HAITONG

2018 Annual Report

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Our Annual and Interim reports are available at: http://www.haitongib.com/en/corporate-governance/annual-report

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HAITONG BANK, S.A.

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

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Rua Alexandre Herculano | Lisbon

WHERE WE ARE

CHAIRMAN AND CEO'S REVIEW

Wu Min | CEO

Lin Yong | Chairman

We are now moving up a gear towards a new era as Haitong Bank becomes a Strategic Reserve for the whole Group!

It is with enormous satisfaction that we announce Haitong Bank's 2018 full year results. After 4 consecutive years of losses, we are proud to have reached profitability.

What was a narrative one year ago is now a reality. We have delivered in creating the foundations for the Bank's sustainability in terms of Governance, Business Model, Cost Awareness and Strategic Direction.

Total Banking Income was EUR 99 million, for the full year, an increase of 43% year-on-year. On the costs side, Haitong Bank delivered a year-on-year reduction of 38% in Operating Costs to EUR 78 million. We have consistently shown Operating Profits in all four quarters of 2018. For the whole year, Operating Profits reached a record EUR 21 million.

The Bank was also able to deal with several one-off impairment costs, mainly related to the legacy credit portfolio. Net Income for the year was EUR 1.2 million, which brought forward by one year the well-awaited profitability objective.

The Bank also achieved an important turnaround from an asset quality perspective, with the NPL ratio falling significantly from one year ago.

Finally, with respect to capital, following the Shareholder capital support throughout last year, we remain one of the strongest capitalised banks in the industry, with a CET1 ratio of 22.9% and a Total Capital ratio of 28.9%.

This capital position allows Haitong Bank to be optimistic about its future sustainability as we will be able to continue expanding the Balance Sheet.

We will continue focusing on capturing business and revenues, leveraging on our core competitive advantages: our access to the China-related business flow as well as our core domestic franchises.

Every time we follow through on a commitment, we are building trust. With this year's achievements, the Bank has strengthened its credibility with the regulators, its shareholder, clients and staff.

These achievements should also inspire us to keep working together towards a successful future where we continue to demonstrate integrity and perseverance in a meritocratic organisation.

Delivering Our Strategy

Over the past year Haitong Bank has progressed in the implementation of its strategy: to leverage on the opportunities emerging from China's internationalization, combining expertise in Europe and LatAm with Group cross-border origination.

Haitong Bank has significantly improved Operating Income, Costs and Capital Position.

Banking Income	Operating Costs	Capital
43%	**38%**	**22.9%**
Increased	Reduction	CET1 ratio (transitional)

(million euro)

KEY INDICATORS	2018 December	2017 December (Restated)	2016 December
Total Assets	2,895	3,276	4,755
Total Liabilities	2,279	2,742	4,404
Equity	616	534	351
Banking Income	99	69	101
Operating Costs	-78	-126	-120
Operating Profit	21	-57	-18
Impairment and Provisions	-26	-79	-58
Net profit / loss	1	-130	-96
Cost-to-Income	79%	184%	244%
ROE	0.2%	-26.1%	-51.5%
ROA	-0.2%	-3.3%	-1.7%
Loan Portfolio (gross)	536[1]	750	1,097
Loan Loss Charge	19	49	49
Non-Performing Loans Ratio	8%[2]	37%	44%
Non-Performing Loans Coverage	35%[3]	43%	52%
CET1 ratio (transitional)	22.9%	21.2%	7.1%
CET1 ratio (fully-loaded)	22.6%	20.3%	5.3%
Total capital ratio (transitional)	28.9%	21.3%	9.7%
Total capital ratio (fully-loaded)	28.5%	20.5%	8.4%
Leverage Ratio (transitional)	18.6%	15.0%	6.1%
Leverage Ratio (fully-loaded)	18.4%	14.5%	5.2%
Net Stable Funding Ratio	116%	149%	115%
Total Headcount	389	462	663

[1] Without the accounting reclassification of the entity Haitong Investment Ireland p.l.c. the Loan Portfolio (gross) would stand at EUR 756 million.
[2] Without the accounting reclassification of the entity Haitong Investment Ireland p.l.c. the NPL ratio would stand at 22%.
[3] Without the accounting reclassification of the entity Haitong Investment Ireland p.l.c. the NPL coverage would stand at 43%.

