HAITONG BANK, S.A.

MARKET DISCIPLINE

Annual Report: 2015

(Disclosure in accordance with Part VIII of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms)

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Foreword

The process of acquisition of Banco Espírito Santo de Investimento S.A. by Haitong Securities Co, Ltd. (through its fully held subsidiary Haitong International Holdings Limited) was concluded on 7 September 2015 and the Bank's name was changed to Haitong Bank, S.A..

Haitong Securities is one of the largest investment banks in China, a high-growth region, and is set to expand its presence in the EMEA (Europe, Middle East and Africa) region, as well as in India and the Americas.

The entry of the new Shareholder brought immediate gains for the development of Haitong Bank's activity, namely:

I. Reinstatement of Haitong Bank’s rating to BB- with positive outlook, the best rating level within the Portuguese banking sector, as a result of S&P considering Haitong Bank as a "strategically important" subsidiary of Haitong Securities.

II. The reopening of funding lines.

At the end of last year Haitong Securities once again showed its commitment to Haitong Bank, S.A.'s development plan, reinforcing its financial strength through a EUR 100 million capital increase.

As a result of the carve-out process referred to in the 2014 report, all interdependences with Novo Banco have already been severed. The last four months were a period of intense work, dedicated to the process of autonomy, and integration and reorganisation of Haitong Bank, S.A., in line with the new Shareholder's guidelines.

Introduction

The banking sector has been progressively adopting increasingly sophisticated techniques to assess the risks inherent to its activity, a stance clearly encouraged by the current prudential regulation framework applicable to the banking business. This regulatory framework is based on three pillars applying to the sector's institutions, essentially viewing an increase in the sensitivity of minimum capital requirements to the credit and operational risk levels to which they are exposed (Pillar I) and the reinforcement of the banking supervision process not only to ensure that said minimum requirements are met but also to encourage the sector to develop better risk monitoring and management techniques (Pillar II). Finally, Pillar III, which deals with "Market Discipline", aims to complement the other two pillars in so far as it establishes a set of minimum requirements for banks' public disclosure of key information elements, namely the composition of their capital, their level of exposure to the various types of risk and the processes used to monitor and manage such risks, and also their capital adequacy.

It is in this regulatory context and particularly in regard to the referred Pillar III that Haitong Bank, S.A. (Haitong Bank, Haitong Bank SA Group, Group or Bank), publishes this "Market Discipline" report, which is chiefly of a prudential nature and aims to ensure compliance with the disclosure requirements foreseen in Part VIII of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

The information disclosed relates to the end of financial 2015 and is presented on a consolidated basis.

Note that this report is available in the "Corporate Governance" area of the Bank's website (www.haitongib.com), which also contains additional information on Haitong Bank, S.A.'s activity and events that complements the information provided in this report.

1. Declaration of Responsibility

The Executive Committee of Haitong Bank, S.A. hereby declares and certifies that:

I. In the preparation of this "Market Discipline" report relative to the end of financial year 2015, all procedures deemed necessary for the public disclosure of information were developed and carried out. To the extent of its knowledge, all the information disclosed in this document is true and reliable;

II. The quality of all the information disclosed, including that concerning or originating from entities comprised within the same economic group as the Bank, is adequate:

III. It undertakes to disclose in due time any significant changes occurring during the financial year following that to which this "Market Discipline" report refers.

The Executive Committee

2. Scope of Application

2.1 Haitong Bank, S.A.: Identification and Origins of the Banking Group

Haitong Bank, S.A. is an investment bank with registered office in Portugal, at Rua Alexandre Herculano, n.º 38, Lisbon. The Bank holds the necessary authorisations from the Portuguese authorities, central banks and other regulatory agencies to operate in Portugal and in the countries where its international branches are located.

It was established in February 1983 as a foreign investment in Portugal under the name FINC – Sociedade Portuguesa Promotora de Investimentos, S.A.R.L. In 1986 the company was integrated into the Espírito Santo Group under the name 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, under ministerial order no. 366/92, of 23 November, which was 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.

In 2000, BES (now Novo Banco, S.A.) acquired the entire share capital of the Bank in order to reflect in its consolidated financial statements all the synergies generated by both institutions.

Following the Bank of Portugal's application of a resolution measure to Banco Espirito Santo, S.A. on 3 August 2014, the Bank became fully held by Novo Banco, S.A..

In December 2014 Novo Banco, S.A. entered an agreement to sell to Haitong International Holdings Limited (Haitong) the entire share capital of Banco Espírito Santo de Investimento, S.A.. Haitong is a Hong Kong based wholly-owned subsidiary of Haitong Securities Co., Ltd., a company whose shares are listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited.

This transaction, which involved the acquisition of the entire share capital of BES Investimento by Haitong International Holdings Limited, was completed in September 2015, upon which the Bank changed its name to Haitong Bank, S.A..

Haitong Bank operates through its headquarters in Lisbon, its branches in London, Warsaw, New York and Madrid, and its subsidiaries in Brazil, Ireland, United Kingdom, India and Mexico. Haitong Bank's financial statements are consolidated by Haitong International Holdings Limited, with registered office at Po Chun Chambers, no. 89, Des Voeux Road Central, Hong Kong.

2.2 Scope and Basis of Consolidation for Accounting and Prudential Purposes

The structure of the group of companies where the Bank has a direct or indirect holding greater or equal to 20%, over which the Bank exercises control or has significant influence, and that were included in the consolidated scope, is as follows:

TABLE I – Consolidated Companies

	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	75%	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 Investim	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

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

In 2013 Haitong Bank launched a simplification plan for the Group. Under this process several measures were taken, including the sale and merger of investments, with no significant impact on the financial statements. The simplification process was pursued during 2015, involving the following main changes to the Group's structure:

- In February 2015 Execution Noble Research Limited was wound up.
- In March 2015 Banco Espírito Santo de Investimento S.A. fully subscribed the capital increase of BESI UK Limited, an investment of GBP 5 million.
- In April 2015 Espírito Santo Investment Sp, Z.o.o. was liquidated.
- In July 2015 Cominvest - SGII, S.A. was merged into Banco Espírito Santo de Investimento, S.A..
- In July 2015 Banco Espírito Santo de Investimento S.A. fully subscribed the capital increase of BESI UK Limited, an investment of GBP 7 million.

- In September 2015 Execution Noble & Company Limited changed its name to Haitong & Company (UK) Limited.
- In September 2015 BESI UK Limited changed its name to Haitong (UK) Limited.
- In September 2015 Execution Noble Limited changed its name to Haitong Securities (UK) Limited.
- In September 2015 Espírito Santo Investment Public Limited Company changed its name to Haitong Investment Ireland Public Limited Company.
- In October 2015 BES Investimento do Brasil S.A. - Banco de Investimento changed its name to Haitong Banco de Investimento do Brasil S.A..
- In October 2015 BES Securities do Brasil S.A. Corretora de Câmbio e Valores Mobiliários changed its name to Haitong Securities do Brasil Corretora de Câmbio e Valores Mobiliários S.A..
- In October 2015 Espírito Santo Serviços Financeiros Distribuidora de Títulos e Valores Mobiliários S.A. changed its name to Haitong do Brasil Distribuidora de Títulos e Valores Mobiliários S.A..
- In October 2015 Espírito Santo Capital - Sociedade de Capital de Risco, S.A. (ESCAPITAL) changed its name to Haitong Capital - SCR, S.A..
- In October 2015 Haitong & Company (UK) Limited entered a winding-up process.
- In November 2015 Haitong Bank, S.A. fully subscribed the capital increase of Haitong (UK) Limited, an investment of GBP 5 million.
- In December 2015 Espírito Santo Securities India Private Limited changed its name to Haitong Securities India Private Limited.
- In December 2015 Espírito Santo Participações Ltda changed its name to Haitong do Brasil Participações Ltda.
- In December 2015 Haitong Bank, S.A. fully subscribed the capital increase of Haitong (UK) Limited, an investment of GBP 15 million.
- In December 2015 Execution Noble (Hong Kong) Limited was wound up.

Moreover, the following should also be stressed:

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

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

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

IV. The Bank's prudential supervision scope coincides with its accounting consolidation scope.

3. Risk management Objectives and Policies

3.1 Statement on the adequacy of the risk management systems

The risk management function operates independently from the business areas, providing advice on risk management to the decision-takers of the Bank. Haitong Bank has in place control systems to identify, monitor and manage risks, as well as areas to support the business development, which the Executive Committee considers adequate in view of the Bank's profile and size.

