) (EU PV1)

| (in thousands of EUR) | (*) | Dec. 21 | Dec. 20 |
|---|---|---|---|
| Assets | ∑(k) | 715 522 | 966 323 |
| Assets Matched Positions | | -44 999 | -66 425 |
| Liabilities | ∑(i) | 75 638 | 221 787 |
| Liabilities Matched Positions | | -45 208 | -66 378 |
| **Total** | | **700 953** | **1 055 307** |
| **AVA** (simplified approach) | (j) | 701 | 1 055 |

*(*) The references (a) – (n) identify balance sheet components which are used in the calculation of regulatory capital.*

**Table 12** – AVA Regulatory adjustment

In order to reduce the impact of IFRS 9 introduction on institutions Own Funds, Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December has made possible for institutions to adopt a transitional regime. Pursuant to Article 473a (9) of the CRR, Haitong Bank chose to apply the transitional regime for the "static" and "dynamic" components: (i) the provisioning differential recorded in the first application of IFRS 9 on January 1, 2018; and (ii) the differential registered in assets that are not credit impaired (stages 1 and 2) after the first application of IFRS 9.

Under Regulation (EU) no. 575/2013, Article 437 e), banks are required to describe restrictions applicable to the calculation of own funds. Haitong Bank does not have any restrictions applied to the calculation of own funds.

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 capital ratios are supplemented by the capital conservation buffer. CRD IV requirements allowed the impact of this buffer to be phased in, beginning on January 1, 2016, in increments of 0.625% per year until it reached 2.5% of RWAs on January 1, 2019.

Still under the context of CRD IV capital buffer requirements, the Bank of Portugal decided, in November 2016, 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 RGICSF. The O-SII buffer has been effective since January 1, 2018, onwards. According to the Bank of Portugal's decision, Haitong Bank was, at this point in time, 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. At December 31, 2021, the Bank of Portugal did not impose any additional counter-cyclical capital buffer, by setting a 0% of total risk exposure amount to domestic counterparties. This decision is subject to revision on a quarterly basis.

On December 31, 2021, Haitong Bank capital ratios were as detailed below:

| | Dec. 21 | | Dec. 20 | |
|---|---|---|---|---|
| (in thousands of EUR) | **Phased-in** | **Fully Loaded** | **Phased-in** | **Fully Loaded** |
| Risk Exposure | 2 297 225 | 2 297 225 | 1 861 841 | 1 861 841 |
| Common equity tier 1 | 18,9% | 18,8% | 22,7% | 22,6% |
| Tier 1 | 23,5% | 23,4% | 28,4% | 28,3% |
| Total capital | 23,6% | 23,5% | 28,5% | 28,4% |

**Table 13–** Capital Ratios

## 7 INTERNAL CAPITAL ADEQUACY (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) is carried out every year in accordance with the regulations in force. This self-assessment process aims to ensure that Haitong Bank's capital resources remain sufficient to support the Bank's strategic goals, and to meet regulatory requirements, even in the event of a severe economic downturn stress scenario. The ICAAP's results thus allow the Bank's management to gauge whether the organization's level of capitalization is adequate *vis-à-vis* the risks arising from its activity, and whether the medium-term business plan is sustainable and consistent with the Risk Appetite Framework in place.

The Board of Directors is responsible for the final approval of the ICAAP exercise and its main conclusions. ICAAP is not treated as an isolated process, but one that is incorporated into Haitong Bank's strategic vision and operation management. This way, the Bank ensures not only the flow of relevant information within decision-making units, but also the improvement of risk management on an ongoing basis.

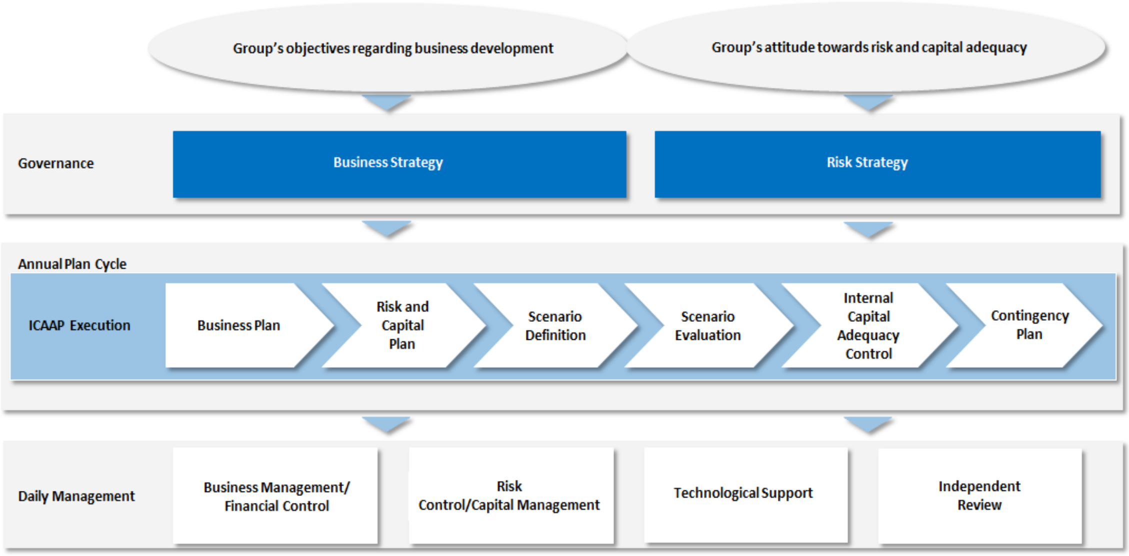


**Figure 4** – Integration of the ICAAP in the Bank's management and decision-making process

The ICAAP exercise estimates internal capital requirements for all risks of the Bank deemed as material, including Pillar I risks. Material risks are identified by the Board of Directors within the scope of the Risk Appetite Regulation, based on a qualitative analysis of the frequency of events associated with each risk and their respective impact. This exercise is based on Haitong Bank's risk taxonomy. Within the scope of the ICAAP exercise, Haitong Bank considered the following material risk categories:

| Pillar | Risk Categories |
|---|---|
| Pillar I | Credit risk + Credit concentration risk |
| | CVA risk |
| | Market risk |
| | Operational risk |
| Pillar II | Credit spread risk in the banking book |
| | Interest rate risk in the banking book |
| | Pension fund risk |
| | Reputational risk |
| | Business strategic risk |

**Table 14 –** ICAAP's material Risk Categories

Internal capital requirements are assessed both on a static perspective, for the reference date of the exercise, and on a prospective basis, considering the business plan of the Bank for the next three years. This ensures that the strategy pursued by the Bank has adequate capital support. Additionally, Haitong Bank subjects the internal capital requirements calculated on a prospective basis to stress scenarios to assess the resilience of the Bank's capital position.

The ICAAP process is embedded in the Bank's regular risk management and a monthly update of the internal capital requirements is calculated for most of the material risks identified.

The Bank uses internal models to assess capital requirements for all material risks. These models are approved by the Board of Directors and are subject to an internal independent validation and an additional validation by the Bank's Internal Audit Department. The table below summarizes Haitong Bank's approach to assessing the adequacy of its internal capital per risk category.

| Pillar | Risk Categories | Key risk methodologies |
|---|---|---|
| Pillar I | Credit risk + Credit concentration risk | IRB foundation approach for credit risk and PRA guidelines for credit concentration risk |
| | CVA risk | Pillar I standardized approach |
| | Market risk | Historical VaR simulation approach (1-year holding period, 5-year historical observations and 0.1% significance) |
| | Operational risk | Upcoming standardized approach developed by Basel, without incorporating the effect of the Bank's operational losses experience |
| Pillar II | Credit spread risk in the banking book | Historical VaR simulation approach (1-year holding period, 5-year historical observations and 0.1% significance) |
| | Interest rate risk in the banking book | Change in the economic value of equity (EVE) based on a parallel shock of +/- 200 basis points on the yield curve |
| | Pension fund risk | Mismatch between plan assets and pension fund obligations, based on a 0.1% significance |
| | Reputational risk | Impact on the Bank's funding cost, by a reputational risk event that affects the perception from market agents |
| | Business strategic risk | Predefined shock over the projected revenues of core business activities |

**Table 15 –** ICAAP's key risk methodologies.

## 8 Risk weighted assets (RWAs)

On 31 December 2021 and 31 December 2020, Haitong Bank's risk weighted assets (RWAs) and minimum capital requirements under Part Three, Title I, Chapter 1 of the CRR were as follows:

| (in thousands of EUR) | | Risk weighted exposure amounts (RWEAs) | | Total own funds requirements |
|---|---|---|---|---|
| | | Dec. 21 | Dec. 20 | Dec. 21 |
| 1 | Credit risk (excluding CCR) | 1 496 867 | 1 074 487 | 119 749 |
| 2 | Of which the standardised approach | 1 496 867 | 1 074 487 | 119 749 |
| 3 | Of which the Foundation IRB (F-IRB) approach | - | - | - |
| 5 | Of which the Advanced IRB (A-IRB) approach | - | - | - |
| 6 | Counterparty credit risk - CCR | 177 453 | 206 948 | 14 196 |
| 7 | Of which the standardised approach | 157 892 | - | 12 631 |
| 8 | Of which internal model method (IMM) | - | - | - |
| EU 8a | Of which exposures to a CCP | - | - | - |
| EU 8b | Of which credit valuation adjustment - CVA | 14 415 | 22 681 | 1 153 |
| 9 | Of which other CCR | 5 147 | 184 268 | 412 |
| 15 | Settlement risk | 28 | - | 2 |
| 16 | Securitisation exposures in the non-trading book | - | - | - |
| 20 | Position, foreign exchange and commodities risks (Market risk) | 417 990 | 358 248 | 33 439 |
| 21 | Of which the standardised approach | 417 990 | 358 248 | 33 439 |
| 22 | Of which IMA | - | - | - |
| EU 22a | Large exposures | - | - | - |
| 23 | Operational risk | 204 887 | 222 157 | 16 391 |
| EU 23a | Of which basic indicator approach | - | - | - |
| EU 23b | Of which standardised approach | 204 887 | 222 157 | 16 391 |
| EU 23c | Of which advanced measurement approach | - | - | - |
| 24 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 63 671 | 60 619 | 5 094 |
| **29** | **Total** | **2 297 225** | **1 861 841** | **183 778** |

**Table 16 –** Overview of RWAs (EU OV1)

Haitong Bank currently uses the Standardized Approach to calculate risk-weighted assets for Credit Risk.

In the standardized approach, credit exposures are classified within regulatory risk classes according to their characteristics (e.g. type of counterparty, type of product). After making all the adjustments foreseen in Part III, Title II of Regulation (EU) no. 575/2013 to the value of these exposures, namely relating to provisions, risk mitigation instruments or credit conversion factors (CCFs), the exposure at default (EaD) measure is assigned the appropriate regulatory risk weights. Risk weights applicable to credit exposures depend on the external ratings assigned to them at any given time.

Haitong Bank uses the external ratings assigned to determine the risk weights applicable to exposures to central governments and central banks, institutions and corporates, in accordance with the rules set out in Regulation (EU) no. 575/2013 and Regulation (EU) no. 2019/876.

For risk weighting purposes, exposures to debt securities are allocated to the ratings specifically assigned for the respective issues. If no specific rating exist for the issues, the ratings assigned to the respective issuers, when such ratings exist, are used. Credit exposures other than represented by debt securities are only assigned the rating of the respective issuers, when such ratings exist.

Haitong Bank calculates own funds requirements for market risk under the standardized approach in accordance with Part Three, Title IV, Chapter 2 of Regulation (EU) no. 575/2013 for its trading book positions and Chapters 3 and 4 for its overall foreign exchange and commodities risk, respectively. For the own funds requirements calculation of the general risk of debt instruments, the Bank uses the maturity-based approach. For commodities risk, the Bank uses the simplified approach.

For the Operational Risk risk-weighted exposures calculation, Haitong Bank applies the Standardized Approach (STA) as set out in Article 317 of the Regulation (EU) no. 575/2013. On 31 December 2021 and 31 December 2020, Haitong Bank's Operational Risk minimum capital (8% of RWAs) was EUR 16,391 thousand and EUR 17,773 thousand, respectively.

Haitong Bank is not subject to supplementary supervision for financial conglomerates as defined in article 6 of Directive 2002/87/EC and does not hold own funds instruments in any insurance undertaking, reinsurance undertaking or insurance holding company.

On 31 December 2021 and 31 December 2020, Haitong Bank's capital requirements (8% of RWAs) composition was as follows:

| (in thousands of EUR) | Dec. 21 | Dec. 20 |
|---|---|---|
| **1. Capital requirements ( =∑ (1.1 to 1.5))** | **183 778** | **148 947** |
| **1.1. For credit, counterparty credit and dilution risks and free deliveries ( = 1.1.1 + 1.1.2)** | **132 792** | **100 700** |
| 1.1.1. Standardised approach (=1.1.1.1+1.1.1.2) | 132 792 | 100 700 |
| 1.1.1.1. Standardised Approach exposure classes, excluding securitisation positions | 132 792 | 100 700 |
| 1.1.1.1.1. Claims or contingent claims on central governments or central banks | 66 | - |
| 1.1.1.1.2. Claims or contingent claims on regional governments or local authorities | 25 | 819 |
| 1.1.1.1.3. Claims or contingent claims on Public Sector Entities | 3 | - |
| 1.1.1.1.4. Claims or contingent claims on multilateral development banks | - | - |
| 1.1.1.1.5. Claims or contingent claims on international organisations | - | - |
| 1.1.1.1.6. Claims or contingent claims on institutions | 6 401 | 3 366 |
| 1.1.1.1.7. Claims or contingent claims on corporates | 105 945 | 75 937 |
| 1.1.1.1.8. Retail claims or contingent retail claims | - | - |
| 1.1.1.1.9. Claims or contingent claims secured on real estate property | - | - |
| 1.1.1.1.10. Past due items | 1 848 | 3 007 |
| 1.1.1.1.11. Items belonging to regulatory high-risk categories | 1 146 | 3 503 |
| 1.1.1.1.12. Claims on covered bonds | - | - |
| 1.1.1.1.13. Claims on collective investments undertakings (CIU) | 820 | 284 |
| 1.1.1.1.14. Other items | 16 526 | 13 669 |
| 1.1.1.1.15. Equity positions | 12 | 114 |
| 1.1.1.2. Securitisation positions under the Standardised Approach | - | - |
| 1.1.2. IRB approach | - | - |
| **1.2. Settlement risk** | **2** | **-** |
| **1.3. Capital requirements for position, foreign-exchange and commodities risks ( = 1.3.1 + 1.3.2)** | **33 439** | **28 660** |
| 1.3.1. Standardised approach (=∑(1.3.1.1 to 1.3.1.4)) | 33 439 | 28 660 |
| 1.3.1.1. Traded debt instruments | 11 334 | 13 198 |
| 1.3.1.2. Equity | 35 | 10 |
| 1.3.1.3. Foreign exchange risks | 22 070 | 15 452 |
| 1.3.1.4. Commodities risks | - | - |
| 1.3.2. Internal models approach | - | - |
| **1.4. Capital requirements for operational risk** | **16 391** | **17 773** |
| 1.4.1. Basic indicator approach | - | - |
| 1.4.2. Standard method | 16 391 | 17 773 |
| 1.4.3. Advanced measurement approach | - | - |
| **1.5. Capital requirements for Credit Valuation Adjustment (CVA)** | **1 153** | **1 814** |

**Table 17 –** Capital Adequacy – Own Funds Requirements

## 9 COUNTERPARTY CREDIT RISK

Counterparty credit risk relates to the uncertainty that a counterparty may default before the settlement of a transaction. It is calculated for over-the-counter derivatives and securities financing transactions, regardless of whether they are held in the trading or banking book.

