Hong Kong

HAITONG

2016
Interim Report

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MANAGEMENT REPORT

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The first half of 2016 was marked by high volatility in the financial markets and the paring back of global growth expectations. These fears abated during the course of the period, alleviating aversion to risk. By the end of the first six months of the year instability again spiked in the markets, spurred by the United Kingdom European Union membership referendum.

The difficult context as well as the adverse funding conditions constrained Haitong Bank ("the Bank") activity in the geographies where it has a presence. With the strong support of Haitong Securities, Haitong Bank initiated an action plan to tackle this unfavourable environment and to increase its profitability. However, the initiatives taken in the period had an immediate negative cost impact but no effect at Income level yet.

In the first half of 2016, Banking Income reached EUR 63 million, which represents a 20.9% decrease when compared to the same period of 2015. International activity accounted for 80% of total Banking Income, with the Brazilian operation being the major contributor. Net Losses reached EUR 21.4 million.

The improvement of funding conditions and the strengthening of the capital base were at the top of the Bank's priorities. With the objective to maintain prudent capital buffers above both internal and regulatory capital requirements, Haitong Bank issued in May EUR 80 million Fixed Rate Perpetual Deeply Subordinated Debt eligible as Additional Tier 1 capital. In addition, Haitong Bank concluded in June the refinancing of the Novo Banco EUR 750 million facility at much favourable financial conditions through a syndicate of Chinese financial institutions with the guarantee of Haitong Securities. It also received a 5-years maturity EUR 138.5 million intercompany loan from Haitong International Holdings Limited.

The implementation and development of synergies also concentrated important efforts from the whole organisation in the period. During the first half of 2016, Haitong Bank and Haitong Securities enhanced collaboration to further explore synergies. Various commercial initiatives were undertaken to originate cross-border transactions in the 4 business areas: Investment Banking, Markets, Structured Finance and Wealth and Fund Management that are expected to bear fruits from the second half of 2016 onwards. Specific actions were implemented (or are in progress) to create stronger communication and information flows between Haitong Bank and Haitong Securities / Haitong International areas, namely:

- At the end of the 1H2016, Haitong International and Haitong Bank signed a Memorandum of Understanding (MoU) that establishes the path for cooperation between the two entities. The main goal is to build a powerful, international and integrated franchise;
- Haitong Bank intends to have a physical presence in China with a view to facilitating the materialisation and expansion of synergies resulting from the acquisition. The Bank applied for Bank of Portugal's approval to create a subsidiary in the Shanghai Free Trade Zone whose intended business is the provision of financial advisory services (M&A, Structured Finance and Wealth & Fund Management) involving Chinese Clients.

The Bank took additional initiatives to reshape its geographical footprint. In February, Haitong Bank agreed to purchase the 25% minority stake held by the Burman Family in Haitong Securities India Private Limited. This acquisition was completed in May. In March, the Bank concluded the winding up of its New York Branch and returned the respective licence to the New York Department of Financial Services. Since then Haitong Bank remains present in this market through a Representative Office, whose licence was granted by the same Supervision Authority in January 2016. The establishment of a US broker-dealer to conduct securities brokerage and underwriting activities is pending the approval of the respective license by Financial Industry Regulatory Authority (FINRA).

The Bank has in progress a set of actions to increase profitability, the first being London's recent staff reduction. This measure was successfully implemented and will originate a significant cost saving from 2017 onwards. Other actions are already under analysis and include the centralisation of supporting activities, business reengineering and the renegotiation of external suppliers' contracts.

Haitong Bank's business model is based on four main areas: Investment Banking, Markets, Structured Finance and Wealth and Fund Management and it is being reshaped with a strong focus on profitability.

On the **Investment Banking** business area – that includes M&A and ECM/DCM activities - Haitong Bank concluded some important transactions, acting as:

- Joint Bookrunner on two bond issues for EDP Finance (EUR 600 million) and Brisa Concessão Rodoviária (EUR 300 million), Sole Arranger on a Bond Issue for Medort (PLN 51 million) and Bookrunner on the BRL 170 million Debenture for Unidas;
- Joint Global Coordinator and Joint Bookrunner on the Polski Bank PLN 56.4 million Initial Public Offering;
- Joint Global Coordinator on the EUR 220 million first Eurobond for Haitong Securities;
- Financial Adviser on 3 M&A transactions in Portugal in the Infrastructure sector (total amount above EUR 700 million) involving foreign investors.

Regarding **Structured Finance**, Haitong Bank acted as Mandated Lead Arranger on the first corporate loan to China - Haitong Unitrust International Leasing Corporation – in the amount of RMB 120 million and also on the refinancing of a PV plant with a total capacity of 7 MW for NaturEner (EUR 48.2 million).

On the **Markets** business area – Equities, Fixed Income and Global Markets – Haitong Bank participated in some key events in the platforms where it has a presence:

- Pan European Days in New York - Haitong Bank was partner of this event hosting Portuguese companies. The Pan European Days, a Euronext initiative, have welcomed over 1,000 high-level delegates from the United States and Europe in total, including Ministers, CEOs, CFOs, fund managers and financial analysts. The main purpose of this annual event is to highlight investment opportunities in the European economies and in particular to present Euronext listed companies to the US investment community;

- MoU with Warsaw Stock Exchange (WSE) - Haitong Bank and WSE signed a cooperation agreement that allows establishing the relationship between Chinese companies from Hong Kong and the Mainland China with the WSE. The agreement is a basis for both parties to engage in a mutual exchange of information related to capital markets across both Poland and China.

Regarding **Wealth and Fund Management** – Asset Management, Private Equity and Wealth Management – some business initiatives are being developed aiming to:

- Complete and enlarge the offering in the Asset Management activity (from equity-only to multi-asset);

- Launch new Private Equity Funds;

- Conclude the setup of the Wealth Management activity and develop product offering.

The first semester of 2016 was extremely demanding for Haitong Bank. In the second half of the year and with the important support from its Shareholder, the Bank will continue to promote key initiatives to increase Banking Income, reduce Operating Costs and improve its profitability.

1. GOVERNANCE

CORPORATE BODIES

GENERAL MEETING BOARD

Chairman[1]

Secretary
José Miguel Alecrim Duarte

BOARD OF DIRECTORS

Chairman
Hiroki Miyazato

Vice-Chairmen
José Maria Ricciardi
Rafael Caldeira de Castel-Branco Valverde

Members
Alan do Amaral Fernandes
Christian Georges Jacques Minzolini
David Charles Denholm Hobley[2]
Félix Aguirre Cabanyes
Frederico dos Reis de Arrochela Alegria
Lin Yong
Mo Yiu Poon
Pan Guangtao
Paulo José Lameiras Martins

SUPERVISORY BOARD

Permanent Members
José Manuel Macedo Pereira (Chairman)
Tito Manuel das Neves Magalhães Basto
Mário Paulo Bettencourt de Oliveira

Deputy Member
Paulo Ribeiro da Silva

[1] Vacant due to the resignation of the former holder
[2] On 15 July 2016 the Bank of Portugal authorised Mr. David Charles Denholm Hobley to take office as member of the Board of Directors and will remain in office until the end of the current mandate (2013-2016).

EXECUTIVE COMMITTEE

Chairman
José Maria Ricciardi

Members
Hiroki Miyazato
Rafael Caldeira de Castel-Branco Valverde
Alan do Amaral Fernandes
Christian Georges Jacques Minzolini
Félix Aguirre Cabanyes
Frederico dos Reis de Arrochela Alegria
Mo Yiu Poon
Paulo José Lameiras Martins

Senior Managing Directors with a Seat on the Executive Committee
José Luís de Saldanha Ferreira Pinto Basto
Nuno David Fernandes Cardoso
Pedro Miguel Cordovil Toscano Rico

Executive Committee Secretary
Patrícia Salgado Goldschmidt Catanho Meneses

STATUTORY AUDITORS

Amável Calhau, Ribeiro da Cunha & Associados - Sociedade de Revisores Oficiais de Contas
represented by
José Maria Rego Ribeiro da Cunha

2. MAIN DEVELOPMENTS

CORPORATE EVENTS

- In January 2016 Haitong Bank, S.A. fully subscribed and paid up Haitong Securities USA LLC initial share capital of USD 300,000.
- In March 2016 Haitong Bank, S.A. fully subscribed the capital increase of Haitong Securities USA LLC, an investment of USD 10,000,000.
- In March 2016 Haitong Bank, S.A. fully subscribed the capital increase of Haitong Securities India Private Limited, an investment of INR 344,748,000. Haitong Bank, S.A. subscribed 13,725,289 new shares increasing the number of shares held in this company to 19,635,252.
- In March 2016 Haitong Bank, S.A. concluded the winding up of its New York Branch and returned the respective licence to the New York Department of Financial Services. Since then Haitong Bank remains present in this market through a Representative Office, whose licence had been granted by the same Supervision Authority in January 2016.
- In March 2016 Mr. Tiago Vaz Pinto Cyrne de Castro handed in his resignation to his position as member of the Board of Directors of Haitong Bank, S.A..
- In April 2016 Messrs Luis Miguel Pina Alves Luna Vaz and Miguel António Igrejas Horta e Costa resigned their positions as Member and Vice-Chairman, respectively, of the Board of Directors of Haitong Bank, S.A..
- In April 2016 the Bank of Portugal authorised Mr. Lin Yong to take office as member of Haitong Bank, S.A.'s Board of Directors. Mr. Lin Yong will remain in office until the end of the current mandate (2013-2016).
- In May 2016, Haitong Bank, S.A. has completed the purchase of the 1,477,491 shares held by the minority shareholder of Haitong Securities India Private Limited, for an aggregate value of INR 245.795.160.
- In May 2016 Haitong Bank, S.A. issued Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments for a global amount of EUR 80,000,000.
- In June 2016 Haitong Bank concluded the refinancing of the Novo Banco EUR 750,000,000 facility via a syndicate of Asian banks and with the guarantee of Haitong Securities.
- In June 2016 Haitong Bank received a EUR 138,500,000 5-year intercompany loan from Haitong International Holdings Limited.

FINANCIAL HIGHLIGHTS

(thousands of euro)

Consolidated Income Statement	Jun-16	Jun-15	Change
Consolidated Banking Income	**63,343**	**80,089**	**(20.9%)**
Fees and Commissions Income	28,667	46,783	(38.7%)
Net Interest Income	22,894	24,589	(6.9%)
Market Results	11,782	8,717	35.2%
Total Operating Expenses	**(79,101)**	**(67,675)**	**16.9%**
Staff Costs	(49,060)	(38,576)	27.2%
General and Administrative Expenses	(26,957)	(25,741)	4.7%
Depreciation and Amortisation	(3,084)	(3,358)	(8.2%)
Operating Income	**(15,758)**	**12,414**	**(226.9%)**
Impairment and Provisions	(3,037)	(10,058)	(69.8%)
Profit before Income Tax	**(18,795)**	**2,356**	**(897.8%)**
Income Tax	(1,517)	(2,049)	(26.0%)
Non-controlling Interest	(1,039)	(15)	6,826.7%
Consolidated Net Profit	**(21,351)**	**292**	**(7,412.0%)**

(thousands of euro)

Consolidated Balance Sheet	Jun-16	Dec-15	Change
Financial assets held for trading	1,404,786	1,346,489	4.3%
- Securities	932,459	1,002,550	(7.0%)
Available for sale financial assets	584,138	468,311	24.7%
Loans and advances to banks	738,546	258,795	185.4%
Loans and advances to customers	1,040,128	1,041,341	(0.1%)
Other assets	944,343	1,057,646	(10.7%)
Total Assets	**4,711,941**	**4,172,582**	**12.9%**
Financial liabilities held for trading	868,874	502,350	73.0%
Deposits from other banks	1,682,655	1,632,522	3.1%
Customers accounts	736,823	567,038	29.9%
Debt securities issued	391,397	547,266	(28.5%)
Other liabilities	542,111	492,563	10.1%
Total Liabilities	**4,221,860**	**3,741,739**	**12.8%**
Share capital	426,269	426,269	0.0%
Share premium and other equity instruments	92,527	12,527	638.6%
Reserves	(49,050)	(11,732)	318.1%
Net profit	(21,351)	(35,402)	(39.7%)
Non-controlling interest	41,686	39,181	6.4%
Total Equity	**490,081**	**430,843**	**13.7%**
Total Equity and Liabilities	**4,711,941**	**4,172,582**	**12.9%**

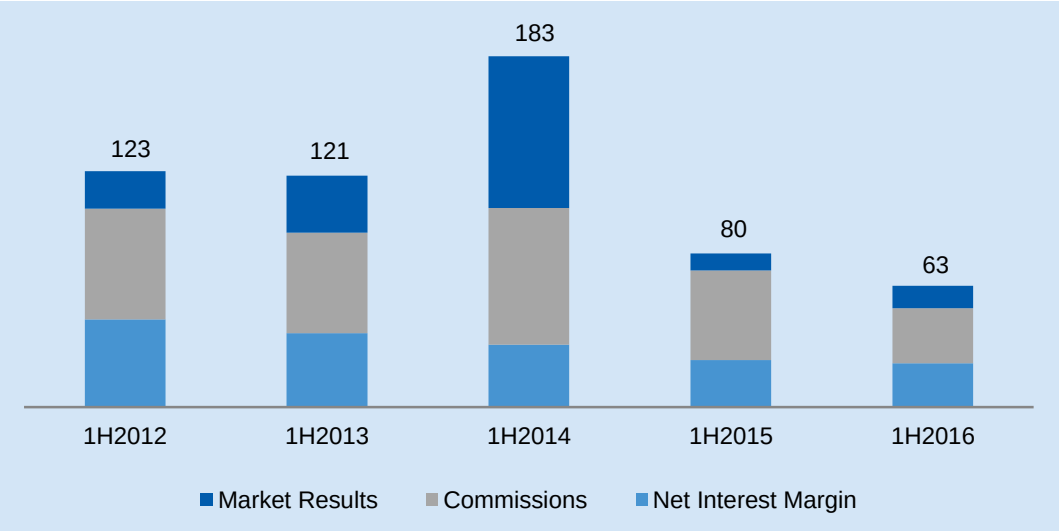
FINANCIAL OVERVIEW

Haitong Bank's activity during the first half of 2016 was pursued in a climate of high volatility in the financial markets, initially due to the scaling down of expectations about global economic growth and towards the end of the period further stressed by the referendum in the United Kingdom – Brexit.

Consolidated Banking Income for the first six months of 2016 was EUR 63 million, a 20.9% reduction from a year earlier. The international activity represented 80% of the consolidated Banking Income for the period, with Brazil giving the largest contribution.

Consolidated Banking Income

(millions of euro)



Source: Haitong Bank.

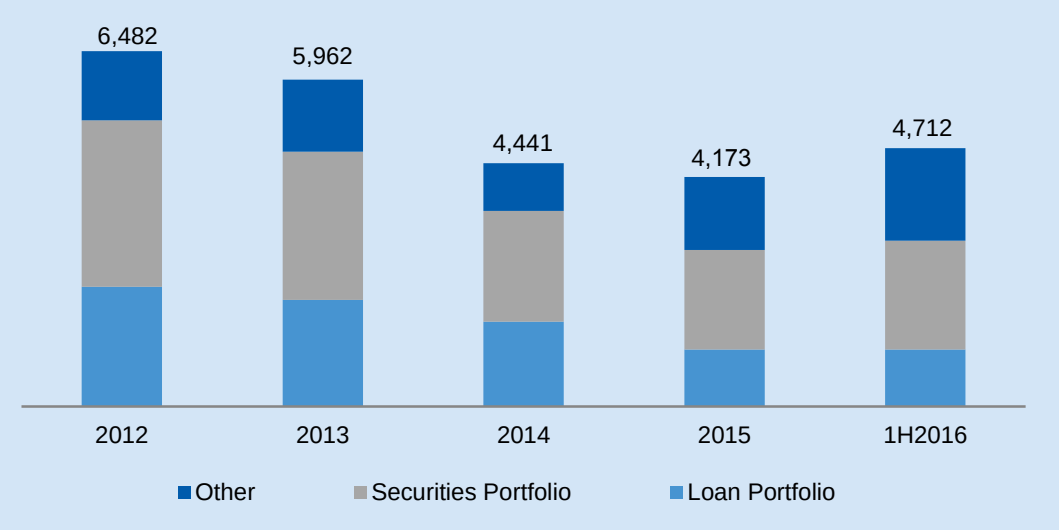
The fee-generating activities (Investment Banking and Markets) suffered the sharpest reduction in the period. However, several initiatives are under way to deepen synergies with Haitong Securities / Haitong International, leading to the origination of cross-border transactions with China. Additional measures were also taken to improve Haitong Bank's cost of funding, including the refinancing in June of the EUR 750 million credit facility granted by Novo Banco, negotiated with a syndicate of Chinese financial institutions, which permitted a significant reduction of spreads and the extension of maturities. The positive effect of these measures will only be felt as from the second half of 2016.

Moreover, the Bank has launched a cost-cutting plan aimed to increase efficiency and profitability of its operations. Some of these measures, namely the staff cuts in London, had an initial negative impact on Operating Costs, but the effect of the resulting savings will be visible from the second half of the year onwards. Operating Costs thus increased by 16.9% on a year earlier, reaching EUR 79.1 million.

Total Assets grew by 12.9%, to EUR 4.7 billion, underpinned by the increase in asset portfolios and particularly in Loans and advances to banks. The Loan Portfolio remained practically unchanged.

Total Assets

(millions of euro)



Source: Haitong Bank.

Haitong Bank's capital adequacy was considerably strengthened during the first half of 2016. This is a result of the Bank's strategic importance within the Haitong Group and the correspondent Shareholder's commitment to support Haitong Bank, namely shown through the EUR 80 million issue of Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments. The Bank's prudent and rigorous balance sheet management should also be stressed as well as the efforts undertaken during the period to optimise risk-weighted assets.

Solvency Ratios

	Jun-16		Dec-15	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	10.7%	8.7%	10.5%	8.9%
Tier 1 ratio	12.1%	11.4%	10.5%	9.0%
Total capital ratio	12.3%	11.7%	10.6%	9.3%

Source: Haitong Bank.

RATING

No rating actions were taken during the first half of 2016. As of 30 June 2016, Haitong Bank and its subsidiaries were as follows:

Company	Rating
Haitong Bank, S.A.	
Counterparty Credit Rating	BB- / Positive / B
Junior Subordinated	CCC
Haitong Investment Ireland plc	
Senior Unsecured	BB-
Haitong Banco de Investimento do Brasil, S.A.	
Counterparty Credit Rating	
Global Scale	BB- / Positive / B
Brazil Nationale Scale	brA+ / Positive / brA-2

Source: S&P.

3. BUSINESS ACTIVITY

MACROECONOMIC ENVIRONMENT

The first half of 2016 was marked by high volatility in the financial markets and the paring back of global growth expectations. During the first months of the year market instability mainly resulted from the sharp fall in oil prices and concerns about economic deceleration in China. In January the price of Brent crude dropped from USD 37/barrel to a low of close to USD 26/barrel, driven by perceptions of surplus supply and the slackening outlook for global economic activity. In China GDP growth slowed in the first quarter from 1.5% to 1.2% QoQ (or from 6.8% to 6.7% YoY), the lowest growth rate since the first quarter of 2009. Market instability was also fuelled by the fast devaluation of the renminbi at the start of the year, which reached close to 1.7% against the US dollar at the beginning of January. The fall in oil prices and the devaluation of the renminbi stirred up fears about global deflationary pressures, with potential negative impacts on the economic growth and stability of the more vulnerable emerging markets. Moreover, the contraction in the price of crude triggered fears about an escalation of defaults in the mining sector (mainly in the United States), leading to the widening of high-yield credit spreads, with potential contagion effects to other sectors of the economy.

These fears abated during the course of the first half of the year, alleviating aversion to risk in the financial markets. By the end of June the price of Brent crude had bounced back to USD 48.4/barrel, supported by expectations of a gradual rebalancing between supply and demand. In the whole semester Brent crude appreciated by around 30%. Meanwhile, China's economy gradually showed signs of stabilising growth, benefiting from a set of monetary and fiscal policy stimuli that eased access to liquidity in the economy. In the second quarter GDP grew by 1.8% QoQ and 6.7% YoY. The renminbi continued to depreciate, albeit at a slower pace than at the start of the year, reaching USD/CNY 6.643 at the end of June (a 2.3% fall against the dollar).

By the end of the first half of the year instability again spiked in the financial markets, spurred by the United Kingdom European Union membership referendum. As support to 'Leave' gained strength in the weeks immediately preceding the vote, aversion to risk increased, as well as demand for safe haven assets, stoking volatility in the foreign exchange market and stressing the downward trend of debt yields in the core economies. The eventual victory of Leave (52% vs. 48%), not fully anticipated, initially caused sharp reactions in the financial markets, penalising the pound as well as most higher risk assets. Even if these initial impacts subsequently dimmed or were entirely dispelled, the outcome of the referendum weighed strongly on the downward revision of economic growth prospects, especially in Europe, further shoring up expectations that interest rates in the main economies would remain low for a longer period of time. These expectations were supported by the easing bias taken by the Bank of England, the Bank of Japan and the European Central Bank (ECB), as well as the signs given by the North-American Federal Reserve that it would delay raising interest rates. It should be noted that the United Kingdom's economy showed signs of slowing down even before the referendum, with GDP growth retreating from 0.6% to 0.4% QoQ in the first quarter of 2016, translating the postponement of investment and consumption decisions. GDP growth is thought to have remained relatively stable in the second quarter as a whole, though the available indicators point to a deceleration of activity in May and June. The pound fell by 11.6% against the euro in the first half of the year, to EUR/GBP 0.83458, and hit a low of EUR/GBP 0.86327 at the beginning of July.

In this context market interest rates maintained a downward trend during the first half of 2016, while yield curves also continued to flatten out in the main economies. The yield on the 10-year Treasuries retreated from 2.27% at the end of 2015 to 1.471% at the end of June. In the Eurozone, the yield on the 10-year German Bunds hit negative ground at the end of the period, retreating from 0.629% to -0.13%, and continuing to fall through the beginning of the second half of the year. The downward trend of the 3-month Euribor also became more marked, with this rate reaching -0.286% at the end of June, which compares with -0.131% at the end of

2015. In March the ECB announced a reinforcement of monetary stimuli, including: (i) a 5 basis points (bps) cut on the main refinancing operations, to 0%; (ii) a 5 bps cut on the interest rate on the marginal lending facility, to 0.25%; (iii) a 10 bps cut on the interest rate on the deposit facility, to -0.4%; (iv) a EUR 20 billion expansion of the asset purchase programme, to EUR 80 billion, together with the easing of restrictions on the purchase of securities for each issue and each issuer; (v) inclusion of investment grade euro-denominated bonds issued by non-bank corporations established in the Eurozone in the list of assets that are eligible for regular purchases; and (vi) launch of four targeted longer-term refinancing operations (TLTRO II), each with a maturity of 4 years; borrowing conditions in these operations can be as low as the interest rate on the deposit facility. Though picking up towards the latter part of the first half of the year, the main Eurozone stock market indices all fell in the period, mainly on the back of concerns about the financial sector.

Backed by improving financing conditions, and also supported by more expansionary fiscal policies and the fall in energy prices, the Eurozone economy maintained resilient growth in the first half of 2016. GDP grew by 0.6% QoQ in the first quarter and is reckoned to have expanded by close to 0.4% in the second. The euro advanced by 2.5% against the dollar in the first half of the year, to EUR/USD 1.1139, though weakening towards the end of the period and falling by 3.4% against the US currency since the high registered at the beginning of May. In the US, the earlier part of the year saw anaemic economic activity growth (annualised GDP growth of 1.1% in the first quarter) essentially reflecting the fall in investment linked to the recession lived in the mining industry. GDP growth is reckoned to have picked up in the second quarter, backed by the stabilisation of activity in the energy sector and a more vigorous private consumption. GDP is estimated to have grown by 2.5% to 3% in this period (in annualised terms). The labour market maintained a recovering trend during the first months of the year, with the rate of unemployment dropping to around 4.9% of the labour force. Even so, inflationary pressures, though mounting, remained very much contained, with core inflation rising from 2.2% to 2.3% YoY and headline inflation retreating from 1.4% to 1%. Lower expectations about a rise of interest rates in the US and economic and exchange rate stabilisation in China contributed to the benign performance of the emerging markets in the first half of the year. In Brazil, however, economic activity continued to shrink, even if the pace of GDP contraction diminished (0.3% QoQ and 5.4% YoY drops in the first quarter). With inflation still clearly above target (8.8% YoY in June, vs. 10.7% in January), the Central Bank maintained the SELIC rate unchanged at 14.25% during the first half of 2016. The period was also marked by strong political instability, culminating with the impeachment of President Dilma Rousseff in May. The iBovespa gained 18.9%, while the real advanced by 23% against the dollar, to USD/BRL 3.212.

Spain remained an economic outlier within the Eurozone, with GDP growing by 0.8% QoQ in the first quarter and by 1% in the second based on the robust performance of domestic demand that gradually improved conditions in the labour market, and the recovery of the housing market, where prices spiked by 6.3% in the first quarter. Consumer prices continued to fall, having dropped by -0.8% YoY in June. The climate of political instability caused by the failure of the December 2015 and June 2016 elections to turn out a political majority and hence the difficulty of forming a new Government did not affect financing conditions in the economy. The yield on the 10-year sovereign debt securities declined from 1.77% to 1.16% in the first half of the year, mirroring the overall downward trend in interest rates (the spread against the Bunds widened just slightly, from 114 to 129 bps).

In Portugal, GDP increased by 0.2% QoQ and 0.9% YoY in the first quarter of 2016, with exports growth decelerating and investment decreasing. Private consumption accelerated in the period - growing by 1.3% QoQ and 2.9% YoY -, backed by the decline in energy prices, the recovery of disposable income (mainly through the partial reinstatement of civil servant wages) and an improvement of financing conditions, leading to a rebound in consumer credit. The available indicators point to some slackening of growth in the second quarter, with domestic demand slowing down and net external demand maintaining a negative contribution. A global environment of aversion to risk combined with a certain degree of uncertainty about the fiscal consolidation process prompted the widening of the 10-year sovereign debt securities spread against the Bunds, from 189 to 314 bps, with the respective yield rising from 2.5% to 3% in the first half of the year.

At global level, the second half of 2016 should continue to see an environment of low growth and inflation, allied to a climate of high uncertainty, mainly associated to political risks, in particular in Europe, where the next 12 months will feature a busy electoral calendar.

BUSINESS MODEL

Haitong Bank's main objective is to provide services to large and medium-sized Corporate Clients, Institutional Clients, and in some specific segments, Private Clients.

Haitong Bank is currently well positioned to foster investment and capture cross-border flows between Asia, Europe, Latin America and Africa. The development of a distribution platform will enhance geographical complementarities and capital flows within these regions, firmly supporting the international expansion strategy of the Bank's new Shareholder.

The Bank maintains its focus on growing the fee-generating activities and on the implementation of the new ' Originate to Distribute' model, channelling most efforts into the expansion of its distribution capacity in the world's most important financial markets (London and New York).

Haitong Bank's business model is being reshaped according to international best practices and aligned to its Shareholder's business structure. The business model is based on four main areas: Investment Banking, Markets, Structured Finance and Wealth and Fund Management.

CLIENT COVERAGE

The Client Coverage team strives to originate deals for all Haitong Bank's product areas and to promote Client loyalty and the expansion of the Client base, viewing the sustained build-up of deal-flow and the reinforcement of the Bank's positioning as the preferred business partner of its Clients.

Though continuing to serve all the different business areas, the Client Coverage Division was integrated in the Investment Banking unit as a result of the change in the Bank's business model. Its goals are similar - relationship and origination - but now with a stronger focus on M&A and Capital Markets.

In line with the defined development strategy, Haitong Bank has commercial teams based in Lisbon, Madrid, São Paulo, London, Warsaw, New York, Mumbai and Mexico City.

The following action guidelines aim to ensure adequate coverage of the teams' markets of operation. Their performance significantly contributes to the success of the Bank's internationalisation and to consolidate its prominent position amongst the investment banks operating in these geographies:

- Strengthen relations with the Clients, identifying their needs and offering them an integrated and comprehensive range of services and products;
- Target new Clients proactively, leveraging our distinctive technical and relationship expertise and carefully selecting the target markets, products and Clients with the highest potential for generating business;
- Explore the cross-border business potential within the various geographies, increasingly focusing on the business opportunities coming from China towards Europe, the Americas and Africa.

The first half of 2016 was a challenging period for Haitong Bank's operations, mainly due to the economic and political instability registered in some of the main markets where the Bank operates. Even so, the Bank obtained a relevant number of mandates in several product areas and geographies.

With its Clients pursuing their efforts towards internationalisation, the Client Coverage team increasingly focused on cross-border operations, supported by effective coordination with the various international units of the Bank. The number of opportunities arising in the Chinese market, which is increasingly expanding abroad and where Haitong Bank is poised to ride this internationalisation movement, permit to forestall the steady growth of the activity flow.

INVESTMENT BANKING

MERGERS & ACQUISITIONS

MARKET BACKGROUND

In the first half of 2016 global Mergers & Acquisitions (M&A) activity decreased by 14% year-on-year (YoY) in value of announced transactions, totalling USD 1,569 billion, according to Bloomberg. Due to the environment of extremely tight regulatory scrutiny, governmental control and instability in the financial markets, around 100 transactions were aborted in the period, the highest number since the start of the financial crisis in 2007. Cross-border transactions represented 44% of total announced transactions at global level, a 2% increase over a year earlier.

In Europe the M&A market grew by 11% in number of announced transactions, though decreasing by 1% in value, to USD 496 billion. Cross-border transactions remained the main catalyst for the European M&A market, accounting for 83% of the total value of announced transactions.

According to Bloomberg data, in the first half of 2016 the M&A market in Iberia increased by 18% in number of announced deals, though slumping by 39% in value, to USD 26.5 billion. In Portugal, the value of announced transactions registered a sharp fall of 38%, to USD 1.5 billion. Strong political instability caused by the change of government in late 2015, which led to the reversal of some privatisation agreements made by the previous government, and the banking crisis the country is experiencing are some of the main factors behind the worse performance of the M&A market in the period when compared to a year earlier. In Spain, M&A activity also sharply contracted in the period (-37% in value of announced transactions, according to Bloomberg), being penalised by the current economic crisis in Europe.

In the United Kingdom the M&A business totalled USD 113 billion in the period. This reflects a 53% fall in the value of announced transactions, even if their number increased by 6%. Together with Germany and France, the United Kingdom was one of the most active markets in terms of volume of announced transactions. The three countries accounted for over half of the total value registered in Europe.

Activity in Poland was constrained by the political and economic instability lived in Europe. M&A activity retreated sharply during the first half of 2016: with 100 deals in the period, the value of announced transactions fell by 52%, to USD 2.5 billion

In Brazil, the economic and political crisis weighed heavily on the level of M&A business, both in number and in value of announced deals, which fell by 13% and 41%, respectively, in the first half of the year. According to Bloomberg data, there were 200 announced transactions in the period in Brazil (USD 12.8 billion).

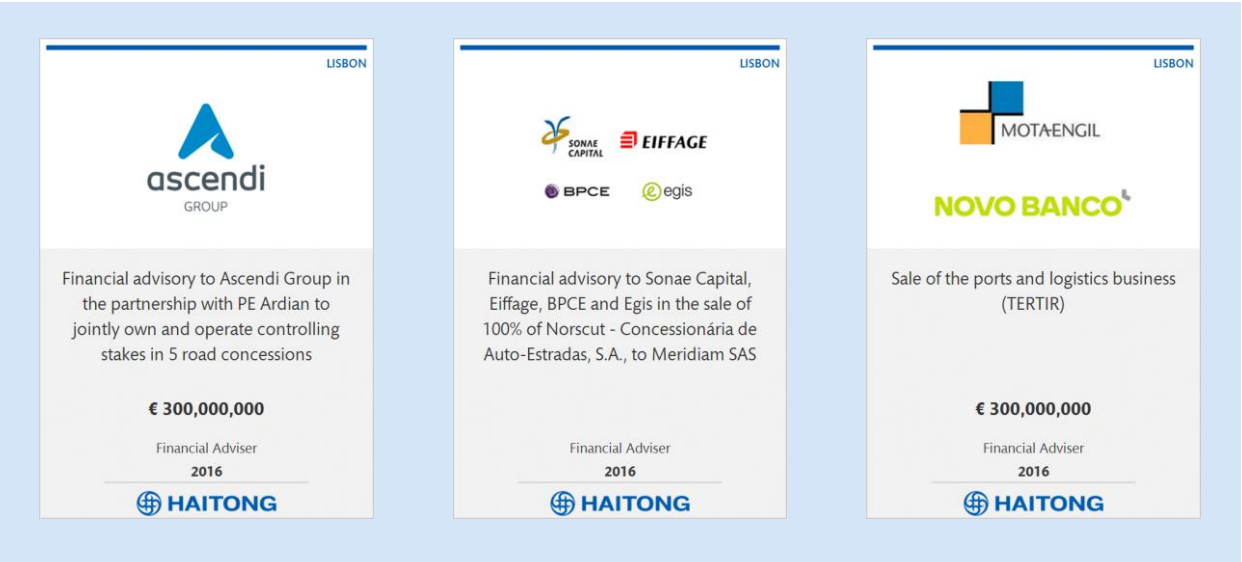
In the United States, the total value of announced deals decreased by 16% YoY, to USD 866 billion, corresponding to 8,809 announced transactions, according to Bloomberg data. Despite the recovery of the US economy that contributed to the acceleration of M&A activity in 2015, there was a slowdown in the first half of 2016. However, on a medium to long-term perspective, this activity continues to benefit from a moderately favourable macroeconomic environment, with large amounts of cash on the balance sheet of companies, easy access to the debt and equity markets, low interest rates, and stable growth.