HAITONG BANK'S MANAGEMENT VECTORS

PRODUCT

Haitong Bank's product range is tailored to meet the Corporate and institutional Client's needs in DCM, M&A Advisory, FICC and Structured Finance solutions.

IT & INTERNAL CONTROLS

The Bank encourages a vibrant and innovative attitude underpinned by improvement in the IT infrastructure in anticipation to a changing market.

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

EXPERTISE

The Bank's comparative advantage and main differentiator lies in its China cross-border connection and expertise in European and LatAm markets.

PEOPLE

Human capital is central to the business. The Bank aims to continuously develop talent within a client-focused meritocratic culture, with 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.

DRIVING PERFORMANCE WITH INTEGRITY AND MERITOCRACY

Product

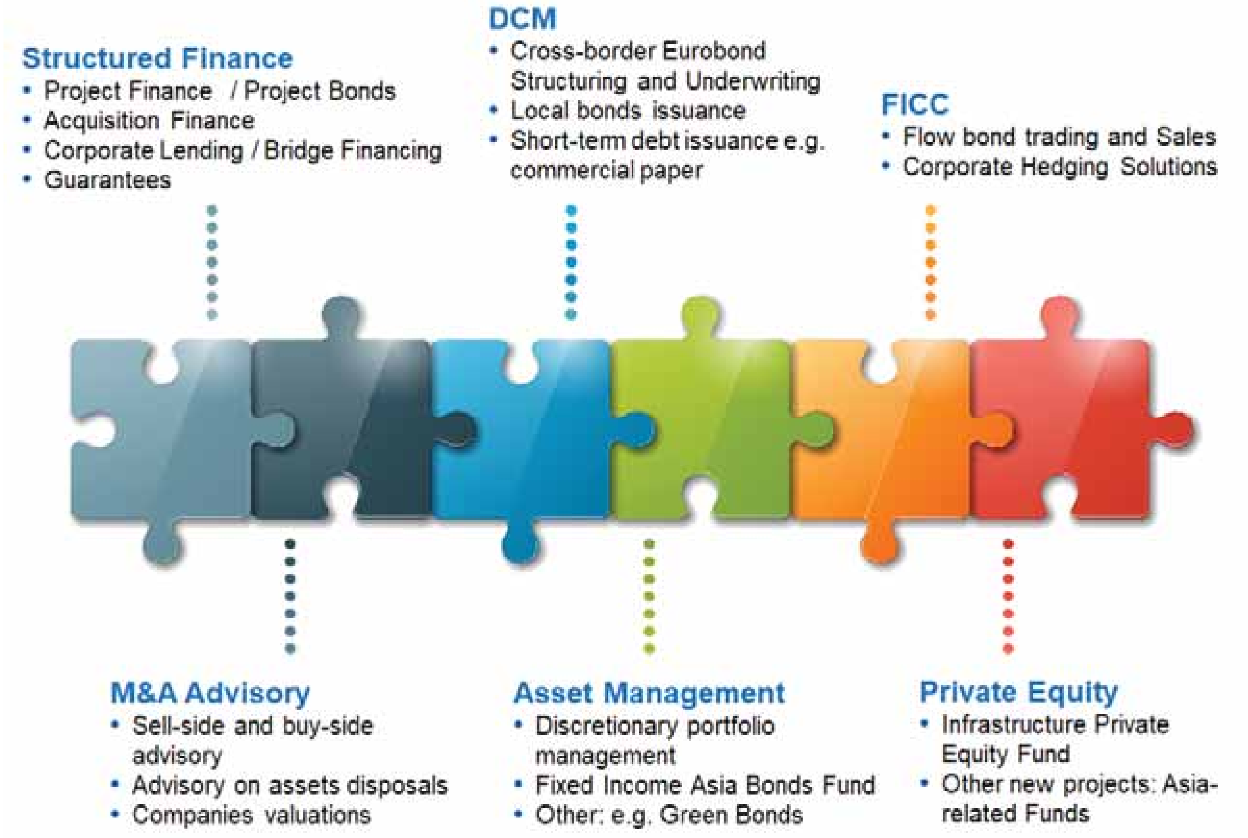
"Haitong Bank's product range is tailored to meet the Corporate and Institutional Clients' needs in DCM, M&A Advisory, FICC and Structured Finance solutions."