Haitong Bank calculates the counterparty credit risk own funds of derivative instruments according to the Standardised Approach defined in Part III, Title II, Chapter 6, Section 3 of Regulation (EU) no. 876/2019. For repurchase transactions, the Bank calculates counterparty credit risk own funds according to the Financial Collateral Comprehensive Method as defined in Part III, Title II, Chapter 4, Section 4 of Regulation (EU) no. 575/2013.

Haitong Bank defines limits to counterparty credit risk exposures at counterparty level as a way to mitigate Counterparty Credit Risk (CCR). Limits for repurchase transactions are established within the credit risk limits framework of secured transactions. For derivative transactions, limits are established considering the expected maximum exposure, the credit risk of counterparties and the maturity of the transaction.

Haitong Bank securities financing transactions in Europe are governed by the GMRA Master Agreement prepared by ICMA and in Brasil the majority of repo transactions has government bonds as underlying and are done through SELIC clearing house. In 2021, Haitong Bank was a member of ICMA and as such was entitled to use the legal opinions on validity and enforceability of netting clauses included in the GMRA prepared at the request of ICMA for the benefit of its members. Additionally, Haitong Bank does not enter into securities lending transactions in which the collateral being provided is issued by the counterparty or its affiliates, and it does not have credit derivatives transactions where there is a legal connection between the risk being covered and the counterparty.

Haitong Bank’s derivative transactions with financial counterparties are made under ISDA Master Agreements in Europe and CGD (*Contrato Global de Derivativos*) in Brazil, both including netting clauses. Haitong International Securities Group Limited is a member of ISDA and, as an affiliate entity, Haitong Bank is entitled to use the legal opinions on validity and enforceability of netting clauses prepared at the request of ISDA for the benefit of its members (and affiliates of its members). To manage the risk exposure to each counterparty, such master agreements, require the collection of margin for trades not cleared through a non-central counterparty.

In the case of derivative transactions cleared through a central counterparty, the documentation governing the clearing through the central counterparty also requires the provision of margin.

In what regards CRR article 439 (c), Haitong Bank defines wrong-way risk as the risk that exposure to a counterparty is positively correlated with the probability of default of the same counterparty, which could cause exposure to increase at the same time as the counterparty’s capacity to meet its obligations is decreasing. Haitong Bank mitigates wrong-way risk in over-the-counter (“OTC”) derivatives transactions with financial counterparties through bilateral ISDA contracts with CSA, which require both parties to post collateral to mitigate the other party’s counterparty credit risk. This collateral is in the form of cash and, as such, the Bank does not bear any specific wrong-way risk.

Regarding CRR article 439 (d), on December 2021 Haitong Bank do not have a credit rating downgrade clause in any Master Agreement or a credit rating downgrade threshold clause in any CSA related to derivatives and securities financing transactions outstanding, requiring the posting of additional collateral in a scenario of the downgrading of Haitong Bank’s credit rating.

Finally, Credit Valuation Adjustment (CVA) reflects the current market value of the credit risk of the counterparty to the institution with respect to eligible derivatives and secured financial transactions with financial counterparties. Haitong Bank applies the standardised approach for the calculation of own funds for CVA risk.

The table below provides information on CCR exposures by approach:

| | (in thousands of EUR) | Replacement cost (RC) | Potential future exposure (PFE) | EEPE | Alpha used for computing regulatory exposure value | Exposure value pre-CRM | Exposure value post-CRM | Exposure value | RWEA |
|---|---|---|---|---|---|---|---|---|---|
| EU1 | EU - Original Exposure Method (for derivatives) | 0 | 0 | | 1.4 | 0 | 0 | 0 | 0 |
| EU2 | EU - Simplified SA-CCR (for derivatives) | 0 | 0 | | 1.4 | 0 | 0 | 0 | 0 |
| 1 | SA-CCR (for derivatives) | 89 972 | 37 934 | | 1.4 | 179 068 | 179 068 | 178 558 | 157 892 |
| 2 | IMM (for derivatives and SFTs) | | | 0 | 0 | 0 | 0 | 0 | 0 |
| 2a | *Of which securities financing transactions netting sets* | | | 0 | | 0 | 0 | 0 | 0 |
| 2b | *Of which derivatives and long settlement transactions netting sets* | | | 0 | | 0 | 0 | 0 | 0 |
| 2c | *Of which from contractual cross-product netting sets* | | | 0 | | 0 | 0 | 0 | 0 |
| 3 | Financial collateral simple method (for SFTs) | | | | | 0 | 0 | 0 | 0 |
| 4 | Financial collateral comprehensive method (for SFTs) | | | | | 111 398 | 6 001 | 6 001 | 5 147 |
| 5 | VaR for SFTs | | | | | 0 | 0 | 0 | 0 |
| 6 | **Total** | | | | | **290 466** | **185 069** | **184 559** | **163 039** |

**Table 18 –** CCR exposure by approach (EU CCR1)

The template below provides an overview of the impact of netting and collateral held for transactions where the exposure value is measured as per Part Three, Title II, Chapter 4 and 6 of the CRR, including exposures arising from transactions cleared through a CCP, as of 31 December 2021.

| usands of EUR) | **Collateral used in derivative transactions** | | | | **Collateral used in SFTs** | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | | Fair value of posted collateral | |
| Collateral type | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated | Segregated | Unsegregated |
| Cash – domestic currency | 0 | 10 270 | 0 | 59 433 | 0 | 0 | 0 | 0 |
| Cash – other currencies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Domestic sovereign debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other sovereign debt | 0 | 0 | 0 | 0 | 0 | 38 492 | 0 | 0 |
| Government agency debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Corporate bonds | 0 | 0 | 0 | 0 | 0 | 491 | 0 | 75 358 |
| Equity securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other collateral | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | 0 | 10 270 | 0 | 59 433 | 0 | 38 983 | 0 | 75 358 |

**Table 19 –** Composition of collateral for CCR exposures (EU CCR5)

On 31 December 2021, Haitong Bank's derivatives exposures to financial institutions amount EUR 38,844 thousand before netting and EUR 21,528 thousand after netting effect.

On 31 December 2021, Haitong Bank's breakdown of CCR net credit exposure (post CCF and CRM) calculated in accordance with Part Three, Title II, Chapter 6 of the CRR and risk-weights according to Chapter 2 of the same title by risk weight (risk weight assigned according to the standardised approach) was as follows:

| (in thousands of EUR) | | Risk weight | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exposure classes | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Others | Total exposure value |
| 1 | Central governments or central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2 | Regional government or local authorities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3 | Public sector entities | 0 | 0 | 0 | 0 | 0 | 71 | 0 | 0 | 0 | 0 | 0 | 71 |
| 4 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Institutions | 0 | 0 | 0 | 0 | 8 973 | 28 302 | 0 | 0 | 3 010 | 0 | 0 | 40 285 |
| 7 | Corporates | 0 | 0 | 0 | 0 | 146 | 31 | 0 | 0 | 144 027 | 0 | 0 | 144 203 |
| 8 | Retail | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Other items | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 11 | **Total exposure value** | **0** | **0** | **0** | **0** | **9 119** | **28 404** | **0** | **0** | **147 036** | **0** | **0** | **184 559** |

**Table 20**– CCR exposures by exposure class and risk weight (EU CCR3)

On December 31, 2021, OTC derivatives cleared through a qualified central counterparty (QCCP) totalled EUR 123 million in nominal amount and EUR 554 thousand in exposure value. This exposure is included in table 19, above, in line 6 - Institutions. As of December 31, 2021 there were no OTC derivatives cleared through a non-qualified central counterparty.

On 31 December 2021, the CVA Risk own funds were as follows:

| (in thousands of EUR) | Exposure value | RWEA |
|---|---|---|
| 1 Total transactions subject to the Advanced method | 0 | 0 |
| 2 (i) VaR component (including the 3× multiplier) | | 0 |
| 3 (ii) stressed VaR component (including the 3× multiplier) | | 0 |
| 4 Transactions subject to the Standardised method | 22 970 | 14 415 |
| EU4 Transactions subject to the Alternative approach (Based on the Original Exposure Method) | 0 | 0 |
| **5 Total transactions subject to own funds requirements for CVA risk** | **22 970** | **14 415** |

**Table 21 –** Transactions subject to own funds requirements for CVA risk (EU CCR2)

On 31 December 2021, Haitong Bank had no credit derivatives transactions.

## 10 GEOGRAPHICAL DISTRIBUTION OF CREDIT EXPOSURES RELEVANT FOR THE CALCULATION OF THE COUNTERCYCLICAL CAPITAL BUFFER

On 31 December 2021, the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer were as follows:

| (in thousands of EUR) | General credit exposures | | Relevant credit exposures – Market risk | | Securitisation exposures Exposure value for non-trading book | Total exposure value | Own fund requirements | | | | Risk-weighted exposure amounts | Own fund requirements weights (%) | Countercyclical buffer rate (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exposure value under the standardised approach | Exposure value under the IRB approach | Sum of long and short positions of trading book exposures for SA | Value of trading book exposures for internal models | | | Relevant credit risk exposures - Credit risk | Relevant credit exposures – Market risk | Relevant credit exposures – Securitisation positions in the non-trading book | Total | | | |
| Brazil | 285 738 | 0 | 309 582 | 0 | 0 | 595 321 | 22 859 | 24 767 | 0 | 47 626 | 595 321 | 18,84% | 0,00% |
| China | 123 549 | 0 | 4 569 | 0 | 0 | 128 118 | 9 884 | 365 | 0 | 10 249 | 128 118 | 4,05% | 0,00% |
| Germany | 55 252 | 0 | 1 279 | 0 | 0 | 56 531 | 4 420 | 102 | 0 | 4 522 | 56 531 | 1,79% | 0,00% |
| Italy | 132 945 | 0 | 3 915 | 0 | 0 | 136 861 | 10 636 | 313 | 0 | 10 949 | 136 861 | 4,33% | 0,00% |
| Luxembourg | 93 922 | 0 | 0 | 0 | 0 | 93 922 | 7 514 | 0 | 0 | 7 514 | 93 922 | 2,97% | 0,00% |
| Poland | 285 714 | 0 | 778 | 0 | 0 | 286 492 | 22 857 | 62 | 0 | 22 919 | 286 492 | 9,07% | 0,00% |
| Portugal | 1 475 797 | 0 | 15 248 | 0 | 0 | 1 491 046 | 118 064 | 1 220 | 0 | 119 284 | 1 491 046 | 47,20% | 0,00% |
| Spain | 261 140 | 0 | 6 314 | 0 | 0 | 267 454 | 20 891 | 505 | 0 | 21 396 | 267 454 | 8,46% | 0,00% |
| United Kingdom | 100 455 | 0 | 3 498 | 0 | 0 | 103 954 | 8 036 | 280 | 0 | 8 316 | 103 954 | 3,29% | 0,00% |
| **Total** | **2 814 514** | **0** | **345 184** | **0** | **0** | **3 159 697** | **225 161** | **27 615** | **0** | **252 776** | **3 159 697** | **100,00%** | |

**Table 22 –** Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (EU CCyB1)

Haitong Bank's specific countercyclical buffer amount is presented below as of 31 December 2021:

| (in thousands of EUR) | | |
|---|---|---|
| 1 | Total risk exposure amount | 2 297 225 |
| 2 | Institution specific countercyclical capital buffer rate | 0 |
| 3 | Institution specific countercyclical capital buffer requirement | 0 |

**Table 23 –** Amount of specific countercyclical capital buffer (EU CCyB2)

## 11 EXPOSURE TO CREDIT RISK AND DILUTION RISK

Description of approaches and methods adopted for determining specific and general credit risk adjustments

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 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 that do not show warning signals (in Stage 1), as well to determine the lifetime expected credit losses, in the case of exposures with a significant increase in credit risk (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 determine a transfer to Stage 3. Stage 2 exposures are subject to the application of a lifetime impairment rate, determined by the use of a lifetime collective model. All Stage 3 clients are subject to individual analysis.

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 and financial guarantees: 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;*

<u>Significant increase in credit risk</u>

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 considers 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 significant increase in credit risk.

According to 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. The exposures properly classified in Stage 2 are subject to the use of a lifetime impairment rate, determined using a lifetime collective model as a floor.

Definitions of Past Due and Default exposures

Past due exposures are those where clients have failed to make payments of principal, interest or fees for more than 30 days in accordance with the contractual terms of their facilities but do not meet the credit impaired criteria described below.

Credit-impaired exposure includes all exposures classified as non-performing exposures (“NPE”) in accordance with the European Banking Authority’s requirements on the application of the definition of default under Article 178 of Regulation (EU) no. 575/2013, which includes the days past due criteria (over 90-days) and whenever a debtor is assessed as unlikely to pay its debt obligations in full, without realization of collateral, and regardless of the existence of any past due amount or the number of days past due.

Default Definition

Under IFRS 9, the Group considers its financial assets to be in default by applying the same definition that is applied for prudential purposes. Thus, Haitong Bank defines 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 a 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”).

With regard to the unlikeliness to pay criteria, the Bank addresses the following situations: i) distressed restructurings; ii) clients with loans written-off in terms 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 Authority (“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 a significant increase in credit risk, the Bank assesses whether these measures lead to a reclassification of that exposure as non-performing, with 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.

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 PDs from S&P, whereas the rating assigning process is performed internally based on the S&P methodology. This ensures 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 on 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).

