HAITONG

2018 Interim Report

A NEW LANGUAGE IN THE FINANCIAL WORLD

HAITONG

Index

CHAIRMAN AND CEO'S REVIEW

Wu Min | CEO

Lin Yong | Chairman

Since we started this turnaround project, there has been no doubt in our minds that the path ahead would be as challenging as it would be rewarding. Now, a full eight months into this project, we have not only seen encouraging progress but also a path to growth.

Since the beginning of our mandate, our objective has been to restore the credibility of this Bank with the Regulators, Clients and the Shareholder. The first step was to put the house in order. That involved cutting costs to a sustainable level, developing a China-related strategy, ensuring capital support from the Shareholder and addressing key governance issues. That initial work has been generally completed with positive results during this first half of 2018.

We now have a stronger balance sheet available to invest in new assets. We run at half of the cost-base compared to last year. We succeeded in reaching the targeted operating profit in the first half of the year. We have a new Board of Directors supported by a functioning governance structure. We have put in place new internal procedures and ultimately started to instil a corporate culture that follows the best standards in the industry.

Group connectivity has been crucial for the Bank's turnaround in terms of revenues and in terms of capital support, namely through the issuance of a USD 130 million subordinated additional TIER 1 instrument. Regarding the legacy credit portfolio and although there were some improvements, this is still holding back the results of the Bank and is taking significant Management attention.

The Governance structure was one of the priorities of our turnaround process. We have created four Board committees chaired by Independent Directors that have provided constructive oversight of our business. At the Executive Committee level, we have created four business-related committees that have empowered our middle management and have given them more responsibilities as they participate in the decision-making process.

From a business perspective, by the end of the first 6 months of the year, total banking income reached EUR 49 million, 40% above the same period last year. On the costs side, we have delivered operating costs 44% lower compared to the first half of 2017, allowing the Bank to return to operating profitability, which has been our main goal for this year.

We expect the second half of 2018 to be more balance sheet driven through new credit transactions and trading activities as we start expanding the balance sheet and using the comfortable liquidity position. We also expect to see further pipeline conversion into actual transactions in investment banking.

Thinking of our future, we will keep a dynamic and innovative mind as we adapt our business model to a changing industry.

"The management team counts on the continuous support of all our stakeholders! Let's keep moving forward together!"

KEY INDICATORS

(million euros)

	2018 June	2017 December	2016 December
Total Assets	**3,263**	3,276	4,755
Total Liabilities	**2,642**	2,742	4,404
Equity	**621**	534	351
Banking Income	**49**	77	101
Operating Costs	**-39**	-126	-120
Operating Profit	**10**	-50	-18
Impairment and Provisions	**-23**	-86	-58
Net profit / loss	**-2**	-130	-96
Cost-to-Income	**77%**	161%	244%
ROE	**-0.7%**	-26.1%	-51.5%
ROA	**-0.1%**	-3.4%	-1.7%
Loan Portfolio (gross)	**644**	750	1,097
Loan Loss Charge	**19**	49	49
Non Performing Loans Rate	**33%**	37%	44%
Non Performing Loans Coverage	**52%**	42%	52%
CET1 ratio (phased-in)	**22.1%**	21.2%	7.1%
CET1 ratio (fully-loaded)	**21.9%**	20.3%	5.3%
Total capital ratio (phased-in)	**28.0%**	21.3%	9.7%
Total capital ratio (fully-loaded)	**27.7%**	20.5%	8.4%
Leverage Ratio (phased-in)	**21.8%**	15.0%	6.1%
Leverage Ratio (fully-loaded)	**21.6%**	14.5%	5.2%
Net Stable Funding Ratio	**153%**	149%	115%
Total Headcount	**392**	462	663


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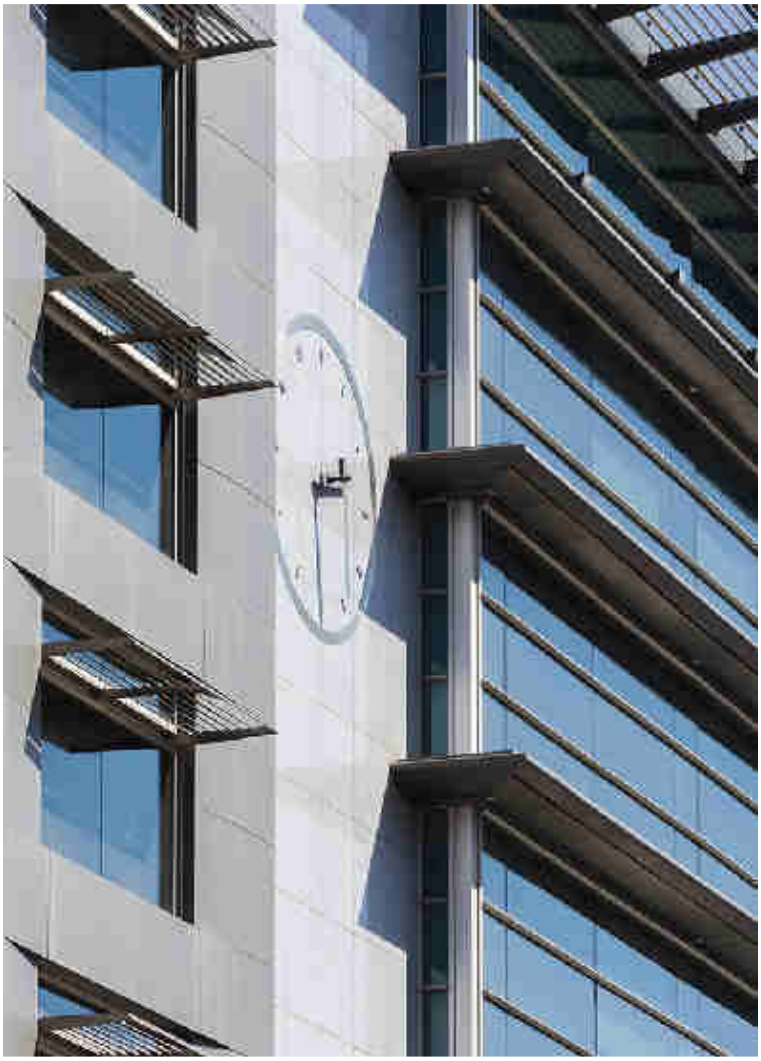


WHO WE ARE

Haitong Bank, S.A. is part of Haitong Securities Co. Ltd, a leading investment bank and securities firms in China with a broad international footprint.

Haitong Bank was established as an investment bank in 1993. After its acquisition by Haitong Securities in 2015, Haitong Bank aligned its product offering leveraging on its Sino-European and Sino-LatAm competitive position.

Governance

GOVERNANCE

CORPORATE BODIES

GENERAL MEETING BOARD

President

Maria João Ricou

BOARD OF DIRECTORS

Chairman

Lin Yong

Members

Wu Min
Alan do Amaral Fernandes
António Domingues
Christian Georges Jacques Minzolini
Poon Mo Yiu
Nuno Miguel Sousa Figueiredo Carvalho
Pan Guangtao
Paulo José Lameiras Martins
Vincent Marie L. Camerlynck
Zhang Xinjun

Secretary

Pedro Alexandre Martins Costa

SUPERVISORY BOARD

Chairman

Mário Paulo Bettencourt de Oliveira

Members

Cristina Maria da Costa Pinto
Maria do Rosário Mayoral Robles
Machado Simões Ventura

Alternate Director

Paulo Ribeiro da Silva

EXECUTIVE COMMITTEE

CEO

Wu Min

Members

Alan do Amaral Fernandes
Christian Georges Jacques Minzolini
Paulo José Lameiras Martins
Nuno Miguel Sousa Figueiredo Carvalho

Senior Managers with a Seat on the Executive Committee

António Carlos Gomes Pacheco
Pedro Alexandre Martins Costa
Vasco Câmara Pires Santos Martins

Secretary

Pedro Alexandre Martins Costa

STATUTORY AUDITORS

Deloitte & Associados, SROC S.A. represented by João Carlos Henriques Gomes Ferreira

BOARD OF DIRECTORS

Lin Yong
Chairman

First term of office starting date: April 2016

Professional Experience: Dr. Lin Yong has over 20 years of experience in the investment banking industry. He joined Haitong Securities Co., Ltd in 1996 and was a general manager of the Investment Banking Department of Haitong Securities from 2001 to 2007. Since 2011, Dr. Lin has been the Deputy Chairman and the Chief Executive Officer of Haitong International Securities Group Limited based in Hong Kong.

He is one of the first set of sponsor representatives of the China Securities Regulatory Committee and has been an assistant professor at the Management College of Xiamen University since 2010. Dr. Lin Yong has been a non-Executive Board Member of Haitong Bank since April 2016 and became the Chairman in October 2017.

Academic Background: Mr. Lin Yong gained a PhD in Economics from Xi'an Jiaotong University in 2004.

Wu Min
CEO

First term of office starting date: October 2017

Professional Experience: Mr. Wu Min has substantial experience in management functions in the financial services industry. At Haitong Securities Co. Ltd. he founded the largest Debt Capital Markets team in China with over 500 professionals, underwriting around CNY 500 billion in bonds in 3 years, with a client coverage network encompassing all the Chinese corporations and enterprises with credit ratings above AA- and an institutional sales network, covering over 3,000 institutional accounts.

Academic Background: Mr. Wu Min has a strong European academic background, with degrees from well-regarded UK universities. Mr. Wu Min obtained his bachelor's degree in International Trade & Finance from Sichuan University in 2000. Subsequently, in 2001, he obtained a Master's in Investment & Finance from Middlesex University and in 2003 a Master's in Mathematical Trading & Finance from London City University.

He holds the following certifications:

- Registered with the China Securities Regulatory Commission (since 2003)
- Qualified Trader License in China Inter-Bank Market (since 2005)
- Assessment expert of government procurement, Ministry of Finance, China (since 2016)
- Registered expert of the fourth non-financial institution bond committee, NAFMII – 2017.

Alan Fernandes
Executive Director

First term of office starting date: March 2013

Professional Experience: Mr. Alan Fernandes has more than 25 years of professional experience in the financial sector. He has strong experience in Structured Finance involving all infrastructure sectors, including private-public partnerships, and has had an active role in the privatisation of companies in the electricity, telecommunications, mining and natural gas distribution sectors in Brazil, including the privatization process of natural gas services in the State of S. Paulo. He was also deeply involved in the restructuring of the energy sector in Brazil (distribution, transmission and generation). Mr. Alan Fernandes has been an Executive Board Member of Haitong Bank since March 2013 and an Executive Board Member of Haitong Brasil since March 2014. He has also been the Chief Executive Officer of Haitong Brasil since April 2016. Previously Alan worked for Banco Itaú S.A., Banco Itaú BBA S.A., Unibanco S.A., Algar Telecom S.A., Deloitte & Touche Tohmatsu and the BNDES.

Academic Background: He gained a degree in mechanical engineering from Federal University of Rio de Janeiro and Aeronautical Engineering from ITA, the Technological Institute of Aeronautics, with a specialization in finance from IBMEC.

António Domingues

Non-Executive Director

First term of office starting date: January 2018

Professional Experience: Mr. António Domingues has extensive experience in the banking sector. Over the past almost 30 years he has held Senior Management roles in different institutions such as CGD (Chairman of the Board of Directors and of the Executive Committee), BPI (Deputy CEO and CFO at Banco BPI) and Companhia de Seguros Allianz Portugal, S.A. (member of the Board of Directors). Mr. António Domingues was also Vice-Chairman of BPI S.A., Vice-Chairman of BCI - Banco Comercial e de Investimentos, S.A., Deputy General Director of the BPA - Banco Português do Atlantico in France; Adviser in the Department of Foreign Affairs of the Bank of Portugal and Economist at the Ministry of Industry and Energy.

Currently, he is a member of the Board of Directors of NOS, S.A. and Vice-Chairman of BFA – Banco de Fomento Angola.

Academic Background: He has a degree in Economics from the Instituto Superior de Economia in Lisbon.

Christian Minzolini

Executive Director

First term of office starting date: June 1994

Professional Experience: Mr. Christian Minzolini has long-standing experience in business development and start up activities. He started his career in 1982 in France with Banque Indosuez where he was involved in business development activities, starting up banking business units in Denmark, Iceland and Portugal. During his career at Haitong Bank, he has mainly dealt with business development activities in Spain, the USA and Poland.

Academic Background: He graduated from École Supérieure de Paris (ESCP Europe) and from Stanford Graduate School of Business (USA). He also completed the New York Stock Exchange Series 7 and Series 23 exams, allowing him to manage a Broker Dealer in the USA.

Poon Mo Yiu

Non-Executive Director

First term of office starting date: November 2015

Professional Experience: Mr. Poon has extensive experience in financial management, management of information systems, accounting projects as well as various aspects of mergers and acquisitions. Prior to joining Haitong Securities, Mr. Poon worked for Sun Hung Kai & Co. Limited as the Group Chief Operating Officer and the Group Chief Financial Officer. Previously, he was also a Vice President in Finance of JPMorgan Chase Bank and the Group Financial Controller of Jardine Fleming Group in Asia before its merger with JPMorgan Chase Bank. Mr. Poon joined Haitong International Securities Group Limited in August 2008 and was appointed as an Executive Director of the company in July 2009. He was the Chief Operating Officer as well as a member of the Executive Committee of the Group prior to his re-designation as a Non-Executive Director in February 2016.

Since then and up to February 2018, Mr. Poon assumed the position of Executive Board Member and CFO of Haitong Bank, being also Chairman of Haitong Capital SCR, CEO of Haitong Investment Ireland plc and non-Executive Director of Haitong Banco de Investimento do Brasil.

Academic Background: He holds an MBA Degree from the Chinese University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England & Wales.

Nuno Carvalho

Executive Director

First term of office starting date: April 2018

Professional Experience: Mr. Nuno Carvalho has a 20 years professional experience in the Legal and Financial sectors, particularly on Investment Banking, as a Lawyer, MLRO or Head of Compliance, having also held a number of other Corporate Functions such as Investor Relations and Representative with CMVM. Mr. Nuno Carvalho re-joined the Bank in 2017, from Barclays Capital Investment Banking, and was appointed to the Board of Directors in May 2018.

Academic Background: Mr. Nuno Carvalho has a law degree from the University of Lisbon, Faculty of Law and a Post-Graduation in Accounting and Finance from ISCTE Business School, Lisbon.

Pan Guangtao

Non-Executive Director

First term of office starting date: November 2015

Professional Experience: Mr. Pan has 24 years of experience in the securities industry, including 4 years in information system development and management and 20 years in equity and derivatives investment. Mr. Pan was appointed Assistant General Manager of Haitong Securities in March 2017. He originally joined the company in 2002 and has had management roles in the Equity Investment Department and Asset Management Department.

Academic Background: Mr. Pan graduated in 1994 with a degree in Mechatronics and Engineering from Shanghai University of Engineering Science and gained an MBA in China Commerce from Macau University of Science and Technology.

Paulo Martins

Executive Director

First term of office starting date: March 2005

Professional Experience: Since 2009, Mr. Paulo Martins has been the Global Head of Corporate Finance, leading a team across Haitong Bank geographies and having played a major role in several landmark M&A transactions. Since joining Haitong Bank, he has been liaising with many renowned institutions, including key clients, establishing strong relationships with them. Prior to this, he worked for Delphi Automotive Systems, S.A. (General Motors Corp.), having started his career in the Portuguese Investment Banking Division of Deutsche Bank as an analyst in the Corporate Finance / M&A and Project Finance departments, moving later to Senior Analyst.

Academic Background: He graduated in Industrial Production Engineering from the Universidade Nova de Lisboa and has a Post-Graduation in Management from the ISCTE - Instituto Superior de Ciências e Trabalho de Empresas, in Lisbon.

Vincent Camerlynck

Non-Executive Director

First term of office starting date: November 2016

Professional Experience: Mr. Vincent Camerlynck has 30 years of extensive global business, management and board experience in capital markets and the asset management industry. During this time, he worked for some renowned investments banks (HSBC, Goldman Sachs, BNP Paribas) in the major financial markets in the world (NY, London, HK and Paris). Mr. Vincent Camerlynck currently serves on a number of Boards as an Independent Non-Executive Director and provides advisory services to business leaders by leveraging on his deep understanding of the asset management industry's fundamentals and business and change management experience.

Academic Background: He has a law degree from the University of Leuven (Belgium) and a Master's in Economics from the University of Louvain la Neuve (Belgium) and in International and Comparative Politics from the London School of Economics (England).

Zhang Xinjun

Non-Executive Director

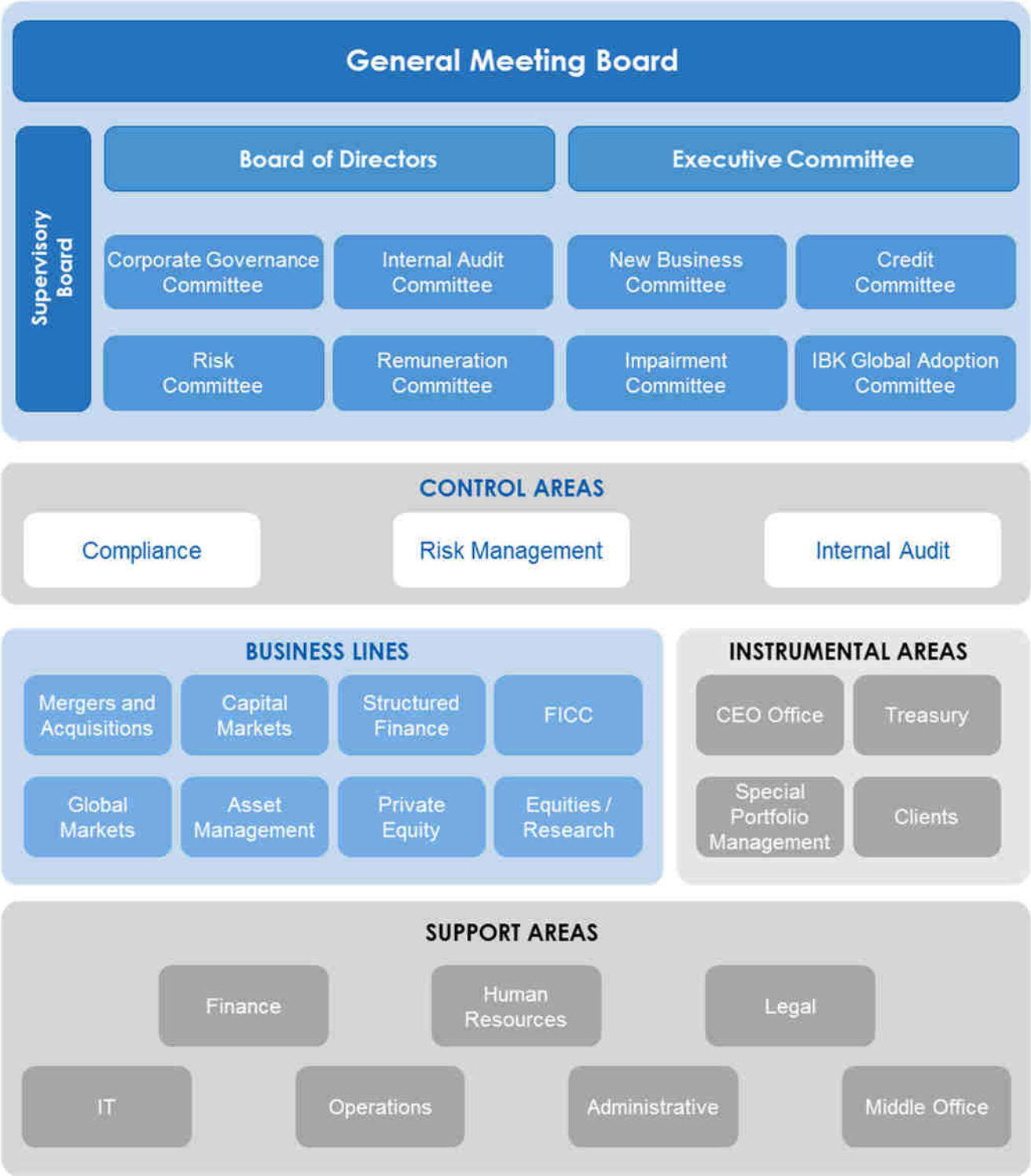
First term of office starting date: January 2018

Professional Experience: Mr. Zhang is currently the Chief Financial Officer of Haitong Securities Co. Ltd. and has 17 years of experience in the Financial, Treasury and Risk departments of Haitong Group. He joined Haitong Securities Co. Ltd. in 2001 and he moved first to Haitong International Holdings Limited as CFO in 2007 and then to Haitong International Securities Group Limited in 2010. He was the Deputy CEO of Haitong International Holdings Limited since 2015 until he moved back to Haitong Securities in 2018.

Academic Background: He has a degree in Economics (Accounting) and a Master's in Management (Accounting) from Nankai University, in China.

Note: Term of office date corresponds to the beginning of the term of office according to the approval date given by the Bank of Portugal

ORGANISATIONAL CHART



CORPORATE GOVERNANCE COMMITTEE

To follow up the application and ensure the full effectiveness of: (i) the Policy on the Selection and Assessment of Members of the Management and Supervisory Bodies and Key Function Holders ("Selection and Assessment Policy"); (ii) the Policy on Prevention, Reporting and Remedying Conflicts of Interest, ("Conflicts of Interest Policy"); and (iii) the Governance System and Bank's Internal Controls.

Responsibilities

Within the scope of the Selection and Assessment Policy, the Corporate Governance Committee is particularly responsible for:

a) Identifying and recommending the candidates for offices in the Board of Directors and in the Supervisory Board, evaluating the boards' composition in terms of reputation, knowledge, expertise, diversity and experience, preparing a description of the functions and qualifications for the offices under consideration and evaluating the time to be dedicated to the exercise of the relevant functions;

b) Making the initial assessment of the suitability of the candidates for members of the Board of Directors or of the Supervisory Board, and of the candidates for key function holders, taking into account the following criteria: reputation, professional skills, independence and availability;

c) Preparing the initial assessment report on the suitability of the respective candidate, designated the "Initial Assessment Report", with the minimum content set out in the Selection and Assessment Policy;

d) Presenting the Initial Assessment Report, in case the candidate is included on a list submitted for approval to the Shareholders' General Meeting, to the Chairman of the Shareholders' General Meeting of the Bank, as well as informing the shareholders of the suitability requirements for the persons to be appointed, as provided in the Selection and Assessment Policy;

e) Annually and whenever new facts or events determining the need for a suitability reassessment come to the knowledge of the Corporate Governance Committee or of the Board of Directors, carrying out an ongoing assessment of the individual suitability of the members of the Board of Directors and of the Supervisory Board and of the key function holders;

f) Annually carrying out an ongoing assessment of the collective suitability of the members of the management and supervisory bodies and of the key function holders;

g) Annually preparing a report on the individual and the collective suitability of the members of the Board of Directors and of the Supervisory Board, as well as the individual suitability of key function holders, designated the "Annual Ongoing Assessment Report", with the minimum content set out in the Selection and Assessment Policy;

h) Reassess, in 2022, the rules provided in point 8.1 of the Selection and Assessment Policy in respect of the diversity in the management functions and submitting a proposal to the Bank's General Meeting for the maintenance, modification or elimination of such rules;

i) Identifying and recommending, in its Initial Assessment Report on the management staff, the candidates to management positions and assess the composition of said staff, namely in terms of diversity;

j) Appointing one Board Member to coordinate the development, by the Bank, of a programme for the follow up of the Bank's female managers and employees with high potential, with a view to implementing the Selection and Assessment Policy in relation to gender diversity; and

k) Every two years reviewing the Selection and Assessment Policy submitting recommendations for its improvement to the Board of Directors and to the Supervisory Board.

Within the scope of the Conflicts of Interest Policy, the Corporate Governance Committee is particularly responsible for:

a) Issuing a prior and reasoned opinion on any Relevant Business Prior Notice to be executed between the Bank or a Controlled Entity and a Related Party. The definitions of Relevant Business, Controlled Entity and Related Party, as well as the content of the Relevant Business Prior Notice are set out in the Conflicts of Interest Policy;

b) Issuing a prior and reasoned opinion on any Relevant Business to be executed between Related Parties and third parties, where the underlying business opportunity has come to the knowledge of the Related Parties while in the performance of their duties at the Bank;

c) Completing the opinion referred to in paragraphs a) or b), depending on the circumstances, and providing a decision regarding whether to: (i) not raise objections; (ii) not raise objections but impose conditions; (iii) or raise objections, to the execution of the projected Relevant Business;

d) Taking into special consideration, among other relevant elements, the provisions of Articles 85 and 86 of the General Framework of Credit Institutions and Financial Companies ("RGICSF"), when assessing any Prior Notices presented;

e) Upon completion of each Relevant Business, evaluating compliance with the conditions imposed to the execution of the Relevant Business in accordance with sub-paragraph c) above, by means of proof to be provided by the Officer or Officers involved. The definitions of Officer and Officers are set out in the Conflicts of Interest Policy;

f) Assessing and analysing, whenever communicated by an Officer, all and any facts likely deemed to be, or cause, a conflict between their interests and the interest of the Bank;

g) Keeping the Relevant Business Prior Notices and attached documents, as well as any opinions issued on projected businesses and all correspondence exchanged within the scope of its duties of preventing and remedying conflicts of interest for a period of 10 years, ensuring their confidentiality;

h) Preparing an Annual Report on its activity of prevention and remedying of conflicts of interest, with the minimum content set out in the Conflicts of Interest Policy; and

i) Sending the Annual Report referred to in the previous paragraph at least to the Officers of the Bank referred to in the Conflicts of Interest Policy.

Within the exercise of its functions regarding the corporate governance and internal control systems, the Corporate Governance Committee should, in an annual basis:

a) Assess the suitability of the Bank's Corporate Governance to develop the defined business strategy and to support the implementation of an efficient internal control system;

b) Propose measures to improve the Bank's Corporate Governance to the Board of Directors, namely, its structures, distribution of competences among the executive board members, reporting lines and functioning of the corporate bodies, taking into account the relevant laws and regulations as well as the relevant guidelines and best practices in the banking industry.

Composition

The Corporate Governance Committee is composed of three non-executive members appointed by the Board of Directors, two of whom are independent.

Members	Attendees Scheduled Meetings	Attendees Ad hoc Meetings
António Domingues (Chairman)	3/3	1/1
Lin Yong	3/3	1/1
Vincent Camerlynck	3/3	1/1

As of 1H2018

INTERNAL AUDIT COMMITTEE

Ensuring that the Internal Audit function is effective, ongoing and independent, is provided with material, human and financial resources appropriate to comprehensively pursue the mission entrusted to it and for promoting the authority of this function across the Bank and the Haitong Bank Group.

Responsibilities

The Internal Audit Committee is specifically responsible for:

a) Approving the proposal for the Annual Plan and Budget for the function to be submitted to the Supervisory Board and the Board of Directors for approval;

b) Taking any decision necessary for full implementation of the budget and training plan of the Internal Audit function;

c) Approving decisions concerning the management of the employees of the Internal Audit function, including their recruitment and internal transfer;

d) Convening meetings with the Head of the Internal Audit function in order to discuss and monitor the Audit Plan and its respective conclusions;

e) Taking any other decisions that do not fall under the specific responsibilities of the Board of Directors and the Supervisory Board and that are necessary for the proper operation of the Internal Audit function.

Composition

The Risk Committee is composed of three non-executive members appointed by the Board of Directors, two of whom are independent.

Members	Attendees Scheduled Meetings	Attendees Ad hoc Meetings
António Domingues (Chairman)	4/4	-
Vincent Camerlynck	4/4	-
Zhang Xinjun	4/4	-

As of 1H2018

RISK COMMITTEE

Continuously monitoring the development and implementation of the risk strategy and the risk appetite of the institution, and verifying whether these are compatible with a sustainable strategy in the medium and long term, in addition to the action program and budget approved, while advising the Executive Committee in these areas.

Responsibilities

Without prejudice to the legal duties assigned to the Supervisory Board, the Risk Committee is responsible for, in particular:

a) Advising the Board of Directors on the risk appetite and risk strategy of the Bank, both current and future, taking into account all categories of risk, ensuring its alignment with the business strategy, objectives, corporate culture and values;

b) Assisting the Board of Directors in supervising the execution of the risk strategy of the Bank and in the fulfilment of its respective limits;

c) Periodically reviewing the risk profile, risk policies and strategies of the institution;

d) Assessing the consistency between the business model, strategy, recovery plan, remuneration policies, and the budget, as well as the efficiency and effectiveness of the structure, procedures and instruments associated with the implementation and execution of the strategies regarding risk;

e) Issuing recommendations on adjustments to the risk strategy resulting from changes in the business model, market developments or business context where the Bank operates;

f) Analysing and evaluating the methodology and its results to support the process of identification, evaluation and measurement of risks;

g) Examining scenarios, including stress tests, in order to determine their impact on the risk profile of the Bank and to assess the resilience of the changes within the institution caused by idiosyncratic, systemic or mixed factors;

h) Analyzing whether the conditions of the products offered and services provided to clients take into consideration the transaction model and risk strategy of the Bank, and, if necessary, submitting a correction plan to the Board of Directors whenever, as a result of such analysis, it is established that said conditions do not appropriately reflect the risks;

i) Establishing if the incentives set forth in the remuneration policy of the Bank take into consideration risk, capital, liquidity and the expectations regarding results, including revenue dates;

j) Establishing the framework for reporting on risk to the Board of Directors;

k) Ensuring the existence of effective procedures for monitoring risk, and monitoring internal control deficiencies related to the risk management framework;

l) Specifying and reviewing of the conditions of authority and independence to support the exercise of responsibilities for risk management, including the adoption of the work plan of the risk management function;

m) Reviewing and periodically monitoring the scope and nature of the activities carried out by the Haitong Bank Group, related to risk management; and

n) Ensuring that the risk management function has adequate resources for the performance of its duties.

Composition

The Risk Committee is composed of three non-executive members appointed by the Board of Directors, two of whom are independent.

Members	Attendees Scheduled Meetings	Attendees Ad hoc Meetings
Vincent Camerlynck (Chairman)	4/4	-
António Domingues	4/4	-
Pan Guangtao	4/4	-

As of 1H2018

REMUNERATION COMMITTEE

Making informed and independent judgements on the remuneration policy and practices of the Bank and its affiliates and on the incentives created for risks, capital and liquidity management; and (ii) preparing decisions concerning remuneration, including those with implications in terms of the institution's risks and risk management, which must be approved by the Shareholders' General Meeting and by the Board of Directors.

Responsibilities

The Remuneration Committee is specifically responsible for:

a) Drawing up proposals and recommendations to the Shareholders' General Meeting on the setting of the remuneration of the members of the Board of Directors and Supervisory Board, and of the officers with the highest total remuneration in the Bank;

b) Assessing the compliance of members of the Board of Directors who perform executive functions with the criteria set out in the Remuneration Policy of the Members of the Management and Supervisory Bodies (hereinafter, the "Remuneration Policy"), such as approved by the Shareholders' General Meeting;

c) Providing all necessary assistance and issuing recommendations to support the approval process by the Board of Directors of the Bank's general remuneration policy and its affiliates, promoting its revision when needed;

d) Assessing the mechanisms and systems adopted to ensure that the remuneration system properly takes into account all types of risks, liquidity and capital levels and that the overall remuneration policy is in line with the business strategy, objectives, corporate culture and values, and the long-term interest of the Bank;

e) Testing the capacity of the remuneration system implemented to react to external and internal events, using various possible scenarios and back testing the model used for such purpose;

f) Ensuring that a revision is made of the Bank's and its subsidiaries' Remuneration Policy and its implementation, with the support of the Bank's Human Resources area, Legal area and the Control Functions areas, at least once a year, with a view to guaranteeing:

- **(i)** that the policy is effectively implemented;
- **(ii)** that the remuneration payments are adequate and consistent with the Bank's risk profile and long-term objectives;
- **(iii)** that the policy complies with the legislation and regulations in force as well as with the relevant national and international principles and recommendations.

g) Reporting to the Shareholders' General Meeting on the exercise of its functions once a year, including the delivery of a reasoned opinion on the adequacy of the Remuneration Policy and any amendments thereto which it may deem necessary; and

h) Attending the Shareholders' General Meetings in which the Remuneration Policy is on the agenda, and providing any information requested by the Shareholders' General Meeting.

Within the scope of its activity, the Remuneration Committee must bear in mind the long- term interests of the shareholders, of investors and of other stakeholders of the Bank, as well as the public interest.

Composition

The Remuneration Committee is composed of three non-executive members appointed by the Board of Directors, two of whom are independent.

Members	Attendees Scheduled Meetings	Attendees Ad hoc Meetings
Vincent Camerlynck (Chairman)	1/1	1/1
António Domingues	1/1	1/1
Poon Mo Yiu	1/1	1/1

As of 1H2018

NEW BUSINESS COMMITTEE

The purpose of the New Business Committee is to encourage, promote and analyse new ideas, new business or support initiatives and new products, acting as a brainstorming forum and providing all the necessary means to support the respective development. After an overall assessment, such ideas and initiatives will be submitted for approval and implementation by the Executive Committee.

Responsibilities

To analyse all new initiatives from the following perspectives, when applicable:

a) Strategy – (i) rationale for the business, (ii) strategic fit in the group's overall strategy, (iii) competitive advantage, and (iv) competitive position;

b) Business Plan – pricing mechanism, addressable market, clients, counterparties, revenues and costs;

c) Risk - market risk, credit risk, operational risk, reputational risk, regulatory risks;

d) Balance Sheet needs – credit exposure, hedging instruments if needed, funding, RWA consumption;

e) Finance – accounting and tax impacts;

f) Infrastructure – IT infrastructure required, developments that will be needed;

g) Operations – existing capabilities and possible developments required;

h) Compliance framework;

i) Human Resources – team organizational chart, in-house vs hiring externally, remuneration structure.

The New Business Committee is responsible for presenting the approved proposals to the Executive Committee of the Bank for a final decision.

Composition

The New Business Committee is chaired by the Head of the CEO Office. Other members include the Global Coordinators of each product area, the Head of Middle Office and the CEO Office (China Business Development, Business Development and Business Management). Whenever new product proposals are on the agenda, participants from all the Support and Control Functions shall be present.

CREDIT COMMITTEE

The purpose of the Credit Committee, established by the Executive Committee with the authorization of the Board of Directors, is to decide / issue non-binding opinions on risk-taking credit operations.

Responsibilities

a) Assessing and deciding on operations involving risk taking for the Bank within the Credit Committee's Decision Framework established by the Executive Committee;

b) Issuing non-binding opinions regarding operations that fall outside of: (i) the Credit Committee's Decision Framework approved by the Executive Committee; or (ii) the Risk Appetite Framework ("RAF") approved by the Board of Directors – in which case operations shall be submitted, respectively, for the Executive Committee's or for the Board of Directors' assessment;

c) The Executive Committee will set up and periodically review the Credit Committee's Decision Framework in order to assure its full alignment with the Bank's credit strategy.

Composition

The Credit Committee is composed of eight members with voting rights, and the CRO, a Credit Committee Moderator and a Secretary, all without voting rights. The Credit Committee may decide, whenever it deems suitable, to call upon external persons to take part in the meetings.

INVESTMENT BANKING GLOBAL ADOPTION COMMITTEE

The purpose of the Investment Banking (IBK) Global Adoption Committee is to approve all prospective Investment Banking mandates in relation to proposed transactions or new clients that do not involve credit or market risk.

Responsibilities

a) Discussion forum on the overall direction of the investment banking business, cross-border matters and prospective transactions;

b) To approve all prospective Investment Banking mandates (M&A, DCM, ECM) in relation to proposed transactions or new clients that do not involve credit or market risk;

c) To approve other advisory mandates such as the ones that involving Structured Finance activities;

d) To approve proposals where the Bank has solely reputational risk;

e) To define restrictions to be implemented throughout the Bank and its subsidiaries.

Composition

The IBK Global Adoption Committee is chaired by the Executive Board Member with the responsibility for Investment Banking. The members of this Committee include the Executive Board Member with the responsibility for Brazil, the Global Head of Compliance, the CRO, the Branch Managers, the Global Coordinators of the different areas of IBK and Structured Finance, the Head of cross-border M&A, the CEO Office representatives with the responsibility of China Business Development and Business Development and a Secretary.

IMPAIRMENT COMMITTEE

The Impairment Committee of Haitong Bank is responsible for analysing and deciding on the level of impairment to be granted to financial instruments accounted at the amortized costs and/or the Fair Value through Other Comprehensive Income and with impairments triggers (Under Performing and Non-Performing exposures).