HAITONG BANK ACTIVITY

In **Portugal**, during the first half of 2016, Haitong Bank advised 7 transactions, of which 4 were cross-border transactions with French, Turkish and Peruvian investors and 3 were domestic transactions.

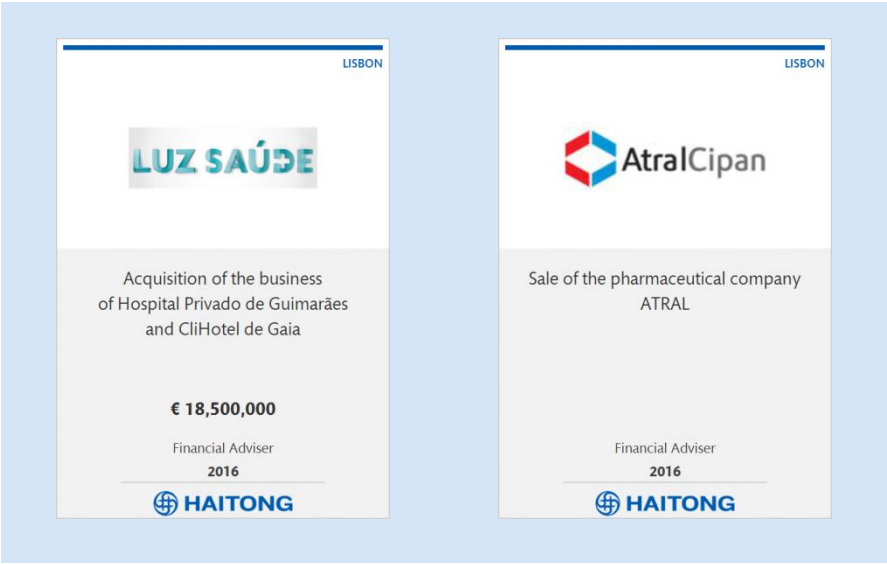
Noteworthy are 3 projects in the infrastructure area (2 in road infrastructure and 1 in port infrastructure), namely:

- Financial advisory services to Ascendi Group in the partnership established with French based private equity company Ardian to jointly own and operate five Ascendi branded road concessions in Portugal. Ardian invested EUR 300 million in the partnership in exchange for a 50% ownership of a newly incorporated company (Ascendi PT II) which holds the stakes in the five concessions;
- Financial advisory services to Eiffage S.A., Sonae Capital, SGPS, S.A, BPCE S.A. and Egis Projects S.A. on the sale of 100% of Norscut - Concessionária de Auto-Estradas to the private equity Meridiam SAS. The deal was announced on 5 April 2016 and is conditional upon a set of conditions precedent namely the non-opposition of the Portuguese Competition Authority; and
- Financial advisory to Mota-Engil Group and Novo Banco, on the sale of its ports and logistics business (TERTIR) to the Turkish Group Yildirim. The transaction was closed on February 2016 for a total amount of EUR 300 million.

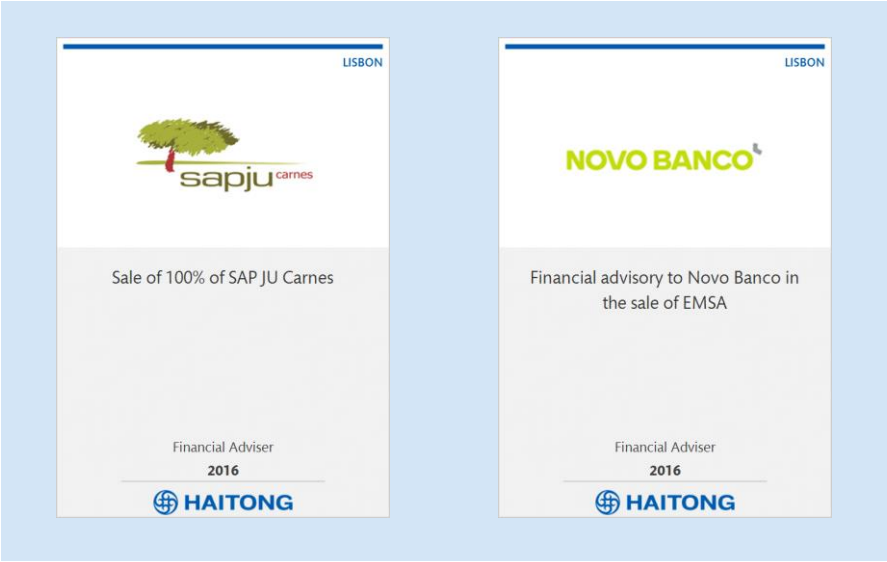


It is also important to mention Haitong Bank's performance in the health sector, with the completion of 2 transactions, namely:

- Financial advisory services to Luz Saúde, S.A., on the acquisition of the business of Hospital Privado de Guimarães and CliHotel de Gaia for EUR 18.5 million. Although under a special rescue procedure (PER), the acquisition was made in a competitive environment (closing occurred in January 2016); and
- Financial advisory services to Atral-Cipan Group on the sale of its subsidiary Atral (a pharmaceutical company) to the Peruvian Group Medifarma. This transaction was signed in March 2016 and completed in June 2016.



In addition, Haitong Bank advised Saltiproud on the sale of SAPJU Carnes and Novo Banco on the sale process to Empark Group of the parking car business managed by EMSA – Empreendimentos e Exploração de Estacionamentos. The transaction was announced in February 2016 and the Portuguese Competition Authority adopted a decision of non-opposition to the operation in May 2016.



In **Spain**, the political stall following the December 2015 elections has had a negative effect on the M&A activity, especially in what concerns the foreign investment thus affecting areas in which Haitong Bank is strong such as energy and infrastructure by delaying the start of the most relevant transactions within these industries to the second half of the year and effectively delaying the most relevant transactions in which Haitong Bank is currently engaged.

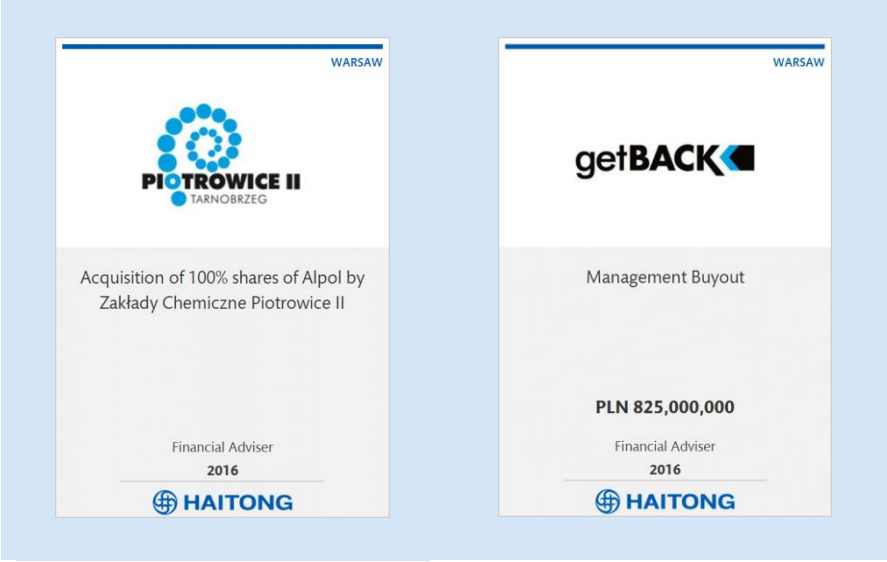
The incorporation into the Haitong Group and its strong leadership in China is generating multiple cross-border opportunities by combining the interest of Chinese investors to invest in Europe with our local knowledge of the Spanish market.

In the **UK**, the M&A team is currently focusing its strategy on the core sectors of Consumer, TMT, Cyclicals, FIG, aligned with research and distribution capabilities. The M&A activity in London has been predominantly active in the Financial Services industry, where the team has recently advised fund raisings and acquisitions of insurance companies and institutional buyouts by Private Equity firms. Currently, the UK team is leading several projects with Chinese Clients and Chinese investors across the strategic core sectors.

In **Poland,** Haitong Bank focused on strengthening its position among the key M&A advisers in the Polish market working on number of assignments for private equity, private investors, and domestic corporates and management teams in various industries.

Among the major M&A transactions completed during the first half of 2016 it is worth mentioning the following:

- Financial advisory services to Zakłady Chemiczne Piotrowice II and its sole shareholder on the acquisition of 100% shares of Alpol, the Polish, privately-owned producer of construction chemicals;
- Financial advisory services on the PLN 825 million MBO of getBack, a leading debt management and advisory company in Poland and Romania, subsidiary of Idea Bank, the Warsaw Stock Exchange listed bank majority-owned by a Polish entrepreneur.



In **Brazil**, the M&A business area was harshly penalised not only by the macroeconomic environment but also by the Bank's change of control. With businesses taking longer to mature, the first half of 2016 is far from showing the full potential of the area.

However, it is worth stressing that the new Shareholder affords the Bank an important differentiation vis-à-vis the competition and the market already has the perception that the Bank is well positioned to explore the Chinese angle. During the first six months of the year the team has sent more proposals than in the full year of 2015 and the result of this effort will be visible during 2017 and 2018.

OUTLOOK

The overall growth of M&A activity during the second half of 2016 is expected to be conditioned by the slowdown of the global economic recovery, uncertainty in the European markets and the deceleration of the Chinese economy. Europe, a strategic region for the bank's economy, is currently living a period of great uncertainty caused by geopolitical risks (namely due to the Brexit), terrorism, political indecision in Italy and Spain and financial risks related to the banking sector. These factors dim investors' appetite for risk, posing a challenge to the M&A business global growth.

Still, a more expansionary monetary policy in most of the advanced economies, the very positive performance of the North-American economy and the stabilisation of commodity prices, these are some of the positive factors to be weighed in regarding the evolution of the M&A business during the second half of 2016.

The Bank will maintain its bet on the sectors where it has developed strong competencies, namely energy, telecommunications and infrastructures. Geographically, the Bank will continue to target cross-border transactions in the markets where it operates, banking on the growth potential of the emerging markets and attracting the interest of Asian investors through cooperation with Haitong Securities in China.

CAPITAL MARKETS

MARKET BACKGROUND

Equity Capital Markets (ECM)

During the first half of 2016 the global amount of equity and equity-linked offerings totalled USD 289 billion (-46% YoY), corresponding to 2,050 transactions (-25% YoY), according to Thomson Reuters.

This performance was mainly underpinned by the sharp contraction in secondary offerings (-45% YoY), which reached 72% of total volume. Primary offerings (IPOs) volume was EUR 45.7 billion, a YoY reduction of 55%.

ECM activity was mainly concentrated in four sectors, which together accounted for more than 60% of the total. These were Energy (20% of total volume), Financial (17%), Real Estate (13%) and Manufacturing Industry (12%).

China, where equity offerings reached USD 58.4 billion, was responsible for approximately 20% of the total market volume - its highest share since records began (1980).

In Brazil, share offerings volume contracted sharply in the first half of the year: companies and shareholders raised BRL 3.5 billion, well below the BRL 16.1 billion (which included Telefónica's BRL 16 billion offering) raised in the same period of 2015.

Debt Capital Markets (DCM)

DCM activity increased by 11% YoY in the first half of 2016, to USD 3.5 trillion, according to Thomson Reuters. This was the best first half performance since 2007 mainly underpinned by the strong increase in the sovereign debt and agencies segments (+53%).

The first half of 2016 saw a new contraction in the high-yield debt primary market volume, which was down by -37% YoY, to USD 154 billion, driven by a 43% fall in the number of transactions.

In Brazil, local debt issues volume totalled BRL 26.7 billion, tumbling by 41%, from BRL 45.1 billion in the first half of 2015. Most of the securities (93%) were distributed under restricted placement efforts (legal basis ICVM 476), reflecting the issuers' and financial institutions' great appetite for this type of bonds as well as the concentration of issues in a few institutional investors. In the international fixed income business, total Brazilian issues volume reached USD 8.3 billion in the first half of 2016, which is 9% more than the volume of new issues in the same period of 2015 (USD 7.5 billion). Moreover, the falling price of Brazilian corporate bond issues created a favourable climate for companies' tender offers.

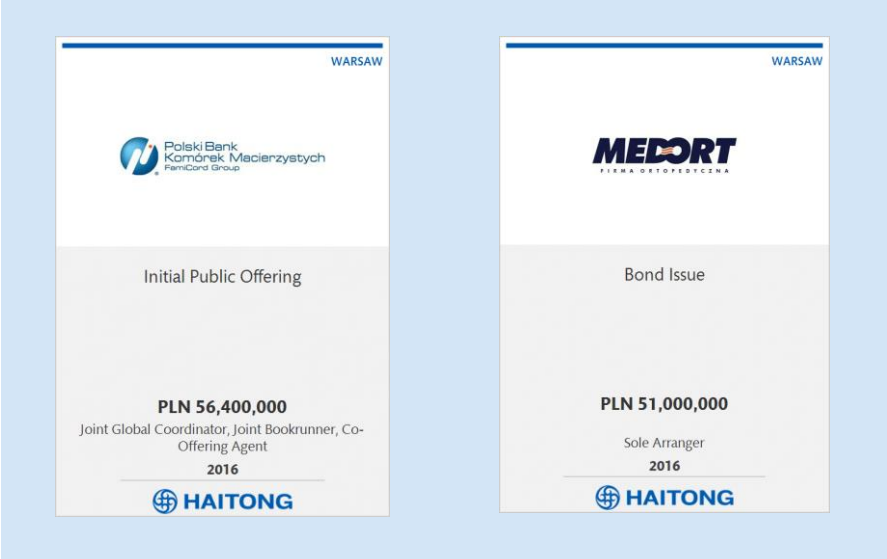
HAITONG BANK ACTIVITY

In **Portugal**, the Bank acted as Joint Bookrunner on the bond issues of EDP Finance BV (EUR 600 million) and Brisa Concessão Rodoviária (EUR 300 million). The Bank was also Joint Global Coordinator on Benfica SAD's EUR 50 million Public Bond Offer.

In **Spain**, Haitong Bank has been focused on developing some specific products targeting large and mid-caps companies in which it holds a strong expertise and in developing China-Spain range of products, which are experiencing a growing interest by most large Spanish caps and by the Spanish corporates exposed to China.

In the **UK,** DCM activity picked up as fixed income markets recovered and we saw a re-emergence of emerging market issuers. Haitong Bank brought Haitong Securities to the market in the first half of 2016 and the pipeline of potential Chinese issuers looking to access the London investor market has built steadily over the first six months of the year. As the pricing environment has improved, we expect more issuers to come to market in the second half of the year. In ECM, there are opportunities for overseas companies and the Bank is working with Asian companies in particular in accessing investors in the UK.

In **Poland**, Haitong Bank has successfully closed an IPO transaction of PBKM SA on WSE in April 2016, a transaction valued at PLN 56 million. PBKM is a leading European stem cells bank and this transaction added to the list of credentials of the Bank in the healthcare sector. In addition, the Bank acted as Sole Arranger on the PLN 51 million bond issue for Medort S.A., a CEE region leader in orthopaedic and rehabilitation devices production.



In **Brazil**, Haitong Bank was Bookrunner on Unidas's BRL 170 million debentures issue, one of the few deals this year subscribed by institutional investors, thanks to its adequate pricing and guarantee structure and the company's credit profile.

OUTLOOK

Haitong Bank has been building a strong pipeline of operations in the various geographies where the Bank is present, which are expected to be concluded over the coming months, subject to market conditions.

In Iberia, given the growing interest demonstrated by issuers in diversifying their funding sources into Asia, we expect to see in the near term a materialization of the first issuances in which the Chinese angle plays a key differentiating factor.

In Poland, the weak sentiment that prevailed during the first half of 2016 should be positively impacted going forward as a result of the proposed reshuffling of Pension Funds announced by the Polish Government in July 2016. The planned reform significantly decreases the going concern risk for private Pension Funds and can materially improve investors' attitude towards equity trading and ECM transactions in the coming months.

In Brazil, market volatility is expected to subside, while business confidence on the rebound of the economy in the medium to long term is expected to gradually increase, with a direct positive impact on issuance volume in the primary capital market.

MARKETS

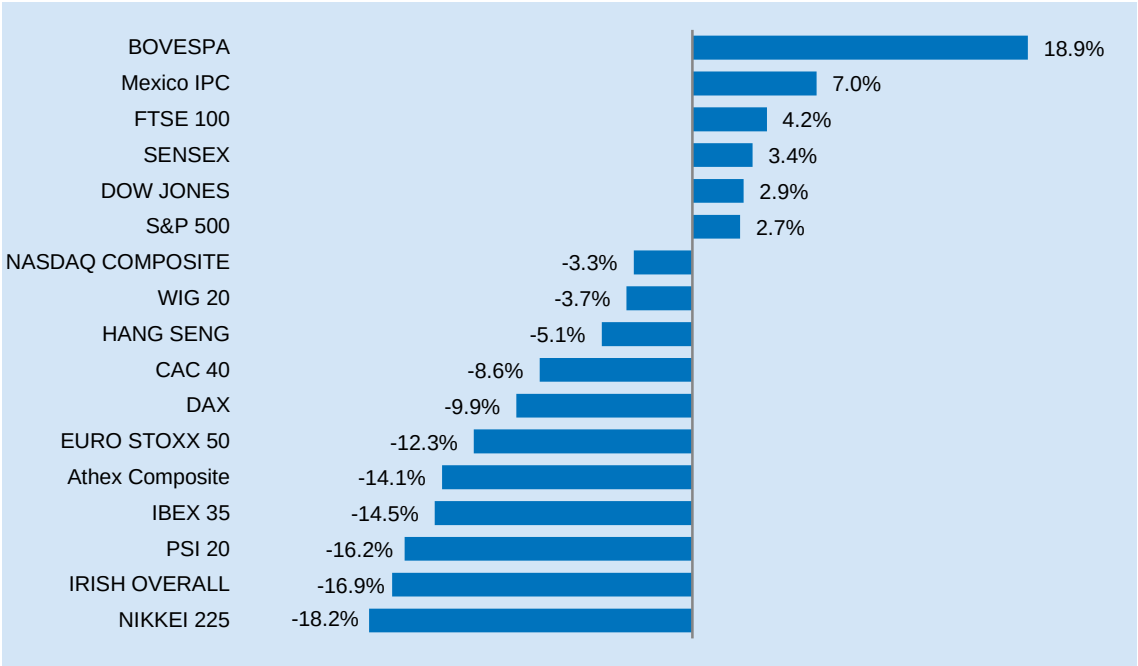
EQUITIES

MARKET BACKGROUND

The first half of 2016 has been challenging in a broad range of areas, with terrorism, political uncertainty, large FX moves, and commodity price recovery, while dominated more recently by the surprising result of the UK's EU Referendum exit vote. Global growth expectations have continued to be eroded despite best efforts from Central Banks. Currency and political developments have been a dominant factor behind asset allocation strategies. Commodity sectors have finally shown some signs of recovery with basic resources sector growing by 18.2% and Oil&Gas by 9.8% vs the broader Stoxx600 Index fall of -9.8%. Gold and gold related equity stocks have provided some strong gains.

The first half of 2016 was particularly tough for European equities as most country and sector indices declined at least 10%. There were basically three reasons for such a poor performance: concerns about the European banks; a global growth scare in late 2015/early 2016 and finally the UK referendum. Although the growth scare proved (as most times) unfunded, the banking sector remains under duress and the UK voted to leave the European Union.

Leading Stock Market Performance
(1H2016)



Source: Bloomberg (local currency).

HAITONG BANK ACTIVITY

In **Iberia**, the combined value of the equities traded in both markets declined by 27% YoY in the first half of 2016, which was very much a consequence of the declines seen in both stock indices in the period: 16.2% and 14.5% for the PSI20 and the IBEX35, respectively.

The market share of Haitong Bank in both markets declined by 0.2pp to 2.8% in the first half of 2016. This was entirely the consequence of regulatory changes in Madrid which compressed to zero the margin in some lines of business, which obviously led to the decision to abandon them.

In **UK**, the FTSE100 has outperformed the more domestic biased FTSE250 mid cap index by +8.9% following the recent referendum. Volume traded in the London equity market spiked sharply after the Brexit vote with activity up 3-4x the normal level in the week post but has since trended back to average levels. Cash levels at institutions have remained high compared to normal again reflecting the continued uncertainty.

The Bank's activity made some signs of progress through the early part of the year as Clients began to sign Haitong Bank back on as a broker counterparty and showed increasing support for the rebuild of London based Research teams since the second half of 2015. This will likely face a setback due to the impact of London's restructuring during April/May. However, there remains a high level of interest in the development of Haitong Bank's equity product related to China.

In **Poland**, the equity market was trending sideways in the first half of the year. As to the local factors, on one hand strong economic backdrop was supportive for the market, on the other hand regulatory risks for banking sector and risks specific for state-controlled companies increased risk aversion. Local asset management industry suffered from low money inflows connected with unsatisfactory performance. The very important Pension Fund industry was faced with great uncertainty regarding its future. As a consequence institutional investors' activity was very low. Trading volume in the WSE went down by 16.4% YoY in the first half of 2016. Haitong Bank placed in the #24 position in the Polish brokers' ranking, with a market share of 1.2% (#20 with a 1.4% market share in the first half of 2015).

The **Brazilian** index rallied 18.9% in local currency. The initial outcome of the impeachment process of President Dilma Rousseff and the nomination of a new and high-profile macro team led by Henrique Meirelles, spurred investors to redirect flows to Brazil. The BRL appreciated 18.8% as a result. BREXIT fears and later-than-initially expected FED rate hikes in the U.S. sent money flows back to Emerging Markets including Brazil.

For this first half 2016, the average daily trading volume was BRL 7.1 billion comparing to BRL 6.7 billion in the same period of 2015. International investors were still the major players in the equity market, totalling 53% of the market participation. They were followed by local funds with 25%, and retail investors with 16% participation.

Haitong Securities' position in the Bovespa ranking slid to #36 in the first half of 2016 (from #34 position a year earlier) and its market share dropped to 0.2% (from 0.4%). In the Futures market it stick within the top 30 names. This little representative position in the ranking can be explained by the sharp decline in revenue commissions originated from local investors, as Haitong Securities in Brazil is seen as a "newcomer" in the local market. As a consequence, Clients are just gradually retaking trading activity with the firm.

OUTLOOK

Over summer, investors are likely to monitor the European economic high frequency data closely, as the risks of a recession are perceived to have increased sharply after the UK elections. The political developments in the UK will remain at the centre stage – very few people expect the UK to back track on the decision to leave, but there are hopes that the process will be smooth. A recession in Europe would bring additional problems to both the periphery banks and sovereign debt and hence both Spanish and Portuguese equity performance will be driven by the incoming data.

FIXED INCOME

HAITONG BANK ACTIVITY

Corporate Solutions

The first half of 2016 was rather atypical in terms of interest rate hedging, as interest rates remained at their lowest levels ever and in view of the current context are not expected to rise any time soon. In commodities the business was once again strong in the energy/transport sector, namely in Diesel hedging. Turnover from currency hedging increased, fuelled by both plain vanilla and structured products.

Several interest rate, commodities, and currency hedging deals currently in pipeline are expected to be closed during the second half of the year.

Structured Products for Institutional Clients

The first half of 2016 saw a substantial increase in the share of secondary market activity in this business area's results, in terms of both volume and revenue. The update of the Bank's EMTN programme initiated at the end of March and concluded on 21 June 2016 inhibited the issuance of new products in the primary market.

During this period the Bank made an important communication effort to introduce its Shareholder to national and international investors so as to foster business in the second half of the year.

Risk Management / Derivatives – Brazil

In general terms the downturn of Brazilian economic environment had a strong impact in the corporative flows and derivative deals. The Bank is currently focused on reconnecting the existing Client network and on developing relationships with new Clients, leveraging on its Chinese genesis.

Regardless of that fact, the Bank has been able to take advantage of some flows and tailor-made solutions in order to accelerate the flow of revenues. The development of new products is an objective of the Bank’s activity; as a consequence, the first deals linked to Chinese counterparts were concluded during the first half of 2016.

Flow Trading and Sales

The first half of 2016 started with an escalation of fears about the slowdown of the Chinese economy and consequent devaluation of the renminbi. This had multiple negative impacts, namely stressing the downturn in the commodities market and in particular in the oil market, and also penalising the markets and currencies of

the emerging economies. This also resulted in losses in the European equity markets of the centre and bond markets of the periphery.

This scenario visibly improved in the second quarter, after it became clear that the Chinese economy would not spawn the problems anticipated by the market. The expansionary policy conducted at the end of 2015 played out its effects and the strong devaluation of the emerging markets made them more attractive in terms of upside potential. New investors have been entering these markets, and this trend intensified after the Brexit. So far the Brexit has not had the previously feared negative impacts, its largest upshot being a major shift from European equities into emerging markets' debt and equities. Haitong Bank thus continues to benefit from its experience in quoting and pricing the emerging and peripheral markets, seeking to boost its reach of potential Clients for these markets.

OUTLOOK

We expect a better local business environment in the second half of the year, leading to improved performance of this activity.

STRUCTURED FINANCE

PROJECT FINANCE

MARKET BACKGROUND

The Project Finance activity in Europe during the first half of 2016 followed the trend of last year in terms of the low volume of new projects in the infrastructure sector. This was even more the case in Portugal where budgetary constraints kept preventing the launch of new infrastructure projects.

Also in line with last year's trend, the renewable energy sector was again one of the most dynamic in Portugal, with a number of refinancing opportunities coming to the market, some resulting from M&A deals and others from reorganisation processes.

Brazil was worthy of note due the uncertain political and economic environment in the period, which resulted from several factors, in particular (i) the interventionist economic policy followed by the Federal Government in recent years; (ii) the impeachment process of President Dilma Rousseff; and (iii) the deepening of anticorruption operations involving several large Brazilian companies. All these circumstances, added to the structural imbalance of the public accounts, negatively affected the business environment in Brazil and the Structured Finance business area of Haitong Bank in this country.

HAITONG BANK ACTIVITY

Despite the difficulties and constraints referred above, the Project Finance business has maintained a positive performance and a growing pipeline of potential new mandates.

In Brazil, the Bank continued to act as Financial Adviser for ongoing infrastructure projects in different industry sectors, including energy (generation and transmission) and public health. Additionally, the team focused on the search for new advisory mandates in infrastructure segments that were left unscathed by the crisis and still represent great opportunities for companies and investors, such as Public Lighting, Water & Sewage and Renewable Energy. Finally, the Bank also sought to position itself as Financial Adviser to potential investors, particularly Asian and European groups interested in participating in future concessions and privatisations announced by the new Government, led by interim President Michel Temer.

OUTLOOK

Looking ahead to the second half of 2016, the Bank expects to be awarded with several mandates. Currently, several advisory and arrangement mandates are progressing in Portugal, the UK and Mozambique, and in Brazil a new investment programme should begin in the second half of 2016 involving investments of around BRL 30 billion covering various segments of the infrastructure sector, especially the auction of airports, ports and railways.

ACQUISITION FINANCE

MARKET BACKGROUND

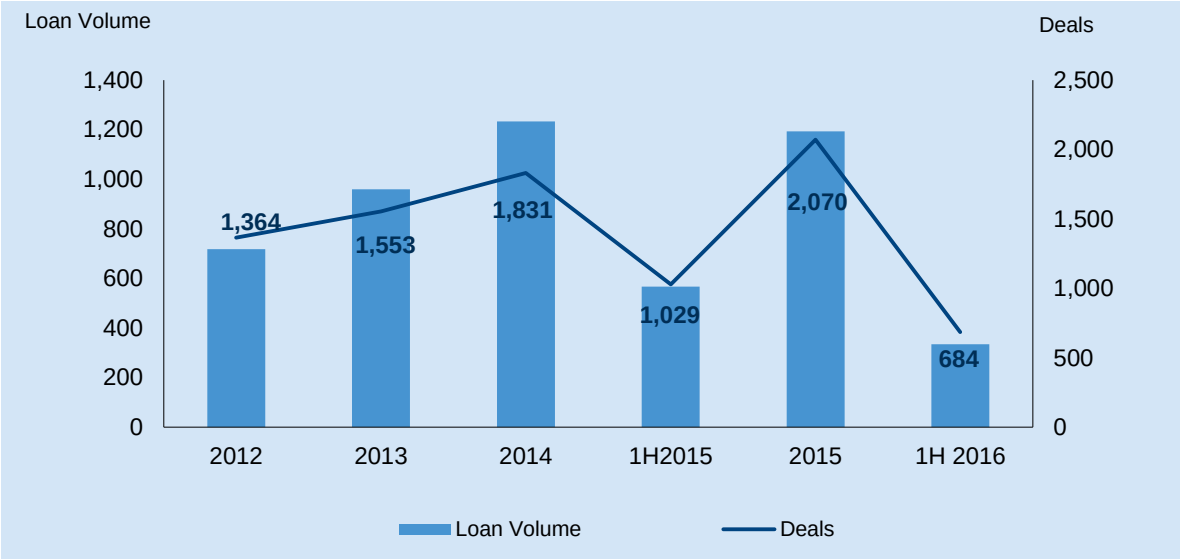
In the first half of 2016 global syndicated loan volume (USD 1.9 trillion) hit the lowest first half level since 2012 (USD 1.8 trillion) and was down 11%, when compared to the USD 2.2 trillion borrowed in the first half of 2015.

The European loan volume fell by 41% YoY in the first half of 2016, to USD 334 billion from USD 567.3 billion in the first half of 2015. In the EMEA region volume slumped to USD 128.4 billion, the lowest first-half volume since 2012 (USD 107.2 billion). Conversely, the Middle East region loan volume was up 70% YoY to USD 68.7 billion, from USD 40.5 billion in the first half of 2015, striking a half-year record high (17% share of the EMEA loan market).

In Europe's peripheral countries (Ireland, Italy, Greece, Portugal and Spain) syndicated loan volume totalled USD 45.1 billion in the first half of 2016, which represented a third of the volume borrowed in the same period of 2015 (USD 129.6 billion) and the lowest first-half volume since 2002.

Loan Volume in Europe

(billions of USD)

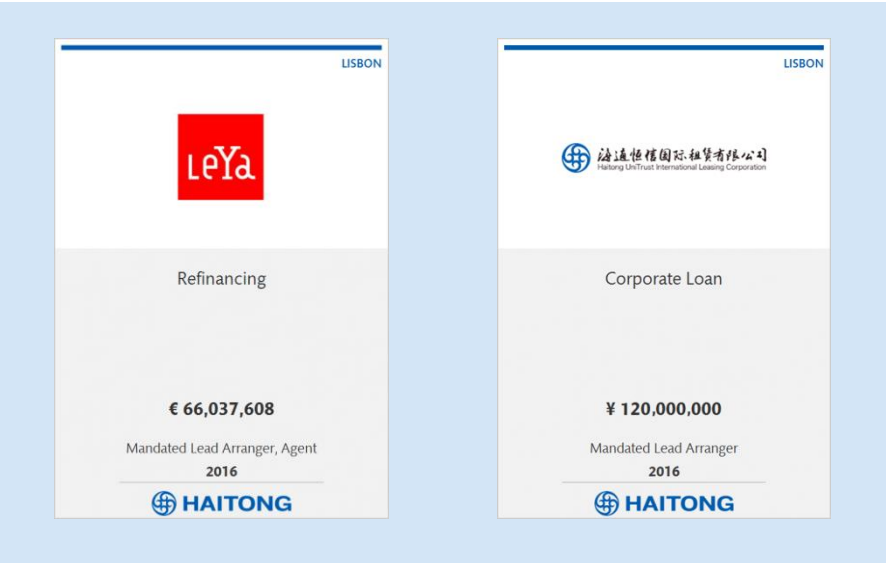


Source: Dealogic.

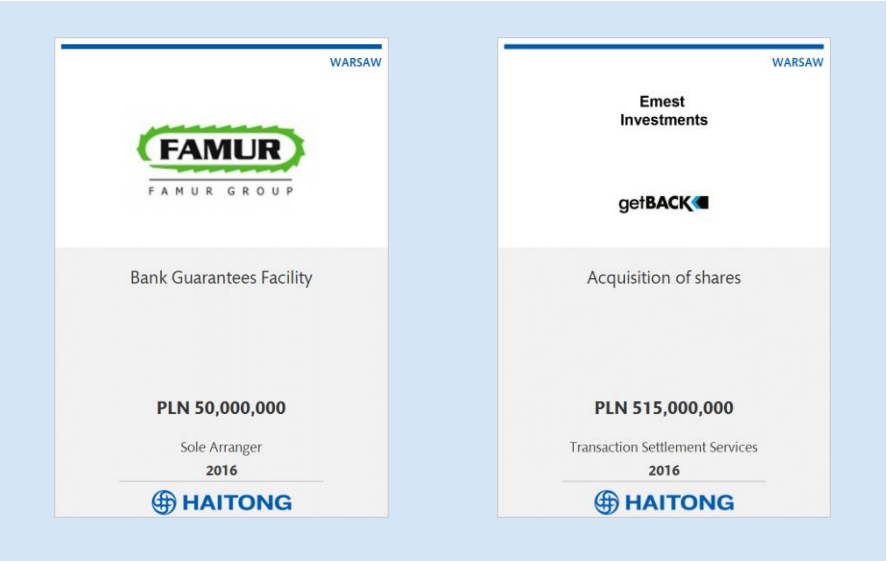
HAITONG BANK ACTIVITY

During the first half of 2016, Haitong Bank took part in the following transactions in **Portugal**, namely acting as:

- Mandated Lead Arranger on the EUR 66 million refinancing of LeYa, S.A., a Portuguese publishing company; and
- Mandated Lead Arranger on the RMB 120 million corporate loan to Haitong Unitrust International Leasing Corporation.