On December 31, 2021, Haitong Bank's performing and non-performing exposures and related provisions by exposure class were as follows:

Dec.2021

| | | Gross carrying amount/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Accumulated partial write-off | Collaterals and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Performing exposures | | | Non-performing exposures | | | Performing exposures - Accumulated impairment and provisions | | | Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | On performing exposures | On non-performing exposures |
| | (in thousands of EUR) | | of which: stage 1 | of which: stage 2 | | of which: stage 2 | of which: stage 3 | | of which: stage 1 | of which: stage 2 | | of which: stage 2 | of which: stage 3 | | | |
| 5 | Cash balances at central banks and other demand deposits | 488 531 | 488 531 | 0 | 0 | 0 | 0 | -1 | -1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Loans and advances | 673 988 | 601 674 | 72 314 | 13 181 | 0 | 10 960 | -7 367 | -2 410 | -4 957 | -5 517 | 0 | -5 470 | 0 | 128 271 | 0 |
| 20 | Central banks | 43 683 | 43 683 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 30 | General governments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 40 | Credit institutions | 11 254 | 7 693 | 3 561 | 0 | 0 | 0 | -915 | -37 | -879 | 0 | 0 | 0 | 0 | 4 617 | 0 |
| 50 | Other financial corporations | 158 722 | 158 722 | 0 | 0 | 0 | 0 | -677 | -677 | 0 | 0 | 0 | 0 | 0 | 44 541 | 0 |
| 60 | Non-financial corporations | 460 185 | 391 432 | 68 753 | 13 181 | 0 | 10 960 | -5 773 | -1 696 | -4 078 | -5 517 | 0 | -5 470 | 0 | 78 971 | 0 |
| 70 | Of which: Small and Medium-sized Enterprises | 337 533 | 268 780 | 68 753 | 8 100 | 0 | 8 100 | -5 328 | -1 250 | -4 078 | -3 569 | 0 | -3 569 | 0 | 73 668 | 0 |
| 80 | Households | 144 | 144 | 0 | 0 | 0 | 0 | -1 | -1 | 0 | 0 | 0 | 0 | 0 | 142 | 0 |
| 90 | Debt securities | 791 038 | 790 293 | 0 | 4 296 | 0 | 4 296 | -2 010 | -2 010 | 0 | -37 | 0 | -37 | 0 | 0 | 0 |
| 100 | Central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 110 | General governments | 316 378 | 316 378 | 0 | 0 | 0 | 0 | -484 | -484 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 120 | Credit institutions | 62 717 | 61 972 | 0 | 0 | 0 | 0 | -94 | -94 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 130 | Other financial corporations | 69 438 | 69 438 | 0 | 0 | 0 | 0 | -236 | -236 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 140 | Non-financial corporations | 342 506 | 342 506 | 0 | 4 296 | 0 | 4 296 | -1 195 | -1 195 | 0 | -37 | 0 | -37 | 0 | 0 | 0 |
| 150 | OFF-BALANCE SHEET EXPOSURES | 305 264 | 291 518 | 13 746 | 5 905 | 0 | 5 905 | 488 | 404 | 84 | 496 | 0 | 496 | | 10 603 | 0 |
| 160 | Central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 0 |
| 170 | General governments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 0 |
| 180 | Credit institutions | 20 422 | 20 422 | 0 | 0 | 0 | 0 | 43 | 43 | 0 | 0 | 0 | 0 | | 0 | 0 |
| 190 | Other financial corporations | 32 200 | 32 200 | 0 | 2 728 | 0 | 2 728 | 85 | 85 | 0 | 0 | 0 | 0 | | 0 | 0 |
| 200 | Non-financial corporations | 252 642 | 238 896 | 13 746 | 3 177 | 0 | 3 177 | 360 | 276 | 84 | 496 | 0 | 496 | | 10 603 | 0 |
| 210 | Households | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | 0 | 0 |
| **220** | **Total** | **2 258 821** | **2 172 016** | **86 060** | **23 382** | **0** | **21 160** | **-8 889** | **-4 017** | **-4 872** | **-5 058** | **0** | **-5 011** | **0** | **138 874** | **0** |

**Table 24 –** Performing and non-performing exposures and related provisions (EU CR1)

On December 31, 2021, Haitong Bank's residual maturity breakdown by exposure classes was as follows:

Dec.2021

| | | Net exposure value | | | | | |
|---|---|---|---|---|---|---|---|
| | (in thousands of EUR) | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
| 1 | Loans and advances | 571 543 | 51 225 | 253 754 | 286 297 | 0 | 1 162 820 |
| 2 | Debt securities | 0 | 118 738 | 502 849 | 171 702 | 0 | 793 288 |
| **3** | **Total** | **571 543** | **169 963** | **756 603** | **457 999** | **0** | **1 956 108** |

**Table 25 –** Maturity of exposures (EU CR1-A)

On December 31, 2021, Haitong Bank's geographic distribution of the quality of non-performing exposures was as follows:

| | | | | | | | | Dec.2021 |
|---|---|---|---|---|---|---|---|---|
| (in thousands of EUR) | | Gross carrying/Nominal amount | | | | Accumulated impairment | Provisions on off-balance sheet commitments and financial guarantees given | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
| | | | of which: non-performing | | of which: subject to impairment | | | |
| | | | | *of which: defaulted* | | | | |
| 010 | On balance sheet exposures | 1,482,503 | 17,477 | 17,477 | 1,481,736 | -14,931 | | 0 |
| *020* | *Portugal* | 404,208 | 2,127 | 2,127 | 404,208 | -3,971 | | 0 |
| *030* | *Spain* | 112,756 | 3,553 | 3,553 | 112,756 | -889 | | 0 |
| *040* | *Poland* | 177,065 | 1,528 | 1,528 | 177,043 | -1,798 | | 0 |
| *050* | *United Kingdom* | 74,683 | 0 | 0 | 74,683 | -233 | | 0 |
| *060* | *Brazil* | 221,452 | 10,268 | 10,268 | 221,452 | -6,018 | | 0 |
| *070* | *China* | 123,725 | 0 | 0 | 123,725 | -475 | | 0 |
| *110* | *Other countries* | 368,613 | 0 | 0 | 367,868 | -1,546 | | 0 |
| 120 | Off balance sheet exposures | 311,169 | 5,905 | 5,905 | | | 984 | |
| *130* | *Portugal* | 4,935 | 59 | 59 | | | 68 | |
| *140* | *Spain* | 124,637 | 2,216 | 2,216 | | | 383 | |
| *150* | *Poland* | 115,008 | 902 | 902 | | | 307 | |
| *160* | *United Kingdom* | 20,722 | 0 | 0 | | | 68 | |
| *170* | *Brazil* | 23,694 | 0 | 0 | | | 115 | |
| *180* | *China* | 0 | 0 | 0 | | | 0 | |
| *190* | *Other countries* | 22,174 | 2,728 | 2,728 | | | 43 | |
| **200** | **Total** | **1,793,672** | **23,382** | **23,382** | **1,481,736** | **-14,931** | **984** | **0** |

**Table 26 –** Geographical breakdown of non-performing exposures (EU CQ4)

On December 31, 2021, Haitong Bank's distribution of the exposures by Industry was as follows:

| (in thousands of EUR) | Gross carrying amount | of which: non-performing | of which: defaulted | of which: loans and advances subject to impairment | Accumulated impairment | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
|---|---|---|---|---|---|---|
| | | | | | | Dec.2021 |
| 010 Agriculture, forestry and fishing | 7,546 | 2,127 | 2,127 | 7,546 | -2,387 | 0 |
| 020 Mining and quarrying | 0 | 0 | 0 | 0 | 0 | 0 |
| 030 Manufacturing | 50,438 | 0 | 0 | 50,438 | -501 | 0 |
| 040 Electricity, gas, steam and air conditioning supply | 65,634 | 0 | 0 | 65,634 | -2,857 | 0 |
| 050 Water supply | 0 | 0 | 0 | 0 | 0 | 0 |
| 060 Construction | 76,933 | 9,018 | 9,018 | 76,911 | -2,918 | 0 |
| 070 Wholesale and retail trade | 16,428 | 0 | 0 | 16,428 | -140 | 0 |
| 080 Transport and storage | 123,194 | 2,036 | 2,036 | 123,194 | -1,768 | 0 |
| 090 Accommodation and food service activities | 19,648 | 0 | 0 | 19,648 | -424 | 0 |
| 100 Information and communication | 35,258 | 0 | 0 | 35,258 | -101 | 0 |
| 110 Real estate activities | 0 | 0 | 0 | 0 | 0 | 0 |
| 120 Financial and insurance actvities | 0 | 0 | 0 | 0 | 0 | 0 |
| 130 Professional, scientific and technical activities | 71,286 | 0 | 0 | 71,286 | -165 | 0 |
| 140 Administrative and support service activities | 5,408 | 0 | 0 | 5,408 | -28 | 0 |
| 150 Public administration and defense, compulsory social security | 1,593 | 0 | 0 | 1,593 | 0 | 0 |
| 160 Education | 0 | 0 | 0 | 0 | 0 | 0 |
| 170 Human health services and social work activities | 0 | 0 | 0 | 0 | 0 | 0 |
| 180 Arts, entertainment and recreation | 0 | 0 | 0 | 0 | 0 | 0 |
| 190 Other services | 0 | 0 | 0 | 0 | 0 | 0 |
| **200 Total** | **473,366** | **13,181** | **13,181** | **473,344** | **-11,290** | **0** |

**Table 27 –** Breakdown of exposures by industry (EU CQ5)

On December 31, 2021, Haitong Bank's credit quality of forborne exposures by instrument was as follows:

| | (in thousands of EUR) | Gross carrying amount/ Nominal amount of exposures with forbearance measures: Performing forborne | Non-performing forborne | *Of which defaulted* | *Of which impaired* | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions: On performing forborne exposures | On non-performing forborne exposures | Collaterals received and financial guarantees received on forborne exposures | *Of which: Collateral and financial guarantees received on non-* |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Dec.2021 |
| 005 | Cash balances at central banks and other demand deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 010 | Loans and advances | 44,596 | 12,293 | 12,293 | 10,960 | -3,701 | -5,017 | 0 | 0 |
| 020 | Central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 030 | General governments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 040 | Credit institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 050 | Other financial corporations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 060 | Non-financial corporations | 44,596 | 12,293 | 12,293 | 10,960 | -3,701 | -5,017 | 0 | 0 |
| 070 | Households | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 080 | Debt Securities | 0 | 4,296 | 4,296 | 0 | 0 | -37 | 0 | 0 |
| 090 | Loan commitments given | 0 | 261 | 261 | 261 | 0 | 80 | 0 | 0 |
| **100** | **Total** | **44,596** | **16,850** | **16,850** | **11,221** | **-3,701** | **-4,973** | **0** | **0** |

**Table 28 –** Credit quality of forborne exposures by instrument (EU CQ1)

On December 31, 2021, Haitong Bank's credit quality of forbearance was as follows:

| (in thousands of EUR) | | Dec.2021<br>Gross carrying amount of forborne exposures |
|---|---|---|
| 010 | Loans and advances that have been forborne more than twice | 12,973 |
| 020 | Non-performing forborne loans and advances that failed to meet the non-performing exit criteria | 0 |

**Table 29 –** Credit quality of forborne exposures (EU CQ2)

On December 31, 2021, Haitong Bank's credit quality of exposures by paste due days was as follows:

| (in thousands of EUR) | | Dec.2021<br>Gross carrying amount / Nominal amount | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | | | Not past due or Past due < 30 days | Past due > 30 days < 90 days | | Unlikely to pay that are not past-due or past-due < = 90 days | Past due > 90 days <= 180 days | Past due > 180 days < =1 year | Past due > 1 year <= 2 years | Past due > 2 year <= 5 years | Past due > 5 year <= 7 years | Past due > 7 years | Of which defaulted |
| 005 | Cash balances at central banks and other demand deposits | 488,536 | 488,536 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 010 | Loans and advances | 673,988 | 673,988 | 0 | 13,181 | 5,611 | 0 | 3,937 | 0 | 0 | 2,127 | 1,506 | 13,181 |
| 020 | Central banks | 43,683 | 43,683 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 030 | General governments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 040 | Credit institutions | 11,254 | 11,254 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 050 | Other financial corporations | 158,722 | 158,722 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 060 | Non-financial corporations | 460,185 | 460,185 | 0 | 13,181 | 5,611 | 0 | 3,937 | 0 | 0 | 2,127 | 1,506 | 13,181 |
| 070 | Of which SMEs | 337,533 | 337,533 | 0 | 8,100 | 2,036 | 0 | 3,937 | 0 | 0 | 2,127 | 0 | 8,100 |
| 080 | Households | 144 | 144 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 090 | Debt Securities | 791,038 | 791,038 | 0 | 4,296 | 4,296 | 0 | 0 | 0 | 0 | 0 | 0 | 4,296 |
| 100 | Central banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 110 | General governments | 316,378 | 316,378 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 120 | Credit institutions | 62,717 | 62,717 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 130 | Other financial corporations | 69,438 | 69,438 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 140 | Non-financial corporations | 342,506 | 342,506 | 0 | 4,296 | 4,296 | 0 | 0 | 0 | 0 | 0 | 0 | 4,296 |
| 150 | Off-balance sheet exposures | 305,264 | | | 5,905 | | | | | | | | 5,905 |
| 160 | Central banks | 0 | | | 0 | | | | | | | | 0 |
| 170 | General governments | 0 | | | 0 | | | | | | | | 0 |
| 180 | Credit institutions | 20,422 | | | 0 | | | | | | | | 0 |
| 190 | Other financial corporations | 32,200 | | | 2,728 | | | | | | | | 2,728 |
| 200 | Non-financial corporations | 252,642 | | | 3,177 | | | | | | | | 3,177 |
| 210 | Households | 0 | | | 0 | | | | | | | | 0 |
| 220 | Total | 2,258,826 | 1,953,562 | 0 | 23,382 | 9,907 | 0 | 3,937 | 0 | 0 | 2,127 | 1,506 | 23,382 |

**Table 30 –** Credit quality of exposures by past due days (EU CQ3)

On December 31, 2021, Haitong Bank's changes in the stock of non-performing loans and advances were as follows:

| (in thousands of EUR) | | Dec.2021<br>Gross carrying amount |
|---|---|---|
| 010 | Initial stock of non-performing loans and advances | 8,004 |
| 020 | Inflows to non-performing portfolios | 5,250 |
| 030 | Outflows from non-performing portfolios | -73 |
| 040 | Outflows due to write-offs | 0 |
| 050 | Outflow due to other situations | -73 |
| 060 | **Final stock of non-performing loans and advances** | **13,181** |

**Table 31 –** Changes in the stock of non-performing loans and advances (EU CR2)

On December 31, 2021, Haitong Bank's changes in the stock of non-performing loans and advances and related net accumulated recoveries were as follows:

| (in thousands of EUR) | | Dec.2021 Gross carrying amount | Dec.2021 Related net cumulated recoveries |
|---|---|---|---|
| 010 | Initial stock of non-performing loans and advances | 8,004 | 0 |
| 020 | Inflows to non performing portfolios | 5,250 | |
| 030 | Outflows from non-performing portfolios | -73 | |
| 040 | Outflow to performing portfolio | 0 | |
| 050 | Outflow due to loan repayment, partial or total | -61 | |
| 060 | Outflow due to collateral liquidations | -61 | 0 |
| 070 | Outflow due to taking possession of collateral | 0 | 0 |
| 080 | Outflow due to sale of instruments | 0 | 0 |
| 090 | Outflow due to risk transfers | 0 | 0 |
| 100 | Outflows due to write-offs | 0 | |
| 110 | Outflow due to Other Situations | -12 | |
| 120 | Outflow due to reclassification as held for sale | 0 | |
| **130** | **Final stock of non-performing loans and advances** | **13,181** | **0** |