PRODUCT

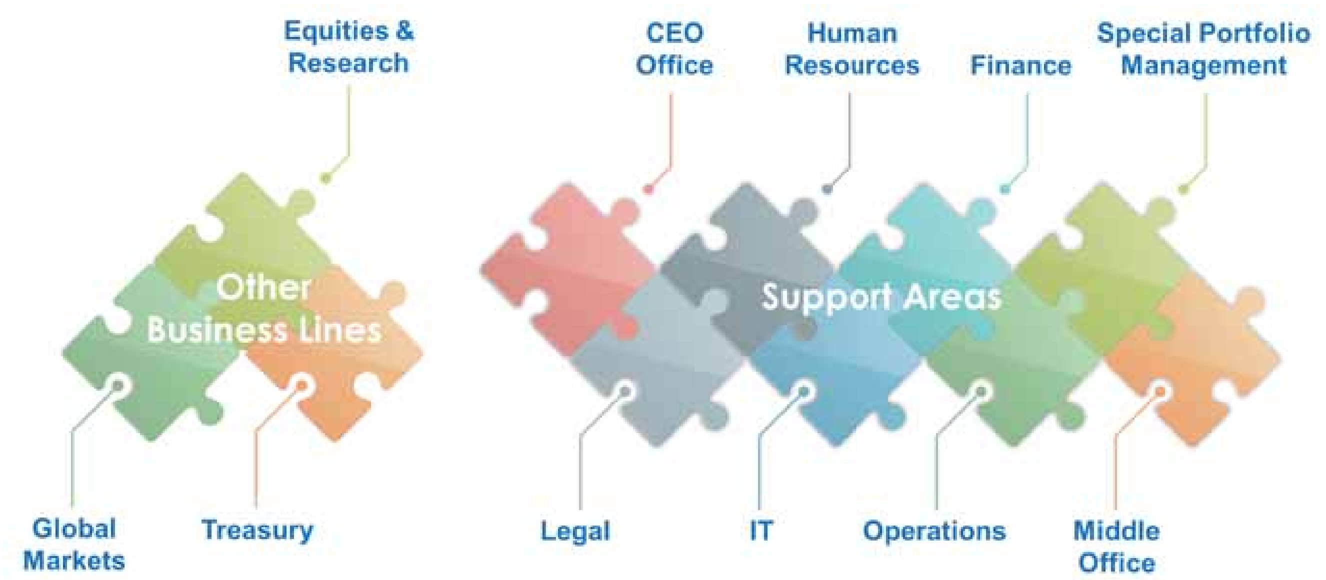
Product Offering

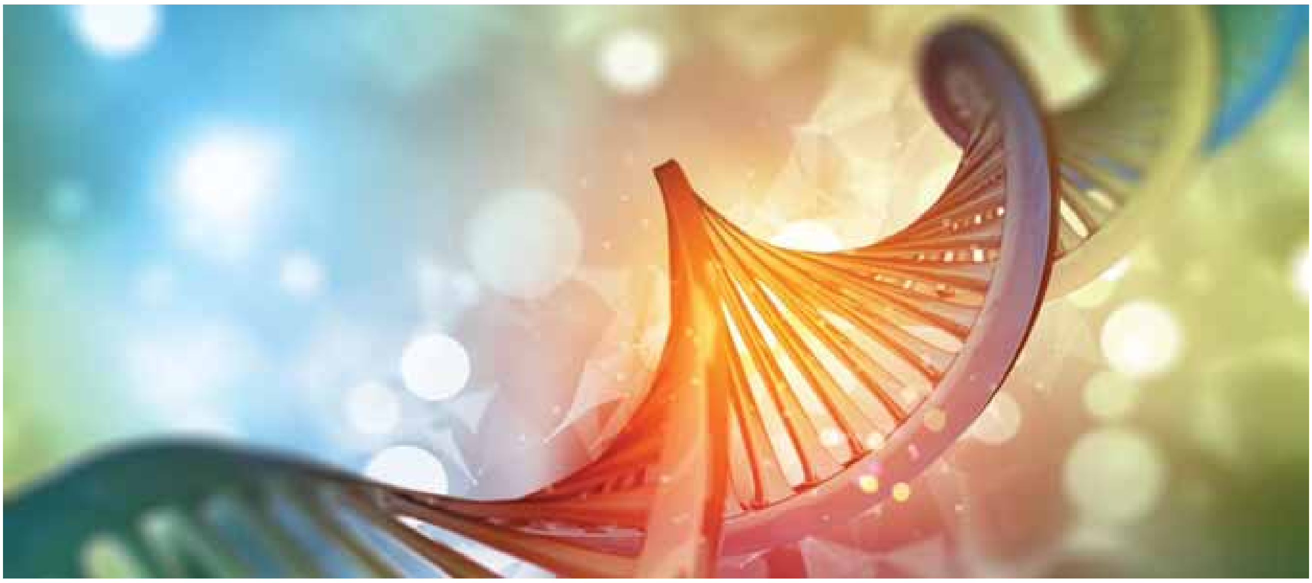
Haitong Bank's product offering has been simplified, focusing on core competences serving Corporate and Institutional clients in cross-border China-related transactions and in the domestic markets in Europe and LatAm.

Core Client-Related Product Lines



Other Business and Support Areas





STRUCTURED FINANCE

Offering

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

FY 2018 figures

22%	€22m
Weight in total Banking Income	Banking Income amount

ACTIVITY HIGHLIGHTS

In 2018, the Structured Finance business achieved a very positive operating performance with total banking income of EUR 22 million, representing a 10% increase from last year.

As a result of the improved business coordination within Haitong Group - through the combination of Haitong Bank's Structured Finance expertise and presence in Europe and Latam, with access to major Mainland China and Hong Kong clients – two new deals have been successfully closed during the year, while an additional one is set to reach financial close in early 2019.

On the one hand, the Structured Finance business has kept its focus on value-added deals, namely related to acquisitions and bridge financing opportunities involving Asian investors looking for targets in Europe and Latam. On the other hand, the active management of the Bank's existing credit portfolio (mainly composed of project finance loans in the infrastructure and energy sectors and the significant volume of agency roles related services) have also made an important contribution to the overall business performance.