Responsibilities

a) The Risk Department is responsible for identifying all above-mentioned positions and ensuring that the Committee discusses them at least every six months;

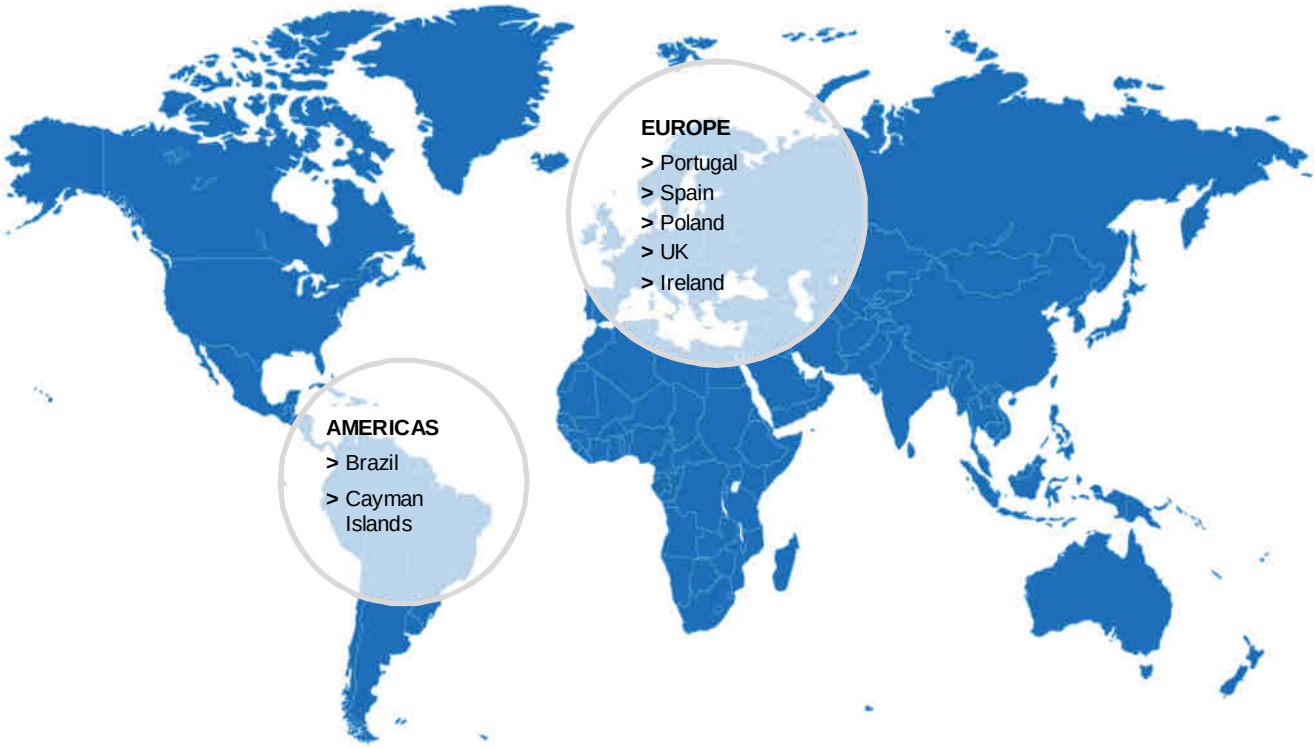
b) The managers in charge of managing the exposures are responsible for presenting the impairment proposals, which should be duly justified and documented;

c) The Finance and Risk Departments are responsible for presenting the conclusions reached by the Impairment Committee to the Executive Committee.

Composition

The Impairment Committee is composed of the Chairman (CEO), the Executive Board Member responsible for Special Portfolio Management, the CRO and Head of Finance as voting members. Non-voting members include the Head of Structured Finance, Head of Special Portfolio Management, Head of Debt Capital Markets and Head of Treasury. The Secretary is the Head of the Legal Department.

BRANCHES AND MAIN SUBSIDIARIES



BRANCHES

HAITONG BANK, S.A. – SPAIN BRANCH

José Miguel Rego

Luís Miguel Gil

HAITONG BANK, S.A. – LONDON BRANCH

Paulo Araújo

Pedro Costa

HAITONG BANK, S.A. – WARSAW BRANCH

Krzysztof Rosa

Bartlomiej Dmitruk

HAITONG BANCO DE INVESTIMENTO DO BRASIL, S.A. – CAYMAN ISLANDS BRANCH

Alan Fernandes

SUBSIDIARIES

HAITONG BANCO DE INVESTIMENTO DO BRASIL, S.A. (BRAZIL)

Alan Fernandes

HAITONG CAPITAL – SOCIEDADE DE CAPITAL DE RISCO, S.A. (PORTUGAL)

Paulo Martins

Luís Valença Pinto

HAITONG INVESTMENT IRELAND P.L.C. (IRELAND)

Pedro Costa

Carlos Nogueira

DECLARATION OF CONFORMITY

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

a) The consolidated financial statements of Haitong Bank, S.A. for the six months ended on 30 June 2018 were prepared in accordance with the legally applicable accounting standards and with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of July 19th, as set forth in Article 246 (3) of the Portuguese Securities Code;

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

c) The Management Report describes faithfully Haitong Bank, S.A. and the consolidated companies' business evolution, performance and financial position for the first six months of 2018, and includes a description of the main risks and uncertainties that could affect the business.

Lisbon, 18 September 2018

Lin Yong
(Chairman of the Board of Directors)

Wu Min
(Chief Executive Officer)

Alan do Amaral Fernandes
(Executive Board Member)

Christian Georges Jacques Minzolini
(Executive Board Member)

Nuno Miguel Sousa Figueiredo Carvalho
(Executive Board Member)

Paulo José Lameiras Martins
(Executive Board Member)

António Domingues
(Non-Executive Board Member)

Pan Guangtao
(Non-Executive Board Member)

Poon Mo Yiu
(Non-Executive Board Member)

Vincent Marie L. Camerlynck
(Non-Executive Board Member)

Zhang Xinjun
(Non-Executive Board Member)

STATEMENT OF THE AUDITING OF THE ACCOUNTS

Under no. 3 of article 8 of the Securities Code, we declare that the financial information for the first half of 2018 relating to Haitong Bank, S.A. and the companies included in its consolidation perimeter have not been audited.

Lisbon, 18 September 2018

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(Non-Executive Board Member)

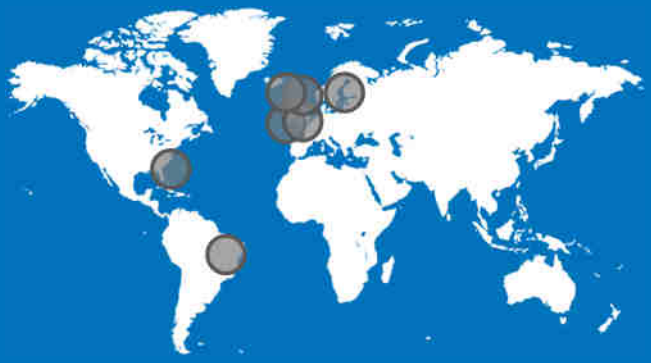
Zhang Xinjun
(Non-Executive Board Member)

Global Strategy and Main Developments

STRATEGY

To leverage on the Sino-Europe and Sino-LatAm business flows combining Group expertise in Asia and Haitong Bank's strong competitive position in domestic markets in Europe and LatAm.

WHERE WE ARE



GLOBAL STRATEGY AND MAIN DEVELOPMENTS

PRODUCT

Haitong Bank's product range in Corporate and Investment Banking and Broad Asset Management will have clients at the heart of the business. The product offering is aligned with the Bank's Sino-European and Sino-LatAm competitive position in China and Western markets.

EXPERTISE

Haitong is a first-mover Chinese securities firm providing banking services in Western markets. Its expertise in Europe and Latin America is a strong competitive advantage, both domestically and cross-border.

PEOPLE

Human capital is central to the business. The Bank aims to continuously develop talent within a client focused culture across the front office and support functions. This will be linked to effective mechanisms of accountability and reward.

STRUCTURE

Structure drives performance. The business structure has been optimised to promote efficiency across the various parts of Haitong Bank. This structure incorporates a fully operating China access team to deliver a true East-West connectivity.

INTERNAL CONTROLS

Haitong Bank will continue developing solid standalone internal controls to strengthen its compliance culture and full regulatory awareness.

CORPORATE EVENTS

In **January** 2018, the Bank of Portugal authorized the following Board of Directors and Supervisory Board members to take office for the 2017/2019 mandate:

Board of Directors

- Alan do Amaral Fernandes
- António Domingues
- Christian Georges Jacques Minzolini
- Poon Mo Yiu
- Pan Guangtao
- Paulo José Lameiras Martins
- Vincent Marie Camerlynck
- Zhang Xinjun

Supervisory Board

- Mário Paulo Bettencourt de Oliveira (Chairman)
- Cristina Maria da Costa Pinto
- Maria do Rosário Mayoral Robles Machado Simões Ventura
- Paulo Ribeiro da Silva (Alternate Director)

In January 2018, Haitong Negócios, S.A., held by Haitong do Brasil Participações, Ltda. was sold to Haitong Banco de Investimento do Brasil, S.A. for BRL 32.7 million.

In January 2018, Haitong Banco de Investimento do Brasil, S.A. fully subscribed to the share capital increase of Haitong Negócios, S.A., a total investment of BRL 50.1 million.

In **February** 2018, Haitong Bank, S.A. concluded the sale of the entire share capital of Haitong Securities USA LLC, Haitong (UK) Limited and Haitong Securities (UK) Limited to Haitong International (BVI) Limited. The total sale value reached EUR 23.8 million, yielding an accounting capital gain of EUR 13.2 million.

In **March** 2018, the registration of the Representative Office in Mexico was cancelled.

In March 2018, Mr. Pedro Alexandre Martins Costa was appointed to the position of Securities Markets Liaison Representative, replacing Ms. Sara de Almeida Azevedo F. C. B. Begonha.

In March 2018, Haitong Bank, S.A. moved forward with the issuance of eligible as Additional Tier 1 own funds perpetual instruments, worth USD 130 million, named “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments”.

In **April** 2018, the Bank of Portugal authorized Mr. Nuno Miguel Sousa Figueiredo Carvalho to take office as a Member of the Board of Directors for the 2017/2019 mandate.

In **September** 2018, the Bank of Portugal authorized Mr. You Zhang and Mr. Vasco Câmara Martins to take office as Members of the Board of Directors for the 2017/2019 mandate.

MACROECONOMIC ENVIRONMENT

Overview

World economic activity possibly peaked in the first quarter and softened in the second quarter of 2018 on the worsening of potential risks of a trade war between the US and its main trading partners. Global GDP growth was strong in the first quarter of 2018 according to the preliminary estimates of the IMF, who kept their estimate of 3.9% for 2018 and 2019 (versus 3.7% in 2017). Potential headwinds from the tensions between the US and its trade partners of NAFTA, China and EU **increased the downside risks for global growth** according to the IMF.

US economic activity remained robust in the first half of 2018, driven by a continuous improvement in employment indicators and fiscal stimuli supporting domestic consumption and broad-based growth across most business sectors. GDP growth projections according to consensus and the IMF remained at 2.9% in 2018 but are expected to soften to a range of 2.5% (Bloomberg consensus) to 2.7% (IMF). The decision made by the US Federal Reserve to move towards the normalization of monetary conditions by 2020 and the end of the fiscal stimuli's impact are the main structural sources of softer US growth for 2019 in our view. The USD appreciated slightly by 2.5% in the first half of 2018 and the Fed raised the benchmark rate by 50 basis points to the range of 1.75%-2.00% by June. The yield of US Treasury notes of 10-year maturity widened 46 basis points to 2.86% by the end of the first half of 2018.

Fears of a harder landing for China's economy became less relevant to global liquidity conditions in the first half of 2018. China's authorities are relying on the **continuing diversification of trade partnerships boosted by the One Belt One Road** plan and the fine-tuning of monetary liquidity to keep growth around 6.5% in 2018. According to the figures for the second quarter of 2018, Chinese GDP slowed slightly to 6.7% YoY versus 6.8% in the first quarter of 2018 and 6.9% in 2017.

The CNY versus USD saw a limited impact from the risk of a trade war with the US and fell 2.0% in the first half of 2018. In real terms, according to the Bank for International Settlements, the CNY effective exchange based on the basket of its main trading currencies remains close to the highs of 10 years and 25% above levels seen in 2010.

European markets continued to underperform in comparison to the US and China in terms of GDP growth, with the EU posting 2.2% YoY growth in first quarter of 2018 and projections of 2.2% growth in 2018 (IMF). **Downside risks persisted in the first half of 2018 due to the lack of developments in the Brexit negotiations,** the local elections in Italy, a change in the Spanish government and the risk of a trade war with the US. Both the European Central Bank and the Bank of England kept benchmark interest rates unchanged in the first half of 2018: the EUR fell 2.7% to EUR/USD 1.17 while the British Pound dropped 2.2% to GBP/USD1.32.

GDP Growth (YoY)

		2018	2019
1	Global	3.9%	3.9%
2	China	6.6%	6.4%
3	EU	2.2%	1.9%
4	USA	2.9%	2.7%

Source: IMF estimates

Economic momentum as measured by the global manufacturing PMI index and the CBP world trade volume confirmed a **weakening trend in the second quarter of 2018 for the EU, Japan, China and emerging markets.** Slowing global trade volume of 3.8% YoY (3-month moving average) by April 2018 versus 4.75% in December 2017 was followed by a decline in the GSCI commodity index (ex-energy) of 4.5% YTD by the end of the first half of 2018. **Softening growth in trade and Chinese GDP** also led to weaker emerging markets currencies with the Haitong EM FX index dropping 7.3% in the first half of 2018. Global growth potential was also limited by the strong performance of oil with Brent crude prices rising 25.5% in the first half of 2018 with a daily average of USD 71.2/barrel compared to USD 56.7/barrel in the second half of 2017. **Global inflation was balanced** by the weaker performance of non-oil commodities and the slow gains in wages during first half of 2018, especially in developed markets where core CPI inflation remained below central banks' target of 2.0%.

Outlook

Economic Activity

We expect a higher risk of under-performance in 2019 than in the second half of 2018 especially in the US and the UK. Emerging markets are expected to slow with milder GDP growth in China (official target of 6.5%) and the financing costs of rising USD rates. The risk of trade sanctions should be more negative for developed markets than emerging markets in terms of GDP growth in our view. **Portugal, Spain and Poland are expected to grow in line or above the EU** in the second half of 2018 (2.2% GDP growth expected). Global GDP growth is still expected to slow in the second half of 2018 due to uncertainties related to the general election in Brazil and Brexit in the UK.

Monetary Policy

The US Fed is expected to hike rates twice in the second half of 2018 to the range of 2.25%-2.50%. The People's Bank of China (PBOC) may ease monetary conditions with a stronger injection of liquidity in credit and interbank markets in the event of downside risks to growth in our view. Except for the Bank of England (BOE), which raised rates by 0.25% in early August, most European central banks are expected to remain on hold in the second half of 2018 and postpone normalization of monetary conditions in 2019 in the event of inflation missing its target. The BOE may resume further monetary normalization in the fourth quarter of 2018 but remains flexible to remain on hold for longer in the event of downside risks caused by Brexit. Monetary policies in the Emerging Markets (EMs) are mixed with upside risks to benchmark rates if there is stronger currency devaluation in our view. **We expect more upside risks than downside risks for EM rates, including Brazil and Poland.**

Foreign Exchange

Upside risks remain strong for the USD based on the outperforming growth cycle (compared to Europe and Japan), higher interest rates and trade policies to curb the external deficit in our view. The **EUR remains vulnerable to the risk of USD** but we expect a range bound performance vis-à-vis other developed markets currencies. Brexit risks are still strong in our opinion and the downside risk is on the GBP side in the second half of 2018, ahead of the exit scheduled for March 2019. In July 2018, the PBOC increased the floating range of the CNY fixing above CNY/USD 6.70 and may allow further market driven devaluation (FX flows). Due to the general election in October, the **BRL is exposed to stronger volatility** than other EM currencies with a 19% devaluation vs. the USD in the first half of 2018. We expect a binary outcome in BRL/USD with a strong devaluation if an anti-market government is elected and a strong rebound if a pro-market government is elected. Poland has more stable fundamentals and we expect the **PLN to remain stable** (PLN/USD; -8.5% in the first half of 2018) compared to the EUR and for the PLN/USD to follow a similar trend to the EUR/USD.

Capital Markets

Our main assumption of a higher carry cost of risk in USD rates is negatively correlated with riskier asset classes, including equities, credit, EMs and commodities. We foresee **persistent flatness in yield curves in USD** during the second half of 2018. By the end of 2018, the yield of 2-year US Treasury bills may reach up to 3.0% (versus 2.53% at the end of the first half of 2018) and the 10-year Notes may test 3.5% (versus 2.86% at the end of the first half of 2018) in our main scenario. Due to the possibility of resilience of growth in the Eurozone, the **EUR yield curve may steepen** in the second half of 2018 if the ECB confirms the end of its asset-purchasing program (QE) in December and points to rate normalization to begin in the second half of 2019. The yield of the **10-year German Bund is expected by us to resume levels close to 0.50%** in the second half of 2018 in such a scenario (versus 0.30% by the end of the first half of 2018). We expect credit markets in EUR to be more correlated to risk spreads of issuers than the outlook for EUR interest rates in the second half of 2018. Poland and Brazil have local credit markets as their primary source of financing and may perform with resilience vs the higher USD carry cost in our opinion.

FINANCIAL OVERVIEW

After the very challenging 2017, during which time Haitong Bank went through a significant restructuring and repositioning process, the first half of 2018 has seen some encouraging progress. A leaner operating costs structure and progress in the China-related strategy have created the conditions to return to operating profitability.

Banking Income has amounted to EUR 48.8 million, a 40.2% year-on-year increase, benefiting from higher commissions, in particular from the Capital Markets and Structured Finance business areas.

By the end of the first half, the Bank was running at a 44.0% lower cost base vs the same period last year (EUR 39.1 million versus EUR 69.9 million), which has allowed the Bank to register a EUR 9.6 million operating profit, significantly better than the EUR 35.1 million operating loss in the first half of 2017.

Impairments in this period have remained at the same level as last year. However, provisions have seen a significant decrease, contributing to a 38.0% reduction in the total amount of Impairments and Provisions.

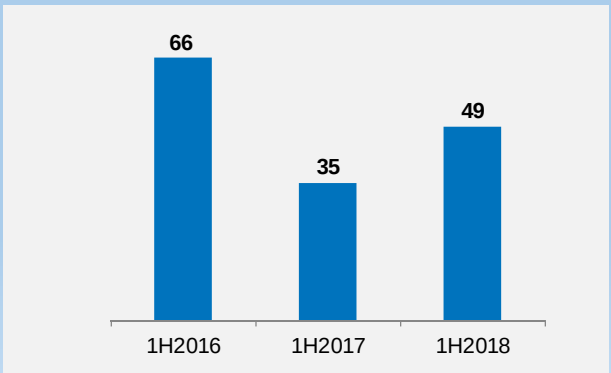
Haitong Bank has reported a net loss of EUR 2.1 million in the first half of the year, significantly below the EUR 79.8 million net loss in the same period of last year, benefiting from results from discontinued operations (EUR 13.2 million), mainly the sale of the UK and US subsidiaries.

Total Assets reached EUR 3.3 billion by the end of June, approximately the same amount as at the end of 2017. The Bank currently has increasing balance sheet capacity for lending and investing, which is expected to occur from the second half onwards.

During the first half of the year, Haitong Bank received additional capital support from Haitong Group through the issuance of a USD 130 million subordinated additional TIER 1 instrument. As a result, Haitong Bank's capital adequacy has strengthened considerably during this period.

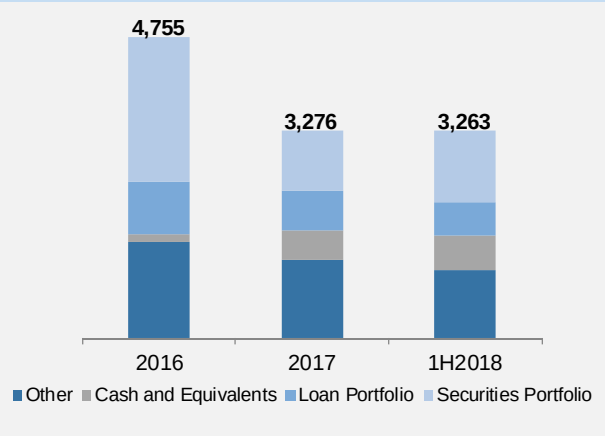
Consolidated Banking Income

(million euros)



Total Assets

(million euros)



Source: Haitong Bank.

	June 2018		December 17	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	22.1%	21.9%	21.2%	20.3%
Tier 1 ratio	27.9%	27.6%	21.2%	20.4%
Total capital ratio	28.0%	27.7%	21.3%	20.5%

Source: Haitong Bank

RATING

On 8 February 2018, S&P revised Haitong Bank S.A.'s outlook to stable from negative, and maintained its long- and short-term ratings at BB- and B, respectively. S&P sees the potential for further creditworthiness deterioration as limited over the next 12 months.

The stable outlook reflects S&P's expectation that the Bank's revised strategy could form the basis of a more durable operating model, and potentially improve its financial profile.

The outlook improvement was also applicable to Haitong Banco de Investimento do Brasil, S.A..

S&P Global

Haitong Bank, S.A.

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

Haitong Investment Ireland PLC

Senior Unsecured Subordinated	BB-

Haitong Banco de Investimento do Brasil,

Counterparty Credit Rating	
Global Scale	BB- / Stable / B
Brazil National Scale	brA / Stable / brA-2

BUSINESS MODEL

Haitong Bank has been turning around its business, with a clear role as the Corporate and Investment Banking arm of Haitong Group and a platform for Broad Asset Management.

Business Activity

BUSINESS MODEL

In order to leverage on the China deal-flow and to strengthen deal origination as well as distribution in China and across Asia, the Bank is developing an enhanced collaboration with Haitong Securities in the identification of business opportunities in mainland China, through a local team of investment banking professionals exclusively dedicated to cross-border transactions.

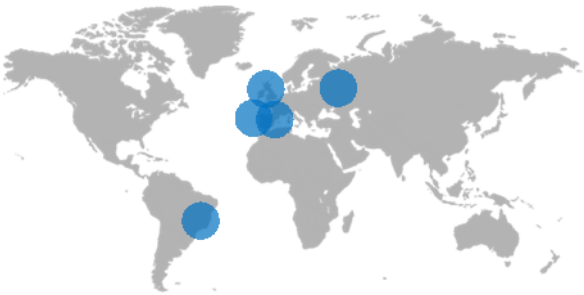
In addition, Haitong Bank continues to be a local player in its historical franchises. The Bank is fully committed to continue working with local clients in markets such as Portugal, Spain, Poland, the UK and Brazil. These transactions will still represent an important part of the business and will fuel other cross-border China-related opportunities.

Mergers and Acquisitions

Local Player with China Angle

OVERVIEW

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



The Bank has local teams in Portugal, Spain, Poland, the UK and Brazil that execute domestic and cross-border transactions, including China-related deals in Europe and Latin America.

Cross-border client coverage is structured on a Pan-European level based on sector expertise in key industries such as FIG, Energy, Infrastructure and Industrials, alongside a broad sector approach in local markets.

STRATEGY

The strategy for the M&A division relies on maintaining a sustainable and resilient domestic business in core geographies (Iberia, Brazil and Poland), leveraging on the strong and longstanding local network and recurrent deal flow. In addition to the pure domestic business, it is intensely exploring China-related opportunities through the connectivity with Haitong Group, leveraging on the Bank's unique positioning in both Eastern and Western markets.

1H2018 figures

14%	€ 7m
Weight in total Banking Income	Banking Income amount

MERGERS AND ACQUISITIONS

MARKET BACKGROUND

In the first half of 2018, global Mergers & Acquisitions (M&A) activity increased by 24.6% YoY in terms of the value of announced transactions, totalling USD 2.1 trillion, according to Bloomberg. Cross-border transactions represented 47% of total announced transactions at the global level, a 25% decrease YoY.

In Europe the M&A market decreased by 6% in terms of the number of announced transactions and by 24% in value, reaching USD 448 billion. Cross-border transactions remained the main catalyst for the European M&A market, accounting for 77% of the total value of announced transactions.

In Brazil, the economic and political landscape improved over the last year, which allowed M&A activity to increase by 8% in terms of the value of announced transactions despite a 25% decrease in the number of announced transactions. According to Bloomberg data, there were 165 announced transactions in the period in Brazil, with the disclosed value of deals totalling USD 21 billion. Industrials & Chemicals, Energy, Mining & Utilities and Consumer Goods were the most represented sectors.

ACTIVITY HIGHLIGHTS

In Portugal, during the first half of 2018, Haitong Bank advised on three transactions: one was a cross-border transaction, involving French, Brazilian and Portuguese investors, and the remaining two were domestic:

- Financial advisory services to Andrade Gutierrez, Group Tecnovia, Group AFA, Lineas, Millennium BCP, and Seguradoras Unidas on the sale of 35.25% of **Vialitoral** and 23.8% of **Viaexpresso** to Mirova Core Infrastructure SÀRL. Vialitoral and Viaexpresso are two road concession companies operating on the island of Madeira since 2001 and 2005, respectively. Mirova is an asset management company wholly owned by Natixis Asset Management. The deal was completed in January 2018 after obtaining the necessary authorizations;
- Financial advisory services to Lamego Premium, a fund managed by GNBGA Fundos Imobiliários, on the sale in March 2018 of the property of **Continente Modelo Lamego** to CA Património Crescente, a Fund managed by Square Asset Management;
- Financial advisory services to Capital Criativo Health Care Investments II, S.A. on the sale of 70% of **Grupo Idealmed**, a major regional healthcare services provider in Portugal (Coimbra region), to Luz Saúde, S.A. for a consideration of EUR 20 million. This transaction was announced in January 2018 and completed in March 2018.

In the UK, the Bank is focused on FIG and the healthcare sector, providing support to the global industry teams in their activity in the UK. The team is also actively involved in exploring cross-border Chinese deals.

During the first half of 2018, the Bank provided financial advisory services to **Therium Capital,** a UK-based asset manager focused on commercial litigation funding, for institutional fundraising of GBP 200 million. The transaction was announced and completed in January 2018.

In Brazil, the Bank provided financial advisory services to China Gezhouba Group Co., Ltd ("CGGC") in its first acquisition in Brazil. CGGC acquired 100% of **Sistema Produtor São Lourenço, S.A.,** a water treatment system plan, under construction, from two of the largest construction companies in Brazil, for up to USD 200 million. The transaction was announced in 2017 and completed in 2018.

The Bank also advised Jiangsu Communication Clean Energy Technology Co. Ltd ("CCETC") on the announced acquisition of a stake in **Energética Camaçari Muricy II S.A. and Pecém Energia S.A..**

Additionally, the Haitong Bank team in Brazil produced a valuation report on Lwart Celulose Ltda., based in Sao Paulo, for Navigator, a Portuguese paper company, related to the sale process of this asset.

In Poland, Haitong Bank provided financial advisory services to Abris Capital Partners, one of the most active private equity managers in the CEE region, on the acquisition of **Velvet Care**, one of the leading manufacturers of tissue-based, personal hygiene products including hand tissues, toilet paper and kitchen paper towels in the CEE region.

OUTLOOK

The outlook for the second half of 2018 in M&A is very encouraging in all the regions where the Bank operates, based on strong deal pipeline under execution. At the beginning of 2018, Haitong Bank set up an investment banking team based in Beijing and Shanghai fully composed of Chinese natives with a strong track record in cross-border transactions. Also during the course of the second quarter of 2018, Haitong International Securities hired a senior banker with significant experience in several international banks, who is leading a new team fully dedicated to cross-border M&A. Both facts, along with new signs of overseas investment promoted by the Chinese Government, lead us to expect increasing cross-border deal flow with China.

Capital Markets

Well positioned to play the "China House" role

OVERVIEW

The Capital Markets Division comprises origination, structuring and execution of market-oriented debt and equity instruments.

In the Debt Capital Markets area (DCM), the Bank engages in structuring debt instruments, namely domestic debt issues in Portugal, Spain, Poland and Brazil) and cross-border issues, specially related to China and other Emerging Markets. On the cross-border activity the main products are Eurobond issues and Private Placements. The Bank provides its services to corporates, financial institutions, public companies and state related entities. The DCM activity also comprises the structuring of hybrid products, project bonds and commercial paper programmes.

The Equity Capital Markets area (ECM) comprises origination, structuring and the listing of equity products. It includes privatisations, initial public offerings (IPOs), capital increases, takeover offers, private placements, block trades and delistings.

This area is also involved in structuring equity-linked instruments, such as convertible bonds and equity derivative instruments for corporate clients.

STRATEGY

The Capital Markets business area is mainly focused on DCM activities whilst maintaining the existing domestic ECM origination in markets where the Bank retains research coverage (notably Poland and Iberia). The DCM business strategy is based on two pillars: (i) Historical franchise (local debt issuance in Portugal, Spain, Poland and Brazil), leveraging on its local, structuring, distribution and underwriting capabilities; and; (ii) China related business, leveraging on Haitong Group-wide origination and distribution capabilities in mainland China and Hong Kong. The Bank is well positioned to play the "China House" role in EMEA and LatAm cross-border transactions, leveraging on the Group´s unique access to Asian pools of demand. This includes the growing opportunities in Panda Bond markets as China opens up to foreign issuers in local CNY denominated instruments.

1H2018 figures

25%	€ 12m
Weight in total Banking Income	Banking Income amount

CAPITAL MARKETS

MARKET BACKGROUND

Equity Capital Markets (ECM)

One of the highlights for global ECM in the first half of 2018 is the rapid expansion of US convertible bonds issuance. US companies issued a total of USD 28.6 billion via 79 such deals—the highest half-year volume since 2008 (USD 51.5 billion via 75 deals). This increase in issuance was a result of the expected ending of lower interest rates as companies were trying to lock in lower coupons before interest rates are raised. Technology companies took advantage the most of issuing convertible bonds.

The second quarter of 2018 also saw the proposal and implementation of new listing regulations for several stock exchanges in Asia. Hong Kong and Singapore finished consultations of the weighed voting rights structure (WVR structure) in April. Meanwhile in China, CSRC completed the consultation of Chinese Depositary Receipts (CDR) listing in early June. All these new proposals could mean more Asia-based companies, especially those from China, may reconsider their listing location.

Among the 255 new listings in the US with a Weighted Voting Rights (WVR) structure priced between 2009 and the first half of 2018, Chinese companies executed 55 deals and raised USD 16.4 billion, contributing to 47.0% of the total amount raised by all foreign companies in the period. With the new listing regulations, Chinese companies that are currently listed in the US could look for secondary listings via CDR in China or a dual-class offer in Hong Kong/ Singapore if they prefer to keep their existing share structure.

Despite a 12% decrease in EMEA's IPO activity compared to the first half of 2017 (181 IPOs), regional IPO volumes stood at USD 28.4 billion - the highest first half of volumes since 2015 (USD 39.2 billion via 186 IPOs). A strong dollar, along with other macroeconomic and political factors, had a notable impact on EMEA IPOs. The pipeline saw 18.0% of its IPOs withdrawn in the first 6 months of 2018, the highest first half proportion since 2012 (18.9%). 159 IPOs have been priced in EMEA in the first half of 2018 compared to 35 withdrawn, of which 26 were pulled in the second quarter of 2018.

In Poland, the first half of 2018 was a rather challenging period for the ECM market. A combination of significant outflows from equity mutual funds and record-low sentiment from retail investors translated into a decrease of the share prices of WSE listed companies. The value of IPOs on the WSE in the first half of 2018 amounted to ca. PLN 0.3 billion and was notably lower vs PLN 2.3 billion recorded in the first half of 2017.

Debt Capital Markets (DCM)

Global bond markets started to show signs of exhaustion. Only thanks to the year's initial momentum, the first half's new issue volumes came to USD 3.64 trillion via 11,005 deals, which is still down 3% and 7%, respectively, versus the same period in 2017. Bond activity continues to be affected by news of interest rate hikes and the market's reaction to the current political environment. Of all deal types, non-investment grade bonds are the asset class bearing the most significant relative decrease in fees paid by issuers: 25% down year-on-year to USD 2.5 billion in the first half of 2018, whereas volumes went down 20% to USD 251.3 billion. With respect to bond proceeds, according to available data proceeds accounting for general purposes decreased 11% year-on-year to USD 1.84 trillion in the first half of 2018. Meanwhile, refinancing grew 5% to USD 462.6 billion, and permanent financing for acquisition purposes grew 57% to USD 169.8 billion in the first half of 2018.

The first half of 2018 saw a slowdown in DCM activity out of Spain as most of the companies do not have high financing needs, having done their pre-funding in previous years through the capital markets and having taken advantage of favourable windows of opportunity. This was the case particularly in the midcaps segment where the absence of new issues was most noticed. So far this year Spain has sold the equivalent of USD 20.3 billion in bonds.

The Polish corporate bond market has been for many years one of the fastest-growing bond markets in the CEE region. Nevertheless, in the first half of 2018, debt mutual funds saw a gradual outflow of money. Moreover, a large default contributed to the negative investor sentiment, leading to a significant slowdown in DCM activity versus the first half of 2017. The first half of 2018 saw PLN 2.8 billion of primary corporate supply via deals versus PLN 7.4 billion via 160 deals in the first half of 2017.

In Brazil, the total amount of local fixed income and equity offerings came to BRL 105 billion in volumes via 289 deals in the first half of 2018, a 48% increase compared to the first half of 2017. This was mainly due to a 109% increase in local debenture offerings, totalling BRL 60 billion. In the first half of 2018 local debentures represented 67% of the total local DCM volumes, Commercial Paper - 19%, Bank Notes - 5% and Asset Backed Securitizations - 4%.

International debt capital markets saw a decline in volume from Chinese borrowers in the first half of 2018 versus the first half of 2017. USD public issuance volumes from Chinese borrowers reached USD 79 billion in the first half of 2018 versus USD 94 billion in the first half of 2017. Overall offshore primary supply from Chinese borrowers across currencies came to USD 90 billion in the first half of 2018 versus USD 103 billion in the first half of 2017.

A substantial portion of supply came from Chinese property developers as Chinese authorities were on the verge of easing capital market controls in 2017 and into 2018 on both onshore and offshore debt issuance with regard to the real estate. As a result, Chinese developers have seized the opportunity to tap the international debt capital markets.

ACTIVITY HIGHLIGHTS

In Portugal, on the DCM side, the Bank acted as Sole Lead Manager of Mota-Engil's EUR 25 million bond issue and as Sole Global Coordinator of Benfica SAD's EUR 45 million Public Bond Offer, concluded in July.

On the ECM side in Portugal, Haitong Bank acted as Global Coordinator and Listing Sponsor for the IPO of Raize Serviços de Gestão, S.A., the first IPO in Portugal since 2014, thus reopening the IPO market in the country.

The IPO targeted mostly retail investors and at the end of the 4-week acquisition period starting in mid-June, total demand reached 3.7x the offered shares. The company was listed on Euronext Access, a non-regulated market operated by Euronext in July.

In Spain, the first half of 2018 was a very active period for Haitong Bank and marked the repositioning of the Bank´s DCM business in the country. The Bank actively worked on the Taiga Mistral EUR 18.7 million project bond, a transaction that was closed in July and in which the Bank acted as Sole Bookrunner. This deal represents the return of Haitong Bank to the Spanish DCM. The issue was a reference for the Project Bonds "asset class" and will provide Haitong Bank with important credentials to continue developing this business in Spain.

In Poland, on the ECM side, Haitong Bank succeeded in executing one IPO transaction, which turned out to be the largest IPO on the WSE over that period. Haitong Bank acted as Sole Offering Agent, Sole Coordinator and Bookrunner in the Initial Public Offering of Ten Square Games S.A., one of the leading mobile game developers in Poland offering games in a free-to-play (freemium) model.

In Brazil, Haitong Bank participated in several different types of transactions, including:

- Local debenture issued by Sabesp (utility company engaged in water sanitation services in São Paulo State) for BRL 750 million. The Bank acted as Joint Bookrunner in the transaction;
- Asset Back Securitization for Light Serviços de Eletricidade S.A. (Light SESA) for BRL 1.4 billion. The offering included two tranches (ICVM 476). Haitong acted as Joint Bookrunner in this transaction; and
- Local debenture issued by Copasa (utility company engaged in water sanitation services in Minas Gerais State) for BRL 700 million. The Bank acted as Joint Bookrunner in the transaction.

In China, despite the softer market sentiment, Haitong Bank continues to be active in cross-border DCM business, successfully bringing Chinese borrowers to the international debt capital markets via both public and private placement formats. Haitong Bank continues to enable Chinese borrowers across sectors to access alternative pools of global investor liquidity and further diversify and expand their sources of funding to the international investor base.

Some of the cross-border DCM transactions successfully closed by Haitong Bank in the first half of 2018 include:

- USD 150 million 5.900% senior unsecured, fixed-rate 364-days unrated notes for Yongcheng Coal & Electricity Holding Group Co., Ltd. priced inside the initial price guidance area of 6.0%. This transaction marks the issuer's debut appearance in the international debt capital markets with a public transaction;
- A debut USD 425 million dual tranche transaction for Tahoe Group in February. The deal was executed as follows: USD 200 million 7.875% guaranteed senior, fixed-rate 3-year notes and USD 225 million 8.125% guaranteed senior, fixed-rate 5NC3 year notes. Tahoe Group's debut offshore transaction was successfully executed in a rather busy week in terms of primary market sector supply with 7 Chinese property developers in the market;
- USD 100 million 6.500% 364-day notes in February for a real estate company based in the Xinpu New District of Zunyi City in China's Guizhou province that primarily engages in managing state-owned assets - Zunyi New District Investment Co., Ltd.