**Table 32 –** Changes in the stock of non-performing loans and advances and related net accumulated recoveries (EU CR2a)

On December 31, 2021, Haitong Bank's disclosure of the use of credit risk mitigation techniques was as follows:

| (in thousands of EUR) | | Dec.2021 Unsecured carrying amount | Secured carrying amount | Of which secured by collateral | Of which secured by financial guarantees | Of which secured by credit derivatives |
|---|---|---|---|---|---|---|
| 1 | Loans and advances | 1 034 549 | 128 271 | 128 271 | 0 | 0 |
| 2 | Debt securities | 793 287 | 0 | 0 | 0 | |
| 3 | Total | 1 827 836 | 128 271 | 128 271 | 0 | 0 |
| 4 | *Of which non-performing exposures* | 11 923 | 0 | 0 | 0 | 0 |
| 5 | *Of which defaulted* | 11 923 | 0 | | | |

**Table 33 –** Disclosure of the use of credit risk mitigation techniques (EU CR3)

On December 31, 2021, Haitong Bank's loans and advances collateral valuation was as follows:

| (in thousands of EUR) | Loans and advances | Performing | of which past due > 30 days <= 90 days | Non Performing | Unlikely to pay that are not past due or past due <= 90 days | Past due > 90 days | of which Past due > 90 days <= 180 days | of which Past due > 180 days <= 1 year | of which Past due > 1 years <=2 years | of which Past due > 2 years <=5 years | of which Past due > 5 years <=7 years | of which Past due > 7 years |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | Dec.2021 |
| 010 Gross carrying amount | 687,169 | 673,988 | 0 | 13,181 | 5,611 | 7,570 | 0 | 3,937 | 0 | 0 | 2,127 | 1,506 |
| 020 *Of which: secured* | 358,060 | 357,194 | 0 | 866 | 0 | 866 | 0 | 866 | 0 | 0 | 0 | 0 |
| 030 *Of which: secured with Immovable property* | 86,272 | 86,272 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 040 *of which: Loans with a LTV higher than 60% and lower than or equal to 80%* | 39,315 | 39,315 | | 0 | 0 | 0 | | | | | | |
| 050 *of which: Loans with a LTV higher than 80% and lower than or equal to 100%* | 0 | 0 | | 0 | 0 | 0 | | | | | | |
| 060 *of which: Loans with a LTV higher than 100%* | 31,061 | 31,061 | | 0 | 0 | 0 | | | | | | |
| 070 Accumulated impairment for secured assets | -2,532 | -2,031 | 0 | -500 | 0 | -500 | 0 | -500 | 0 | 0 | 0 | 0 |
| 080 Collateral | | | | | | | | | | | | |
| 090 *Of which value capped at the value of exposure* | 127,748 | 127,748 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 100 *Of which: Immovable property* | 127,748 | 127,748 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 110 *Of which value above the cap* | 66,462 | 66,462 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 120 *Of which: Immovable property* | 65,806 | 65,806 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 130 Financial guarantees received | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 140 Accumulated partial write-off | -87,818 | 0 | 0 | -87,818 | 0 | -87,818 | 0 | 0 | 0 | 0 | -69,343 | -18,474 |

**Table 34 –** Collateral valuation of loans and advances (EU CQ6)

According to EBA Templates EU CQ7 and EU CQ8, Haitong Bank did not obtain collateral by taking possession or execution processes.

## 12 ENCUMBERED AND UNENCUMBERED ASSETS

Following article 443 of Regulation (EU) 2019/876 and Commission Implementing Regulation (EU) 2021/637, asset encumbrance disclosures use the median value of the last four quarterly data points for all fields disclosed.

As of 31 December 2021 reporting date, disclosed encumbered and unencumbered assets were:

| (in thousands of EUR) | Carrying amount of encumbered assets | of which notionally eligible EHQLA and HQLA | Fair value of encumbered assets | of which notionally eligible EHQLA and HQLA | Carrying amount of unencumbered assets | of which EHQLA and HQLA | Fair value of unencumbered assets | of which EHQLA and HQLA |
|---|---|---|---|---|---|---|---|---|
| Assets of the reporting institution | 557 867 | 92 376 | | | 2 233 363 | 422 053 | | |
| Equity instruments | 0 | 0 | 0 | 0 | 23 248 | 0 | 23 248 | 0 |
| Debt securities | 491 580 | 92 376 | 491 580 | 92 376 | 765 422 | 422 053 | 765 422 | 422 053 |
| of which: covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which: securitisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| of which: issued by general governments | 394 379 | 80 324 | 394 379 | 80 324 | 366 331 | 366 331 | 366 331 | 366 331 |
| of which: issued by financial corporations | 26 482 | 0 | 26 482 | 0 | 103 043 | 3 267 | 103 043 | 3 267 |
| of which: issued by non-financial corporations | 70 719 | 12 053 | 70 719 | 12 053 | 306 858 | 32 039 | 306 858 | 32 039 |
| Other assets | 66 287 | 0 | | | 1 380 952 | 0 | | |

**Table 35 –** Asset encumbrance (EU AE1)

As of 31 December 2021 reporting date, disclosed fair values of collateral and unencumbered assets were:

| (in thousands of EUR) | Fair value of encumbered collateral received or own debt securities issued | of which notionally eligible EHQLA and HQLA | Unencumbered<br>Fair value of collateral received or own debt securities issued available for encumbrance | of which EHQLA and HQLA |
|---|---|---|---|---|
| Collateral received by the disclosing institution | 80 263 | 0 | 91 024 | 0 |
| Loans on demand | 0 | 0 | 0 | 0 |
| Equity instruments | 0 | 0 | 0 | 0 |
| Debt securities | 80 263 | 0 | 91 024 | 0 |
| of which: covered bonds | 0 | 0 | 0 | 0 |
| of which: securitisations | 0 | 0 | 0 | 0 |
| of which: issued by general governments | 80 263 | 0 | 91 024 | 0 |
| of which: issued by financial corporations | 0 | 0 | 0 | 0 |
| of which: issued by non-financial corporations | 0 | 0 | 0 | 0 |
| Loans and advances other than loans on demand | 0 | 0 | 0 | 0 |
| Other collateral received | 0 | 0 | 0 | 0 |
| Own debt securities issued other than own covered bonds or securitisations | 0 | 0 | 0 | 0 |
| Own covered bonds and securitisation issued and not yet pledged | | | 0 | 0 |
| TOTAL COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED | 690 823 | 92 376 | | |

**Table 36–** Collateral received and own debt securities issued (EU AE2)

As of 31 December 2021, the disclosed value of liabilities related to encumbered assets and collaterals received were:

| (in thousands of EUR) | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered |
|---|---|---|
| Carrying amount of selected financial liabilities | 666 881 | 687 255 |

**Table 37 –** Sources of encumbrance (EU AE3)

Encumbered assets are related to Haitong Bank's funding operations, in particular operations concerning:

- The European Central Bank (ECB). ECB funding operations are regulated by Instruction 3/2015 and 1/2016 from Bank of Portugal;
- Repurchase Agreements' transactions where there are Global Master Repurchase Agreements signed between Haitong Bank and each one of its counterparties in Europe and the use of SELIC clearing in Brazilian government bonds repos in Brazil;
- Initial and variation margins for derivatives where collateral is transferred in line with the Credit Support Annex ('CSA') signed between Haitong Bank and its counterparties;
- Fundo de Garantia de Depósitos (Deposit Guarantee Funds) regulated by the Law 23-A/2015 and Bank of Portugal Notice 11/94, December 21, 1994, as amended from time to time.

# 13 USE OF ECAIs UNDER THE STANDARDIZED APPROACH

Haitong Bank uses the Standardized Approach to calculate risk weighted assets for Credit Risk.

In the Standardized Approach, Haitong Bank uses Standard and Poor's (S&P) ratings assigned to determine the risk weights applicable to exposures to central governments and central banks, regional governments or local authorities, public sector entities, multilateral development banks, international organizations, institutions and corporates in accordance with the rules set out in Regulation (EU) no. 575/2013.

The rating assignment methodology uses the rating for each contract and, if non-existent, the rating of the obligor. In case there is no S&P rating available, Haitong Bank applies the CRR rule for non-rated exposures according to the respective exposure class.

On 31 December 2021, the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2, as well as those deducted from own funds, were as follows:

| (in thousands of EUR) | | Risk weight | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Exposure classes | 0% | 20% | 50% | 100% | 150% | 250% | Others | Total |
| 1 | Central governments or central banks | 817 242 | 4 110 | 0 | 0 | 0 | 0 | 0 | 821 353 |
| 2 | Regional government or local authorities | 0 | 1 593 | 0 | 0 | 0 | 0 | 0 | 1 593 |
| 3 | Public sector entities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Institutions | 0 | 25 188 | 35 339 | 43 750 | 0 | 0 | 0 | 104 277 |
| 7 | Corporates | 0 | 0 | 3 863 | 1 166 633 | 13 435 | 0 | 0 | 1 183 931 |
| 8 | Retail | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | Secured by mortgages on immovable property | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Exposures in default | 0 | 0 | 0 | 2 389 | 13 806 | 0 | 0 | 16 196 |
| 11 | Exposures associated with particularly high risk | 0 | 0 | 0 | 0 | 9 554 | 0 | 0 | 9 554 |
| 12 | Covered bonds | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | Unit or shares in collective investment undertakings | 0 | 0 | 0 | 0 | 0 | 0 | 4 659 | 4 659 |
| 15 | Equity | 0 | 0 | 0 | 153 | 0 | 0 | 0 | 153 |
| 16 | Other items | 139 081 | 0 | 0 | 129 098 | 0 | 25 468 | 0 | 293 647 |
| **17** | **TOTAL** | **956 323** | **30 891** | **39 202** | **1 342 024** | **36 795** | **25 468** | **4 659** | **2 435 363** |

**Table 38 –** Risk Weight by Standardised approach (EU CR5)

## 14 MARKET RISK

Haitong Bank calculates own funds requirements for market risk under the standardized approach in accordance with Part Three, Title IV, Chapter 2 of Regulation (EU) no. 575/2013 for its trading book positions and Chapters 3 and 4 for its overall foreign exchange risk and commodities risk respectively. For the own funds requirements calculation for the debt instruments general risk, the Bank uses the maturity-based approach. For commodities risk, the Bank uses the simplified approach.

On 31 December 2021, Haitong Bank's Market Risk RWA composition was as follows:

| | (in thousands of EUR) | RWEAs at 31.12.2021 |
|---|---|---|
| | **Outright products** | |
| 1 | Interest rate risk (general and specific) | 141 680 |
| 2 | Equity risk (general and specific) | 440 |
| 3 | Foreign exchange risk | 275 673 |
| 4 | Commodity risk | 0 |
| | **Options** | |
| 5 | Simplified approach | 0 |
| 6 | Delta-plus approach | 0 |
| 7 | Scenario approach | 197 |
| 8 | **Securitisation** (specific risk) | 0 |
| **9** | **Total** | **417 990** |

**Table 39 –** Market risk under standardised approach (EU MR1)

## 15 OPERATIONAL RISK

Operational Risk own funds requirements determined for prudential reporting purposes as of 31 December 2021, were calculated in accordance with the Standardized Approach (Part III, Title III, Chapter 3 of the CRR). In the standardized approach, own fund requirements are computed as the three-year average of the sum of annual own fund requirements for all segments indicated in Figure 5.

| Business line | List of activities | Percentage |
|---|---|---|
| **Corporate finance** | Underwriting of financial instruments or placing of financial instruments on a firm commitment basis<br>Services related to underwriting<br>Investment advisory<br>Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to the mergers and the purchase of undertakings<br>Investment research and financial analysis and other forms of general recommendation relating to transactions in financial instruments | 18 % |
| **Trading and sales** | Dealing on own account<br>Money broking<br>Reception and transmission of orders in relation to one or more financial instruments<br>Execution of orders on behalf of clients<br>Placing of financial instruments without a firm commitment basis<br>Operation of Multilateral Trading Facilities | 18 % |
| **Retail brokerage**<br>(Activities with natural persons or with SMEs meeting the criteria set out in Article 123 for the retail exposure class) | Reception and transmission of orders in relation to one or more financial instruments<br>Execution of orders on behalf of clients<br>Placing of financial instruments without a firm commitment basis | 12 % |
| **Commercial banking** | Acceptance of deposits and other repayable funds<br>Lending<br>Financial leasing<br>Guarantees and commitments | 15 % |
| **Retail banking**<br>(Activities with natural persons or with SMEs meeting the criteria set out in Article 123 for the retail exposure class) | Acceptance of deposits and other repayable funds<br>Lending<br>Financial leasing<br>Guarantees and commitments | 12 % |
| **Payment and settlement** | Money transmission services,<br>Issuing and administering means of payment | 18 % |
| **Agency services** | Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management | 15 % |
| **Asset management** | Portfolio management<br>Managing of UCITS<br>Other forms of asset management | 12 % |

**Figure 5 –** Standardized Approach – Business Segments

The Own Funds requirement is computed for each segment by multiplying the relevant indicator by the beta factor associated to the business segment.

Calculation of the relevant indicator

In accordance with Regulation (EC) no. 1606/2002 of the European Council and Parliament of July 16, 2002 and the Bank of Portugal Notice no. 5/2015, the Bank prepares its separate financial statements in accordance with the International Financial Reporting Standards (IFRS).