3.2 Statement on the Overall Risk Profile and its Relation with the Business Strategy

Its acquisition by Haitong Securities Co., Ltd. marked a new beginning for the Bank, bringing together two institutions with the common ambition to become one of the world's leading investment banks within the next decade.

Haitong Bank's financial services platform is well positioned to work as link connecting Asia, the Emerging Markets and the main financial hubs of New York, London, Singapore and Hong-Kong, combining the Bank's expertise and multi-regional footprint with Haitong Securities' market leading position in Asia.

A new operating structure was adopted during the last quarter of 2015, based on four pillars: Investment Banking, Markets, Structured Finance, and Wealth and Fund Management. Haitong Bank is now shaped to better support cross-selling within and between pillars, both internally and in cooperation with its shareholder.

In this ambitious and challenging context, the Board of Directors of Haitong Bank considers that its Risk Management model not only endows the organisation with an additional defense line but is also absolutely critical for the pursuance of the Bank's strategic objectives.

Taking into account the Bank's current risk profile and an adequate balance between value creation initiatives and the indispensable control mechanisms, the Board of Directors of Haitong Bank admits a moderate risk profile in the development of its business, viewing ever greater sustainability and recognition.

Hence the risk strategy defined by Haitong Bank's Board of Directors is based on three key pillars:

Capital: Haitong Bank intends to maintain at all times a capital buffer prudently above regulatory requirements;

Liquidity: Haitong Bank seeks to ensure a solid short-term liquidity position as well as a balanced funding profile;

Profitability: Haitong Bank is set on achieving recurrent profitability levels that ensure its sustainability and an attractive level of return for the shareholder.

With this vision and based on a solid governance model, the Board of Directors fosters a strong culture of risk at all levels of the organisation, as well as strict compliance with the law, regulations and rules of conduct.

The table below shows Haitong Bank's strategic risk ratios and indicators:

TABLE II – Solvency and Liquidity Ratios

CRD IV/CRR Phased-in	dez-15	dez-14
Common Equity Tier 1 (CET1) Ratio	10,6%	9,4%
Total Capital Ratio	10,5%	9,4%
Liquidity Coverage Ratio	147%	n.d.

3.3 Strategies, Processes, Structure and Organisation

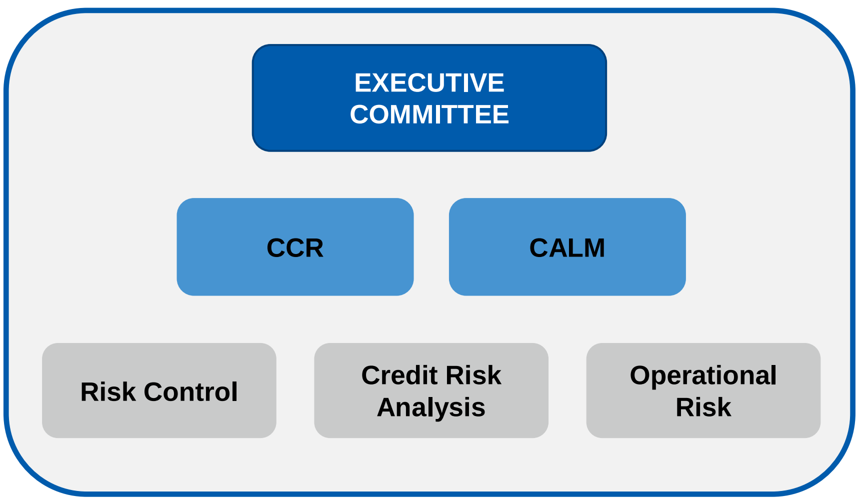
As a result of the recent acquisition of 100% of its share capital by Haitong Securities, Co., Ltd. in September 2015, Haitong Bank's management and governance model is being redefined viewing its alignment with the new shareholder’s objectives and practices. On the risk management side, this process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

The objective of the risk management function - a key element to the development of Haitong Bank's activities – is to identify, assess, monitor and report all the material risks to which it is subject, 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 Executive Committee is responsible for establishing the risk appetite policy and control systems framework that ensure 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's 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 summarised below.



Risk control and supervision roles are carried out by the Executive Committee, which delegates the setting of rules and procedures and the approval of transactions and risk limits to the Global 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). The Executive Committee holds formal meetings once a week, the CRC twice a week and the CALM once a month.

Haitong Bank’s risk management function envisages the alignment of the strategic orientations set by the Board of Directors with 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 function 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, in both the domestic and the international activity) and consistency in risk/return metrics; and
- Consistent incorporation of risk, capital and liquidity concepts in the strategy and business decisions of the whole Bank, ensuring full comparability of risk versus return.

Currently, the Risk function comprises three distinct units - Risk Control, Credit Risk Analysis, and Operational Risk Analysis - 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 the development and monitoring of methodologies to identify and quantify the various categories of risk as well as support tools for the structuring, pricing and approval of operations, and also 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 and ILAAP);
- Participate in the preparation of Haitong Bank's Funding and Capital Plan (FCP);
- Prepare and maintain the Recovery Plan.

3.4 Risk reporting and measurement systems and Policy for hedging and mitigating risk

The main risks in the activity of the Bank are credit, market, operational and capital risks. Each of these specific risk categories is addressed in detail in the respective chapters.

The risk mitigation policies and monitoring processes are also dealt with in a separate chapter of this report.

3.5 Governance system

The governance arrangements are described in the Corporate Governance section of the 2015 Annual Report.

4. Capital Adequacy

4.1 Own Funds and Capital Ratios

A brief description of the main components of own funds as at 31 December 2015 is given below.

Ordinary shares

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

On 3 August 2014 the Bank of Portugal decided to apply a resolution measure to Banco Espírito Santo, S.A., the 100% shareholder of the Bank, and resolved on the incorporation of Novo Banco, S.A., with share capital of EUR 4.9 billion, into which the assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal were incorporated. In this context, the Bank and its branches and subsidiaries were transferred to Novo Banco, S.A..

On 7 September 2015, the Bank's entire share capital was purchased by Haitong International Holdings Limited.

On 17 December 2015 the Bank made a EUR 100 million capital increase through the issuance of 20,000,000 shares with nominal value of EUR 5 each, which was subscribed and paid up by Haitong International Holdings Limited.

As at 31 December 2015 Haitong Bank had share capital of EUR 426,269 thousand, represented by 85,253,800 shares with nominal value of EUR 5 each, fully held by Haitong International Holdings Limited.

Share premium

As at 31 December 2015 and 2014 share premiums amounted to EUR 8,796 thousand, relating to the premium paid by the shareholders in the capital increase occurred in previous years.

Other equity instruments

In October 2010 the Group issued subordinated perpetual bonds with conditional interest for a total amount of EUR 50 million. Interest is conditioned and non-cumulative, and 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 nominal value, payable semi-annually. The reimbursement of these securities may be made in full, but not partially, after 15 September 2015, at Haitong Bank's option and subject to the prior approval of the Bank of Portugal. Given their characteristics, these bonds are considered equity instruments in accordance with the accounting policy described in Note 2.10 of the 2015 Annual Report.

In 2014 a total of EUR 46,269 thousand in other equity instruments was extinguished through the acquisition of own securities.

These bonds are subordinated relative to all liabilities of Haitong Bank and rank *pari passu* with any subordinated bonds with the same characteristics which may be issued by the Bank.

As at 31 December 2015 the amount outstanding of these bonds was EUR 3,731 thousand. In 2014 the Group paid interest in the amount of EUR 225 thousand, booked as a deduction to reserves (31 December 2014: EUR 225 thousand).

For purposes of prudential reporting to the supervision authorities, the Group currently uses the Standardised Approach (TSA) for both credit and operational risk.

The legislation in force provides for a transitional period in which institutions may accommodate the new own funds requirements stipulated by community legislation, excluding some elements previously included (phase-out) and including/deducting new elements (phase-in). 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 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).