In **Poland,** the Bank continued to develop its business line related to the issuance of bank guarantees, where we highlight the guarantee facility to Famur S.A., for a total amount of PLN 50 million. Haitong Bank has also provided settlement services to its Clients, of which we highlight the acquisition transaction of getBack shares in the total amount of PLN 515 million.



OTHER CREDITS

The first half of the year was marked by the reduction of the loan portfolio by around 35% due to the maturity of the credit transactions plus the lack of new disbursements, which follows the new strategic vision for the use of credit, i.e. exclusively to leverage other investment banking transactions.

It is also worth noting that the team has been working with other areas in order to leverage the relationship with its Clients, especially in the infrastructure sector, to seek cross-selling for other services and bank products,

such as M&A, Capital Markets and Derivatives. The outcome of these commercial initiatives has been positive, with the origination of three mandates (two in M&A and one in Capital Markets in the Water & Sewage and Energy sectors). Moreover, we originated treasury deals in the form of hedge products to Chinese companies.

OUTLOOK

The perspectives for the second half of the year are positive as some of the ongoing mandates are expected to be successfully closed and new mandates are likely to be confirmed.

As part of the shareholding transition process, the Structured Finance business has been adjusting its business model focusing on structuring and arranging roles where the coordination between origination and distribution is increasingly essential.

Accordingly, the team is focused on different sorts of debt investors which may provide alternative sources of funding at the most possible efficient way. This implies a more effective coverage of institutional investors – such as insurance companies, pension funds and asset managers – with the aim of accessing the capital markets via project bonds.

WEALTH AND FUND MANAGEMENT

ASSET MANAGEMENT

The first half of 2016 was carved by very high volatility on the world's stock markets. Most notable was the outperformance by the North-American indices, where the final picture shows levels that are practically unchanged whereas Europe sank by more than 12% and Japan by close to 18% on the first six months of 2016.

We can sub-divide the first half of the year into 3 main moments. The first runs from the start of the year until February 11th, when the large-scale sell-off raised volatility to the heights seen in August/September, 2015. Some indicators less favourable coming from China triggered a negative spiral of potential chain reactions: fears of economic weakening, devaluation of the yuan, deflationary pressure, capital outflows from emerging markets, a strong fall in oil prices, problems with high-yield energy companies in the USA and, in the final analysis, contagion from the energy sector into others such as the financial sector. Despite the lack of evidence in the macro figures to prove we were heading for a recession in the main economies, certain doubts still lingered over whether the Fed had taken its best course when it increased interest rates last December for the first time since 2008.

In the middle of February (the second moment), after the strong falls, the markets started building up a strong recovery that lasted until the end of May (nearly +15% in Europe), with multiple factors gradually pushing back the worst scenarios regarding an economic weakening that might lead to recession and the trap of deflation. The stabilization of China's exchange rate, the recovery in the price of oil, the decline in credit spreads, a vast suite of macro-economic indicators higher than expected for the major economies (particularly in USA) and the actions of the main Central Banks sustained this recovery of the main markets. With respect to the Central Banks, it is worth noting the increase in the ECB's economic stimulus programme with an emphasis on increasing QE by EUR 20 billion a month to EUR 80 billion, including bonds from investment-grade non-financial companies, and the new series of 4 loans to banks (TLTRO II).

This brought us to the "third moment": the month of June, when volatility swept back with a bang. With many sharp drops followed by recoveries up to the date of the Brexit referendum, the victory of the Leavers caused the EuroStoxx 50 index to record its largest one-day downward movement in the 29 years of its history (8.6%). Although nothing is formally going to change in the very short-term, there are fears of the effects of an increase in political uncertainty and the potential impact of contagion to other geographies. This uncertainty will tend to be seen in the deferral of investment decisions with the possibility of this pushing economies into recession. Once the huge impact of the referendum outcome had been processed, the markets notably recovered half of the losses between the 28th of June and the end of the month. This upturn in the indices can be attributed to the feeling that the Brexit process will not only take a long time (e.g. the eventual negotiations on Britain's departure cannot begin before the end of 2016 and will last for at least 2 years), but also, at a pinch, that it might never happen.

Within this context of extremely high volatility, the Bank closed the semester with both portfolios ("flexible" and "aggressive") losing -4.1% and -7.1% respectively. With the Eurostoxx50 down 12% year to date, these results are positive, not only because it represents less than half of the correction of the market but also because it was possible to improve performance while incurring in a much lower level of risk (mainly in the "flexible" profile). On a less favourable note, but mainly as a consequence of all the turbulence occurred in the markets, Assets under Management (AUM) saw a decline of near 15%, to close to EUR 215 million.

Hopefully with a more constructive market, working together with the Wealth Management team in Portugal and the institutional sales team globally, and also with the Asset Management teams from Haitong Securities in China, we expect to revert the trend of the AUM and return to a growth path. For that the setup of a FICC desk in the team will also be very important as it will help the development of the offer with more conservative alternatives and thus allow the distribution teams to target a broader segment of the market.

WEALTH MANAGEMENT

The Wealth Management Division was created at the end of 2015, basing its activity on an Open Architecture philosophy and always seeking to provide to its Clients the best products and solutions existing in the market.

This Division's offer assumes a personalised Client approach, identifying the most suitable methodology according to the Clients' risk/return goals. A dedicated Relationship Manager allows Clients to have access to a wide range of products and solutions with a global perspective. Clients may choose how to interact with the Bank either through Discretionary Management, Advisory (when possible) or Execution (self-management solutions).

The Wealth Management Division's offer targets Clients in the High Net Worth Individuals (HNWI) segment, to whom an exclusive professional and independent advisory service is provided.

During the first half of 2016, this new Division took the necessary steps to set up a business line:

- Setting up the team - Hiring the first commercial team (Relationship Managers) and technical team (Portfolio Manager)
- IT - Identify and negotiate the appropriate IT tools to interact with the Bank's existing ones (portfolio management, control, reporting, and all required tasks)
- Internal Organisation - Promote the necessary adjustments within the organisation, such as procedures, Compliance, and Legal
- Offer – preparing and organising the products and services for the Clients.

During the second quarter of 2016, the first steps were taken to initiate the activity prudently, based on the existing capabilities, products and services, aiming to provide a full-scale service in line with the previously defined plan.

This Division also targets non-resident Clients, namely using a Chinese platform with the support of the Bank' Shareholder to consolidate business (Clients, Services, and Products). A great number of initiatives are being taken to do business with Chinese clients, namely setting up agreements with Chinese players to start investments targeting the Golden Visa programme.

PRIVATE EQUITY

The first half of 2016 was marked by a climate of higher uncertainty both in Portugal (economic slowdown versus 2015) and at international level (Brexit, elections in Spain, performance of the Angolan economy).

However, given the stage of maturity of the ES Ibéria I fund (liquidation phase) and the Haitong Infrastructure Fund (HIF), the focus was maintained on divestment operations. During the period, the Bank concluded the sale of the subsidiaries Sicame and Protéines (held by the ES Ibéria I Fund) and Iberwind, Sierra Sesnández and Cova da Serpe II (held by the HIF), for a total of EUR 28.6 million, of which EUR 21 million will be received in 2017.

As to the dealflow, a total of 10 investment opportunities were analysed, all in Portugal, which compares with 18 in the first half of 2015.

Funds under Management decreased compared to December 2015, due to the distributions made by the ES Ibéria and HIF funds (EUR 3.8 million and EUR 10.4 million, respectively), reaching EUR 162.5 million.

At the same time, the Bank continued to analyse the possibility of launching new funds in the infrastructure and buyout segments, leveraging its own experience and the track record of its Shareholder in the private equity business.

Investment Portfolio and Financial Highlights (individual basis)

During the first half of the year the Bank pursued its regular activity of monitoring the subsidiaries with a focus on value creation and of providing information to the investors.

The valuation of the Bank's own investment portfolio and Funds under Management, which was carried out in June, according to the methodologies defined for each sector, determined an overall market value of EUR 120.9 million, which represents a decrease of 3.7% comparing to December 2015.

Overall, this devaluation reflects a more challenging domestic and international macroeconomic environment.

The period's results, a profit of EUR 1.6 million, were influenced by value increases in the own portfolio of subsidiaries. Equity was EUR 46.5 million at the end of the period.

Despite a globally more uncertain macroeconomic context, the Bank expects to pursue the divestment from its various portfolios, while resuming investment, concluding some operations already at an advanced stage of analysis and structuring.

4. TREASURY

MARKET BACKGROUND

The beginning of the first semester was characterized by some volatility in the Portuguese sovereign debt market. The uncertainties regarding the country's budget execution and the maintenance of its unique investment grade credit note, by DBRS, pushed the Portuguese 10-year bond yields to a maximum of 4.10% in February. The doubts concerning the financial sustainability of Central Europe's largest banks, the feeble growth outlook for the Euro Area, and the Brexit threat also contributed to a feeling of strong risk aversion throughout this period. Notwithstanding, the yield of the Portuguese 10-year bond closed the semester near 3%.

This improvement was largely due to the European Central Bank actions, cutting the deposit facility once again by 10 basis points, to -0.40. The ECB also announced the expansion of its debt buying program to EUR 80 million per month, and extended it to non-financial Euro Area companies with high credit quality. In light of these developments, the yield of the German 10-year Bund closed the second quarter at a historical minimum level of -0.13%.

Portugal took advantage of the ECB's actions to tap the market at well-timed occasions. The Portuguese Republic issued a total of EUR 3.8 billion in the six auctions during the first half of this year, with maturities ranging between 5 and 14 years, having nonetheless allotted amounts systematically lower than the indicative targets.

It is also worth mentioning the ECB reinstatement of the waiver affecting the eligibility of Greek bonds used as collateral in Eurosystem monetary policy operations. The Governing Council took this measure after considering the approval of the first disbursement of the new European Stability Mechanism financial aid package, and due to the progress achieved by the Hellenic Government in the implementation of its macroeconomic adjustment. This decision is expected to have a positive contribution to the financing conditions of the Greek banking system, despite the high haircuts applied to these assets.

Brazil experienced an important change in the economic scenario since early this year. Political and fiscal risks worsen early this year, which underpins a case for a weaker FX and GDP contraction. This deterioration in tandem with implications related to the Lava-Jato probe opened room for an impeachment process against Ms. Rousseff. Brazilian external accounts improved strongly mainly due to the economic contraction and the exchange rate devaluation of 2015. This dynamic has raised hope of an economic change on the back of the inception of a new administration and structural reforms by Vice-President Michel Temer.

Interest rates and the BRL have been positively impacted by these developments, but a genuine economic recovery should take time due to the lag between confidence and the real economy. The international scenario is a source of additional uncertainties.

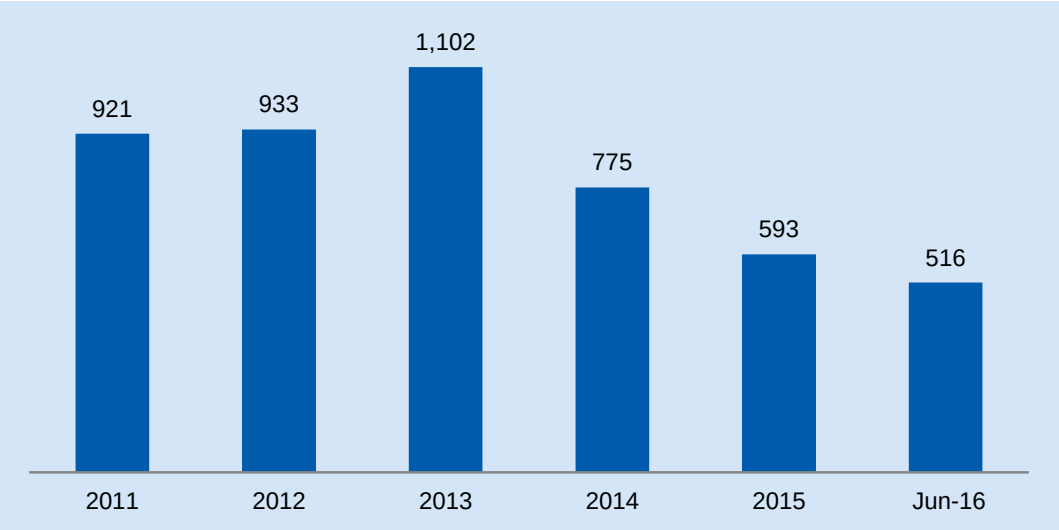
HAITONG BANK ACTIVITY

In May 2016, Haitong Bank strengthened its regulatory capital ratios by issuing perpetual instruments, eligible as additional tier 1, in the amount of EUR 80 million. In June, the Bank refinanced with more favourable financial conditions the EUR 750 million Novo Banco credit facility, through a syndicate of Chinese financial institutions. The Bank has also received from Haitong International Holdings Limited a 5-years maturity intercompany loan, in the amount of EUR 138.5 million.

Debt issued in the form of Medium Term Notes (MTNs) totalled EUR 516 million as of 30 June 2016, which compares with EUR 593 million by the end of 2015.

EMTN Programme / Total Outstanding Amount

(millions of euro)



Note: Issue value outstanding deducted from buybacks

Source: Haitong Bank.

In Brazil, within this backdrop the Treasury Team has been focusing on improving the quality of the Funding profile. Important accomplishments were achieved in this area, as the Bank has been able to diversify funding sources and counterparts and extend the maturity profile at cheaper costs, stabilizing liquidity at very comfortable levels.

OUTLOOK

In the second half of the year, Treasury's main goal is to establish additional funding sources and strengthen those already in place, so as to ensure a stable funding model, diversified and adjusted to the balance sheet and business model.

In Europe, given its flexibility, the EMTN will remain an important pillar of this strategy, while the Bank maintains its focus on serving the investors and adapting the offer to the Client's needs.

In Brazil, short-term goals include the continuous improvement of the funding framework and the structuring of some deals focusing on the enhancement of the ALM efficiency.

5. HUMAN RESOURCES

Headcount	Jun-16	Dec-15	Change	% Change
Total Group	**721**	**720**	**1**	**0.1%**
PORTUGAL	**266**	**254**	**12**	**4.7%**
Haitong Bank, S.A.	256	245	11	4.5%
Haitong Capital - SCR, S.A.	10	9	1	11.1%
SPAIN	**91**	**91**	**0**	**0.0%**
Haitong Bank, S.A. - Spain Branch	91	91	0	0.0%
UNITED KINGDOM	**91**	**110**	**-19**	**-17.3%**
Haitong Bank, S.A. - London Branch	3	2	1	50.0%
Haitong UK Limited	88	108	-20	-18.5%
POLAND	**58**	**58**	**0**	**0.0%**
Haitong Bank, S.A - Warsaw Branch	58	58	0	0.0%
IRELAND	**3**	**3**	**0**	**0.0%**
Haitong Investment Ireland Plc	3	3	0	0.0%
BRAZIL	**159**	**156**	**3**	**1.9%**
Haitong Banco de Investimento do Brasil S.A.	121	120	1	0.8%
Haitong Securities do Brasil S.A.	37	35	2	5.7%
Haitong Brasil DTVM S.A.	1	1	0	0.0%
USA	**21**	**17**	**4**	**23.5%**
Representative Office in New York	21	17	4	23.5%
MEXICO	**4**	**4**	**0**	**0.0%**
Representative Office in Mexico City	4	4	0	0.0%
INDIA	**28**	**27**	**1**	**3.7%**
Haitong Securities India Private Limited	28	27	1	3.7%

Note: Does not include temporary staff and trainees

Source: Haitong Bank.

HEADCOUNT

In overall terms, Haitong Bank's Headcount remained relatively unchanged in the first half of 2016 when compared with the end of 2015. However, there was a significant reduction of the headcount in the United Kingdom that was compensated by new hires, mainly in Portugal.

In the United Kingdom, the Bank decided to reorganise the activity of its subsidiary Haitong UK Limited viewing the integration of a 'China Focus' in its offer of products and services. This reorganisation implied a staff reduction of 20 people up to the end of the first half of 2016, and the total headcount could still be slightly reduced until the end of the year, from the current 88 employees.

In Portugal, where the objective is to set up an operational hub to support the activity of most of the Bank's branches and subsidiaries, Headcount increased by 12 people when compared to the end of 2015.

TRAINING

Haitong Bank continues to reinforce its training policy, offering its employees MBAs, post graduations and graduation courses.

Languages are one of the Bank's key offers, and a Mandarin course for all those interested will be available before the end of the year.

Specific training initiatives were also developed during the year, namely a course on Money Laundering promoted by the Compliance Department.

TALENT MANAGEMENT

Haitong Bank intends to develop Human Resources programmes stressing the selection and retention of high potential executives based on the signature of protocols with the best universities in Portugal and abroad.

Mobility programmes will also be set up to allow the rotation of recent graduates and technical staff within the Group's various geographies, including its units in Shanghai and Hong Kong.

SOCIAL RESPONSIBILITY INITIATIVES

Haitong Bank provided financial support to the following institutions:

- Instituto de Apoio à Criança (IAC, a children support institution) - Acquisition of works of art from the IAC's collection;
- **Clube Inter Cultural Europeu (NGO) -** Donation of IT equipment to develop training initiatives targeting young people with limited resources.

As part of its social responsibility initiatives, the Bank also invited its Employees to take part in the following initiatives:

- **"Terra dos Sonhos"** - Possibility to use the premises of Casa dos Sonhos to hold private events, thus helping this institution;
- **ECO information -** Haitong Bank disclosed its contribution to reduce the environmental footprint through the safe and confidential destruction of more than 10 tonnes of documents by the company Reisswolf.

6. RISK MANAGEMENT

As a result of the recent acquisition of 100% of its share capital by Haitong Securities, Co., Ltd. in September 2015, Haitong Bank management and governance model is being redefined to align with the new shareholder's objectives and practices. On the risk management side, this process of adaptation is on an advanced stage and it is expected to be completed during 2016.

The objective of the risk management function - a key element to the development of Haitong Bank activities – is to identify, assess, monitor and report all the material risks to which it is subject to, both internally and externally, so that such risks remain within limits that are consistent with the risk profile and risk tolerance level approved by the Executive Committee.

The risk management function operates independently from the business areas, providing advice on risk management to the decision-takers of the Bank. The Haitong Bank has in place control systems to identify, monitor and manage risks, as well as areas to support the business development.

GOVERNANCE

The Executive Committee is responsible for establishing the risk appetite policy and control systems framework that assure the Bank has the necessary skills and resources to meet its objectives.

The risk management function is independent from the business units, supervising all material risks to which Haitong Bank various units are exposed to and consistently incorporates risk, capital and liquidity concepts into the Group's strategy and business decisions.

The current structure of the relevant Committees for the Bank's Risk Management is summarized below.

Risk control and supervision roles are carried out by the Bank's Executive Committee, which delegates the setting of rules and procedures and the approval of transactions and risk limits to the Credit and Risk Management Committee (CRC), and the definition and monitoring of balance sheet and liquidity management policies to the Capital, Assets and Liabilities Committee (CALM).

Haitong Bank's Risk Management function envisages the alignment of strategic orientation set by the Executive Committee and the operational-level decisions, ensuring:

- Independence relative to the other areas of the Group, namely the business areas, and credibility with the management and supervisory bodies, shareholders, and regulators. It should be stressed that this role has no decision powers over specific transactions;
- The integration and global management of all types of risk (credit, market, liquidity, on-balance sheet interest rate, and operational risks, at both domestic and international level) and consistency in risk/return metrics;
- Consistent incorporation of risk, capital and liquidity concepts in the strategy and business decisions of the whole Bank, ensuring full comparability between risk versus return.

Currently, the Risk function comprises three distinct units - Risk Control, Credit Risk Analysis, and Operational Risk - entailing the following tasks:

- Identify, assess, monitor and report the different types of risk assumed, thus managing the overall risk exposure, ensuring compliance with internal and regulatory rules, and promoting and monitoring mitigation actions;
- Implement the risk policies outlined by the Executive Committee, while harmonising principles, concepts and methodologies across all the Bank's units;
- Support the Bank's value creation objectives through (i) the development and monitoring of methodologies to identify and quantify the various categories of risk; (ii) support tools for the structuring, pricing and approval of operations; and (iii) internal models for performance assessment and for optimising the capital allocation;
- Plan and monitor regulatory capital, leverage and liquidity requirements;
- Develop the internal capital and liquidity adequacy assessment process (ICAAP – Internal Capital Adequacy Assessment Process and ILAAP - Internal Liquidity Adequacy Assessment);
- Participate on the elaboration of the Haitong Bank's Funding and Capital Plan (FCP);
- Elaborate and maintain the Recovery Plan.

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 robust system that permits to identify, assess, quantify and report risk.

MANAGEMENT PRACTICES

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

LIMITS SETTING

All transactions involving credit or market risk, as well as the risk limits framework for each Haitong Bank business unit (in Portugal, Spain, Poland, the United States of America, Mexico, Brazil, the United Kingdom and Ireland) are approved by the Global Credit and Risk Management Committee.

This committee has the following specific responsibilities:

- Set global and regional risk exposure and tolerance limits, based on solvency and risk/return optimisation;
- As applicable, delegate approval powers to the business units within pre-established risk appetite, taking into account ratings as well as total and partial limits for each rating bucket by maturity, sector, country and other criteria;
- Analyse and approve or reject the transactions submitted by each business unit and/or geography, ensuring they comply with the risk appetite established by the Executive Committee, and subject to current legal and regulatory requirements as well as best market practices;
- Approve changes to individual and aggregate limits in accordance with the business areas and products;
- Monitor all the relevant risk parameters for the Bank's activity.

This ensures that the maximum exposure limits approved per counterparty, rating and sector are attributed taking into account the specific features of markets, products, currencies and maturities.

The approval of limits is preceded by an in-depth analysis of the markets, particularly regarding their liquidity; to ensure that the Bank's strategic objectives can be reached at both individual and consolidated level. The use of internal and external ratings for purposes of establishing portfolio ceilings that limit credit approvals by both product and rating levels, inhibit credit approvals for the worse risk ratings.

INTERNAL RATINGS

Although - as consequence of the carve-out process from Novo Banco - Haitong Bank has reverted to Standardized Approach to what concerns the regulatory capital requirements measurement, the internal credit rating assignment is still a key element on supporting credit risk management.

Haitong Bank internal rating function was effectively internalized by retaining an experienced team of analysts and by keeping the rating tool (scorecards and guidelines) sponsored by Standard and Poor's.

The internal ratings measure the probability of default in a one year period and they are assigned to all Clients and counterparties of Haitong Bank. They are mandatory for credit decisions and used as impairment trigger and warning signal. Annual update and maintenance of the internal rating framework is ensured by contracted services with Standard and Poor's.

MONITORING

The credit risk monitoring and control activities aim to quantify and control the evolution of credit risk and to allow early definition and implementation of particular measures to deal with specific situations where there is a deterioration of risk – with a view to mitigating potential loses -, as well as to outline global strategies for credit portfolio management.

In this context, and with the central goal of complying with risk management standards, the credit risk monitoring function and its implementation are objectively considered as one of the top priorities of the risk management and control system.

This function comprises the following main processes:

- Daily and weekly portfolio monitoring

  Haitong Bank teams in each business unit work closely with the risk management team in Portugal to ensure risk monitoring and control routines are properly implemented. This involves the following processes:

  - Daily collection, preparation, control and reporting to the different business areas of information on loans, securities portfolios, derivatives and other products' positions and use level of approved limits;
  - Weekly risk reporting on each category of risk, namely the risk appetite of the Bank's loan portfolio by type of instrument, the total exposure by instrument, country, rating, industry sector, maturity, margin, capital requirements, new/recent approvals by the Credit and Risk Management Committee, limits exceeded, impairment signs, among others;
  - Preparation of support material for external and internal reporting on credit and counterparty risk.

- Monitoring of Clients with impairment triggers

  To strengthen monitoring and control of the loan portfolio the Impairment Committee has the specific purpose of assessing the Bank's loan portfolio provisions, especially for impaired exposures.

  The Committee uses credit risk model information in conjunction with the analysis, among others, of:

  - The Client's overall exposure and the existence of overdue loans;
  - The economic and financial viability of the Client's business and its capacity to generate sufficient resources to service its debt in the future;
  - The existence of privileged creditors;
  - The existence, nature and estimated value of collaterals;
  - The Client's exposure in the financial sector;

- The amount and timing of expected recoveries.

An exposure is considered to be impaired, when: (i) there is objective evidence of impairment resulting from one or more events occurring after its initial recognition; (ii) the event or events have an impact on the recoverable value of the future cash flows of the loan or loan portfolio, as far as this can be reasonably estimated.

- Global risk analysis of credit portfolios

Credit portfolio management is an ongoing process that requires interaction among the various teams responsible for the management of risk during the different stages of the credit process. The risk of credit portfolios, specifically in what concerns the evolution of credit exposure and the monitoring of credit losses, is reported on a monthly basis to the Executive Committee.

The portfolio limits/ceilings are used to monitor the evolution of the risk appetite of the various credit portfolios. Compliance with the established ceilings is monitored on a regular basis. The resulting information is distributed to the business areas and to the Global Credit and Risk Management Committee.

To what concerns concentration risk – the risks that arises from the possibility of an exposure or group of exposures that share common or interrelated risk factors producing sufficiently large losses to undermine an institution's solvency - Haitong Bank has established limits for the largest individual exposures and for exposures by sector. The regular monitoring of these limits, together with that of regulatory limits, namely for Large Exposures, reinforces the Bank's monitoring and follow-up framework for credit risk concentration. The impact of concentration risk is incorporated in the economic capital model for credit risk.

CREDIT RECOVERY PROCESS

The entire credit recovery process is built upon on the concept of "integrated Client". To support credit recovery and restructuring, Haitong Bank's Capital Structure Advisory Division advises on and implements corporate liabilities' management solutions. The division also works on loan restructurings aiming to minimize impairments and maximize the credit recovery rate.

ASSET QUALITY

LOAN PORTFOLIO

Portfolio breakdown

As of June 2016 the gross loan portfolio totalled EUR 1,312 million, which represents reduction of EUR 58 million during the first semester of 2016, mainly observed mainly on the international portfolio (- EUR 47 million).

Loan Portfolio product lines and geographic breakdown

(thousands of euro)

	Jun-16			Dec-15		
	Domestic	International	Total	Domestic	International	Total
Loan Portfolio[1]	**572,165**	**740,121**	**1,312,285**	**582,896**	**787,111**	**1,370,008**
Project Finance	378,628	422,497	801,125	399,625	423,941	823,566
Acquisition Finance	190,566	201,675	392,241	180,379	267,297	447,677
Other Credits	2,970	115,948	118,919	2,892	95,873	98,766

[1] Gross of provisions

Source: Haitong Bank.

The breakdown of the loan portfolio by industry sector reflects the Bank's lending strategy developed over the last few years in the various regions where it operates, with special emphasis on project finance in the transportation and energy infrastructure sectors.

Loan Portfolio product lines by sector

	Jun-16				Dec-15			
	Project Finance	Acquisition Finance	Other Credits	Total	Project Finance	Acquisition Finance	Other Credits	Total
TOTAL	**61%**	**30%**	**9%**	**100%**	**60%**	**33%**	**7%**	**100%**
Financials	0%	12%	3%	**15%**	0%	10%	0%	**11%**
Construction and Public Works	13%	1%	0%	**14%**	13%	2%	0%	**14%**
Energy	19%	1%	0%	**20%**	19%	1%	0%	**20%**
Transport Infrastructure	14%	0%	0%	**14%**	14%	0%	0%	**14%**
Transports and Communications	1%	2%	1%	**4%**	1%	2%	1%	**4%**
Other Manufacturing Sectors	1%	4%	1%	**6%**	1%	5%	1%	**7%**
Real Estate and Rental Activity	0%	2%	0%	**3%**	0%	5%	0%	**6%**
Services	5%	3%	0%	**9%**	5%	5%	0%	**10%**
Wholesale and Retail	5%	0%	0%	**5%**	5%	0%	1%	**6%**
Other sectors	2%	3%	4%	**9%**	2%	3%	3%	**8%**

Source: Haitong Bank.

Internal Rating Profile

Haitong Bank uses internal rating models to support credit decisions and credit risk monitoring.

Loan Portfolio rating profile

	Jun-16	Dec-15
[aaa; a-]	1%	1%
[bbb+; bbb-]	10%	10%
[bb+; bb-]	33%	37%
[b+; b-]	43%	44%
[ccc+; lccc]	13%	8%

In percentage of non-default rated portfolio

Source: Haitong Bank.

Risk Indicators

In the first half of 2016, to face credit risk, Haitong Bank continued to pursue a conservative approach regarding loan portfolio impairments, by accomplishing a significant provisioning coverage.

Loan Portfolio risk indicators

(thousands of euro)

	Jun-16	Dec-15
Loan Portfolio	1,312,285	1,370,008
Overdue > 90 days	187,093	189,407
Overdue > 90 days / Loan portfolio	14.3%	13.8%
Credit at Risk[1]	527,252	502,048
Credit at Risk / Loan portfolio	40%	37%
Credit Provisions	272,154	328,666
Credit Provisions / Overdue Loans > 90 days	145%	174%
Credit Provisions /Credit at Risk	52%	65%
Credit Provisions / Loan portfolio	21%	24%
Additional Credit Provisions	5,443	60,231

Source: Haitong Bank.

[1] According to Instruction 23/2011 of Bank of Portugal, credit at risk includes: a) total value of credit with capital or interest past due by 90 days or more; b) other restructured credit, where the principal or interest payments were past due by more than 90 days and have been capitalized or refinanced without full coverage by collaterals or the interest fallen due have not yet been fully paid by the debtor; and c) credits of an insolvent or bankrupt debtor.

FIXED INCOME ASSETS

Portfolio breakdown

The Fixed Income portfolio ended June 2016 with a EUR 1,485 million net amount, essentially made up of Treasury Notes Bonds.

Fixed Income Portfolio by Sector

(thousands of euro)

	Jun-16	Dec-15
Total	**1,485,347**	**1,441,207**
Sovereign	1,254,335	1,231,291
Financials	108,291	67,042
Construction and Public Works	4,382	3,224
Energy	4,871	3,749
Transport Infrastructure	0	621
Transports and Communications	14,850	12,226
Other Manufacturing Sectors	33,534	18,646
Real Estate and Rental Activity	3,510	8,384
Services	46,711	40,612
Wholesale and Retail	63	0
Other sectors	14,800	55,411

Source: Haitong Bank.

Internal Rating Profile

In June of 2016 the risk profile of the Bank's fixed income portfolio reflected the Brazilian sovereign debt downgrade.

Fixed Income Portfolio Rating Profile

	Jun-16	Dec-15
[aaa; a-]	3.9%	0.1%
[bbb+; bbb-]	0.4%	75.0%
[bb+; bb-]	86.7%	19.7%
[b+; b-]	7.7%	2.5%
[ccc+; lccc]	1.3%	2.8%

In percentage of non-default rated portfolio

Source: Haitong Bank.

DERIVATIVES PORTFOLIO

Portfolio Breakdown

The counterparty risk exposure in the Bank's portfolio of interest rate, exchange rate, and equity derivatives amounted EUR 353 million at the end of June 2016.

In terms of the breakdown by counterparty risk sector, 32% of the global exposure is related to transactions with financial sector counterparties and 25% from transport infrastructure interest rate deals.

Derivatives Portfolio by sector

(thousands of euro)

	Jun-16	Dec-15
Total	**352,790**	**461,192**
Financials	114,354	231,884
Construction and Public Works	26,448	24,290
Energy	38,484	41,832
Transport Infrastructure	88,631	70,479
Transports and Communications	19,377	24,672
Other Manufacturing Sectors	369	740
Real Estate and Rental Activity	109	145
Services	33,877	28,773
Wholesale and Retail	9,193	12,726
Other sectors	21,948	25,650

Source: Haitong Bank.

Internal Rating Profile

From the total exposure to derivative instruments, approximately 55% is related to counterparties with medium risk rating, mainly from Project Finance interest rate swaps. The table below shows the breakdown of rated exposures.

Derivatives Portfolio Rating Profile

	Jun-16	Dec-15
[aaa; a-]	13%	28%
[bbb+; bbb-]	7%	8%
[bb+; bb-]	55%	40%
[b+; b-]	23%	19%
[ccc+; lccc]	2%	4%

In percentage of non-default rated portfolio

Source: Haitong Bank.

Note: June 2016 exposures were determined considering the netting agreements effect.

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MARKET RISK

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates, share/indexes prices, commodity prices, real estate prices, volatility and credit spreads.

Market Risk is monitored on a short-term perspective (10 days) for the trading book and on a medium term perspective (1 year) for the banking book.

TRADING BOOK RISK

MANAGEMENT PRACTICES

The main measure of market risk is the estimation of potential losses under adverse market conditions, for which Value at Risk (VaR) methodology is used. VaR is calculated using the Historical simulation, with a 99% confidence level and an investment period of 10 business days. Volatilities and correlations are historical, based on an observation period of one year.

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

In organisational terms, Market Risk Control functions are spread geographically among the Bank's different business units, which have the appropriate skills and resources to evaluate the specific activities and risks incurred by each company of the Group.