The relevant indicator is calculated according to Article 316 of Regulation (EU) no. 575/2013 of the European Parliament and Council following the mapping below regarding the applicable accounting records (using audited figures).

| Income Statements | Account |
|---|---|
| (+) Interest receivable and similar income | 79 |
| (-) Interest payable and similar charges | 66 |
| (+) Shares and other variable-yield/fixed securities income | 82-821 |
| (+) Commissions received | 80+81 |
| (-) Commissions paid | 67+68 |
| (+) Results from financial operations | [83-(831+833+834)]-[69-(691+693+694)] |
| (+) Other operating income | [84-(841+842+843)] |

**Table 40 –** Relevant indicator accounting items

The abovementioned items consider the following adjustments, when necessary:

- the relevant indicator must be stated gross of provisions and operating costs, i.e., it must be calculated before the deduction of any provisions and operating costs, the latter including fees paid to outsourcing services rendered by third parties which are not subsidiaries;
- fees paid to outsourcing services rendered by third parties which are subsidiaries or are subject to rules under, or equivalent to, Regulation (EU) no. 575/2013 of the European Parliament and Council contribute to reducing the relevant indicator;
- income from the sale of non-trading book items, extraordinary results or income from insurance are not used in the calculation of the relevant indicator.

| (in thousands of EUR) | Relevant Indicator | | | Own funds requirements | Risk exposure amount |
|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | | |
| 1. Banking activities subject to basic indicator approach (BIA) | - | - | - | - | - |
| 2. Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches | 110 986 | 94 834 | 85 858 | 16 391 | 204 887,50 |
| 3. Subject to TSA: | 110 986 | 94 834 | 85 858 | | |
| 4. Subject to ASA: | - | - | - | | |
| 5. Banking activities subject to advanced measurement approaches AMA | - | - | - | - | - |

**Table 41 –** Operational risk own funds requirements and risk-weighted exposure amounts (EU OR1)

Operational Risk own funds requirements determined for prudential reporting purposes, according to information in Table 41, amounted to EUR 16 391 thousand as of December 31, 2021, a decrease of EUR 1 382 thousand when compared to December 31, 2020.

## 16 EXPOSURES TO INTEREST RATE RISK ON POSITIONS NOT INCLUDED IN THE TRADING BOOK

Interest rate risk in the banking book refers to the current or prospective risk arising from adverse movements in interest rates that affect the Bank's non-trading book positions. The adverse movement in interest rates are a consequence of the changes to the shape, slope and level of a range of different yield curves that incorporate some or all of the components of interest rates. These aspects of interest rate risk can occur simultaneously, and therefore need to be managed holistically, as they impact the bank's income or underlying economic value.

There are three main sources of IRRBB: repricing risk (or gap risk), basis risk and optionality risk (automatic and behavioral).

- **Repricing risk:** It arises from the term structure of banking book instruments, and describes the risk arising from the timing of instrument rate changes. Since rate resets on different instruments occur at different tenors, the risk to the bank arises when the rate of interest paid on liabilities increases before the rate of interest received on assets. Unless hedged in terms of tenor and amount, the bank may be exposed to a period of reduced or negative interest margins, or may experience changes in the relative economic values of assets and liabilities. The extent of gap risk depends also, on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- **Basis risk:** It describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are repriced using different interest rate indices (for instance an asset repriced off Euribor 3M funded by a liability repriced off Euribor 6M).
- **Option risk:** It arises from option derivative positions or from the optional elements embedded in many bank assets, liabilities and off-balance sheet items, where the bank or its customers can alter the level and timing of their cash flows.

In addition to the pure economic risks that can arise from changes to the level and structure of interest rates, curve risks can also arise from currency mismatches, where the interest rate risks are in addition to normal exchange rate risks (this falls within a wider definition of basis risk) or accounting treatment of risk positions, where interest rate hedging activity may achieve the desired economic effect, but fail to achieve hedge accounting treatment.

Haitong Bank aims to capture all material sources 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 given time horizon. Although different concepts, the two methods are complementary in that, both measures reflect the impact of changing cash flows arising from changing interest rates, the change in expected earnings is reflected in the change in economic value and they are affected by common assumptions.

**Main interest rate risk in the banking book metrics**

The management, measurement and control of IRRBB risk and metrics is performed by Haitong Bank for each subsidiary and in full consolidation. The set of metrics used in the group is homogeneous to ensure consistent measurement. However, the range of specific metrics implemented in each subsidiary depends on the dimensions and risk factors identified as relevant by each subsidiary in its IRRBB self-assessment, based on the individual features and nature of its business, its balance sheet structure and the complexity of the markets in which it operates.

IRRBB metrics are calculated under various scenarios and provide a static and /or dynamic overview of the balance sheet exposures and net interest margin in response to adverse interest rate movements. The main metrics are as follows:

- **Repricing gap:** It measures the difference between the volume of sensitive assets and liabilities, on and off the balance sheet, that re-price (i.e. that mature or are subject to rate revisions) at certain times.
- **Economic value and its sensitivity:** Economic value of the equity (EVE) is the difference between the present value of assets less the present value of liabilities of the banking book, excluding own equity and other instruments that do not generate interest. The present value is calculated by discounting projected cash flows of assets and liabilities with the appropriate discount curve. EVE sensitivity is calculated as the difference between the EVE in a selected interest rates scenario and the EVE calculated in the baseline scenario. Therefore, EVE can have as many sensitivities as scenarios considered. This metric enables the identification of long-term risk, and so supplements net interest income.
- **Net interest income and its sensitivity:** Net interest income is calculated as the difference between the interest income as percentage of assets and the interest cost of the liabilities of the banking book in a determined time horizon (the Bank's standard being one year). Its sensitivity reflects the impact of changes in interest rates on net interest income in the given time horizon. Net interest income sensitivity is calculated as the difference between the net interest income in a selected scenario and the net interest income in the baseline scenario. Therefore, the net interest income can have as many sensitivities as scenarios considered. This metric enables the identification of short-term risk, and supplements economic value of equity (EVE) sensitivity.

The measurement and reporting of the interest rate risk on internal value and earnings is monitored, at least, on a monthly basis, based on Bank of Portugal’s latest instructions and on the European Banking Authority’s (EBA) GL 2018/02 final report on guidelines on the management of interest rate risk arising from non-trading book activities, using the previous month's closing data.

The most commonly interest rate shocks scenarios used to measure the sensitivities of the economic value and net interest income are:

- Parallel shocks on the yield curve of +/- 200 basis points across the various currencies, for both EVE and NII sensititivy calculation.
- The six regulatory scenarios (parallel and non-parallel shocks) defined by the EBA for the EVE sensitivity calculation.

In addition, each subsidiary of the group uses a variety of scenarios sufficient to ensure appropriate measurement and control of its IRRBB profile. The use of these scenarios plays an important role in providing supplementary future risk estimates. They can be of different types, meaning, they can be historical, forward-looking, probabilistic or based on expert assessments.

**Methodologies**

The main elements necessary to calculate IRRBB metrics are the yield curves for capitalization and discounting and assumptions about future changes in the entity’s balance sheet and its various items.

For the economic value, the Bank uses a run-off balance sheet, where existing assets and liabilities are not replaced as they mature, whether for earnings metrics, the Bank follows a stable balance sheet model, where maturing contracts are replaced like for like, but with rates equal to be forward rates at the time of maturing.

Other assumptions used in both calculations are as follows:

- All cash flows from all interest rate-sensitive assets, liabilities and off-balance sheet items in the banking book are included in the calculation, i.e., assets, liabilities and off-balance sheet items in the non-trading book, excluding assets deducted from CET1 capital, e.g. real estate or intangible assets or equity exposures in the non-trading book.
- Repricing is said to occur at the earliest date at which either the bank or its counterparty is entitled to unilaterally change the interest rate, or at which the rate on a floating rate instrument changes automatically in response to a change in an external benchmark.
- Any interest payment or principal on fixed rate instruments that has not yet been repaid and any spread component of interest payments of floating rate instruments that has not yet been repaid and which do not reprice must be slotted until their contractual maturity, whether the principal has been repriced or not.
- Floating rate instruments are assumed to reprice fully at the first reset date, hence, the entire principal amount is slotted into the bucket in which that date falls, with no additional slotting of notional repricing cash flows to later time buckets.
- Instruments that are non-maturity instruments like current account and nostro or vostro accounts are projected to the fifth day after the reference date.
- If a non-performing exposure (NPE) ratio is above the materiality threshold of 2%, NPEs should be included, as they are considered as interest rate sensitive instruments reflecting expected cash flows and their timing.
- There are no drawdowns on fixed rate loans commitments.
- Cash flows are discounted using a zero coupon risk-free curves for each currency. The curve should not include instrument-specific or entity-specific credit spread or liquidity spreads (e.g. Swaps curves).

The following table shows changes in the Bank's economic value of equity (EVE) and its net interest income, for every prescribed interest rate scenario:

| **Prescribed interest rate scenarios** (in thousands of EUR) | **Delta EVE** | | **Delta NII** | |
|---|---|---|---|---|
| | **Dec. 2020** | **Dec. 2021** | **Dec. 2020** | **Dec. 2021** |
| Parallel up shock of 200 bps across the yield curve | 14 459 | 21 990 | 1 158 | ( 5 317) |
| Parallel down shock of 200 bps across the yield curve | 4 054 | ( 2 106) | ( 1 158) | 5 317 |
| Parallel up | 11 917 | 19 577 | | |
| Parallel down | 3 106 | ( 1 718) | | |
| Steepener | ( 5 066) | ( 7 489) | | |
| Flattener | ( 4 587) | ( 6 801) | | |
| Short rates up | 14 028 | 22 876 | | |
| Short rates down | ( 2 972) | ( 7 509) | | |
| **% Total Capital** | **2,73%** | **4,05%** | **0,22%** | **0,98%** |
| **% Tier 1 Capital** | **2,65%** | **4,23%** | **0,22%** | **0,98%** |

**Table 42 –** Interest rate risks of non-trading book activities (IRRBB1)

EVE evolution was mainly driven by the increase in volume and duration of a fixed income hold to collect portfolio and NII evolution is mainly explained by the increase in variable rate liabilities.

## 17 EXPOSURE TO SECURITISATION POSITIONS

As of December 31st 2021, Haitong Bank did not have asset securitization operations originated by the Group nor any securitization assets in its balance sheet.

## 18 LEVERAGE

Haitong Bank's leverage ratio is calculated in accordance with article 429º of regulation 2019/876 of the European Parliament and of the Council of 20 May 2019 amending regulation 575/2013 of the European Parliament and of the Council of 26 June 2013, which introduced some of the final elements of the Basel III framework. Those elements include, among other things, a new definition of the leverage ratio and a leverage ratio buffer. A minimum leverage ratio requirement of 3% was introduced that is effective since June 28, 2021. Haitong Bank decided not to use the transitional measure to exclude central bank exposures from the leverage ratio calculation, which was introduced as a result of the exceptional macroeconomic circumstances.

Leverage ratio is defined as "Tier 1 Capital" over the "Leverage exposure amount", which corresponds to the sum of the value of all of the Bank's assets and off-balance sheet items after adjustments, namely the application of credit conversion factors to off-balance-sheet items or the exclusion of elements deducted from own funds. The Tier 1 Capital used to calculate the Leverage ratio is detailed in table 5 of the Own Funds chapter.

The increase in the leverage ratio from 15.6% in 2020 to 17% in 2021 was mainly driven by the decrease of EUR 220 million exposure eligible for the leverage ratio, which mostly results from the decrease in secured financing transactions exposure. As of December 31, 2021, Haitong Bank holds a comfortable leverage ratio, compared with the minimum prudential percentage of 3%. The leverage ratio is monitored on a monthly basis, which allows the identification of proper mitigation actions in the case of signs of excessive leverage.

The tables below disclose the breakdown of the total exposure measure, as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements.

| (in thousands of EUR) | | 31.12.2021 |
|---|---|---|
| 1 | Total assets as per published financial statements | 2 746 651 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of prudential consolidation | 0 |
| 3 | (Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference) | 0 |
| 4 | (Adjustment for temporary exemption of exposures to central banks (if applicable)) | 0 |
| 5 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the total exposure measure in accordance with point (i) of Article 429a(1) CRR) | 0 |
| 6 | Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting | 0 |
| 7 | Adjustment for eligible cash pooling transactions | 0 |
| 8 | Adjustments for derivative financial instruments | 84 759 |
| 9 | Adjustment for securities financing transactions (SFTs) | 76 028 |
| 10 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 321 760 |
| 11 | (Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital) | 0 |
| EU-11a | (Adjustment for exposures excluded from the total exposure measure in accordance with point (c ) of Article 429a(1) CRR) | 0 |
| EU-11b | (Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR) | 0 |
| 12 | Other adjustments | -54 856 |
| **13** | **Total exposure measure** | **3 174 342** |

**Table 43 –** Summary reconciliation of accounting assets and leverage ratio exposures (EU LR1)

| (in thousands of EUR) | | CRR leverage ratio exposures | |
|---|---|---|---|
| | | 31.12.2021 | 31.12.2020 |
| | **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs, but including collateral) | 2 618 211 | 2 535 125 |
| 2 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | 0 | 0 |
| 3 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | 0 | 0 |
| 4 | Adjustment for securities received under securities financing transactions that are recognised as an asset | 0 | 0 |
| 5 | (General credit risk adjustments to on-balance sheet items) | 0 | 0 |
| 6 | (Asset amounts deducted in determining Tier 1 capital) | -54 857 | -55 631 |
| 7 | **Total on-balance sheet exposures (excluding derivatives and SFTs)** | 2 563 354 | 2 479 494 |

| (in thousands of EUR) | | CRR leverage ratio exposures | |
|---|---|---|---|
| | | 31.12.2021 | 31.12.2020 |
| | **Derivative exposures** | | |
| 8 | Replacement cost associated with SA-CCR derivatives transactions (ie net of eligible cash variation margin) | 123 481 | 103 695 |
| EU-8a | Derogation for derivatives: replacement costs contribution under the simplified standardised approach | 0 | 0 |
| 9 | Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions | 51 192 | 36 730 |
| EU-9a | Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach | 0 | 0 |
| EU-9b | Exposure determined under Original Exposure Method | 0 | 0 |
| 10 | (Exempted CCP leg of client-cleared trade exposures) (SA-CCR) | 0 | 0 |
| EU-10a | (Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach) | 0 | 0 |
| EU-10b | (Exempted CCP leg of client-cleared trade exposures) (original Exposure Method) | 0 | 0 |
| 11 | Adjusted effective notional amount of written credit derivatives | 0 | 0 |
| 12 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | 0 | 0 |
| **13** | **Total derivatives exposures** | **174 673** | **140 424** |
| | **Securities financing transaction (SFT) exposures** | | |
| 14 | Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions | 38 527 | 0 |
| 15 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | 72 871 | 556 219 |
| 16 | Counterparty credit risk exposure for SFT assets | 3 157 | 12 688 |
| EU-16a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR | 0 | 0 |
| 17 | Agent transaction exposures | 0 | 0 |
| EU-17a | (Exempted CCP leg of client-cleared SFT exposure) | 0 | 0 |
| **18** | **Total securities financing transaction exposures** | **114 555** | **568 907** |
| | **Other off-balance sheet exposures** | | |
| 19 | Off-balance sheet exposures at gross notional amount | 321 760 | 0 |
| 20 | (Adjustments for conversion to credit equivalent amounts) | 0 | 205 690 |
| 21 | (General provisions deducted in determining Tier 1 capital and specific provisions associated with off-balance sheet exposures) | 0 | 0 |
| **22** | **Off-balance sheet exposures** | **321 760** | **205 690** |
| | **Excluded exposures** | | |
| EU-22a | (Exposures excluded from the leverage ratio total exposure measure in accordance with point (c ) of Article 429a(1) CRR) | 0 | 0 |
| EU-22b | (Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off balance sheet)) | 0 | 0 |
| EU-22c | (Excluded exposures of public development banks (or units) - Public sector investments) | 0 | 0 |
| EU-22d | Excluded exposures of public development banks (or units) - Promotional loans | 0 | 0 |
| EU-22e | Excluded passing-through promotional loan exposures by non-public development banks (or units) | 0 | 0 |
| EU-22f | (Excluded guaranteed parts of exposures arising from export credits ) | 0 | 0 |
| EU-22g | (Excluded excess collateral deposited at triparty agents ) | 0 | 0 |
| EU-22h | (Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR) | 0 | 0 |
| EU-22i | (Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR) | 0 | 0 |
| EU-22j | (Reduction of the exposure value of pre-financing or intermediate loans ) | 0 | 0 |
| **EU-22k** | **(Total exempted exposures)** | **0** | **0** |
| | **Capital and total exposure measure** | | |
| 23 | Tier 1 capital | 540 195 | 528 717 |
| **24** | **Total exposure measure** | **3 174 342** | **3 394 515** |