Borrowers out of China continue to line up to sell offshore bonds, adding to the pressure in a market already under pressure with the weight of supply. Faced with tougher financing conditions in the onshore Chinese market, Chinese issuers are turning to the US dollar bond market even though rising US interest rates, weaker demand from mainland investors and growing default risks are causing a severe imbalance of supply and demand.

The expanding pipeline comes at a time when Chinese borrowers are already struggling to attract international investors, especially in the high-yield sector. The offshore bond market may face challenges in absorbing the large supply, especially from weak Chinese borrowers as the refinancing environment has been tough since early 2018. The market is seeing a trend of a mismatch between huge supply and much more selective demand.

The offshore rush comes as the PRC government's deleveraging campaign and several onshore defaults are making it harder for mainland Chinese issuers to refinance their domestic debt.

The deleveraging push is also draining demand for offshore issues. In particular, demand from Chinese investors, strong supporters of Chinese high-yield deals in the past two years, has started to show signs of fatigue.

Chinese borrowers, even investment-grade issuers, are starting to find it increasingly hard to close USD deals. Successful issuers had to offer hefty concessions or opt for a floating-rate structure as protection for investors in a rising rates environment.

Very restricted funding access onshore and offshore would expose weak credits to higher refinancing risks this year. Market participants are paying special attention to borrowers with a large proportion of debt maturing over a short time-frame, those with heavy reliance on short-dated bonds and those with a concentrated investor base.

OUTLOOK

The outlook for the second half of 2018 in Portugal is positive. The ECM team is working on 2 potential mandates and on the DCM front there are several new opportunities that have a very high probability of materializing by the end of the year.

In Spain, despite the political uncertainty, the prospects look positive for the rest of the year. The team is actively working on the execution of two additional mandates and has been able to put together an interesting pipeline of prospective opportunities.

In Poland, the outlook for the second half remains mixed for the ECM market. On the one hand, investor sentiment remains at record-low levels. On the other hand, the introduction of new pension plan schemes in Poland (planned for 2019) is expected to breathe some life into the currently attractively priced equity market. Regarding the DCM market, there is increasing interest in public bond issues and corporate Bonds but investors are much more selective in terms of credit risk. However, the still unsolved matter related to a large corporate default negatively affects the corporate debt capital market in Poland.

The outlook for the DCM business in Brazil remains promising for the second half. The Bank has several mandates in execution and a promising pipeline of new opportunities, especially related to structured products (Asset Backed Securitization). Most of these opportunities are expected to materialize in the second half of 2018.

Structured Finance

A Structured Finance and Infrastructure Specialist with a Focus on the China Angle

OVERVIEW

With a global geographic scope and a long track record and expertise in Project Finance, Acquisition Finance and Other Credits, the Structured Finance Division develops financing solutions and provides services to its Clients through the following main activities:

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

1H2018 figures

25%	€ 12m
Weight in total Banking Income	Banking Income amount

STRATEGY

Haitong Bank's Structured Finance business proposition and strategy is driven by the potential of China-related new business origination as well as by the Bank's local positioning and execution capabilities in Europe and Latam.

Taking advantage of Haitong Bank's expertise in Project Finance and in the infrastructure sector, a particular focus is placed on the "One Belt One Road" initiative by following closely and participating in relevant business opportunities in coordination with Haitong Group and other investors.

STRUCTURED FINANCE

ACTIVITY HIGHLIGHTS

The Structured Finance activity achieved a positive performance in the first semester of 2018 with total banking income of EUR 12 million and a low cost-to-income ratio of 7.5%.

The process of ensuring improved business coordination within Haitong Group continues to play a very important role in the performance of the Structured Finance business area, namely by combining the access to relevant China and Hong Kong related deals with Haitong Bank's Structured Finance expertise and local presence in Europe and LatAm.

During the first half of 2018, the focus has been kept on acquisition and bridge financing deals involving Asian investors and European targets as well as on specific business opportunities in the infrastructure and energy sectors.

Positive signs came from the renewable energy sector, which kept showing some dynamic improvements in Portugal, namely with a large M&A deal coming to the market, while the infrastructure sector saw the launching of the new Lisbon Hospital project after a long period with no significant activity.

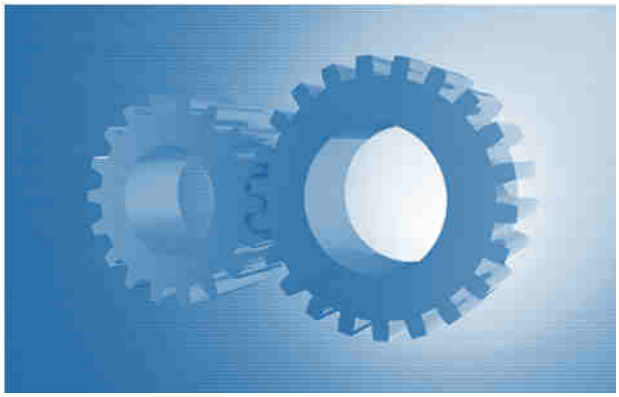
On top of this, the active management of the existing credit portfolio and the significant volume of agency roles related services have also provided an important contribution to the business performance.

In light of the Bank's new credit policies and risk appetite framework, a strong pipeline of new deals has been built, opening up good prospects for the second half of the year. This includes deals with targets in several geographies, involving both lending and advisory potential mandates.

In Brazil, the 3% GDP growth projection for 2018 is not being materialized and the Federal Government is struggling to make progress in the agenda of leading major infrastructure projects to the auction stage. In the first half of 2018, there were auctions in the energy sector related to transmission lines and the generation of new energy, in addition to some specific auctions at the state and municipal levels in other infrastructure sectors. The Federal Government's major highways, mobility and railroad projects have not yet got off the mark. In this context, the Structured Finance activity fell short of what we had projected for the first half of 2018. No new major operations were disbursed, but two new projects were engaged: Planova and Envision.

Structured Finance division continues to collaborate with the Capital Markets business line, generating synergies and seeking mandates for bridge loan operations – for which the take-out will be structured through Capital Market operations. They are also working closely with the M&A team looking for financing acquisition opportunities.

At the same time, the Bank continues to seek to position itself with investors, mainly Asian (Chinese) and European groups interested in participating in the infrastructure sector, namely in the railroad, transmission, generation, sanitation, highways, subway or waste management sectors.



OUTLOOK

The business prospects for Haitong Bank's Structured Finance activity remain positive, based on the new strategic positioning and on the great potential from China-related cross-border deals. Haitong Bank's global presence with local execution capabilities in Europe, LatAm and Asia offers unique competitive advantages and key elements of this new strategic positioning. A deeper coordination with Haitong Group entities, not only on the origination side of the business but also on the deals execution and post-closing related tasks will play a crucial role in the future activity of this business area.

In this sense, a number of deals should be completed during the second half of 2018. This includes some acquisition finance transactions involving Chinese investors and targets in Europe, as well as other opportunities in the energy and infrastructure sectors in Europe and LatAm.

In Brazil, new airports and energy sector auctions are expected for the second half of 2018. However, due to the political agenda on the back of October elections, it is highly likely that the estimated schedules may be postponed to 2019. We expect that the sector will focus on opportunities in already existing projects, as well as in structuring and placing smaller operations on the market or conducting new auctions.

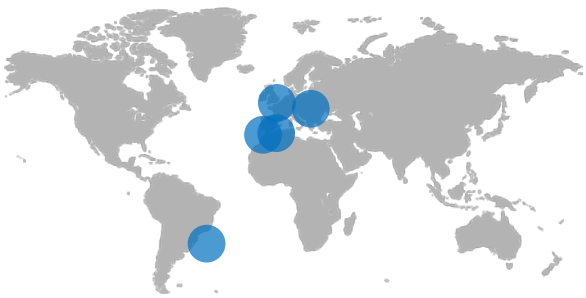
FICC – FIXED INCOME, CURRENCIES AND COMMODITIES

Product development and international distribution platform based on strong local expertise

OVERVIEW

The Fixed Income, Currency and Commodities (FICC) Division remains an important player in Haitong Bank's relevant markets (Iberia, Poland, Brazil and the UK). The Department works as a 'product factory' and as a distribution platform for Debt products and OTC derivatives, bringing strong local knowledge to an international platform level and capturing the flow between different clients in different region. The FICC team covers four areas:

- Flow Trading and Fixed Income Sales
- Syndication
- Corporate Solutions
- Structured Products



STRATEGY

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

Under the new strategy repositioning, the team should be able to distribute China-related offshore bond issues in European markets and trade these instruments in the secondary market, as well as explore the opportunity of tapping Asian pools of liquidity to offer the Bank's structured notes. The access to more China-related investment banking business can also be a cross-selling catalyst for Corporate Solutions, adding Chinese corporates to the existing Client base.

1H2018 figures

12%	€ 6m
Weight in total Banking Income	Banking Income amount

FICC - FIXED INCOME, CURRENCIES AND COMMODITIES

ACTIVITY HIGHLIGHTS

During the first half of 2018, the FICC teams were focused on expanding the client base for the different products, revamping activity in the geographies that suffered a greater impact from the restructuring carried out during 2017 and aligning the activity with the Bank's new business model and limits framework.

It should be noted that the implementation of the new Directive of Markets in Financial Instruments (MiFID2) was successfully completed.

Flow Trading

Regarding debt market making, the Bank's scope of activity was narrowed to European debt, with a focus on Iberia as a consequence of the spin-off of the US office to Haitong International (BVI) Limited. During this period, the team had faced adverse market conditions with constant turmoil. The team's focus was on the increasing flow-driven business, aiming to generate higher profitability by being the intermediary for flows with international clients as well as increasing the franchise and broadening the distribution capacity.

Fixed Income Sales

The team kept its focus on strengthening the distribution capacity platform for FICC and Investment Bank products and was able to increase the number of active clients. On top of the daily flow business and due to a closer relationship with our client base, we were able to provide relevant market information and obtain client reverse enquiries that helped Syndication and DCM to pitch successfully for new primary deals. During this period we also had the opportunity to start revamping the Sales team following the FICC and DCM strategy.

Syndication

The first semester of this year was very quiet in term of primary deals both in Iberian and Chinese regions. However, the syndication team has strengthened its relationship with DCM and Sales and has actively participated in every pitch made by DCM, providing accurate market reading and pricing. We forecast a positive second half of the year where we expect to execute part of the existing pipeline.

Corporate Solutions

The Corporate Solutions area had a remarkable first semester of 2018, with most of the activity concentrated in short-term deals (up to 2 years), 95% cash collateralized (CSA). In terms of underlying assets, a great part of the activity came from Structured FX and Commodities (mainly Energy). The team has been very proactive with clients and developed new tools to provide higher added value services in terms of transaction reporting, exposure and new tailor-made ideas to restructure customers' portfolios. The team has been involved in some "run-off" trades that should have promoted balance sheet efficiency – RWA, CVA and KVA. Corporate Solutions has other projects running in parallel that will increase the number of products/services offered in the Bank´s catalogue in the near-term, aiming to increase the commercial leads.

Structured Products

The first half of 2018 was marked by the introduction of the MiFID2/PRIIPS regulations, but the Structured Products team and the Bank were well prepared for its implementation. However, it brought negative consequences for the business initially – lower secondary market activity and a negative impact on new issues to be placed by financial intermediaries among non-professional clients (issuers with a high yield rating, such as the Bank's current BB- rating by S&P, are heavily penalized by the overall risk assessment for each product under MIFID2/PRIIPs regulation). There has been a great effort to reach new clients/distributors across Europe, focusing on some partnerships with selected Structured Products distributors to increase the number of transactions. The OTC Derivatives business has increased in the first half and we expect to expand this business activity over the remaining part of the year. Another important angle, which has not yet translated into effective business, is related to the increasing cooperation and synergies with Haitong Group entities in Asia to generate future cross-border transactions.

Asset Management

Leveraging on a long and successful track record

OVERVIEW

The purpose of the Asset Management Division is to act as Investment Manager on a range of different mandates and asset portfolios, and to do it diligently and with a view to maximising absolute returns in the long term, taking into account the risk profile defined by each mandate and the limits established under it.

STRATEGY

The strategy is to significantly expand this business activity by increasing assets under management (AuM) both in the existing products and in the new ones that are to be launched.

Regarding existing business lines, the Bank will continue to focus on expanding its client base. The Bank's strong performance track record, consistently delivering for over 16 years, is a key comparative advantage to drive AuM upwards.

1H2018 figures

2%	€ 1m
Weight in total Banking Income	Banking Income amount

ASSET MANAGEMENT

MARKET BACKGROUND

In the first semester of 2018, the stock markets had mixed performances. While the US main index increased +1.7%, Europe's saw a -3.1% decrease given that the German index DAX fell by -4.7%. With an even more negative performance, we highlight emerging markets, which fell by -7.7%. The weak performance of the stock markets throughout the semester was fairly defined by geopolitical tensions, namely the trade tensions between the USA and China and the possible retaliations from that tension that would lead to a more intense 'trade war'. Other political issues regarding the formation of the Italian Government with a more 'Eurosceptic' tone or speculation about internal instability in the German Government coalition due to the migration issue also affected investor sentiment and contributed to a wider spread of Italian bonds vs Bunds. On a more positive note, we would highlight on the one hand the continued good macroeconomic environment throughout the main geographies and on the other hand the announcement of a good set of corporate results. This fact, together with the above-mentioned fall of the indices, makes stocks look more attractive when assessed by their 'multiples'.

The gradual tightening of US monetary policy, especially when compared with a more expansionary stance in most other markets, has led both US treasury yields and the USD higher. This had a huge impact in emerging markets and mostly in China, affected by trade war fears. The CNY depreciated around 5% and the liquidity squeeze on Chinese assets caused credit spreads to widen (Investment Grade spreads increased, on average, 35bp during the first half of 2018) and the Chinese High Yield segment underperformed relative to market, with the Bloomberg Barclays China HY USD Index declining by 5.2%.

ACTIVITY HIGHLIGHTS

Within this context, Haitong Bank closed the semester with both portfolios (Flexible and Aggressive) registering a negative performance of 2% and 3.5%, respectively. With the Eurostoxx50 down 3.1%, these results are in line with historical participation averages.

The Haitong China High Income Bond Fund had a difficult first semester with a negative performance of -3.8%, mainly due to the fact that the credit squeeze in Chinese bond markets was more acutely felt in the High Yield and LGFV (Local Government Financing Vehicle) segments, to which the Fund was most exposed to.

Assets under Management increased by nearly 22%, to close to EUR 100 million, mainly as a consequence of the launch of the 2 new UCITS funds (European Equity) in partnership with Credit Suisse in Luxembourg and stable AUM in the rest of the mandates.

Assets under Management

OUTLOOK

In the second half of the year, the team will focus on expanding its reach in terms of distribution of Asset Management (AM) products. The distribution model of AM activities is currently in a transition phase, during which the Portuguese market will remain a priority. Meanwhile, the Bank shall endeavor to extend the current successful partnership with Haitong Group in China by exploring distribution synergies in Asia, including the Hong Kong operation.

At the same time, the focus will be on consolidating the recently launched products (High Yield Chinese Bond Fund and the 2 UCITS European equity funds) while trying to establish a track record for them that helps future sales of those products.

Private Equity

Playing a Pan European angle in the Infrastructure market

OVERVIEW

Haitong Capital manages portfolios of equity stakes in private companies. Haitong Capital leverages on sector and geographical expertise to support companies wishing to expand their businesses. The ultimate goal is to provide investors with an absolute return on their investments. Historically, this business area has managed a combination of seed capital from the Group and funds raised from external investors.

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

STRATEGY

Haitong Capital's strategy comprises launching:

- An Infrastructure Fund, benefiting from its strong track record in the European (mostly Iberian) Infrastructure sector; and
- A Sino-European Fund, combining European and Chinese expertise and investing in sectors that can benefit from the dynamics of both markets.

1H2018 figures

9%	€ 4m
Weight in total Banking Income	Banking Income amount

ACTIVITY HIGHLIGHTS

During the first half of the year, the company continued to develop the groundwork done in previous years towards the setup of a new investment vehicle focused on the infrastructure sector.

Taking into account the maturity stage of the current funds under management, ES Iberia I Fund (liquidation phase), Haitong Infrastructure Fund (divestment phase), and FCR – PME /Novo Banco (reaching the term of the fund in 2020), the divestment operations assumed an important role. Several auction processes were concluded while others were launched or are being structured with the aim of disposal of up to four portfolio companies by year-end.

€ 61.4 million
distribution of funds

Throughout the semester, the distribution of funds of the portfolios under management reached an aggregate amount of EUR 61.4 million, mostly related to the disposal of assets. This amount includes the sale of Empark (EUR 35.6 million) and Globalwatt (EUR 17.8 million) in the Infrastructure Fund and the sale of Attentionfocus (EUR 4.7 million) in the FCR fund. Additional distributions were received from funds managed by third parties, totalling EUR 3.0 million, with a special highlight being the partial disposal of Outsystems (through Armilar Ventures II).

The management company maintains a hands-on approach focused on the value creation of the portfolio of companies under management.

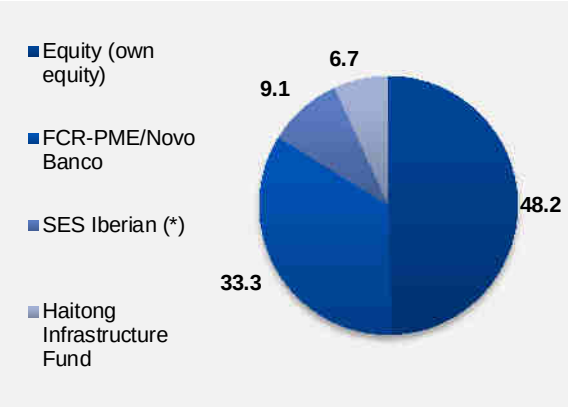
+ € 820 thousand

In the first half of 2018, the fair market valuation of the investment portfolio reached EUR 44.2 million. This compares with EUR 63.0 million calculated in December 2017 on a like-for-like basis. However, if we included dividends and interest payments from the very same group of securities, the amount would have been slightly above (+EUR 820 thousand) the figure posted at the end of the previous year.

The private equity activity in the first half posted a net gain for the period of EUR 1.8 million and total equity amounted to EUR 48.2 million.

Funds under management (1H2018)

(million euros)



(*) considers ES Iberia I fund alongside its mirror fund – Siparex Iberia I fund

OUTLOOK

Haitong Capital expects to maintain its regular portfolio management activities during the second half of 2018 and to fulfil the investment mandates taken by the management company. It will also continue to develop and implement the dedicated workstreams for the launch of the new fund targeting the infrastructure segment.

Equities / Research

Focus on Iberian and Polish markets

OVERVIEW

The Equities Division offers an order execution and sales service focused on Iberian and Polish equities markets for European investors.

This business is complemented by research services provided by the Research Division in Lisbon and Warsaw, covering c.40 stocks in Iberia and c.40 stocks in Poland with a strong focus on bottom-up stock picking with solid fundamental backing. The Research Division produces a high quality product, fully compliant with MiFID2.

In addition, this platform supports the Group's investment banking activities through the distribution of new equity issues and follow-on transactions.

STRATEGY

In close coordination with Haitong International, the priority is to explore avenues to speed up the overall group equities footprint in Europe. The Iberian and Polish product and institutional clients' relationships in these regions are critical for this objective.

1H2018 figures

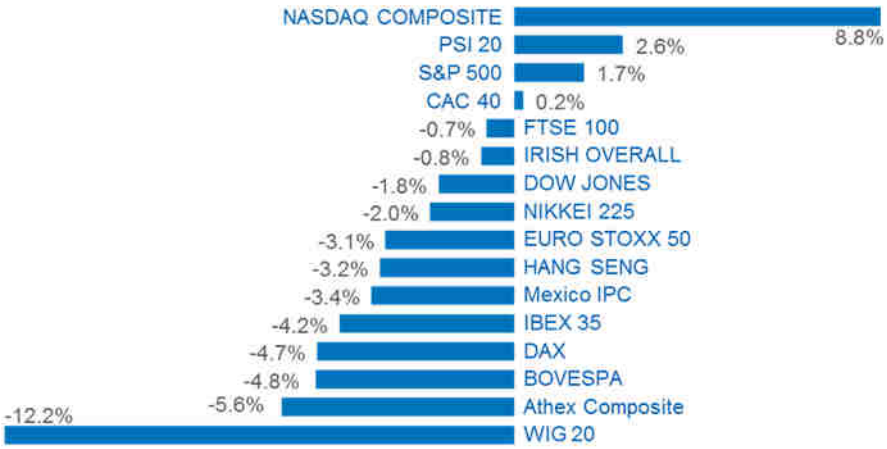
6%	€ 3m
Weight in total Banking Income	Banking Income amount

MARKET BACKGROUND

Iberian equity markets experienced a mixed performance during the first half of the year with the Portuguese main index PSI20 gaining 2.6% and the Spanish index IBEX35 falling by 4.2%. Year-on-year turnover was almost flat in Portugal and dropped 5% in Spain. The restructuring of the equity and research divisions in Iberia, the UK and US that started in early 2017 and extended into early 2018 continues to impact the Bank's Iberian equity product offering and distribution. Despite these headwinds and following MiFID2 implementation, which was prepared well in advance, Haitong Bank was able to secure the bulk of its key local trading relationships and at the same time sign research agreements with European institutional clients. At the same time, the Bank continued to streamline its equity set up. It was another active semester in terms of corporate access organizing roadshows with Iberian corporates (NOS, Galp, Jerónimo Martins, EDP, Mota-Engil, Sonae…) in London, Madrid and Lisbon.

In Poland, the first half of 2018 was very demanding for the local capital market and brokerage business. Investors faced regulatory/ legal changes related to MiFID2 implementation and changes in the ownership structure among some of the local largest pension and mutual funds, as well as structural changes in the turnover of the Warsaw Stock Exchange (WSE). The WSE main Index WIG has had a 11.9% fall year to date, while the Blue Chip Index WIG20 recorded a 13% drop. Moreover, total turnover decreased by 25.5% YoY. The breakdown of WSE members' activities shows that an increasing share of flow is coming from indices trackers (like ETF providers and programs) serviced by London remote members. This group of financial institutions increased their market share to roughly 60% from 50% last year at the expense of the local brokerage universe. Polish institutional investors endured significant cash outflows, which have had an impact on the sell-off of mid and small cap companies.

Leading Stock Market Performance



Source: Bloomberg (local currency)

ACTIVITY HIGHLIGHTS

The challenging environment, however, did not discourage the Haitong Bank Equities Team from pursuing its strategy of selling high quality local research products to institutional investors. In Parkiet's (local newspaper) latest annual Institutional Investor survey of best sell-side analysts, Mr. Konrad Księżopolski won in the 'Telco and Media' sector category and was also ranked second in the 'IT' sector. Mr. Cezary Bernatek won the 'Real Estate Developers' category and ranked fifth in the 'Construction' sector. The local research team had gone through some staff changes at the end of 2017 with new members joining the team and already placing 8 new companies under coverage and with a great pipeline of expanding coverage for the second half of 2018. The Haitong

Bank sales team, as a sole bookrunner, managed to place one of the largest IPOs so far in 2018: Ten Square Games, a free-to–play gaming developer, was placed with a deal size of USD 25 million and a market cap of USD 90 million. The stock rallied on its debut by 12% and has since increased over 80%, making it one of the most successful debuts on the WSE in recent years. Taking into consideration the tough secondary market environment, Haitong Bank's secondary turnover on the WSE decreased 33.6% YoY while maintaining an average market share of 1.02% (as opposed to the 1.15% share from last year). Turnover and commission generated on foreign markets fell by 59% YoY due to the structural changes that had taken place in equity research in London, a significantly slimmer research product offering in international equities and the transition period before starting the cooperation with Haitong International Securities.

OUTLOOK

Closer coordination with the Haitong International equities division is currently being studied with the aim of speeding up expansion in the overall Group equities footprint in Europe.

Treasury

FUNDING STRATEGY

To ensure liquidity and a stable and diversified funding structure for the Bank, adjusted to its balance sheet and business model.

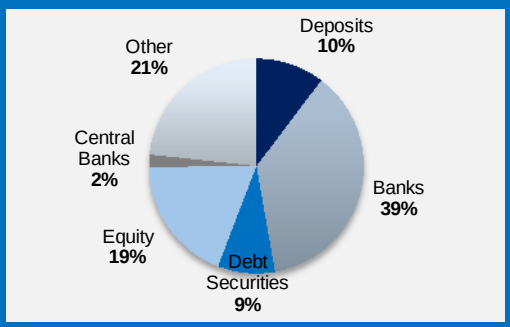
Lisbon and Sao Paulo Treasury divisions manage the bulk of the Bank's funding and liquidity needs.

The Irish subsidiary represents a sizeable part of the Bank's balance sheet and is managed on a consolidated basis.

The Bank also has a small treasury department located in Warsaw, dealing with the specific characteristics of the local market, local currency and the Polish regulatory/supervising authority.

Funding Structure

(1H 2018)



TREASURY

MARKET BACKGROUND

The European Central Bank (ECB) kept rates unchanged during the first half of 2018, focusing on wages growth rather than on inflation, which was pushed higher mainly by fuel prices.

Core Euro Area sovereign debt traded in a wide range, reflecting: (i) the uncertainty related to the ECB's tapering of its quantitative easing policy driving core and German yields, in particular, to September 2015 highs; and (ii) the political risks arising mainly from Italy, which pushed German yields to lows of June 2017.

Particularly in the heights of the Italian political turmoil, Southern European Sovereign yields suffered from the flight to quality movement and the contagious effect of the rising Italian yields. In May, 10-year Italian yields reached nearly 3.2% and the Spanish, Portuguese and Greek 10-year yields peaked at 1.6%, 2.2% and 4.8%, respectively.

Despite investors' improved perception of the Portuguese risk and the AT1 issuance of Novo Banco and Caixa Geral de Depósitos, access to unsecured benchmark issuance at reasonable prices in the international debt markets remained locked to the Portuguese banking sector.

In the US, the Federal Reserve maintained its monetary policy and raised rates twice to 2.00% since the beginning of the year, showing confidence in the economic and employment outlook.

In Brazil, well-anchored inflation in an environment of slow economic recovery allowed the Central Bank to cut rates to historically low levels. Since April, given the Fed monetary policy and the international trade disputes, the current challenging scenario for emerging markets should remain the same in the near future. Domestically, the election process will add volatility and will be a major market driver until year-end.

ACTIVITY HIGHLIGHTS

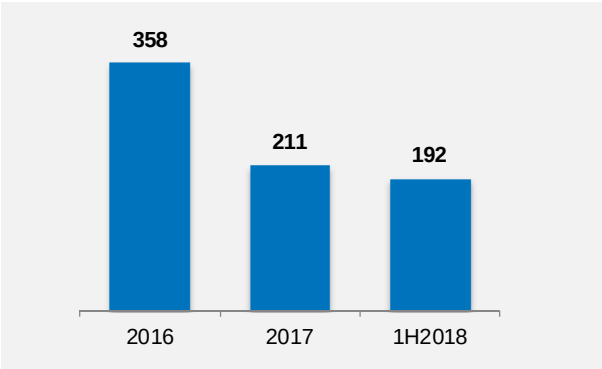
The Bank's funding structure and funding costs remained stable during the first half of 2018.

The partnership with an online platform to attract German retail term deposits remained an important and high-quality funding source for the Bank. At the end of June 2018, the Bank had EUR 80 million sourced through this platform.

Outstanding debt issued under the Medium-Term Note Programme (MTNs) totalled EUR 192 million as of 30 June 2018, which compares with EUR 211 million by the end of 2017. Although in very modest amounts, we saw growing interest from investors in the Bank's structured debt issuance.

EMTN programme / Total outstanding amount

(million euros)



Issue value outstanding deducted from buybacks
Source: Haitong Bank

The Bank has strengthened its capital base with an AT1 Issue for USD 130 million (EUR 105 million, approximately), thus improving its capital ratios and liquidity position.

During the first half of 2018, Haitong Bank in Brazil achieved remarkable revenues through dynamic interest rates strategies and relative-value transactions with government bonds.

The Bank also addressed the rollover needs for 2018 and 2019 and managed to lengthen the liabilities pool through better quality instruments. This is the result of an outstanding effort of strengthening the ties with top tier Institutional Investors and the banking community.

OUTLOOK

The Bank plans to extend the online deposit channel source to the Spanish market during the third quarter of 2018, and resume the regular issuance of structured notes under the EMTN Program, focusing on Asia and providing bespoke solutions to meet investors' needs.

In Brazil, the target continues to be the improvement of the funding framework, the broadening of the Institutional Investors client base and the structuring of deals focusing on the enhancement of ALM efficiency and profitability.

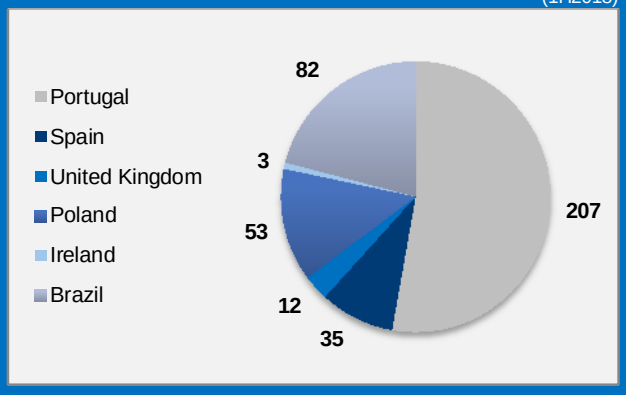
Human Resources

THE HUMAN RESOURCES DEPARTMENT

Set and manage the Group's human resources policies with a view to developing, managing and encouraging the talent of the employees, creating the necessary conditions for ensuring high motivation and quality performance.

Headcount by Region

(1H2018)



HUMAN RESOURCES

HEADCOUNT

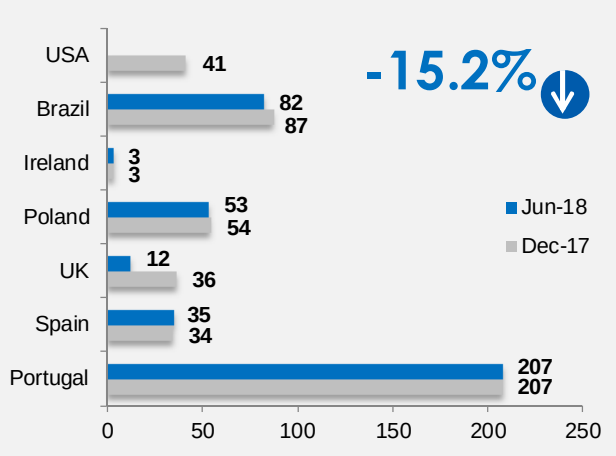
In the first half of 2018, Haitong Bank concluded the sale of its broker dealers in NY and London to Haitong International. The transfer of those employees was the main reason for a decrease of around 15% in the headcount, together with the closing of the Representative Office in Mexico. Despite the sale of Haitong Securities UK, the Bank decided to keep its London Branch where it is looking for Investment Banking opportunities.

392 employees

By the end of the first half of 2018, the Bank had 392 Employees, spread over Portugal, Spain, Poland, the UK, Ireland and Brazil.

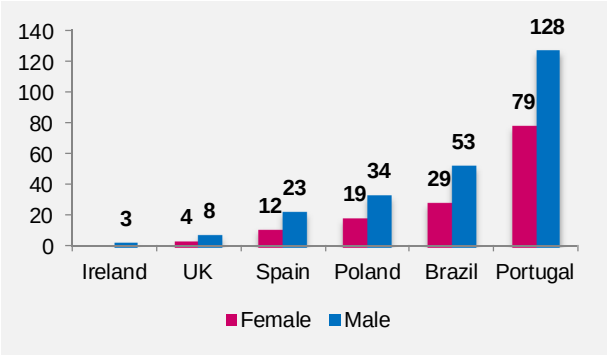
36.5% 63.5%

On average, Haitong Bank employees are around 41 years old and have 9 years of service.



Source: Haitong Bank

Employee Headcount by Gender



Source: Haitong Bank

Geography	Age	Avg length of service (years)
Ireland	38.0	6.3
UK	41.5	3.1
Spain	43.9	11.8
Poland	36.9	5.2
Brazil	42.5	8.3
Portugal	40.6	10.0
Average	**40.8**	**8.9**

Source: Haitong Bank

TRAINING

In spite of the high qualifications of our employees - 87% have a bachelor's degree or a higher degree -, Haitong Bank continues to encourage and support training for its employees: MBAs and Masters are among the list of the Bank's ongoing training activities.

In addition, English, Spanish and Portuguese lessons are also given in-house to keep improving employees' languages skills.

During this period, the Human Resources and Compliance Departments worked together in preparing several training sessions for MiFID2 in order to make sure that all geographies were ready for its implementation.

ACTIVITY HIGHLIGHTS

During the first half of 2018, the Human Resources Department continued to support the Executive Committee and the management of the Bank in finding ways to motivate the existing talent in order to keep improving the Bank's results. The main goals achieved by the team in this period are the followings:

- Increase the efficiency of the Department's response to queries - "same day rule";
- Define policies regarding promotions and salary reviews;
- Define policies regarding variable compensation;
- Support to the Remuneration Committee;
- Set and Upload of KPIs for all employees;
- Improve the ratio between Front-Office and support areas;
- Carry out salary reviews;
- Revise the Management contract of the Pension Fund with GNB;
- Support the Shareholders' Audit team in human resources' issues; and
- Audit the Remuneration Policy of 2017.

SOCIAL RESPONSIBILITY

Haitong Bank supported the following institutions:

A Casa de Acolhimento Mão Amiga

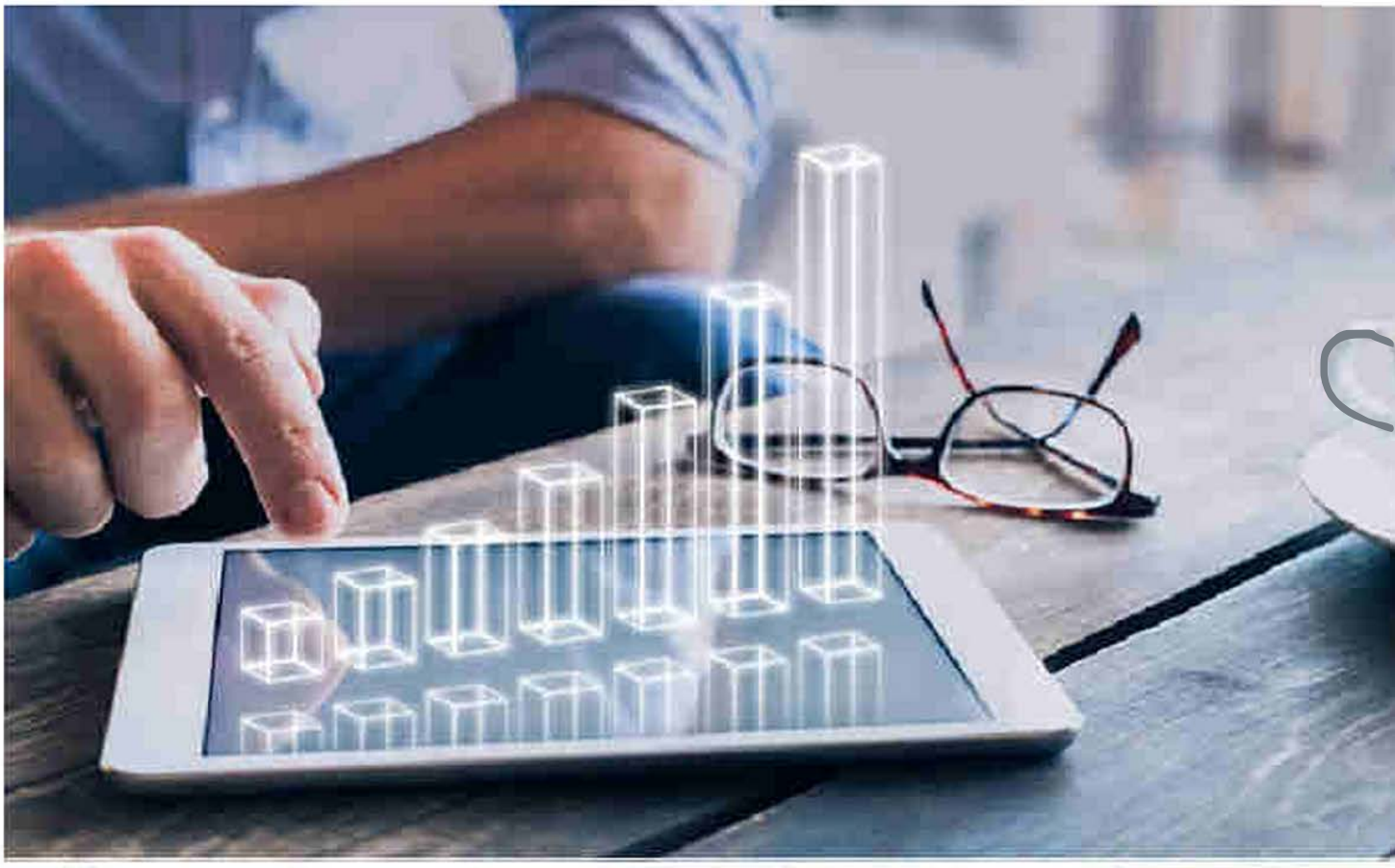
Donation of furniture to help equip a children's orphanage

Agrupamento de Escuteiros de Moscavide

Donation of furniture to help equip the boy scouts' headquarters

Desafio Jovem

Free use of the auditorium to a non-profit organization to hold a Conference about "Therapeutic Communities"



RISK MANAGEMENT

Acting independently of the business lines and units whose risks it controls, Risk Management is the Bank's centrally organizational division, enabling the Bank to make informed decisions and ensuring that the risk management processes approved by the Board of Directors are duly implemented and followed.