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 market value under different market conditions to establish adequate limits for each business area. In addition to the technical analysis for setting appropriate limits, the Market Risk Control unit also takes into account the track record and experience of each business area and its strategic objectives to ensure that the limits reflect the Bank's guidelines for each risk category.

The proposed limits are submitted for approval to two Local Credit Risk Management Committees (the Brazil CRC and the New York CRC), and subsequently to the Global Credit and Risk Management Committee in Lisbon. The limits are reviewed at least annually or whenever required by strategic reasons or market conditions.

To obtain a clear picture of the risks incurred and to provide the whole organisation with clear messages regarding the desired risk appetite, a wide range of risk assessment measures are used, complemented by position, stop loss, and concentration limits.

Risk assessment measures used include VaR (Value at Risk), the BPV (Basis Point Value) sensitivity measure, and Greeks (Vega and Rho). VaR is calibrated using back testing analysis.

The way in which the risk assessment and control methodologies, described above, are implemented is adapted to factor in the specific features of the market in which each business area operates.

Value at risk (VaR) on 30 June 2016, relating to trading positions in equities, interest rate instruments, volatility, credit spreads, commodities, as well as FX (excluding the FX exposure arising from equities in the available for sale and fair value portfolios) totalled EUR 9.8 million, which compares to EUR 4.5 million on 31 December 2015.

VaR - 99% at 10 Days

(millions of euro)

	Jun-16	Dec-15
Exchange Risk	1.4	1.8
Interest Risk	3.5	1.2
Shares and Commodities	1.1	0.1
Credit Spread	5.3	2.1
Covariance	-1.5	-0.7
Total	**9.8**	**4.5**

Source: Haitong Bank.

The main risk factor to which the Bank was exposed at the end of June 2016 was Brazil credit spread risk, as was the case at the end of 2015.

BANKING BOOK RISKS

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

INTEREST RATE RISK

Interest Rate Risk may be understood in two different but complementary ways, namely as the effect on the net interest margin, or as the impact on capital, resulting from interest rate movements that affect a bank's banking book.

Fluctuations in market interest rates can affect a bank's net interest margin by altering the amount of income and costs associated to interest rate products, as well as by impacting on the value of the underlying assets, liabilities and off-balance sheet instruments.

The banking book exposure to interest rate risk is calculated in compliance with the Bank for International Settlements (BIS) methodology, classifying all interest rate sensitive assets, liabilities and off balance sheet items, excluding those from trading, using repricing tenors.

The model used is similar to the duration model, using a stress testing scenario corresponding to a parallel shift of 200 basis points in the yield curve for all interest rate levels (Bank of Portugal Instruction 19/2005).

Interest rate risk measurement basically consists in determining the effect of changes in interest rates on equity and net interest income. On 30 June 2016 interest rate risk had a EUR 32,182 thousand positive impact on the Bank's shareholders' equity, which compares with a EUR 14,829 thousand positive impact at the end of 2015.

CREDIT SPREAD RISK

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

The credit spread risk of an asset derives from the respective issuer's credit spread volatility. This risk is measured based on a VaR at 99% with a holding period of one year.

RISK OF EQUITY INSTRUMENTS AND OTHER VARIABLE INCOME SECURITIES

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

The risk of equity holdings and mutual funds, which arises from the respective market prices and equity indexes, is measured based on a VaR at 99%, considering a holding period of one year. This includes the FX risk in equities in the available for sale portfolio and in the portfolio of assets at fair value.

REAL ESTATE RISK

Real estate risk arises from adverse changes in the market value of real estate assets where the Bank has exposure to, in the balance sheet, through investment funds.

PENSION FUND RISK

The pension fund risk stems from the possibility of the value of the fund's liabilities (the obligations of the fund) exceeding the value of its assets (the fund's investments). When that occurs the Bank must cover the difference and incur in the respective loss (contributions to the fund).

The Bank's pension fund risk is measured based on the estimated value of assets and liabilities with a timeframe of one year.

The Fund's estimated return corresponds to the maximum losses which the Fund may incur in a period of one year. This return is determined by calculating, for a confidence interval of 99%, the 1-year VaR of the Pension Fund's assets portfolio at the reference date.

The responsibilities are updated based on the projected current cost within one year.

To quantify the pension fund risk the Bank uses the same models and methodologies used to determine the material risks incurred by its assets.

OPERATIONAL RISK

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

MANAGEMENT PRACTICES

Operational risk is managed through a set of procedures that standardise, systematise and regulate 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, even if these have not resulted in financial losses.

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

The operational risk management model is supported by a structure within the organisation exclusively dedicated to its design, monitoring and maintenance. This structure works in close coordination with the elements indicated below, whose active participation is crucial:

- The departments, branches and subsidiaries integrated within the scope of operational risk management, who are responsible for the day-to-day management of operational risk, guaranteeing that the established procedures are implemented;
- The Compliance Department, which plays an important role in guaranteeing that the processes are well documented and in compliance with relevant laws and regulations;
- The Internal Audit Department which tests the effectiveness of risk management and controls, identifies required steps for improvement and assesses their implementation;
- The Information Technology Department for its role on business continuity.

The operational risk management includes the following:

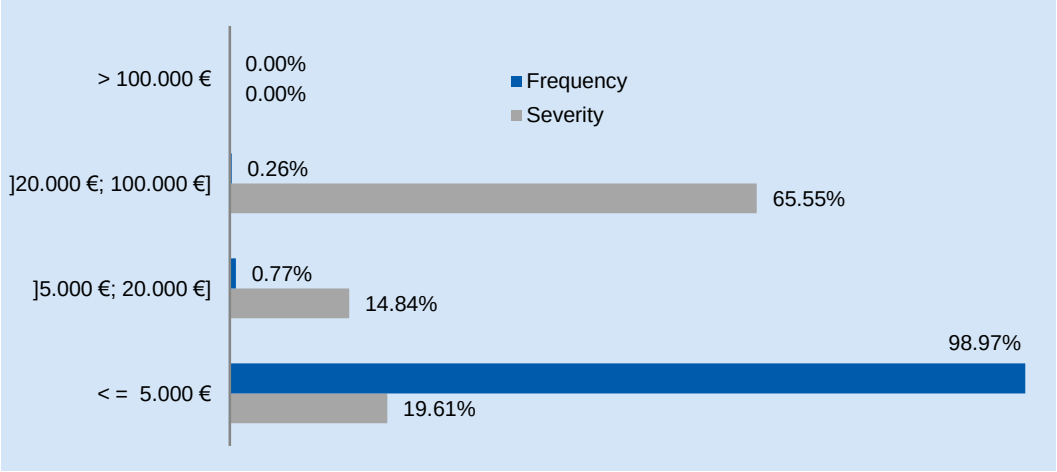
- Identification and reporting of operational risk events. This database not only considers loss-events but also events with positive impacts or others with no accounting impacts, as well as near-misses;
- Implementation of procedures to monitor the registration of events in order to verify the effectiveness of the identification/mitigation processes implemented in each subsidiary and branch and at the same time ensure the collection and consistency of the information on events with financial impacts;
- Regularly carrying out self-assessment analysis to identify the larger risks and corresponding mitigation actions;
- Monitoring of risk factors through key risk indicators (KRIs);
- Calculation of capital requirements in accordance with the Standardised Approach, with the support of the Management Information Department for the calculation of the Relevant Indicator.

OPERATIONAL RISK ANALYSIS

An analysis of Haitong Bank Group's operational risk shows that events with low financial impact are quite frequent while events with a material financial impact are very few.

In the first half of 2016, only one event accounted for almost two thirds of the total losses of the semester, while over 98% of the events accounted for less than 20%.

Distribution of frequency and severity of events by individual loss bucket

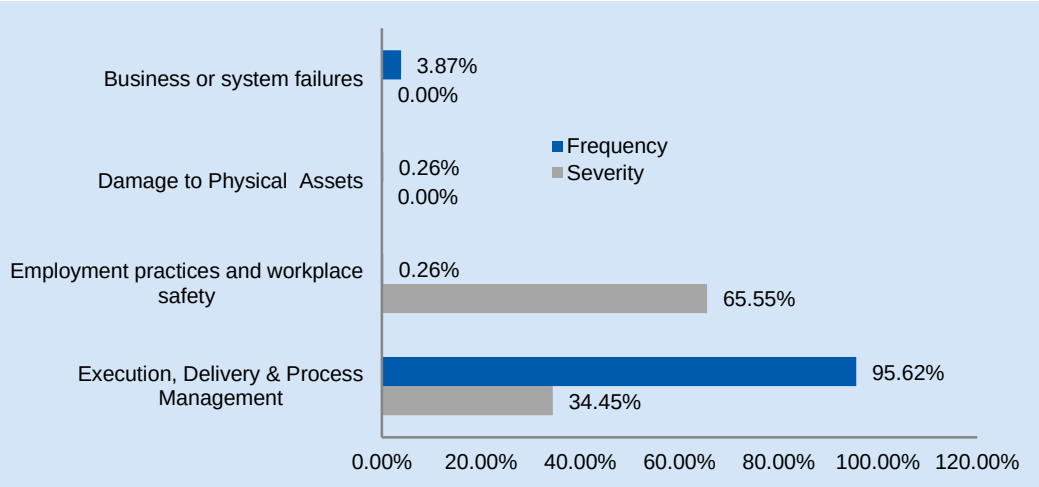


Source: Haitong Bank.

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

In the first half of 2016 the distribution of losses shows a high concentration on 'Employment practices and workplace safety', comprising only one event: the actual and future payments associated to a lawsuit from a former employee of Haitong Securities do Brasil. The majority of events are classified under 'Execution, Delivery and Process Management' and most of these correspond to trading errors.

Distribution of frequency and severity of events by Basel Risk Types



Source: Haitong Bank.

LIQUIDITY RISK

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

Liquidity risk may be divided into two types:

- Market liquidity risk – the impossibility of selling an asset due to lack of liquidity in the market, leading to the widening of the bid/offer spread or the application of a haircut to its market value;
- Funding liquidity risk – the impossibility to obtain market funding to finance assets and/o refinance debt coming to maturity, in the desired currency. This can lead to a sharp increase in the cost of funding or to the requirement of collaterals in exchange for funding. Difficulties in (re)financing may lead to the sale of assets incurring significant losses.

MANAGEMENT PRACTICES

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

Haitong Bank takes the primary responsibility for its own liquidity risk management. Global Haitong's Group Debt Financing Management participates in the whole decision-taking process of its subsidiaries' financing activities and provides appropriate guide and assistance.

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

- Compliance with regulatory standards on liquidity;
- Full alignment with liquidity risk appetite set by the Executive Committee;
- Deep understanding of business strategy's current and future liquidity needs;
- Availability of sufficient immediate liquidity buffer under both normal and stressed conditions;
- Development of a diversified investors' base and maintain access to a variety of alternative funding sources, while minimising the cost of funding.

LIQUIDITY POSITION

LIQUIDITY COVERAGE RATIO (30 DAYS)

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

As of 30 June 2016, the Haitong Bank reached a LCR of 176%, which represents a solid short-term liquidity position, well above the current regulatory minimum (70%).

Liquidity Coverage Ratio

(thousands of euro)

	Jun-16	Dec-15	Change
High-Quality Liquid Assets	405,638	232,660	172,979
30 days Net Outflow	231,098	158,474	72,625
Liquidity Coverage Ratio (LCR)	176%	147%	29%

Source: Haitong Bank.

CAPITAL MANAGEMENT

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

MANAGEMENT PRACTICES

The capital management practices and guidelines are shaped to accomplish the business strategic aims and the risk appetite set by the Executive Committee. Accordingly, with the objective of maintaining capital that is adequate in quantity and quality, Haitong Bank has in place a capital management framework assisted by the following streams:

- Constant monitoring of regulatory capital requirements;
- Annual revision of the risk appetite by the Executive Committee;
- Business objectives adequately measured on capital planning. In 2015, Haitong Bank submitted its Funding and Capital Plan document to the Bank of Portugal;
- Complementing the regulatory focus, Haitong Bank executes on an annual basis an internal risk-based capital self-assessment that consists in a forward-looking measurement of all material risks incurred by Haitong Bank (including the ones not covered on Pillar 1 regulatory capital). In 2015, Haitong Bank submitted its ICAAP document to the Bank of Portugal;
- As part of our capital management policy, Haitong Bank maintains a recovery capital plan, which provides the escalation path for crisis management governance and identifies the list of actions and strategies designed to respond to a capital stress event.

REGULATORY CAPITAL AND LEVERAGE RATIOS

SOLVENCY

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

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

Under this regulatory framework, the minimum CET1 ratio is 4.5%, the minimum Tier1 ratio is 6% and the minimum Total capital ratio is 8%.

In addition, from January 2016 onwards these minimum ratios were supplemented by a new capital conservation buffer. CRD IV requirements permit to phase the impact of this buffer, beginning on 1 January, 2016, in increments of 0.625% per year until it reaches 2.5% of RWAs on 1 January 2019.

On 8 June 2016 BoP decided to adopt the transitional recognition for the capital conservation buffer as stipulated by CRR IV. With this, BoP revoked its September 2015 decision according to which the fully anticipation of the capital conservation buffer was bidding from 1 January 2016.

Our estimated capital ratios calculated under the Basel III Standard Approach on both transitional and fully loaded basis are shown in the table below.

Solvency Ratios

	Jun-16		Dec-15	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	10.7%	8.7%	10.5%	8.9%
Tier 1 ratio	12.1%	11.4%	10.5%	9.0%
Total capital ratio	12.3%	11.7%	10.6%	9.3%

Source: Haitong Bank.

Haitong Bank capital adequacy considerably strengthened during the first semester of 2016. This is a result of its strategic importance within the Haitong group and the correspondent shareholder's commitment to support Haitong Bank, securing an Additional Tier 1 (AT1) Capital issuance of EUR 80 million. It is also noteworthy the prudent and rigorous balance sheet management undertaken during this period.

LEVERAGE

Supplementary the CRR/CRD framework introduced a non-risk based leverage ratio. The leverage ratio compares Tier 1 capital to a measure of leverage exposure, aiming to constrain the build-up of excessive leverage in the banking sector and to backstop the existing risk-weighted capital requirements with a simple, non-risk-weighted measure. Leverage ratio "test-level" minimum requirement was set at 3% and it is expected to be introduced as a binding measure as of 2018.

As of June 2016, Haitong Bank estimated leverage ratio was 8.4%. This estimate is based on our current understanding of the regulatory framework and may evolve as we discuss its interpretation and application with our regulator.

DECLARATION OF CONFORMITY

In accordance with Article 246 (1-c) of the Portuguese Securities Code, the Members of the Board of Directors of Haitong Bank, S.A. hereby declare that, to the best of their knowledge:

a) The consolidated financial statements of Haitong Bank, S.A. for the six months ended on 30 June 2016 were prepared in accordance with the legally applicable accounting standards and with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of July 19th, as set forth in Article 246 (3) of the Portuguese Securities Code;

b) The financial statements referred to in paragraph a) above give a true and fair view of Haitong Bank, S.A. and consolidated companies' assets, liabilities, equity and earnings;

c) The Management Report describes faithfully Haitong Bank, S.A. and consolidated companies' business evolution, performance and financial position for the first six months of 2016, and includes a description of the main risks and uncertainties that could affect the business.

Lisbon, 30 August 2016

Hiroki Miyazato
(Chairman of the Board of Directors and Executive Board Member)

José Maria Ricciardi
(Vice-Chairman of the Board of Directors and Chief Executive Officer)

Rafael Caldeira de Castel-Branco Valverde
(Vice-Chairman of the Board of Directors and Executive Board Member)

Alan do Amaral Fernandes
(Executive Board Member)

Christian Georges Jacques Minzolini
(Executive Board Member)

David Charles Denholm Hobley[3]
(Non-Executive Board Member)

Félix Aguirre Cabanyes
(Executive Board Member)

Frederico dos Reis de Arrochela Alegria
(Executive Board Member)

Lin Yong
(Non-Executive Board Member)

Mo Yiu Poon
(Chief Financial Officer and Executive Board Member)

Pan Guangtao
(Non-Executive Board Member)

Paulo José Lameiras Martins
(Executive Board Member)

[3] Mr. David Charles Denholm Hobley took office as of 15 July 2016.

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CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for the six month period ended 30 June 2016 and 2015

(thousands of euro)

	Notes	30.06.2016	30.06.2015
Interest and similar income	5	126 254	124 766
Interest expense and similar charges	5	103 360	100 177
Net interest income		**22 894**	**24 589**
Fee and commission income	6	33 335	51 567
Fee and commission expenses	6	(4 668)	(4 784)
Net gains / (losses) from financial assets at fair value through profit or loss	7	1 111	75 248
Net gains / (losses) from available for sale financial assets	8	1 526	(1 094)
Net gains / (losses) from foreign exchange differences	9	5 188	(61 718)
Net gains / (losses) from the sale of other assets		41	(37)
Other operating income and expense	10	3 383	(3 221)
Operating income		**62 810**	**80 550**
Staff costs	11	49 060	38 576
General and administrative expenses	13	26 957	25 741
Depreciation and amortisation	23 and 24	3 084	3 358
Provisions net of reversals	31	(4 051)	1 779
Loans impairment net of reversals and recoveries	20	5 443	7 886
Impairment on other financial assets net of reversals and recoveries	18 and 19	3 943	1 232
Impairment on other assets net of reversals and recoveries	24, 25 and 26	(2 298)	(839)
Operating expenses		**82 138**	**77 733**
Share of profit of associates	25	533	(461)
Profit/ (loss) before income tax		**(18 795)**	**2 356**
Income tax expense			
Current tax	32	(5 041)	4 410
Deferred tax	32	6 558	(2 361)
		1 517	**2 049**
Net profit/ (loss) for the period		**(20 312)**	**307**
Attributable to equity holders of the Bank		**(21 351)**	**292**
Attributable to non-controlling interest	36	**1 039**	**15**
		(20 312)	**307**
Basic Earnings per Share (in Euro)	14	-0.25	0.00
Diluted Earnings per Share (in Euro)	15	-0.25	0.00

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

Chief Accountant

Board of Directors

Consolidated Statement of Comprehensive Income for the six months period ended 30 June 2016 and 2015

(thousands of euro)

	30.06.2016	30.06.2015
Net profit/ (loss) for the period		
Attributable to equity holders of the Bank	(21 351)	292
Attributable to non-controlling interest	1 039	15
	(20 312)	**307**
Other comprehensive income for the period		
Items that may be reclassified to profit or loss		
Exchange differences, net of taxes	3 044	(18 700)
Other comprehensive income appropriate from associates	(916)	76
	2 128	**(18 624)**
Available-for-sale financial assets		
Gains / (losses) arising during the period	10 096	(4 221)
Reclassification of realised gains and losses to profit or loss of the period	2 412	2 180
Deferred taxes	(4 896)	235
Exchange differences	-	136
	7 612	**(1 670)**
Total comprehensive income/(loss) for the period	**(10 572)**	**(19 987)**
Attributable to equity holders of the Bank	**(20 060)**	**(15 745)**
Attributable to non-controlling interest	**9 488**	**(4 242)**
	(10 572)	**(19 987)**

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

Consolidated Statement of Balance Sheet as at 30 June 2016 and 31 December 2015

(thousands of euro)

	Notes	30.06.2016	31.12.2015
Assets			
Cash and deposits at central banks	15	26 615	117 684
Deposits with banks	16	26 418	38 960
Financial assets held for trading	17	1 404 786	1 346 489
Available for sale financial assets	18	584 138	468 311
Loans and advances to banks	19	738 546	258 795
Loans and advances to customers	20	1 040 128	1 041 341
Derivatives for risk management purposes	21	21 249	15 236
Non-current assets held for sale	22	3 600	3 600
Other tangible assets	23	12 590	12 164
Intangible assets	24	74 198	80 280
Investments in associates	25	8 493	10 343
Current income tax assets	32	13 446	10 029
Deferred income tax assets	32	132 139	139 906
Other assets	26	625 595	629 444
Total Assets		**4 711 941**	**4 172 582**
Liabilities			
Deposits from central banks	27	60 000	61 139
Financial liabilities held for trading	17	868 874	502 350
Deposits from other banks	28	1 682 655	1 632 522
Customers accounts	29	736 823	567 038
Debt securities issued	30	391 397	547 266
Derivatives for risk management purposes	21	166 659	116 397
Provisions	31	5 225	8 543
Current income tax liabilities	32	4 262	4 370
Deferred income tax liabilities	32	3 847	194
Subordinated debt	33	215	215
Other liabilities	34	301 903	301 705
Total Liabilities		**4 221 860**	**3 741 739**
Equity			
Share capital	35	426 269	426 269
Share premium	35	8 796	8 796
Other equity instruments	35	83 731	3 731
Fair value reserve	36	(5 772)	(11 919)
Other reserves and retained earnings	36	(43 278)	187
Net profit/ (loss) for the period attributable to equity holders of the Bank		(21 351)	(35 402)
Total Equity attributable to equity holders of the Bank		**448 395**	**391 662**
Non-controlling interest	36	41 686	39 181
Total Equity		**490 081**	**430 843**
Total Equity and Liabilities		**4 711 941**	**4 172 582**

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

Chief Accountant

Board of Directors

Consolidated Statement of Changes in Equity for the six months period ended 30 June 2016, 31 December 2015 and 30 June 2015

(thousands of euro)

	Share Capital	Share premium	Other equity instruments	Fair value reserve	Other reserves, retained earnings and other comprehensive income	Net profit/ (loss) for the period attributable to equity holders of the Bank	Total equity attributable to equity holders of the Bank	Non-controlling interest	Total equity
Balance on 1 January 2014	**326 269**	**8 796**	**3 731**	**(11 639)**	**200 560**	**(138 493)**	**389 224**	**48 379**	**437 603**
Balances directly recorded in Equity:									
Changes in fair value, net of taxes	-	-	-	(1 998)	-	-	(1 998)	192	(1 806)
Other comprehensive income of associates	-	-	-	-	76	-	76	-	76
Exchange differences	-	-	-	136	(14 251)	-	(14 115)	(4 449)	(18 564)
Net profit/ (loss) for the period	-	-	-	-	-	292	292	15	307
Total comprehensive income for the period	**-**	**-**	**-**	**(1 862)**	**(14 175)**	**292**	**(15 745)**	**(4 242)**	**(19 987)**
Transfer to reserves	-	-	-	-	(138 493)	138 493	-	-	-
Interest of other equity instruments (see Note 35)	-	-	-	-	(115)	-	(115)	-	(115)
Other changes in non-controlling interest (see Note 36)	-	-	-	-	-	-	-	(450)	(450)
Balance as at 30 June 2015	**326 269**	**8 796**	**3 731**	**(13 501)**	**47 777**	**292**	**373 364**	**43 687**	**417 051**
Balances directly recorded in Equity:									
Changes in fair value, net of taxes	-	-	-	1 718	-	-	1 718	(729)	989
Actuarial gains/ (losses), net of taxes	-	-	-	-	(7 989)	-	(7 989)	-	(7 989)
Other comprehensive income of associates	-	-	-	-	270	-	270	-	270
Exchange differences	-	-	-	(136)	(39 761)	-	(39 897)	(9 663)	(49 560)
Net profit/ (loss) for the period	-	-	-	-	-	(35 694)	(35 694)	6 398	(29 296)
Total comprehensive income for the period	**-**	**-**	**-**	**1 582**	**(47 480)**	**(35 694)**	**(81 592)**	**(3 994)**	**(85 586)**
Share capital increase	100 000	-	-	-	-	-	100 000	-	100 000
Interest of other equity instruments (see Note 35)	-	-	-	-	(110)	-	(110)	-	(110)
Other changes in non-controlling interest (see Note 36)	-	-	-	-	-	-	-	(512)	(512)
Balance as at 31 December 2015	**426 269**	**8 796**	**3 731**	**(11 919)**	**187**	**(35 402)**	**391 662**	**39 181**	**430 843**
Balances directly recorded in Equity:									
Changes in fair value, net of taxes	-	-	-	6 147	-	-	6 147	1 465	7 612
Other comprehensive income of associates	-	-	-	-	(916)	-	(916)	-	(916)
Exchange differences	-	-	-	-	(3 940)	-	(3 940)	6 984	3 044
Net profit/ (loss) for the period	-	-	-	-	-	(21 351)	(21 351)	1 039	(20 312)
Total comprehensive income for the period	**-**	**-**	**-**	**6 147**	**(4 856)**	**(21 351)**	**(20 060)**	**9 488**	**(10 572)**
Issuance of other equity instruments	-	-	80 000	-	-	-	80 000	-	80 000
Transfer to reserves	-	-	-	-	(35 402)	35 402	-	-	-
Interest of other equity instruments (see Note 35)	-	-	-	-	(113)	-	(113)	-	(113)
Other changes in non-controlling interest (see Note 36)	-	-	-	-	(3 094)	-	(3 094)	(6 983)	(10 077)
Balance as at 30 June 2016	**426 269**	**8 796**	**83 731**	**(5 772)**	**(43 278)**	**(21 351)**	**448 395**	**41 686**	**490 081**

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

Consolidated Cash Flow Statement for the six months period ended 30 June 2016 and 2015

(thousands of euro)

	Notes	30.06.2016	30.06.2015
Cash flows from operating activities			
Interest and similar income received		70 824	142 441
Interest expense and similar charges paid		(87 145)	(105 886)
Fees and commission received		33 351	52 670
Fees and commission paid		(4 795)	(6 283)
Cash payments to employees and suppliers		(76 963)	(66 957)
		(64 728)	**15 985**
Changes in operating assets and liabilities:			
Deposits with central banks		91 069	(910)
Deposits from central banks		845	(9 656)
Financial assets / liabilities held for trading		312 017	244 487
Loans and advances to banks		(468 527)	(100 877)
Deposits from banks		54 272	(140 258)
Loans and advances to customers		(2 764)	216 740
Customer accounts		152 487	(8 648)
Derivatives for risk management purposes		(9 739)	(708)
Other operating assets and liabilities		10 896	127 051
Net cash from operating activities before income tax		**75 828**	**343 206**
Income taxes paid		5 190	(13 848)
		81 018	**329 358**
Cash flows from investing activities			
Sale of subsidiaries and associates		(3 301)	-
Dividends received		1 573	-
Acquisition of available-for-sale financial assets		(266 134)	(64 721)
Sale of available-for-sale financial assets		204 244	146 844
Held to maturity investments		-	(9 672)
Acquisition of tangible and intangible assets		(4 024)	(1 242)
Sale of tangible and intangible assets		651	14
		(66 991)	**71 223**
Cash flows from financing activities			
Bonds issued		27 345	64 617
Bonds paid		(127 025)	(454 077)
Subordinated debt paid		-	(9 985)
Issuance of other equity instruments		80 000	-
Interest from other equity instruments		(113)	(115)
Dividends paid on ordinary shares from subsidiaries		(6 776)	(450)
Net cash from financing activities		**(33 345)**	**(400 460)**
Net changes in cash and cash equivalents		**(19 318)**	**121**
Cash and cash equivalents at the beginning of the period		38 974	49 080
Cash and cash equivalents at the end of the period		26 432	49 651
		(12 542)	**571**
Cash and cash equivalents includes:			
Cash	15	14	14
Deposits with banks	16	26 418	49 637
Total		**26 432**	**49 651**

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

2. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Haitong Bank, S.A.

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

The Haitong Bank, S.A. (Bank or Haitong Bank) is an investment bank headquartered in Portugal, Rua Alexandre Herculano, n.º 38 in Lisbon. The Bank is authorized by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches are located.

The company was established in February 1983 as a foreign investment in Portugal under the name FINC – Sociedade Portuguesa Promotora de Investimentos, S.A.R.L. During 1986 the company was integrated into the Espírito Santo Group under the designation of Espírito Santo – Sociedade de Investimentos, S.A..

In order to enlarge the scope of its business, the company obtained permission from the Portuguese authorities to operate as an investment bank. This involved the publication of Order-in-Council no. 366/92, 23 November, published in the Diário da República – Series II – no. 279, 3 December. The activity as an investment bank started under the name Banco ESSI, S.A., on 1 April, 1993.

During 2000, Banco Espírito Santo, S.A. (BES) acquired all of the share capital of BES Investimento in order to reflect in its consolidated financial statements all the synergies generated by both institutions.

As at 3 August 2014, following the resolution measure applied by Bank of Portugal to Banco Espírito Santo, S.A., the Bank became held by Novo Banco, S.A..

In September 2015, Haitong International Holdings Limited acquired the entire share capital of BES Investimento. The Bank's corporate name was changed to Haitong Bank, S.A..

Haitong Bank currently operates through its headquarters in Lisbon, branches in London, Warsaw and Madrid and through its subsidiaries in Brazil, Ireland, United Kingdom, India and Mexico.

Haitong Bank's financial statements are consolidated by Haitong International Holdings Limited, headquartered at Li Po Chun Chambers, nº 189, Des Voeux Road Central, in Hong Kong.

Group companies where the Bank has a direct or indirect holding greater or equal to 20%, on over which the Bank exercises control or has significant influence, and that were included in the consolidated financial statements, are as follows:

	Incorporation date	Acquisition date	Headquarters	Activity	% Economic interest	Consolidation method
Haitong Bank, S.A.	**1983**	**-**	**Portugal**	**Investment bank**	**100%**	**Full consolidation**
Haitong Investment Ireland PLC	1996	1996	Ireland	Non-bank finance company	100%	Full consolidation
Haitong Securities India Private Limited	2011	2011	India	Brokerage house	100%	Full consolidation
Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R.	2013	2013	Mexico	Non-bank finance company	100%	Full consolidation
MCO2 - Sociedade gestora de Fundos de Investimento Mobiliário, S.A.	2008	2008	Portugal	Asset management - investment funds	25%	Equity method
Haitong Capital - SCR, S.A.	1988	1996	Portugal	Venture capital fund	100%	Full consolidation
Salgar Investments	2007	2007	Spain	Real estate / Non-Bank finance company	25%	Equity method
SES Iberia	2004	2004	Spain	Asset management - investment funds	50%	Full consolidation
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	46%	Equity method
Coporgest, SA	2002	2005	Portugal	Real estate / Non-Bank finance company	25%	Equity method
WindPart, Lda	2013	2013	Portugal	Holding company	20%	Full consolidation (a)
Haitong (UK) Limited	2010	2010	United Kingdom	Holding company	100%	Full consolidation
Haitong & Company (UK) Limited	1990	2010	United Kingdom	Advisory on investments	100%	Full consolidation
Haitong Securities (UK) Limited	2000	2010	United Kingdom	Brokerage house	100%	Full consolidation
Noble Advisory India Private Ltd	2008	2010	India	Research services provider	100%	Full consolidation
Clear Info-Analytic Private Ltd	2004	2010	India	Research services provider	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 do Brasil Participações Ltda	2004	2004	Brazil	Asset management	80%	Full consolidation
Espirito Santo Investimentos, SA	1996	1999	Brazil	Holding company	80%	Full consolidation
Haitong do Brasil DTVM, SA	2009	2010	Brazil	Asset management	80%	Full consolidation
Haitong Securities do Brasil S.A.	2000	2000	Brazil	Brokerage house	80%	Full consolidation
Haitong Securities USA	2015	2015	USA	Brokerage house	100%	Full consolidation

a) These companies were fully consolidated as the Group exercises control over their activities.

In 2013, Haitong Bank has started a simplification plan for the Group. Under this process several measures were taken, including the sale and merge of investments, with no significant impact in the financial statements. The simplification process remained during the first half of 2016, being the major changes to the Group structure presented below.

Subsidiaries

- In January 2016 the Haitong Securities USA was included in the Haitong Group consolidation scope, despite having been incorporated on September 30, 2015. Haitong Bank S.A. fully subscribed the Haitong Securities USA capital, which corresponded to an investment of 300 000 dollars.
- In March 2016, Haitong Bank, S.A. fully subscribed the Haitong Securities USA capital increase, which corresponded to an investment of 10 000 thousand dollars.
- In March 2016, Haitong Bank, S.A. fully subscribed the Haitong Securities India Private Limited capital increase, which corresponded to an investment of 344 748 thousand Indian rupees. The Haitong Bank, S.A. subscribed 13 725 289 shares, and now holds 19 635 252 shares of the company.
- In March 2016, Haitong Banco de Investimento do Brasil S.A. approved the equity interest payment in the amount of 4 600 thousand reais. Of this amount 80 % will be received by Haitong Bank, S.A..
- In March 2016 Haitong Bank, S.A. concluded the winding up of its New York Branch and returned the respective licence to the New York Department of Financial Services. Since then Haitong Bank remains present in this market through a Representative Office, whose licence had been granted by the same Supervision Authority in January 2016.

- In May 2016, Haitong Bank, S.A. has completed the purchase of the 1,477,491 shares held by the minority shareholder of Haitong Securities India Private Limited, for an aggregate value of INR 245.795.160.
- In June 2016, Haitong Banco de Investimento do Brasil S.A. approved the equity interest payment in the amount of 7 400 thousand reais. Of this amount 80 % will be received by Haitong Bank, S.A..

Associates

- In March 2016 was made a capital distribution of the Fundo Espírito Santo IBERIA I, having been assigned to Haitong Capital - SCR, S.A. the amount of 1 573 thousand euros.