TABLE III – Own Funds

CAPITAL ADEQUACY (Part 1) - Phased-in	
	(thousands of euro)
Total Equity attributable to equity holders of the Bank (net from prudencial filters)	**dez-15**
Share capital	426,269
Share premium	8,796
Net profit/loss	-14,161
Other reserves	187
Minority interest given recognition in CET1 capital	30,112
Fair value filters (other comprehensive income)	-3,094
Cumulative gains and losses due to changes in own credit risk on fair valued liabilities	-365
Goodwill	-26,848
Other intangible assets	-6,376
Deferred tax assets that rely on future profitability and do not arise from temporary differences	-6,638
Deferred tax assets that rely on future profitability and arise from temporary differences	-1,591
Excess of deduction from AT1 items over AT1 Capital	-66,264
Own Funds - Main Level 1	**340,027**
Capital instruments and subordinated loans eligible as AT1 capital	2,612
Minority interest given recognition in AT1 capital	2,201
Other transitional adjustments to AT1 Capital	-71,077
Excess of deduction from AT1 items over AT1 Capital (deducted in CET1)	66,264
Own Funds - Level 1	**340,027**
Capital instruments and subordinated loans eligible as T2 capital	151
Minority interest given recognition in T2 capital	2,935
Other T2 capital elements or deductions	-25
Other transitional adjustments	10
Own Funds - Total	**343,097**

Own Funds Requirements

Regulatory capital requirements are determined by the Bank of Portugal under the CRR (Regulation (EU) no. 575/2013) and CRD IV (Directive 2013/36/EU).

Under these regulatory frameworks, capital requirements are set to accommodate the level of risk the Bank is exposed to, which is measured through risk-weighted assets.

TABLE IV – Capital Requirements

(thousands of euro)

CAPITAL ADEQUACY (Part 2)	dez-15	dez-14
2. Capital requirements (=Sum(2.1 to 2.7))	**258,927**	**332,543**
2.1. For credit, counterparty credit and dilution risks and free deliveries (=2.1.1+2.1.2)	**178,379**	**239,959**
2.1.1. Standardised approach (=2.1.1.1+2.1.1.2)	178,379	93,142
2.1.1.1. Standardised Approach exposure classes, excluding securitisation positions	175,751	93,142
2.1.1.1.1. Claims or contingent claims on central governments or central banks	0	2,607
2.1.1.1.2. Claims or contingent claims on regional governments or local authorities	501	0
2.1.1.1.3. Claims or contingent claims on Public Sector Entities	1,536	0
2.1.1.1.4. Claims or contingent claims on multilateral development banks	0	0
2.1.1.1.5. Claims or contingent claims on international organisations	0	0
2.1.1.1.6. Claims or contingent claims on institutions	18,887	12,464
2.1.1.1.7. Claims or contingent claims on corporates	111,862	46,291
2.1.1.1.8. Retail claims or contingent retail claims	0	143
2.1.1.1.9. Claims or contingent claims secured on real estate property	0	0
2.1.1.1.10. Past due items	13,814	5,492
2.1.1.1.11. Items belonging to regulatory high-risk categories	1,949	0
2.1.1.1.12. Claims on covered bonds	0	0
2.1.1.1.13. Claims on collective investments undertakings (CIU)	2,261	4,359
2.1.1.1.14. Other items	23,963	21,786
2.1.1.1.15. Equity positions	979	0
2.1.1.2. Securitisation positions under the Standardised Approach	2,628	0
2.1.2. IRB approach (=∑(2.1.2.1 to 2.1.2.5))	0	146,817
2.1.2.1. Not using own estimations of LGD and/or credit conversion factors	0	0
2.1.2.1.1. Claims or contingent claims on central governments or central banks	0	0
2.1.2.1.2. Claims or contingent claims on institutions	0	12,977
2.1.2.1.3. Claims or contingent claims on corporates	0	126,336
2.1.2.2. Using own estimations of LGD and/or credit conversion factors	0	0
2.1.2.2.1. Claims or contingent claims on central governments or central banks	0	0
2.1.2.2.2. Claims or contingent claims on institutions	0	0
2.1.2.2.3. Corporate claims or contingent corporate claims	0	0
2.1.2.2.4. Retail claims or contingent retail claims	0	0
2.1.2.3. Equity positions	0	4,899
2.1.2.4. Securitisation positions	0	2,604
2.1.2.5. Other assets not related to bond loans	0	0
2.2. Settlement risk	**0**	**1**
2.3. Capital requirements for position, foreign-exchange and commodities risks (=2.3.1+2.3.2)	**34,229**	**45,363**
2.3.1. Standardised approach (=∑(2.3.1.1 to 2.3.1.4))	34,229	45,363
2.3.1.1. Traded debt instruments	21,446	39,458
2.3.1.2. Equity	190	3,169
2.3.1.3. Foreign exchange risks	12,593	2,736
2.3.1.4. Commodities risks	0	0
2.3.2. Internal models approach	0	0
2.4. Capital requirements for operational risk	30,615	**34,370**
2.4.1. Basic indicator approach	0	0
2.4.2. Standard method	30,615	34,370
2.4.3. Advanced measurement approach	0	0
2.5. Capital requirements - Fixed overhead	**0**	**0**
2.6. Capital requirements on unilateral adjustment of credit evaluation	**0**	**0**
2.7. Capital requirements for Credit Valuation Adjustment (CVA)	**15,705**	**12,850**

At the end of 2015 the Bank had a EUR 84 million own funds surplus over the risks incurred.

TABLE V – Capital Adequacy

(thousands of euro)

CAPITAL ADEQUACY (Part 3)	dez-15	dez-14
Surplus(+)/Deficit(-) of total capital	84,170	59,676
Total capital ratio (%)	10.60%	9.44%
Capital adequacy of the financial conglomerate		

4.3 Internal Capital Adequacy Self-Assessment Process (ICAAP)

The self-assessment process of internal capital adequacy (ICAAP) is carried out every year in accordance with the regulations in force. Its purpose is to guarantee that the risks to which the Bank is exposed are adequately assessed and that the available capital is adequate relative to its current and prospective risk profile.

The ICAAP exercise, undertaken within the scope of the Bank's Risk Appetite Policy, follows an internal governance model that ensures the involvement of the Executive Committee in the apprehension of its conclusions.

The ICAAP exercise is preceded by the identification of the material risks to which the Bank's activity is subject. Material risks are identified through an analysis of the frequency of occurrence of events associated with each risk and their respective impact, based on Haitong Bank's risk taxonomy.

The ICAAP process encompasses all the risks considered in Basel's Pillar I, even when not reaching relevant materiality levels, and all the risks considered material. The risks considered materially relevant in the last ICAAP exercise were the risk of default, market risk, funding and liquidity risk, business/strategic risk, pension fund risk, concentration risk and reputational risk.

Besides providing a snapshot of the risks at the exercise reference date, the ICAAP process also includes a prospective component where the Bank's business plan for the next three years is assessed. In order to test the Bank's resilience to adverse periods the projected central scenario is subject to stress impacts with severely penalising factors for the Bank's performance.

The ICAAP's results thus allow the Bank's management to gauge whether the organisation's level of capitalisation is adequate vis-à-vis the risks arising from its activity, and whether the medium-term business plan is sustainable and consistent with the Risk Appetite policy defined.

The ICAAP exercise conducted with respect to 31 December 2015 concluded that Haitong Bank's own funds are sufficient to cover the risks incurred.

4.4 Leverage Ratio

The leverage ratio is defined as the capital measure (given by the amount of Tier 1 capital) divided by the total exposure measure, which corresponds to the sum of the exposure values of all the Bank's assets and off-balance sheet items, after some adjustments (namely the application of credit conversion factors to off-balance-sheet items or the exclusion of elements deducted to own funds).

The leverage ratio is subject to a period of observation by the supervision authorities so as to permit to monitor the evolution of its components and the behaviour of the ratio relative to the requirements based on each exposure type. A regulatory requirement for the leverage ratio must be maintained from 1 January 2018 onwards. At present the minimum reference ratio stipulated by the regulatory rules is 3% until the end of 2017.

As at 31 December 2015 Haitong Bank's leverage ratio was 8.2% (transitory regime), as shown in the table below.

TABLE VI – LEVERAGE RATIO

(thousands of euro)

	dez-15
Total Exposure	**4,243,738**
Repo-style transactions according to article 220 of CRR	136,750
Derivatives: Market value	358,203
Derivatives: Add-on Mark-to-Market Method	124,479
Undrawn credit facilities, which may be cancelled unconditionally at any time without notice	1,299
Medium/low risk trade related off-balance sheet items	19,256
Other off-balance sheet items	237,427
Other assets	3,366,323
Capital Tier 1 - phased-in	**340,027**
Tier 1 regulatory adjustments	-94,748
Regulatory adjustments regarding own credit risk	-365
Leverage ratio - phased-in	**8,2%**

Considering its leverage ratio as at 31 December 2015 (8.2%) and the minimum reference level in force (3%) Haitong Bank does not incur in the risk of excessive leverage.