Department coverage

- Credit Risk
- Market Risk
- Operational Risk
- Liquidity Risk
- Capital Management

Risk Management

Governance

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

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

RISK COMMITTEE

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

RISK MANAGEMENT DEPARTMENT

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

CREDIT COMMITTEE

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

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

IMPAIRMENT COMMITTEE

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

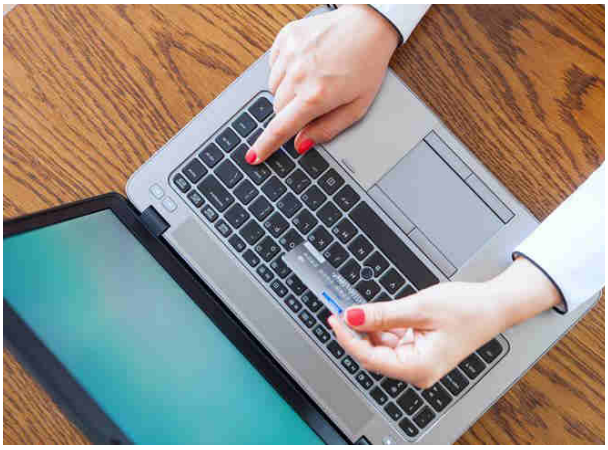
RISK APPETITE

Haitong Bank's strategy is to leverage on the opportunities emerging from China's internationalization, combining its expertise in Western markets with Group cross-border origination and distribution. Haitong Bank will continue to support its domestic franchises as it builds profitable growth opportunities with a China Angle.

The Bank's current business activity focuses on two main verticals: Corporate and Investment Banking and Broad Asset Management.

Haitong Bank acknowledges that its risk management function is a key factor to achieving the Group's strategic objectives and provides an additional line of defense in protecting its enterprise value. Haitong Bank's overall risk vision assessment is based on the following three guiding principles:

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



CREDIT RISK

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

Management Practices

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

LIMITS SETTING

All transactions involving credit are approved by the Credit Committee according to the Credit Committee's Decision Framework.

INTERNAL RATINGS

Each client or counterparty of a transaction involving credit or counterparty risk has an internal rating assigned, which measures the probability of default in a one-year period. Internal ratings are mandatory for credit decisions and used as an impairment trigger and warning signal.

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

The annual update and maintenance of the internal rating methodological framework is done through contracted services with Standard & Poor's.

MONITORING

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

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

CREDIT RECOVERY PROCESS

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

Asset Quality

LOAN PORTFOLIO

Portfolio breakdown

As of June 2018, the gross loan portfolio totalled EUR 644 million, which represents a reduction of EUR 106 million during the first half, mainly seen in Project Finance (EUR -87 million), in particular international portfolio.

Loan Portfolio Product Lines and Geographic Breakdown

(thousand euros)

	June 2018		
	Domestic	International	Total
Loan Portfolio[1]	**296,093**	**348,324**	**644,418**
Project Finance	239,336	271,853	511,189
Acquisition Finance	52,015	56,431	108,446
Other Loans	4,742	20,040	24,782

	December 2017		
	Domestic	International	Total
Loan Portfolio[1]	**330,740**	**419,384**	**750,123**
Project Finance	261,337	336,483	597,820
Acquisition Finance	66,982	62,902	129,884
Other Loans	2,421	19,998	22,419

Source: Haitong Bank

[1] gross of provisions

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

Loan Portfolio Product Lines by Sector

	June 2018			
	Project Finance	Aquisition Finance	Other Loans	Total
TOTAL	**79%**	**17%**	**4%**	**100%**
Financials	2%	4%	0%	**7%**
Construction & Public Works	14%	1%	1%	**15%**
Energy	28%	0%	0%	**28%**
Transport Infrastructure	20%	1%	0%	**21%**
Transp. & Communications	1%	1%	0%	**2%**
Other Manufacturing Sectors	2%	1%	0%	**3%**
Real Estate & Rental Activity	0%	0%	0%	**0%**
Services	3%	7%	0%	**10%**
Other Sectors	10%	1%	2%	**14%**

	December 2017			
	Project Finance	Aquisition Finance	Other Loans	Total
TOTAL	**80%**	**17%**	**3%**	**100%**
Financials	3%	4%	0%	**7%**
Construction & Public Works	12%	2%	0%	**13%**
Energy	28%	0%	0%	**28%**
Transport Infrastructure	19%	1%	0%	**20%**
Transp. & Communications	1%	1%	0%	**2%**
Other Manufacturing Sectors	2%	3%	1%	**5%**
Real Estate & Rental Activity	0%	1%	0%	**1%**
Services	3%	6%	0%	**9%**
Other Sectors	13%	0%	2%	**15%**

Source: Haitong Bank

Internal Rating Profile

Haitong Bank uses internal rating models to support credit decisions and credit risk monitoring. In June 2018, the loan portfolio was distributed by internal ratings as shown in the table below.

Loan Portfolio Rating Profile

	June 2018	December 2017
[aaa; a-]	0%	0%
[bbb+; bbb-]	25%	25%
[bb+; bb-]	34%	32%
[b+; b-]	29%	30%
[ccc+; lccc]	12%	13%

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

Risk Indicators

In the first half of 2018, Haitong Bank continued to pursue a conservative approach regarding loan portfolio impairments by achieving significant provisioning coverage and a reduction of the non-performing loans.

Loan Portfolio Risk Indicators

(thousand euros)

	June 2018	December 2017
Loan Portfolio	644,418	750,123
Overdue > 90 days	63,248	76,392
Overdue > 90 days / Loan portfolio	*10%*	*10%*
Non Performing Loans	214,670	280,064
Non Performing Loans Rate	*33%*	*37%*
Credit Provisions	114,779	120,217
Credit Provisions / Overdue Loans > 90 days	*182%*	*157%*
Credit Provisions / Loan portfolio	*18%*	*16%*

Source: Haitong Bank

FIXED INCOME ASSETS

Portfolio breakdown

The fixed income portfolio ended the first half of 2018 with a net total of EUR 1,067 million, an increase of EUR 167 million, as a result of Haitong Banco de Investimento do Brasil's activity, essentially in Brazilian Treasury Notes and Brazilian Central Bank Notes (issued and funded in local currency).

Fixed Income Portfolio by Sector

(thousand euros)

	June 2018	December 2017
Total	**1,067,289**	**900,332**
Sovereign	886,264	690,588
Financials	116,129	122,200
Construction and Public Works	3,528	3,909
Energy	3,796	17,665
Transport Infrastructure	541	0
Transp. & Communications	3,917	2,817
Other Manufacturing Sectors	26,741	33,684
Real Estate and Rental Activity	1,435	2,239
Services	22,264	23,498
Other sectors	2,673	3,733

Source: Haitong Bank

Internal Rating Profile

In June 2018 the rating profile of the Bank's fixed income portfolio was the following:

Fixed Income Portfolio Rating Profile

(thousand euros)

	June 2018	December 2017
[aaa; a-]	1.6%	0.4%
[bbb+; bbb-]	10.4%	0.4%
[bb+; bb-]	85.8%	90.3%
[b+; b-]	2.2%	8.7%
[ccc+; lccc]	0.0%	0.2%

Source: Haitong Bank

DERIVATIVES PORTFOLIO

Portfolio Breakdown

The counterparty risk exposure in the Bank's portfolio of interest rate, exchange rate, and equity derivatives amounted to EUR 176 million, showing a reduction of EUR 345 thousand during the first semester of 2018.

In terms of the breakdown by counterparty risk sector, 67% of the global exposure is related to transactions with both Transport Infrastructure and Financial sector counterparties.

Derivatives Portfolio by sector

(thousand euros)

	June 2018	December 2017
Total	**176,179**	**176,524**
Financials	54,379	34,508
Construction and Public Works	0	16,236
Energy	21,621	25,169
Transport Infrastructure	62,886	64,996
Transp. & Communications	1,343	1,357
Other Manufacturing Sectors	3,585	1,835
Services	19,243	20,985
Wholesale and Retail	6,418	3,425
Other sectors	6,703	8,013

Source: Haitong Bank

Internal Rating Profile

Total exposure to derivative instruments is mainly concentrated in Project Finance interest rate swaps. The next table shows the breakdown of rated exposures.

Derivatives Portfolio Rating Profile

(thousand euros)

	June 2018	December 2017
[aaa; a-]	23.4%	12.7%
[bbb+; bbb-]	40.3%	39.4%
[bb+; bb-]	24.4%	32.3%
[b+; b-]	9.1%	9.9%
[ccc+; lccc]	2.8%	5.8%

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

MARKET RISK

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

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

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

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

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

To provide the whole organisation with a clear understanding of the risks incurred and of its desired risk appetite, the Bank uses a comprehensive set of risk metrics, complemented by stop loss and concentration limits. These risk metrics include VaR (Value at Risk), the BPV (Basis Point Value) sensitivity measures for interest rates and credit spreads, and Greeks for options.

Trading Book Risk

Management Practices

The Bank estimates the potential losses in its trading book and for the overall commodity and foreign currency positions using the historical Value at Risk (VaR) methodology, calculated considering a 99% confidence level, an investment period of 10 business days and 1 year of historical observation.

As of June 30, 2018 Haitong Bank's Value at Risk (VaR) amounts to EUR 3.04 million, representing a decrease of EUR 1.93 million when compared with December 2017.

VaR - 99% at 10 Days

(million euros)

	June 2018	December 2017
Exchange Risk	1.2	2.2
Interest Risk	0.5	0.8
Shares and Commodities	1.0	1.3
Credit Spread	1.2	1.3
Covariance	-0.8	-0.8
Total	**3.0**	**5.0**

Source: Haitong Bank

Banking Book Risks

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

INTEREST RATE RISK

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

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

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

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

Interest rate risk measurement consists in determining the effect that changes in interest rates would have on equity and net interest income. On June 30, 2018, Haitong Bank calculated a EUR 3.02 million positive impact on the Bank's shareholders' equity.

CREDIT SPREAD RISK

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

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

REAL ESTATE RISK

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

Pension Fund Risk

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

There is a pension fund follow up committee that monitors the pension scheme (based on an external independent provider report) which includes the portfolio of assets performance and integrated Value-at-Risk (i.e. VaR taking into account expected assets and liabilities evolution) with 5% statistical significance on a year forward basis. This allows Haitong Bank to monitor the expected funding solvency and if the return / risk metrics are within the acceptable range defined in the ALM exercise.

OPERATIONAL RISK

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

Management Practices

Operational risk is managed through a set of procedures that standardise, systematise and 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.

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

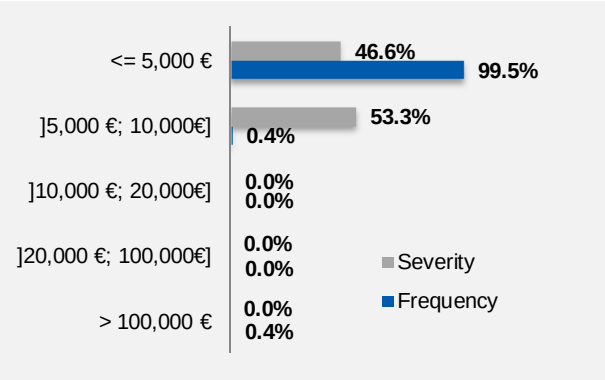
The operational risk management function includes the following processes:

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

Operational Risk Analysis

As shown below, in the first half of 2018 more than 99% of all reported events carried losses below EUR 5.000.

Distribution of frequency and severity of events by individual loss bucket

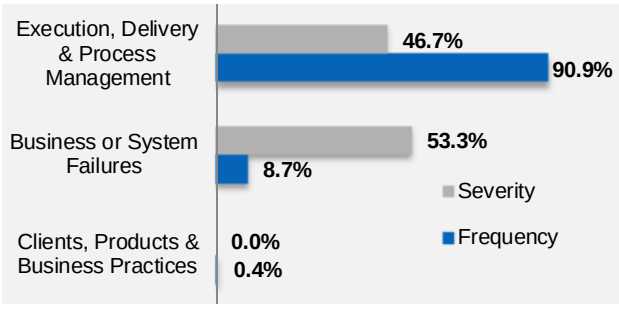


Source: Haitong Bank.

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

In the first half of 2018, Execution, Delivery & Process Management event type accounted for 91% of total reported events and by 47% of reported losses. Business or System Failures was the only other event type with losses accounting for 53% of operational risk event losses.

Distribution of frequency and severity of events by event type



Source: Haitong Bank.

LIQUIDITY RISK

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

Management Practices

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

Haitong Bank takes the primary responsibility for its own liquidity risk management. Liquidity management and Haitong's funding strategy is the responsibility of the Executive Committee which assures the managing of the Bank's liquidity in an integrated way, with the treasuries of all Haitong Bank's entities.

To provide protection against unexpected fluctuations and based on a solid organizational and governance model, Haitong Bank liquidity risk management envisages delivering appropriate

term and structure of funding consistent with the following principles:

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

Liquidity Position

Liquidity Coverage Ratio (30 Days)

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

As of 30 June 2018, Haitong Bank reached an LCR of 1261%, which represents a surplus regarding June 2018 regulatory minimums.

Liquidity Coverage Ratio

	June 2018	December 2017
High-Quality Liquid Assets	745,081	746,344
30 days Net Outflow	59,087	122,248
Liquidity Coverage Ratio (LCR)	1261%	610%

Source: Haitong Bank.

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

On 30 June 2018, Haitong Bank maintained a NSFR of 153%, representing a comfortable stable funding position.

Net Stable Funding Ratio (NSFR)

	June 2018	December 2017
Net Stable Funding Ratio	153%	149%

Source: Haitong Bank

CAPITAL MANAGEMENT

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

Management Practices

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

- Constant monitoring of regulatory capital requirements;
- Annual revision of the risk appetite;
- Business objectives according to the capital planning.

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

As part of its capital management policy, Haitong Bank maintains a recovery capital plan, which provides the escalation path for crisis

management governance and identifies the list of actions and strategies designed to respond to a capital stress event.

Regulatory Capital and Leverage Ratios

Solvency

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

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

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

Also related to the CRD IV capital buffers, in November 2016 the Bank of Portugal decided to impose a capital surcharge on six Portuguese banking groups classified as O-SIIs (Other Systemically Important Institutions) in the scope of its annual revision of the identification of the imposition of capital buffers, pursuant to Article 138- R (2) of the Legal Framework of Credit Institutions and Financial Companies (RGICSF). According to the Bank of Portugal's decision as of December 2017, Haitong Bank is, at this point in time, excluded from the scope of application of this macro-prudential buffer.

The regulation also provides a counter-cyclical capital buffer of up to 2.5% to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth in Portugal. As of June 30, 2018, the Bank of Portugal decided not to impose any additional counter-cyclical capital buffer, by setting 0% of total risk exposure amount. This decision is subject to revision on a quarterly basis.

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

As of June 30, 2018 Haitong Bank capital ratios, calculated under the Basel III Standard Approach on both a transitional and fully loaded basis, are shown in the table below.

Solvency Ratios

	June 2018	
	Phased-in	Fully-loaded
CET1 ratio	22.1%	21.9%
Tier 1 ratio	27.9%	27.6%
Total capital ratio	28.0%	27.7%

	December 17	
	Phased-in	Fully-loaded
CET1 ratio	21.2%	20.3%
Tier 1 ratio	21.2%	20.4%
Total capital ratio	21.3%	20.5%

Source: Haitong Bank

In March 2018, Haitong Bank issued fixed rate perpetual instruments eligible as own additional funds of level 1 ("Additional Tier 1"), of USD 130,000,000 denominated as "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments".

Leverage

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

As of June 30, 2018 Haitong Bank leverage ratios, calculated under the Basel III Standard Approach on both transitional and fully loaded basis, are shown in the table below.

Leverage Ratios

	June 2018	December 17
Phased-in	21.8%	15.0%
Fully-loaded	21.6%	14.5%

Source: Haitong Bank.

The leverage ratio presented above is based on Haitong Bank's current understanding of the regulatory framework and may evolve as Haitong Bank discusses its interpretation and application with the Regulator.


7%
24%

Consolidated Financial Statements and Notes to the Consolidated Financial Statements

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

1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for the six month period ended 30 June 2018 and 2017

(thousand euros)

	Notes	30.06.2018	30.06.2017 Restatement
Interest and similar income	5	51 237	119 388
Interest and similar expenses	5	35 322	87 115
Financial margin		**15 915**	**32 273**
Fees and commissions income	6	38 170	27 913
Fees and commissions expenses	6	(4 574)	(4 192)
Net trading income	7	(4 110)	(7 462)
Net income from other financial instruments at fair value through profit or loss	8	3 441	(755)
Net gain/(loss) from derecognition of financial assets measured at fair value through other comprehensive income	9	3 087	-
Net gains/(losses) from financial assets held for sale	10	-	2 168
Net gains / (losses) from foreign exchange differences	11	968	(6 267)
Net gain/(loss) from derecognition of financial assets measured at amortised cost	12	111	(429)
Other operating income and expense	13	(4 154)	(8 514)
Operating Income		**48 854**	**34 735**
Employee costs	14	22 053	47 341
Administrative costs	16	13 864	19 636
Depreciations and amortisations	25 and 26	3 215	2 898
Provisions	32	(106)	12 877
Net impairment loss on financial assets	32	23 494	24 813
Operating expenses		**62 520**	**107 565**
Share of profit of associates	27	(85)	40
Profit / (Loss) before Income Tax		**(13 751)**	**(72 790)**
Income tax			
Current tax	33	14 746	3 006
Deferred tax	33	(12 894)	(12 444)
		1 852	**(9 438)**
			-
Net profit of continued operations		**(15 603)**	**(63 352)**
Net profit of discontinued operations	35	13 231	(18 569)
Net Profit / (Loss) for the period		**(2 372)**	**(81 921)**
Attributable to shareholders of the parent company		**(2 133)**	**(79 817)**
Attributable to non-controlling interests	37	**(239)**	**(2 104)**
		(2 372)	**(81 921)**
Basic Income per Share (in euros)	17	-0.01	-0.87
Diluted Income per Share (in euros)	17	-0.01	-0.87

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

The Director of the Finance Department

The Board of Directors

Consolidated Statement of Comprehensive Income for the six months period ended 30 June 2018 and 2017

(thousand euros)

	30.06.2018	30.06.2017 Restatement
Net income for the period		
Attributable to shareholders of the parent company	(2 133)	(79 817)
Attributable to non-controlling interests	(239)	(2 104)
	(2 372)	**(81 921)**
Other comprehensive income for the period		
Items that will not be reclassified to profit and loss		
Actuarial gains/(losses), net of taxes	568	1 389
	568	**1 389**
Items that may be reclassified to profit and loss		
Exchange differences net of taxes	(5 755)	(14 277)
Own credit risk effect on liabilities valuation	1 832	-
Other comprehensive income from associates	(184)	(335)
Fair value changes of financial assets held-for-sale	-	4 156
Fair value changes of debt instruments measured at fair value through other comprehensive income	(10 340)	-
Foreign exchange reserve recycled from discontinued operations	(285)	-
	(14 732)	**(10 456)**
Total comprehensive income/(loss) for the period	**(16 536)**	**(90 988)**
Attributable to shareholders of the parent company	**(11 811)**	**(85 546)**
Attributable to non-controlling interests	**(4 725)**	**(5 442)**
	(16 536)	**(90 988)**

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

Consolidated Statement of Balance Sheet as at 30 June 2018 and 31 December 2017

(thousand euros)

	Notes	30.06.2018	31.12.2017
Assets			
Cash and cash equivalents	18	546 706	473 273
Financial assets at fair value through profit or loss		821 565	671 275
Financial assets held for trading		788 683	671 275
Securities	19	612 468	456 208
Derivative financial assets	20	176 215	215 067
Non-trading financial assets mandatorily at fair value through profit or loss		32 882	-
Securities	21	27 645	-
Loans and advances to customers	23	5 237	-
Financial assets at fair value through other comprehensive income	21	480 295	-
Financial assets held-for-sale	21	-	491 947
Financial assets measured at amortised cost		932 228	1 117 907
Loans and advances to banks	22	408 408	488 000
Loans and advances to customers	23	523 820	629 907
Non-current assets held-for-sale	24	2 533	2 533
Assets from discontinued units	35	-	20 359
Other tangible assets	25	5 983	7 639
Intangible assets	26	19 825	21 327
Investments in associated companies	27	2 530	2 849
Tax assets		184 376	173 097
Current income tax assets	33	34 020	34 070
Deferred income tax assets	33	150 356	139 027
Other assets	28	267 174	293 699
Total Assets		**3 263 215**	**3 275 905**
Liabilities			
Financial liabilities held for trading		612 245	620 954
Securities	19	404 781	395 877
Derivative financial liabilities	20	207 464	225 077
Financial liabilities measured at amortised cost		1 694 561	1 723 768
Resources of credit institutions	29	1 265 725	1 179 511
Resources of customers	30	335 743	515 964
Debt securities issued	31	93 093	28 293
Financial liabilities designated at fair value through profit or loss		188 076	214 493
Debt securities issued	31	188 076	214 493
Liabilities from discontinued units	35	-	5 920
Provisions	32	12 650	13 659
Tax liabilities		3 488	6 305
Current income tax liabilities	33	2 708	3 231
Deferred income tax liabilities	33	780	3 074
Other liabilities	34	131 328	157 040
Total Liabilities		**2 642 348**	**2 742 139**
Equity			
Share capital	36	844 769	844 769
Share premium	36	8 796	8 796
Other equity instruments	36	108 773	3 731
Fair-value reserves	37	(4 838)	4 787
Other reserves and retained earnings	37	(360 838)	(229 212)
Net profit/(loss) for the period attributable shareholders of the parent company		(2 133)	(130 187)
Total equity attributable to the shareholders of the parent company		**594 529**	**502 684**
Non-controlling interests	37	26 338	31 082
Total Equity		**620 867**	**533 766**
Total Equity and Liabilities		**3 263 215**	**3 275 905**

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

The Director of the Finance Department

The Board of Directors

Consolidated Statement of Changes in Equity for the six months period ended 30 June 2018, 31 December 2017 and 30 June 2017

(thousand euros)

	Share Capital	Share Premium	Other equity instruments	Fair-value reserves	Other Reserves, Retained Earnings and Other Comprehensive Income	Net profit/(loss) for the period attributable shareholders of the parent company	Equity attributable to shareholders of the parent company	Non-controlling interests	Total Equity
Balance as at 31 December 2016	**426 269**	**8 796**	**83 731**	**(2 312)**	**(111 455)**	**(96 181)**	**308 848**	**41 675**	**350 523**
Other movements recorded directly in equity (see Note 37):									
Changes in fair value, net of taxes	-	-	-	4 166	-	-	4 166	(10)	4 156
Actuarial gains/ (losses), net of taxes	-	-	-	-	1 389	-	1 389	-	1 389
Other comprehensive income of associates	-	-	-	-	(335)	-	(335)	-	(335)
Exchange differences	-	-	-	-	(10 949)	-	(10 949)	(3 328)	(14 277)
Net profit / (loss) for the period	-	-	-	-	-	(79 817)	(79 817)	(2 104)	(81 921)
Total comprehensive income for the period	**-**	**-**	**-**	**4 166**	**(9 895)**	**(79 817)**	**(85 546)**	**(5 442)**	**(90 988)**
Issuance of other equity instruments (see Note 36)	380 000	-	(80 000)	-	-	-	300 000	-	300 000
Transfers for reserves and retained earnings	-	-	-	-	(96 181)	96 181	-	-	-
Interest in other equity instruments (see Note 36)	-	-	-	-	(159)	-	(159)	-	(159)
Balance as at 30 June 2017 (Restatement)	**806 269**	**8 796**	**3 731**	**1 854**	**(217 690)**	**(79 817)**	**523 143**	**36 233**	**559 376**
Other movements recorded directly in equity (see Note 37):									
Changes in fair value, net of taxes	-	-	-	2 933	-	-	2 933	341	3 274
Actuarial gains/ (losses), net of taxes	-	-	-	-	(1 566)	-	(1 566)	-	(1 566)
Other comprehensive income of associates	-	-	-	-	(187)	-	(187)	-	(187)
Exchange differences	-	-	-	-	(6 231)	-	(6 231)	(1 602)	(7 833)
Own credit risk changes	-	-	-	-	(3 380)	-	(3 380)	-	(3 380)
Net profit / (loss) for the period	-	-	-	-	-	(50 370)	(50 370)	(3 890)	(54 260)
Total comprehensive income for the period	**-**	**-**	**-**	**2 933**	**(11 364)**	**(50 370)**	**(58 801)**	**(5 151)**	**(63 952)**
Share capital increase (see Note 36)	38 500	-	-	-	-	-	38 500	-	38 500
Interest of other capital instruments (see Note 36)	-	-	-	-	(158)	-	(158)	-	(158)
Balance as at 31 December 2017	**844 769**	**8 796**	**3 731**	**4 787**	**(229 212)**	**(130 187)**	**502 684**	**31 082**	**533 766**
IFRS 9 adoption impact (see Note 41)	-	-	-	(234)	(1 152)	-	(1 386)	(19)	(1 405)
Balance as at 1 January 2018	**844 769**	**8 796**	**3 731**	**4 553**	**(230 364)**	**(130 187)**	**501 298**	**31 063**	**532 361**
Other movements recorded directly in equity (see Note 37):									
Changes in fair value, net of taxes	-	-	-	(9 391)	-	-	(9 391)	(949)	(10 340)
Other comprehensive income of associates	-	-	-	-	(184)	-	(184)	-	(184)
Exchange differences	-	-	-	-	(2 218)	-	(2 218)	(3 537)	(5 755)
Own credit risk changes	-	-	-	-	1 832	-	1 832	-	1 832
Actuarial gains/ (losses), net of taxes	-	-	-	-	568	-	568	-	568
Foreign exchange reserve recycle from discontinued operations	-	-	-	-	(285)	-	(285)	-	(285)
Net profit / (loss) for the period	-	-	-	-	-	(2 133)	(2 133)	(239)	(2 372)
Total comprehensive income for the period	**-**	**-**	**-**	**(9 391)**	**(287)**	**(2 133)**	**(11 811)**	**(4 725)**	**(16 536)**
Issuance of other equity instruments (see Note 36)	-	-	105 042	-	-	-	105 042	-	105 042
Transfers for reserves and retained earnings	-	-	-	-	(130 187)	130 187	-	-	-
Balance as at 30 June 2018	**844 769**	**8 796**	**108 773**	**(4 838)**	**(360 838)**	**(2 133)**	**594 529**	**26 338**	**620 867**

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

Consolidated Cash Flow Statement for the six months period ended 30 June 2018 and 2017

(thousand euros)

	Notes	30.06.2018	30.06.2017
Cash flows from operating activities			
Interests received		63 204	118 987
Interests paid		(49 257)	(95 160)
Fees and commissions received		34 314	30 519
Fees and commissions paid		(4 574)	(2 664)
Loans recovery		111	-
Cash payments to employees and suppliers		(38 876)	(79 501)
		4 922	**(27 819)**
Changes in operating assets and liabilities:			
Resources at central banks		762	(1 225)
Trading financial assets and liabilities		(107 707)	76 376
Loans and advances to banks		78 159	284 235
Resources of other credit institutions		86 202	(465 423)
Loans and advances to customers		85 552	(23 588)
Resources of costumers		(167 910)	(75 395)
Risk management derivatives		(22 123)	282
Other operating assets and liabilities		4 386	61 908
Net cash flow from operating activities before income tax		**(37 757)**	**(170 649)**
Income taxes paid		(14 532)	(5 184)
		(52 289)	**(175 833)**
Net cash flows from investment activities			
Sale of investments in subsidiaries and associates		23 846	-
Purchase of securities		(358 881)	(635 629)
Sale of securities		317 076	626 899
Purchase of fixed assets		(849)	(1 297)
Sale of of fixed assets		146	(327)
		(18 662)	**(10 354)**
Cash flows from financing activities			
Share capital increase		-	200 000
Debt securities issued	31	74 797	4 050
Reimbursement of debt securities issued	31	(34 666)	(55 379)
Issuance of other equity instruments	36	105 042	-
Interest received/(paid) from/to other equity instruments		-	(159)
Net cash flow from financing activities		**145 173**	**148 512**
Net changes in cash and equivalents		**74 222**	**(37 675)**
Cash and equivalents at the beginning for the period		469 456	139 879
Cash and equivalents at the end for the period		543 678	102 204
		74 222	**(37 675)**
Cash and equivalents includes:			
Cash	18	439 066	60 312
Deposits at other credit institutions	18	107 666	45 042
(-) Minimum Reserves	18	(3 054)	(3 150)
Total		**543 678**	**102 204**

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

2. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Haitong Bank, S.A.

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

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

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

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

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

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

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

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

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

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

	Incorporation date	Acquisition date	Headquarters	Activity	% Economic interest	Consolidation method
Haitong Bank SA	**1983**	**-**	**Portugal**	**Bank**	**100%**	**Full Consolidation**
Haitong Investment Ireland PLC	1996	1996	Ireland	Non-bank finance company	100%	Full Consolidation
Haitong Capital - SCR, S.A.	1988	1996	Portugal	Venture capital	100%	Full Consolidation
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
WindPart, Lda	2013	2013	Portugal	Holding company	20%	Full Consolidation a)
Haitong Banco de Investimento do Brasil	2000	2000	Brazil	Investment bank	80%	Full Consolidation
FI Multimercado Treasury	2005	2005	Brazil	Investment fund	80%	Full Consolidation
Haitong do Brasil Participações Ltda	2004	2004	Brazil	Asset management	80%	Full Consolidation
Haitong Negocios, SA	1996	1999	Brazil	Holding company	80%	Full Consolidation
Haitong do Brasil DTVM, SA	2009	2010	Brazil	Asset management	80%	Full Consolidation
Haitong Securities do Brasil S.A.	2000	2000	Brazil	Brokerage house	80%	Full Consolidation

a) These companies were included in the consolidated balance-sheet by Full Consolidation since the Group is in control of their activities.

In 2013, Haitong Bank started a simplification plan for its group. Several measures were taken within the scope of such process, including the disposal and merger of several holdings, with no significant impact on the accounts. The simplification process continued throughout 2018, and the main changes made to the group's structure are set forth below.

Subsidiaries

- In January 2018 Haitong do Banco Brasil Participações, Ltda sold Haitong Negócios, S.A. to Haitong Banco de Investimento do Brasil, S.A. having received BRL 32,671 thousand.

- In January 2018 Haitong Banco de Investimento do Brasil, S.A. fully subscribed the capital increase of Haitong Negócios, S.A., an investment of BRL 50,090 thousand.

- In January 2018 Haitong Banco de Investimento do Brasil, S.A. fully subscribed the capital increase of Haitong Investimento DTVM, S.A., an investment of BRL 32,525 thousand.

- In February 2018, the process of selling of Haitong Securities USA LLC, Haitong UK Limited and Haitong Securities (UK) Limited subsidiaries to Haitong International BVI was concluded. The price for the sale of Haitong Securities USA LLC. was USD 16,778 thousand. The price for the sale of Haitong UK Limited and Haitong Securities (UK) Limited was USD 12,536 thousand (see note 35).

- In June 2018, Haitong Banco de Investimento do Brasil, S.A. – Cayman performed a capital decrease in the amount of USD 83,000 thousand.

Associates (see note 27)

- In May 2018, MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A. has been closed.

During the six months period ended at June 30th, 2018, the movements regarding acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(thousand euros)

	30.06.2018						
	Acquisitions			Disposals			
	Acquisition cost	Other Investments (a)	Total	Sale Amount (a)	Other Reimbursements (b)	Total	Gains/ (losses) in sales/disposals
Subsidiaries							
Haitong (UK) Limited	-	-	-	10 167	-	10 167	2 902
Haitong Securities USA LLC	-	-	-	13 642	-	13 642	10 330
Haitong Negócios, S.A.	-	12 724	12 724	-	-	-	-
Haitong Investimento DTVM, S.A.	-	8 262	8 262	-	-	-	-
Haitong Banco de Investimento do Brasil, S.A. - Cayman	-	-	-	-	71 196	71 196	-
	-	**20 986**	**20 986**	**23 809**	**71 196**	**95 005**	**13 232**
Associates							
MCO2	-	-	-	-	37	37	(13)
	-	**-**	**-**	**-**	**37**	**37**	**(13)**
Total	**-**	**20 986**	**20 986**	**23 809**	**71 233**	**95 042**	**13 219**

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

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Basis of preparation

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

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

Haitong Bank's interim consolidated financial statements set forth herein refer to the period ended on the 30th of June, 2018, which have been prepared in accordance with the IFRS in force, as adopted in the European Union until the 30th of June, 2018. This consolidated financial statements disclosures are in accordance with the requirements set by IAS 34 and do not include all the information to be published in the annual financial statements.

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1st January 2018. The accounting policies in this note were consistently to all entities of the Group and are consistent with those used in the preparation of the financial statements of the previous period, but it has been introduced changes resulting from the adoption of the following standards: IFRS 9 – Financial instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 has replaced IAS 39 – Financial Instruments – Recognition and Mensurement and provides new requirements in accounting for financial instruments with significant changes specifically regarding impairment requirements. The requirements provided by IFRS 9 are, in general, applied retrospectively by adjusting the opening balance at the date of initial application.

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

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

The interim consolidated financial statements herein have been approved in the Board of Directors meeting held on the 18th of August, 2018.

2.2. Basis of consolidation

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

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

Subsidiaries

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

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

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

Associates

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

Transactions with non-controlling interests

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

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

Translation of financial statements in foreign currency

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

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

- Assets and liabilities are converted at the exchange rate as at the date of the statement of financial positions;
- Income and expenses are converted based on the application of exchange rates approximated to the real rates as at the date of each transaction;
- Exchange rate differences determined between the conversion amount in euros of the financial position at the beginning of the year and its amount converted at the exchange rate in force as at the date of statement of

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

Balances and transactions eliminated on consolidation

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

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

2.3. Foreign currency transactions

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

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

2.4. Financial derivatives

Classification

The Group classifies as derivatives for risk management the derivatives acquired with the purpose of economically hedge certain assets and liabilities designated at fair value through profit or loss, but which have not been classified as hedging derivatives. All remaining derivatives are classified as derivatives held for trading.

Recognition and measurement

The financial derivatives are recognised on their trade date, at their fair value. Subsequently, the fair value of the financial derivatives is reassessed on a regular basis, and the gains or losses resulting from such reassessment are directly accounted for in income statement of the financial year, except for hedging derivatives.

The fair value of the financial derivatives corresponds to their quoted market price, when available, or is determined based on valuation techniques, including discounted cash flows models and options pricing models, as appropriate.

Derivatives traded in organised markets, such as futures and a few options contracts, are accounted for as being held-for-trading derivatives, which are reassessed against income statement. Considering the fact that the variations in fair value of such derivatives are settled through margin accounts held by the Group, such derivatives evidence a null statement of financial position value. The margin accounts are accounted for in Other assets (see Note 27) and include the minimum required collateral regarding open interests.

The Group contracts derivatives with the purpose of hedging its net investments in subsidiaries whose financial statements are denominated in foreign currency. Under IFRS 9, gains and losses on hedging instruments are

recorded in comprehensive income, in foreign exchange revaluation reserves, given that the hedging is effective in accordance with the rules set under IFRS 9. The amount of the reserve will be classified for net profit of the year with the derecognition of the investments from the Group's balance sheet.

2.5. Loans and advances to customers

Loans and advances to customers include loans originated by the Group, whose purpose is not to be sold in the short term, being recognised on the date the cash is advanced to customers.

Loans and advances to customers are unrecognised from the statement of financial position when (i) the Group's contractual rights concerning their corresponding cash flows have terminated, (ii) the Group has substantially transferred all risks and benefits linked to the holding thereof, or (iii) the control over the assets is transferred, notwithstanding the Group having partly, but not wholly, retained the risks and benefits linked to the holding thereof.

Loans and advances to customers are initially recognised at their fair value plus transaction costs, and are subsequently measured at amortised cost based on the effective interest rate method, thereby being deducted from impairment losses.

Impairment

The Group regularly assesses whether there is objective evidence of impairment within its loan portfolio. The identified impairment losses are accounted for in the income statement, and are subsequently reversed trough income statement, if in a later period the impairment amount decreases.

A loan granted to customers, or a granted loan portfolio, which is defined as a set of loans with similar risk characteristics, is impaired when: (i) there is objective evidence of impairment arising out of one or more events occurring after its initial recognition and (ii) once such event (or events) has an impact on the recoverable amount of the future cash flows of such loan, or loan portfolio, that can be reliably estimated.