| (in thousands of EUR) | | CRR leverage ratio exposures | |
|---|---|---|---|
| | | 31.12.2021 | 31.12.2020 |
| | **Leverage ratio** | | |
| 25 | Leverage ratio | 17,02% | 15,58% |
| EU-25 | Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%) | 17,02% | 15,58% |
| 25a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) | 17,02% | 0,00% |
| 26 | Regulatory minimum leverage ratio requirement (%) | 3,00% | 0,00% |
| EU-26a | Additional own funds requirements to address the risk of excessive leverage (%) | 0,00% | 0,00% |
| EU-26b | of which: to be made up of CET1 capital (percentage points) | 0,00% | 0,00% |
| 27 | Leverage ratio buffer requirement (%) | 0,00% | 0,00% |
| EU-27a | Overall leverage ratio requirement (%) | 3,00% | 0,00% |
| | **Choice on transitional arrangements and relevant exposures** | | |
| EU-27b | Choice on transitional arrangements for the definition of the capital measure | Transitional | Transitional |
| | **Disclosure of mean values** | | |
| 28 | Mean value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables | 0 | 0 |
| 29 | Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables | 111 398 | 556 219 |
| 30 | Total exposure measure (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 3 062 944 | 2 838 296 |
| 30a | Total exposure measure (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 3 062 944 | 2 838 296 |
| 31 | Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 17,64% | 18,63% |
| 31a | Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables) | 17,64% | 18,63% |

**Table 44 –** Leverage ratio common disclosure (EU LR2)

| (in thousands of EUR) | | CRR leverage ratio exposures |
|---|---|---|
| **EU-1** | **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | 2 618 211 |
| EU-2 | Trading book exposures | 346 040 |
| EU-3 | Banking book exposures, of which: | 2 272 170 |
| EU-4 | Covered bonds | 0 |
| EU-5 | Exposures treated as sovereigns | 821 353 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns | 1 593 |
| EU-7 | Institutions | 103 861 |
| EU-8 | Secured by mortgages of immovable properties | 0 |
| EU-9 | Retail exposures | 0 |
| EU-10 | Corporates | 988 830 |
| EU-11 | Exposures in default | 11 442 |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 345 092 |

**Table 45 -** Split-up of on balance sheet exposures (EU LR3)

## 19 CREDIT RISK MITIGATION TECHNIQUES

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 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). The calculation of regulatory capital requirements encompasses the effects of the instruments foreseen in Section 2, Chapter 4, Title II, Part III of Regulation (EU) no. 575/2013, namely immovable property collaterals, eligible financial instruments in the Financial Collateral Comprehensive Method, and guarantees provided by sovereigns, financial institutions or entities with external ratings.

Haitong Bank follows the prescription of CRR for collateral haircuts for impairment calculation. Thus, instead of using the collateral value, the Bank considers the collateral value after the haircut application.

As of December 31, 2021, Haitong Bank did not have credit derivatives transactions as unfunded credit protection.

The Bank registers in the IT systems the guarantees received connecting them to the guaranteed credit transactions. For personal guarantees, the Bank registers information about the guarantor, while for financial pledges and/or real guarantees the Bank records in the systems specific information about the assets held as collateral.

Frequency and methods of collateral valuation depend on the nature of the collateral. For listed equity securities and debt securities, the valuation is done using market prices for the reference date. For non-listed securities, valuation is performed by the investment bank area of the Bank, based on the latest available financial information of the issuer, with a reference date not exceeding one year.

Regarding pledges on equipment, the valuation is based on an updated appraisal (less than one year) by an appropriate appraiser for the nature of the collateral.

Mortgages are valued based on reports from appraisals conducted by independent appraisers, on an annual basis for commercial properties and every three years in case of residential properties.

The collateral management primarily relies on Structured Finance Department and on Special Portfolio Management. On the origination, Structured Finance Department is responsible to propose to the Credit Committee/Executive Committee the collateral package of the new transactions, while Special Portfolio Management has this role at the restructuring phase. Both Structured Finance Department and Special Portfolio Management are responsible for the full compliance of the collateral terms approved. These departments shall monitor the valuation and adequacy of existing collaterals, which is a crucial element for the assessment of the expected credit loss in relation to both the collective and the individual analysis performed at the Impairment Committee.

For derivatives collateral management, please refer to the counterparty credit risk chapter of this document.

Table 47 shows the effect of prudential mitigations and the respective risk exposures by risk class according to Part III, Title II, Chapter 4 of CRR regulation as of 31 December 2021.

| (in thousands of EUR) | | Exposures before CCF and before CRM | | Exposures post CCF and post CRM | | RWAs and RWAs density | |
|---|---|---|---|---|---|---|---|
| | **Exposure classes** | **On-balance-sheet exposures** | **Off-balance-sheet exposures** | **On-balance-sheet exposures** | **Off-balance-sheet exposures** | **RWEA** | **RWEA density (%)** |
| 1 | Central governments or central banks | 821 353 | 0 | 821 353 | 0 | 822 | 0,00 |
| 2 | Regional government or local authorities | 1 593 | 0 | 1 593 | 0 | 319 | 0,20 |
| 3 | Public sector entities | 71 | 0 | 0 | 0 | 0 | 0 |
| 4 | Multilateral development banks | 0 | 0 | 0 | 0 | 0 | 0 |
| 5 | International organisations | 0 | 0 | 0 | 0 | 0 | 0 |
| 6 | Institutions | 158 320 | 416 | 103 861 | 416 | 66 457 | 0,64 |
| 7 | Corporates | 1 224 257 | 283 652 | 988 830 | 195 102 | 1 188 668 | 1,00 |
| 8 | Retail | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | Secured by mortgages on immovable property | 0 | 0 | 0 | 0 | 0 | 0 |
| 10 | Exposures in default | 11 434 | 5 405 | 11 434 | 4 761 | 23 099 | 1,43 |
| 11 | Exposures associated with particularly high risk | 9 554 | 0 | 9 554 | 0 | 14 331 | 1,50 |
| 12 | Covered bonds | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | Institutions and corporates with a short-term credit assessment | 0 | 0 | 0 | 0 | 0 | 0 |
| 14 | Collective investment undertakings | 4 659 | 0 | 4 659 | 0 | 10 249 | 2,20 |
| 15 | Equity | 153 | 0 | 153,206 | 0 | 153,206 | 1,00 |
| 16 | Other items | 293 647 | 0 | 293 647 | 0 | 192769 | 0,66 |
| **17** | **TOTAL** | **2 525 041** | **289 473** | **2 235 084** | **200 279** | **1 496 867** | **0,61** |

**Table 46 –** Standardised approach – Credit risk exposure and CRM effects (EU CR4)

Table 45 does not cover derivative instruments, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions subject to Part Three, Title II, Chapter 6 of the CRR or subject to Article 92(3) point (f) of the same regulation.

## 20 LIQUIDITY RISK

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

Within the scope of the risk vision statement approved by the Board of Directors, Haitong Bank as a whole and all its subsidiaries individually aim to maintain a solid short-term position and a sustainable medium and long-term funding profile.

To achieve these goals, Haitong Bank's liquidity management has the objective of ensuring the Bank is able to meet its obligations as they come due at a reasonable cost, while complying with regulatory requirements across all geographies where it operates.

Haitong Bank seeks to develop a diversified investors' base, ensuring access to alternative financing sources and instruments and keeping an adequate funding structure to finance its activity.

To manage its liquidity risk, Haitong Bank monitors a set of liquidity risk metrics, whose limits were established within the Risk Appetite Framework, including prudential liquidity ratios, for which a buffer above regulatory limits was established, to cope with the risk level defined in the risk vision statement.

The liquidity risk metrics evolution and an analysis of the high quality liquid assets stock is included in the monthly risk reporting package – Risk Appetite Monitoring – discussed in the Executive Committee, the Risk Committee and the Board of Directors.

The Internal Liquidity Adequacy Assessment Process (ILAAP) is an assessment on the adequacy of the institution's short-term liquidity position and of the stable funding structure and an important part of the Bank's liquidity risk management framework. Within the context of the ILAAP exercise, the Bank tests the soundness of its liquidity position through a set of stress scenarios and establishes contingency plans to address them.

Haitong Bank's liquidity and funding management is under the direct responsibility of the Executive Committee, coordinated at Group level, under the ultimate responsibility of the Chief Executive Officer (CEO) and operational oversight by the Head of Treasury.

Haitong Bank has two main treasury hubs: Lisbon and São Paulo. Additionally, Poland also has a treasury department located in Warsaw, dealing with the specifics of the local market, local currency and the Polish regulatory/supervising authority. While Lisbon and São Paulo deal with the bulk of the Bank's funding and liquidity needs, Warsaw volumes and activity are less material and have a lower weight in the overall business of the Bank.

Funding from the parent company to its operating subsidiaries is at this point non-existent and, although some sort of assistance cannot be ruled out when or if needed, it is not considered a regular source of funding. Thus, the Brazilian subsidiary manages its activity in order to ensure that the funding needs are sourced locally in local currency. As a result, the flows between Portugal and Brazil are extremely rare. Local market idiosyncrasies and the lack of full convertibility of the BRL are the main reasons for this historical segregation.

In 2021, Haitong Bank's major sources of funding were wholesale facilities provided by credit institutions and financial corporation, including a Haitong Securities group company, secured financing from credit institutions and Central Bank, securities issued and deposits from clients. At the end of 2021, Bank of Portugal secured financing operations accounted for 17% of total funding and were the major source of funding. Deposits from clients include both retail deposits and other deposits from corporate clients and financial institutions.

High quality liquid assets of Haitong Bank consist mainly of deposits in central banks (Bank of Portugal) and sovereign debt from European Union countries and Brazilian government debt held by the Brazilian subsidiary.

Concerning derivatives, Haitong Bank hedges the market risk of its exposure to derivatives with its clients by taking opposite positions with financial counterparties, which are covered by ISDA/CSA agreements in Europe, and imply the exchange of collateral margin, and CGD contracts in Brazil. In market stress situations where the value of derivatives is significantly impacted, additional collateral amounts can be demanded from Haitong Bank.

The Brazilian subsidiary's funds are mainly raised in the local currency and thus there is very little foreign currency funding. Excluding Brazil, the main funding currency is EUR, with the Warsaw branch being funded either locally in PLN or by swapping Euros for PLN.

Regarding foreign currency funding, although from time to time the Bank may raise funds directly in that foreign currency via deposits or bond issuances, the standard practice is to swap EUR (the main funding currency) into the desired currency. The majority of the swaps to fund the foreign currency activity of the Bank are the EUR/USD pair. Given the depth of the market and the sheer volumes traded on a daily basis, Haitong's needs are minimal and as such it is considered that convertibility and availability risks are negligible.

Haitong Bank uses a set of indicators and analysis to ensure Liquidity Risk is maintained within the risk appetite established by the Board of Directors, which are summarized in the table below:

| Liquidity Management Indicators | Management Analysis | RAF | Regulatory |
|---|---|---|---|
| Liquidity Coverage Ratio | √ | √ | √ |
| Net Stable Funding Ratio | √ | √ | √ |
| Liquidity Buffer | √ | √ | |
| Liquidity Position | √ | √ | |
| Survival Period | √ | √ | |
| Concentration of Sovereign Bonds | √ | √ | √ |
| Concentration of Funding (by product and entity) | √ | | √ |
| Balance sheet maturity mismatch analysis | √ | | |
| Stress testing | √ | | |
| Available liquidity forecast | √ | | |

**Table 47 –** Liquidity Risk Management indicators

Haitong Bank Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) represents the amount of unencumbered high quality liquid assets, after haircuts, over the stressed net cash outflows for the following 30 days.