The factors that affected the leverage ratio in 2015 were the adoption of the Commission Delegated Regulation (EU) 2015/62, the effect of the elapsing of the transitory period and the decrease in the Bank's net assets.

5. Counterparty credit risk exposures

5.1 Determination of the value at risk

Counterparty credit risk arising from treasury transactions, foreign exchange transactions and transactions with derivative financial instruments is quantified. The value at risk is calculated as the sum of the positive market value of the transactions and the potential change in market value over the transactions' maturity. The negative market values of transactions and the amounts received as guarantee are deducted to value at risk whenever there are netting agreements or collateral agreements established with the counterparties.

In case of default by the counterparty, netting agreements permit the early termination of outstanding operations at the respective market value, and determine a single net settlement amount. The collateral agreements entered by the Bank provide for the lodging of deposits with the party for which the net market value of the ongoing transactions is positive, and these deposits are also taken into account in the calculation of the netted exposure. The establishment of collaterals through real estate assets or other guarantees is not usual.

For prudential purposes the risk-weighted value of derivative instruments is calculated according to the mark-to-market method defined in Part III, Title II, Chapter 6, section 3 of the Regulation (EU) no. 575/2013. The risk-weighted value of repurchase transactions is calculated according to the rules defined for the standardised approach in Part III, Title II, Chapter 6, section 3 of the Regulation (EU) no. 575/2013.

5.2 Approval and Monitoring Process

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.

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 aim 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's teams in each geography 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.

- Global analysis of the credit portfolio risk profile;

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 appetite 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.

Portfolio 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.

As to concentration risk – the risk that arises from the possibility of an exposure or group of exposures 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.

Every year the Bank submits to the Bank of Portugal the reporting template for compliance with Instruction 5/2011 on Concentration Risk, which contains the calculation of the individual concentration levels.

The detailed calculation of risk-weighted assets for counterparty risk (Regulation (EU) no. 575/2013) and credit derivatives is presented in the following section.

5.3 Quantitative Information

TABLE VII – Counterparty Credit Risk - Standardised Approach

(thousands of euro)

	December, 2015			Capital requirements	
	Original exposure	Credit risk mitigation techniques with substitution effects on the original net exposure	Fully adjusted exposure	dez-15	dez-14
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions	1,096,443	0	1,096,443	39,241	777
Derivative	496,321	0	482,682	363,659	284,781
Contractual cross-product netting	0	0	0	0	0

TABLE VIII – Credit derivatives

Credit portfolio (thousands of euro)

Credit derivatives transactions	dez-15		dez-14	
	Long positions	Short positions	Long positions	Short positions
a) Credit default swaps	39,221	9,833	11,432	9,833
b) Total return swaps	0	0	0	0
c) Credit linked notes	0	0	0	0
d) Other credit derivatives	0	0	0	0

Intermediation activities (thousands of euro)

Credit derivatives transactions	dez-15		dez-14	
	Long positions	Short positions	Long positions	Short positions
a) Credit default swaps	33,000	424,482	58,198	478,594
b) Total return swaps	0	0	0	0
c) Credit linked notes	333,594	2,671	436,221	3,384
d) Other credit derivatives	0	0	0	0

Long-term positions - theoretical value of the acquired protection

Short-term positions - theoretical value of the protection sold

6. Capital buffers

In December 2015 the Bank of Portugal decided on the non application of a countercyclical capital buffer. This decision applies to the first quarter of 2016 and will be reassessed by the supervisor on a quarterly basis.

7. Indicators of global systemic importance

Haitong Bank, S.A. has not been identified as a Global Systemic Importance Institution (G-SII) in accordance with Article 131 of Directive 2013/36/EU.

8. Credit Risk

8.1 Definition and Methods

Credit risk represents 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.

Loans and advances to customers include loans and advances originated by the Bank, which are not intended to be sold in the short-term, being recognised on the date the cash is advanced to customers.

Loans and advances to customers are derecognised from the balance sheet when:

I. the Group's contractual rights to receive the cash flows have expired,

II. the Group has transferred substantially all the risks and rewards of ownership, or

III. although retaining some but not substantially all of the risks and rewards of ownership, the Bank 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, net of impairment losses.

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 resulting from one or more events occurring after its initial recognition;

II. that event (or events) has an impact on the recoverable amount of the estimated future cash flows of that loan or of the loan portfolio, that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists for each loan individually. For this assessment and in identifying the impaired loans on an individual basis, the Bank uses the information that feeds the credit risk models implemented and takes into consideration, amongst others, 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 ability to generate sufficient cash flows to service its debt obligations in the future;
- the existence of privileged creditors;
- 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 Bank'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 Bank's historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank with the purpose of reducing any differences between loss estimates and actual loss experience.

In accordance with Adjusted Accounting Standards, the amount of the loans and advances should be adjusted, applying criteria of rigour and prudence, so as to reflect, at all times, their realisable value. This value adjustment (impairment loss) may not be inferior to that determined in accordance with Bank of Portugal's Notice no. 3/95, which establishes the minimum reference framework for the constitution of specific and general provisions.

When a loan is considered by the Bank as uncollectible and an impairment loss of 100% has been recognised, it is written off against the assets.

The following concepts used in this context by the Bank are also worth noting:

Overdue loans: as a rule credit considered to be overdue and recognised as such corresponds to the part of a loan that was not settled by the debtor within 30 days of the contractual date for repayment.

Credit at Risk: According to the definition set out in Bank of Portugal's Instruction no. 23/2011 of Banco de Portugal. Credit at Risk includes: a) total outstanding credit with overdue instalments of principal or interest for a period of more than 90 days; b) total value of outstanding restructured credits in which payments of principal or interest have been capitalized, refinanced or rescheduled without adequate strengthening of collateral (which shall be sufficient to cover the full outstanding amount of principal and interest) or full repayment of overdue interest; and c) total outstanding credit with overdue instalments of principal or interest for a period of less than 90 days, but for which there is evidence of bankruptcy or liquidation of the debtor.

Default: a default is considered to have occurred with regard to a particular obligor when either or both of the following have taken place: a) the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security; and b) the obligor is past due more than 90 days on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries. Competent authorities may replace the 90 days with 180 days for exposures secured by residential or SME commercial real estate in the retail exposure class, as well as exposures to public sector entities.

The Bank classifies its other financial assets at initial recognition taking into consideration the intention inherent to them, under 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 financial assets, normally securities, 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, with changes being recognised in the income statement.

The Bank 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 a economical basis), in order to eliminate an accounting mismatch; or
- such financial assets contain an embedded derivative.

The structured products acquired by the Bank 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 Bank's management has the positive intention and ability to hold until their maturity and that are not classified 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 to above.

The Bank's 2015 Annual Report contains a detailed description of the methodologies used for i) Initial recognition, initial measurement and derecognition; ii) Subsequent measurement; iii) Reclassification between categories; and iv) Impairment of the referred categories.

8.2 Quantitative Information and Value Adjustments and Provisions

This point presents the breakdown of exposures:

1) by exposure class and geographical location (tables IX and X)
2) by industry sector and residual maturity (tables XI and XII)
3) Breakdown of overdue and impaired exposures by industry sector and geographical location (tables XIII and IV)
4) Value adjustments and provisions table (table XV)

TABLE IX – Activity Breakdown by Class of Exposure

(thousands of euro)

Risk Classes	Original exposure		Original exposure (average)	
	dez-15	dez-14	dez-15	dez-14
Standardised approach	**4,609,379**	**4,680,444**	**4,490,350**	**5,784,029**
Central governments or central banks	590,506	282,888	324,318	675,871
Regional governments or local authorities	4,748	0	1,644	7,402
Public Sector Entities	19,329	0	6,799	0
Institutions	1,100,369	986,600	968,009	1,309,681
Corporates	1,679,703	2,790,749	2,408,749	3,256,239
Retail portfolio	0	4,515	3,271	4,475
Positions guaranteed by real estate	0	0	0	302
Past due items	520,267	90,641	233,950	32,542
Collective investments undertakings (CIU)	32,688	92,596	72,174	235,044
High-risk regulatory categories items	16,460	0	5,603	0
Other items	616,280	395,176	432,235	201,604
Shares	23,600	31,422	27,845	46,535
Securitisation positions on standardised approach	5,426	5,855	5,753	14,335

Note: As at 31 December 2004, the original exposure comprises the value of both Standardised approach and IRB aproach (to best reflect Haitong Bank's approach for credit risk as of that date).