Firstly, the Group assesses whether there is objective evidence of impairment for each loan individually. In order to carry out such assessment, and when identifying impaired loans on an individual basis, the Group amongst others, the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the economic and financial feasibility of the customer's business and its ability to create the means in order to meet future debt services;
- the existence of privileged creditors;
- the existence, nature and estimated value of collaterals;
- the customer's indebtedness towards the financial sector;
- the amount and timing of expected recoveries.

If there is no objective evidence of impairment of a certain loan in individual terms, such loan shall be included in a group of loans with similar risk characteristics (loan portfolio), which is assessed collectively – impairment analysis on a collective basis. Loans assessed individually and for which an impairment loss is determined are not included in the collective assessment.

If an impairment loss is determined on individual terms, the amount of the loss to be recognised shall correspond to the difference between the loan's carrying amount and the net present value of future estimated cash flows (considering the recovery period), discounted at the effective interest rate of the contract. The carrying amount of

loans and advances to costumers is presented net of impairment in the statement of financial position. For a variable interest rate loan, the discount rate to be used for determining the corresponding impairment loss is the current effective interest rate, which is established based on the rules of each contract.

The calculation of the present value of future estimated cash flows of a collateralised loan reflects the cash flows which may arise out of the recovery and sale of collateral, less costs inherent to its recovery and sale.

When the Group considers that a certain loan is unrecoverable, and a 100% impairment loss has been recognised, such loan is written off from assets.

2.6. Other financial assets

Classification

The Group classifies its other financial assets upon their acquisition by taking into consideration their corresponding purpose, according to the following categories:

- Financial assets at fair value through profit or loss

This category includes: (i) financial assets held-for-trading, which are assets acquired with the main purpose of being traded in the short term or which are held as an integral part of an assets portfolio, usually of securities, concerning which there is evidence of recent transactions leading to short term gains, and (ii) financial assets designated upon their initial recognition at fair value with variations recognised in income statement.

The Group designates certain financial assets – in their initial recognition – at fair value through profit or loss when:

- such financial assets are internally generated, assessed and analysed based on their fair value;
- derivatives transactions are contractually agreed with the purpose of economically hedge such assets, thereby assuring consistency in the valuation of assets and derivatives (accounting mismatch); or
- such financial assets contain embedded derivatives.

Structured products acquired by the Group, which are financial instruments containing one or more embedded derivatives, follow the valuation method of the financial assets at fair value through profit or loss, due to the fact that such structured products always fall within one out of the three aforementioned conditions.

- Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income (FVOCI) if it, simultaneously, meets the following characteristics and is not assigned at FVTPL by option (use of Fair Value Option): (i) the financial asset is held in a business model which the purpose is to collect its contractual cash flows and the sale of this financial asset (Held to collect and Sell), and (ii) Contractual cash flows occur on specific dates and correspond only to payments of principal and interests on the outstanding amount (SPPI).

Initial recognition and measurement, and derecognition

Acquisitions and disposals of: (i) financial assets at fair value through profit or loss, (ii) financial assets at fair value through other comprehensive income, are recognised on their trade date, i.e., on the date when the group undertakes to acquire or dispose of the asset.

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

Such assets are derecognised when (i) the Group's contractual rights to receive their corresponding cash flows have terminated, (ii) the Group has substantially transferred all risks and benefits of ownership, or (iii) the control over the assets is transferred, notwithstanding the Group having partly, but not wholly, retained the risks and benefits linked to the ownership.

Subsequent measurement

Following their initial recognition, the financial assets at fair value through profit and loss are measured at fair value, and the changes thereof are recognised in income statement.

Financial assets at fair value through other comprehensive income assets are also accounted for at fair value, however, their corresponding changes are recognised in other comprehensive income, until the assets are derecognised, or an impairment loss is identified, in which case the accumulated amount of the potential gains and losses accounted for in other comprehensive income is transferred to income statement. The exchange rate movements linked to such assets are also recognised in income statement. Interest is calculated at the effective interest rate and is recognised in the income statement.

The fair value of quoted financial assets is their bid-price. In the absence of a quotation, the Group calculates fair value by using (i) valuation techniques, such as the use of transaction prices which are recent, similar and executed in market conditions, discounted cash flows techniques and customised options pricing models in order to reflect the features and circumstances of the instrument, and (ii) valuation assumptions based on market information. These methodologies also incorporate credit risk and counterparty risk. These methodologies may require the use of assumptions or judgments in the estimate of fair value.

Impairment

A financial asset – debt instrument, is impaired when there is objective evidence of impairment resulting from one or more events occurring after its initial recognition, such as: (i) for listed securities, a prolonged devaluation or a significant decrease in its quoted price, and (ii) for unlisted securities when that event (or events) has an impact on the estimated amount of the future cash flows of the financial asset, or group of financial assets can be estimated reasonably. At each balance sheet date, an assessment is made of the existence of objective evidence of impairment.

2.7. Assets sold with repurchase agreement and securities lending

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

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

Securities assigned through loan agreements are not derecognised from the statement of financial positions, being classified and measured in accordance with the accounting policy referred to in Note 2.6. Securities received through loan agreements are not recognised in the statement of financial positions.

2.8. Financial liabilities

An instrument is classified as a financial liability when there is a contractual obligation for its settlement to be made in cash or through any other financial asset, regardless of its legal form.

Non-derivative financial liabilities include resources of credit institutions and customers, loans, debt securities, other subordinated liabilities and short selling.

Such financial liabilities are recognised (i) initially at their fair value less incurred transaction costs and (ii) subsequently at amortised cost, based on the effective interest rate method, except for short selling and financial liabilities designated at fair value through profit and loss, which are accounted for at fair value.

The Group designates certain financial liabilities – in their initial recognition – at fair value through profit or loss when:

- derivatives transactions are contractually agreed with the purpose of economically hedge such liabilities, thereby assuring consistency in the valuation of liabilities and derivatives (accounting mismatch); or

- such financial liabilities contain embedded derivatives.

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

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

In 2017, in accordance with IFRS 9, the Group adopted the criteria set forth in this standard for the recognition of fair value changes related to own credit risk in other comprehensive income (Note 43). Until December 31st, 2016, gains and losses arising from own credit risk fluctuations were recognized in the income statement for the year.

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

2.9. Financial guarantees

Financial guarantees are contracts which require its issuing entity to make payments to reimburse the holder for incurred losses resulting from breaches of the contractual terms set forth in debt instruments, namely the payment of the corresponding capital and/or interest.

Issued financial guarantees are initially recognised at their fair value. Subsequently, such guarantees are measured at the higher of (i) the initially recognised fair value and (ii) the amount of any financial obligation arising as a result of guarantee contracts, measured at the statement of financial positions date. Any change in the amount of the liability relating to guarantees is taken to the income statement

Financial guarantees issued by the Group usually have a set maturity and a periodic fee charged in advance, which varies in accordance with the counterparty risk, amount and maturity date of the contract. On that basis, the guarantees' fair value as at the date of initial recognition thereof is approximately zero, by considering that the agreed conditions are market conditions. Therefore, the amount recognised at the contract date is equal to the amount of the initial received fee, which is recognised in income statement for the period thereof. Subsequent fees are recognised in income statement for the period to which they relate.

2.10. Equity instruments

An instrument is classified as an equity instrument when there is no contractual obligation providing for its settlement to be made in cash or by the delivery of another financial asset, regardless of its legal form, showing a residual interest in the assets of an entity following deduction of all its liabilities.

Costs directly attributable to the issuing of equity instruments are accounted for under equity, as a deduction to

the issuing amount. Amounts paid and received by the purchase and sale of equity instruments are accounted for under equity, net of transaction costs.

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

2.11. Offsetting financial instruments

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

2.12. Non-current assets held-for-sale

Non-current assets or disposal groups (group of assets to be disposed together in a single transaction, and directly associated liabilities which include at least one non-current asset) are classified as held-for-sale when their statement of financial positions value is recovered mainly through a sale transaction (including those acquired exclusively with the purpose to sell), the assets or disposal groups are available for immediate sale and the sale is highly likely to occur.

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

In 2017, as a result of the agreements for the sale of Haitong Securities USA LLC and Haitong UK Limited, as described in Note 1, the assets and liabilities of these entities were reclassified to "Assets and liabilities of of discontinuing units". Also in accordance with the requirements of IFRS 5 - "Non-current assets held for sale and discontinued operations", the results generated by these entities are presented in a single line of the Income Statements ("Net profit of discontinued operations"). Comparative period has been restated accordingly.

2.13. Other tangible assets

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

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

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

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

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

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

2.14. Intangible assets

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

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

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

2.15. Leases

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

Operating leases

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

Financial leases

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

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

- As a lessor

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

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

2.16. Employee benefits

Pensions

As a result of the signing of the Collective Labour Agreement (CLA), the Bank and remaining companies of the Group have established pension funds and other mechanisms in order to ensure coverage of the responsibilities taken on towards old-age retirement pensions, disability pensions, survivor's pensions and healthcare benefits.

From the 1st of January, 2011, bank employees have been included in the Social Security's General Scheme, which is now able to ensure protection of employees in the events of maternity, paternity, adoption and old-age, and the banks shall continue to take responsibility for protection in sickness, disability, survival and death (Decree-Law no. 1-A/2011, of the 3rd of January).

The contribution rate is 26.6%, out of which 23.6% is to be borne by the employer and 3% by the employees, thereby replacing the Caixa de Abono de Família dos Empregados Bancários (CAFEB) [Family Allowance Fund of Bank Employees], which was dissolved under the aforementioned Decree-Law. As a result of such change, the entitlement of active employees to the pension is now covered under the conditions laid down in the Social Security's General Scheme, by taking into account the period of service provided from the 1st of January, 2011, until the retirement age, and now the banks shall bear the necessary differential for the pension, guaranteed under the Collective Labour Agreement.

Following the Government's approval of Decree-Law no. 127/2011, published on the 31st of December, a Tripartite Agreement was entered into between the Government, the Portuguese Banking Association and Unions of the bank employees on the transfer to Social Security of the responsibilities relating to pensions in payment of retired persons and pensioners, as at the 31st of December, 2011.

Such decree established that the responsibilities to be transferred were the pensions in payment as at the 31st of December, 2011, at constant values (0% discount rate), in the component provided for in the Instrumento de Regulação Colectiva de Trabalho ('IRCT') [Collective Labour Regulation Instrument] for retired persons and pensioners. The responsibilities regarding pension updates, supplementary benefits, contributions to SAMS [Social and Medical Assistance Services] on retirement and survivor's pensions, death allowance and survivor's pension remained assigned to the Institutions.

Coverage of responsibilities is ensured by means of pension funds managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

Existing pension plans in the Group are defined benefit plans, since they define the criteria for determining the amount of the pension which an employee will be granted during retirement, which usually depend on one or more factors such as age, years of service and reward.

In 2012, the Group retrospectively changed its accounting policy of actuarial gains and losses recognition, by adjusting the opening statement of financial positions and comparative values, having begun to account for such values as provided for in paragraph 93A of IAS 19 'Employee benefits', with a deduction to equity in the 'other comprehensive income' heading.

The Group's responsibilities regarding retirement pensions are calculated on an annual basis, on the 31st of December of each year, for each plan individually, using the Projected Unit Credit Method. Such responsibilities are subject to annual review by independent actuaries.

The discount rate used in this calculation is determined based on the market rates associated with the issuing of high-quality companies bonds, denominated in the currency in which the benefits shall be paid and with a maturity corresponding to the end date of the plan's obligations.

The interest income/costs with the pensions plan is calculated by the Group by multiplying the asset/responsibility

with retirement pensions (responsibilities less fair value of the fund's assets) by the discount rate used for determining the aforementioned responsibilities with retirement pensions. On that basis, the net interest income/costs includes interest cost associated with the responsibilities with retirement pensions and the expected return of the fund's assets, both measured based on the discount rate used in the calculation of responsibilities.

Actuarial gains and losses determined on an annual basis, arising out of (i) the differences between the actuarial and financial assumptions used and the effectively determined values (gains and losses from experience) and (ii) of the changes in actuarial assumptions, are recognised against equity in the 'other comprehensive income' heading.

For each period, and in the income statement, the Group recognises as cost a net aggregate amount, which includes (i) the current service cost, (ii) the interest cost, (iii) the expected return of the fund's assets, (iv) the effect of early retirements, and (v) the effects of any settlement or curtailment occurred during the period. Charges in respect of early retirements correspond to the increase in responsibility due to the fact that such retirement occurs before the employee reaches 65 years of age.

The Group makes payments to the funds in order to ensure their solvency, whose minimum levels are laid down by the Bank of Portugal as follows: (i) full financing at the end of each financial year of the actuarial responsibilities for pensions in payment and (ii) 95% minimum financing of the actuarial value of responsibilities for past services provided by active personnel.

For each plan, and on an annual basis, the Group assesses the recoverability of the possible excess of the fund in relation to the responsibilities with retirement pensions, on the basis of the expectation of a reduction in future required contributions.

Health-care benefits

The Group ensures medical assistance to bank employees by means of a Social and Medical Assistance Service. The Social and Medical Assistance Service – SAMS is an autonomous entity managed by its corresponding Union.

The recipients of SAMS are provided with services and/or allowances for expenses within the scope of medical assistance, auxiliary diagnostic means, drugs, hospital admissions and surgeries, according to its available funds and internal regulation.

The Group is required to pay contributions to SAMS amounting to 6.50% of the total effective remuneration of active employees, including, but not limited to, the holiday subsidy and Christmas subsidy.

The calculation and accounting of the Group's obligations with healthcare benefits attributable to employees in retirement age are performed in a manner similar to that of responsibilities with pensions. Such benefits are covered by the Pensions Fund, which now comprises all responsibilities with pensions and healthcare benefits.

Long-term service bonuses

Under the Collective Labour Agreement of the Banking Sector, the Haitong Bank Group has undertaken to pay to their employees – when they reach 15, 25 and 30 years of service to the Group – long-term service bonuses respectively amounting to one, two or three times the monthly salary received as at the payment date of such bonuses.

At the date of early retirement due to disability or presumed disability, employees have the right to a long-term service bonus proportional to that which they would receive if they were to remain in service until meeting the next bonus level.

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

The amount of the Group's responsibilities with such long-term service bonuses is calculated on an annual basis by the Group, by taking into account the Projected Unit Credit Method. The used actuarial assumptions are based on prospects of future salary increases and mortality tables. The discount rate used in this calculation was determined based on the same methodology used for retirement pensions.

In each period, the increase in responsibility with long-term service bonuses, including actuarial gains and losses and past services costs, is recognised in income statement.

New Collective Labour Agreement

Until June 2016, pursuant to the Collective Labour Agreement – CLA of the banking sector, entered into by the various financial institutions, the payment of a long-term service bonus was due on the month the Employees (of the domestic activity) reached 15, 25 and 30 years of good and effective service in the banking sector, respectively amounting to one, two or three months of their effective monthly remuneration (on the year the bonus was granted).

On the 14th of June, 2016, a new CLA was entered into with the unions of the aforementioned sector. It was published in the Boletim do Trabalho e do Emprego [Bulletin of Labour and Employment] on the 8th of August, 2016, having taken effect on the following day.

With the entry into force of the new CLA, the long-term service bonus has been eliminated. However, the new CLA provides for the payment of the proportion of the long-term service bonus for the ongoing anniversary regarding 15, 25 or 30 years of bank seniority and corresponding to the years of good and effective service in the banking sector as at the date of the new CLA's entry into force. The new CLA provides for the payment of an end-of-career bonus which is 1.5 times the amount of the effective monthly remuneration of the Employee upon termination of the employment contract due to retirement.

The new CLA shall not amend the pension's scheme and the supplementary health scheme (SAMS) applicable to employees and retired employees of the banking sector, although it has set forth new financing rules of SAMS, to be borne by the credit institutions. With such amendments, the value of charges relating to SAMS concerning retired employees and pensioners will shift, from a percentage of the pension amount to a fixed amount per capita, by type of recipient (retired person or survivor's pensioner).

With the new CLA, mandatory promotions due to long-term service have been eliminated, therefore only remaining the following promotion for the employees who have been promoted up to the 31st of December, 2014.

Variable remuneration paid to employees

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

2.17. Income taxes

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

Current taxes are those expected to be paid based on the taxable income which is calculated in accordance with

the existing tax rules and by using the tax rate enacted or substantially enacted in each jurisdiction.

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

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

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

2.18. Provisions

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

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

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

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

2.19. Recognition of interest income and expense

Interest income and expense is recognised in the income statement under interest and similar income and interest expense and similar charges for all financial instruments measured at amortised cost and for all financial assets at fair value through other comprehensive income, using the effective interest rate method. Interest arising on financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, as appropriate.

The effective interest rate is the rate which exactly discounts estimated future payments or receipts throughout the expected life of the financial instrument or, where appropriate, during a shorter period, for the net carrying amount of the financial asset or liability. The effective interest rate is calculated at the inception of the financial assets and liabilities and is not subsequently reviewed.

For the purpose of calculating the effective interest rate, future cash flows are estimated by considering all

contractual terms concerning the financial instrument (i.e. early payment options), although not considering possible future credit losses. The calculation comprises fees which are an integral part of the effective interest rate, transaction costs and all premiums and discounts directly associated with the transaction. In the case of financial assets or groups of similar financial assets for which impairment losses have been recognised, interest accounted for in 'interest and similar income' are determined based on the interest rate used when measuring the impairment loss.

Concerning financial derivatives, with the exception of those classified as derivatives for risk management (see Note 2.4), the interest component inherent to the fair value variation is not separate, and is classified in the 'income from assets and liabilities measured at fair value through profit or loss' heading. The interest component inherent to the fair value variation of financial derivatives for risk management is recognised in the 'interest and similar income' or 'interest and similar expenses' heading.

2.20. Recognition of fee and commission income

Income from services and commissions are recognised as follows:

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

- Income from services and commissions obtained as the services are being provided are recognised in income for the relevant period;

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

2.21. Gains and losses on financial assets at fair value through profit or loss

Gains and losses on financial assets at fair value through profit or loss includes gains and losses arising from financial liabilities at fair value through profit and loss, that is, fair value changes and interest on trading derivatives, as well as the corresponding dividends received.

2.22. Segment reporting

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

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

2.23. Earnings per share

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

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

2.24. Cash and cash equivalents

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

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

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

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

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

3.1. Impairment losses on loans and advances to costumers

The Group reviews its loan portfolios to assess impairment losses on a regularly basis, as described in Note 2.5.The evaluation process in determining whether an impairment loss should be recorded is subject to numerous estimates and judgments. The probability of default, risk ratings, value of associated collaterals recovery rates and the estimation of both the amount and timing of future cash flows received, among other things, are considered in making this evaluation.

Alternative methodologies and the use of different assumptions and estimates could result in higher level of impairment losses recognized with a consequent impact in Group's Income Statement.

3.2. Income taxes

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

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

On the other hand, the Bank accounts for deferred taxes in accordance with the policy set forth in Note 2.17, whereby deferred tax assets are accounted for only insofar as it is expected that there will be taxable profit in the future, which are able to absorb tax losses carried forward and deductible temporary differences.

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

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

The estimate of future taxable profit involves a significant level of judgment regarding the future development of the Group's activity and the timing of execution of temporary differences. For such purpose, several assumptions were adopted, in particular the analysis of several scenarios in view of the uncertainty of the tax regime applicable in future years, considering the application of a regime based on the fiscal acceptance of impairments for specific credit risk and on the gradual reduction in the long term of the amount of impairments that served the deferred tax assets.

It follows from the analysis made that it is possible to use the tax losses generated, including those related to those generated in 2017. However, considering uncertainty factors and a prudence approach, no deferred tax assets were recorded on the amount of tax losses carried forward in 2017 by the Bank.

The assumptions assumed were considered the most adequate by the Board of Directors of the Bank in relation to the information available on the date of approval of the financial statements. However, the use of different assumptions at the level of the above-mentioned variables could lead to different conclusions from those that formed the basis of the preparation of these financial statements.

Tax Authorities are required to review the calculation of the basis of assessment, made by the Bank and its subsidiaries based in Portugal, for a period of four or six years, if there are reportable tax losses. Hence, there is a possibility that the basis of assessment will be corrected, mainly due to differences in interpretation of the tax legislation. However, the Bank's Boards of Directors and its subsidiaries believe that there will be no significant corrections to the Income taxes accounted for in the financial statements.

3.3. Goodwill Impairment

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

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

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

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

3.4. Pensions and other employee benefits

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

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

3.5. Fair value of financial derivatives and assets and liabilities at fair value through profit or loss

Fair values are based on listed market prices when available; otherwise fair value is determined with reference to similar recent arm's length transaction prices, or in accordance with valuation methodologies based on

discounted future cash flows techniques, by taking into account the market conditions, temporal value, yield curve and volatility factors. Such methodologies further incorporate own credit risk as well as the counterparty's credit risk. Such methodologies may require the use of assumptions or judgements when estimating fair value.

In the specific case of the fair value changes of financial liabilities resulting from changes in the Company's own credit risk, the Group considers the available yield curve of financial entity whose rating is compatible with that of the Group.

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

3.6. Impairment and valorization of debt instruments at fair value through other comprehensive income

The Group determines that their debt instruments at fair value through other comprehensive income are impaired when there has been a significant or prolonged decrease in the fair value. The determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the volatility in the prices of the financial assets.

Additionally, assessments are obtained through market to market or market to model, which require the implementation of certain assumptions or judgements when estimating fair value.

The use of alternative methodologies and of different assumptions and estimates may result in a different level of recognised impairment losses, along with its corresponding impact in the Group's income statement.

NOTE 4 – SEGMENT REPORTING

4.1. Description of operating segments

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

Mergers and Acquisitions

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

Additionally, the purpose of this division is also to perform more specific projects, such as evaluations, restructurings and feasibility studies that strengthen the relationship with its clients, ensuring the continuity of business.

Capital Markets Division

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

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

Fixed Income Currency and Commodities (FICC) Division

The purpose of the Fixed Income, Currency and Commodities Division is to provide a professional and

differentiated order execution service focused on the offer of securities of Iberian issuers and emerging markets, including China, denominated in USD, EUR and RMB, always in compliance with the applicable legislation.

It also makes available the platform supporting investment banking through the distribution of new issues originated by the Capital Markets area.

It is further responsible for the structuring of structured notes issued under EMTN programmes and offers risk-hedging solutions to corporate clients.

Global Markets

This Division is responsible for optimising the risk / reward ratio of the own portfolio of interest rate, foreign exchange rate, shares and other financial instruments of the Bank.

Equities

The purpose of the Equities Division is to offer an order execution service focused on shares of European, American and emerging markets issuers aimed at European investors.

This division supports its business activity on the research produced by the Research Division.

It offers a platform to support the Group's investment banking activities through the distribution of new equity issues and follow-on transactions.

Treasury

The Treasury Division is designed to ensure the appropriate financing level in order to meet the Bank's and the Group's funding needs, as well as the appropriate liquidity level to satisfy financial liabilities.

Additionally, the Treasury Directorate is also designed to efficiently and effectively manage the Bank's own treasury portfolio.

Private Equity

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

Structured Finance

The Structured Finance Division aims to generate new operations in the area of structured finance and / or advisory services in the financial structuring of investments, including public tendering processes (involving in particular concessions in the infrastructure sector under public partnerships) in the provision of services as arranger of financing operations and in the structuring and set-up of financing operations through bank loans or project finance loans ("Project Bonds").

Special Portfolio Management

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

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

Corporate centre

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

Other

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

4.2. Criteria for the attribution of the business and of the results to the segments

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

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

Measurement of profits or losses from the segments

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

Haitong Bank's Structures dedicated to the Segment

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

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

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

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

Interest income and expenses

Since the Group's activities are exclusively related to the financial sector, a substantial amount of generated revenue results from the difference between interest received from its assets and interest borne by the raised

financial resources. This situation and the fact that the segments' activity is assessed by management through negotiated or predetermined margins for each instrument, leads to the profits of the brokerage activity being presented, as permitted by IFRS 8, paragraph 23, by the net value of interest, under the designation of Financial Income.

Net profit/(loss) from fee and commission

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

Investments consolidated under the equity method

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

Non-current assets

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

Deferred tax assets

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

Domestic and International Areas

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

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

(thousand euros)

	Period of six months ended at 30.06.2018											
	Structured Finance	Special Portfolio Management	Mergers and Acquisitions	Capital Markets	FICC	Equities	Global Markets	Private Equity	Treasury	Corporate Centre	Other	Total
Net interest income	3 422	(1 224)	-	155	416	(62)	8 635	-	374	-	4 199	15 915
Net fees and comissions	9 437	199	6 985	11 818	537	3 319	269	1 818	(1 247)	-	1 100	34 235
COMERCIAL OPERATING INCOME	**12 859**	**(1 025)**	**6 985**	**11 973**	**953**	**3 257**	**8 904**	**1 818**	**(873)**		**5 299**	**50 150**
Results on financial operation	268	(107)	(170)	(21)	2 873	(17)	(1 453)	2 547	(12 689)	-	7 388	(1 381)
Intersegment Operating Income	(1 131)	1 131	(17)	379	2 216	(146)	23	-	13 196	-	(15 651)	-
TOTAL OPERATING INCOME	**11 996**	**(1)**	**6 798**	**12 331**	**6 042**	**3 094**	**7 474**	**4 365**	**(366)**	**-**	**(2 964)**	**48 769**
Operation expenses	899	619	3 094	1 117	2 751	1 316	1 684	1 205	1 682	23 290	1 475	39 132
Staff costs	693	368	2 290	797	1 427	540	692	497	298	13 440	1 011	22 053
General administration expenses	178	239	699	294	1 042	730	782	705	1 324	7 456	415	13 864
Depreciations and Amortisations	28	12	105	26	282	46	210	3	60	2 394	49	3 215
Gross income	**11 097**	**(620)**	**3 704**	**11 214**	**3 291**	**1 778**	**5 790**	**3 160**	**(2 048)**	**(23 290)**	**(4 439)**	**9 637**
Impairment and Provisions	(23 999)	(10 811)	(111)	34	72	-	(584)	17	(42)	12 043	(7)	(23 388)
Credit impairment	(18 936)	-	-	-	-	-	(89)	-	-	(79)	(7)	(19 111)
Securities impairment	(3 711)	-	-	-	(75)	-	(295)	-	(25)	-	-	(4 106)
Net provisions and other impairment	(1 352)	(10 811)	(111)	34	147	-	(200)	17	(17)	12 122	-	(171)
Income before taxes	**(12 902)**	**(11 431)**	**3 593**	**11 248**	**3 363**	**1 778**	**5 206**	**3 177**	**(2 090)**	**(11 247)**	**(4 446)**	**(13 751)**

(thousand euros)

	Period of six months ended at 30.06.2017											
	Structured Finance	Special Portfolio Management	Mergers and Acquisitions	Capital Markets	FICC	Equities	Global Markets	Private Equity	Treasury	Corporate Centre	Other	Total
Net interest income	6 266	(1 143)	-	283	332	(58)	16 622	-	655	-	9 316	32 273
Net fees and comissions	7 860	269	5 172	4 150	2 975	3 276	911	1 141	(1 165)	-	(754)	23 835
COMERCIAL OPERATING INCOME	**14 126**	**(874)**	**5 172**	**4 433**	**3 307**	**3 218**	**17 533**	**1 141**	**(510)**	**-**	**8 562**	**56 108**
Results on financial operation	(427)	(434)	(24)	(63)	4 865	(68)	(13 857)	(206)	(5 138)	-	(5 980)	(21 332)
Intersegment Operating Income	(3 858)	-	(1 690)	(1 129)	(2 952)	(931)	(53)	-	6 031	-	4 581	(1)
TOTAL OPERATING INCOME	**9 841**	**(1 308)**	**3 458**	**3 241**	**5 220**	**2 219**	**3 623**	**935**	**383**	**-**	**7 163**	**34 775**
Operation expenses	2 705	377	4 702	1 964	8 036	2 940	2 095	1 389	693	81 840	(36 866)	69 875
Staff costs	961	201	3 280	1 243	4 932	1 080	868	971	376	58 652	(25 223)	47 341
General administration expenses	1 689	167	1 288	665	2 753	1 764	993	412	225	20 647	(10 967)	19 636
Depreciations and Amortisations	55	9	134	56	351	96	234	6	92	2 541	(676)	2 898
Gross income	**7 136**	**(1 685)**	**(1 244)**	**1 277**	**(2 816)**	**(721)**	**1 528**	**(454)**	**(310)**	**(81 840)**	**44 029**	**(35 100)**
Impairment and Provisions	(21 768)	(1 883)	123	(32)	(370)	(405)	4 074	(1 165)	(986)	(14 870)	(408)	(37 690)
Credit impairment	(18 666)	(2 791)	(2)	-	(242)	(10)	-	-	-	181	-	(21 530)
Securities impairment	(1 263)	-	-	-	-	-	(7)	(1 279)	(976)	-	(53)	(3 578)
Net provisions and other impairment	(1 839)	908	125	(32)	(128)	(395)	4 081	114	(10)	(15 051)	(355)	(12 582)
Income before taxes	**(14 632)**	**(3 568)**	**(1 121)**	**1 245**	**(3 186)**	**(1 126)**	**5 602**	**(1 619)**	**(1 296)**	**(96 710)**	**43 621**	**(72 790)**

As at June 30th, 2017 "Other" balances include the reclassification of the results of the discontinuing operations.

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

(thousand euros)

	30.06.2018			
	Portugal	Rest of the Europe	America	Total
Net income	(1 866)	(9 985)	9 718	(2 133)
Net asset	1 693 520	307 316	1 262 379	3 263 215
Investments in associates	2 533	-	-	2 533
Investments in assets				
tangible	54	103	173	330
intangible	492	27	-	519

(thousand euros)

	31.12.2017			
	Portugal	Rest of the Europe	America	Total
Net income	(55 420)	(40 919)	(33 848)	(130 187)
Net asset	1 620 652	422 623	1 232 630	3 275 905
Investments in associates	2 849	-	-	2 849
Investments in assets				
tangible	93	378	810	1 281
intangible	1 058	123	-	1 181

NOTE 5 – FINANCIAL MARGIN

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2018	30.06.2017
Interest and similar income		
Interest from loans and advances to customers	10 529	17 976
Interest from deposits and investments in credit institutions	13 360	35 927
Interest from risk management derivatives	4 171	6 199
Interest from available-for-sale financial assets	-	1 733
Interest from financial assets at fair value through other comprehensive income	818	-
Interest from financial assets at fair-value through profit and loss	22 291	57 504
Other interest and similar income	68	49
	51 237	**119 388**
Interest and similar expenses		
Interest from deposits from central banks and other credit institutions	17 494	49 140
Interest from risk management derivatives	2 509	5 163
Interest from debt securities issued	5 792	7 428
Interest from customers accounts	8 968	24 968
Other interest and similar expenses	559	416
	35 322	**87 115**
	15 915	**32 273**

The Interest income and Interest expenses relating to interest from derivatives held for risk management purposes include, in accordance with the accounting policy described in Notes 2.4 and 2.19, interest from hedging derivatives and from derivatives used to hedge the economic risk of certain financial assets and liabilities designated at fair value through profit or loss, as per the accounting policies set forth in Notes 2.6 and 2.8.

NOTE 6 – NET FEES AND COMMISSIONS INCOME

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2018	30.06.2017
Fees and commissions income		
From banking services	30 384	16 984
From guarantees provided	1 386	1 623
From transactions with securities	6 400	9 306
	38 170	**27 913**
Fees and commissions expenses		
From banking services rendered by third parties	218	1 338
From transactions with securities	805	1 262
From guarantees received	227	321
Other fee and comission expenses	3 324	1 271
	4 574	**4 192**
	33 596	**23 721**

NOTE 7 – NET TRADING INCOME

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at					
	30.06.2018			30.06.2017		
	Income	Expenses	Total	Income	Expenses	Total
Trading assets and liabilities						
Securities						
Bonds and other fixed-income securities						
Issued by public entities	126 506	138 723	(12 217)	98 477	145 517	(47 040)
Of other entities	5 036	3 432	1 604	9 575	9 377	198
Shares	4 229	9 758	(5 529)	2 344	940	1 404
	135 771	**151 913**	**(16 142)**	**110 396**	**155 834**	**(45 438)**
Financial derivatives						
Foreign-exchange contracts	481 676	461 515	20 161	812 018	806 639	5 379
Interest rates contracts	241 513	256 975	(15 462)	361 436	326 061	35 375
Equity/indexes contracts	55 184	47 932	7 252	34 544	35 755	(1 211)
Credit default contracts	1	1	-	-	2 230	(2 230)
Other	81	-	81	664	1	663
	778 455	**766 423**	**12 032**	**1 208 662**	**1 170 686**	**37 976**
	914 226	**918 336**	**(4 110)**	**1 319 058**	**1 326 520**	**(7 462)**

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

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at					
	30.06.2018			30.06.2017		
	Income	Expenses	Total	Income	Expenses	Total
Assets and liabilities at fair value through profit or loss						
Securities						
Shares	8	-	8	-	-	-
Other variable-income securities	3 401	417	2 984	-	-	-
	3 409	**417**	**2 992**	**-**	**-**	**-**
Financial derivatives for risk managment porpuses						
Foreign-exchange contracts	4	-	4	-	688	(688)
Interest rates contracts	155	-	155	-	58	(58)
Equity/indexes contracts	2 913	-	2 913	2 701	-	2 701
Credit contracts	-	2 232	(2 232)	4 158	-	4 158
	3 072	**2 232**	**840**	**6 859**	**746**	**6 113**
Financial liabilities at fair value through profit or loss						
Debt securities issued	(2 229)	(1 838)	(391)	911	7 779	(6 868)
	(2 229)	**(1 838)**	**(391)**	**911**	**7 779**	**(6 868)**
	4 252	**811**	**3 441**	**7 770**	**8 525**	**(755)**

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

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at		
	30.06.2018		
	Income	Expenses	Total
Bonds and other fixed-income securities			
Issued by public entities	3 302	-	3 302
Of other entities	-	215	(215)
	3 302	**215**	**3 087**

NOTE 10 – NET GAINS/(LOSSES) FROM FINANCIAL ASSETS HELD FOR SALE

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at		
	30.06.2017		
	Income	Expenses	Total
Bonds and other fixed income securities			
Issued by public entities	10	-	10
Of other entities	2 162	7	2 155
Shares	3	-	3
	2 175	**7**	**2 168**

NOTE 11 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2018	30.06.2017
Currency revaluation	968	(6 267)
	968	**(6 267)**

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

NOTE 12 – NET GAIN/(LOSS) FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

As at the 30th of June, 2018, and the 30th of June, 2017, this heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2018	30.06.2017
Sale of loans and advances to customers	111	(429)
	111	**(429)**

NOTE 13 – OTHER OPERATING RESULTS

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2018	30.06.2017
Other customer services	637	503
Direct and Indirect taxes	(3 069)	(2 461)
Other operating results	(1 689)	(6 246)
Non-financial assets	(33)	(77)
Others	-	(233)
	(4 154)	**(8 514)**

Direct and indirect taxes include 1,751 thousand euros concerning the cost associated with the Bank Levy (30th of June, 2017: 1,751 thousand euros), established pursuant to Law no. 55-A/2010, of the 31st of December (see Note 33).

NOTE 14 – EMPLOYEE COSTS

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2018	30.06.2017
Wages and salaries		
Remuneration	15 189	23 777
Career benefits (Note 15)	20	(66)
Expenses with retirement pensions (Note 15)	392	617
Other mandatory social charges	4 375	4 312
Other expenses	2 077	18 701
	22 053	**47 341**

At 30th June, 2017 this heading includes 22,224 thousand euros related with the Voluntary Termination Plan called Social Plan. In 2018, the Group has concluded the referred Plan, so there is no employee costs with this nature.

NOTE 15 – EMPLOYEES BENEFITS

Retirement pensions and healthcare benefits

Pursuant to the Collective Labour Agreement (CLA) entered into with the unions and effective for the banking sector, the underwriting companies of the Group have undertaken to grant cash benefits, namely for old-age retirement, disability and survivor's pensions, to its employees or families thereof. Such benefits consist of a percentage – which sustains growth according to the employee's years in service – applied to the salary scale negotiated on a yearly basis for personnel which is active and was hired until the 31st of March, 2008. Employees recruited from such date onwards benefit from the Social Security's general scheme.

Within the framework of the second Tripartite Agreement entered into between the Portuguese Government, the Banking Sector and Unions, from the 1st of January, 2011, bank employees have been included in the Social Security's General Scheme, which is now able to ensure protection of employees in the events of maternity, paternity, adoption and old-age, and the banks shall continue to take responsibility for protection in sickness, disability, survival and death (Decree-Law no. 1-A/2011, of the 3rd of January).

Such agreement stipulates that the retirement pension value of bank employees under the Social Security scheme will not be reduced in relation to the current value set forth in the collective conventions. Retirement pensions of bank employees under the Social Security scheme remain to be calculated as provided for in the CLA and remaining conventions, however, they shall receive a pension from the general scheme, whose amount shall reflect the years of contributions for such scheme. The banks are responsible for ensuring the difference between the pension stipulated pursuant to the CLA and the pension to be received from social security. On this basis, there will continue to be exposure to actuarial and financial risk associated with retirement benefits.