During the six months period ended 30 June 2016, the movements regarding acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(thousands of euro)

	30.06.2016						
	Acquisitions			Disposals			
	Acquisition cost (a)	Other investments (b)	Total	Sale amount (a)	Other reimbursements (c)	Total	Gains / (losses) from sales / disposals
Subsidiaries							
Haitong Securities USA	275	8 783	9 058	-	-	-	-
Haitong Securities India Private Limited	3 301	5 024	8 325	-	-	-	-
Associates							
Fundo Espírito Santo IBERIA I	-	-	-	-	1,573	1 573	-
Total	**3 576**	**13 807**	**17 383**	**-**	**1 573**	**1 573**	**-**

(a) In the case of FI Multimercado Treasury Funds, the acquisition and sale costs refer to subscriptions and redemptions, respectively.
(b) Share capital increases, supplementary capital and loans to companies.
(c) Share capital decreases, supplementary capital and loans to companies.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Basis of preparation

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

IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

The consolidated financial statements now presented refer to the six months period ended 30 June 2016 and were prepared in accordance with the IFRS effective and adopted by the EU until 30 June 2016. This consolidated financial statements disclosures are in accordance with the requirements set by IAS 34 and do not include all the information to be published in the annual financial statements.

The accounting policies applied by the Group in the preparation of its consolidated financial statements as at 30 June 2016 are consistent with the ones used in the preparation of the annual consolidated financial statements as at and for the year ended 31 December 2015.

These consolidated financial statements are expressed in thousands of euro, rounded to the nearest thousand, and have been prepared under the historical cost convention, except for the assets and liabilities accounted at fair value, namely, derivative contracts, financial assets and financial liabilities at fair value through profit or loss, available for sale financial assets, recognised assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is being hedged.

The preparation of financial statements in conformity with IFRS requires the application of judgment and the use of estimates and assumptions by management that affects the process of applying the Bank's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

These consolidated financial statements were approved in the Board of Directors meeting held on 30 August 2016.

2.2. Basis of consolidation

These consolidated financial statements comprise the financial statements of Haitong Bank and its subsidiaries ("the Group" or "Haitong Bank Group"), and the results attributable to the Group from its associates.

These accounting policies have been consistently applied by the Group companies, during all the periods covered by the consolidated financial statements.

Subsidiaries

Subsidiaries are entities (including investment funds) controlled by the Group. The Group controls another entity when it is exposed, or has rights, to variability in returns from its involvement with that entity and to take possession of them through the power he has over the relevant activities of that entity (facto control). The financial statements of each subsidiaries are included in the consolidated financial statements from the date that the Group acquires control until the date that control ceases.

Accumulated losses of a subsidiary are attributed proportionally to the owners of the parent and to the non-controlling interests even if this results in non-controlling interests having a deficit balance.

In a business combination achieved in stages (step acquisition) where control is obtained, the Group remeasures its previously held non-controlling interests in the acquiree at its acquisition date fair value and recognises the resulting gain or loss in the income statement when determining the respective goodwill. At the time of a partial sale, from which arises a loss of control of a subsidiary, any remaining non-controlling interests retained is remeasured to fair value at the date the control is lost and the resulting gain or loss is recognised against the income statement.

Associates

Associates are entities over which the Group has significant influence over the company's financial and operating policies but not its control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors.

Investments in associates are accounted for under the equity method from the date on which significant influence is transferred to the Group until the date that significant influence ceases. The book value of the investments in associates includes the value of the respective goodwill determined on acquisition and is presented net of impairment losses.

In a step acquisition that results in the Group obtaining significant influence over an entity, any previously held stake in that entity is remeasured to fair value through the income statement when the equity method is first applied.

If the Group's share of losses of an associate equals or exceeds its interest in the associate, including any long-term interest, the Group discontinues the application of the equity method, except when it has a legal or constructive obligation of covering those losses or has made payments on behalf of the associate.

Gains or losses on sales of shares in associate companies are recognised in the income statement even if that sale does not result in the loss of significant influence.

Goodwill

Goodwill resulting from business combinations that occurred until 1 January 2004 was offset against reserves, according to the option granted by IFRS 1, adopted by the Group on the date of transition to the IFRS.

Goodwill resulting from business combinations that occurred from 1 January 2004 until 31 December 2009 was accounted under the purchase method. The acquisition cost was measured as the fair value, at the acquisition date, of the assets and equity instruments given and liabilities incurred or assumed plus any costs directly attributable to the acquisition.

Goodwill represents the difference between the cost of acquisition and the fair value of the Group's share of identifiable net assets, liabilities and contingent liabilities acquired.

For acquisitions on or after 1 January 2010, in accordance with IFRS 3 – Business Combinations, the Group measures goodwill as the fair value of the consideration transferred including the fair value of any previously held non-controlling interests in the acquire, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs are expensed as incurred.

At the acquisition date, the non-controlling interests are measured at their proportionate interest in the fair value of the net identifiable assets acquired and of the liabilities assumed, without the correspondent portion of goodwill. As a result, the goodwill recognised in these consolidated financial statements corresponds only to the portion attributable to the equity holders of the Bank.

In accordance with IFRS 3 – Business Combinations, goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associates is included in the book value of the investment in those associates determined using the equity method. Negative goodwill is recognised directly in the income statement in the period the business combination occurs.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement. The recoverable amount corresponds to the higher of its fair value less costs to sell and its value in use. In determining value in use, estimated futures cash flows are discounted using a rate that reflects market conditions, time value and business risks.

Transaction with non-controlling interest

Acquisitions of non-controlling interests, that did not result in a change in control, are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such a transaction. Any difference between the consideration paid and the amount of non-controlling interests acquired is accounted for as a movement in equity. Similarly, sales of non-controlling interests and dilutions from which does not result a loss of control, are accounted for as transactions with equity holders in their capacity as equity holders and therefore no gain or loss is recognised in the income statement. Any difference between the sale proceeds and the recognised amount of non-controlling interests in the consolidated financial statements is accounted for as a movement in equity.

Gains or losses on a dilution or on sale of a portion of an interest in a subsidiary, from which results a loss of control, are accounted for by the Group in the income statement.

Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates.

The consolidated financial statements are prepared in euro, which is Haitong Bank's functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euro as follows:

- Assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date;
- Income and expenses are translated into the functional currency at approximate rates of the rates ruling at the dates of the transactions;
- The exchange differences resulting from the translation of the equity at the beginning of the period using the exchange rates at the beginning of the period and at the balance sheet date are accounted for against reserves net of deferred taxes. Similarly, regarding the subsidiaries and associates results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and at the balance sheet date are accounted for against reserves. When the entity is sold such exchange differences are recognised in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provide evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss.

2.3. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available for sale, which are accounted for in equity, within the fair value reserve.

2.4. Derivative financial instruments and hedge accounting

Classification

Derivatives for risk management purposes includes (i) hedging derivatives and (ii) derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss that were not classified as being hedging derivatives.

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

Fair values are obtained from quoted market prices, in active markets, if available or are determined using valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

Derivatives traded in organised markets, namely futures and some options, are recognised as trading derivatives, being marked to market on a daily basis and the resulting gains or losses are recognised directly in the income statement. Once the fair value changes on these derivatives are settled daily through the margin accounts held by the Group, these derivatives do not present any fair value on the balance sheet. The collateral deposits are booked in Other Assets (see Note 26) and included the minimum collateral requested regarding the open positions.

Hedge accounting

- Classification criteria

Hedge accounting is used for derivative financial instruments designated as hedging instruments, provided the following criteria are met:

i. At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;

ii. The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;

iii. The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;

iv. For cash flows hedges, the cash flows are highly probable of occurring.

- Fair value hedge

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value that are attributable to the risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

If the hedge no longer meets the criteria for hedge accounting, the derivative financial instrument is transferred to the trading portfolio and the hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to the income statement over the period to maturity.

- Cash flow hedge

When a derivative financial instrument is designated as a hedge of the variability in highly probable future cash flows, the effective portion of changes in the fair value of the hedging derivatives is recognised in equity. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in equity at that time is recognised in the income statement when the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified for the trading portfolio.

During the current period the Haitong Bank Group did not own any hedging instrument that could be classified as cash flow hedge.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2.5. Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, which are not intended to be sold in the short term. Loans and advances to customers are recognised when cash is advanced to borrowers.

Loans and advances to customers are derecognised from the balance sheet when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less impairment losses.

Impairment

The Group assesses, at each balance sheet date, whether there is objective evidence of impairment within its loan portfolio. Impairment losses identified are recognised in the income statement, and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition and (ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for each loan. In this assessment the Group uses the information that feeds the credit risk models implemented and takes into consideration the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the viability of the customer's business model and its capability to trade successfully and to generate sufficient cash flow to service their debt obligations;
- the extent of other creditors' commitments ranking ahead of the Group;
- the existence, nature and estimated realisable value of collaterals;
- the exposure of the customer within the financial sector;
- the amount and timing of expected recoveries.

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised is calculated as the difference between the book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate. The carrying amount of impaired loans is reduced through the use of an allowance account. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract rules.

The changes in the recognised impairment losses attributable to the unwinding of discount are recognised as interest and similar income.

The calculation of the present value of the estimated future cash flows of a collateralised loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics, taking in consideration the Group's credit risk management process. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Group and historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group with the purpose of reducing any differences between loss estimates and actual loss experience.

When a loan is considered by the Group as uncollectible and an impairment loss of 100% was recognised, it is written off against the related allowance for loan impairment.

2.6. Other financial assets

Classification

The Group classifies other financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss

This category includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term or that are owned as part of a portfolio of identified financial instruments, usually securities, that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception.

The Group classifies, at inception, certain financial assets at fair value through profit or loss when:

- Such financial assets are managed, measured and their performance evaluated on a fair value basis;
- Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

The structured products acquired by the Group corresponding to financial instruments containing one or more embedded derivatives meet the above mentioned conditions, and, in accordance, are classified under the fair value through profit or loss category.

- Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold until its maturity and that are not classified, at inception, as at fair value through profit or loss or as available for sale.

- Available for sale financial assets

Available for sale financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time, (ii) designated as available for sale at initial recognition or (iii) that are not classified in the other categories referred above.

Initial recognition, initial measurement and derecognition

Purchases and sales of: (i) financial assets at fair value through profit or loss, (ii) held to maturity investments and (iii) available for sale financial assets, are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs except for financial assets at fair value through profit or loss, in which case these transaction costs are directly recognised in the income statement.

Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has substantially transferred all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available for sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available for sale are also recognised in equity, while foreign exchange differences arising from debt investments, such as shares and securities, are recognised in the income statement. Interest, calculated using the effective interest rate method and dividends are recognised in the income statement.

Held to maturity investments are carried at amortised cost using the effective interest rate method, net of any impairment losses recognised.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Group establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, similar and done at market conditions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information.

Reclassification between categories

The Group only reclassifies non-derivative financial assets with fixed or determinable payments and fixed maturities, from the available for sale financial assets category to the held to maturity investments category, if it has the intention and ability to hold those financial assets until maturity.

Reclassifications between these categories are made at the fair value of the assets reclassified on the date of the reclassification. The difference between this fair value and the respective nominal value is recognised in the income statement until maturity, based on the effective interest rate method. The fair value reserve at the date of the reclassification is also recognised in the income statement, based on the effective interest rate method.

Impairment

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is an objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for shares and other equity securities, a significant or prolonged decline in the fair value of the security below its cost, and (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably estimated.

For held to maturity investments, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (considering the recovery period)

discounted at the financial asset's original effective interest rate and are recognised in the income statement. The carrying amount of the impaired assets is reduced through the use of an allowance account. If a held to maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For held to maturity investments if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through the income statement.

If there is objective evidence that an impairment loss on available for sale financial assets has been incurred, the cumulative loss recognised in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity instruments, in which case the reversal is recognised in equity.

2.7. Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) at a fixed price or at the sales price plus a lender's return are not derecognised. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at the purchase price plus a lender's return are not recognised, being the purchase price paid recorded as loans and advances to banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.6. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

2.8. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales. Preference shares issued are considered to be financial liabilities when the Group assumes the obligation of reimbursement and/or to pay dividends.

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Group designates, at inception, certain financial liabilities as at fair value through profit or loss when:

- Such financial liabilities are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial liabilities contain embedded derivatives.

The structured products issued by the Group meet the above mentioned conditions and, in accordance, are classified under the fair value through profit or loss category.

The fair value of quoted financial liabilities is based on the current price. In the absence of a quoted price, the Group establishes the fair value by using valuation techniques based on market information, including the own credit risk of the issuer.

If the Group repurchases debt issued, it is derecognised from the consolidated balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

2.9. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument, namely the payment of principal and/or interests.

Financial guarantees are initially recognised in the financial statements at fair value. Subsequently financial guarantees are measured at the higher of (i) the fair value recognised on initial recognition or (ii) any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to financial guarantees is recognised to the income statement.

The financial guarantee contracts issued by the Group normally have a stated maturity date and a periodic fee. This fee varies depending on the counterparty risk, the amount and the time period of the contract. Therefore, the fair value of the financial guarantee contracts issued by the Group, at the inception date, equal the initial fee received, which is recognised in the income statement over the period to which it relates. The subsequent periodic fees are recognised in the income statement in period to which they relate.

2.10. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognised under equity as a deduction from the proceeds. Amounts paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are debited directly to equity as dividends, when declared.

2.11. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.12. Non-current assets held-for-sale

Non-current assets or disposal groups (groups of assets to be disposed of together in a single transaction and related liabilities that include at least a non-current asset) are classified as held for sale when their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), the assets or disposal groups are available for immediate sale and is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is brought up to date in accordance with the applicable IFRS.

Subsequently, these assets or disposal group are measured at the lower of their carrying amount or fair value less costs to sell.

2.13. Property and equipment

Property and equipment are measured at cost less accumulated depreciation and impairment losses. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Number of years
Buildings	35 to 50
Improvements in leasehold property	10
Computer equipment	3 to 5
Fixtures	5 to 12
Furniture	3 to 10
Security equipment	4 to 10
Machines and tools	4 to 10
Motor vehicles	4
Other equipment	5

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and an impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

2.14. Intangible assets

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis during their expected useful lives, which is usually between three to eight years.

Costs that are directly associated with the development of identifiable specific software applications and that will probably generate economic benefits beyond one year, are recognised as intangible assets. These costs include employee costs from the Group companies specialised in IT directly associated with the development of the referred software.

All remaining costs associated with IT services are recognised as an expense as incurred.

2.15. Leases

The Group classifies its lease agreements as finance leases or operating leases taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases

Payments made under operating leases are charged to the income statement in the period to which they relate.

Finance leases

- As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease instalments.

Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the repayment of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, for the amount equal to the net investment made in the leased assets.

Interest included in instalments charged to customers is recorded as interest income, while repayments of principal also included in the instalments, are deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.16. Employee benefits

Pensions

Arising from the signing of the Collective Labor Agreement (“Acordo Colectivo de Trabalho” (ACT)) and subsequent changes arising from the three Three-Party Agreement as described in Note 12, the Bank and other Group entities set up pension funds and other mechanisms to cover the liabilities with pensions on retirement and disability, widows’ pension and health-care benefits.

Since 1 January 2011, the Bank employees were included in Social Security System, which ensure their protection in motherhood, fatherhood, adoption and oldness, remaining with the banks the responsibility over insurance in illness, disability, survival and death (Decree-Law no. 1-A/2011, 3 January).

The contribution rate is 26.6% in which 23.6% belongs to the employer, and 3% to employees, replacing the Caixa de Abono de Familia dos Empregados Bancários (CAFEB) extinguished by the same Decree-Law. As a result, the pension rights of the active employees started to be covered by the terms defined by Social Security System, considering the period of service rendered since 1 January 2011 until the retirement age. The difference to the minimum pension guaranteed is supported by the banks, in accordance with the terms defined in Collective Labor Agreement (“Acordo Colectivo de Trabalho” (ACT)).

Following the Government approval of the Decree-Law nº. 127/2011, which was published in 31 December, a three-party agreement between the Government, the Portuguese Bank Association and the Union of Bank employees was established, regarding the transfer to Social Security domain of the liabilities with pensions under payment to retired employers and pensioners, as at 31 December 2011.

This decree-law established that the liabilities to be transferred were the liabilities with pensions under payment at 31 December 2011 to retired employees and pensioners, at permanent values (discount rate 0%) in the terms set forth in Collective Labour Regulation Instrument (IRCT). The liabilities regarding the update of pensions, benefit plans, contributions to Social-Medical Assistance Services over retirement and survival pensions, death subsidy and deferred survival pension are still under the responsibility of the Institutions.

The hedging of these responsibilities is ensured through pension funds managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

The pension plans of the Group are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In the hands of IFRS 1, the Group decided to adopt IAS 19 retrospectively and has recalculated the pension and other post-retirement benefits obligations and the corresponding actuarial gains and losses, to be deferred in accordance with the corridor method allowed by this accounting standard.

In 2012, the Group changed retrospectively the accounting policy related to actuarial gains and losses recognition, adjusting the opening balance sheet and comparative values, starting to recognise, as allowed under paragraph 93A of IAS 19 “Employee Benefits”, the actuarial deviations under other comprehensive income.

The pension liability is calculated annually by the Group, as at 31 December for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries. The discount rate used in this calculation was determined based on market rates of emissions associated with high-quality corporate bonds, denominated in the currency in which benefits will be paid and with maturity similar to the expiry date of the plan obligations.

The interest gain/(loss) with the pension plan is calculated by the Bank multiplying the net asset/liability with retirement pensions (liabilities deducted from the fair value of the fund assets) by the discount rate used to estimate the liabilities with the retirement pensions referred above. The net interest gain/(loss) includes the related costs with the interest associated to the liabilities with retirement pensions and the expected income from the fund assets, both measured based in the discount rate used in the liabilities calculations.

Actuarial gains and losses determined annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) the changes in actuarial assumptions, are recognised under share capital in the balance other comprehensive income.

At each period, the Group recognises as a cost in the income statement a net total amount that comprises (i) the service cost, (ii) the interest cost, (iii) the expected return on plan assets, (iv) effect early retirement, and (v) effect of settlement or curtailment occurred during the period. Early retirement costs corresponds to an increase on the liabilities due to the fact the employee retires before reaching 65 years of age.

The Group makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Annually, the Group assesses for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

Health care benefits

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

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Group to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, the holiday and Christmas subsidy.

The measurement and recognition of the Group's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above. These benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

Long-term services benefits

In accordance with the ACT "Acordo Colectivo de Trabalho" for the banking sector, the Haitong Bank Group has assumed the commitment to pay to current employees that achieve 15, 25 and 30 years of service within the Group, long-term service premiums corresponding, respectively, to 1, 2 and 3 months of their effective monthly remuneration earned at the date the premiums are paid.

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long-term service benefits are accounted for by the Group in accordance with IAS 19 as other long-term employee benefits.

The liability with long-term service benefits is calculated annually, at the balance sheet date, by the Group using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation was determined based on the same methodology described for pensions.

In each period the increase in the liability for long-term service premiums, including actuarial gains and losses and past service costs is charged to the income statement.

Bonus to employees and to the Board of Directors

In accordance with IAS 19 Employee benefits, the bonus payment to employees and eventually to the Board of Directors is recognised in the income statement in the period to which they relate.

2.17. Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Income tax recognised directly in equity relating to fair value re-measurement of available for sale financial assets and cash flow hedges is subsequently recognised in the income statement when gains or losses giving rise to the income tax are also recognised in the income statement.

Current tax is the tax expected to be paid on the taxable profit for the period, calculated using tax rates enacted or substantively enacted at the balance sheet date at each jurisdiction.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in any

jurisdiction and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill, not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be deducted.

The Group offsets deferred taxes assets and liabilities for each subsidiary, whenever (i) the subsidiary has a legally enforceable right to set off current tax assets against current tax liabilities, and (ii) they relate to income taxes levied by the same taxation authority. This offset is therefore performed at each subsidiary level, being the deferred tax asset presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax assets and the deferred tax liability presented in the consolidated balance sheet the sum of the subsidiaries' amounts which present deferred tax liabilities.

2.18. Provisions

Provisions are recognised when: (i) the Group has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

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

Restructuring provisions are recognised when the Group has approved a detailed and formal restructuring plan and such restructuring either has commenced or has been announced publicly.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract.

2.19. Interest income and expenses

Interest income and expense are recognised in the income statement under interest and similar income and interest expense and similar charges for all non-derivative financial instruments measured at amortised cost and for the available for sale financial assets, using the effective interest rate method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. In the case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

For derivative financial instruments, except for derivatives for risk management purposes (see Note 2.4), the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.20. Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.21. Dividend recognition

Dividend income is recognised when the right to receive payment is established.

2.22. Segmental reporting

The Group adopts IFRS 8 – Segmental reporting, for the disclosure of the financial information by operating segments (see Note 4).

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

2.23. Earnings per share

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

2.24. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the inception date, including cash, deposits with banks and deposits at central banks. Cash and cash equivalents exclude restricted balances with central banks.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

IFRS set forth a range of accounting treatments and require management to apply judgement and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies, are discussed in this section in order to improve understanding of how their application affects the Group's reported results and related disclosure. A broader description of the accounting policies applied by the Group is shown in Note 2 to the Consolidated Financial Statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the Group's reported results would differ if a different treatment were chosen. Management believes that the choices made are appropriate and that the financial statements present the Group's financial position and results fairly in all material aspects.

3.1. Impairment of available for sale financial assets

The Group determines that available for sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility of the markets, the Group has considered the following parameters when assessing the existence of impairment losses:

i. Equity securities: significant decline in market value in relation to the acquisition cost or market value below the acquisition cost for a prolonged period;

ii. Debt securities: objective evidence of events that have an impact on the estimated future cash flows of these assets.

In addition, valuations are generally obtained through market quotation (mark to market) or valuation models (mark to model) that may require assumptions or judgement in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised with a consequent impact in the income statement of the Group.

3.2. Fair value of derivatives

Fair value are based on listed market prices if available; otherwise fair value is determined either by dealer price quotations (both for that transaction or for similar instruments traded) or by pricing models, based on net present value of estimated future cash flows which take into account market conditions for the underlying instruments, time value, yield curve and volatility factors. These pricing models may require assumptions or judgements in estimating fair values.

Consequently, the use of a different model or different assumptions or judgements in applying a particular model may have produced different financial results from the ones reported.

3.3. Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.5.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgements. The frequency of default, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, among other factors, are considered in making this evaluation.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the consolidated income statement of the Group.

3.4. Goodwill impairment

Goodwill recoverable amount recognised as an asset of the Group is revised annually regardless the existence of signs of impairment losses.

For this purpose, the carrying amount of the business units of the Group for which goodwill has been recognised is compared with the respective recoverable amount. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using discounted cash flows/ dividends predictions, applying a discount rate that includes a risk premium appropriated to the business unit being tested. The future discounted cash flows and the discount rate to be used involves judgment.

Changes in the expected cash flows and in the discount rate may lead to different conclusions from those that led to the preparation of these financial statements.

3.5. Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

The Tax Authorities are entitled to review the Bank and its subsidiaries located in Portugal's determination of annual taxable earnings, for a period of four years or six years in case there are tax losses carried forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors of the Bank, and those of its subsidiaries, are confident that there will be no material tax assessments within the context of the financial statements.

3.6. Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated returns on investment, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

NOTE 4 – SEGMENT REPORTING

4.1. Operating segments description

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

Project Finance

The main functions of the Project Finance segment are (a) to take part in non-recourse and limited-recourse operations, related to investment projects that involve, among other contractual models, service concessions and public-private partnerships; and (b) to deliver to Haitong Group clients high quality services and technical innovation in matters of financial advisory and arranging and lending, providing access to the best financing structures in the best market conditions. This segment also manages the Project Finance projects portfolio in which Haitong Group takes part. This segment is also responsible for the development of the securitisation activity, having as major functions (a) the participation in the origination and structuring of securitization operations for Haitong Group and clients; and (b) the development of optimal financing structures through off-balance, asset-based and limited recourse formats with recourse to the capital markets as the preferential way to obtain funds to finance the Haitong Group clients' projects in the best market conditions.

Acquisition Finance and Other Credits

In connection with Client Coverage Division, this segment main function is to support the Haitong clients in acquisition operations through structured funding operations, namely leverage buy-out and management buy-out operations and in non-recourse or releverage assets financing operations. In these operations the Bank's objective is to be the Mandated Lead Arranger and to have the underwriting agreement and, depending on the deal characteristics, the Bank carries out the operation syndication.

Mergers & Acquisitions (M&A)

In connection with Customer's Management, this segment main function consists in the organization and implementation of mergers and acquisitions (M&A) operations and companies' valuations, in order to support Management activities in the consolidation of the Bank's international operations with emphasis in M&A cross-border with Spain, Brazil, United Kingdom, Poland and USA, countries where the Bank has local presence.

Capital Markets

This segment includes origination, structuring and implementation of debt instruments and equity instruments which were directed and structured to the market.

The equity capital markets segment develops the organization, structuring and placement in the stock market of companies that are under privatization processes, initial public offerings (IPO), capital increases, public acquisition offerings, private placements and block trades, as well as equity-linked instruments, such as exchangeable bonds and equity derivative instruments to corporate clients.

The debt capital markets is responsible for the structuring and setting up of several debt instruments, as market senior debt issues, high yield issues, private placements of debt from corporate clients or public entities, hybrid products, project finance bonds and commercial paper. This segment implements funding operations involving the structuring and placement of bond issues.

Fixed Income

This segment is divided in two different business areas.

Sales and Trading

This business area is responsible for (a) providing trading operations to clients of Portuguese public debt, foreign debt, other securities from Euromarket and corporate debt products; and (b) placing debt products structured by other segments of the Bank in national and foreign institutional investors.

Risk management

This business area is responsible for the study, set-up and management of new structured products (derivatives) related with the operations mentioned above, as well as of hedging products structured to mitigate foreign exchange rate risk and interest rate risk related with Assets and Liabilities for the Bank and its clients.

Global Markets

The mission of this Department is to optimize the risk/ income relation of the Bank's own portfolio of interest rate, exchange rate, equity and other financial instruments.

Equities

This segment mission is the development of trading and sales activities in organized markets where the Bank is present, such as Portugal, Spain, Brazil, Poland, UK, USA, India and China.

This segment integrates, although completely segregated, an equity research unit that is responsible for developing studies, following up and producing information about the main companies of the markets where the Bank is present.

Treasury

This segment comprises the tasks of (a) managing the Bank's Balance Sheet (interest rate risk's management and liquidity risk's management In compliance with the directives of Assets and Liabilities Committee – ALCO); (b) Management of Debt issuing and Bank's liabilities pricing; (c) Management of Portfolio Investment Bank's Fixed Income (following the criteria of diversification, quality and return, aiming to rebalance the balance sheet risks and provide a stable revenue) and (d) internal Transfer Pricing (in order to grant the proper allocation of costs of the funds to the various business canter's originators.

Private Equity

The main goal of this segment is to support the initiative by private companies, promoting the productive investment mainly financed by equity.

Capital Structure Advisory

This segment is specialized in general capital advisory by helping companies assess their capital structures and consult in debts restructuring.

Asset Management

This segment seeks quality outcomes for the assets managed, through their diligent management, building upon its internal and external resources, with a view to balancing the goals in terms of risk and return.

Corporative Center

This area does not correspond to an operating segment. It refers to an aggregation of corporative structures acting throughout the entire Group, such as, areas related to the Board of Directors, Compliance, Strategic Planning, Financial and Accounting, Risk Management, Client Coverage, among others.

Other

Includes all the other segments that exist in the Group's Management Information Model that, in accordance with IFRS 8, are not required to be presented as an individual segment (Wealth Management, Credit Sindication and other profit centres).

4.2. Allocation criteria of the activity and results to the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analysed by the decision makers of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in Note 2, being also adopted the following principles.

Measurement of profit or loss from operating segments

The Group uses net income before taxes as the measure of profit or loss for evaluating the performance of each operating segment.

Haitong Bank structures dedicated to Segment

The activity of Haitong Bank comprises most of its operating segments and therefore its activity is disaggregated accordingly.

For the purpose of allocating the financial information, the following principles are used: (i) the origin of the operation, i.e., the operation is allocated to the same segment as the commercial structure that originated it, even though, in a subsequent phase, the Group makes a strategic decision in order to securitize some of these assets; (ii) the allocation of direct costs from commercial and central structures dedicated to the segment; (iii) the allocation of indirect cost (central support and IT services) determined in accordance with specific drivers and with the internal management information model; (iv) the allocation of credit risk determined in accordance with the impairment model.

The transactions between the independent and autonomous units of the Group are made at market prices; the price of the services between the structures of each unit, namely the price established for funding between units, is determined by the margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending); the remaining internal transactions are allocated to the segments in accordance with the internal management information model.

The services rendered by the several Corporative Centre units are established in Service Level Agreements (SLA's).

Interest and similar income / expenses

Since the Group's activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest, under the designation of Financial Income.

Investments Consolidated under the Equity Method

Investments in associated companies consolidated under the equity method are included in the segment Other, in case of Haitong Bank associates. For other companies of the Group, the same entities are included in the segment they relate to.

Non-current assets

The segment Corporative Centre includes the non-current assets, according to IFRS 8, which includes Other Tangible Assets, Intangible Assets and Investments, properties and other assets arising from recovered loans not in the scope of non-current assets held for sale.

Deferred Tax Assets

Income tax is a part of the Group net income but does not affect the evaluation of most of the Operating Segments. Deferred tax assets are included in the Corporative Centre segment.

Post-employment benefits

Assets under post-employment benefits are managed in a similar way to deferred income taxes assets, and are included in the Corporative Centre segment. The factors that influence the amount of responsibilities and the amount of the fund's assets correspond, mainly, to external elements; it is Group's policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are the branches from London, Spain and Poland and the subsidiaries that are consolidated (see Note 1).

The financial elements related to the international area are presented in the financial statements of those units with the respective consolidation and elimination adjustments.

(thousands of euro)

	30.06.2016													
	Project Finance	Acquisition Finance & Other Credits	M&A	Capital Markets	Fixed Income	Asset Managemet	Global Markets	Equities	Treasury	Private Equity	Capital Structure Advisory	Corporative Center	Other	Total
Net interest income	4 199	2 978	-	137	923	-	17 638	(76)	(7 722)	60	(1 681)	-	6 438	22 894
Other operating income	6 241	1 425	5 303	4 941	4 533	1 125	(11 595)	5 482	1 747	2 530	83	-	18 101	39 916
Total operanting income	10 440	4 403	5 303	5 078	5 456	1 125	6 043	5 406	(5 975)	2 590	(1 598)	-	24 539	62 810
Intersegment operating income	75	-	(578)	3 421	(775)	1 041	2 940	(596)	7 613	-	-	-	(13 141)	-
External operating income	10 365	4 403	5 881	1 657	6 231	84	3 103	6 002	(13 588)	2 590	(1 598)	-	37 680	62 810
Operating expenses	2 460	5 729	6 143	2 054	2 514	498	1 234	18 143	602	1 069	350	38 078	3 264	82 138
Profit in associated companies	-	-			-	-	-	-	-	-	-	-	533	533
Profit before income tax	**7 905**	**(1 326)**	**(262)**	**(397)**	**3 717**	**(414)**	**1 869**	**(12 141)**	**(14 190)**	**1 521**	**(1 948)**	**(38 078)**	**34 949**	**(18 795)**

(thousands of euro)

	30.06.2015													
	Project Finance	Acquisition Finance & Other Credits	M&A	Capital Markets	Fixed Income	Asset Managemet	Global Markets	Equities	Treasury	Private Equity	Capital Structure Advisory	Corporative Center	Other	Total
Net interest income	4 991	4 866	-	(78)	1 553	-	(6 561)	(100)	9 073	137	(3 308)	-	14 016	24 589
Other operating income	9 171	3 702	11 911	10 645	5 003	2 479	15 711	7 320	(7 122)	1 177	(608)	-	(3 428)	55 961
Total operanting income	14 162	8 568	11 911	10 567	6 556	2 479	9 150	7 220	1 951	1 314	(3 916)	-	10 588	80 550
Intersegment operating income	64	895	(200)	(90)	(1 568)	1 359	134	(883)	1 218	-	(895)	-	(34)	-
External operating income	14 098	7 673	12 111	10 657	8 124	1 120	9 016	8 103	733	1 314	(3 021)	-	10 622	80 550
Operating expenses	(584)	4 350	3 202	2 317	3 095	582	3 468	14 279	1 188	1 110	8 313	34 019	2 394	77 733
Profit in associated companies	-	-			-	-	-	-	-	-	-	-	(461)	(461)
Profit before income tax	**14 682**	**3 323**	**8 909**	**8 340**	**5 029**	**538**	**5 548**	**(6 176)**	**(455)**	**204**	**(11 334)**	**(34 019)**	**7 767**	**2 356**

The secondary segment information is prepared in accordance with the geographical distribution of the Group's business units, as follows:

(thousands of euro)

	30.06.2016				
	Portugal	Rest of Europe	America	Asia	Total
Profit/ (loss) for the period	(63 493)	40 633	(1 094)	2 603	(21 351)
Net asset	1 683 925	867 289	2 152 051	8 676	4 711 941
Investments in associates	8 493	-	-	-	8 493
Investments in assets					
Tangible assets	250	926	1 820	6	3 002
Intangible assets	480	198	422	7	1 107

(thousands of euro)

	31.12.2015				
	Portugal	Rest of Europe	America	Asia	Total
Profit/ (loss) for the period	(115 562)	60 832	20 930	(1 602)	(35 402)
Net asset	1 604 319	664 506	1 901 482	2 275	4 172 582
Investments in associates	10 343	-	-	-	10 343
Investments in assets					
Tangible assets	726	659	120	-	1 505
Intangible assets	2 622	261	857	-	3 740

NOTE 5 – NET INTEREST INCOME

This balance is analysed as follows:

(thousands of euro)

	Period of six months ended at	
	30.06.2016	30.06.2015
Interest and similar income		
Interest from loans and advances to customers	21 990	37 573
Interest from deposits with banks	30 958	1 403
Interest from derivatives for risk management purposes	7 274	16 071
Interest from available-for-sale financial assets	8 321	4 127
Interest from financial assets at fair value through profit or loss	57 667	65 540
Other interest and similar income	44	52
	126 254	**124 766**
Interest expense and similar charges		
Interest from deposits from central banks and other banks	52 125	40 461
Interest from derivatives for risk management purposes	7 201	1 116
Interest from debt securities	13 755	32 630
Interest from customers accounts	29 439	25 301
Interest from subordinated debt	-	396
Other interest and similar charges	840	273
	103 360	**100 177**
	22 894	**24 589**

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.4 and 2.19 interests from hedging derivatives and interests from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policy described in Notes 2.6 and 2.8.