TABLE X – Activity Breakdown by Region

(as a percentage of original risk position) [1]

Risk Classes	2015-12 Original risk position					2014-12 Original risk position				
	National	International			Total	National	International			Total
		Spain	New York	Brazil			Spain	New York	Brazil	
Standardised approach	**50.8%**	**13.7%**	**0.2%**	**35.3%**	**100.0%**	**52.8%**	**16.8%**	**0.9%**	**29.6%**	**100.0%**
Central governments or central banks	5.1%	0.0%	0.0%	7.7%	12.8%	1.4%	0.0%	0.0%	4.7%	6.0%
Regional governments or local authorities	0.0%	0.1%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Public Sector Entities	0.4%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Institutions	7.2%	1.9%	0.1%	14.7%	23.9%	6.4%	3.1%	0.3%	11.3%	21.1%
Corporates	20.0%	3.8%	0.0%	12.6%	36.4%	32.2%	13.7%	0.6%	13.2%	59.6%
Retail portfolio	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Past due items	3.3%	7.8%	0.0%	0.2%	11.3%	1.9%	0.0%	0.0%	0.0%	1.9%
Collective investments undertakings (CIU)	0.7%	0.0%	0.0%	0.0%	0.7%	1.6%	0.0%	0.0%	0.4%	2.0%
High-risk regulatory categories items	0.4%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Other items	13.4%	0.0%	0.0%	0.0%	13.4%	8.4%	0.0%	0.0%	0.0%	8.4%
Shares	0.3%	0.1%	0.0%	0.1%	0.5%	0.7%	0.0%	0.0%	0.0%	0.7%
Securitisation positions on standardised approach	0.1%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.1%
% Total original risk position	**50.8%**	**13.7%**	**0.2%**	**35.3%**	**100.0%**	**52.8%**	**16.8%**	**0.9%**	**29.6%**	**100.0%**

[1] The location of each business unit determines the allocation of the original risk exposure.

Note: As at 31 December 2004, the original exposure comprises the value of both Standardised approach and IRB aproach (to best reflect Haitong Bank's approach for credit risk as of that date).

TABLE XI – Exposures Breakdown by Industry Sector

(as a percentage of original risk position)

Risk Classes	Other manufacturing industries		Construction		Commerce		Transport and comunication		Financial activities		Real estate activities		Services		Other sectors	
	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14
Standardised approach																
Central governments or central banks	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	6.6%	0.0%	0.0%	0.0%	0.0%	0.0%	6.1%	6.0%
Regional governments or local authorities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Public Sector Entities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Institutions	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	23.9%	21.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Corporates	2.1%	4.1%	5.8%	8.3%	1.1%	3.1%	7.3%	10.1%	4.1%	5.1%	0.3%	1.5%	4.4%	12.8%	11.3%	15.4%
Past due items	0.8%	0.0%	1.3%	0.0%	0.8%	0.0%	1.1%	0.5%	0.0%	0.8%	1.5%	0.0%	5.1%	0.6%	0.7%	0.0%
Collective investments undertakings (CIU)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	2.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
High-risk regulatory categories items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	13.4%	8.6%
Shares	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.1%	0.0%	0.4%	0.2%	0.0%	0.0%
Securitisation positions on standardised approach	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Total	**2.9%**	**4.2%**	**7.1%**	**8.3%**	**1.9%**	**3.1%**	**8.9%**	**10.7%**	**35.8%**	**29.8%**	**1.9%**	**1.6%**	**9.9%**	**13.7%**	**31.5%**	**30.1%**

Note: As at 31 December 2004, the original exposure comprises the value of both Standardised approach and IRB aproach (to best reflect Haitong Bank's approach for credit risk as of that date).

TABLE XII – Exposures Breakdown by Residual Maturity

(as a percentage of original risk position)

Classes de Risco	RM < 1 year		1 year < RM < 5 years		5 years < RM < 10 years		VR > 10 Anos	
	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14
Standardised approach								
Central governments or central banks	8.7%	1.0%	4.1%	4.5%	0.0%	0.6%	0.0%	0.0%
Regional governments or local authorities	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Public Sector Entities	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Institutions	0.5%	16.3%	19.2%	2.5%	1.5%	0.1%	2.6%	2.2%
Corporates	4.7%	26.1%	16.8%	11.9%	1.3%	1.3%	13.6%	20.3%
Retail portfolio	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Past due items	2.1%	1.9%	4.5%	0.0%	0.1%	0.0%	4.5%	0.0%
Covered bonds	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Collective investments undertakings (CIU)	0.4%	0.2%	0.4%	0.3%	0.0%	1.1%	0.0%	0.3%
High-risk regulatory categories items	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	13.4%	8.4%
Shares	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%
Securitisation positions on standardised approach	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Total	**17%**	**46%**	**45%**	**19%**	**3%**	**3%**	**34%**	**32%**

Note: As at 31 December 2004, the original exposure comprises the value of both Standardised approach and IRB aproach (to best reflect Haitong Bank's approach for credit risk as of that date).

TABLE XIII – Breakdown of overdue and impaired exposures

(thousands of euro)

	Outstanding Exposure		Past due exposure		Impairment [1]	
	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14
Agriculture	11,408	31,782	0	0	69	232
Mining	42,616	50,327	0	0	0	0
Food, beverage and tobaco	56,315	84,569	199	0	5,179	2,119
Indústrias transformadoras - Texteis e Vestuário	0	2,364	0	0	0	6
Shoes	2,723	9,423	0	0	14	29
Chemicals and rubber	365	276	0	0	0	0
Non-metallic minerals	9,345	42,177	24,914	2,609	7,532	7,558
Metallic products	6,077	11,581	0	0	696	822
Production of machinery, equipment and electric devices	38,218	36,725	0	50	5,650	2,465
Production of transport material	15,609	16,625	0	0	125	102
Indústrias transformadoras - Outras Industrias Transformadoras	1,744	2,345	0	0	9	7
Máquinas	0	37	0	0	0	0
Collection, purification and distribution of w ater, sanitation, w aste management and cleaning	299,171	343,851	5,598	3,133	12,599	11,104
Construction	17,217	34,523	5,959	0	167	129
Real estate activities	189,085	263,795	37,047	18,287	22,566	21,708
Wholesale and retail; repair of motor vehicles and motorcycles	5,842	14,078	0	0	29	40
Transports and storage	92,165	129,075	1,519	914	18,994	19,048
Tourism	326,659	403,265	8,376	971	6,806	5,684
Printing and publishing	0	28,125	12,930	12,936	12,932	21,428
Radio and television broadcast	9,856	47,141	640	0	52	136
Actividades de rádio e de televisão	170	5,728	0	0	6	51
Communication activities	0	2,578	0	0	0	0
IT Consulting	17,272	19,741	0	229	79	197
Monetary intermediation	15,831	15,676	0	0	4,718	4,919
Holding companies	235,543	436,852	0	0	0	3,264
Financial activities	186,611	266,960	4,212	216	104,364	83,656
Real estate activities	63,917	143,060	623	431	10,828	12,605
Services provided to companies	51,432	64,115	27,207	1,723	50,676	20,521
Actividades veterinárias	68,758	141,657	3,741	2,789	7,384	7,453
Travelling activities	4,456	0	0	0	2	0
Renting activities	7,703	8,289	15,520	15,520	15,559	15,545
Public services	1,761	3,404	63,773	62,704	49,211	40,946
Local public services	1,136,599	1,002,544	0	0	0	0
Administração Pública Central (Actividades de Apoio e de Gestão)	5,581	-1	0	0	23	0
Arts, entretainment, sports and recreation activities	36,060	31,546	0	0	103	66
Other service activities	594	24,257	0	633	117	14,079
das famílias para uso próprio	38,741	39,344	3,142	2,688	18,603	18,593
Consumer loans	358	435	0	0	0	0
Loans to individuals	33	2,536	0	281	2	36
	2,995,835	**3,760,805**	**215,400**	**126,114**	**355,094**	**314,548**

[1] Does not include non-current assets held for sale.

Note:

"On-balance sheet exposures" are stated gross of impairment. The figures presented include asset items. Hence, in addition to "Total Loans", "Financial Assets Held for Trading" and "Available-for-Sale Financial Assets" are also considered for this purpose.