The contribution rate is 26.6%, out of which 23.6% is to be borne by the employer and 3% by the employees, thereby replacing the Caixa de Abono de Família dos Empregados Bancários (CAFEB) [Family Allowance Fund of Bank Employees], which was dissolved under the aforementioned Decree-Law. As a result of such change, the entitlement of active employees to the pension is now covered under the conditions laid down in the Social Security's General Scheme, by taking into account the period of service provided from the 1st of January, 2011, until the retirement age, and now the banks shall bear the necessary differential for the pension, guaranteed under the Collective Labour Agreement.

Integration leads to an effective decrease in the current value of the total benefits reported on the normal retirement age to be borne by the Pensions fund. However, since there was no reduction in benefits for the recipient, responsibilities for past services remained unchanged.

By the end of the 2011 financial year, following the 3rd tripartite agreement, a decision was made on the transfer to Social Security of the responsibilities relating to pensions in payment of retired persons and pensioners, as at the 31st of December, 2011.

Under such tripartite agreement, Social Security became responsible for the pensions in payment as at the 31st of December, 2012, at constant values (0% discount rate), in the component provided for in the Instrumento de Regulação Colectiva de Trabalho ('IRCT') [Collective Labour Regulation Instrument] for bank employees, including the cases of death, disability and survival. The responsibilities regarding pension updates, supplementary benefits, contributions to SAMS [Social and Medical Assistance Services], death allowance and deferred survivor's pensions, remained assigned to the financial institutions, whose financing was ensured by means of the corresponding pension funds.

The agreement further stipulated that the assets of the pension funds of the corresponding financial institutions were to be transferred to the Portuguese State, in order to fulfil the aforementioned pensions responsibilities.

Insofar as such transfer consists of a definitive and irreversible transfer of responsibilities concerning pensions in

payment (even if they only concern part of the benefit), the underlying conditions of the concept of liquidation – as provided for in IAS 19 'Benefits to employees' – are met, due to the fact that the obligation became extinguished on the transfer date concerning the payment of the benefits covered.

The pension funds in Portugal are managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A. (50%) and Mercer Portugal (50%), which investment policy is being defined by Mercer Portugal.

In accordance with the policy set forth in Note 2.16 – Benefits to employees, the Group shall calculate the responsibilities with retirement pensions, as well as actuarial gains and losses, on a yearly basis.

New Collective Labour Agreement

Until June 2016, pursuant to the Collective Labour Agreement – CLA of the banking sector, entered into by the various financial institutions, the payment of a long-term service bonus was due on the month the Employees (of the domestic activity) reached 15, 25 and 30 years of good and effective service in the banking sector, respectively amounting to one, two or three months of their effective monthly remuneration (on the year the bonus was granted).

On the 14th of June, 2016, a new CLA was entered into with the unions of the aforementioned sector. It was published in the Boletim do Trabalho e do Emprego [Bulletin of Labour and Employment] on the 8th of August, 2016, having taken effect on the following day.

With the entry into force of the new CLA, the long-term service bonus has been eliminated. However, the new CLA provides for the payment of the proportion of the long-term service bonus for the ongoing anniversary regarding 15, 25 or 30 years of bank seniority and corresponding to the years of good and effective service in the banking sector as at the date of the new CLA's entry into force. The new CLA provides for the payment of an end-of-career bonus which is 1.5 times the amount of the effective monthly remuneration of the Employee upon termination of the employment contract due to retirement.

The new CLA shall not amend the pension's scheme and the supplementary health scheme (SAMS) applicable to employees and retired employees of the banking sector, although it has set forth new financing rules of SAMS, to be borne by the credit institutions. With such amendments, the value of charges relating to SAMS concerning retired employees and pensioners will shift, from a percentage of the pension amount to a fixed amount per capita, by type of recipient (retired person or survivor's pensioner).

With the new CLA, mandatory promotions due to long-term service have been eliminated, therefore only remaining the following promotion for the employees who have been promoted up to the 31st of December, 2014.

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

(thousand euros)

	30.06.2018	30.06.2017
Current service cost (see Note 14)	392	617
Interest Expenses / (Income)	(19)	15
Expenses of the period	**373**	**632**

As of the 1st of January 2014, following the change of IAS 19 - Employee Benefits, the earnings / costs of the interests are now recognized according at net value in interest and similar income / expenses.

Career bonuses

On the 30th of June 2018, 31st of December, 2017 and 30th of June 2017, the liabilities assumed by the Group and the costs recognised in the periods with the career bonus are the following:

(thousand euros)

	30.06.2018	31.12.2017	30.06.2017
Liabilities at the begining of the period	**498**	**517**	**583**
Year expenses (See Note 14)	20	(19)	(66)
Liabilities at the end of the period (see Note 34)	**518**	**498**	**517**

The actuarial assumptions used for calculation of liabilities shall be presented for calculation of retirement pensions (when applicable).

Liability regarding career bonus was introduced in 2016, following the entry into force of the new CLA of the banking sector.

The liability regarding career bonuses is registered in other liabilities (see Note 34).

NOTE 16 – ADMINISTRATIVE COSTS

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2018	30.06.2017
Rents and leases	2 270	4 344
Marketing and advertisement	91	269
Communications and expedition	2 615	3 194
Travels and representation costs	541	1 791
Maintenance and related services	495	559
Insurance	125	871
Legal and litigation	97	129
Specialised services		
IT services	1 892	2 940
Temporary labour	11	21
Independent labour	642	921
Other specialised services	2 903	2 929
Other expenses	2 182	1 668
	13 864	**19 636**

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

NOTE 17 – EARNINGS PER SHARE

Basic earnings per share

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

(thousand euros)

	Period of six months ended at	
	30.06.2018	30.06.2017
Consolidated net income attributable to shareholders of the parent company[1]	(2 133)	(79 976)
Weighted average number of ordinary shares outstanding (thousand)	**168 954**	**91 520**
Basic earnings per share attributable to shareholders of the parent company (euros)	**-0,01**	**-0,87**

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

Diluted earnings per share

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

On the 30th of June, 2018 and 2017, the Bank holds instruments issued without diluting effect, therefore diluted earnings per share equals basic earnings per share.

NOTE 18 – CASH AND CASH EQUIVALENTS

As at the 30th of June, 2018 and 31st of December, 2017, this heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
Cash	8	11
Demand deposit at central banks		
Bank of Portugal	438 759	438 668
Other central banks	299	2 958
	439 058	**441 626**
Deposits at other credit institutions in Portugal		
Demand deposits	19 527	14 797
	19 527	**14 797**
Deposits at other credit institutions abroad		
Demand deposits	88 139	16 839
	88 139	**16 839**
	546 732	**473 273**
Impairment losses (Note 32)	(26)	-
	546 706	**473 273**

The 'Demand deposits in central banks – Bank of Portugal' heading, includes deposits with a mandatory nature, intended to comply with the legal minimum cash deposits requirements. In accordance with Regulation (EU) no. 1358/2011 of the European Central Bank, of the 14th of December, 2011, the mandatory minimum deposits in demand deposits in the Bank of Portugal, are paid and represent 1% of the deposits and debt securities with maturity up to 2 years, whereof are excluded deposits and debt securities from entities subject to the minimum reserve requirement scheme of the European System of Central Banks. On the 30th of June, 2018, the average rate of return of such deposits was 0,00% (31st of December, 2017: 0.00%).

The compliance with mandatory minimum deposits, for a specific observation period, is effected by taking into account the medium amount of the balances of the deposits with the Bank of Portugal throughout the aforementioned period. The balance of the account with the Bank of Portugal as at the 30th of June, 2018, has been comprised in the maintenance period from the 20th of June, 2018, to the 31st of July, 2018, which corresponded a mandatory minimum reserve amounting to 3,054 thousand euros (31st of December, 2017: 3,817 thousand euros).

NOTE 19 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING - SECURITIES

As at 30th of June, 2018 and 31st of December, 2017, the heading of trading financial assets and liabilities is as follows:

(thousand euros)

	30.06.2017	31.12.2017
Financial assets held-for-trading		
Bonds and other fixed-income securities		
From public issuers	516 981	364 291
From other issuers	69 329	75 987
Shares	26 158	15 930
	612 468	**456 208**
Financial liabilities held-for-trading		
Short selling	404 781	395 877
	404 781	**395 877**

As at 30th of June, 2018 and 31st of December, 2017, the analysis of financial assets held-for-trading, by residual maturity period, is as follows:

(thousand euros)

	30.06.2018	31.12.2017
Up to three months	-	29 587
From three months to one year	35 573	70 604
From one to five years	159 015	328 032
More than five years	391 722	12 055
Undetermined period	26 158	15 930
	612 468	**456 208**

In accordance with the accounting policy described in Note 2.6, trading financial assets and liabilities are bought for the purpose of short-term trading, regardless of their maturity.

As at 30th of June, 2018 and 31st of December, 2017, the heading of financial assets held-for-trading, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	30.06.2018			31.12.2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed-income securities						
Issued by public entities	17 699	499 282	516 981	3 637	360 654	364 291
Issued by other entities	6 995	62 334	69 329	29 014	46 973	75 987
Shares	16 062	10 096	26 158	15 818	112	15 930
Total book value	**40 756**	**571 712**	**612 468**	**48 469**	**407 739**	**456 208**

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

As at 30th of June, 2018 and 31st of December, 2017 the exposure to the public debt of “peripheral” countries within the Euro Area is analysed in Note 42.

The short selling represents securities sold by the Group, which had been purchased under a reverse repurchase agreement. In accordance with the accounting policy described in Note 2.7, securities purchased under a repurchase agreement are not recognised in the statement of financial positions. If such securities are sold, the Group recognises a financial liability equivalent to the fair-value of the assets which shall be returned in pursuance of the repurchase agreement.

NOTE 20 – DERIVATIVES

As at 30th of June, 2018 and 31st of December 2017 financial derivatives heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
Derivatives financial assets		
Trading derivatives		
Foreign-exchange contracts	9 217	16 668
Interest-rate contracts	142 958	178 818
Other contracts	16 101	8 315
	168 276	**203 801**
Derivatives for risk management purposes		
Interest-rate contracts	4 122	5 337
Equity / Index contracts	945	1 484
Other contracts	2 872	4 445
	7 939	**11 266**
	176 215	**215 067**
Derivatives financial liabilities		
Trading derivatives		
Foreign-exchange contracts	11 116	15 134
Interest-rate contracts	175 905	186 888
Other contracts	9 010	8 198
	196 031	**210 220**
Derivatives for risk management purposes		
Interest-rate contracts	4 378	5 412
Equity / Index contracts	6 164	9 281
Other contracts	891	164
	11 433	**14 857**
	207 464	**225 077**
	(31 249)	**(10 010)**

As at 30th of June, 2018 and 31st of December, 2017 trading financial derivatives is analysed as follows:

(thousand euros)

	30.06.2018			31.12.2017		
	Notional	Fair value		Notional	Fair value	
		Positive	Negative		Positive	Negative
Foreign-exchange contracts						
Forward		3 058	1 134		1 970	898
- buy	209 492			186 246		
- sell	209 690			185 803		
Currency Swaps		104	2 934		1 329	126
- buy	189 524			217 468		
- sell	193 363			216 428		
Currency Futures		-	-		-	-
- buy	809 267			526 088		
- sell	652 944			482 571		
Currency Interest Rate Swaps		4 415	4 814	-	11 933	12 359
- buy	48 302			38 143		
- sell	48 302			38 143		
Currency Options		1 640	2 234		1 436	1 751
- buy	113 075			103 942		
- sell	130 786			116 288		
	2 604 745	**9 217**	**11 116**	**2 111 120**	**16 668**	**15 134**
Interest-rate contracts						
Interest Rate Swaps		135 081	168 009		171 120	179 167
- buy	3 390 001			3 948 886		
- sell	3 390 001			3 948 886		
Interest Rate Caps & Floors		7 877	7 896		7 698	7 721
- buy	127 061			261 620		
- sell	127 061			261 620		
Interest Rate Futures		-	-	-	-	-
- buy	1 447 854			1 485 832		
- sell	1 593 799			1 451 084		
	10 075 777	**142 958**	**175 905**	**11 357 928**	**178 818**	**186 888**
Contracts on shares/indexes						
Equity / Index Swaps		8 912	8 779		4 755	4 647
- buy	43 872			28 895		
- sell	43 872			28 887		
Equity / Index Options		7 189	231		3 548	3 539
- buy	19 282			14 450		
- sell	2 047			14 012		
Equity / Index Futures		-	-		-	-
- buy	4 129			-		
- sell	27 045			-		
	140 247	**16 101**	**9 010**	**86 244**	**8 303**	**8 186**
Credit agreements						
Credit Default Swaps		-	-	-	12	12
- buy	-			5 000		
- sell	-			5 000		
	-	**-**	**-**	**10 000**	**12**	**12**
Total	**12 820 769**	**168 276**	**196 031**	**13 565 292**	**203 801**	**210 220**

As at 30th of June, 2018 and 31st of December, 2017 the analysis of trading financial derivatives, by residual maturity period, is as follows:

(thousand euros)

	30.06.2018			31.12.2017		
	Notional		Fair Value	Notional		Fair Value
	Sale	Purchase	(net)	Sale	Purchase	(net)
Up to three months	1 758 710	1 225 364	2 050	1 266 148	837 421	2 467
From three months to one year	756 401	719 324	6 574	1 377 861	932 621	10 142
From one to five years	2 262 027	2 890 775	(38 253)	2 335 787	3 054 254	(23 309)
More than five years	1 641 770	1 566 398	1 874	1 768 928	1 992 272	4 281
	6 418 908	**6 401 861**	**(27 755)**	**6 748 724**	**6 816 568**	**(6 419)**

a) Other risk management derivatives.

Other risk management derivatives include risk management instruments associated with specific financial assets and liabilities designated at fair-value through profit and loss in accordance with the accounting policy described in Notes 2.4, 2.6 and 2.8 and that the Group did not assign to hedge accounting.

As at 30th of June, 2018 and 31st of December, 2017, these operations can be analysed as follows:

(thousand euros)

30.06.2018									
Financial liabilities economically hedged	Derivative Instrument	Derivative				Associated liability			
		Notional		Fair Value	Fair value changes in the period	Fair Value	Fair value changes in the period	Book value	Reimbursement amount at the maturity
		Sell	Buy						
Debt securities issued	Credit Default Swap	143 717	-	1 981	(2 231)	(5 012)	2 197	140 081	151 367
Debt securities issued	Equity Swap	50 710	50 710	(5 219)	2 913	3 644	(2 620)	43 591	50 269
Debt securities issued	Interest Swap	139 953	139 953	(256)	160	4 884	40	4 404	9 726
Debt securities issued	Index Swap	-	-	-	-	-	(12)	-	-
		334 380	**190 663**	**(3 494)**	**842**	**3 516**	**(395)**	**188 076**	**211 362**

(thousand euros)

31.12.2017									
Financial liabilities economically hedged	Derivative Instrument	Derivative				Associated liability			
		Notional		Fair value	Fair value changes in the period	Fair value	Fair value changes in the period	Book value	Reimbursement amount at the maturity
		Sell	Buy						
Debt securities issued	Credit Default Swap	145 978	-	4 281	5 195	(8 818)	(5 827)	153 641	154 949
Debt securities issued	Equity Swap	58 451	58 451	(7 797)	6 180	5 363	(5 813)	50 378	59 549
Debt securities issued	Interest Swap	148 175	148 551	(75)	(282)	4 703	147	9 219	14 951
Debt securities issued	Equity Option	-	-	-	82	-	93	-	-
Debt securities issued	Index Swap	-	-	-	-	(48)	(31)	1 255	1 333
		352 604	**207 002**	**(3 591)**	**11 175**	**1 200**	**(11 431)**	**214 493**	**230 782**

The operations with risk management derivatives at 30th of June, 2018 and 31st of December, 2017 can be analysed by maturity as follows:

(thousand euros)

	30.06.2018		
	Other derivatives for risk management		
	Notional		Fair Value
	Sell	Buy	
Up to three months	24 186	4 946	(765)
From three months to one year	99 705	45 737	(1 997)
From one to five years	208 503	137 994	(702)
More than five years	1 986	1 986	(30)
	334 380	**190 663**	**(3 494)**

(thousand euros)

	31.12.2017		
	Other derivatives for risk management		
	Notional		Fair Value
	Sell	Buy	
Up to three months	9 450	9 826	(3 896)
From three months to one year	63 911	27 615	(2 444)
From one to five years	279 243	169 561	2 749
	352 604	**207 002**	**(3 591)**

As at 30th of June, 2018 and 31st of December, 2017, derivatives, both assets and liabilities, include operations collateralized by the constitution of collateral accounts in order to ensure the fair value hedge of the active and liability exposures contracted between the Bank and several financial institutions. The balances related to these collateral are recorded under "Other assets - collateral deposited under clearing agreements" (Note 28) and "Other liabilities - collateral deposited under clearing agreements" (Note 34).

NOTE 21 – SECURITIES

As at 30th of June, 2018 and 31st of December, 2017, this heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
Non-trading financial assets mandatorily at fair value through profit or loss		
Bonds and other fixed-income securities		
From other issuers	685	-
Shares	4 016	-
Other variable income securities	22 944	-
	27 645	**-**
Financial assets at fair value through other comprehensive income		
Bonds and other fixed-income securities		
From public issuers	369 282	-
From other issuers	111 013	-
	480 295	**-**
Financial assets held-for-sale		
Bonds and other fixed-income securities		
From public issuers	-	326 297
From other issuers	-	133 758
Shares	-	4 389
Other variable income securities	-	27 503
	-	**491 947**
	507 940	**491 947**

In accordance with the accounting policy described in Note 2.6, the Group regularly assesses whether there is objective evidence of impairment in the investment securities portfolios, following the judgement criteria described in Note 3.6.

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

(thousand euros)

	Cost (1)	Fair value reserve		Impairment (Note 32)	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	376 241	47	(6 195)	(811)	369 282
Issued by other entities	122 273	760	(2 726)	(9 294)	111 013
Balance as at 30th June 2018	**498 514**	**807**	**(8 921)**	**(10 105)**	**480 295**

(1) Amortised cost

The portfolio of Financial assets held-for-sale is analysed as follows:

(thousand euros)

	Cost (1)	Fair value reserve		Impairment (Note 32)	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	323 544	2 909	(156)	-	326 297
Issued by other entities	155 921	4 160	(454)	(25 869)	133 758
Shares	13 136	4	-	(8 751)	4 389
Other variable-income securities	32 675	3 208	(1 546)	(6 834)	27 503
Balance as at 31st December 2017	**525 276**	**10 281**	**(2 156)**	**(41 454)**	**491 947**

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

The heading of financial assets held-for-sale includes 279,789 thousand euros in securities pledged as collateral by the Group (251,629 thousand euros as at 31st of December 2017), see note 38.

As at 30th of June, 2018 and 31st of December 2017, the analysis of securities portfolios by maturity period, is presented as follows:

(thousand euros)

	30.06.2018	31.12.2017
Up to three months	-	228
From three months to one year	17 773	2 500
From one to five years	417 246	431544
More than five years	45 961	25 783
Undetermined period	26 960	31892
	507 940	**491 947**

As at 30th of June, 2018 and 31st of December 2017, the heading of securities, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	30.06.2018			31.12.2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed-income securities						
Issued by public entities	280 146	89 136	369 282	251 988	74 309	326 297
Issued by other entities	23 515	88 183	111 698	41 531	92 227	133 758
Shares	-	4 016	4 016	-	4 389	4 389
Other variable-income securities	-	22 944	22 944	-	27 503	27 503
Total statement of financial position value	**303 661**	**204 279**	**507 940**	**293 519**	**198 428**	**491 947**

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

As at 30th of June, 2018 and 31st of December 2017, the exposure to the public debt of “peripheral” countries within the Euro Area is presented in Note 42.

NOTE 22 - LOANS AND ADVANCES TO BANKS

As at 30th of June, 2018 and 31st of December 2017 this heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
Loans and advances to banks in Portugal		
Deposits	55	55
	55	**55**
Loans and advances to banks abroad		
Sales with repurchase agreements	398 353	394 807
Very short-term deposits	6 742	21 163
Other loans and advances	19 107	87 363
	424 202	**503 333**
	424 257	**503 388**
Impairment losses (Note 32)	(15 849)	(15 388)
	408 408	**488 000**

As at 30th of June, 2018 and 31st of December 2017, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousand euros)

	30.06.2018	31.12.2017
Up to three months	326 616	279 969
From three months to one year	97 641	223 419
	424 257	**503 388**

NOTE 23 – LOANS AND ADVANCES TO CUSTOMERS

As at 30th of June, 2018 and 31st of December 2017 this heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
At fair value throught profit and loss		
Domestic loans		
Corporate		
Loans	5 819	-
Loans fair value revaluation	(582)	-
	5 237	**-**
At amortized cost		
Domestic loans		
Corporate		
Commercial credit lines	-	234
Loans	264 719	298 412
Other loans	1 012	1 307
Retail		
Mortgage loans	554	252
	266 285	**300 205**
Foreign loans		
Corporate		
Loans	304 006	371 131
Reverse repo operations	2 061	-
Other loans	1 478	1 445
Retail		
Other loans	-	1
	307 545	**372 577**
Overdue loans and interest		
Up to 90 days	1 521	950
For more than 90 days	63 248	76 392
	64 769	**77 342**
	638 599	**750 124**
Impairment losses	(114 779)	(120 217)
	523 820	**629 907**
	529 057	**629 907**

As at 30th of June, 2018 and 31st of December 2017, the analysis of loans and advances to costumers, by residual maturity period, is presented as follows:

(thousand euros)

	30.06.2018	31.12.2017
Up to three months	39 972	39 799
From three months to one year	37 275	61 064
From one to five years	60 439	97 088
More than five years	441 964	474 830
Undetermined period	64 768	77 343
	644 418	**750 124**

NOTE 24 - NON-CURRENT ASSETS HELD-FOR-SALE

As at 30th of June, 2018 and 31st of December, 2017, this heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
Subsidiaries acquired exclusively for resale purposes	2 533	2 533
	2 533	**2 533**

Non-current assets held-for-sale only includes the investment in Polish Hotel Company. The Group has implemented a plan for the immediate sale of this subsidiary. However, due to market conditions, it was not possible to carry out the divestiture within the period originally foreseen.

In May 2017, Haitong Bank assigned a sales mandate to JLL. Under this agreement, on November 6th, 2017, the Bank signed a letter of intent to sell the Polish Hotel Company with a potential investor. The book value at June 30th, 2018 of this investment corresponds to its recoverable amount based on the letter of intent received.

The sale is estimated to be completed until the end of 2018.

NOTE 25 – OTHER TANGIBLE ASSETS

As at 30th of June, 2018 and 31st of December, 2017, this heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
Real Estate		
For own use	960	1 084
Improvements in leasehold property	8 995	9 230
	9 955	**10 314**
Equipment		
IT equipment	10 800	12 000
Indoor installations	2 925	3 382
Furniture	2 944	3 400
Machinery and tools	1 222	1 507
Motor vehicles	446	551
Security equipment	258	292
Others	144	170
	18 739	**21 302**
	28 694	**31 616**
Accumulated depreciations	(22 711)	(23 977)
	5 983	**7 639**

The movement in this heading was as follows:

(thousand euros)

	Real estate	Equipment	Work in progress	Total
Acquisition cost				
Balance as at 31st December 2016	**14 668**	**26 023**	**288**	**40 979**
Acquisitions	293	400	588	1 281
Write-offs / sales	(657)	(1 244)	-	(1 901)
Transfers	(3 109)	(3 256)	(628)	(6 993)
Exchange variation and other movements	(881)	(621)	(248)	(1 750)
Balance as at 31st December 2017	**10 314**	**21 302**	**-**	**31 616**
Acquisitions	100	230	-	330
Write-offs / sales	(3)	(2 625)	-	(2 628)
Exchange variation and other movements	(456)	(168)	-	(624)
Balance as at 30th June 2018	**9 955**	**18 739**	**-**	**28 694**
Depreciations				
Balance as at 31st December 2016	**7 998**	**21 128**	**-**	**29 126**
Depreciations of period	899	1 473	-	2 372
Write-offs / sales	(627)	(1 126)	-	(1 753)
Transferências	(2 088)	(2 880)	-	(4 968)
Exchange variation and other movements	(384)	(416)	-	(800)
Balance as at 31st December 2017	**5 798**	**18 179**	**-**	**23 977**
Depreciations of period	722	716	-	1 438
Write-offs / sales	(3)	(2 479)	-	(2 482)
Exchange variation and other movements	(136)	(86)	-	(222)
Balance as at 30th June 2018	**6 381**	**16 330**	**-**	**22 711**
Net book value as at 30th June 2018	**3 574**	**2 409**	**-**	**5 983**
Net book value as at 31st December 2017	**4 516**	**3 123**	**-**	**7 639**

NOTE 26 – INTANGIBLE ASSETS

As at 30th of June, 2018 and 31st of December, 2017, this heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
Goodwill	9 859	9 859
Purchased from third parties		
Software	33 039	32 954
Others	916	916
	33 955	**33 870**
Work in progress	578	466
	44 392	**44 195**
Accumulated amortisations	(24 567)	(22 868)
	(24 567)	**(22 868)**
	19 825	**21 327**

The movement in this heading was as follows:

(thousand euros)

	Goodwill	Software	Other fixed assets	Work in progress	Total
Acquisition cost					
Balance as at 31st December 2016	**9 859**	**35 950**	**916**	**1 343**	**48 068**
Acquisitions:					
Purchased from third parties	-	183	-	998	1 181
Write-offs / sales	-	(724)	-	(94)	(818)
Transfers	-	(1 710)	-	(1 569)	(3 279)
Exchange rate variation and other movements	-	(745)	-	(212)	(957)
Balance as at 31st December 2017	**9 859**	**32 954**	**916**	**466**	**44 195**
Acquisitions:					
Purchased from third parties	-	402	-	117	519
Write-offs / sales	-	(11)	-	-	(11)
Transfers	-	5	-	(5)	-
Exchange rate variation and other movements	-	(311)	-	-	(311)
Balance as at 30th June 2018	**9 859**	**33 039**	**916**	**578**	**44 392**
Amortizations					
Balance as at 31st December 2016	**-**	**21 139**	**916**	**-**	**22 055**
Amortizations of the period	-	4 251	-	-	4 251
Write-offs / sales	-	(691)	-	-	(691)
Transferências	-	(2 670)	-	-	(2 670)
Exchange rate variation and other movements	-	(77)	-	-	(77)
Balance as at 31st December 2017	**-**	**21 952**	**916**	**-**	**22 868**
Amortizations of the period	-	1 777	-	-	1 777
Write-offs / sales	-	(11)	-	-	(11)
Exchange rate variation and other movements	-	(67)	-	-	(67)
Balance as at 30th June 2018	**-**	**23 651**	**916**	**-**	**24 567**
Net balance as at 30th June 2018	**9 859**	**9 388**	**-**	**578**	**19 825**
Net balance as at 31st December 2017	**9 859**	**11 002**	**-**	**466**	**21 327**

NOTE 27 – INVESTMENTS IN ASSOCIATED COMPANIES

Financial information regarding associated companies is presented in the following table:

(thousand euros)

	Assets		Liabilities		Equity		Income		Net income	
	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
Fundo Espírito Santo IBERIA I	5 893	6 103	384	21	5 509	6 082	42	1 163	(173)	763

(thousand euros)

	Aquisition cost		% held		Book Value		Net income from the associated companies attributable to the Group	
	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017	30.6.2018	31.12.2017
Fundo Espírito Santo IBERIA I	4 579	4 579	46%	46%	2 870	3 133	(80)	350
Other	-	738	-	-	-	56	(5)	(43)
	4 579	**5 317**			**2 870**	**3 189**	**(85)**	**307**
Impairment					**(340)**	**(340)**		
					2 530	**2 849**		

The movement of this heading is as follows:

(thousand euros)

	30.06.2018	31.12.2017	30.06.2017
Opening balance	2 849	6 461	6 591
Disposals and other reimbursements	(37)	(3 692)	-
Net Income from associated companies	(85)	267	40
Other comprehensive income from associates	(184)	(187)	(335)
Impairment of the period	(13)	-	165
Closing balance	**2 530**	**2 849**	**6 461**

NOTE 28 – OTHER ASSETS

As at 30th of June, 2018 and 31st of December, 2017, the Other Assets heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
Debtors and other assets		
Collateral deposited under collateral agreements (Note 23)	120 650	151 316
Supplies, supplementary capital instalments and subordinated assets	21	21
Public sector	36 385	39 186
Deposits placed under margin accounts (futures contracts)	5 593	4 653
Other sundry debtors	22 773	18 951
	185 422	214 127
Impairment losses for debtors and other investments (Note 32)	(12 831)	(12 675)
	172 591	**201 452**
Other assets		
Gold, other precious metals, numismatic, medals and other liquid assets	3 698	2 246
Other assets	5 546	5 574
	9 244	**7 820**
Prepayments and deferred costs	**1 308**	**2 103**
Other sundry assets		
Exchange transactions pending settlement	4 058	-
Market securities transactions pending settlement	71 700	67 794
Retirement pensions (Note 14)	785	482
Other transactions pending settlement	7 488	14 048
	84 031	**82 324**
	267 174	**293 699**

Stock exchange transactions pending settlement refer to transactions with securities recorded at the trade date pending settlement, in accordance with the accounting policy described in Note 2.6.

NOTE 29 – RESOURCES OF CREDIT INSTITUTIONS

The resources of credit institutions heading is presented as follows:

(thousand euros)

	30.06.2018	31.12.2017
Resources of central banks		
Banco de Portugal	60 000	60 000
	60 000	**60 000**
Resources of other credit institutions		
Domestic		
Interbank money market	-	9 000
Deposits	386	388
Repurchase agreements	11 069	11 313
	11 455	**20 701**
Foreign		
Deposits	27 242	38 038
Loans	749 566	750 000
Repurchase agreements	370 366	254 418
Other resources	47 096	56 354
	1 194 270	**1 098 810**
	1 265 725	**1 179 511**

As at 30th of June, 2018 and 31st of December, 2017, the analysis of resources of credit institutions by residual maturity period is as follows:

(thousand euros)

	30.06.2018	31.12.2017
Up to three months	377 676	277 849
From three months to one year	390 813	36 435
From one to five years	453 517	814 249
More than five years	43 719	50 978
	1 265 725	**1 179 511**

NOTE 30 – RESOURCES OF CUSTOMERS

The balance of the resources of customers heading is composed, with regard to its nature, as follows:

(thousand euros)

	30.06.2018	31.12.2017
Repayable on demand		
Demand deposits	20 092	59 904
Time deposits		
Fixed-term deposits	300 669	447 344
Other resources		
Repurchase agreements	14 126	7 659
Other Deposits	842	1 019
Other	14	38
	14 982	**8 716**
	335 743	**515 964**

As at 30th of June, 2018 and 31st of December, 2017, the analysis of due to customers by residual maturity period is as follows:

(thousand euros)

	30.06.2018	31.12.2017
Demand deposits	59 942	59 942
Fixed-term deposits		
Up to 3 months	63 730	128 989
3 to 12 months	160 201	265 311
1 to 5 years	51 870	61 722
	275 801	456 022
	335 743	**515 964**

NOTE 31 – DEBT SECURITIES ISSUED

The debt securities issued heading can be divided as follows:

(thousand euros)

	30.06.2018	31.12.2017
Debt securities issued		
Euro Medium Term Notes	188 076	214 493
Other Bonds	93 093	28 293
	281 169	**242 786**

The fair-value of the portfolio regarding debt securities issued is presented in Note 40.

During the first half of 2018, Haitong Bank Group issued securities amounting to 74,797 thousand euros (31st of December 2017: 16,035 thousand euros), where 34,666 thousand euros were reimbursed (31st of December 2017: 131,583 thousand euros).

As at 30th of June, 2018 and 31st of December, 2017, the residual duration of the debt securities issued is as follows:

(thousand euros)

	30.06.2018	31.12.2017
Up to three months	27 271	10 419
From three months to one year	93 527	66 495
From one to five years	159 687	165 872
More than five years	684	-
	281 169	**242 786**

The main characteristics of the debt securities issued during the first half of 2018 financial year are as follows:

(thousand euros)

					30.06.2018		
Issuer	Designation		Currency	Issue Date	Book Value	Maturity	Interest Rate
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLF12P2		BRL	2018	50 902	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2I7		BRL	2018	230	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2J5		BRL	2018	230	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2K3		BRL	2018	1 150	2020	CDI 113,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2L1		BRL	2018	230	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2M9		BRL	2018	0	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2N7		BRL	2018	684	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2O5		BRL	2018	1 808	2023	IPCA 100%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Q0		BRL	2018	90	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2R8		BRL	2018	1 737	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2S6		BRL	2018	2 746	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2T4		BRL	2018	314	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2U2		BRL	2018	493	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2V0		BRL	2018	6 723	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2W8		BRL	2018	2 235	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2X6		BRL	2018	224	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Y4		BRL	2018	2 231	2020	CDI 112%
HT_BR	COE BRINTLOE00G6		BRL	2018	87	2019	PRÉ 7,8932%
HTIIP PLC	HIIP EUR INDEX 01-2026 (MTN-S-901)	a)	USD	2018	683	2026	b)
HTIIP PLC	HIIP CPN SD3E DEC2022 (MTN-S-902)	a)	EUR	2018	1 000	2022	SD3E Participation
HTIIP PLC	HIIP CPN SD3E DEC2022 (MTN-S-903)	a)	EUR	2018	999	2022	SD3E Participation

a) liabilities designated at fair value through profit or loss or with embedded derivative
b) Indexed to Basket of Shares SX5E, IBEX e IMIB

NOTE 32 – PROVISIONS AND IMPAIRMENT

As at 30th of June, 2018, 31st of December, 2017 and 30th of June, 2017, the Provisions heading presents the following movements:

(thousand euros)

	Provisions for other risks and charges	Provisions for guarantees and other undertakings	TOTAL
Balance as at 31st December 2016	**7 168**	**1 647**	**8 815**
Net charge of the period	11 663	1 214	12 877
Foreign exchange differences and others	330	(77)	253
Balance as at 30th June 2017	**19 161**	**2 784**	**21 945**
Net charge of the period	(1 744)	(892)	(2 636)
Write back	(5 438)	-	(5 438)
Foreign exchange differences and others	(174)	(38)	(212)
Balance as at 31st December 2017	**11 805**	**1 854**	**13 659**
IFRS 9 transition impact (Note 41)	-	27	27
Net charge of the period	(38)	(68)	(106)
Write back	(1 191)	-	(1 191)
Foreign exchange differences and others	387	(126)	261
Balance as at 30th June 2018	**10 963**	**1 687**	**12 650**

These provisions are meant to cover possible contingencies related to the activity of the Group, including contingencies associated with ongoing tax proceedings. In 2018, The Group recorded 1,191 thousand euros recognized in other risks and charges, which is intended to cover costs related with the Social Plan in progress (in the first half of 2017: 4,368 thousand euros).

The movements in impairment losses can be analyzed as follows:

(thousand euros)

	31.12.2017	IFRS 9 transition impact (Note 41)	Net charge of the period	Write back	Stage 3	Exchange differences and others	30.06.2018
Cash and cash equivalents	-	8	19	-	-	(1)	26
Financial assets measured at fair value through profit	-	27 470	4 106	(18 155)	84	(3 400)	10 105
Financial assets held-for-sale	41 454	(41 454)	-	-	-	-	-
Financial assets measured at amortized cost							
Loan and advances to banks	15 388	448	36	-	-	(23)	15 849
Loan and advances to customers	120 217	185	19 111	(23 868)	500	(1 366)	114 779
Investments in associated companies	340	-	13	(13)	-	-	340
Other assets	12 675	274	209	(79)	-	(248)	12 831
	190 074	**(13 069)**	**23 494**	**(42 115)**	**584**	**(5 038)**	**153 930**

(thousand euros)

	30.06.2017	Net charge of the period	Write back	Exchange differences and others	31.12.2017
Financial assets held-for-sale	23 650	20 751	367	(3 314)	41 454
Financial assets measured at amortized cost					
Loan and advances to banks	15 398	5	-	(15)	15 388
Loan and advances to customers	224 505	27 673	(129 769)	(2 192)	120 217
Investments in associated companies	5 765	-	(5 425)	-	340
Other assets	13 477	2 964	(3 550)	(216)	12 675
	282 795	**51 393**	**(138 377)**	**(5 737)**	**190 074**

(thousand euros)

	31.12.2016	Net charge of the period	Write back	Stage 3	30.06.2017
Financial assets held-for-sale	46 861	3 577	(24 048)	(2 740)	23 650
Financial assets measured at amortized cost					
Loan and advances to banks	15 419	6	-	(27)	15 398
Loan and advances to customers	255 949	21 530	(49 669)	(3 305)	224 505
Investments in associated companies	5 930	(165)	-	-	5 765
Other assets	13 808	(135)	-	(196)	13 477
	337 967	**24 813**	**(73 717)**	**(6 268)**	**282 795**

NOTE 33 – INCOME TAXES

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

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

The current tax of the first half 2018 and the period 2017 was calculated based on a nominal corporate income tax rate ("IRC") and Municipal surcharge of 22.5%, in accordance with Law no. 82-B/2014, of 31st of December, and Law no. 2/2007, of 15th of January, plus an additional fee of 2.5%, referring to an average rate which results from the application of the State surcharge tiers, in accordance with Law no. 2/2014, of 10th of January.