Haitong Bank's LCR average annual figures per quarter for 2021 are presented in the table below. Average LCR presents a downward trend as the growth in outflows outweighs the increase in HQLAs. The growth in Outflows is mainly driven by the increase in corporate and institutional deposits.

| (in thousands of EUR) | | **Total unweighted value (average)** | | | | **Total weighted value (average)** | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Quarter ending on | 31 Dec. 2021 | 30 Sep. 2021 | 30 Jun. 2021 | 31 Mar. 2021 | 31 Dec. 2021 | 30 Sep. 2021 | 30 Jun. 2021 | 31 Mar. 2021 |
| | Number of data points used | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| **HIGH-QUALITY LIQUID ASSETS** | | | | | | | | | |
| 1 | Total high-quality liquid assets (HQLA) | | | | | 724 096 | 721 700 | 707 485 | 692 497 |
| **CASH - OUTFLOWS** | | | | | | | | | |
| 2 | Retail and small business deposits, of which: | 215 309 | 216 562 | 211 719 | 206 951 | 21 531 | 21 656 | 21 172 | 20 695 |
| 3 | Stable deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 4 | Less stable deposits | 215 309 | 216 562 | 211 719 | 206 951 | 21 531 | 21 656 | 21 172 | 20 695 |
| 5 | Unsecured wholesale funding | 311 139 | 283 400 | 244 862 | 211 211 | 171 589 | 157 587 | 138 170 | 118 603 |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 7 | Non-operational deposits (all counterparties) | 308 421 | 280 608 | 241 156 | 201 542 | 168 871 | 154 795 | 134 464 | 108 933 |
| 8 | Unsecured debt | 2 718 | 2 792 | 3 706 | 9 669 | 2 718 | 2 792 | 3 706 | 9 669 |
| 9 | Secured wholesale funding | | | | | 25 457 | 23 427 | 19 182 | 14 222 |
| 10 | Additional requirements | 242 071 | 213 970 | 200 543 | 189 986 | 162 742 | 161 758 | 161 483 | 160 798 |
| 11 | Outflows related to derivative exposures and other collateral requirements | 153 928 | 153 199 | 152 001 | 151 755 | 153 928 | 153 199 | 152 001 | 151 755 |
| 12 | Outflows related to loss of funding on debt products | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 13 | Credit and liquidity facilities | 88 143 | 60 772 | 48 542 | 38 232 | 8 814 | 8 560 | 9 482 | 9 044 |
| 14 | Other contractual funding obligations | 9 688 | 37 379 | 69 100 | 70 632 | 2 012 | 2 105 | 2 457 | 4 178 |
| 15 | Other contingent funding obligations | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **16** | **TOTAL CASH OUTFLOWS** | | | | | **383 330** | **366 534** | **342 464** | **318 496** |
| **CASH - INFLOWS** | | | | | | | | | |
| 17 | Secured lending (e.g. reverse repos) | 75 375 | 76 998 | 52 199 | 42 727 | 0 | 0 | 0 | 0 |
| 18 | Inflows from fully performing exposures | 48 495 | 44 028 | 36 239 | 30 184 | 39 366 | 35 173 | 29 338 | 26 288 |
| 19 | Other cash inflows | 41 793 | 38 938 | 36 962 | 33 626 | 41 793 | 38 938 | 36 962 | 33 626 |
| EU-19a | (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies) | | | | | 0 | 0 | 0 | 0 |
| EU-19b | (Excess inflows from a related specialised credit institution) | | | | | 0 | 0 | 0 | 0 |
| **20** | **TOTAL CASH INFLOWS** | **165 663** | **159 965** | **125 400** | **106 538** | **81 160** | **74 111** | **66 300** | **59 913** |
| EU-20a | *Fully exempt inflows* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EU-20b | *Inflows subject to 90% cap* | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| EU-20c | *Inflows subject to 75% cap* | 165 663 | 159 965 | 125 400 | 106 538 | 81 160 | 74 111 | 66 300 | 59 913 |
| **TOTAL ADJUSTED VALUE** | | | | | | | | | |
| 21 | LIQUIDITY BUFFER | | | | | 724 096 | 721 700 | 707 485 | 692 497 |
| 22 | TOTAL NET CASH OUTFLOWS | | | | | 302 171 | 292 423 | 276 164 | 258 583 |
| **23** | **LIQUIDITY COVERAGE RATIO** | | | | | **247%** | **252%** | **261%** | **274%** |

**Table 48** – Quantitative information on LCR (EU LIQ1)

As shown in Table 47, Haitong Bank has maintained a very solid short-term liquidity position in 2021, with the ratio sitting comfortably above the regulatory minimum requirements of 100%.

As of December 2021, NSFR calculated under CRR2 regulation stands at 142%, well above the minimum regulatory requirement of 100%.

| December 2021 | | Unweighted value by residual maturity | | | | Weighted value |
|---|---|---|---|---|---|---|
| (in thousands of EUR) | | No maturity | < 6 months | 6 months to < 1 year | >= 1year | |
| | **Available Stable Funding** | | | | | |
| 1 | Capital items and instruments | 593 126 | 0 | 0 | 3 357 | 595 147 |
| 2 | Own funds | 593 126 | 0 | 0 | 2 021 | 595 147 |
| 3 | Other capital instruments | | 0 | 0 | 1 336 | 0 |
| 4 | Retail deposits | | 89 000 | 66 620 | 89 307 | 229 365 |
| 5 | Stable deposits | | 0 | 0 | 0 | 0 |
| 6 | Less stable deposits | | 89 000 | 66 620 | 89 307 | 229 365 |
| 7 | Wholesale funding: | | 436 087 | 183 201 | 1 083 295 | 1 253 154 |
| 8 | Operational deposits | | 0 | 0 | 0 | 0 |
| 9 | Other wholesale funding | | 436 087 | 183 201 | 1 083 295 | 1 253 154 |
| 10 | Interdependent liabilities | | 0 | 0 | 0 | 0 |
| 11 | Other liabilities: | | 15 851 | 0 | 101 935 | 10 364 |
| 12 | NSFR derivative liabilities | 0 | | | | 0 |
| 13 | All other liabilities and capital instruments not included in the above categories | | 15 851 | 0 | 101 935 | 10 364 |
| **14** | **Total available stable funding (ASF)** | | | | | **2 088 029** |
| | **Required Stable Funding** | | | | | |
| 15 | Total high-quality liquid assets (HQLA) | | | | | 269 702 |
| EU-15a | Assets encumbered for a residual maturity of one year or more in a cover pool | | 0 | 0 | 0 | 0 |
| 16 | Deposits held at other financial institutions for operational purposes | | 0 | 0 | 0 | 0 |
| 17 | Performing loans and securities: | | 173 684 | 203 403 | 752 687 | 812 593 |
| 18 | Performing securities financing transactions with financial customerscollateralised by Level 1 HQLA subject to 0% haircut | | 37 980 | 0 | 0 | 0 |
| 19 | Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions | | 36 602 | 0 | 0 | 3 606 |
| 20 | Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which: | | 36 156 | 146 167 | 401 565 | 432 492 |
| 21 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 0 | 0 | 0 | 0 |
| 22 | Performing residential mortgages, of which: | | 0 | 0 | 0 | 0 |
| 23 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 0 | 0 | 0 | 0 |
| 24 | Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products | | 62 946 | 57 236 | 351 122 | 376 496 |
| 25 | Interdependent assets | | 0 | 0 | 0 | 0 |
| 26 | Other assets: | | 151 610 | 5 141 | 310 113 | 377 685 |
| 27 | Physical traded commodities | | 0 | 0 | 0 | 0 |
| 28 | Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | | 0 | 0 | 50 846 | 43 219 |
| 29 | NSFR derivative assets | | 62 306 | 0 | 0 | 62 306 |
| 30 | NSFR derivative liabilities before deduction of variation margin posted | | 67 115 | 0 | 0 | 3 356 |
| 31 | All other assets not included in the above categories | | 22 189 | 5 141 | 259 268 | 268 804 |
| 32 | Off-balance sheet items | | 173 937 | 0 | 0 | 8 697 |
| **33** | **Total required stable funding (RSF)** | | | | | **1 468 677** |
| **34** | **Net Stable Funding Ratio (%)** | | | | | **142%** |

| September 2021 (in thousands of EUR) | | Unweighted value by residual maturity | | | | Weighted value |
|---|---|---|---|---|---|---|
| | | No maturity | < 6 months | 6 months to < 1 year | >= 1year | |
| | **Available Stable Funding** | | | | | |
| 1 | Capital items and instruments | 594 496 | 0 | 0 | 2 936 | 596 793 |
| 2 | Own funds | 594 496 | 0 | 0 | 2 297 | 596 793 |
| 3 | Other capital instruments | 0 | 0 | 0 | 639 | 0 |
| 4 | Retail deposits | 0 | 116 682 | 43 756 | 60 108 | 204 502 |
| 5 | Stable deposits | 0 | 0 | 0 | 0 | 0 |
| 6 | Less stable deposits | 0 | 116 682 | 43 756 | 60 108 | 204 502 |
| 7 | Wholesale funding: | 0 | 660 825 | 225 623 | 911 394 | 1 068 021 |
| 8 | Operational deposits | 0 | 0 | 0 | 0 | 0 |
| 9 | Other wholesale funding | 0 | 660 825 | 225 623 | 911 394 | 1 068 021 |
| 10 | Interdependent liabilities | 0 | 0 | 0 | 0 | 0 |
| 11 | Other liabilities: | 0 | 41 596 | 0 | 108 268 | 10 158 |
| 12 | NSFR derivative liabilities | 0 | | | | 0 |
| 13 | All other liabilities and capital instruments not included in the above cate | 0 | 41 596 | 0 | 108 268 | 10 158 |
| **14** | **Total available stable funding (ASF)** | | | | | **1 879 475** |
| | **Required Stable Funding** | | | | | |
| 15 | Total high-quality liquid assets (HQLA) | | | | | 26 292 |
| EU-15a | Assets encumbered for a residual maturity of one year or more in a cover pool | | 0 | 0 | 0 | 0 |
| 16 | Deposits held at other financial institutions for operational purposes | | 0 | 0 | 0 | 0 |
| 17 | Performing loans and securities: | | 436 537 | 162 664 | 567 332 | 682 051 |
| 18 | Performing securities financing transactions with financial customerscollateralised by Level 1 HQLA subject to 0% haircut | | 159 308 | 0 | 0 | 0 |
| 19 | Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions | | 55 974 | 2 439 | 0 | 6 817 |
| 20 | Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which: | | 74 849 | 121 735 | 263 067 | 321 899 |
| 21 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 0 | 0 | 0 | 0 |
| 22 | Performing residential mortgages, of which: | | 0 | 0 | 0 | 0 |
| 23 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 0 | 0 | 0 | 0 |
| 24 | Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products | | 146 406 | 38 489 | 304 265 | 353 335 |
| 25 | Interdependent assets | | 0 | 0 | 0 | 0 |
| 26 | Other assets: | | 201 328 | 327 | 300 483 | 389 149 |
| 27 | Physical traded commodities | | 0 | 0 | 0 | 0 |
| 28 | Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | | 0 | 0 | 36 067 | 30 657 |
| 29 | NSFR derivative assets | | 61 731 | 0 | 0 | 61 731 |
| 30 | NSFR derivative liabilities before deduction of variation margin posted | | 72 487 | 0 | 0 | 3 624 |
| 31 | All other assets not included in the above categories | | 67 110 | 327 | 264 415 | 293 136 |
| 32 | Off-balance sheet items | | 103 964 | 0 | 0 | 5 198 |
| **33** | **Total required stable funding (RSF)** | | | | | **1 102 690** |
| **34** | **Net Stable Funding Ratio (%)** | | | | | **170%** |

| June 2021 | | Unweighted value by residual maturity | | | | Weighted value |
|---|---|---|---|---|---|---|
| (in thousands of EUR) | | No maturity | < 6 months | 6 months to < 1 year | >= 1year | |
| | **Available Stable Funding** | | | | | |
| 1 | Capital items and instruments | 601 217 | 0 | 0 | 3 929 | 603 514 |
| 2 | Own funds | 601 217 | 0 | 0 | 2 297 | 603 514 |
| 3 | Other capital instruments | | 0 | 0 | 1 632 | 0 |
| 4 | Retail deposits | | 105 642 | 78 079 | 39 160 | 204 509 |
| 5 | Stable deposits | | 0 | 0 | 0 | 0 |
| 6 | Less stable deposits | | 105 642 | 78 079 | 39 160 | 204 509 |
| 7 | Wholesale funding: | | 618 544 | 182 605 | 969 413 | 1 092 535 |
| 8 | Operational deposits | | 0 | 0 | 0 | 0 |
| 9 | Other wholesale funding | | 618 544 | 182 605 | 969 413 | 1 092 535 |
| 10 | Interdependent liabilities | | 0 | 0 | 0 | 0 |
| 11 | Other liabilities: | | 25 900 | 0 | 113 665 | 11 339 |
| 12 | NSFR derivative liabilities | | 0 | 0 | 0 | 0 |
| 13 | All other liabilities and capital instruments not included in the above categories | | 25 900 | 0 | 113 665 | 11 339 |
| **14** | **Total available stable funding (ASF)** | | | | | **1 911 897** |
| | **Required Stable Funding** | | | | | |
| 15 | Total high-quality liquid assets (HQLA) | | | | | 28 329 |
| EU-15a | Assets encumbered for a residual maturity of one year or more in a cover pool | | 0 | 0 | 0 | 0 |
| 16 | Deposits held at other financial institutions for operational purposes | | 0 | 0 | 0 | 0 |
| 17 | Performing loans and securities: | | 378 358 | 63 822 | 577 205 | 638 043 |
| 18 | Performing securities financing transactions with financial customerscollateralised by Level 1 HQLA subject to 0% haircut | | 135 942 | 0 | 0 | 0 |
| 19 | Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions | | 24 378 | 2 415 | 0 | 3 645 |
| 20 | Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which: | | 64 437 | 42 131 | 301 175 | 309 283 |
| 21 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 0 | 0 | 0 | 0 |
| 22 | Performing residential mortgages, of which: | | 0 | 0 | 0 | 0 |
| 23 | With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 0 | 0 | 0 | 0 |
| 24 | Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products | | 153 601 | 19 276 | 276 030 | 325 114 |
| 25 | Interdependent assets | | 0 | 0 | 0 | 0 |
| 26 | Other assets: | | 192 964 | 94 | 312 171 | 393 377 |
| 27 | Physical traded commodities | | 0 | 0 | 0 | 0 |
| 28 | Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | | 0 | 0 | 50 532 | 42 952 |
| 29 | NSFR derivative assets | | 48 988 | 0 | 0 | 48 988 |
| 30 | NSFR derivative liabilities before deduction of variation margin posted | | 76 289 | 0 | 0 | 3 814 |
| 31 | All other assets not included in the above categories | | 67 687 | 94 | 261 639 | 297 622 |
| 32 | Off-balance sheet items | | 52 371 | 0 | 0 | 2 619 |
| **33** | **Total required stable funding (RSF)** | | | | | **1 062 366** |
| **34** | **Net Stable Funding Ratio (%)** | | | | | **180%** |

**Table 49** – Net Stable Funding Ratio (EU LIQ2)

## 21 Remuneration Policy

Regarding Haitong Bank's remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile ("Identified Staff"), information is disclosed in this document, in the Remuneration Policy of Haitong Bank, S.A. and in the Bank's Annual Report.

Remuneration Committee

The purpose of the Remuneration Committee is to form 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.

The Remuneration Committee is composed of three members of the Board of Directors who are not members of the Executive Committee. The majority of these members must be independent and they are appointed by the Board of Directors.

The Remuneration Committee held six meetings in 2021 (four being electronic).

Remuneration Policy

The dimension of scope in this Policy covers two aspects. The first aspect is to apply rules to the following groups of staff and Corporate Bodies:

i. All employees of the Bank, its branches and subsidiaries;
ii. The employees whose professional activities have a material impact on the Bank's risk profile ("Identified Staff"), as defined by the Commission Delegated Regulation (EU) 2021/923 of 25th of March 2021, including the staff responsible for Control Functions and members of senior management;
iii. The members of the Corporate Bodies.

The second aspect covered by this Policy is to provide the guidance and limits to govern the behaviours and practices in relation to remuneration, including staff individual agreements.

Concerning the rules exclusively applicable to subsidiaries of Haitong Bank, each subsidiary designs appendixes to this Policy, detailing the specific local rules, which will prevail and apply to the respective subsidiary.

For the purposes of Article 115º-C / 2 b) to e) of RGICSF, it is required to (at least) annually define the employees with potential impact on the Bank's risk profile, according to the criteria set out in the new Commission Delegated Regulation (EU) No. 2021/923. Identified staff is composed of members of corporate bodies, senior management, voting members of internal committees and key personnel from internal control functions.