TABLE XIV – Breakdown of overdue and impaired exposures by region

(thousands of euro)

	Exposure		Past due exposure		Impairment (1)	
	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14
National	856,751	1,032,290	26,987	1,700	83,929	78,384
Spain	94,166	92,452	40,886	11,775	79,716	48,976
United States of America	0	183,808	0	248	0	517
Brazil	1,393,130	1,562,090	6,158	281	13,953	10,175
Cayman Islands	84,714	160,562	0	0	2,894	3,221
Ireland	536,290	672,866	135,847	106,940	170,713	169,838
Poland	30,506	56,247	5,521	5,170	3,888	3,347
Mexico	0	0	0	0	0	0
United Kingdom	278	489	0	0	0	90
Total	**2,995,835**	**3,760,805**	**215,400**	**126,114**	**355,094**	**314,548**

TABLE XV – Value Adjustments and Provisions

(thousands of euro)

Impairment, provisions and amortisations	dez-15	dez-14	dez-13
Opening balance	**345,465**	**153,363**	**144,433**
Charges	139,987	247,530	72,254
Uses	-21,207	-39,132	-31,509
Re-adjustments/Cancellations	-77,766	-14,348	-32,530
Other adjustments	0	-2,491	1,389
- Other and Adjustment for exchange rate differences	-2,881	543	-674
- Transfers of provisions	0		
Closing balance	**383,598**	**345,465**	**153,363**

As at 31 December 2015 the Bank had the following exposures and corresponding outstanding provisions:

TABLE XVI – Outstanding provisions

(thousands of euro)

	dez-15		dez-14	
	Balance exposure	Provisions	Balance exposure	Provisions
Available for sale financial assets	468,311	26,428	554,680	30,768
Loans and advances to banks	258,795	15,397	34,308	15,216
Loans and advances to customers	1,041,341	328,666	1,549,218	283,780
Held-to-maturity investments	0	0	0	0
Non-current assets held for sale	3,600	0	3,600	0
Other assets	629,444	13,107	532,441	15,701
Provisions for guarantees and other commitments	N.A.	4,634	N.A.	2,932
Provisions for liabilities	N.A.	3,909	N.A.	43,493

The following provision reinforcement/charges and reversals resulting from the recognition of impairments were made in 2015, with an impact on the Bank's consolidated income statement:

TABLE XVII – Impairment nature

(thousands of euro)

	dez-15		dez-14	
	Charges	Uses	Charges	Uses
Available for sale financial assets	2,843	7,183	34,200	21,012
Loans and advances to banks	149	-32	14,945	-34
Loans and advances to customers	127,058	82,172	182,267	28,622
Held-to-maturity investments	0	0	0	0
Non-current assets held for sale	0	0	0	0
Other assets	11,053	13,647	16,118	5,827
Provisions for liabilities (net)	4,791	42,673	16,373	10,251

8.3 Calculation of risk-weighted assets

As referred further up, following the carve-out process from Novo Banco, Haitong Bank currently uses the Standardised Approach to calculate risk-weighted assets for Credit Risk.

In the standardised approach, credit exposures are previously classified within regulatory risk classes according to their characteristics (e.g., type of counterparty, type of product). After making all the adjustments foreseen in Part III, title II of Regulation (EU) 575/2013 to the value of these exposures, namely relating to provisions, risk mitigation instruments or credit conversion factors (CCFs), they are attributed the appropriate regulatory risk weights. The risk weights applicable to credit exposures depend on the external ratings at any given time attributed to them. Once the value of the exposures to be weighted and the respective weights have been determined, the risk-weighted assets permitting to calculate the Bank's solvency are finally estimated.

The Haitong Bank Group uses the external ratings assigned to determine the risk weights applicable to exposures to central governments and central banks, institutions and corporates, in accordance with the rules set out in Regulation (EU) 575/2013.

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

Quantitative Information

The Bank's credit risk exposure is presented in the tables below.

TABLE XVIII – Standardised Approach

(thousands of euro)

	Risk weights							
	0%	20%	50%	75%	100%	150%	Other	TOTAL
1. Original exposure by risk classes								
Central governments or central banks	590,506	0	0	0	0	0	0	590,506
Regional governments or local authorities	0	4,748	0	0	0	0	0	4,748
Public Sector Entities	0	0	0	0	19,329	0	0	19,329
Institutions	0	784,292	181,172	0	134,905	0	0	1,100,369
Corporates	0	0	0	0	1,625,022	54,681	0	1,679,703
Past due items	0	0	0	0	453,610	66,658	0	520,267
Collective investments undertakings (CIU)	0	0	0	0	32,688	0	0	32,688
High-risk regulatory categories items	0	0	0	0	0	16,460	0	16,460
Other items	427,665	0	0	0	144,712	0	43,903	616,280
Shares	0	0	0	0	23,600	0	0	23,600
Securitisation positions on standardised approach	2,756	0	0	0	47	0	2,624	5,426
Total original exposures	**1,020,927**	**789,040**	**181,172**	**0**	**2,433,913**	**137,799**	**46,527**	**4,609,379**
2. Exposure by risk classes (reserve base of risk weights)								
Central governments or central banks	466,068	0	0	0	0	0	0	466,068
Regional governments or local authorities	0	31,304	0	0	0	0	0	31,304
Public Sector Entities	0	0	0	0	19,194	0	0	19,194
Institutions	0	146,312	181,172	0	116,240	0	0	443,724
Corporates	0	0	0	0	1,321,039	54,408	0	1,375,446
Past due items	0	0	0	0	92,050	53,753	0	145,802
Collective investments undertakings (CIU)	0	0	0	0	28,262	0	0	28,262
High-risk regulatory categories items	0	0	0	0	0	16,242	0	16,242
Other items	427,665	0	0	0	144,712	0	43,903	616,280
Shares	0	0	0	0	12,237	0	0	12,237
Securitisation positions on standardised approach	0	0	0	0	47	0	2,624	2,671
Total exposures	**893,733**	**177,616**	**181,172**	**0**	**1,733,779**	**124,403**	**46,527**	**3,157,230**
3. TOTAL capital requirements (=Σ(2."X"risk weights))	**0**	**80,589**	**90,586**	**0**	**1,729,354**	**186,604**	**142,604**	**2,229,736**

9. Encumbered and unencumbered assets

With the purpose of keeping the market informed about the liquidity and funding profile of credit institutions and promoting transparency with regard to the encumbrance of assets, article 443 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 requires the disclosure of information about encumbered and unencumbered assets.

Based on this regulatory framework, on 15 January 2014 the Bank of Portugal issued instruction no. 28/2014, which stipulates that the credit institutions and investment companies listed in article 4-A (sub-paragraphs a) to d)) of the Regime Geral das Instituições de Crédito e Sociedades Financeiras (the Portuguese General Law on Credit Institutions and Financial Companies) that fall under the scope of Regulation (EU) no. 575/2013 and Directive 2013/36/ EU of the European Parliament and of the Council of 26 June (Directive no. 2013/36/EU) required to provide information on a consolidated basis to the Bank of Portugal, must disclose consolidated information about encumbered and unencumbered assets.

TABLE XIX – Encumbered Assets

(thousands of euro)

Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Unencumbered assets
Assets of the reporting institution	**1,462,939**		**2,709,642**	
Equity instruments	0	0	29,655	29,655
Debt securities	1,156,221	0	284,986	284,986
Other assets	303,592		941,363	

(thousands of euro)

Collateral received	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting	**2,919**	**0**
Equity instruments	0	0
Debt securities	2,919	0
Other collateral received	0	0
Own debt securities issued other than own covered bonds or ABS	**0**	**25,383**

(thousands of euro)

Encumbered assets, encumbered collateral received and matching liabilities	Liabilities, contingent liabilities and securities lent	Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS
Carrying amount of selected financial liabilities	**1,298,518**	**1,465,177**

Moreover, the 2015 Annual Report provides additional information about encumbered assets, namely in Notes 16, 18, 19, 21, 28, 29, 30 and 38 to the Financial Statements.

10. Credit Risk - Use of ECAIs

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

The Bank's internal rating function was effectively internalised 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 within a timeframe of one year and are assigned to all clients and counterparties of Haitong Bank. They are mandatory for credit decisions and used as impairment triggers and warning signals. The annual updating and maintenance of the internal rating framework is outsourced to Standard and Poor's.