For the purposes of calculating the current tax for the six months period ended 30th of June, 2018 and the period ended 31st of December, 2017, the Decree-Law no. 127/2012, of 31st of December, which regulates the transfer to the Social Security system of responsibility for the expenses incurred with retirement and survival pensions of retired employees and pensioners, was taken into account. This Decree-Law, together with Article no. 183 of Law no.64-B/2011, of 30th of December (2012 State Budget Law), established a special regime for tax deduction of expenses and other equity changes resulting from that transfer:

- The impact from the negative equity change associated to the change in the accounting policy relating to the recognition of previously deferred actuarial gains and losses will be fully deductible, in equal parts, for 10 years from the period beginning 1st of January 2012.

- The impact resulting from liquidation (determined by the difference between liabilities as measured in accordance with the criteria of IAS 19 and the criteria defined in the agreement) will be fully deductible for the purposes of determining taxable income, in equal parts, based on the average number of years of life expectancy for pensioners whose liabilities have been transferred (17 years), from the period beginning 1st of January 2012.

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

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date. Therefore, for the periods 2017 and 2016, deferred tax was calculated using a 27.5%, which corresponds to the estimated rate of deferred tax assets recovery, considering the income tax rate of 21%, according to State Budget Law for 2015, approved by Law no. 82-B/2014, of 31st of December.

The Portuguese Tax Authorities are entitled to review the annual tax return of the Group and its subsidiaries domiciled in Portugal, referring to 2018 period and predecessors, for a period of four years, or six years in case of tax losses. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Bank's Board of Directors is confident that there will be no material differences arising from tax assessments within the context of the consolidated financial statements.

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

Branch	Nominal income tax rate
London	19%
Madrid	25%
Warsaw	19%

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

As at 30th June, 2018 and 31st December 2017, current tax assets and liabilities can be analyzed as follows:

(thousand euros)

	Asset		Liability	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Corporate income tax	5 295	5 345	(2 708)	(3 231)
Tax Credit (Special Scheme for Deferred Taxes)	28 725	28 725	-	-
Current tax asset / (liability)	**34 020**	**34 070**	**(2 708)**	**(3 231)**

As at 31st of December, 2017, the tax credit under the special regime applicable to deferred tax assets corresponds to 10,057 thousand euros, corresponding to a special reserve with an amount of 11,063 thousand euros, which will be registered during the second half of 2018.

Deferred tax assets and liabilities recognized in the statement of financial position as at 30th of June, 2018 and 31st of December 2017 can be analyzed as follows:

(thousand euros)

	Asset		Liability		Net	
	30.06.2018	31.12.2017	30.06.2018	31.12.2017	30.06.2018	31.12.2017
Derivative financial instruments	10 479	1 614	-	(2 257)	10 479	(643)
Securities	3 304	112	(964)	(2 960)	2 340	(2 848)
Loans and advances to customers	63 368	63 368	-	-	63 368	63 368
Provisions	23 048	32 278	-	-	23 048	32 278
Pension Fund	3 660	3 623	(2)	(2)	3 658	3 621
Other	1 425	435	186	(531)	1 611	(96)
Tax losses carried forward	45 072	40 273	-	-	45 072	40 273
Deferred tax asset/(liability)	**150 356**	**141 703**	**(780)**	**(5 750)**	**149 576**	**135 953**
Assets / liabilities compensation for deferred taxes	-	(2 676)	-	2 676	-	-
Net deferred tax asset / (liability)	**150 356**	**139 027**	**(780)**	**(3 074)**	**149 576**	**135 953**

The Group assessed the recoverability of its deferred taxes in the statement of financial position based on the estimated future taxable income.

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

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

(thousand euros)

	30.06.2018	31.12.2017	30.06.2017
Opening balance	135 953	153 102	143 990
IFRS 9 transition impact (Note 41)	194	-	-
Recognised in profit or loss	12 894	10 659	12 444
Recognised in fair value reserves	5 045	(1 611)	(1 385)
Recognised in other reserves	-	66	-
Foreign exchange variation and others	(4 510)	(26 263)	(1 947)
Closing balance (Asset / (Liability))	**149 576**	**135 953**	**153 102**

The deferred tax recognised in the income statement and reserves, during the six months period 2018 and 2017, is analysed as follows:

(thousand euros)

	30.06.2018		30.06.2017	
	Recognised in profit or loss	Recognised in reserves	Recognised in profit or loss	Recognised in reserves
Deferred Taxes				
Derivative financial instruments	(11 123)	-	(1 693)	-
Securities	(247)	(5 045)	3 983	1 385
Provisions	9 229	-	(13 036)	-
Pension Fund	(37)	-	-	-
Other	(5 751)	-	(2 299)	-
Tax losses carried forward	(4 965)	-	601	-
	(12 894)	(5 045)	(12 444)	1 385
Current Taxes	14 746	-	3 006	-
Total recognised tax	**1 852**	**(5 045)**	**(9 438)**	**1 385**

Reconciliation of the tax rate, concerning the recognised amount in the income statement, can be analysed as follows:

(thousand euros)

	30.06.2018		30.06.2017	
	%	Value	%	Value
Profit or loss before tax and Non-controlling interests		**(13 751)**		**(91 358)**
Income tax rate of Haitong Bank	21.0		21.0	
Tax determined based on the income tax rate of Haitong Bank		(2 847)		(19 185)
Difference in the tax rate of subsidiaries	(13.2)	1 815	7.2	(6 566)
Profits in units with most favorable tax regimes	3.4	(463)	0.1	(96)
Non-taxable capital gains	(14.4)	1 980	0.6	(575)
Deferred tax asset not recognised on tax losses generated in the financial year	0.0	-	(13.6)	12 442
Non-deductible costs	(17.6)	2 416	(1.6)	1 444
Other	7.6	(1 049)	(3.4)	3 098
	(13.2)	**1 852**	**10.3**	**(9 438)**

Following the Law No. 55-A/2010 of 31st of December, a Banking levy was established, which is not eligible as a tax cost, and whose regime was continuously extended. As at 30th of June 2018, the Group recognised an expense of euro 1,781 thousand (31st of December 2017: euro 1,751 thousand), which was included in Other operating income and expenses – Direct and indirect taxes (see Note 13).

NOTE 34 – OTHER LIABILITIES

As at 30th of June, 2018 and 31st of December, 2017, the Other liabilities heading is analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017
Creditors and other resources		
Public sector	9 797	10 055
Deposited collateral under collateral agreements (Note 23)	4 310	11 928
Sundry creditors		
Creditors from transactions with securities	20 567	21 114
Suppliers	2 166	2 420
Other sundry creditors	2 959	3 939
	39 799	**49 456**
Accrued expenses		
Career bonuses (see Note 14)	518	498
Other accrued expenses	10 050	12 873
	10 568	**13 371**
Deferred income	**193**	**3 958**
Other sundry liabilities		
Stock exchange transactions pending settlement	62 955	85 158
Foreign exchange transactions pending settlement	4 225	2 028
Other transactions pending settlement	13 588	3 069
	80 768	**90 255**
	131 328	**157 040**

As at 30th of June, 2018 and 31st of December, 2017, the headings regarding Stock exchange transactions pending settlement refer to transactions with securities pending settlement.

NOTE 35 – DISCONTINUED OPERATIONS

In December 15th, 2017, Haitong Bank entered into a purchase and sale agreement for the entire capital of the subsidiaries Haitong (UK) Limited, Haitong Securities (UK) Ltd and Haitong Securities USA LLC with Haitong International BVI.

In accordance with IFRS 5 - Non-current assets held for sale and discontinued operations, these subsidiaries are no longer consolidated using the full consolidation method and are presented in the financial statements as a discontinued operations. This operation did not generate any gains or losses in the Group's results for the 2017 financial year, based on the subsidiaries' financial statements as at 31st of December 2017 and their respective sale prices. The price for the sale of Haitong Securities USA LLC was 16,778 thousand dollars. The price for the sale of Haitong (UK) Limited and Haitong Securities (UK) Limited was 12,536 thousand dollars.

The completion of the transaction occurred as at February 23rd, 2018, after the necessary approvals have been granted, namely from the supervisory authorities on these international Haitong Bank units.

The Group, until the closing date of the operation, based on the provisions of IFRS 5 has measured these discontinued assets at the lower of two amounts: book value or fair value less costs to sell. As such, and as shown below, the result of discontinuing operations is decomposed as follows:

(thousand euros)

		30.06.2018	30.06.2017
	Sell price *	10 167	-
	Haitong UK Equity as of February 23, 2018	7 803	-
	Consolidated Loss	2 364	-
(+)	Foreign exchange reserve reclassification to profit and loss	593	-
(+)	Haitong (UK) Limited Net Losses of the period	(56)	(10 353)
	Haitong (UK) Limited Net Profit of discontinued operations	**2 901**	**(10 353)**
	Sell price *	13 642	-
	Haitong Securities USA LLC Equity as of February 23, 2018	1 268	-
	Consolidated Loss	12 374	-
(+)	Foreign exchange reserve reclassification to profit and loss	(308)	-
(+)	Haitong Securities USA LLC Net Losses of the period	(1 736)	(8 216)
	Haitong Securities USA LLC Net Profit of discontinued operations	**10 330**	**(8 216)**
	Net Profit of discontinued operations	**13 231**	**(18 569)**

* Amounts in dollars converted in euros considering day of transaction exchange rates, February 23, 2018

For consolidation purposes of the discontinued operations assets and liabilities, the related parties transactions with impact in the statement of financial position are eliminated, according to the following detail:

(thousand euros)

	31.12.2017
Haitong (UK) Limited Total Assets as of December 31, 2017	13 016
Related Parties Operations	(2 546)
	10 470
Haitong Securities USA LLC Total Assets as of December 31, 2017	9 889
	9 889
Assets of discontinued operations	**20 359**
Haitong (UK) Limited Total Liabilities as of December 31, 2017	5 227
	5 227
Haitong Securities USA LLC Total Liabilities as of December 31, 2017	6 822
Related Parties Operations	(6 129)
	693
Liabilities of discontinued operations	**5 920**

HAITONG UK LIMITED GROUP

Consolidated Statement of Financial Position as at the 23rd February 2018 and 31st December 2017 (Unaudited)

(thousand euros)

	23.02.2018	31.12.2017
Assets		
Cash and cash equivalents	4 224	2 841
Investment securities	266	264
Other tangible assets	-	994
Other assets	4 409	8 917
Total Assets	**8 899**	**13 016**
Liabilities		
Other liabilities	1 096	5 227
Total Liabilities	**1 096**	**5 227**
Equity		
Share capital	19 947	19 771
Share premium	129 677	128 533
Fair-value reserves	61	61
Other reserves and retained income	(141 826)	(130 938)
Net profit/(loss) for the period attributable shareholders of the parent company	(56)	(9 638)
Total equity attributable to the shareholders of the parent company	**7 803**	**7 789**
Total Equity and Liabilities	**8 899**	**13 016**

HAITONG UK LIMITED GROUP

Consolidated Income Statement for the periods ended on the 23rd February 2018 and 31st December 2017 (Unaudited)

(thousand euros)

	23.02.2018	30.06.2017
Interest and similar expense	-	14
Financial margin	**-**	**(14)**
Fees and commissions income	519	1 575
Fees and commissions expenses	-	(433)
Net trading income	-	(13)
Net gains/(losses) from foreign exchange revaluation	(62)	(8)
Other operating results	981	(1 076)
Operating Income	**1 438**	**31**
Employee costs	241	7 342
Administrative costs	254	2 890
Depreciation and amortisation	999	152
Operating expenses	**1 494**	**10 384**
Profit / (Loss) before Income Tax	**(56)**	**(10 353)**
Net Profit / (Loss) for the period	**(56)**	**(10 353)**

HAITONG SECURITIES USA LLC

Individual Statement of Financial Position as at the 23rd February 2018 and 31st December 2017 (Unaudited)

(thousand euros)

	23.02.2018	31.12.2017
Assets		
Cash and cash equivalents	4 534	6 060
Other tangible assets	469	504
Intangible assets	585	610
Other assets	3 702	2 714
Total Assets	**9 290**	**9 888**
Liabilities		
Resources of other credit institutions	5 995	6 129
Other liabilities	2 027	693
Total Liabilities	**8022**	**6822**
Equity		
Share capital	11 170	11 455
Other reserves and retained income	(8 165)	1 525
Net profit/(loss) for the period attributable shareholders of the parent company	(1 737)	(9 914)
Total equity attributable to the shareholders of the parent company	**1 268**	**3 066**
Total Equity and Liabilities	**9 290**	**9 888**

HAITONG SECURITIES USA LLC

Individual Income Statement for the periods ended on the 23rd February 2018 and 31st December 2017 (Unaudited)

(thousand euros)

	23.02.2018	30.06.2017
Interest and similar expense	19	132
Financial margin	**(19)**	**(132)**
Fees and commissions income	3 088	1 602
Fees and commissions expenses	(11)	(323)
Other operating results	(4)	(47)
Operating Income	**3 054**	**1 100**
Employee costs	3 052	6 073
Administrative costs	1 707	3 018
Depreciation and amortisation	32	224
Operating expenses	**4 791**	**9 315**
Profit / (Loss) before Income Tax	**(1 737)**	**(8 215)**
Income tax		
Current tax	-	(1)
	-	**(1)**
Net Profit / (Loss) for the period	**(1 737)**	**(8 216)**

NOTE 36 – CAPITAL, SHARE PREMIUM AND OTHER CAPITAL INSTRUMENTS

Ordinary shares

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

On the 3rd of August 2014, the Bank of Portugal applied a resolution action to Banco Espírito Santo, S.A., shareholder of 100% of the capital of the Bank, and established Novo Banco, S.A., with the share capital of 4.9 billion euros, which incorporated assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal. In this regard, the Bank, its branches and subsidiaries were transferred to Novo Banco, S.A.

On the 7th of September 2015, the capital of the Bank was fully purchased by Haitong International Holdings Limited.

On the 17th of December 2015, the Bank increased its capital in 100,000 thousand euros, through the issuance of 20,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 22nd of May 2017, the Bank increased its capital in 40,000 thousand euros, through the issuance of 8,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 25th of May 2017, the Bank increased its capital in 20,000 thousand euros, through the issuance of 4,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 13th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 26th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, resulted from a in the conversion of a shareholder loan in the amount of 80,000 thousand euros and the conversion of the Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments, amounting to 80,000 thousand euros, which was fully subscribed and paid-up by Haitong International Holdings Limited.

On the 31st of August 2017, the Bank increased its capital in 38,500 thousand euros, through the issuance of 7,700,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

As at 30th of June 2018, the share capital of Haitong Bank amounts to 844,769 thousand euros and is represented by 168,953,800 shares with the nominal value of 5 euros each, fully held by Haitong International Holdings Limited.

Share premiums

As at 30th of June, 2018 and 31st of December, 2017, share premiums are represented by 8,796 thousand euros, corresponding to the amount paid by shareholders in the increase of capital of previous years.

Other equity instruments

During October 2010 the Group issued perpetual subordinated bonds with conditioned interest in the overall amount of 50 million euros. These bonds have a noncumulative conditioned interest, payable only if and when declared by the Board of Directors.

This conditioned interest, corresponding to the applicable annual rate of 8.5% on nominal value, is paid biannually. These securities may be fully, but not partially, reimbursed after the 15th of September 2015, relying solely on the choice of Haitong Bank, upon approval of the Bank of Portugal. These bonds are considered a capital instrument in accordance with the accounting policy described in Note 2.10 due to their characteristics.

During the year of 2011, 46,269 thousand euros in other capital instruments were cancelled due to a transaction regarding owned instruments.

These bonds are subordinated in relation to any liability of Haitong Bank and pari passu regarding any identical subordinated bonds that may be issued by the Bank.

As at 30th of June 2018, 3,731 thousand euros regarding these bonds are in circulation. In the year of 2018 the Group haven't paid interest (as at 31st of December 2017: 317 thousand euros recorded as a deduction in reserves).

In May 2016, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of 80,000 thousand euros identified as "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments". Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.10.

In June 2017, the perpetual instruments referred as "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments" where converted into Capital.

In March 2018, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of USD 130,000 thousand, corresponding to 105,042 thousand euros, identified as "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments". Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.10.

NOTE 37 – FAIR-VALUE RESERVES, OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

Legal reserve, fair-value reserves and other reserves

Legal reserves can only be used to cover accumulated loss carryover or to increase capital. Under Portuguese legislation applicable to the banking sector (Article 97 of RGICSF [Legal Framework of Credit Institutions and Financial Companies]), the Bank is required to set-up annually a legal reserve equal to a minimum of 10% of annual profits until the reserve equals the share capital.

Fair-value reserves represent the possible capital gains and losses in relation to the held-for-sale financial assets portfolio, net of impairment recognised in the income statement of the year and/or previous years. The value of this reserve is presented net of deferred tax.

The movements of these headings were the following:

(thousand euros)

	Fair Value reserves			Other reserves and retained earnings				
	Revaluation reserves	Income tax reserves	Total fair value reserve	Legal Reserve	Actuarial gains/losses (net of taxes)	Exchange differences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31 December 2016	**(2 781)**	**469**	**(2 312)**	**39 878**	**(25 999)**	**(133 539)**	**8 205**	**(111 455)**
Actuarial gains/losses (net of taxes)	-	-	-	-	1 389	-	-	1 389
Interest of other equity instruments	-	-	-	-	-	-	(159)	(159)
Changes in fair value (net of taxes)	5 369	(1 414)	3 955	-	-	-	-	-
Foreign exchange differences	183	28	211	-	-	(10 949)	-	(10 949)
Transfer to reserves	-	-	-	-	-	-	(96 181)	(96 181)
Other comprehensive income of associates	-	-	-	-	-	-	(335)	(335)
Balance as at 30 June 2017	**2 771**	**(917)**	**1 854**	**39 878**	**(24 610)**	**(144 488)**	**(88 470)**	**(217 690)**
Actuarial gains/losses (net of taxes)	-	-	-	-	(1 566)	-	-	(1 566)
Own credit risk changes	-	-	-	-	-	-	(3 380)	(3 380)
Interest of other equity instruments	-	-	-	-	-	-	(158)	(158)
Changes in fair value (net of taxes)	4 726	(1 582)	3 144	-	-	-	-	-
Foreign exchange differences	(183)	(28)	(211)	-	-	(6 231)	-	(6 231)
Other comprehensive income from associates	-	-	-	-	-	-	(187)	(187)
Balance as at 31 December 2017	**7 314**	**(2 527)**	**4 787**	**39 878**	**(26 176)**	**(150 719)**	**(92 195)**	**(229 212)**
IFRS 9 transition impact (Note 41)	(250)	16	(234)	-	-	-	(1 152)	(1 152)
Balance as at 1 January 2018	**7 064**	**(2 511)**	**4 553**	**39 878**	**(26 176)**	**(150 719)**	**(93 347)**	**(230 364)**
Actuarial gains/losses (net of taxes)	-	-	-	-	568	-	-	568
Own credit risk change	-	-	-	-	-	-	1 832	1 832
Changes in fair value (net of taxes)	(14 436)	5 045	(9 391)	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	(2 218)	-	(2 218)
Foreign exchange reserve recycle from discontinued operations	-	-	-	-	-	(285)	-	(285)
Transfer to reserves	-	-	-	-	-	-	(130 187)	(130 187)
Other comprehensive income of associates	-	-	-	-	-	-	(184)	(184)
Balance as at 30 June 2018	**(7 372)**	**2 534**	**(4 838)**	**39 878**	**(25 608)**	**(153 222)**	**(221 886)**	**(360 838)**

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

(thousand euros)

	30.06.2018	31.12.2017
Opening balance	**4 787**	**(2 312)**
IFRS 9 transition impact (Note 41)	(234)	-
Balance at 01.01.2018	**4 553**	**(2 312)**
Fair value changes	(21 629)	(9 678)
Disposals of the period	3 087	(4 556)
Impairment recognised in the period	4 106	24 329
Deferred taxes recognised in reserves during the period	5 045	(2 996)
Closing balance	**(4 838)**	**4 787**

Non-controlling interests

The Non-controlling interests heading information per subsidiary is as follows:

(thousand euros)

	30.06.2018		31.12.2017	
	Statement of Financial Position	Income statement	Statement of Financial Position	Income statement
Haitong Banco de Investimento do Brasil S.A.	12 692	(456)	21 692	(6 765)
Haitong Securities do Brasil S.A.	4 184	112	4 653	62
Haitong Negócios S.A.	4 117	62	2 078	(85)
Haitong do Brasil Participações Ltda	2 907	36	(34)	34
FI Multimercado Treasury	462	75	441	802
WindPart, Lda	1	-	1	-
Others	1 975	(68)	2 251	(42)
	26 338	**(239)**	**31 082**	**(5 994)**

The movement of Non-controlling interests of the periods ended on the 30th of June 2018, 31st of December 2017 and 30th of June 2017 can be analysed as follows:

(thousand euros)

	30.06.2018	31.12.2017	30.06.2017
Opening balance	**31 082**	**36 233**	**41 675**
IFRS 9 transition impact (Note 41)	(19)	-	-
Changes in fair value reserve	(409)	341	(10)
Exchange difference and other	(4 077)	(1 602)	(3 328)
Net income for the period	(239)	(3 890)	(2 104)
Closing balance	**26 338**	**31 082**	**36 233**

NOTE 38 – OFF-BALANCE SHEET ITEMS

As at 30th of June 2018 and 31st of December 2017, off-balance elements are as follows:

(thousand euros

	30.06.2018	31.12.2017
Contingent liabilities		
Guarantees and stand by letters of credit	161 181	174 416
Assets pledged as collateral	606 567	277 996
	767 748	**452 412**
Commitments		
Irrevocable commitments	22 138	13 939
	22 138	**13 939**

The rendered guarantees and sureties are banking transactions that do not necessarily represent any outflow for the Group.

As at 30th of June 2018, the heading of financial assets pledged as collateral includes:

- Securities pledged as collateral to the Bank of Portugal (i) within the scope of the Large-Value Payment System, amounting to 120,000 thousand euros as at the 30th of June, 2018 (31st of December, 2017: 120,000 thousand euros), (ii) within the scope of target long-term refinancing operations, amounting to 60,000 thousand euros (31st of December, 2017: 60,000 thousand euros) and (iii) 75,613 thousand euros of collaterals not discounted, being the total of securities eligible for rediscount with the Bank of Portugal amounted to 255,614 thousand euros as at the 30th of June, 2018 (31st of December, 2017: 233,777 thousand euros);
- Securities pledged as collateral to the Portuguese Securities Market Commission within the Investor Compensation Scheme in the amount of 109 thousand euros (31st of December 2017: 110 thousand euros).
- Securities pledged as collaterals to Fundo de Garantia de Depósitos [Deposit Guarantee Fund] in the amount of 100 thousand euros (31st of December 2017: 100 thousand euros).
- Securities pledged as collateral within the scope of transactions with repurchase agreements: 296,091 thousand euros (31st of December 2017: 44,091 thousand euros).
- Securities pledged as collateral within the scope of derivatives compensation contracts: 54,654 thousand euros

Additionally, the off-balance elements related to banking services provided are as follows:

(thousand euros)

	30.06.2018	31.12.2017
Liabilities related to services provided		
Commercial paper programmes agency	284 700	493 160
Other responsabilities related with services provided	1 494 731	1 643 105
	1 779 431	**2 136 265**

Banco Espírito Santo (BES), Novo Banco and Haitong Bank (and, in some cases, supervisory authorities, auditors and former directors from BES) have been sued in civil proceedings associated with facts of the former Grupo Espírito Santo (GES).

Within this framework, Haitong Bank is a defendant in a proceeding associated with the capital increase of BES, which took place in June 2014. In fact, there were 2 proceedings associated with the capital increase of BES, however, the Court has ruled not to prosecute due to “abandonment” in both of the aforesaid proceedings. The prosecution have appealed both deliberations to higher courts instances and in one of these proceedings the Supreme Court of Justice says that there is a double standard in relation to the decision of the lower court and the Lisbon Court of Appeal [Tribunal da Relação de Lisboa]. However, in this legal proceeding the claimant (DECO) filed an extraordinary appeal for determination of jurisprudence, having been admitted such appeal and the Bank is waiting for notification for submission of the appeal allegations of the Bank and subsequent appeal allegations of the claimant. As regards the other legal proceeding (case brought by several Funds), after the decision of the lower court to declare that the case had been “abandonment”, the Lisbon Court of Appeal revoked that decision and ordered the continuation of the proceeding. Two of the Defendants in this proceeding appealed to the Supreme Court of Justice.

Haitong Bank is also a defendant in 50 proceedings, nearly all of which are associated with issues of commercial paper of GES's entities (Rioforte and ESI – Espirito Santo International) (3 of which concern notes issued by Haitong Bank's subsidiary based in Ireland (HIIP) whose underlying asset were bonds issued by Espírito Santo Financial Portugal (ESFP)) and OI, and which were brought before the courts in 2015, 2016 and 2017.

In note 38, in what concerns the 2017 accounts, it is stated that, in the opinion of Haitong Bank's Legal Department and of the external lawyers to whom the proceedings have been entrusted, such proceedings do not have legal sustainability, wherefore it is considered unlikely that any judgment will be made against Haitong Bank in relation thereto. Such opinion is hereby reasserted, based on the following grounds.

Concerning the shares associated with issues of commercial paper of GES, it is true that Haitong Bank (then BESI – Banco Espírito Santo de Investimento) acted as administrative agent in several issuances, having dealt with their integration in the Central Securities Depository, and as paying agent, being responsible for paying interest and principal to the holders of such securities (evidently, in the assumption of having received the necessary funds from the issuer for such purpose). However, such issues were subject to private offering, and BESI did not take part in their listing, nor did it liaise with investors. Their corresponding information notes are unambiguous, by stating that their respective issuers are exclusively responsible for information contained therein. With regard to the aforementioned 3 cases related to HIIP issues, these correspond to i) credit linked notes, whose remuneration and reimbursement were dependent on facts (namely insolvency) associated with the issuer of the underlying asset, in the case of the ESFP which, as known , was declared bankrupt in which case investors should receive the underlying asset itself or the proceeds from its sale and ii) credit linked notes whose remuneration and reimbursement were dependent on facts (including insolvency) associated with the issuer of the underlying asset , OI, which was declared insolvent. The author subscribed CLN's issued by HIIP. The conditions of these issues are clearly set out in its information documents, in addition to which, at that time, BESI did not proceed to the placement of these issues with the investors.

Such opinion has since been supported by several judicial decisions.

Thus, Haitong Bank already receives the confirmation of 29 final and unappeasable decisions regarding such legal proceedings (commercial paper of GES). There are other 12 court decisions favourable to Haitong Bank, still subject to appeal.

In Brazil, there is a judicial discussion around the constitutionality of the law applicable to the contributions of PIS ("Programa de Integração Social") and COFINS ("Financiamento da Seguridade Social) taxes which falls over other income that is not originated from sale of goods or from services rendered. Based on a court decision, all Brazilian group entities are monthly depositing to the court the amount under discussion and only are assessing to Tax Authorities the amount of tax related to services rendered, which are not under such discussion. The amounts subject to judicial deposit are recorded on Balance Sheet, in other assets, and are reported to Brazilian Tax Authorities in the corresponding returns. It's the understanding of the Group, based on external legal opinions, that is not probable that the court decision should be unfavorable, which supports the Group decision to not record any provision for this contingency. At June 30th, 2018, the accumulated amount of the mentioned non-assessed contributions, but judicially deposited by the group was 25,282 thousand euros (Note 28).

Following the above stated, Haitong Bank did not establish any provision related to such legal proceedings.

Resolution Fund

Resolution measures applied to Banco Espírito Santo, S.A. and BANIF – Banco Internacional do Funchal, S.A.

The Board of Directors of the Bank of Portugal decided, on 3rd of August 2014, to apply a resolution measure to Banco Espírito Santo, S.A. ("BES"), having the generality of the activity and net worth of BES been transferred to Novo Banco, S.A. In line with EU regulations, the capitalisation of Novo Banco was secured by the Resolution Fund, established by Decree-Law No. 31-A/2012 of 10 February. As provided for in said Decree-Law, the

Resolution Fund's resources come from contributions paid by the institutions participating in the Fund and from the banking sector contribution. Moreover, legislation provides that whenever these resources prove insufficient to fulfil obligations, other means of financing can be use, including: (i) special contributions from credit institutions; and (ii) from loans taken out.

Following the resolution measure, the capital needs of Novo Banco were calculated at 4,900 million euros, having the capital subscription held by the Resolution Fund been funded by the Portuguese State and by eight financial institutions participants of the Fund (not including the Bank).

Subsequently, in view of the resolution process of Banco Espírito Santo, S.A., Bank of Portugal resolved, as announced on 29th of December 2015, the transfer of responsibility to Resolution Fund of "…possible negative outcomes of future decisions, arising from the resolution process [of Banco Espírito Santo, S.A.], with responsibilities or contingencies as a result.".

On July 2016, the Resolution Fund stated that it would analyse and assess the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES as at 3rd of August 2014. Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors, whose credits have not been transferred to Novo Banco suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its winding-up process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

In accordance with the available public information, the volume of litigations associated with this proceeding is significant.

On 31st of March 2017, Bank of Portugal issued a press release referring that Lone Star had been selected to conclude the sale process of Novo Banco. The mentioned press release states the following:

"Under the terms of the agreement, Lone Star will inject a total of 1,000 million euros in Novo Banco, of which 750 million euros at completion and 250 million euros within a period of up to three years. Through the capital injection, Lone Star will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital. The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in case certain cumulative conditions are to be met related to: (i) the performance of a specific portfolio of assets; and (ii) the capital levels of the bank going forward. Any capital injections to be carried out pursuant to this contingent mechanism benefit from a capital buffer resulting from the injection to be made under the terms of the agreement and are subject to an absolute cap."

On 18th of October 2017, Bank of Portugal and the Resolution Fund announced the conclusion of the sale process of Novo Banco to Lone Star.

Additionally, Bank of Portugal established, on 19th and 20th of December 2015, a resolution measure over BANIF – Banco Internacional do Funchal, S.A ("BANIF"). The operation involved State support, including 489 million euros taken over by the Resolution Fund, funded through a loan agreement granted by the Portuguese State. Moreover, the Resolution Fund provided a guarantee relative to bonds issued by the vehicle constituted in the scope of BANIF's resolution, in the amount of 746 million euros, counter-guaranteed by the Portuguese State.

General features

To repay the loans received and other liabilities it may be required to assume relative to the above mentioned resolution measures, the Resolution Fund is financed through the periodic and special contributions of the participating institutions (including the Bank) and from the contribution on the banking sector. Under article 153-I of Decree-Law No. 345/98, of 9 November, if the resources of the Resolution Fund are insufficient to meet its obligations, participating institutions may be called upon, via a separate statute, to make special contributions.

The amounts, instalments, deadlines and other terms of those contributions shall also be defined by said statute.

In accordance with Decree-Law No. 24/2013 that determines the operation of the Resolution Fund, the Bank has provided mandatory contributions since 2013 pursuant to the aforementioned Decree.

On 3rd of November 2015, Bank of Portugal issued a Circular-Letter according to which the periodical contribution for the Resolution Fund must be recognised as cost at the time of the event that originates mandatory contribution payments, which is in the last day of April of each year, pursuant to article no. 9 of Decree-Law No. 24/2013 of 19 February, ensuring that the Bank recognises the contribution as an expense in the year it is due. In 2017, the Bank made periodic contributions to the Resolution Fund and banking sector contributions in the amounts of 590 thousand euros and 1,751 thousand euros, respectively. These contributions were recognised as expenses in the current period, in accordance with IFRIC nº 21 – Charges.

From 2015 on, the Bank also started to pay contributions regarding the constitution of the European Resolution Fund, having this contributions amounted to 1,221 thousand euros in 2017. The European Resolution Fund does not cover the existing situations, as at 31st of December 2015, with the Portuguese Resolution Fund.

On 15th of November 2015, the Resolution Fund issued a press release stating: "it is further explained that it is unlikely that the Resolution Fund shall propose the establishment of a special contribution for the financing of the resolution measure applied to BES. Therefore, the chance of a possible charge of a special contribution is far-flung."

On 28th of September 2016, the Resolution Fund issued a statement in which it is stated that the maturity of the loan that was set to mature on 31st of December 2017 would be adjusted to ensure the Fund's ability to fully meet its obligations based on its regular revenues, and regardless of the contingencies to which it is exposed, without the need of extraordinary contributions.

According to the communication of the Resolution Fund of 21st of March 2017:

- "The conditions of the loans obtained by the Fund for the financing of the resolution measures applied to Banco Espírito Santo, S.A. and BANIF - Banco Internacional do Funchal, S.A. have been changed." These loans amount to 4,953 million euros, of which 4,253 million euros were granted by the Portuguese State and 700 million euros were granted by a bank syndicate.

- Those loans are now due in December 2046, without prejudice to the possibility of being repaid early based on the use of the Resolution Fund's revenues. The due date will be adjusted so that it enables the Resolution Fund to fully meet its obligations based on regular revenues and without the need for special contributions or any other type of extraordinary contributions.

- The review of the loans' conditions aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable cost for the banking sector.

- The new conditions enable the full payment of the Resolution Fund's liabilities, as well as the respective remuneration, without the need to ask the banking sector for special contributions or any other type of extraordinary contributions.

Accordingly, as at 31st of December 2017, there are no expectations regarding the value of possible losses connected to the divesture process of Novo Banco, of the mentioned litigations associated with the resolution process of Banco Espírito Santo or of the potential losses of the Resolution Fund following the resolution of BANIF.

Despite the possibility foreseen in the applicable legislation concerning the payment of special contributions, taking into consideration the recent developments in the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by the bank syndicate, and the public notices made by the Resolution Fund and by the Office of the Portuguese Ministry of Finance mentioning that such a possibility will not

be used, the financial statements as at 31st of December 2017 translate the Bank's Board of Directors expectation that no special contributions or other type of extraordinary contributions will be required of the institutions part of the Resolution Fund to finance the resolution measures applied to BES and to BANIF.

NOTE 39 – RELATED PARTIES TRANSACTIONS

The Group's related parties transactions as at 30th of June 2018 and 31st of December 2017, as well as the respective expenses and income recognized in the year, are summarized as follows:

(thousand euros)

	30.06.2018		
	Assets		Income
	Others	Total	
Shareholders			
HAITONG SECURITIES	5 798	5 798	7 857
Subsidiaries and associates			
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	9 976	9 976	12 127
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	15 025
HAITONG INTERNATIONAL CREDIT COMPANY LTD	3 960	3 960	4 000
HAITONG UNITRUST HOLDING LIMITED	990	990	1 000
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED	-	-	3 898
HAITONG INTERNATIONAL SECURITIES USA INC	-	-	7
HAITONG INTERNATIONAL SECURITIES (UK) LIMITED	-	-	5
HAITONG SECURITIES USA LLC	-	-	278
HAITONG SECURITIES (UK) LIMITED	193	193	181
TOTAL	**20 917**	**20 917**	**44 378**

(thousand euros)

	31.12.2017			
	Assets			
	Others	Total	Income	Expenses
Shareholders				
HAITONG SECURITIES	50	50	18 254	3
Subsidiaries and associates				
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	5 408	-
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	3 458	-
HAITONG UNITRUST FINANCIAL & LEASING	-	-	491	-
HAITONG INTERNATIONAL SECURITIES CO LTD	48	48	-	-
HAITONG UNITRUST INTERNATIONAL LEASING C	-	-	551	-
HAITONG UNITRUST CAPITAL GROUP CO LIMITED	-	-	546	-
HAITONG INTERNATIONAL CREDIT COMPANY LTD	-	-	3 100	-
HAITONG UNITRUST HOLDING LIMITED	-	-	1 000	-
HAITONG UNITRUST LEASING HK LIMITED	-	-	1 000	-
HAITONG INTERNATIONAL FINANCIAL PRODUCTS	250	250	250	-
HAITONG INNOVATION SECURITIES INVESTMENT CO LTD	-	-	4 011	-
TOTAL	**348**	**348**	**38 069**	**3**

As at 30th of June, 2018, the income heading includes 21,099 thousand euros concerning fee and commission income heading from banking services (31st of December 2017: 33,756 thousand euros).

NOTE 40 – FAIR-VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair-value of financial assets and liabilities

Haitong Bank estimates the fair value of its instruments based on prices quoted in active markets or, when such prices are not available, based on valuation techniques following standard valuation models such as discounted cash flows and option pricing models. The valuation models' parameter inputs are based on observable data, when available, derived from prices of financial instruments actively traded or based on indicative broker quotes.

The Group performs valuation adjustments to reflect counterparty credit risk (CVA) for uncollateralized derivatives assets considering the current exposure, loss given default and the probability of default. This probability of default is based on the Group's credit risk assessment model or market information where applicable.