NOTE 6 – NET FEE AND COMISSION INCOME

This balance is analysed as follows:

(thousands of euro)

	Period of six months ended at	
	30.06.2016	30.06.2015
Fee and commission income		
From banking services	21 334	33 754
From guarantees provided	1 504	3 762
From transactions with securities	10 497	14 051
	33 335	**51 567**
Fee and commission expenses		
From banking services rendered by third parties	1 164	1 477
From transactions with securities	2 236	3 107
From guarantees received	322	130
Other fee and comission expenses	946	70
	4 668	**4 784**
	28 667	**46 783**

NOTE 7 - NET GAINS/ (LOSSES) FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This balance is analysed as follows:

(thousands of euro)

	Period of six months ended at					
	30.06.2016			30.06.2015		
	Gains	Losses	Total	Gains	Losses	Total
Securities held for trading						
Bonds and other fixed income securities						
Issued by entities	50 962	136 860	(85 898)	223 845	230 741	(6 896)
Issued by other entities	35 985	3 660	32 325	6 543	3 232	3 311
Shares	4 276	885	3 391	14 200	14 110	90
	91 223	**141 405**	**(50 182)**	**244 588**	**248 083**	**(3 495)**
Trading derivates financial instruments						
Exchange rate contracts	1 139 149	1 238 482	(99 333)	1 467 710	1 378 502	89 208
Interest rate contracts	550 817	396 090	154 727	1 156 236	1 173 206	(16 970)
Equity/Index contracts	15 737	18 573	(2 836)	188 599	182 686	5 913
Credit default contracts	3 284	57 217	(53 933)	(2 697)	7 935	(10 632)
Other	-	625	(625)	4 303	1 075	3 228
	1 708 987	**1 710 987**	**(2 000)**	**2 814 151**	**2 743 404**	**70 747**
Financial liabilities at fair value through profit or loss [1]						
Debt securities issued	56 872	3 579	53 293	10 437	2 441	7 996
	56 872	**3 579**	**53 293**	**10 437**	**2 441**	**7 996**
	1 857 082	**1 855 971**	**1 111**	**3 069 176**	**2 993 928**	**75 248**

(1) It includes the change in fair value or at fair value option of liabilities hedged

NOTE 8 - NET GAINS/ (LOSSES) FROM AVAILABLE FOR SALE FINANCIAL ASSETS

This balance is analysed as follows:

(thousands of euro)

	Period of six months ended at					
	30.06.2016			30.06.2015		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by public entities	-	7	(7)	14	1 874	(1 860)
Issued by other entities	13	10	3	489	175	314
Shares	1 530	-	1 530	469	-	469
Other variable income securities	-	-	-	-	17	(17)
	1 543	**17**	**1 526**	**972**	**2 066**	**(1 094)**

NOTE 9 - NET GAINS/ (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

This balance is analysed as follows:

(thousands of euro)

	Period of six months ended at					
	30.06.2016			30.06.2015		
	Gains	Losses	Total	Gains	Losses	Total
Currency revaluation	57 002	51 814	5 188	45 503	107 221	(61 718)
	57 002	**51 814**	**5 188**	**45 503**	**107 221**	**(61 718)**

This balance includes the exchange differences arising on translating monetary assets and liabilities at the exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.3.

NOTE 10 – OTHER OPERATING INCOME AND EXPENSE

This balance is analysed as follows:

(thousands of euro)

	Period of six months ended at	
	30.06.2016	30.06.2015
Other customer's services	450	2 223
Direct and indirect taxes	(3 328)	(3 040)
Other operating income/expenses	6 261	(2 404)
	3 383	**(3 221)**

The direct and indirect taxes balance includes an amount of euro 1 593 thousand related with the Banking levy (30 June 2015: euro 799 thousand), created through the Law Nº55-A/2010, of 31 December (see Note 32).

NOTE 11 – STAFF COSTS

This amount of staff costs is composed by:

(thousands of euro)

	Period of six months ended at	
	30.06.2016	30.06.2015
Wages and salaries		
Remuneration	34 826	27 636
Long-term service benefits (see Note 12)	168	193
Pension costs (see Note 12)	703	539
Other mandatory social charges	7 854	6 914
Other costs	5 509	3 294
	49 060	**38 576**

NOTE 12 – EMPLOYEE BENEFITS

Pension and health care benefits

In compliance with the collective labor agreement (ACT) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force. Only employees hired before 31 March 2008 are covered by this benefit. Employees hired after that date are covered by the Portuguese Social Security Scheme.

In accordance with the second Three-Party Agreement celebrated between the Government, the Portuguese Bank Associations and Union of Bank employees, after 1 January 2011 the bank employees were integrated in the Social Security Regime, which assumed the protection of banking sector employees in the contingencies of maternity, paternity and adoption and even old age, remaining under the responsibility of the banks the protection in sickness, disability, survivor and death (Decree-Law n.1-A/2011 of January 3).

This agreement establishes that the retirement pension value of bank employees under Social Security scheme will not be reduced when compared to the value set forth in the collective conventions. Retirement pensions of bank employees integrated in the Social Security scheme continue to be calculated in accordance with the provisions of ACT and other conventions. However, bank employees are entitled to receive a pension under the general regime, which amount takes into account the number of years of discounts for that scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of ACT and the one that the bank employees are entitled to receive from Social Security. In this basis, the exposure to the actuarial and financial risk associated to retirement benefits is the same.

The contribution rate to the Social Security Regime is 26.6%, 23.6% paid by the employer and 3% paid by the employees, instead of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by the same law. In consequence of this change, the pension rights of active employers is to be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

Notwithstanding, the integration leads to an effective decrease in the present value of total benefits reported to the normal retirement age (VABT) to be borne by the pension fund. Since there was no reduction in benefits

from the perspective of the beneficiary on the date of integration into the second three party agreement, the past service liability remained unchanged.

At the end of 2011 following the third three party agreement, it was decided to transfer to the Social Security Regime the banks liabilities with pension in payment as at 31 December 2011.

The three party agreement established, provides for the transfer to the Social Security sphere of the liabilities with pensions in payment as of 31 December 2012 at constant values (0% discount rate) in the terms set forth in Collective Labour Regulation Instrument (IRCT). The responsibilities relating to updates of pensions value, other pension benefits in addition to those to be borne by the Social Security, health-care benefits, death allowance and deferred survivor pensions, will remain in the sphere of responsibility of the banks with the correspondent funding being provided through the respective pension funds.

The banks pension funds assets, specifically allocated to the cover of the transferred liabilities, were also be transferred to the Social Security.

Being thus a definitive and irreversible transfer of the liabilities with pensions in payment (even if only on a portion of the benefit), the conditions set out in IAS 19 'Employee benefits' underlying the concept of settlement are met, as the obligation with pension in payment extinguished at the date of transfer.

The pension funds in Portugal are managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

In accordance with the policy defined in Note 2.16 – Employee Benefits, the Group calculates its pension liabilities and its actuarial gains and losses on an annual basis.

During the period the expenses incurred with pensions and health care benefits can be analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Current service cost	703	539
Interest (income/(expenses))	186	(16)
Expenses of the period	**889**	**523**

From 1 January 2014 and following the revision of IAS 19 – Employees Benefits, the income/expenses from interest became to be recognised by their net value under the interest (income/expense) and similar caption.

Long-term service benefits

At 30 June 2016, 31 December 2015 and 30 June 2015, the liabilities recognised by the Group and costs incurred related to long-term service benefits can be analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015	30.06.2015
Liabilities at the beggining of the period	**2 171**	**2 297**	**2 162**
Charges of the period (See Note 11)	168	14	193
Bonuses paid	(101)	(140)	(58)
Liabilities at the end of the period	**2 238**	**2 171**	**2 297**

The liabilities related to long-term service benefits are included in the balance Other liabilities (see Note 34).

NOTE 13 – GENERAL AND ADMINISTRATIVE EXPENSES

This balance is analysed as follows:

(thousands of euro)

	Period of six months ended at	
	30.06.2016	30.06.2015
Rental costs	4 994	4 881
Advertising costs	332	332
Communication costs	5 970	6 174
Travelling and representation costs	3 060	2 894
Maintenance and related services	812	773
Insurance costs	381	183
Legal expenses	252	258
Specialised services		
IT services	2 672	2 761
Temporary work	124	185
Independent work	1 193	1 143
Other specialised services	4 965	3 756
Other costs	2 202	2 401
	26 957	**25 741**

The balance Other specialised services includes, among others, costs with external auditors and tax consultants. The balance Other costs includes security and surveillance expenses, information and training costs and costs with external supplies.

NOTE 14 – EARNINGS PER SHARE

Basic earnings per share

The Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period, except the weighted average number of ordinary shares bought by the Bank and held as treasury shares in portfolio.

(thousands of euro)

	30.06.2016	30.06.2015
Net profit/ (loss) attributable to the equity holders of the Bank [1]	(21 464)	177
Weighted average number of ordinary shares outstanding (thousands)	**85 254**	**65 254**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**-0.25**	**0.00**

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

Diluted earnings per share

The diluted earnings per share is calculated considering the profit attributable to the equity holders of the Bank and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

As at 30 June 2016 and 2015, the Bank did not have any dilutive potential ordinary shares. Therefore, the diluted earnings per share are equal to the basic earnings per share.

NOTE 15 – CASH AND DEPOSITS AT CENTRAL BANKS

This balance as at 30 June 2016 and 31 December 2015 is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Cash	14	14
Deposits at central banks		
Bank of Portugal	24 498	117 515
Other central banks	2 103	155
	26 601	**117 670**
	26 615	**117 684**

The deposits at central banks include mandatory deposits with the Bank of Portugal intended to satisfy legal minimum cash requirements in the amount of euro 20 000 thousand (31 December 2015 : euro 118 thousand). According to the European Central Bank Regulation (CE) no. 1358/2011, of 14 December 2011, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 1% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements. As at 30 June 2015, these deposits have earned interest at an average rate of 0.00% (31 December 2015: 0.05%).

The fulfilment of the minimum mandatory requirements for a given period of observation is implemented taking into account the value of bank deposits with the Bank of Portugal during the referred period. The balance of the bank account with the Bank of Portugal as at 30 June 2016, was included in the maintenance period of 8 June 2016 to 26 July 2016, which corresponded to an average mandatory reserve of euro 1 650 thousand.

NOTE 16 – DEPOSITS WITH BANKS

This balance as at 30 June 2016 and 31 December 2015 is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Deposits with banks in Portugal		
Repayable on demand	9 392	4 586
	9 392	**4 586**
Deposits with banks abroad		
Repayable on demand	17 026	34 374
	17 026	**34 374**
	26 418	**38 960**

NOTE 17 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

As at 30 June 2016 and 31 December 2015, this balance is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Financial assets held for trading		
Securities		
Bonds and other fixed income securities		
Issued by public entities	858 575	951 300
Issued by other entities	71 693	50 065
Shares	2 191	1 185
	932 459	1 002 550
Derivatives	472 327	343 939
	1 404 786	**1 346 489**
Financial liabilities held for trading		
Securities		
Short selling	509 910	186 190
Derivatives	358 964	316 160
	868 874	**502 350**

As at 30 June 2016 and 31 December 2015 the analysis of the securities held for trading by maturity, is presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Up to 3 months	15 258	4 255
3 to 12 months	23 628	771 641
1 to 5 years	558 070	76 540
More than 5 years	333 312	148 929
Undetermined	2 191	1 185
	932 459	**1 002 550**

In accordance with the accounting policy described in Note 2.6, securities held for trading are those which are bought to be traded in the short-term, regardless of their maturity.

The short selling refers to securities purchased under agreements to resell (reverse repos). In accordance with the accounting policy described in Note 2.7 securities purchased under agreements to resell (reverse repos) at a fixed price or at the purchase price plus a lender's return are not recognised, being the purchase price paid recorded as loans and advances to banks or customers, as appropriate.

As at 30 June 2016 and 31 December 2015, the exposure to public debt from peripheral Eurozone countries is analysed in Note 40.

As at 30 June 2016 and 31 December 2015, derivative financial instruments can be analysed as follows:

(thousands of euro)

	30.06.2016			31.12.2015		
	Notional	Fair value		Notional	Fair value	
		Positive	Negative		Positive	Negative
Contracts on exchange rates						
Forward		4 018	22 475		19 791	606
- buy	802 589			443 003		
- sell	804 897			441 690		
Currency Swaps		548	307		597	2 263
- buy	237 872			232 044		
- sell	237 627			233 254		
Currency Futures		-	-		-	-
- buy	869 723			721 544		
- sell	875 062			763 825		
Currency Interest Rate Swaps		127	127		-	-
- buy	3 801			-		
- sell	3 801			-		
Currency Options		3 434	2 844		2 501	2 258
- buy	207 349			248 468		
- sell	217 572			227 512		
	4 260 293	**8 127**	**25 753**	**3 125 253**	**22 889**	**5 127**
Interest rate contracts						
Forward Rate Agreements		-	-		715	625
- buy	-			552 238		
- sell	-			552 238		
Interest Rate Swaps		433 887	306 787		299 671	293 672
- buy	5 589 823			6 340 627		
- sell	5 589 823			6 340 627		
Interest Rate Caps & Floors		16 693	17 340		11 701	11 690
- buy	893 752			891 264		
- sell	903 752			901 264		
Interest Rate Futures		-	-		-	-
- buy	2 265 327			1 692 356		
- sell	2 285 340			3 195 939		
Interest Rate Options	-	2 554	2 546		-	-
- buy	2 190 791			-		
- sell	2 189 816			-		
	21 908 424	**453 134**	**326 673**	**14 125 927**	**312 087**	**305 987**
Equity / index contracts						
Equity / Index Swaps		1 742	1 819		955	1 160
- buy	3 938			1 814		
- sell	2 927			1 814		
Equity / Index Options		4 276	4 499		6 536	3 595
- buy	63 028			24 123		
- sell	28 522			24 123		
Equity / Index Futures		-	-		-	-
- buy	6 505			-		
- sell	3 649			-		
	108 569	**6 018**	**6 318**	**51 874**	**7 491**	**4 755**
Credit default contracts						
Credit Default Swaps		5 048	220		1 472	291
- buy	96 052			72 221		
- sell	33 000			42 833		
	129 052	**5 048**	**220**	**115 054**	**1 472**	**291**
Total	**26 406 338**	**472 327**	**358 964**	**23 944 821**	**343 939**	**316 160**

As at 30 June 2016 and 31 December 2015, the analysis of trading derivatives by maturity is presented as follows:

(thousands of euro)

	30.06.2016			31.12.2015		
	Notional		Net fair value	Notional		Net fair value
	Sell	Buy		Sell	Buy	
Up to 3 months	2 464 756	1 620 040	(13 455)	3 157 531	1 285 665	(2 231)
3 to 12 months	3 910 721	3 864 834	(4 196)	2 358 373	1 748 020	13 175
1 to 5 years	4 111 020	4 951 518	126 291	4 517 846	5 070 104	20 654
More than 5 years	2 689 291	2 794 158	4 723	2 691 369	3 115 913	(3 819)
	13 175 788	**13 230 550**	**113 363**	**12 725 119**	**11 219 702**	**27 779**

NOTE 18 – AVALIABLE FOR SALE FINANCIAL ASSETS

As at 30 June 2016 and 31 December 2015, this balance is analysed as follows:

(thousands of euro)

	Cost (1)	Fair value reserve		Impairment	Book value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by public entities	306 631	13	(4 093)	-	302 551
Issued by other entities	273 644	1 355	(5 928)	(16 542)	252 529
Shares	14 527	54	-	(8 222)	6 359
Other variable income securities	30 346	1 307	(1 887)	(7 067)	22 699
Balance as at 30 June 2016	**625 148**	**2 729**	**(11 908)**	**(31 831)**	**584 138**
Bonds and other fixed income securities					
Issued by public entities	194 553	28	(7 899)	-	186 682
Issued by other entities	279 134	159	(14 451)	(11 683)	253 159
Shares	14 162	166	-	(7 806)	6 522
Other variable income securities	29 779	955	(1 847)	(6 939)	21 948
Balance as at 31 December 2015	**517 628**	**1 308**	**(24 197)**	**(26 428)**	**468 311**

(1) Acquisition cost relating to shares and amortised cost relating to debt securities.

In accordance with the accounting policy described in Note 2.6, the Group assesses periodically whether there is objective evidence of impairment on the available for sale financial assets, following the judgment criteria's described in Note 3.1.

The changes occurred in impairment losses of available for sale financial assets are presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015	31.12.2015
Opening balance	26 428	27 627	30 768
Charge for the period	3 938	1 757	1 086
Charge off	-	(1 410)	(4 264)
Write back for the period	-	(497)	-
Exchange differences and other	1 465	(1 049)	37
Closing balance	**31 831**	**26 428**	**27 627**

The balance Available for sale Financial Assets includes euro 179 497 thousand of securities pledged as collateral by the Group (31 December 2015: euro 100 224 thousand).

As at 30 June 2016 and 31 December 2015, the analysis of available for sale assets by maturity is presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Up to 3 months	147 029	150 608
3 to 12 months	269 451	16 488
1 to 5 years	78 165	214 804
More than 5 years	60 435	57 941
Undetermined	29 058	28 470
	584 138	**468 311**

As at 30 June 2016 and 31 December 2015, the exposure to public debt from peripheral Eurozone countries is analysed in Note 40.

NOTE 19 – LOANS AND ADVANCES TO BANK

This balance as at 30 June 2016 and 31 December 2015 is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Loans and advances to banks in Portugal		
Sales with repurchase agreements	119 990	39 976
	119 990	**39 976**
Loans and advances to banks abroad		
Deposits	3 450	1 008
Sales with repurchase agreements	546 782	190 602
Very short term deposits	19 332	2 219
Other loans and advances	64 388	40 387
	633 952	**234 216**
	753 942	**274 192**
Impairment losses	(15 396)	(15 397)
	738 546	**258 795**

As at 30 June 2016 and 31 December 2015, the analysis of loans and advances to banks by maturity is presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Up to 3 months	644 472	192 221
3 to 12 months	109 411	81 971
1 to 5 years	59	-
	753 942	**274 192**

The changes occurred during the period in impairment losses of loans and advances to banks are presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015	30.06.2015
Opening balance	15 397	15 386	15 216
Charge for the period	5	3	146
Exchange differences and other	(6)	8	24
Closing balance	**15 396**	**15 397**	**15 386**

NOTE 20 – LOANS AND ADVANCES TO CUSTOMERS

This balance as at 30 June 2016 and 31 December 2015 is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Domestic loans		
Corporate		
Commercial lines of credit	-	50
Loans	368 414	410 939
Other loans	1 974	45 894
Retail		
Mortgage loans	340	358
	370 728	**457 241**
Foreign loans		
Corporate		
Loans	712 934	692 156
With repurchase agreements	36 544	-
Other loans	4 108	5 176
Retail		
Other loans	29	34
	753 615	**697 366**
Overdue loans and interest		
Up to 90 days	846	25 993
More than 90 days	187 093	189 407
	187 939	**215 400**
	1 312 282	**1 370 007**
Impairment losses	(272 154)	(328 666)
	1 040 128	**1 041 341**

As at 30 June 2016 and 31 December 2015, the analysis of loans and advances to customers by maturity is presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Up to 3 months	188 617	83 584
3 to 12 months	65 758	178 840
1 to 5 years	230 180	266 304
More than 5 years	639 788	625 879
Undetermined	187 939	215 400
	1 312 282	**1 370 007**

The movements occurred in impairment losses of loans and advances to customers are presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015	30.06.2015
Opening balance	328 666	280 587	283 780
Charge for the period	72 252	64 873	61 069
Charge off	(64 582)	(3 538)	(11 249)
Write back for the period	(66 809)	(12 528)	(53 183)
Transfers	-	1 116	-
Exchange differences and other	2 627	(1 844)	170
Closing balance	**272 154**	**328 666**	**280 587**

As at 30 June 2016 and 31 December 2015 the detail of impairment is presented as follows:

(thousands of euro)

	30.06.2016						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		Total		
	Credit Value	Impairment	Credit Value	Impairment	Credit Value	Impairment	Net Loans Impairment
Corporate loans	511 308	268 084	800 605	4 068	1 311 913	272 152	1 039 761
Mortgage loans	-	-	340	2	340	2	338
Consumers loans - other	-	-	29	-	29	-	29
Total	**511 308**	**268 084**	**800 974**	**4 070**	**1 312 282**	**272 154**	**1 040 128**

(thousands of euro)

	31.12.2015						
	Loans with impairment losses calculated on an individual basis		Loans with impairment losses calculated on a portfolio basis		Total		
	Credit Value	Impairment	Credit Value	Impairment	Credit Value	Impairment	Net Loans Impairment
Corporate loans	565 608	318 158	804 007	10 503	1 369 615	328 661	1 040 954
Mortgage loans	-	-	358	5	358	5	353
Consumers loans - other	-	-	34	-	34	-	34
Total	**565 608**	**318 158**	**804 399**	**10 508**	**1 370 007**	**328 666**	**1 041 341**

The Group carries out a renegotiation of a loan in order to maximize its recovery. A loan is renegotiated in accordance with selective criteria, based on the analysis of the overdue circumstances or when there is a high risk that the loan will became overdue, and the client has made a reasonable effort to fulfil the contractual conditions previously agreed and is expected to have the capacity to meet the new terms agreed. The renegotiation normally includes the maturity extension, changes in the payment dates defined and / or amendment of the contracts' covenants. Whenever possible, the renegotiation includes obtaining new collaterals. The renegotiated loans are still subject to an impairment analysis resulting from the revaluation of the new expected cash flows, based in the new contract terms, updated at the original effective interest rate and taking into account the new collaterals.

The Group requires that some credit operations be collateralised, in order to mitigate credit risk. The more common types of collateral held are mortgages and securities. The fair value of these collaterals is determined at the date the loan is advanced to customers, being periodically updated.

The collateral received regarding credit operations can be analysed as follows:

(thousands of euro)

	30.06.2016		31.12.2015	
	Book Value	Fair Value collateral	Book Value	Fair Value collateral
Mortgage loans				
Mortgages	373	1 219	358	1 219
	373	**1 219**	**358**	**1 219**
Consumers loans				
Not collateralised	29	-	33	-
	29	**-**	**33**	**-**
Corporate loans				
Mortgages	115 842	52 752	118 573	57 666
Pawns	13 971	11 426	13 318	8 325
Not collateralised	1 182 067	-	1 237 725	-
	1 311 880	**64 178**	**1 369 616**	**65 991**
Total	**1 312 282**	**65 397**	**1 370 007**	**67 210**

As at 30 June 2016 and 31 December 2015, the exposure and impairment detail is as follows:

(thousands of euro)

	Exposure 30.06.2016						Impairment 30.06.2016		
Segment	Total exposure	**Performing loans**	of which cured credit	of which restructured	**Non-performing loans**	of which restructured	Total impairment	**Performing loans**	**Non-performing loans**
Project Finance	801 122	624 703	-	147 782	176 419	176 422	(67 523)	(3 845)	(63 678)
Aquisition Finance	471 616	305 917	-	201 352	165 699	165 699	(204 436)	(91 140)	(113 296)
Others	39 544	39 544	-	-	-	-	(195)	(195)	-
Total	**1 312 282**	**970 164**	**-**	**349 134**	**342 118**	**342 121**	**(272 154)**	**(95 180)**	**(176 974)**

(thousands of euro)

	Exposure 31.12.2015						Impairment 31.12.2015		
Segment	Total exposure	**Performing loans**	of which cured credit	of which restructured	**Non-performing loans**	of which restructured	Total impairment	**Performing loans**	**Non-performing loans**
Project Finance	823 565	635 806	-	154 063	187 759	176 801	(67 283)	(3 665)	(63 618)
Aquisition Finance	543 517	308 927	-	194 081	234 590	234 590	(261 371)	(109 598)	(151 773)
Others	2 925	2 925	-	-	-	-	(12)	(12)	-
Total	**1 370 007**	**947 658**	**-**	**348 144**	**422 349**	**411 391**	**(328 666)**	**(113 275)**	**(215 391)**

As at 30 June 2016 and 31 December 2015, the exposures and impairment detail by ageing is as follows:

(thousands of euro)

Segment	Total exposure 30.06.2016	Total exposure 30.06.2016				
		Performing loans			Non-performing loans	
		Overdue days <30				
		Without evidence	With evidence	Sub-total	Overdue days <=90*	Overdue days >90
Project Finance	801 122	439 043	185 660	624 703	27 989	148 430
Aquisition Finance	471 616	76 989	228 928	305 917	-	165 699
Others	39 544	39 544	-	39 544	-	-
Total	**1 312 282**	**555 576**	**414 588**	**970 164**	**27 989**	**314 129**

(thousands of euro)

Segment	Total exposure 31.12.2015	Total exposure 31.12.2015				
		Performing loans			Non-performing loans	
		Overdue days <30				
		Without evidence	With evidence	Sub-total	Overdue days <=90*	Overdue days >90
Project Finance	823 565	454 051	181 755	635 806	28 788	158 971
Aquisition Finance	543 517	78 505	230 422	308 927	30 590	204 000
Others	2 925	2 925	-	2 925	-	-
Total	**1 370 007**	**535 481**	**412 177**	**947 658**	**59 378**	**362 971**

(thousands of euro)

Segment	Total impairment 30.06.2016	Total impairment 30.06.2016			
		Performing loans		Non-performing loans	
		Overdue days <30	Overdue days between 30 - 90	Overdue days <=90*	Overdue days >90
Project Finance	(67 523)	(2 198)	(1 647)	(140)	(63 538)
Aquisition Finance	(204 436)	(387)	(90 753)	-	(113 296)
Others	(195)	(195)	-	-	-
Total	**(272 154)**	**(2 780)**	**(92 400)**	**(140)**	**(176 834)**

*Loans with principal or interest overdue under 90 days but with credit risk evidence that justifies its classification as credit risk bankruptcy, liquidation process or other.

(thousands of euro)

Segment	Total impairment 31.12.2015	Total impairment 31.12.2015			
		Performing loans		Non-performing loans	
		Overdue days <30	Overdue days between 30 - 90	Overdue days <=90*	Overdue days >90
Project Finance	(67 283)	(2 271)	(1 394)	(168)	(63 450)
Aquisition Finance	(261 371)	(393)	(109 205)	(5 349)	(146 424)
Others	(12)	(12)	-	-	-
Total	**(328 666)**	**(2 676)**	**(110 599)**	**(5 517)**	**(209 874)**

*Loans with principal or interest overdue under 90 days but with credit risk evidence that justifies its classification as credit risk bankruptcy, liquidation process or other.

At 30 June 2016, the credit exposure and its impairment losses by year of production, is as follows:

(thousands of euro)

	Project Finance			Aquisition Finance			Others		
Year of origination	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment	Number of operations	Amount	Allocated impairment
up to 2004	14	206 832	(30 583)	4	2 345	(13)	3	403	(1)
2005	4	62 377	(24 100)	-	-	-	-	-	-
2006	15	124 868	(9 944)	8	23 955	(11 449)	-	-	-
2007	8	60 539	(712)	3	50 738	(46 757)	-	-	-
2008	4	21 127	(106)	5	32 695	(18 445)	-	-	-
2009	8	21 515	(108)	1	16 493	(82)	1	492	-
2010	12	64 135	(321)	7	11 458	(4 731)	1	2 105	(11)
2011	10	20 509	(103)	16	51 903	(32 959)	-	-	-
2012	1	283	(140)	12	46 064	(21 688)	-	-	-
2013	41	30 776	(198)	16	49 525	(12 820)	-	-	-
2014	15	12 929	(86)	26	55 429	(7 988)	-	-	-
2015	21	149 563	(994)	29	90 407	(44 367)	-	-	-
2016	6	25 669	(128)	17	40 604	(3 137)	6	36 544	(183)
Total	**159**	**801 122**	**(67 523)**	**144**	**471 616**	**(204 436)**	**11**	**39 544**	**(195)**

Following, is detailed the gross loans exposure and impairment for 30 June 2016 and 31 December 2015 by segment, sector and geography:

a) by segment

(thousands of euro)

	30.06.2016							
	Project Finance		Aquisition Finance		Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	177 427	(64 405)	320 501	(203 651)	492	-	498 420	(268 056)
Collective	623 695	(3 118)	151 115	(785)	39 052	(195)	813 862	(4 098)
Total	**801 122**	**(67 523)**	**471 616**	**(204 436)**	**39 544**	**(195)**	**1 312 282**	**(272 154)**

(thousands of euro)

	31.12.2015							
	Project Finance		Aquisition Finance		Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Individual	185 055	(64 090)	407 459	(260 691)	518	-	593 032	(324 781)
Collective	638 510	(3 193)	136 058	(680)	2 407	(12)	776 975	(3 885)
Total	**823 565**	**(67 283)**	**543 517**	**(261 371)**	**2 925**	**(12)**	**1 370 007**	**(328 666)**

b) by activity sector

(thousands of euro)

	30.06.2016				31.12.2015			
	Evaluation				Evaluation			
	Individual		Collective		Individual		Collective	
Activity sector	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Financial activities	122 465	(100 468)	113 206	(566)	121 380	(97 055)	27 705	(139)
Construction	62 419	(19 107)	131 761	(660)	57 189	(19 089)	139 721	(699)
Energy	25 369	(11 549)	190 226	(951)	25 915	(11 390)	241 906	(1 210)
Transport infrastructures	4 200	(42)	71 844	(359)	23 765	(4 790)	173 106	(864)
Transport and comunication	25 796	(1 169)	21 387	(107)	25 088	(1 088)	28 609	(143)
Other manufacturing industries	34 222	(8 535)	40 704	(232)	55 392	(13 653)	34 176	(171)
Real estate activities	29 602	(19 710)	13 456	(67)	63 176	(50 639)	12 784	(64)
Services	110 867	(54 000)	124 540	(623)	126 438	(74 670)	13 832	(69)
Commerce	37 810	(18 787)	29 972	(150)	50 490	(18 829)	33 024	(165)
Other activities	45 670	(34 689)	76 766	(383)	44 199	(33 578)	72 112	(361)
Total	**498 420**	**(268 056)**	**813 862**	**(4 098)**	**593 032**	**(324 781)**	**776 975**	**(3 885)**

c) by geography

(thousands of euro)

	30.06.2016				31.12.2015			
	Evaluation				Evaluation			
	Individual		Collective		Individual		Collective	
Geografy	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Portugal	227 204	(112 155)	344 957	(1 724)	244 959	(108 044)	337 938	(1 690)
Spain	230 273	(141 824)	167 354	(838)	296 049	(204 439)	171 334	(857)
Brazil	36 749	(10 339)	145 122	(754)	46 470	(8 434)	138 860	(694)
Mexico	-	-	-	-	-	-	54 681	(273)
United States of America	-	-	83 394	(417)	-	-	38 413	(192)
United Kingdon	-	-	28 205	(141)	33	-	28 233	(141)
Poland	4 194	(3 738)	44 830	(224)	5 521	(3 864)	7 516	(38)
Total	**498 420**	**(268 056)**	**813 862**	**(4 098)**	**593 032**	**(324 781)**	**776 975**	**(3 885)**

The following chart includes the entrances and the exits of the restructured loans portofolio:

(thousands of euro)

	30.06.2016	31.12.2015
Opening balance	759 535	774 323
Restructured loans in the period	-	135 527
Accrued interests of the restructured portofolio	(20)	(3 250)
Settlement restructured credits (partial or total)	(82 632)	(150 298)
Credit sales	-	(36 137)
Others	14 372	39 370
Balance at the end of the period	**691 255**	**759 535**

Haitong Bank uses an internal rating system in order to assist the monitoring of the credit risk.

	30.06.2016	31.12.2015
[aaa; a-]	1%	1%
[bbb+; bbb-]	10%	10%
[bb+; bb-]	33%	37%
[b+; b-]	43%	44%
[ccc+; lccc]	13%	8%

Note: In percentage of non-default rated portofolio

NOTE 21 – DERIVATIVES FOR RISK MANAGEMENT PURPOSES

As at 30 June 2016 and 31 December 2015, the fair value of the hedging derivatives can be analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Derivatives for risk management purposes (assets)		
Interest rate contracts	16 486	8 624
Equity / Index contracts	973	847
Other contracts	3 790	5 765
	21 249	**15 236**
Derivatives for risk management purposes (liabilities)		
Interest rate contracts	15 574	10 471
Equity / Index contracts	21 632	22 803
Other contracts	129 453	83 123
	166 659	**116 397**
	(145 410)	**(101 161)**

The balance Derivatives for risk management purposes includes hedging derivatives and derivatives contracted with the purpose of managing the risk of certain financial assets and liabilities designated at fair value through profit or loss (and that were not classified as hedging derivatives).