The ratings assigned by external rating agencies to risk exposures are initially allocated automatically through a process specifically developed for the purpose. This process is monitored and the relations established are subject to validation and stored in a dedicated database.

11. Exposure to market risk

11.1 Position risk, counterparty credit risk and risk of liquidation of the trading portfolio

The calculation of own funds requirements for market risk is based on the accounting trading book.

These risks are calculated using the standardised approach, in accordance with Part III, Title IV of Regulation (EU) no. 575/2013, with the general risk of debt instruments being calculated based on maturity.

All products are analysed so as to identify the preponderant risk factor according to which own funds requirements can be adequately calculated.

TABLE XX – Own Funds Requirements (Trading Book)

(thousands of euro)

Trading book risks	Capital Requirements	
	dez-15	dez-14
Total Trading book risks = ∑(1 to 2)	**21,635**	**42,628**
1. Position risk (1.1. + 1.2.)	**21,635**	**42,627**
1.1. Standardised approach for trading book = ∑(1.1.1. to 1.1.6.)	**21,635**	**42,627**
1.1.1. Debt Instruments		
1.1.1.1. Specific Risk	3,034	3,497
1.1.1.2. General risk	18,411	35,962
1.1.1.3. Additional requirements for Options - Non-Delta risk	0	0
1.1.2. Equity		
1.1.2.1. Specific Risk	95	1,990
1.1.2.2. General risk	95	1,179
1.1.3. Collective investments undertakings (CIU)	0	0
1.1.4. Exchange-traded futures and options	0	0
1.1.5. OTC futures and options	0	0
1.1.6. Others	0	0
1.2. IRB approach for trading book	0	0
2. Settlement Risk	0	1

11.2 Foreign exchange and commodities risks in the banking and trading books

The calculation of own funds requirements for foreign exchange and commodities risks is based on the trading book and the banking book.

These risks are calculated using the standardised approach, in accordance with Part III, Title IV of Regulation (EU) no. 575/2013, using the simplified approach for commodities risk.

All products are analysed so as to identify the preponderant risk factor according to which own funds requirements can be adequately calculated.

TABLE XXI – Own Funds Requirements: Foreign Exchange and Commodities

(thousands of euro)

Foreign-exchange and commodities risks	Capital Requirements	
	dez-15	dez-14
1. Foreign-exchange risk (1.1.+ 1.2.)	**12,593**	**2,736**
1.1. Standardised Approach	12,593	2,736
1.2. IRB Approach	0	0
2. Commodities risk (2.1.+ 2.2.)	**0**	**0**
2.1. Standardised Approach = ∑(2.1.1. to 2.1.4.)	**0**	**0**
2.1.1. Maturity ladder approach or simplified method	0	0
2.1.2. Exchange-traded futures and options	0	0
2.1.3. OTC futures and options	0	0
2.1.4. Others	0	0
2.2. IRB approach	0	0

12. Operational Risk

12.1 Overview

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.

12.2 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 translating 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:

- Operational risk representatives from 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 in their units, where they must guarantee that the established procedures are implemented;
- The Compliance Department, which plays an important role in guaranteeing that the processes are well documented, detecting specific risks and verifying the controls implemented, ascertaining the rigour of control design and identifying required steps for improvement and full effectiveness, while maintaining continuous reporting to and from the operational risk management;
- 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 entails 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 (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 analyses to identify the larger risks and corresponding mitigation actions;
- Monitoring of risk factors through key risk indicators (KRIs);
- Calculation of own funds requirements in accordance with the Standardised Approach (this is performed by the Management Information Department).

12.3 Quantitative Information

Calculation of own funds requirements in accordance with the Standardised Approach

Operational risk is managed through a system of procedures that standardise, systematise and regulate the frequency of actions viewing the identification, monitoring, control and mitigation of this risk.
The own funds requirements determined for prudential reporting purposes as at 31 December 2015 were calculated in accordance with the Standardised Approach.

In accordance with the Standardised Approach, own fund requirements for operational risk, KTSA, correspond to the average, of the last three years, of the sum of the risk-weighted relevant indicators, which are determined on a yearly basis, for the eight regulatory business lines - Corporate finance, Trading and sales, Payment and settlement, Commercial banking, Agency services, Retail banking, Retail brokerage and Asset management.

$$K_{TSA} = \frac{\sum_{i=1}^{3} \max\left[\sum_{j=1}^{8}(IR_j \times \beta_j),0\right]}{3}$$

Where:

- IR_j corresponds to the relevant indicator of a given year for each of the eight (j) business lines;
- β_j is the risk factor (percentage) for each of the eight (j) business lines.

Calculation of the Relevant Indicator

In accordance with Regulation (EC) no. 1606/2002 of the European Council and Parliament of 19 July 2002, as transposed into Portuguese law through Decree-Law no. 35/2005 of 17 February and Bank of Portugal's Notice no. 1/2005, the Bank prepares its separate financial statements in accordance with the

Adjusted Accounting Standards (“NCAs”) and its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as established by the Bank of Portugal.

The NCAs provide for the application to the separate financial statements of the International Financial Reporting Standards (IFRS) as adopted by the European Union, except for certain issues regulated by Banco de Portugal, such as impairment of loans to customers and the accounting treatment given to the recognition under retained earnings of the adjustments in retirement and survival pension liabilities determined on the transition.

The IFRS comprise the 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 relevant indicator is calculated based on the accounting concepts defined in Bank of Portugal's Instruction no. 23/2007, considering the following accounting headings:

TABLE XXII – Accounting headings

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

The above headings must reflect the following adjustments, when necessary:

- the relevant indicator must be stated gross of provisions and operating costs, i.e., it must be calculated before the deduction of any provisions and operating costs, the latter including fees paid for outsourcing services rendered by third parties which are not subsidiaries;
- fees paid for outsourcing services rendered by third parties which are subsidiaries contribute to reduce the relevant indicator;
- fees received for the provision of outsourcing services contribute to increase the relevant indicator;
- To the extent that they do not result from the current activity of institutions, income from the sale of non-trading book items, extraordinary results, income from insurance (excluding the part of

insurance brokerage considered as ancillary to the institutions' current activity) and insurance indemnities received are not used in the calculation of the relevant indicator.

Relevant indicators are calculated at individual and consolidated level.

The mapping of business lines is based on the cost centres of each entity. Except for the Bank's units in Portugal, the Madrid Branch, the Warsaw Branch, the New York Branch, Haitong Investment Ireland PLC, Haitong UK Limited and Haitong Banco de Investimentos do Brasil, S.A. (Brazil), all the other entities of the Bank were considered as monoline given that their activity is essentially concentrated in one business line.

TABLE XXIII – Operational Risk

(thousands of euro)

Segments	Relevant indicator		
	dez-13	dez-14	dez-15
1. Basic indicator approach			
Standard approach	209,244	194,558	147,516
- Corporate finance	43,753	31,115	26,112
- Trading and sales	85,327	82,187	65,502
- Retail brokerage	5,478	2,274	1,245
- Commercial banking	66,216	71,876	50,128
- Retail banking	2,482	2,328	39
- Payment and settlement	0	0	0
- Agency services	0	0	0
- Asset management	5,987	4,778	4,489
Advanced measurement approach (a)	0	0	0

(a) Information on the relevant indicator for activities subject to the advanced measurement approach

13. Exposures in Equities in the Banking Book

13.1 Overview

The Bank holds positions in equities in the banking book with the objective of value creation. Hence the strategic holdings, holdings in companies where the Group sees an upside potential, equities received as payment in kind for loans and credit converted into equity, are included in the banking book.

The Bank's exposure in equities is accounted in two asset portfolios: (i) assets recognised at fair value with value changes taken to the income statement, and (ii) assets available for sale, with value changes recognised under equity as a separate item - "Fair Value Reserves" - and subject to impairment tests.

The methods used to determine fair value emphasise the valuations of the markets where the securities are listed, using purchase prices, whenever available. If the securities are not listed in an organised market, quotes are requested from brokers regularly trading in the securities in question; for equities not traded by such brokers, the Bank uses several valuation techniques which it considers as the most appropriate for each of the exposures, including the use of recent transactions, when such are known, valuations based on market multiples of entities of a similar nature, or for the more significant exposures, valuations carried out by specialised entities.