The fair value of the Group's financial liabilities in the form of structured notes incorporates Haitong Bank's own credit risk adjustment in the form of Debt Valuation Adjustment (DVA). This adjustment is performed by discounting cash flows considering a risk free yield curve and a credit spread. As Haitong Bank does not have a credit default swap level observable in the market, the credit spread is estimated based on proxies.

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

(thousand euros)

	Amortised cost	Valued at Fair Value			Total book value	Fair Value
		Level 1	Level 2	Level 3		
Balance as at 30th June 2018						
Cash and cash equivalents	546 706	-	-	-	546 706	546 706
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Securities	-	40 756	551 425	20 287	612 468	612 468
Derivative financial assets	-	64	144 590	31 561	176 215	176 215
Non-trading financial assets mandatorily at fair value through profit or loss						
Securities	-	684	26	26 935	27 645	27 645
Loans and advances to customers	-	-	-	5 237	5 237	5 237
Financial assets at fair value through other comprehensive income	-	302 977	111 669	65 649	480 295	480 295
Financial assets measured at amortised cost						
Loans and advances to banks	408 408	-	-	-	408 408	408 408
Loans and advances to customers	523 820	-	-	-	523 820	506 363
Financial Assets	**1 478 934**	**344 481**	**807 710**	**149 669**	**2 780 794**	**2 763 337**
Financial liabilities held for trading						
Securities	-	18 463	386 318	-	404 781	404 781
Derivative financial liabilities	-	-	177 976	29 488	207 464	207 464
Financial liabilities measured at amortised cost						
Resources of credit institutions	1 265 725	-	-	-	1 265 725	1 265 725
Resources of customers	335 743	-	-	-	335 743	335 743
Debt securities issued	93 093	-	-	-	93 093	93 093
Financial liabilities designated at fair value through profit or loss						
Debt securities issued	-	-	188 076	-	188 076	188 076
Financial Liabilities	**1 694 561**	**18 463**	**752 370**	**29 488**	**2 494 882**	**2 494 882**
Balance as at 31st December 2017						
Cash and cash equivalents	473 273	-	-	-	473 273	473 273
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Securities	-	48 469	364 508	43 231	456 208	456 208
Derivative financial assets	-	-	177 655	37 412	215 067	215 067
Financial assets held for trading						
Financial assets held-for-sale	2 408	293 519	75 073	120 947	491 947	491 947
Financial assets measured at amortised cost						
Loans and advances to banks	488 000	-	-	-	488 000	488 000
Loans and advances to customers	629 907	-	-	-	629 907	621 810
Financial Assets	**1 593 588**	**341 988**	**617 236**	**201 590**	**2 754 402**	**2 746 305**
Financial liabilities held for trading						
Securities	-	-	395 877	-	395 877	395 877
Derivative financial liabilities	-	-	185 095	39 982	225 077	225 077
Financial liabilities measured at amortised cost						
Resources of credit institutions	1 179 511	-	-	-	1 179 511	1 179 511
Resources of customers	515 964	-	-	-	515 964	515 964
Debt securities issued	28 293	-	-	-	28 293	28 293
Financial liabilities designated at fair value through profit or loss						
Debt securities issued	-	-	214 493	-	214 493	214 493
Financial Liabilities	**1 723 768**	**-**	**795 465**	**39 982**	**2 559 215**	**2 559 215**

Fair-value Hierarchy

Assets and Liabilities at fair-value of the Haitong Bank Group are valued according to the following hierarchy:

The Bank's financial instruments are classified under the three levels defined in IFRS 13 according to the following:

Level 1 – Instruments valued using quoted prices observed in active and liquid markets. These include government bonds, credit bonds and exchange traded equities and derivatives.
Level 2 – Instruments valued using valuation techniques based on observable market inputs, quotes prices for

similar instruments in active markets or for identical instruments in markets that are neither active nor liquid. These include bonds, plain vanilla OTC derivatives, less liquid equities and funds value at Net Asset Values (NAV) published daily by the fund manager and with possibility of daily redemption.

Level 3 – Instruments valued using valuation techniques based on non-observable market inputs and that do not comply with the requirements to be classified under Level 1 nor Level 2. These include non-plain vanilla OTC derivatives valued based on non-observable market inputs or on indicative prices published by third parties, distressed and highly illiquid bonds, funds valued at Net Asset Values (NAV) published by the fund manager without possibility of daily redemption and private equity placements.

In June 2018, there were 23,958 thousand euros in securities transferred from Level 1 to Level 2 and 93 thousand euros in securities transferred from Level 2 to Level 1 based on their liquidity assessment.

For financial instruments recorded in the balance sheet at fair value, the movement occurred between 31st December 2017 and 30th of June 2018 in assets and liabilities classified in level 3 is as follows:

(thousand euros)

	Financial assets held for trading		Financial assets mandatory at fair value through profit or loss		Financial assets held-for-sale	Financial assets at fair value through other comprehensive income	Total
	Securities	Derivative financial assets	Securities	Loans and advances			
Opening Balance	**43 231**	**(2 570)**	**-**	**-**	**120 947**	**-**	**161 608**
IFRS 9 reclass transition impact	-	-	29 453	5 883	(120 947)	91 494	**5 883**
Results recognized in Net Interest Margin	771	(3 552)	-	-	-	2 076	**(705)**
Net trading income and from other financial instruments at fair value through profit or loss	86	7 560	2 926	-	-	-	**10 572**
Net gains/(losses) derecognition of financial assets measured at fair value through other comprehensive income	-	-	(21)	-	-	960	**939**
Impairment on other financial assets net of reversal and recover	-	-	-	-	-	(3 801)	**(3 801)**
Other fair value changes	(1 089)	(45)	(386)	(646)	-	(7 489)	**(9 655)**
Fair value reserve changes	-	-	-	-	-	(1 545)	**(1 545)**
Acquisitions	-	-	-	-	-	8 722	**8 722**
Sales	-	-	(139)	-	-	(21 823)	**(21 962)**
Reimbursements	(18 979)	-	(6 912)	-	-	(2 945)	**(28 836)**
Derivatives financial flows	-	680	-	-	-	-	**680**
Transfers from other levels	-	-	2 014	-	-	-	**2 014**
Transfers to other levels	(3 733)	-	-	-	-	-	**(3 733)**
Closing Balance	**20 287**	**2 073**	**26 935**	**5 237**	**-**	**65 649**	**120 181**

In what regards Level 3 classification, in June 2018 there were additional 2,014 thousand euros of securities that in December 2017 were not valued at fair value and 3,733 thousand euros of securities were transferred from Level 3 to other levels base on their liquidity assessment.

The main methods and assumptions used in the abovementioned valuation of the fair-value of financial assets and liabilities are analyzed as follows:

Cash and cash equivalents and Loans and advances to banks

The statement of financial position value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Loans and advances to customers

The fair-value of loans and advances to customers is estimated based on the update of expected cash flows and interest, by taking into account market spreads for similar transactions (if they were entered into in the current moment) considering that the instalments are paid in compliance with the deadlines contractually agreed upon.

Resources of other credit institutions

The balance-sheet value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Resources of customers

The fair-value of these financial instruments is determined based on the update of expected cash flows in capital and interest, considering that the payments are in compliance with the deadlines agreed upon contract. Considering that the applicable interest rates are of variable nature and the maturity period of the deposits is substantially inferior to one year, there are no measurable differences in fair-value.

Debt securities issued and Subordinated Liabilities

The fair-value of these instruments is based in market prices, when available. When unavailable, the fair-value it is estimated based on the update of expected cash flows in capital and interest regarding these instruments in the future.

NOTE 41 – IFRS9 ADOPTION

The figures for December 31st, 2017 as well as for the six months period ended in June 30th, 2017 included in the interim consolidated financial statements are presented only for comparative purposes.

The Group adopted IFRS 9 Financial Instruments for the first time on January 1st, 2018. This situation led to changes in the classification and valuation of certain financial assets, with the following impacts:

(thousand euros)

		Securities				Loans and advances to customers							
	Cash and cash equivalents	Financial assets held for sale	Financial Assets required to be measured at fair value through profit or loss	Financial Assets at fair value through other comprehensive income	Loans and advances to banks	At fair value through profit or loss	At amortised cost	Deferred tax assets / liabilities	Other Assets	Provisions	Fair-value reserves	Other reserves and retained income	Non-controlling interests
Balance at 31 December 2017 – IAS 39	**473 273**	**491 947**	**-**	**-**	**488 000**	**-**	**629 907**	**135 953**	**293 699**	**13 659**	**4 787**	**(229 212)**	**31 082**
IFRS 9 transition impact:	(8)	(491 947)	32 802	459 145	(448)	5 883	(6 725)	194	(274)	27	(234)	(1 152)	(19)
Reclassification:	**-**	**(491 947)**	**32 802**	**459 145**	**-**	**5 883**	**(5 883)**	**-**	**-**	**-**	**(1 230)**	**1 230**	**-**
From financial Assets held-for-sale:	-	(491 947)	32 802	459 145	-	-	-	-	-	-	(1 230)	1 230	-
Shares	-	(31 892)	31 892	-	-	-	-	-	-	-	(1 224)	1 224	-
Gross Amount	-	(47 477)	47 477	-	-	-	-	-	-	-	-	-	-
Reavaluation	-	-	(15 585)	-	-	-	-	-	-	-	(1 224)	(14 361)	-
Impairment	-	15 585	-	-	-	-	-	-	-	-	-	15 585	-
Bonds	-	(460 055)	910	459 145	-	-	-	-	-	-	(6)	6	-
Gross Amount	-	(479 465)	897	478 568	-	-	-	-	-	-	-	-	-
Reavaluation	-	(6 459)	13	6 446	-	-	-	-	-	-	(6)	6	-
Impairment	-	25 869	-	(25 869)	-	-	-	-	-	-	-	-	-
From loans to customers:	-	-	-	-	-	5 883	(5 883)	-	-	-	-	-	-
Gross Amount	-	-	-	-	-	6 540	(6 540)	-	-	-	-	-	-
Reavaluation	-	-	-	-	-	(657)	-	-	-	-	-	(657)	-
Impairment	-	-	-	-	-	-	657	-	-	-	-	657	-
Remeasurement	**(8)**	**-**	**-**	**-**	**(448)**	**-**	**(842)**	**194**	**(274)**	**27**	**996**	**(2 382)**	**(19)**
Impairment	(8)	-	-	(1 601)	(448)	-	(842)	684	(274)	27	-	(2 380)	(136)
Reavaluation from fair value through other comprehensive income	-	-	-	1 601	-	-	-	(490)	-	-	996	(2)	117
Balance at 1 January 2018 - IFRS 9	**473 265**	**-**	**32 802**	**459 145**	**487 552**	**5 883**	**623 182**	**136 147**	**293 425**	**13 686**	**4 553**	**(230 364)**	**31 063**

On January 1st, 2018, the Group reclassified its financial assets to the portfolios established in IFRS 9 (Note 2.1):

- Loans to costumers (loans and debt instruments from clients) remains classified and measured at amortized cost, except for debt instruments that have not passed the SPPI tests (Solely Payment of Principal and Interest) and have been reclassified to non-trading financial assets mandatorily at fair value through profit or loss (5,883 thousand euros);
- Debt instruments classified as financial assets held-for-sale (460,055 thousand euros) at December 31st,

2017 and managed within a business model comprising the collection of cash flows from the contract and the sale of these financial assets were reclassified to the financial assets at fair value through other comprehensive income (459,145 thousand euros), with the exception of securities that did not pass the SPPI tests and which were reclassified to non-trading financial assets mandatorily at fair value through profit or loss (910 thousand euros);

- Equity instruments classified as financial assets held-for-sale at December 31st, 2017 were reclassified to non-trading financial assets mandatorily at fair value through profit or loss (31,892 thousand euros).

The impact on Total Equity of the IFRS 9 transition on January 1st, 2018 (-1,405 thousand euros after taxes) was due exclusively to the change in the methodology for determining impairment losses of financial instruments, based on the concept of expected impairment losses, as defined in IFRS 9, which implied an increase in impairment for cash and cash equivalents, credit, debt instruments, commitments and guarantees granted in the amount of 1,599 thousand euros, which compares with the method established in IAS 39 based on credit risk incurred losses.

In addition, as a result of the reclassification of the financial assets to the categories established in IFRS 9, the potential gains and losses with financial assets held-for-sale presented in revaluation reserves at December 31st, 2017 (4,787 thousand euros after taxes) were reclassified to:

- Other comprehensive income - Items that will be reclassified to income statement (996 thousand euros), the debt instruments non realized gains or losses reclassified to financial assets at fair value through other comprehensive income;
- Other reserves and retained earnings (1,230 thousand euros), the debt and equity instruments non realized gains and losses reclassified to non-trading financial assets mandatorily at fair value through profit or loss.

NOTE 42 – RISK MANAGEMENT

In terms of risk management, the following qualitative information of the Haitong Bank Group is presented.

Control and risk management, for the role they have played in active management support, are one of the main strategic axes supporting their balanced and sustained development.

The Risk Department has maintained the following main objectives:

- Identification, quantify and control the different types of risks assumed, progressively adopting uniform principles and methodologies;
- Continuous contribution to the improvement of tools to support the structuring of operations and the development of internal techniques for evaluating performance and optimizing the capital base;
- Proactive management of situations of significant delay and non-compliance with contractual obligations.

Credit Risk

The Credit Risk results from the possibility of financial losses arising from the default of the customer or counterparty in relation to the contractual obligations established with the Group in the scope of its credit activity. Credit risk is mainly present in traditional banking products - loans, guarantees and other contingent liabilities - and in trading products - swaps, forwards and options (counterparty risk).

Permanent management of credit portfolios is carried out, favoring the interaction between the various teams

involved in risk management throughout the successive stages of the credit process. This approach is complemented by the introduction of continuous improvements in risk assessment and control methodologies and tools.

The monitoring of the Group's credit risk profile, in particular with regard to the evolution of credit exposures and monitoring of credit losses, is carried out regularly. The analysis of compliance with the approved credit limits and the proper functioning of the mechanisms associated with approvals of credit lines in the scope of the current activity of the business areas are also analyzed.

Impairment Model

IFRS 9 replaces the IAS 39 incurred loss model by an expected credit losses (ECL)'s forward-looking model, which considers expected losses over the lifetime of financial instruments. Thus, in determining ECL, macroeconomic factors are taken into account, as well as other forward looking information, whose changes impact expected losses.

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

- Stage 1 – Performing: without significant increase in credit risk from the moment of initial recognition. In this case, the impairment will reflect ECL resulting from default events that may occur in the next 12 months after the reporting date;
- Stage 2 – Under Performing: instruments where a significant increase in credit risk has occurred since the initial recognition but for which there is no objective evidence of impairment. In this stage, impairment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- Stage 3 – Non Performing: instruments for which there is objective evidence of impairment as a result of events that resulted in losses. In this case, the impairment amount will reflect the ECL over the expected residual life of the instrument.

The collective model is applicable to all instruments without warning signals (in Stage 1), whereas all clients in stage 2 and 3 are subject to an individual analysis.

At initial recognition, any instrument is allocated to Stage 1 (except for financial instruments originated and adquired under Stage 2 or 3). For each of the following reporting dates, an assessment of the change in the risk of a default occurring over the expected life of the financial instrument is required for that contract.

A change in the risk of a default may result in a transfer from Stage 1 to Stage 2 or 3. As long as the risk of default of an instrument is low or did not increase significantly since initial recognition, it remains in Stage 1 with a 12-months ECL. Otherwise, if the instrument's current probability of default ("PD") compared with the PD at initial recognition increases significantly, the result would be a transfer into Stage 2 and recognition of the lifetime ECL. A transfer into Stage 3 is required when objective evidence for a credit loss appears.

When a financial asset is no longer assessed to be in default, it is reclassified out of stage 3 and back into stage 2. There is a rebuttable presumption that when a financial asset recovers from default, it will still have a demonstrated significant increase in credit risk since initial recognition and must therefore be included in stage 2. From that date, impairment will continue to be recognized based on lifetime expected credit losses.

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

Significant increase in credit risk

Under IFRS 9, in order to determine whether there has been a significant increase in credit risk since the initial recognition of the financial instrument, the Group will consider all relevant information available at no cost and/or excessive effort.

The Group identifies the occurrence of a significant increase in credit risk exposure through two approaches: (i) comparison between the current PD and PD at the time of contract recognition and (ii) use of warning signals defined internally.

The internal warning signals are the following: (i) clients with payment overdue over 30 days; (ii) clients in dispute in the Central Credit Register (CCR) from the Banco of Portugal; (iii) restructured loans as a result of client's financial difficulties; (iv) renegotiated loans; (v) clients that are forbidden (by Banco de Portugal) to write a check; (vi) clients with internal rating equal or weaker to b; (vii) clients followed by Special Portfolio Management Department; (viii) clients with written-off loans in CCR; (ix) clients with warning signals activated in the last 3 months; and (x) ad-hoc situations.

Default definition

Under IFRS 9, the Group considers its financial assets to be in default by applying the same definition that is applied for prudential purposes. Thus, Haitong Bank defined default as incorporating either or both the following criteria: 1) material exposures which are more than 90-days past-due; 2) the debtor is assessed as unlikely to reimburse credit obligations in full, without collateral claim.

In what regards unlikeliness to pay criteria, the Bank addresses the following situations: i) distressed restructurings; ii) clients with loans written-off of interest or capital; iii) all clients that have an impairment loss rate resulting from individual assessment of more than 20%; iv) the Bank sells the credit obligation at a material credit-related economic loss; v) the obligor has been placed (or is likely to be placed) in bankruptcy and/or insolvency proceeding; vi) forborne non-performing exposures; and vii) where interest related to credit obligations is no longer recognized in the income statement of the Bank (non-accrued status).

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

Calculation of ECL

The new IFRS 9 standard outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition. According to Haitong Bank model, Expected Credit Loss (ECL) is determined as follows:

- Stage 1 – Performing: Financial instruments that have not had significant increase in credit risk since initial recognition. Impairment assessment is carried out based 12-month expected credit loss (ECL). ECL is determined as the exposure as of the reference date multiplied by the 12-month probability of default and the loss given default.

- Stage 2 – Under Performing: Financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. Impairment assessment is carried out based lifetime ECL through the difference between the gross accounting value and the net present value of the estimated cash flows.
- Stage 3 – Non Performing: Financial assets that have objective evidence of impairment. Impairment assessment is carried out based lifetime ECL through the difference between the gross accounting value and the net present value of the estimated cash flows.

Regarding undrawn loan commitments and financial guarantees, note that the amount considered for impairment assessment in each stage results from the exposure as of the reference date multiplied by the credit conversion factor (based on Regulation (EU) No 575/2013).

Inputs in the measurement of ECL

As a result of the characteristics of the portfolio (reduced number of operations and high heterogeneity), the calculation of the ECL has as the main vector of measurement the individual analysis assessment. In order to complement this analysis, an internal model for calculating collective impairment was developed, based on the following parameters:

- Probability of Default (PD): describes the likelihood of default in a prospect of time. Haitong Bank takes in account the PD's from S&P, whereas the rating assigning process is performed by Haitong Bank based on the S&P methodology. This assures the alignment between the internal risk management and the impairment calculation process.
- Loss Given Default (LGD): is the magnitude of the loss at the time of a default. The Bank applies the LGD based on Moody's LGD benchmarks covering a wide historical period.
- Exposure at Default (EAD): the expected exposure in the event of a default. The EAD of the Bank is calculated depending of the asset type.

The table below presents a summary of the portfolio of loans and advances to costumers (at amortized cost), as of 30 June 2018 and 31 December 2017:

(thousand euros)

	30.06.2018				31.12.2017
Loans and advances to customers at amortised cost	Stage 1	Stage 2	Stage 3	Total	Total
Monitoring	212 691	153 696	-	366 387	399 674
Substandard	-	50 757	-	50 757	57 953
Doubtful	-	-	-	-	4 065
Impaired	-	-	208 851	208 851	280 064
Not rated	4 027	8 577	-	12 604	8 368
Total gross carying amount	**216 718**	**213 030**	**208 851**	**638 599**	**750 124**
Loss allowance (Note 23)	1 225	1 710	111 844	114 779	120 217
Carying amount	**215 493**	**211 320**	**97 007**	**523 820**	**629 907**

The table below presents a summary of the portfolio of guarantees granted to clients, as of 30 June 2018 and 31 December 2017:

(thousand euros)

Financial guarantees	30.06.2018				31.12.2017
	Stage 1	Stage 2	Stage 3	Total	Total
Monitoring	86 795	45 852	-	132 647	90 657
Substandard	-	-	-	-	55 766
Impaired	-	-	23 604	23 604	25 484
Not rated	4 042	59	-	4 101	2 509
Total gross carying amount	**90 837**	**45 911**	**23 604**	**160 352**	**174 416**
Loss allowance (Note 23)	281	410	944	1635	1801
Carying amount	**90 556**	**45 501**	**22 660**	**158 717**	**172 615**

The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status, as of 30 June 2018 and 31 December 2017:

(thousand euros)

Loans and advances to customers at amortised cost	30.06.2018		31.12.2017	
	Gross carrying amount	Impairment	Gross carrying amount	Impairment
0 - 29 days	518 280	53 629	614 409	58 806
30 - 89 days	17 264	16 101	8 934	3 574
90 - 180 days	-	-	346	343
More than 181 days	103 055	45 049	126 435	57 494
Total	**638 599**	**114 779**	**750 124**	**120 217**

Concentration risk

The distribution of loan and advances to customers and securities by sectors for the periods ending on the 30th of June 2018 and 31st of December 2017 is presented as follows:

(thousand euros)

	30.06.2018							
	Loans and advances to customers				Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Securities	Derivative financial assets	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans				
Agriculture	7 387	-	354	-	-	991	-	-
Food, beverage and tobaco	6 415	-	167	-	95	3 673	-	-
Paper industry	-	-	-	-	9 955	3 302	-	-
Chemicals and rubber	7 065	-	6 687	-	-	-	-	-
Non-metallic minerals	1 452	-	7	-	-	-	-	-
Metallic products	-	-	-	-	-	-	17 162	8 581
Production of machinery, equipment and electric devices	13 189	-	106	-	6 716	-	-	-
Production of transport material	-	-	-	-	1 489	-	-	-
Electricity, gas and water	180 176	-	1 169	-	4 353	20 048	-	-
Collection, purification and distr. of water, sanitation, waste manag. and cleaning	16 071	-	3 848	-	-	-	-	-
Construction	49 898	49 810	10 441	32 592	656	-	2 985	10
Real estate activities	-	1 774	-	1 242	-	-	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	35 302	2 539	1 765	127	349	6 336	-	-
Transports and storage	137 149	9 476	1 340	8 727	1 859	61 311	1 043	20
Tourism	4 995	-	1 074	-	-	-	244	-
Communication activities	1 630	-	2	-	6 642	-	-	-
Monetary intermediation	2 061	-	-	-	5 628	36 773	2 828	23
Holding companies	24 419	297	6 889	297	16 891	7 865	68 252	499
Other financial and insurance activities	15 605	-	78	-	34 968	18 407	32 360	93
Real estate activities	-	-	-	-	1 435	-	-	-
Services provided to companies	11 862	-	396	-	1 777	17 372	21 816	68
Renting activities	37 633	873	36 528	815	-	61	1 212	2
Public services	-	-	-	-	516 982	-	370 095	811
Local public services	3 434	-	17	-	-	-	-	-
Human health activities and social support	18 387	-	10	-	2 673	76	-	-
Arts, entretainment, sports and recreation activities	-	-	-	-	-	-	50	-
Other service activities	4 383	-	22	-	-	-	-	-
Mortgage loans	554	-	79	-	-	-	-	-
TOTAL	**579 067**	**64 769**	**70 979**	**43 800**	**612 468**	**176 215**	**518 047**	**10 107**

(thousand euros)

	31.12.2017							
	Loans and advances to customers				Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Securities	Derivative financial assets	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans				
Agriculture	7 229	-	62	-	-	665	3	3
Food, beverage and tobaco	7 914	-	664	-	69	11 992	-	-
Manufacturing - Paper and Graphic Industries	-	-	-	-	10 434	353	-	-
Chemicals and rubber	6 942	-	5 829	-	21	689	2 085	-
Non-metallic minerals	4 796	-	24	-	-	258	-	-
Metallic products	4 781	-	24	-	-	-	19 095	5 728
Production of machinery, equipment and electric devices	13 621	-	111	-	7 696	-	-	-
Production of transport material	-	-	-	-	82	-	-	-
Electricity, gas and water	199 832	6 784	1 342	6 784	34	23 302	17 631	-
Collection, purification and distrib. of water, sanitation, waste manag. and cleaning	18 475	-	4 128	-	-	179	-	-
Construction	54 959	45 983	10 558	23 196	15 517	15 442	3 642	-
Real estate activities	-	2 004	-	1 403	-	-	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	65 988	2 328	1 927	116	-	3 155	-	-
Transports and storage	152 777	10 489	6 086	9 313	-	63 251	2 500	-
Printing and publishing	7 984	950	3 194	380	-	-	150	150
Communication activities	2 445	-	12	-	-	191	880	563
Monetary intermediation	-	-	-	-	30	64 477	2 802	-
Holding companies	25 866	8 803	7 782	8 803	25 617	3 065	93 864	23 136
Financial activities	15 603	-	78	-	25 383	9 059	39 009	11 274
Real estate activities	4 995	-	1 424	-	2 239	-	244	-
Services provided to companies	12 844	-	474	-	1 062	18 970	23 929	600
Renting activities	38 486	-	26 366	-	-	-	1 221	-
Public services	-	-	-	-	363 788	-	326 297	-
Local public services	3 679	-	18	-	502	-	-	-
Human health activities and social suport	18 818	-	94	-	3 734	19	-	-
Arts, entretainment, sports and recreation activities	-	-	-	-	-	-	49	-
Other service activities	4 453	-	22	-	-	-	-	-
Consumer loans	294	-	1	-	-	-	-	-
TOTAL	**672 781**	**77 341**	**70 220**	**49 995**	**456 208**	**215 067**	**533 401**	**41 454**

Market risk

Market risk is the possibility of losses resulting from adverse movements in market prices, such as equity, interest rates or foreign exchange rates and credit spreads.

The Bank estimates the potential losses in its trading book and for the overall commodity and foreign currency positions using the historical Value at Risk (VaR) methodology, calculated considering a 99% confidence level, an investment period of 10 business days and 1 year of historical observation.

(million euros)

	30.06.2018				31.12.2017			
	June	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Foreign exchange risk	1.16	2.38	4.13	1.16	2.23	2.79	4.74	0.83
Interest rate risk	0.50	0.64	0.75	0.50	0.84	1.72	3.12	0.53
Shares	0.96	1.82	2.54	0.96	1.34	0.78	0.63	0.91
Credit spread	1.20	1.05	0.69	1.20	1.33	1.58	2.27	1.22
Covariance	-0.78	-1.61	-2.65	-0.78	-0.76	-1.05	-0.38	-0.87
Total	**3.04**	**4.28**	**5.46**	**3.04**	**4.98**	**5.82**	**10.38**	**2.62**

The following table presents the average interest rates as well as the average balances and interest for the period, relating to the Group's major financial asset and liability categories, for the periods ended at June 30th, 2018 and 2017, as well as the respective average balances and interest of the period:

(thousand euros)

	30.06.2018			30.06.2017		
	Average balance of the period	Interest of the period	Average interest rate	Average balance of the period	Interest of the period	Average interest rate
Monetary assets	1 068 222	13 360	2.52%	992 830	51 362	5.17%
Loans and advances to customers	657 194	10 529	3.23%	913 225	32 426	3.55%
Investment in securities	944 062	23 109	4.94%	1 501 395	92 820	6.18%
Collateral accounts	144 603	68	0.09%	172 911	10	0.01%
Financial assets	**2 814 081**	**47 066**	**3.35%**	**3 580 361**	**176 618**	**4.93%**
Monetary resources	1 298 443	17 494	2.72%	1 698 296	73 591	4.33%
Deposits from customers	440 364	8 968	4.11%	645 310	41 768	6.47%
Liabilities represented by securities	246 473	4 130	3.38%	312 413	10 891	3.49%
Other resources	285 505	559	0.40%	707 551	780	0.11%
Financial liabilities	**2 270 785**	**31 151**	**2.74%**	**3 363 570**	**127 030**	**3.78%**
Financial Result		**15 915**	**0.60%**		**49 588**	**1.16%**

As of June 30th 2018 and 31st of December 2017, the exposure of assets and liabilities by currency in regards to the foreign exchange risk was as follows:

(thousand euros)

		30.06.2018			31.12.2017		
		Spot	Forward	Net Exposure	Spot	Forward	Net Exposure
USD	U.S. DOLLAR	129 196	(139 177)	(9 981)	199 251	(312 573)	(113 322)
GBP	STERLING POUND	2 310	-	2 310	3 081	-	3 081
BRL	BRAZILIAN REAL	95 202	(120 575)	(25 373)	58 634	(52 211)	6 423
DKK	DANISH KRONE	21	-	21	19	-	19
JPY	YEN	267	-	267	255	-	255
CHF	SWISS FRANC	607	-	607	544	-	544
PLN	PLISH ZLOTY	(5 726)	32 013	26 287	(22 163)	48 233	26 070
NOK	NORWEGIAN KRONE	21	-	21	18	-	18
CAD	CANADIAN DOLLAR	24	-	24	3 835	(4 522)	(687)
ZAR	RAND	5	-	5	5	-	5
AUD	AUSTRALIAN DOLLAR	14	-	14	14	-	14
CZK	CZECH KORUNA	23	-	23	28	-	28
CNY	YUAN RENMINBI	18 474	-	18 474	16 833	-	16 833
	OTHER	(106)	-	(106)	(589)	-	(589)
		240 332	**(227 739)**	**12 593**	**259 765**	**(321 073)**	**(61 308)**

Nota: asset (liability) Source: Haitong Bank

As at June 30th 2018 and 31st of December 2017 the exposure of the Group to the public debt of "peripheral" countries within the Euro Area is as follows:

(thousand euros)

	30.06.2018		
	Financial assets held for trading - Securities	Securities	Total
Portugal	2 053	182 644	184 697
Spain	305	-	305
Italy	439	97 503	97 942
	2 797	**280 147**	**282 944**

(thousand euros)

	31.12.2017		
	Financial assets held for trading - Securities	Securities	Total
Portugal	-	251 988	251 988
Spain	502	-	502
	502	**251 988**	**252 490**

All presented exposures are recorded in the statement of financial position of the Group at fair-value based on quoted market values or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding investment securities and trading assets is as follows:

(thousand euros

	30.06.2018					
	Nominal	Market value	Accrued Interest	Book Value	Impairment	Fair value reserves
Securities						
Portugal	**165 300**	**180 997**	**1 881**	**182 644**	**(234)**	**(139)**
Maturity over 1 year	165 300	180 997	1 881	182 644	(234)	(139)
Italy	**100 000**	**97 527**	**58**	**97 503**	**(82)**	**(2 894)**
Maturity over 1 year	100 000	97 527	58	97 503	(82)	(2 894)
	265 300	**278 524**	**1 939**	**280 147**	**(316)**	**(3 033)**
Financial assets held for trading - Securities						
Portugal	1 955	2 046	7	2 053	-	-
Spain	300	304	1	305	-	-
Italy	500	435	4	439	-	-
	2 755	**2 785**	**12**	**2 797**	**-**	**-**

(thousand euros)

	31.12.2017				
	Nominal	Market value	Accrued Interest	Book Value	Fair value reserves
Securities					
Portugal	**220 200**	**246 225**	**5 763**	**251 988**	**2 862**
Maturity over 1 year	220 200	246 225	5 763	251 988	2 862
	220 200	**246 225**	**5 763**	**251 988**	**2 862**
Financial assets held for trading - Securities					
Spain	440	486	17	502	-
	440	**486**	**17**	**502**	**-**

Liquidity risk

Liquidity risk is caused by the possible inability of financing the asset and complying with the required responsibilities in time, and by the existence of possible difficulties in the liquidation of positions in portfolio without significant losses.

Liquidity management is centralised at the Treasury Department. This management aims to maintain adequate liquidity levels to meet short, medium and long term financing needs. In order to assess the aggregate exposure to this type of risk, there are reports that not only allow the identification of negative mismatch, but also facilitate their dynamic hedging.

Furthermore, the Group also monitors liquidity ratios from a prudential point of view, determined according to the rules established by the Bank of Portugal and provided in the CRD IV (Directive 2013/36/UE).

Consolidated Liquidity Indicators

As at 30th of June 2018, the Haitong Bank achieved a liquidity coverage ratio of 1,261%, above the minimum regulatory ratio for both June 2018 and December 2018.

Operational risk

Operational Risk corresponds to the possible loss resulting from inadequate internal procedures or its negligent application, inadequacy or failure of information systems, staff behaviour or external events. Legal risks are included in this definition. Operational risk is therefore considered as the sum of operational, information systems and compliance risks.

A management system was developed and implemented, seeking to insure the standardisation, systematisation and repetition of activities regarding identification, monitoring, control and mitigation of operational risk.

Capital Management and Solvency Ratio

The main purposes of capital management in the Group are (i) to promote sustainable growth of activity by creating enough capital to withstand the increase of assets, (ii) meet the minimum requirements established by the supervising entities in relation to capital adequacy and (iii) ensure the achievement of the strategic goals set by Group in relation to capital adequacy.

In prudential terms, the Group is subject to inspection by the Bank of Portugal who, in accordance with the EU Directive on capital adequacy, establishes the necessary regulations in this regard that must be fulfilled by the different institutions under their inspection. These regulations establish a minimum rate for the own funds total in relation to the requirements associated with the undertaken risks, which the institutions must comply with.

At the moment and for reporting purposes related to prudential effects before the supervising authorities, the Group uses the Standard method for handling credit risk and operational risk ("The Standardized Approach" - TSA method).

The following table summarises the capital adequacy of the Haitong Bank S.A. Group as at 30th of June 2018 and 31st of December 2017:

	30.06.2018		31.12.2017	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	22.1%	21.9%	21.2%	20.3%
Tier 1 ratio	27.9%	27.6%	21.2%	20.4%
Total Capital ratio	28.0%	27.7%	21.3%	20.5%

Annexes

I - Shares and Bonds held by the Members of the Board of Directors and the Supervisory Bodies

Annex referred to in paragraph 5 of Article 447 of the Portuguese Companies Code

Shareholders / Bondholders	Securities	Securities held as of 31/12/2017	Transactions in 2018				Securities held as of 30/06/2018
			Date	Acquisitions	Disposals	Unit Price (EUR)	
Wu Min	-	-	-	-	-	-	-
Lin Yong	**Haitong International Securities Group Limited** - Ordinary Shares	4,621,250	15/03/2018	173.348 [1]			
			19/03/2018	132.534 [2]			
			11/05/2018	187.487 [3]			5,114,619
	Haitong International Securities Group Limited - Share Options	1,601,431	11/05/2018	3.555 [4]			1,604,986
	Haitong International Securities Group Limited - Awarded Shares (unvested)	744,301	15/03/2018		173.348 [1]		
			19/03/2018				
			28/05/2018	533,187			971,606
Alan do Amaral Fernandes	-	-	-	-	-	-	-
António Domingues	-	-	-	-	-	-	-
Christian Georges Jacques Minzolini	-	-	-	-	-	-	-
Poon Mo Yiu	**Haitong International Securities Group Limited** - Ordinary Shares	94,533	15/03/2018	94.533 [5]			
			19/03/2018	11.976 [6]			
			22/06/2018	2.108.893 [7]			2,309,935
	Haitong International Securities Group Limited - Share Options	3,105,473	11/05/2018	6,894 [4]			
	Haitong International Securities Group Limited - Awarded Shares (unvested)		20/06/2018		2.108.893 [3]		1,003,474
		224,994	15/03/2018		94.533 [5]		
			19/03/2018		11.976 [6]		118,485
Nuno Miguel Sousa Figueiredo Carvalho	-	-	-	-	-	-	-
Pan Guangtao	-	-	-	-	-	-	-
Paulo José Lameiras Martins	-	-	-	-	-	-	-
Vincent Marie L. Camerlynck	-	-	-	-	-	-	-
Zhang Xinjun	-	-	-	-	-	-	-
Mário Paulo Bettencourt de Oliveira	-	-	-	-	-	-	-
Cristina Maria da Costa Pinto	-	-	-	-	-	-	-
Maria do Rosário M. R. Machado Simões Ventura	-	-	-	-	-	-	-
Paulo Ribeiro da Silva	-	-	-	-	-	-	-
Deloitte & Associados, SROC, S.A.							

Notes

[1] 173,348 unvested awarded shares were vested on 15/3/2018.

[2] 132,534 unvested awarded shares were vested on 19/3/2018.

[3] Scrip Dividend

[4] Share option adjustment as a result of the allotment of ordinary shares under the second interim dividend for the year ended 31 December 2017 in the form of scrip dividend.

[5] 94,533 unvested awarded shares were vested on 15/3/2018.

[6] 11,976 unvested awarded shares were vested on 19/3/2018.

[7] 2,108,893 ordinary shares were alloted on 22/06/2018 upon exercise of share options on 20/06/2018.

II. Shareholders

Annex referred to in paragraph 4 of Article 448 of the Portuguese Commercial Companies Code

Shareholder	% of Share Capital
Haitong International Holdings Limited	100%

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