Other derivatives for risk management

Other derivatives for risk management purposes includes derivatives held to hedge assets and liabilities at fair value through profit or loss in accordance with the accounting policies described in Notes 2.4, 2.6 and 2.8 and that the Group did not classified as hedging derivatives.

The fair value hedge operations as at 30 June 2016 and 31 December 2015 and accounted to this purpose can be analysed as follows:

(thousands of euro)

30.06.2016									
Financial liabilities	Derivative	Derivative				Liabilities associated			
		Notional		Fair value	Changes in fair value during the period	Fair value	Changes in fair value during the period	Book Value	Reimbursement amount at maturity date
		Sell	Buy						
Debt securities issued	Credit Default Swap	369 212	-	(125 727)	10 973	(68 505)	156 886	340	251 259
Debt securities issued	Equity Swap	118 169	118 169	(20 659)	8 172	(6 665)	20 353	2 636	92 970
Debt securities issued	Interest Swap	174 460	175 534	912	3 108	(219)	32	1 299	19 869
Debt securities issued	Equity Option	-	1 765	64	5	(857)	322	(695)	1 449
		661 841	**295 468**	**(145 410)**	**22 258**	**(76 246)**	**177 593**	**3 580**	**365 547**

(thousands of euro)

31.12.2015									
Financial liabilities	Derivative	Derivative				Liabilities associated			
		Notional		Fair value	Changes in fair value during the period	Fair value	Changes in fair value during the period	Book Value	Reimbursement amount at maturity date
		Sell	Buy						
Debt securities issued	Credit Default Swap	391 482	-	(78 437)	(78 990)	61 176	81 246	311 694	372 868
Debt securities issued	Equity Swap	135 872	135 872	(21 956)	(21 912)	17 697	7 434	111 734	129 431
Debt securities issued	Interest Swap	190 418	191 812	(1 848)	942	(1 640)	(103)	31 444	29 804
Debt securities issued	Fx Option	1 800	1 241	-	(81)	20	(47)	1 719	1 739
Debt securities issued	Equity Option	-	11 460	1 080	(18)	(819)	(662)	10 369	9 550
		719 572	**340 385**	**(101 161)**	**(100 059)**	**76 434**	**87 868**	**466 960**	**543 392**

As at 30 June 2016 and 31 December 2015, the analysis of derivatives for risk management purposes by maturity is as follows:

(thousands of euro)

	30.06.2015		
	Other derivatives for risk management purposes		
	Notional		Fair Value
	Sell	Buy	
Up to 3 months	13 675	2 515	(6 952)
3 to 12 months	61 288	44 344	(15 551)
1 to 5 years	549 558	245 184	(119 354)
More than 5 years	37 320	3 425	(3 553)
	661 841	**295 468**	**(145 410)**

(thousands of euro)

	31.12.2015		
	Other derivatives for risk management purposes		
	Notional		Fair Value
	Sell	Buy	
Up to 3 months	17 770	21 791	629
3 to 12 months	70 844	36 370	(10 411)
1 to 5 years	569 897	255 058	(90 514)
More than 5 years	61 061	27 166	(865)
	719 572	**340 385**	**(101 161)**

NOTE 22 – NON CURRENT ASSETS HELD FOR SALE

As at 30 June 2016 and 31 December 2015 this balance is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Subsidiaries acquired exclusively for resale purposes	3 600	3 600
	3 600	**3 600**

The amounts presented refer to investments in entities controlled by the Group, which have been acquired exclusively with the purpose of being sold in the short term.

NOTE 23 – OTHER TANGIBLE ASSETS

This balance as at 30 June 2016 and 31 December 2015 is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Property		
For own use	1 200	643
Improvements in leasehold property	13 130	12 769
	14 330	**13 412**
Equipment		
Computer equipment	14 146	13 816
Fixtures	3 768	4 001
Furniture	4 025	4 127
Machinery and tools	2 014	1 926
Motor vehicles	756	421
Security equipment	380	382
Other	163	147
	25 252	**24 820**
	39 582	**38 232**
Work in progress		
Improvements in leasehold property	37	37
Equipment	695	687
	732	**724**
	40 314	**38 956**
Accumulated depreciation	(27 724)	(26 792)
	12 590	**12 164**

The movement in this balance was as follows:

(thousands of euro)

	Property	Equipment	Work in progress	Total
Acquisition cost				
Balance as at 31 December 2014	**13 938**	**25 392**	**362**	**39 692**
Acquisitions	242	576	687	1 505
Disposals	(18)	(465)	-	(483)
Transfers	-	22	-	22
Exchange differences and other movements	(750)	(705)	(325)	(1 780)
Balance as at 31 December 2015	**13 412**	**24 820**	**724**	**38 956**
Acquisitions	1 244	1 273	485	3 002
Disposals	(642)	(769)	-	(1 411)
Transfers	66	(66)	-	-
Exchange differences and other movements	250	(6)	(477)	(233)
Balance as at 30 June 2016	**14 330**	**25 252**	**732**	**40 314**
Depreciations				
Balance as at 31 December 2014	**6 702**	**17 497**	**-**	**24 199**
Depreciation of the period	1 117	3 035	-	4 152
Disposals	(18)	(403)	-	(421)
Exchange differences and other movements	(701)	(437)	-	(1 138)
Balance as at 31 December 2015	**7 100**	**19 692**	-	**26 792**
Depreciation of the period	530	1 253	-	1 783
Disposals	(264)	(628)	-	(892)
Exchange differences and other movements	40	1	-	41
Balance as at 30 June 2016	**7 406**	**20 318**	**-**	**27 724**
Net book value as at 30 June 2016	**6 924**	**4 934**	**732**	**12 590**
Net book value as at 31 December 2015	**6 312**	**5 128**	**724**	**12 164**

NOTE 24 – INTANGIBLE ASSETS

This balance as at 30 June 2016 and 31 December 2015 is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Goodwill	59 259	65 064
Acquired to third parties		
Software	31 830	30 286
Other	916	916
	32 746	**31 202**
Work in progress	3 975	4 458
	95 980	**100 724**
Accumulated amortisation	(20 769)	(19 722)
Impairment losses	(1 013)	(722)
	(21 782)	**(20 444)**
	74 198	**80 280**

The movement in this balance was as follows:

(thousands of euro)

	Goodwill	Software	Other	Work in progress	Total
Acquisition cost					
Balance as at 31 December 2014	**64 032**	**26 309**	**916**	**6 033**	**97 290**
Acquisitions:					
Acquired from third parties	-	1 167	-	2 573	3 740
Disposals	-	(229)	-	-	(229)
Charge off	(1 751)	-	-	-	(1 751)
Transfers	-	3 098	-	(3 120)	(22)
Exchange differences	2 783	(59)	-	(1 028)	1 696
Balance as at 31 December 2015	**65 064**	**30 286**	**916**	**4 458**	**100 724**
Acquisitions:					
Acquired from third parties	-	252	-	770	1 022
Disposals	-	(18)	-	(91)	(109)
Transfers	-	1 616	-	(1 616)	-
Exchange differences	(5 805)	(306)	-	454	(5 657)
Balance as at 30 June 2016	**59 259**	**31 830**	**916**	**3 975**	**95 980**
Amortizations					
Balance as at 31 December 2014	**-**	**16 660**	**916**	**-**	**17 576**
Amortisations of the period	-	2 458	-	-	2 458
Disposals	-	(255)	-	-	(255)
Exchange differences and other movements	-	(57)	-	-	(57)
Balance as at 31 December 2015	**-**	**18 806**	**916**	**-**	**19 722**
Amortisations of the period	-	1 301	-	-	1 301
Disposals	-	(18)	-	-	(18)
Exchange differences and other movements	-	(236)	-	-	(236)
Balance as at 30 June 2016	**-**	**19 853**	**916**	**-**	**20 769**
Impairment					
Balance as at 31 December 2014	**2 318**	**-**	**-**	**-**	**2 318**
Impairment losses	281	-	-	-	281
Reversals	(1 751)	-	-	-	(1 751)
Exchange differences	(126)	-	-	-	(126)
Balance as at 31 December 2015	**722**	**-**	**-**	**-**	**722**
Impairment losses	126	-	-	-	126
Exchange differences	165	-	-	-	165
Balance as at 30 June 2016	**1 013**	**-**	**-**	**-**	**1 013**
Net book value as at 30 June 2016	**58 246**	**11 977**	**-**	**3 975**	**74 198**
Net book value as at 31 December 2015	**64 342**	**11 480**	**-**	**4 458**	**80 280**

NOTE 25 – INVESTMENTS IN ASSOCIATES

The financial information concerning associates is presented in the following table:

(thousands of euro)

	Assets		Liabilities		Equity		Profits		Net profit / (loss) for the period	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Fundo Espírito Santo IBERIA I	8 400	12 606	112	134	8 288	12 472	-	618	1 237	(17)
Salgar Investments	47 392	43 509	15 236	11 951	32 156	31 558	17 989	17 213	1 151	457

(thousands of euro)

	Participation cost		% held		Book Value		Share of profits of associates	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Fundo Espírito Santo IBERIA	5 272	6 845	46%	46%	4 146	6 068	568	(8)
2bCapital Luxembourg Sicar	-	-	-	-	-	-	-	(184)
Salgar Investments	8 173	8 173	25%	25%	8 173	8 173	-	-
Other	1 237	1 238	-	-	1 871	1 906	(35)	(269)
	14 682	**16 256**			**14 190**	**16 147**	**533**	**(461)**
Impairment					**(5 697)**	**(5 804)**		
					8 493	**10 343**		

The movement in this balance was as follows:

(thousands of euro)

	30.06.2016	31.12.2015	31.12.2015
Opening balance	10 343	26 493	26 878
Disposals and other reimbursements	(1 573)	(15 738)	-
Share of profit of associates	533	(682)	(461)
Other comprehensive income from associates	(916)	270	76
Impairment of the period	106	-	-
Closing balance	**8 493**	**10 343**	**26 493**

NOTE 26 – OTHER ASSETS

As at 30 June 2016 and 31 December 2015, the other assets balance is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Debtors		
Collateral deposits placed	343 136	286 541
Loans to companies in which the Group has a non-controlling interest	205	205
Public sector	36 856	28 491
Deposits placed with futures contracts	11 631	17 051
Other sundry debtors	46 704	39 789
	438 532	372 077
Impairment losses on debtors	(10 923)	(13 107)
	427 609	**358 970**
Other assets		
Gold, other precious metals, numismatics, and other liquid assets	4 713	6 963
Other assets	6 180	5 880
	10 893	**12 843**
Accrued income	**262**	**298**
Prepayments and deferred costs	**6 133**	**6 006**
Other sundry assets		
Foreign exchange transactions pending settlement	1 870	5 383
Stock exchange transactions pending settlement	107 252	225 328
Other transactions pending settlement	71 576	20 616
	180 698	**251 327**
	625 595	**629 444**

The stock exchange transactions pending settlement refer to transactions with securities, recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.6.

The movements occurred in impairment losses on debtors are presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015	30.06.2015
Opening balance	13 107	14 518	15 701
Charge for the period	2 551	2 436	8 617
Charge off	(49)	(577)	(169)
Write back for the period	(4 869)	(1 945)	(9 613)
Transfers	-	(1 116)	-
Exchange differences and other	183	(209)	(18)
Closing balance	**10 923**	**13 107**	**14 518**

NOTE 27 – DEPOSITS FROM CENTRAL BANKS

This balance includes a money market operation with the Bank of Portugal, in the amount of euro 60 000 thousand (31 December 2015: 61 100 thousand) and without accrued interest (31 December 2015: 39 thousand) with maturity in September 2018.

NOTE 28 – DEPOSITS FROM OTHER BANKS

The balance deposits from other banks is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Domestic		
Deposits	15 066	337
Repurchase agreements	12 955	15 215
	28 021	**15 552**
Foreign		
Deposits	30	30
Loans	888 500	750 000
Repurchase agreements	695 642	805 057
Other funds	70 462	61 883
	1 654 634	**1 616 970**
	1 682 655	**1 632 522**

As at 30 June 2016 and 31 December 2015 the analysis of deposits from banks by maturity is presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Up to 3 months	685 297	807 178
3 to 12 months	51	-
1 to 5 years	936 968	770 970
More than 5 years	60 339	54 374
	1 682 655	**1 632 522**

NOTE 29 – DEPOSITS AND OTHER RESOURCES FROM CUSTOMERS

The balance Deposits and other resources from customers analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Repayable on demand		
Demand deposits	21 051	9 349
Time deposits		
Time deposits	643 286	426 845
Other funds		
Repurchase agreements	71 063	128 868
Loans	-	486
Other deposits	1 251	1 291
Other	172	199
	72 486	**130 844**
	736 823	**567 038**

As at 30 June 2016 and 31 December 2015, the analysis of deposits and other resources from customers, by maturity, is as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Repayable on demand	21 223	9 548
With agreed maturity		
Up to 3 months	260 704	228 236
3 to 12 months	278 350	218 649
1 to 5 years	176 546	110 605
	715 600	557 490
	736 823	**567 038**

NOTE 30 – DEBT SECURITIES ISSUED

The balance debt securities issued is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Euro Medium Term Notes	367 619	483 238
Other bonds	23 778	64 028
	391 397	**547 266**

The fair value of the portfolio of Debt securities issued is presented on Note 39.

During the first half 2016, the Haitong Bank Group issued debt securities amounting to euro 27 345 thousand (31 December 2015: euro 115 777 thousand) and reimbursed euro 127 025 thousand (31 December 2015: euro 547 980 thousand).

The analysis of debt securities issued by maturity, as at 30 June 2016 and 31 December 2015, is presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Up to 3 months	19 257	32 548
3 to 12 months	45 331	109 010
1 to 5 years	292 355	339 706
More than 5 years	34 454	66 002
	391 397	**547 266**

The main characteristics of these debt securities issued in the first semester of 2015 are presented as follows:

(thousands of euro)

Issuer	Designation		30.06.2016 Currency	Issue Date	Book Value	Maturity	Interest Rate
HT_BR	COE BRINTLOE0007		BRL	2016	131	2016	PRÉ 14,95%
HT_BR	COE BRINTLOE0015		BRL	2016	129	2016	PRÉ 15,21%
HT_BR	COE BRINTLOE0023		BRL	2016	366	2016	PRÉ 14,78%
HT_BR	COE BRINTLOE0031		BRL	2016	197	2017	PRÉ 14,80%
HT_BR	COE BRINTLOE0049		BRL	2016	155	2016	PRÉ 14,60%
HT_BR	COE BRINTLOE0056		BRL	2016	305	2016	PRÉ 14,66%
HT_BR	COE BRINTLOE0064		BRL	2016	375	2017	PRÉ 14,57%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CI7		BRL	2016	9	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CM9		BRL	2016	193	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CN7		BRL	2016	26	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CQ0		BRL	2016	48	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CR8		BRL	2016	65	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CS6		BRL	2016	74	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CU2		BRL	2016	59	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CV0		BRL	2016	232	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CX6		BRL	2016	146	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2CZ1		BRL	2016	198	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D07		BRL	2016	67	2016	CDI 91%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D15		BRL	2016	286	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D23		BRL	2016	67	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D31		BRL	2016	73	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D49		BRL	2016	82	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D54		BRL	2016	765	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D56		BRL	2016	144	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D64		BRL	2016	24	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D72		BRL	2016	53	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D80		BRL	2016	67	2016	CDI 93%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2D98		BRL	2016	67	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DA2		BRL	2016	310	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DB0		BRL	2016	332	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DC8		BRL	2016	32	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DD6		BRL	2016	175	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DE4		BRL	2016	55	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DF1		BRL	2016	41	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DG9		BRL	2016	15	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DH7		BRL	2016	33	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DI5		BRL	2016	110	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DJ3		BRL	2016	37	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DK1		BRL	2016	58	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DL9		BRL	2016	29	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DM7		BRL	2016	38	2016	CDI 90%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DN5		BRL	2016	44	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DO3		BRL	2016	81	2016	CDI 88%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DP0		BRL	2016	505	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DQ8		BRL	2016	68	2016	CDI 91%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DR6		BRL	2016	140	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DT2		BRL	2016	52	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DU0		BRL	2016	79	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DV8		BRL	2016	200	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DW6		BRL	2016	1 075	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DX4		BRL	2016	15	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DY2		BRL	2016	53	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2DZ9		BRL	2016	64	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E06		BRL	2016	159	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E14		BRL	2016	458	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E22		BRL	2016	15	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E30		BRL	2016	28	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E48		BRL	2016	131	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E55		BRL	2016	598	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E63		BRL	2016	13	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E71		BRL	2016	29	2016	CDI 91%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E89		BRL	2016	67	2016	CDI 91%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2E97		BRL	2016	754	2016	CDI 89%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EA0		BRL	2016	67	2016	CDI 91%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EB8		BRL	2016	67	2016	CDI 92%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EC6		BRL	2016	103	2016	CDI 94%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2ED4		BRL	2016	29	2016	CDI 91%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EE2		BRL	2016	40	2016	CDI 94%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EF9		BRL	2016	29	2016	CDI 91%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EG7		BRL	2016	32	2016	CDI 91%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EH5		BRL	2016	80	2016	CDI 94%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EI3		BRL	2016	14	2016	CDI 91%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EJ1		BRL	2016	76	2016	CDI 94%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EK9		BRL	2016	87	2016	CDI 91,5%
HT_BR	LCA RES 4410 LCA NOVA RES 4410 BRINTLLA2EL7		BRL	2016	173	2016	CDI 93%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1Q2		BRL	2016	560	2018	CDI 113%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO LF00160079T		BRL	2016	697	2018	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI1O7		BRL	2016	285	2018	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI1P4		BRL	2016	102	2018	CDI 114%
HTI PLC	HIIP CLN BASKET JUN2019 (MTN-S-897)	a)	USD	2016	1 729	2019	4.5% + CLN Republic Brazil
HTI PLC	HIIP CLN BRASIL DEC2018 (MTN-S-891)	a)	EUR	2016	5 298	2018	Crude Oil
HTI PLC	HIIP CLN MITTAL DEC2020 (MTN-S-895)	a)	EUR	2016	706	2020	9.70% + CLN ArcelorMittal
HTI PLC	HIIP CRUDE OIL FEB2019 (MTN-S-893)	a)	EUR	2016	4 480	2019	Crude Oil
HTI PLC	HIIP CRUDE OIL MAR2019 (MTN-S-894)	a)	EUR	2016	1 499	2019	Crude Oil
HTI PLC	HIIP CRUDE OIL USD MAR2019 (MTN-S-896)	a)	USD	2016	896	2019	a)
					27 345		

a) Liabilities at fair value through profit and loss or with embedded derivatives.

NOTE 31 – PROVISIONS

As at 30 June 2016, 31 December 2015 and 30 June 2015 the balance Provisions presents the following movements:

(thousands of euro)

	Provisions for other risks and charges	General banking risk provisions	TOTAL
Balance as at 1 January 2015	**43 493**	**2 932**	**46 425**
Charge of the period	1 464	594	2 058
Charge off	(4 299)	-	(4 299)
Reversals	(279)	-	(279)
Exchange differences and other	(1 132)	(236)	(1 368)
Balance as at 30 June 2015	**39 247**	**3 290**	**42 537**
Charge of the period	620	2 113	2 733
Charge off	753	-	753
Reversals	(27 655)	(494)	(28 149)
Exchange differences and other	(9 056)	(275)	(9 331)
Balance as at 31 December 2015	**3 909**	**4 634**	**8 543**
Charge of the period	1 059	(3 310)	(2 251)
Reversals	(1 059)	(741)	(1 800)
Exchange differences and other	527	206	733
Balance as at 30 June 2016	**4 436**	**789**	**5 225**

These provisions are intended to cover certain contingencies related to the Group activities, including contingencies related to ongoing tax processes.

The other moviments in the capitation Provisions for other risks and charges relate primarily to corrections in the value of derivatives held for trading that, in 31 December 2015, are presented in Financial assets held for trading.

NOTE 32 – TAXES

The Bank and its subsidiaries domiciled in Portugal are subject to taxation in accordance with the corporate income tax code (IRC) and to local taxes.

Income taxes (current or deferred) are recognised in the income statement except in cases where the underlying transactions have been reflected in equity items. In these situations, the corresponding tax is also charged to equity, not affecting the net result for the period.

The current tax of the first half 2016 and the period 2015 was calculated based on a nominal corporate income tax rate (“IRC”) and Municipal surcharge of 22.5%, in accordance with Law no. 82-B/2014, of 31 December, and Law no. 2/2007, of 15 January, plus an additional fee of 2.5%, referring to an average rate which results from the application of the State surcharge tiers, in accordance with Law no. 2/2014, of 10 January.

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date.

For the purposes of calculating the current tax for the six months period ended 30 the June 2015 and the period ended 31 December 2015, the Decree-Law no. 127/2012, of 31 December, which regulates the transfer to the Social Security system of responsibility for the expenses incurred with retirement and survival pensions of retired employees and pensioners, was taken into account. This Decree-Law, together with Article no. 183 of Law no.64-B/2011, of 30 December (2012 State Budget Law), established a special regime for tax deduction of expenses and other equity changes resulting from that transfer:

- The impact from the negative equity change associated to the change in the accounting policy relating to the recognition of previously deferred actuarial gains and losses will be fully deductible, in equal parts, for 10 years from the period beginning 1 January 2012.
- The impact resulting from liquidation (determined by the difference between liabilities as measured in accordance with the criteria of IAS 19 and the criteria defined in the agreement) will be fully deductible for the purposes of determining taxable income, in equal parts, based on the average number of years of life expectancy for pensioners whose liabilities have been transferred (17 years), from the period beginning 1 January 2012.

Deferred tax assets resulting from the transfer of liabilities and from the change in the accounting policy relating to the recognition of non-recoverable actuarial gains/losses are recoverable within 10 and 17 years.

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date. Therefore, for the periods 2015 and 2014, deferred tax was calculated using a 27.7%, which corresponds to the estimated rate of deferred tax assets recovery, considering the decline of income tax rate to 21%, according to State Budget Law for 2015, approved by Law no. 82-B/2014, of 31 December.

The Portuguese Tax Authorities are entitled to review the annual tax return of the Group and its subsidiaries domiciled in Portugal, referring to 2016 period and predecessors, for a period of four years, or six years in case of tax losses. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Bank's Board of Directors is confident that there will be no material differences arising from tax assessments within the context of the consolidated financial statements.

The activity of branches abroad is incorporated in the Bank's accounts for determining the taxable profit. Although, the profit of those branches is subject to taxation in the countries where they are established, local taxes are deductible to the taxes to be paid in Portugal, in accordance with art. 91º of "Código do IRC", when applicable. The branches' profits are subject to local taxation at the following nominal rates:

Branch	Nominal tax rate
London	20%
Madrid	25%
Warsaw	19%
New York	45,95%

The subsidiaries abroad, including those located in Brazil, Ireland and India, are subject to tax on their profits under the terms established in the tax rules in force in their countries. For Ireland, the profits obtained there are subject to a nominal rate of 12.5%, and in companies located in Brazil profits are subject to nominal rates situated between 34% and 45%. In India, profits are taxed at a nominal rate of 32.45%.

The deferred tax assets and liabilities recognised in the statement of financial position as at 30 June 2016 and 31 December 2015 can be analysed as follows:

(thousands of euro)

	Assets		Liabilities		Net	
	30.06.2016	31.12.2015	30.06.2016	31.12.2015	30.06.2016	31.12.2015
Derivative financial instruments	-	9 754	(6 438)	-	(6 438)	9 754
Financial assets available for sale	3 213	9 234	(236)	(160)	2 977	9 074
Loans and advances to customers	90 637	91 319	-	-	90 637	91 319
Provisions	4 925	2 274	-	-	4 925	2 274
Pensions	8 851	8 544	(3)	(3)	8 848	8 541
Other	-	414	(700)	(565)	(700)	(151)
Tax credits resulting from double taxation	412	412	-	-	412	412
Tax losses carried forward	27 631	18 489	-	-	27 631	18 489
Deferred tax asset / (liability)	**135 669**	**140 440**	**(7 377)**	**(728)**	**128 292**	**139 712**
Assets / liabilities compensation for deferred taxes	(3 530)	(534)	3 530	534	-	-
Deferred tax asset / (liability) net	**132 139**	**139 906**	**(3 847)**	**(194)**	**128 292**	**139 712**

The Group assessed the recoverability of its deferred taxes recorded in the balance sheet, based on the expectation for future taxable income.

The Group does not recognise deferred tax assets relating to reportable tax losses incurred by certain subsidiaries, because it is not expectable that they will be recovered in the near future.

The movements in deferred taxes, in the balance sheet, had the following impacts:

(thousands of euro)

	30.06.2016	31.12.2015	30.06.2015
Opening balance	139 712	109 149	96 696
Recognised in the income statement	(6 558)	39 368	2 361
Recognised in fair value reserve	(4 896)	1 174	235
Recognised in other reserves	-	2 903	-
Exchange differences and other	34	(12 882)	9 857
Closing balance (Assets/(Liabilities)	**128 292**	**139 712**	**109 149**

The deferred tax recognised in the income statement and reserves, during the six months period 2016 and 2015, is analysed as follows:

(thousands of euro)

	30.06.2016		30.06.2015	
	Recognised in (profit) /loss	Recognised in reserves	Recognised in (profit) /loss	Recognised in reserves
Deferred Taxes				
Derivative financial instruments	16 191	-	(11 025)	-
Financial assets available for sale	-	4 896	-	(235)
Loans and advances to customers	682	-	1 919	-
Provisions	(1 028)	-	(1 247)	-
Pensions	(307)	-	4	-
Other	162	-	11 116	-
Tax credits resulting from double taxation	-	-	(2 320)	-
Tax losses carried forward	(9 142)	-	(808)	-
	6 558	4 896	(2 361)	(235)
Current Taxes	(5 041)	-	4 410	-
Total recognised taxes	**1 517**	**4 896**	**2 049**	**(235)**

The reconciliation of the income tax rate can be analysed as follows:

(thousands of euro)

	30.06.2016		31.12.2015	
	%	Amount	%	Amount
Profit before taxes and non-controlling interest		**(18 795)**		**2 356**
Haitong Bank tax rate	27.7		27.7	
Income tax calculated based on the Haitong Bank tax rate		(5 206)		653
Difference on the subsidiaries statutory tax rates	(10.1)	1 903	23.1	545
Tax-exempt dividends	2.3	(429)	0.8	18
Profits in units with most favorable tax regimes	0.2	(31)	(31.0)	(731)
Non-taxable capital gains	1.1	(204)	0.4	9
Tax of profit in branches	0.8	(146)	0.0	-
tax losses generated in the year	(31.4)	5 908	125.6	2 960
Tax benefits	0.5	(89)	(5.1)	(121)
Non deductible costs	(3.1)	586	14.2	334
Other	4.1	(775)	(68.7)	(1 618)
	(7.9)	**1 517**	**87.0**	**2 049**

Following the Law No. 55-A/2010 of 31 December, a Banking levy was established, which is not eligible as a tax cost, and whose regime was continuously extended. As at 30 June 2016, the Group recognised an expense of euro 1 593 thousand (31 December 2015: euro 1 611 thousand), which was included in Other operating income and expenses – Direct and indirect taxes (see Note 10).

NOTE 33 – SUBORDINATED DEBT

The balance subordinated debt is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Other subordinated debt		
Cash bonds	215	215
	215	**215**

During the first half 2016 and the period 2015, no subordinated debt was issued by the Group, nevertheless during 2015, an amount of euro 36 192 thousand of subordinated debt was reimbursed.

The residual duration of subordinated debt is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Over 5 years	215	215
	215	**215**

NOTE 34 – OTHER LIABILITIES

As at 30 June 2016 and 31 December 2015, the balance Other Liabilities is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Creditors and other resources		
Public sector	5 862	5 484
Collaterals deposited under compensation contracts	60 188	21 150
Sundry creditors		
Creditors from transactions with securities	48 599	39 419
Suppliers	951	1 457
Other sundry creditors	7 426	3 732
	123 026	**71 242**
Accrued expenses		
Long-term service benefits (see Note 12)	2 238	2 171
Other accrued expenses	13 676	14 535
	15 914	**16 706**
Deferred income	**766**	**920**
Other sundry liabilities		
Stock exchange transactions pending settlement	95 145	194 552
Foreign exchange transactions pending settlement	1 920	1 491
Other transactions pending settlement	65 132	16 794
	162 197	**212 837**
	301 903	**301 705**

As at 30 June 2016 and 31 December 2015 the balance stock exchange transactions pending settlement represents the net balance of the acquisition and disposal orders, issued by the Group and its subsidiaries, which are still pending of settlement.

NOTE 35 – SHARE CAPITAL, SHARE PREMIUM AND OTHER EQUITY INSTRUMENTS

Ordinary shares

Until 3 August 2014, the Bank was part of Banco Espírito Santo Group, S.A..

In 3 August 2014, Banco de Portugal has decided to apply a resolution measure to Banco Espírito Santo, S.A., holder of 100% of BESI share capital, and the establishment of Novo Banco, S.A., with a share capital of euro 4.9 thousand million, and some assets of Banco Espírito Santo, S.A. selected by Banco de Portugal were incorporated. In this context, BESI and its branches and subsidiaries were transferred to Novo Banco, S.A..

As at 7 September 2015, the Bank share capital was fully acquired by Haitong International Holdings Limited.

In 17 December 2015, Haitong International Holdings Limited fully subscribed the Haitong Bank capital increase, which corresponded to an investment of 100 million euros through 20 million shares with 5 euro nominal value each.

As at 30 June 2016, Haitong Bank share capital amounts to euro 426 629 thousand beeing represented by 85 253 800 of 5 euro nominal value each, which are subscribed and fully paid by detained by Haitong International Holdings Limited.

Share premium

As at 30 June 2016 and 31 December 2015, the share premium in the amount of euro 8 796 thousand, refer to the capital increase occurred in previous years.

Other equity instruments

The Group issued during October 2010, perpetual subordinated bonds with interest conditioned in the total amount of euro 50 million. These bonds have an interest conditioned non-cumulative, payable only if and when declared by the Board of Directors.

This conditioned interest corresponds to the application of an annual rate of 8.5% over the nominal value, payable semi-annually. The reimbursement of these securities may be made in full, but not partially, after 15 September 2015, depending only on Haitong Bank option and the prior approval of Bank of Portugal. Given their characteristics, these obligations are considered as equity instruments in accordance with the accounting policy described in Note 2.10.

During 2011 an extinction in the amount of euro 46 269 thousand has occurred by an operation of own shares acquisition.

These bonds are subordinated in respect of any liability of Haitong Bank and pari passu in respect of any subordinated bonds with identical characteristics that may be issued by the Bank.

As at 30 June 2016 an amount of euro 3 731 thousand was outstanding. During the six months period ended at 30 June 2016, the Group paid interest in the amount of euro 113 thousand, booked as a deduction in reserves (31 December 2015: euro 225 thousand).

In May 2016, the Bank issued perpetual instruments eligible as additional equity tier 1 (“Additional Tier 1”), in the amount of 80 000 thousand, designated “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments”.

NOTE 36 – FAIR VALUE RESERVE, OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

Legal reserve, fair value reserve and other reserves

The legal reserve can only be used to absorb accumulated losses or to increase the amount of the share capital. Portuguese legislation applicable to the banking sector (Article 97 of RGICSF) requires that 10% of the profit for the year must be transferred to the legal reserve until it is equal to the share capital.

The fair value reserve represents the amount of the unrealised gains and losses arising from securities classified as available for sale, net of impairment losses recognised in the income statement in the year/previous years. The amount of this reserve is presented net of deferred taxes.