Exposures in equities included in the available for sale portfolio are regularly assessed in order to determine their impairment. The Bank determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in their fair value. This determination requires a judgement based on the collection and assessment of all available relevant information, including the normal volatility of the financial instruments' prices. For this purpose and considering the high volatility of the markets, the parameter used as impairment trigger for equity securities is the continued or significant decline in their market value against the acquisition cost. In addition, valuations are obtained through market quotes (mark to market) or valuation models (mark to model) that require the use of certain assumptions or judgement in defining fair value estimates. The use of alternative methodologies and different assumptions and estimates can result in a different level of impairment losses being recognised, with a consequent impact in the income statement.

13.2 Quantitative Information

TABLE XXIV – Exposures in Equities in the Banking Book

(thousands of euro)

	Quoted shares		Unquoted shares						Derivatives: equity/Index contracts		Other equity instruments		Total	
			Private equity		Others		Total							
	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14	dez-15	dez-14
Acquisition cost/ Notional amount	1,822	1,821	9,487	12,752	2,853	3,362	14,162	17,934	0	0	29,779	52,997	**43,941**	**70,931**
Fair value	516	620	3,753	8,614	2,253	2,671	6,522	11,905	0	0	21,948	43,715	**28,470**	**95,269**
Market value										N/A		N/A		
Results arising from sales and liquidations in the period													**n.d.**	**n.d.**
Total unrealised gains or losses													**-15,471**	**-15,311**
Total latent revaluation gains or losses													**n.d.**	**n.d.**

14. Banking book interest rate risk

14.1 Methodologies

Interest Rate Risk arises from the exposure of a bank’s financial situation to adverse movements in interest rates. 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 the institution's banking book. In fact, fluctuations in market interest rates not only affect the net interest margin - through their impact on the income and costs of financial products sensitive to those fluctuations - but also the underlying value of such products that are part of the Bank's assets, liabilities and off-balance sheet items.

The banking book exposure to interest rate risk is calculated on the basis of 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 schedules. 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’s Instruction 19/2005). All financial products which do not have an associated interest return are considered as non-interest rate sensitive (cash, equities, other assets, including real estate, and other liabilities). Term deposits (interest-bearing or not) are considered in the maturity tenor of on demand up to one month.

The banking book exposure to interest rate risk is calculated on a quarterly basis.

On the other hand, within the scope of ICAAP interest rate risk in the banking book is quantified according to the Value-at-risk (VaR) model, using the historical simulation method. Based on the historical interest rates in each time band the absolute annual changes are determined (corresponding to a holding period of one year). Subsequently, the accumulated impact of a shift in the yield curve is determined for each day of the historical period in which changes have been determined, based on: position (or net pricing gap), modified duration, and change observed in each time band.

14.2 Quantitative Information

TABLE XXV – Interest Rate Risk (Banking Book)

(thousands of euro)

Interest rate risk (Banking book)			Impact dez-15	Impact dez-14
Impact on capital from a shift of 200 basis points in the yield curve	Value	+ [1]	14,829	-7,333
		- [2]	-14,829	7,333
	% Own funds	+ [1]	3.78%	-1.82%
		- [2]	-3.78%	1.82%

[1] "+" = upward shift in the yield curve

[2] "-" = downward shift in the yield curve

15. Exposure to securitisation positions

15.1 Overview

As at 31 December 2015 the Bank had no asset securitisation operations originated by Group units.

15.2 Calculation of risk-weighted exposure amounts

As at 31 December 2014 the Bank had no asset securitisation operations originated by units of Haitong Bank SA. Group.

Risk-weighted exposures inherent to investments in securitisation operations are also treated under the standardised approach

In order to determine the risk weights applicable to securitisation exposures Haitong Group uses the ratings assigned by external agencies.

TABLE XXVI – Credit Risk of Securitisation Exposures: Standardised Approach

(thousands of euro)

Securitisations	Original securitisation positions	Exposure value (net of value adjustments and provisions)	Exposure deducted from own funds (-)	Breakdown of the exposure value subject to risk weights						Total risk-weighted exposure amount	
				Standardised approach					1250%		
				CQS 1	CQS 2	CQS 3	CQS 4	All other CQS	Unrated	dez-15	dez-14
Total exposure amount	**5,426**	**2,671**	**0**						**2,624**	**32,846**	**32,550**

16. Remuneration Policy

The information concerning the remuneration policy and practices of the institution for those categories of staff whose professional activities have a material impact on its risk profile is contained in the "2.16 Employee Benefits" section of the 2015 Annual Report and in Annex V to this Report, "Remuneration of the Board of Directors and Supervisory Board Members and Relevant Staff (Senior Managing Directors and Control Functions Staff).

17. Credit risk mitigation techniques

17.1 Overview

The risk mitigation techniques most used by the Bank are physical collateral, especially immovable property and financial collaterals, and personal guarantees. The use of collaterals is a key element of the risk policy and credit decision process, influencing the acceptance criteria, the decision levels, and the pricing.

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

Other types of guarantees are also used, which, while not eligible as risk mitigators for purposes of calculating regulatory capital requirements, effectively reduce the credit risk to which the Bank is subject. On account of their broad use, we stress the personal guarantees provided by company partners in certain financing operations.

In the markets area, the Bank uses various credit risk mitigation techniques, notably, repo-style transactions, netting, margin accounts (formalised through SDA-CSA agreements) and credit derivatives.

17.2 Valuation of collaterals received and haircuts

The valuation/revaluation of collaterals is carried out under the terms set out in a specific rule, and complies with the requirements set out in Regulation (EU) no. 575/2013.

The application of haircuts is a simple task performed by the information system, which segments the guarantees/collaterals according to their various types and divides them between eligible and non-eligible for risk mitigation purposes. Where there is only partial coverage, the corresponding haircuts are applied to the covered portion while the non-covered portion is treated as such.

17.3 Monitoring Processes

The level of coverage by collaterals is monitored by the Impairment Committee when assessing the impairment in the credit portfolio. As an integral part of the risk monitoring process, the coverage level by the various types of collaterals, in the case of equities, is reported to and analysed on a daily basis by the Risk Control Department.

The following point contains quantitative information about the impact of risk mitigation techniques on the replacement of exposures, by class (effect of third-party guarantees) and on the reduction in the amount of exposures (effect of collaterals).

17.4 Quantitative Information

TABLE XXVII – Credit Risk Mitigation Techniques – Standardised Approach

(thousands of euro)

Risk classes	Net exposure	Credit risk mitigation techniques with substitution effects on the original net exposure		Credit risk mitigation techniques with effect on the net exposure amount: funded credit protection (a)		Fully adjusted exposure
		Personal credit protection	Substitution effect on the exposure (net of outflows and inflows)	Volatility adjustment to the exposure amount	Financial collateral: amounts adjusted by volatility and any discrepancy between expiration periods (Cvam) (-)	
Total exposures	**4,229,558**	**-76,602**	**0**	**35,375**	**997,739**	**3,269,865**
Standardised approach						
Central governments or central banks	589,358	0	49,813	0	173,103	466,068
Regional governments or local authorities	4,515	0	26,788	0	0	31,304
Public Sector Entities	19,194	0	0	0	0	19,194
Institutions	1,100,292	0	0	24,446	662,417	462,322
Corporates	1,644,138	-26,788	-26,788	10,929	159,548	1,468,730
Retail portfolio	0	0	0	0	0	0
Past due items	196,151	-49,813	-49,813	0	0	146,338
Collective investments undertakings (CIU)	28,262	0	0	0	0	28,262
High-risk regulatory categories items	16,460	0	0	0	0	16,460
Other items	616,280	0	0	0	0	616,280
Shares	12,237	0	0	0	0	12,237
Securitisation positions on standardised approach	2,671	0	0	0	2,671	2,671

(a) - Comprehensive financial collateral method. Exposure amount shall mean the net exposure after the substitution effect.

TABLE XXVIII – Concentration Analysis – Funded and unfunded credit protection

(thousands of euro)

	Personal credit protection		Funded credit protection	
	dez-15	dez-14	dez-15	dez-14
Total positions covered	**84,563**	**98,746**	**1,001,592**	**544,368**
Breakdown by industry sector:				
Commerce	19,123	36,421	0	0
Construction	24,548	8,668	0	18,868
Other manufacturing industries	12,329	12,673	2,367	3,543
Services	18,738	19,625	291	34,413
Other sectors	9,824	21,359	5,237	32,169
Transport and comunication	0	0	0	0
Financial activities	0	0	993,698	455,373
Real estate activities	0	0	0	0