Key features and objectives of the Remuneration Policy

- Human Resources is responsible for the periodic update of these rules, with inputs from other relevant parties, such as the Finance, Legal, Compliance and Risk Management functions;
- The Compliance Department is responsible for monitoring the Compliance with the Policy;
- The Remuneration Committee reviews the Policy annually and provides an independent advice to the Shareholders meeting, which is the ultimate Corporate Body to approve this Policy;
- The Remuneration Committee prepares an annual assessment report of the Remuneration Policy, to present to the Supervisory Board, the Board of Directors and the General Meeting. This report will includes a description of the measures taken to correct detected deficiencies, if any, and will be made available to the supervisory authorities upon request;
- The remuneration of the Bank's employees includes two components: fixed remuneration and variable remuneration. Fixed remuneration corresponds to fixed compensation paid regularly to employees during each year for their services;
- The fixed remuneration budget should be incorporated within the Bank's annual budget process. The total expenditure on fixed remuneration should not exceed the approved budget unless there is legitimate approval. The variable remuneration depends on the sustainable and risk-adjusted performance of the Bank in the appraised year;
- The global variable remuneration pool shall be established every year according to the rules and procedure expressed in the Variable Remuneration Assessment Policy of Haitong Bank.
- The Bank does not support any discretionary pension plan schemes nor issues any kind of securities or financial instruments that may be used for purposes of variable remuneration. Variable remuneration is paid in cash, observing the deferral rules described in section 7.

On July 2021, the Bank updated its Remuneration Policy and included the following changes and features:

i. Combined a policy to cover for all of the Bank's staff, including members of the Corporate Body, Identified Staff, members engaged in the Control Functions and staff in general;
ii. Use this new Policy as a master Policy for Haitong Bank's subsidiaries, which might have their own sovereign regulatory environment and local specific rules, which should be respected;
iii. This new Policy defines the Group remuneration framework of Haitong Bank S.A., in a way to comply with the provisions in articles 115-C to 115-H of the Legal Framework of Credit Institutions and Financial Companies (hereinafter "RGICSF"), of the Bank of Portugal, as well as the guidelines on sound remuneration policies from EBA (EBA/GL/2015/22);
iv. With the approval and publication of this new Policy, no impact on remuneration was recorded since the previous policies (i.e. one for Identified Staff and other for Members of the Corporate Bodies) were already built in accordance with the regulations expressed in iii) above

The criteria used for performance measurement and *ex ante* and *ex post* risk adjustment was:

- Variable remuneration depends on the sustainable and risk-adjusted performance of the Bank in the appraised year;
- Variable remuneration deferral rules are applicable to Identified Staff and other employees whose remuneration places them at the same remuneration level as Identified Staff employees;
- At least 50% of the variable remuneration component will be deferred over a 3-year period;

- This percentage should be increased to 60% when the amount of variable remuneration represents more than 100% of the fixed remuneration;
- Variable remuneration is subject to *malus* or *clawback* arrangements. The Bank observes specific criteria, in accordance with the applicable regulations and the "Haitong Bank S.A. Remuneration Policy", as described in section "*8. Revocation Of Deferred Components*" of said Policy.

As per the Bank's Remuneration Policy, under section "5. Regulatory Requirements", "*To provide for the independence of Control Function employees in relation to the structure units they oversee. The independence requirement aims at ensuring that their remuneration, which is overseen directly by the Remuneration Committee, is determined independently from the performance of the business units they control and is based on the objectives linked solely to their functions*".

Guaranteed variable remuneration is forbidden, except in the case of recently hired staff. In this case, it can only be awarded during the first year of activity.

The ways in which current and future risks are taken into account in the remuneration processes:

- In what regards fixed remuneration budget, it is incorporated within the Bank's annual budget process. The total expenditure on fixed remuneration should not exceed the approved budget unless there is legitimate approval by the relevant body. Variable remuneration depends on the sustainable and risk-adjusted performance of the Bank in the appraised year;
- Employees shall not, directly or indirectly, use any kind of instruments intended to hedge the risk of a downward adjustment in remuneration (e.g. buying an insurance contract which compensates the staff member in the event of a downward risk adjustment in the deferred portion of the variable remuneration).
  The Bank should test the capacity of the remuneration system implemented to react to external and internal events, using various possible scenarios and back testing the model used for such purpose;
- The Remuneration Committee verifies the testing of the capacity of the remuneration system to react to external and internal events, using various possible stress scenarios, ensuring that the remuneration system properly takes into account all types of risks, liquidity and capital levels.

The individual variable remuneration awarded in each given year cannot exceed the amount of the fixed remuneration in that year. Exceptionally, the Bank may approve to raise this limit up to a maximum of twice the fixed component of the individual remuneration. To this effect, the Executive Committee must submit a detailed proposal for approval by the Shareholders Meeting, specifying 1) the proposed amounts, 2) the proposed staff member(s) affected, and 3) the rationale for the proposal. The Bank of Portugal will be informed of this proposal and the decision outcome.

Haitong Bank seeks to link performance during a performance measurement period with the levels of remuneration by taking into account that:

- Variable Remuneration aims to reward performance and works as an incentive to employees. It also aligns the interests of employees with those of the various stakeholders, including those of the ultimate shareholder, towards the long-term sustainability of the Bank;

- Variable remuneration is based on a combination of the assessment of the performance of the individual, and of the business unit concerned, as well as the overall results of the Bank on a given year;
- Variable remuneration depends on the sustainable and risk-adjusted performance of the Bank in the appraised year;
- Variable remuneration is subject to malus or clawback arrangements. The Bank observes specific criteria, in accordance with the applicable regulations and the "Haitong Bank S.A. Remuneration Policy", as described in section "8. Revocation Of Deferred Components" of said Policy.

Haitong Bank incorporates long term performance into the remuneration by abiding to the following rules:

- Variable remuneration deferral rules are applicable to Identified Staff and other employees whose remuneration places them at the same remuneration level as Identified Staff employees;
- At least 50% of the variable remuneration component will be deferred over a 3-year period;
- This percentage should be increased to 60% when the amount of variable remuneration represents more than 100% of the fixed remuneration;
- The deferred payments shall be made in three instalments, according to the following scheme:
    - **i.** Upfront Payment → paid in the awarded year: $Total\ awarded\ Variable\ Remuneration$ ×50% (60% regarding 2021 variable remuneration)
    - ii. Payment of Deferred Components

      N+1 → ($Total\ awarded\ Variable\ Remuneration – Upfront\ Payment$) ×40%

      N+2 → ($Total\ awarded\ Variable\ Remuneration – Upfront\ Payment$) ×30%

      N+3 → ($Total\ awarded\ Variable\ Remuneration – Upfront\ Payment$) ×30%
- Any variable remuneration payment which has been revoked is considered irreversibly cancelled.
- The right of revocation is assessed each calendar year and applies to the deferred component of the variable remuneration on that specific year in analysis.
- Revocation on Employee's Own Initiative:
    - i. The Identified Staff member voluntarily leaves the Bank;
    - ii. The executive member of the Board of Directors voluntarily terminates his or her mandate before the end of respective term;
    - iii. Under the circumstance that a staff member of Haitong Bank Group is seconded or transferred to another Haitong Group entity, this event is not consider as revocation on employee's own initiative.
- Revocation Due to Other Reasons
    - i. Collective Events:
        - Under the circumstance that the payment of the deferred variable remuneration triggers the breach of certain regulatory capital and liquidity ratios, then the shareholder has the right to completely revoke such payment in that given year;

- The regulatory capital and liquidity ratios are: Total Capital Ratio, Common Equity Tier 1 ratio (CET1), Liquidity Coverage ratio (LCR) and Net Stable Funding ratio (NSFR).

ii. Individual Events:

- With robust disciplinary investigation, the Board of the Directors has the right to completely revoke the deferred variable remuneration if a certain employee breaches Haitong Bank's Code of Conduct or the following events:
    - Evidence of misconduct or serious error by the relevant Identified Staff member;
    - The Identified Staff member was responsible for a significant downturn in the financial performance of his business unit;
    - The Identified Staff member was responsible for a significant failure of risk management;
    - Any regulatory sanctions where the conduct of the Identified Staff member contributed to the sanction;
    - The Identified Staff concerned ceased to comply with suitability criteria (for executive member of the Board of Directors);
    - The Identified Staff leaves the Bank through dismissal with due cause;
    - The executive member of the Board of Directors concerned ceased to comply with suitability criteria;
    - The executive member of the Board of Directors concerned was suspended of office for reasons attributable to the executive member.

Variable Remuneration is fully paid in cash and the schema is described in the Variable Remuneration Assessment Policy of Haitong Bank S.A..

The calculation of the Variable Remuneration pool for a given year is based on a formula that incorporates the Earnings Before Taxes ("EBT"), the effective result of the KPI achievement for the year in appraisal and other specific factors which are applied in the formula considering the Bank's different business areas.

The following tables detail the quantitative information required on remuneration:

| (in thousands of EUR) | | MB Supervisory function | MB Management function | Other senior management | Other identified staff |
|---|---|---|---|---|---|
| Fixed remuneration | Number of identified staff | 7 | 5 | 66 | 3 |
| | Total fixed remuneration | 411 | 1 744 | 7 554 | 192 |
| | Of which: cash-based | 411 | 1 744 | 7 554 | 192 |
| | (Not applicable in the EU) | | | | |
| | Of which: shares or equivalent ownership interests | 0 | 0 | 0 | 0 |
| | Of which: share-linked instruments or equivalent non-cash instruments | 0 | 0 | 0 | 0 |
| | Of which: other instruments | 0 | 0 | 0 | 0 |
| | (Not applicable in the EU) | | | | |
| | Of which: other forms | 0 | 0 | 0 | 0 |
| | (Not applicable in the EU) | | | | |
| Variable remuneration | Number of identified staff | 0 | 5 | 55 | 3 |
| | Total variable remuneration | 0 | 990 | 1 373 | 14 |
| | Of which: cash-based | 0 | 990 | 1 373 | 14 |
| | Of which: deferred | 0 | 396 | 513 | 6 |
| | Of which: shares or equivalent ownership interests | 0 | 0 | 0 | 0 |
| | Of which: deferred | | | | |
| | Of which: share-linked instruments or equivalent non-cash instruments | 0 | 0 | 0 | 0 |
| | Of which: deferred | | | | |
| | Of which: other instruments | 0 | 0 | 0 | 0 |
| | Of which: deferred | | | | |
| | Of which: other forms | 0 | 0 | 0 | 0 |
| | Of which: deferred | | | | |
| **Total remuneration** | | **411** | **2 734** | **8 928** | **206** |

**Table 50** – Remuneration awarded for the financial year (EU REM1)

| (in thousands of EUR) | MB Supervisory function | MB Management function | Other senior management | Other identified staff |
|---|---|---|---|---|
| **Guaranteed variable remuneration awards** | | | | |
| Guaranteed variable remuneration awards - Number of identified staff | 0 | 0 | 0 | 0 |
| Guaranteed variable remuneration awards -Total amount | 0 | 0 | 0 | 0 |
| Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap | 0 | 0 | 0 | 0 |
| **Severance payments awarded in previous periods, that have been paid out during the financial year** | | | | |
| Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff | 0 | 0 | 0 | 0 |
| Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount | 0 | 0 | 0 | 0 |
| **Severance payments awarded during the financial year** | | | | |
| Severance payments awarded during the financial year - Number of identified staff | 0 | 0 | 1 | 0 |
| Severance payments awarded during the financial year - Total amount | 0 | 0 | 339 | 0 |
| Of which paid during the financial year | 0 | 0 | 339 | 0 |
| Of which deferred | 0 | 0 | 0 | 0 |
| Of which severance payments paid during the financial year, that are not taken into account in the bonus cap | 0 | 0 | 0 | 0 |
| Of which highest payment that has been awarded to a single person | 0 | 0 | 339 | 0 |

**Table 51** – Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM2)

| Deferred and retained remuneration (in thousands of EUR) | Total amount of deferred remuneration awarded for previous performance periods | Of which due to vest in the financial year | Of which vesting in subsequent financial years | Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year | Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years | Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e.changes of value of deferred remuneration due to the changes of prices of instruments) | Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year | Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods |
|---|---|---|---|---|---|---|---|---|
| **MB Supervisory function** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Cash-based | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shares or equivalent ownership interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share-linked instruments or equivalent non-cash instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other forms | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **MB Management function** | **439** | **182** | **257** | **0** | **0** | **0** | **0** | **0** |
| Cash-based | 439 | 182 | 257 | 0 | 0 | 0 | 0 | 0 |
| Shares or equivalent ownership interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share-linked instruments or equivalent non-cash instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other forms | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Other senior management** | **1 017** | **521** | **496** | **0** | **0** | **0** | **0** | **0** |
| Cash-based | 1 017 | 521 | 496 | 0 | 0 | 0 | 0 | 0 |
| Shares or equivalent ownership interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share-linked instruments or equivalent non-cash instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other forms | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Other identified staff** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| Cash-based | | | | | | | | |
| Shares or equivalent ownership interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share-linked instruments or equivalent non-cash instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other instruments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other forms | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total amount | 1 456 | 703 | 753 | 0 | 0 | 0 | 0 | 0 |

**Table 52** – Deferred remuneration (EU REM3)

| (in thousands of EUR) | Management body remuneration | | | Business areas | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **MB Supervisory function** | **MB Management function** | **Total MB** | **Investment banking** | **Retail banking** | **Asset management** | **Corporate functions** | **Independent internal control functions** | **All other** | **Total** |
| **Total number of identified staff** | | | | | | | | | | 83 |
| **Of which: members of the MB** | 10 | 5 | 15 | | | | | | | |
| **Of which: other senior management** | | | | 17 | 4 | 2 | 29 | 13 | 0 | |
| **Of which: other identified staff** | | | | 0 | 0 | 0 | 0 | 3 | 0 | |
| **Total remuneration of identified staff** | 411 | 2 545 | 2 956 | 2 255 | 621 | 557 | 3 975 | 1 544 | 0 | |
| **Of which: variable remuneration** | 0 | 801 | 801 | 260 | 135 | 55 | 622 | 134 | 0 | |
| **Of which: fixed remuneration** | 411 | 1 744 | 2 155 | 1 995 | 486 | 502 | 3 353 | 1 410 | 0 | |

**Table 53** – Information on remuneration of staff whose professional activities have a material impact on institution's risk profile (identified staff) (EU REM5)

No individual has been remunerated 1 million euro or more in 2021.

The Bank benefits from the derogation laid down in point a) of number 3 of Article 94 of Directive 2013/36/EU and, as stated in point 6.2.2., number 2, regarding Variable Remuneration, all variable remuneration paid by the Bank is in cash, applicable to all employees and members of the Corporate Bodies.