The movements in these balances were as follows:

(thousands of euro)

	Fair value reserve			Other reserves and retained earnings				
	Available for sale financial assets	Income tax reserves	Total fair value reserve	Legal reserve	Actuarial gains and losses (net of taxes)	Exchange differences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31 December 2014	**(17 757)**	**6 118**	**(11 639)**	**39 878**	**(15 384)**	**(80 185)**	**256 251**	**200 560**
Interest of other equity instruments	-	-	-	-	-	-	(115)	(115)
Changes in fair value	(2 308)	310	(1 998)	-	-	-	-	-
Exchange differences	211	(75)	136	-	-	(14 251)	-	(14 251)
Transfer to reserves	-	-	-	-	-	-	(138 493)	(138 493)
Other comprehensive income of associates	-	-	-	-	-	-	76	76
Balance as at 30 June 2015	**(19 854)**	**6 353**	**(13 501)**	**39 878**	**(15 384)**	**(94 436)**	**117 719**	**47 777**
Actuarial deviations, net of taxes	-	-	-	-	(7 989)	-	-	(7 989)
Interest of other equity instruments	-	-	-	-	-	-	(110)	(110)
Changes in fair value	619	1 099	1 718	-	-	-	-	-
Exchange differences	(211)	75	(136)	-	-	(39 761)	-	(39 761)
Transfer to reserves	-	-	-	-	-	-	-	-
Other comprehensive income of associates	-	-	-	-	-	-	270	270
Balance as at 31 December 2015	**(19 446)**	**7 527**	**(11 919)**	**39 878**	**(23 373)**	**(134 197)**	**117 879**	**187**
Interest of other equity instruments	-	-	-	-	-	-	(113)	(113)
Changes in fair value	12 075	(5 351)	6 724	-	-	-	-	-
Exchange differences	(1 032)	455	(577)	-	-	(3 940)	-	(3 940)
Transfer to reserves	-	-	-	-	-	-	(35 402)	(35 402)
Other comprehensive income of associates	-	-	-	-	-	-	(916)	(916)
Non-controlling interest	-	-	-	-	-	-	(3 094)	(3 094)
Balance as at 30 June 2016	**(8 403)**	**2 631**	**(5 772)**	**39 878**	**(23 373)**	**(138 137)**	**78 354**	**(43 278)**

The movement in the fair value reserve, net of deferred taxes and non-controlling interests is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Opening balance	**(11 919)**	**(11 639)**
Changes in fair value	5 580	(955)
Disposals during the period	1 526	(3 080)
Impairment recognised during the period/year	3 937	2 346
Deferred taxes recognised in reserves during the period	(4 896)	1 409
Closing balance	**(5 772)**	**(11 919)**

Non-controlling interests

Non-controlling interests by subsidiary are analysed as follows:

(thousands of euro)

	30.06.2016		31.12.2015	
	Statement of Financial Position	Income statement	Statement of Financial Position	Income statement
Haitong Banco de Investimento do Brasil, S.A.	27 519	151	21 516	2 788
Haitong Securities do Brasil, S.A.	5 205	(111)	4 440	(4)
Espirito Santo Investimentos, SA	2 266	56	-	-
Haitong do Brasil Participações Ltda	1 710	22	-	-
FI Multimercado Treasury	3 777	1 092	-	-
WindPart, Lda	658	3	6 859	3 018
Other	551	(174)	6 366	611
	41 686	**1 039**	**39 181**	**6 413**

The movements in non-controlling interests as at 30 June 2016, 31 December 2015 and 30 June 2015 are analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015	31.12.2015
Non-controlling interests as 1 January	**39 181**	**43 687**	**48 379**
Changes in the consolidation perimeter	(207)	-	-
Dividends paid	(6 776)	(512)	(450)
Changes in fair value reserve	1 465	(729)	192
Exchange difference and other	6 984	(9 663)	(4 449)
Net profit/ (loss) for the period	1 039	6 398	15
Non-controlling interests as 31 December	**41 686**	**39 181**	**43 687**

NOTE 37 – OFF-BALANCE SHEET ITEMS

As at 30 June 2016 and 31 December 2015, this balance can be analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Contingent liabilities		
Guarantees and stand by letters of credit	233 587	269 354
Assets pledged as collateral	206 173	85 767
	439 760	**355 121**
Commitments		
Irrevocable commitments	20 123	48 211
	20 123	**48 211**

Guarantees and standby letters of credits are banking operations that do not imply any out-flow by the Group.

Irrevocable commitments represent contractual agreements to extend credit to Group's customers (eg. unused credit lines). These agreements are, generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that the Group requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

As at 30 June 2016, the balance assets pledged as collateral include:

- Securities pledged as collateral to the Bank of Portugal in the scope of a liquidity facility collateralised by securities in the amount of euro 154 497 thousand (31 December 2015: euro 83 854 thousand), the total amount of securities eligible for rediscount at the Bank of Portugal as at 31 December 2015 amounted euro 179 497 thousand (31 December 2015: euro 83 854 thousand).
- Securities pledged as collateral to the Portuguese Securities and Exchange Commission (CMVM) in the scope of the Investors Indemnity System (Sistema de Indemnização aos Investidores) in the amount of euro 1 813 thousand (31 December 2015: euro 1 813 thousand).
- Securities pledged as collateral to the Deposits Guarantee Fund (Fundo de Garantia de Depósitos) for an amount of euro 100 thousand (31 December 2015: euro 100 thousand).

Additionally, the liabilities accounted in off-balance sheet and related to banking services provided are as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Liabilities related to services provided		
Commercial Paper intermediation	526 760	681 400
Other responsabilities related with services provided	2 758 282	3 039 800
	3 285 042	**3 721 200**

NOTE 38 – RELATED PARTIES TRANSACTIONS

As at 30 June 2016 and 31 December 2015, the total amount of assets, liabilities, income and expense with related parties are presented as follows:

(thousands of euro)

	30.06.2016					31.12.2015				
	Assets	Liabilities	Guarantees	Income	Expenses	Assets	Liabilities	Guarantees	Income	Expenses
Associated companies										
Coporgest, SA	7 037	1	7 696	68	-	6 961	1	161	169	-
MCO2 - Sociedade gestora de Fundos de Investimento Mobiliário, S.A.	-	-	-	-	-	550	-	-	-	-
Fundo Espírito Santo IBERIA I	-	-	-	-	-	-	-	-	2 433	-
TOTAL	**7 037**	**1**	**7 696**	**68**	**-**	**7 511**	**1**	**161**	**2 602**	**-**

Assets recognised with associated companies relate mainly to loans. The liabilities relate mainly to bank deposits taken.

As at 30 June 2016 and 31 December 2015, the total amount of assets and liabilities of Haitong Bank Group referring to related party operations can be analysed as follows:

(thousands of euro)

	30.06.2016								
	Assets								
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Income	Expenses
Shareholders									
HAITONG SECURITIES	-	-	-	533	533	-	-	566	-
Subsidiaries and associates									
HAITONG INTERNATIONAL STRATEGIC INVESTME	-	-	-	890	890	-	-	890	-
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	-	-	-	-	140 207	-	165
HAITONG UNITRUST FINANCIAL & LEASING	-	16 384	-	-	16 384	-	-	114	-
Other									
Board of Directors	-	303	-	-	303	-	-	-	-
TOTAL	**-**	**16 687**	**-**	**1 423**	**18 110**	**-**	**140 207**	**1 570**	**165**

(thousands of euro)

	31.12.2015								
	Assets								
	Loans and advances to banks	Loans	Securities	Other	Total	Guarantees	Liabilities	Income	Expenses
Shareholders									
HAITONG SECURITIES	-	-	-	-	-	-	-	1 763	-
Subsidiaries and associates									
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	-	-	-	-	9 440	-
Novo Banco Group Companies	-	-	-	-	-	-	-	46 485	10 831
Other									
Board of Directors	-	315	-	-	315	-	-	-	-
TOTAL	**-**	**315**	**-**	**-**	**315**	**-**	**-**	**57 688**	**10 831**

NOTE 39 – FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value of financial assets and liabilities

The fair value of financial assets and liabilities, for the Group, is analysed as follows:

(thousands of euro)

		At fair value				
	Amortised cost	Quoted Market Price	Valuation models based on observable market information	Valuation models based on non-onbservable market information	Book Value	Fair Value
30 June 2016						
Cash and deposits at central banks	26 615	-	-	-	26 615	26 615
Deposits with banks	26 418	-	-	-	26 418	26 418
Financial assets held for trading	26	92 573	1 286 956	25 231	1 404 786	1 404 786
Available-for-sale financial assets	2 617	194 975	274 313	112 233	584 138	584 138
Loans and advances to banks	738 546	-	-	-	738 546	738 546
Loans and advances to customers	1 040 128	-	-	-	1 040 128	1 008 670
Derivatives for risk management purposes	-	-	21 249	-	21 249	21 249
Financial assets	**1 834 350**	**287 548**	**1 582 518**	**137 464**	**3 841 880**	**3 810 422**
Deposits from central banks	60 000				60 000	60 000
Financial liabilities held for trading	-	-	868 874	-	868 874	868 874
Deposits from banks	1 682 655	-	-	-	1 682 655	1 682 655
Customer accounts	736 823	-	-	-	736 823	736 823
Debt securities issued	(202 777)	-	594 174	-	391 397	391 524
Derivatives for risk management purposes	-	-	166 659	-	166 659	166 659
Subordinated debt	-	-	215	-	215	215
Financial liabilities	**2 276 701**	**-**	**1 629 922**	**-**	**3 906 623**	**3 906 750**
31 December 2015						
Cash and deposits at central banks	117 684	-	-	-	117 684	117 684
Deposits with banks	38 960	-	-	-	38 960	38 960
Financial assets held for trading	-	37 850	1 297 976	10 663	1 346 489	1 346 489
Available-for-sale financial assets	2 253	84 198	262 429	119 431	468 311	468 311
Loans and advances to banks	258 795	-	-	-	258 795	258 795
Loans and advances to customers	1 041 341	-	-	-	1 041 341	1 004 697
Derivatives for risk management purposes	-	-	15 236	-	15 236	15 236
Financial assets	**1 459 033**	**122 048**	**1 575 641**	**130 094**	**3 286 816**	**3 250 172**
Deposits from central banks	61 139				61 139	61 139
Financial liabilities held for trading	-	-	502 350	-	502 350	502 350
Deposits from banks	1 632 522	-	-	-	1 632 522	1 632 522
Customer accounts	567 038	-	-	-	567 038	567 038
Debt securities issued	80 306	-	466 960	-	547 266	547 925
Derivatives for risk management purposes	-	-	116 397	-	116 397	116 397
Subordinated debt	-	-	215	-	215	215
Financial liabilities	**2 341 005**	**-**	**1 085 922**	**-**	**3 426 927**	**3 427 586**

Haitong Bank Group determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

Quoted market prices – this category includes financial assets with available quoted market prices in official markets.

Valuation models based on observable market information – this category includes the financial instruments: (i) with dealer prices quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets and (ii) consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models which imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, the Group uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.

Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

The movements of the financial assets valued based on non-observable market information can be analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Opening balance	130 094	170 804
Acquisitions	25 260	29 862
Disposals	(31 980)	(51 982)
Transfers	-	4 021
Changes in value	14 090	(22 611)
Closing balance	**137 464**	**130 094**

The main assumptions and inputs used in the valuation models of the above mentioned assets and liabilities are presented as follows:

Cash and deposits at central banks, Deposits with banks and Loans and advances to banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Loans and advances to customers

The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates that have been contractually defined.

Deposits from central banks and Deposits from banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Deposits and other resources from customers

The fair value of these financial instruments is estimated based on the discount of the expected future cash flows of capital and interest, assuming that the instalments are paid on the dates that have been contractually defined. Considering that the applicable interest rates to these instruments are floating interest rates and that the period to maturity is substantially less than one year, the difference between fair value and book value is not significant.

Debt securities issued and Subordinated debt

The fair value of these instruments is based on market prices, when available. When not available, the Bank estimates its fair value by discounting the expected future cash-flows.

NOTE 40 – RISK MANAGEMENT

A qualitative outlook of the risk management at the Haitong Bank Group is presented below.

Risk control and risk management provides an active support to management, being one of the strategic mainstays supporting Haitong Bank's balanced and sustained development.

Haitong Bank's risk management has the following objectives:

- To identify, quantify and monitor the different types of risk, progressively applying uniform and consistent principles and methodologies;
- To fine-tuning tools to support the structuring of transactions and develop internal techniques of performance assessment and core capital optimization;
- To assume a proactive attitude in the management of events of significant delay or definitive non performance of contractual obligations.

Credit risk

Credit risk represents the potential financial loss arising from the failure of a borrower or counterparty to honor its contractual obligation. Credit risk is essentially present in traditional banking products – loans, guarantees granted and contingent liabilities – and in trading products – swaps, forwards and options (counterparty risk).

Credit portfolio management is an ongoing process that requires the interaction between the various teams responsible for the risk management during the consecutive stages of the credit process. This approach is complemented by the continuous introduction of improvements in the methodologies, in the risk assessment and control tools.

The Group's risk profile is periodically monitored, especially in what concerns the evolution of credit exposure and credit lines. Are equally subject to daily analysis the observance of approved credit limits and the correct functioning of the mechanisms associated to credit approval.

Haitong Bank Group credit risk exposure is analysed as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Deposits with banks	791 565	415 425
Financial assets held for trading	1 402 595	1 345 304
Available-for-sale financial assets	555 080	439 841
Loans and advances to customers	1 040 128	1 041 341
Derivatives for risk management purposes	21 249	15 236
Other assets	282 459	342 903
Guarantees granted	233 587	269 354
Irrevocable commitments	20 123	48 211
Credit risk associated to the credit derivatives reference entities	-	1
Total	**4 346 786**	**3 917 616**

Risk concentration

The analysis of loans and advances to customers and other financial assets by sector of activity, as at 30 June 2016 and 31 December 2015, can be analysed as follows:

(thousands of euro)

	30.06.2016						
	Loans and advances to customers				Financial assets held for trading	Available-for-sale financial assets	
	Gross amount		Impairment			Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans			
Agriculture	13 027	-	93	-	1 151	3	3
Mining	-	-	-	-	2 320	-	-
Food, beverage and tobaco	35 095	942	5 263	942	2 676	5 168	-
Shoes	1 043	-	5	-	-	-	-
Wood and Cork	704	-	542	-	-	-	-
Paper and printing industries	-	-	-	-	479	-	-
Refining and oil	-	-	-	-	387	-	-
Chemicals and rubber	2 248	26 947	302	7 589	243	5 285	248
Non-metallic minerals	8 546	72	71	22	860	-	-
Metallic products	9 814	-	63	-	77	17 382	93
Production of machinery, equipment and electric devices	15 258	-	122	-	8 726	-	-
Production of transport material	-	-	-	-	1 059	-	-
Electricity, gas and w ater	209 999	5 596	7 551	4 949	33 501	4 871	-
Collection, purification and distribution of w ater, sanitation, w aste management and cleaning	25 898	-	431	-	-	-	-
Construction	156 430	37 750	7 445	12 321	30 086	3 530	-
Real estate activities	3 669	-	1 085	-	102	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	65 105	2 677	18 027	910	3 766	-	-
Transports and storage	89 340	24 144	518	1 110	103 711	13 545	-
Tourism	2 105	12 887	11	12 887	90	-	-
Printing and publishing	10 294	-	51	-	-	-	-
Communication activities	9 743	-	49	-	1 804	161	-
IT Consulting	-	-	-	-	-	21 380	9 514
Monetary intermediation	-	-	-	-	244 655	95 996	-
Holding companies	80 224	51 723	27 156	46 996	45 667	74 084	11 529
Financial activities	103 057	667	26 292	590	9 659	37 346	9 769
Real estate activities	39 388	-	18 692	-	3 510	-	-
Services provided to companies	19 538	4 360	4 609	2 170	30 234	25 697	600
Administrative activities and suporting services	-	-	-	-	-	7 545	-
Travelling activities	7 356	15 520	37	15 520	-	-	-
Renting activities	48 153	-	23 714	-	4 881	1 265	-
Public services	-	-	-	-	858 558	302 550	-
Local public services	4 289	-	21	-	-	-	-
Human health activities and social suport	20 228	-	101	-	16 584	-	-
Arts, entretainment, sports and recreation activities	423	-	27	-	-	161	75
Other service activities	142 967	4 654	21 527	2 339	-	-	-
Mortgage loans	373	-	2	-	-	-	-
Consumer loans	29	-	2	-	-	-	-
TOTAL	**1 124 343**	**187 939**	**163 809**	**108 345**	**1 404 786**	**615 969**	**31 831**

(thousands of euro)

	31.12.2015						
	Loans and advances to customers				Financial assets held for trading	Available-for-sale financial assets	
	Gross amount		Impairment			Gross amount	Impairment
	Outstanding Loans	Overdue Loans	Outstanding Loans	Overdue Loans			
Agriculture	7 598	-	66	-	3 807	3	3
Mining	-	-	-	-	192	42 424	-
Food, beverage and tobaco	37 048	199	4 980	199	13 892	5 375	-
Shoes	2 723	-	14	-	-	-	-
Refining and oil	-	-	-	-	365	-	-
Chemicals and rubber	3 367	24 914	361	6 985	692	5 286	186
Non-metallic minerals	5 898	-	696	-	179	-	-
Metallic products	24 817	-	5 582	-	61	13 340	68
Production of machinery, equipment and electric devices	15 609	-	125	-	-	-	-
Production of transport material	1 744	-	9	-	-	-	-
Electricity, gas and w ater	262 222	5 598	9 290	3 309	33 200	3 749	-
Collection, purification and distribution of w ater, sanitation, w aste management and cleaning	17 217	5 959	86	81	-	-	-
Construction	159 863	37 047	7 438	12 349	23 201	6 021	2 779
Real estate activities	5 706	-	29	-	136	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	81 995	1 519	18 499	495	10 170	-	-
Transports and storage	226 333	8 376	5 061	1 745	88 677	11 649	-
Tourism	-	12 930	-	12 932	-	-	-
Printing and publishing	9 856	640	-	52	-	-	-
Radio and television broadcast	170	-	6	-	-	-	-
Communication activities	15 859	-	79	-	977	436	-
IT Consulting	-	-	-	-	-	15 831	4 718
Monetary intermediation	-	-	-	-	133 703	101 840	-
Holding companies	125 786	4 212	94 648	1 410	28 617	32 208	8 306
Financial activities	18 464	623	512	623	7 551	37 902	9 693
Real estate activities	43 048	27 207	30 188	20 488	8 384	-	-
Services provided to companies	16 109	3 741	5 612	1 172	26 247	26 402	600
Administrative activities and suporting services	172	-	2	-	-	4 284	-
Travelling activities	7 703	15 520	39	15 520	-	-	-
Renting activities	620	63 773	137	49 074	-	1 141	-
Public services	-	-	-	-	949 918	186 681	-
Local public services	4 534	-	23	-	1 048	(1)	-
Human health activities and social suport	20 588	-	103	-	15 472	-	-
Arts, entretainment, sports and recreation activities	426	-	42	-	-	168	75
Other service activities	38 741	3 142	17 032	1 571	-	-	-
Mortgage loans	358	-	-	-	-	-	-
Consumer loans	33	-	2	-	-	-	-
TOTAL	**1 154 607**	**215 400**	**200 661**	**128 005**	**1 346 489**	**494 739**	**26 428**

Market risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates or share prices.

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. Haitong Bank Group VaR model uses the Historical Simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

(millions of euro)

	30.06.2016				31.12.2015			
	June	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Foreign exchange risk	1.40	3.98	10.82	1.40	1.78	3.36	5.50	1.78
Interest rate risk	3.53	2.02	3.53	1.13	1.16	1.76	0.39	1.16
Shares	1.13	1.15	2.52	0.29	0.10	0.60	0.05	0.10
Credit spread	5.30	4.57	5.30	3.36	2.12	4.27	7.71	2.12
Covariance	-1.53	-2.06	-7.20	1.16	-0.71	-1.23	-0.41	-0.71
Total	**9.83**	**9.66**	**14.97**	**7.34**	**4.45**	**8.76**	**13.24**	**4.45**

The following table presents the average balances, interests and interest rates in relation to the Haitong Bank Group major assets and liabilities categories, for the years ended 30 June 2016 and 31 December 2015, as well as the average balances and the interests of the period:

(thousands of euro)

	30.06.2016			31.12.2015		
	Average balance of the period	Interest of the period	Average interest rate	Average balance of the period	Interest of the period	Average interest rate
Monetary assets	652 221	30 958	9.49%	150 363	15 600	10.37%
Loans to customers	1 054 789	21 990	4.17%	1 289 863	64 401	4.99%
Investment in securities	1 244 421	65 988	10.61%	1 275 561	140 774	11.04%
Collateral accounts	339 436	44	0.03%	249 150	115	0.05%
Financial assets	**3 290 867**	**118 980**	**7.23%**	**2 964 937**	**220 890**	**7.45%**
Monetary resources	1 455 568	52 125	7.16%	1 425 720	93 166	6.53%
Deposits from customers	684 390	29 439	8.60%	431 065	50 848	11.80%
Liabilities represented by securities	477 579	13 682	5.73%	767 201	30 519	3.98%
Other resources	796 472	840	0.21%	530 612	1 913	0.36%
Financial liabilitis	**3 414 009**	**96 086**	**5.63%**	**3 154 598**	**176 446**	**5.59%**
Financial Result		**22 894**	**1.60%**		**44 444**	**1.86%**

Concerning the foreign exchange risk, the distribution of the assets and liabilities by currency as at 30 June 2016 and 31 of December of 2015, is analysed as it follows:

(thousands of euro)

		30.06.2016			31.12.2015		
		Spot	Forward	Net exposure	Spot	Forward	Net exposure
USD	DOLAR DOS E.U.A.	90 809	(76 093)	14 716	66 385	(89 481)	(23 096)
GBP	LIBRA ESTERLINA	59 165	(60 532)	(1 367)	94 146	(615)	93 531
BRL	REAL BRASILEIRO	170 720	(1 611)	169 109	144 808	(124 871)	19 937
JPY	YEN	320	-	320	545	-	545
CHF	FRANCO SUICO	772	(7)	765	333	(7)	326
PLN	ZLOTI POLACO	(8 657)	24 567	15 910	14 040	(482)	13 558
NOK	COROA NORUEGUESA	10	-	10	-	-	-
CAD	DOLAR CANADIANO	11 287	(14 669)	(3 382)	2 372	(4 499)	(2 127)
AUD	DOLAR AUSTRALIANO	6	-	6	6	-	6
CZK	COROA CHECA	17	-	17	-	-	-
INR	RUPIA INDIANA	15 917	-	15 917	11 778	-	11 778
	OUTRAS	218	-	218	245	1	246
		340 584	**(128 345)**	**212 239**	**334 658**	**(219 954)**	**114 704**

Note: assets / (liabilities)

As at 30 June 2016 and 31 December 2015 the exposure to public debt from peripheral Eurozone countries which are monitored by the Haitong Bank Group is analysed as follows:

(thousands of euro)

	30.06.2016		
	Financial assets held for trading at fair value	Financial assets available for sale	Total
Portugal	42	130 751	130 793
Spain	59	-	59
Greece	-	15 369	15 369
	101	**146 120**	**146 221**

(thousands of euro)

	31.12.2015		
	Financial assets held for trading at fair value	Financial assets available for sale	Total
Portugal	1 369	3 209	4 578
Spain	1 102	-	1 102
Greece	-	14 919	14 919
	2 471	**18 128**	**20 599**

All the exposures presented above, except loans and advances to customers, are recorded in the Group's balance sheet at fair value, which is based on market quotations or, in relation to derivatives, based on valuation techniques with observable market data.

A detailed exposure regarding securities recorded in financial assets available for sale, financial assets held for trading, financial assets at fair value through profit or loss and held to maturity investments can be analysed as follows:

(thousands of euro)

	30.06.2016				
	Nominal amount	Market value	Accrued interest	Book Value	Fair value reserves
Available-for-sale financial assets					
Portugal	**130 700**	**130 734**	**17**	**130 751**	**11**
Maturity up to 1 year	130 000	129 995	-	129 995	(2)
Maturity exceeding 1 year	700	739	17	756	13
Greece	**24 000**	**15 120**	**249**	**15 369**	**(1 985)**
Maturity exceeding 1 year	24 000	15 120	249	15 369	(1 985)
	154 700	**145 854**	**266**	**146 120**	**(1 974)**
Financial assets held for trading					
Portugal	40	41	1	42	-
Spain	51	58	1	59	-
	91	**99**	**2**	**101**	**-**

(thousands of euro)

	31.12.2015				
	Nominal amount	Market value	Accrued interest	Book Value	Fair value reserves
Available-for-sale financial assets					
Portugal	**3 000**	**3 071**	**138**	**3 209**	**28**
Maturity up to 1 year	2 300	2 317	128	2 445	10
Maturity exceeding 1 year	700	754	10	764	18
Greece	**24 000**	**14 308**	**611**	**14 919**	**(2 575)**
Maturity exceeding 1 year	24 000	14 308	611	14 919	(2 575)
	27 000	**17 379**	**749**	**18 128**	**(2 547)**
Financial assets held for trading					
Portugal	1 312	1 357	12	1 369	-
Spain	1 045	1 091	11	1 102	-
	2 357	**2 448**	**23**	**2 471**	**-**

Liquidity risk

Liquidity risk derives from the potential inability to fund assets while satisfying commitments on due dates and from potential difficulties in liquidating positions in portfolio without incurring in excessive losses.

Liquidity management is centralized at the Financial Department. The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. The Bank prepares specific reports that allow the identification of negative mismatch and permits their dynamic coverage.

In addition, the Bank calculates the liquidity ratios in accordance with the Bank of Portugal rules, provided for in CRD IV (Directive 2013/36/EU).

Consolidated Liquidity Indicators

As at 30 June 2016, Haitong Bank achieved a 176% liquidity coverage ratio, above the minimum regulatory ratio, forecasted both for June 2016 and December 2018.

Operational risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviours, information systems and external events.

To manage operational risk, it was developed and implemented a system that standardizes, systematizes and regulates the frequency of actions with the objective of identification, monitoring, controlling and mitigation of risk.

Capital management and solvability ratio

The Groups' main goals from capital management are (i) to allow the adequate growth of activities through the generation of enough capital to support the increase of assets, (ii) fulfilment of the minimum requirements defined by the supervision authorities in terms of capital adequacy and (iii) to ensure the fulfilment of Haitong Bank strategic goals in respect to capital adequacy matters.

The Executive Committee defines defining the strategy for capital management, which is included in the definition of the overall goals for the Group.

The Group is subject to Bank of Portugal supervision, which under the capital adequacy Directive from the CE, establishes the prudential rules to be attended by the institutions under its supervision. These rules determine a minimum solvability ratio in relation to the requirements of the assumed risks that institutions have to fulfil.

Currently for the purpose of the reporting to the Bank of Portugal, the Bank presents the solvency ratios in accordance with standard method both for credit risk as well as operational risk (The Standardized Approach – TSA).

The capital adequacy of Haitong Bank Group as at 30 June 2016 and 31 December 2015 is presented as follows:

(thousands of euro)

	30.06.2016	31.12.2015
Total RWA	**3 241 322**	**3 236 589**
Credit Risk and CVA	2 301 541	2 426 046
Market Risk	557 095	427 857
Operational Risk	382 686	382 686
Own Funds		
Total	397 519	343 097
Level 1	392 215	340 027
Main Level 1	345 462	340 027
Ratio		
Total	12.3%	10.6%
Level 1	12.1%	10.5%
Main Level 1	10.7%	10.5%

HAITONG BANK, S.A.

LIMITED REVIEW REPORT

ON THE INTERIM CONSOLIDATED FINANCIAL INFORMATION ISSUED BY A CMVM

(PORTUGUESE SECURITIES MARKET COMMISSION) REGISTERED AUDITOR

FOR THE SIX-MONTH PERIOD ENDED JUNE 30th, 2016

(Free translation from the original version in Portuguese)

INTRODUCTION

1. Under the terms of the Portuguese Securities Code ("CVM"), we present our Limited Review Report on the consolidated financial information of Haitong Bank, S.A. (hereinafter called Bank or Haitong) for the six-month period ended June 30th, 2016 included in the Management Report, the consolidated balance sheet (showing total assets of 4,711,941 thousand euros and total equity attributable to the equity holder of the Bank of 448,395 thousand euros, including a net loss for the period attributable to the equity holder of the Bank of 21,351 thousand euros), the consolidated statements of income, of comprehensive income, of cash flows, and of changes in equity for the period then ended and the corresponding Notes.

2. The amounts stated in the interim financial statements and additional financial information are consistent with the underlying financial and accounting records.

RESPONSIBILITIES

3. The Board of Directors is responsible for:

   a) the preparation of consolidated financial statements that present a true and fair view of the financial position of the companies included within the scope of consolidation, the consolidated profits and losses, cash flows, changes in equity and comprehensive income;

   b) the historical financial information, prepared in accordance with the International Reporting Standard (IAS) 34 – Interim Financial Reporting and which must be complete, true and fair, to date, transparent, objective and lawful, in accordance with the Portuguese Securities Code;

   c) the adoption of adequate accounting policies and criteria;

d) the maintenance of an appropriate system of internal control; and

e) the disclosure of any relevant fact that may have affected its operations, financial position or results.

4. Our responsibility is to perform an audit of the financial information included in the aforementioned financial statements, namely verifying that it is complete, true and fair, to date, transparent, objective and lawful, as required by the Portuguese Securities Code, in order to issue a professional and independent report based on our audit.

SCOPE

5. We performed our review with the purpose of obtaining a moderate degree of assurance as to whether the information referred to above is free from material misstatement. Our review was conducted in accordance with the Technical Recommendations and Guidelines approved by the Institute of Statutory Auditors, and planned in accordance with the above mentioned purpose, including:

a) in addition to other procedures, inquiries and analytical procedures intended to verify:

- the reliability of the assertions included in the consolidated financial information;
- whether the accounting policies adopted were appropriate and their disclosure consistent, taking into account the circumstances;
- whether the going concern basis was applicable;
- the presentation of the consolidated financial information;
- whether the consolidated financial information is complete, true and fair, to date, transparent, objective and lawful; and

b) substantive testing of large non-regular transactions.

6. Our work also included verifying that the consolidated financial information disclosed in the Management Report was consistent with the financial statements.

7. We believe that our work provides an acceptable basis for this limited review report on the interim consolidated financial information.

OPINION

8. Based on our review, which was prepared with the purpose of obtaining a moderate degree of assurance, nothing came to our attention that lead us to conclude that the consolidated financial information for the six-month period ended 30 June 2016 contains materially relevant misstatements affecting its conformity with IAS 34 - Interim Financial Reporting or that it is not complete, true and fair, to date, transparent, objective and lawful.

EMPHASIS

9. Without affecting the opinion expressed in paragraph 8 above, we note that Haitong Bank, S.A. has recorded under Intangible Assets 58,246 thousand euros of net goodwill associated to the financial investments made in its subsidiaries, chiefly Haitong (UK) Limited and Haitong Capital - Sociedade de Capital de Risco, S.A..
   The goodwill determined relates to acquisitions made in previous years. Haitong Bank, S.A. has always adopted the procedures required by IAS 36 “Impairment of Assets”.
   We stress that the recoverability of the goodwill is intrinsically linked to the capacity of said subsidiaries to generate future economic benefits in accordance with the strategic business plan that was defined and through the fulfilment of all economic assumptions taken.
   The Board of Directors, based on sensitivity analyses, considers the economic assumptions adequate and that no impairment losses will be detected.

Lisbon, 31 August 2016

José Maria Ribeiro da Cunha
representing:
"Amável Calhau, Ribeiro da Cunha & Associados
- Sociedade de Revisores Oficiais de Contas -"

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ANNEXES

ANNEX I

Shares and Bonds held by the Members of the Board of Directors and the Supervisory Bodies

(Annex referred to in paragraph 5 of Article 447 of the Portuguese Companies Code)

Shareholders / Bondholders	Securities	Securities held as of 31/12/2015	Transactions in 2016				Securities held as of 30/06/2016
			Date	Acquisitions	Disposals	Unit Price (EUR)	
Hiroki Miyazato	-	-	-	-	-	-	-
José Maria Espírito Santo Silva Ricciardi	-	-	-	-	-	-	-
Rafael Caldeira de Castel-Branco Valverde	-	-	-	-	-	-	-
Pan Guangtao	Haitong Securities Company Limited (H share) 6837.HK	-	01-03-2016	102,600	0	1.32	102,600
Mo Yiu Poon	Haitong International Securities Group Limited - Share Options	2,100,474	08-06-2016	700,000			
	Haitong International Securities Group Limited - Awarded Shares		16-06-2016	818			2,801,292
		-	18-04-2016	283,599			283,599
Christian Georges Jacques Minzolini	-	-	-	-	-	-	-
Félix Aguirre Cabanyes	-	-	-	-	-	-	-
Paulo José Lameiras Martins	-	-	-	-	-	-	-
Frederico dos Reis de Arrochela Alegria	Credit Link Note	-	2014	-	-	100,000	1
Alan do Amaral Fernandes	-	-	-	,	-	-	-
Lin Yong	-	-	-	-	-	-	-
José Manuel Macedo Pereira	-	-	-	-	-	-	-
Tito Manuel das Neves Magalhães Basto	-	-	-	-	-	-	-
Mário Paulo Bettencourt de Oliveira	-	-	-	-	-	-	-
Paulo Ribeiro da Silva	-	-	-	-	-	-	-
Amável Calhau, Ribeiro da Cunha & Associados - SROC	-	-	-	-	-	-	-

ANNEX II

Shareholders

(Annex referred to in paragraph 4 of Article 448 of the Portuguese Commercial Companies Code)

Shareholder	% of Share Capital
Haitong International Holdings Limited	100%

ANNEX III

Bank of Portugal Reference Indicators

(Notice 23/2011 and 32/2013 of Bank of Portugal)

Bank of Portugal Reference Indicators (Consolidated basis)	Jun-16	Jun-15
SOLVENCY		
Regulatory Capital / Risk Weighted Assets	12.3%	9.1%
TIER I / Risk Weighted Assets	12.1%	9.1%
Core TIER I / Risk Weighted Assets	10.7%	9.1%
ASSET QUALITY		
Overdue and Doubtful Loans / Gross Loans	14.3%	9.8%
Overdue and Doubtful Loans net of Impairments / Total Net Loans	7.6%	4.1%
Credit at Risk / Gross Loans	40.2%	30.7%
Credit at Risk (net) / Net Loans	25.0%	16.0%
Restructured Credit / Gross Loans	52.7%	40.5%
Restructured Credit not included in Credit at Risk / Gross Loans	12.5%	10.1%
PROFITABILITY		
Income before Taxes and Minorities / Average Total Equity	-9.2%	1.0%
Banking Income / Average Net Assets	3.2%	3.6%
Income before Taxes and Minorities / Average Net Assets	-0.9%	0.1%
EFICIENCY		
Staff Costs + General and Administrative Expenses + +Depreciation / Banking Income	121.8%	83.7%
Staff Costs / Banking Income	75.6%	47.7%
LOANS TO DEPOSITS RATIO		
(Gross Loans - Provisions) / Customer Deposits	221.5%	311.2%

HAITONG BANK, S.A.
Edifício Quartzo - Rua Alexandre Herculano nr. 38 - 1269-180 Lisboa - Portugal
Registered Share Capital: 426 269 000 euros
Registered with Lisbon Commercial Registry Office Corporate Registration and Tax Payer Number 501 385 932