In general, the Bank continues to position itself as a Structured Finance solution provider covering both lending structuring and advisory services for investors' needs, with a special focus on infrastructure and energy.

In the Brazilian infrastructure sector and despite the energy transmission lines and power generation auctions, the political agenda has also postponed the implementation of several projects, including highway, mobility, airport and railroad projects.

In this context, the Structured Finance activity in Brazil was very much in line with what we had projected for 2018, with an emphasis on advisory mandates and loans in the power and oil & gas sectors.

The Structured Finance team continues to cooperate with the Capital Markets team by generating synergies and seeking mandates for short-term loans where the take-out will be structured through capital markets issuances. The team is also closely working with the M&A team, seeking opportunities for acquisition finance.

MERGERS AND ACQUISITIONS

Offering

- **Sell-side and buy-side advisory**
- **Advisory on assets disposals**
- **Companies valuations**

FY 2018 figures

18%	€18m
Weight in total Banking Income	Banking Income amount

2018 MARKET REVIEW

In 2018, global M&A activity increased by 7.0% year-on-year (YoY) in terms of the value of completed transactions, totalling EUR 3.1 trillion, according to Bloomberg. However, the number of completed transactions fell by 5.1% YoY to 35,204 transactions. The Financial sector saw the highest number of transactions but the Consumer (non-cyclical) sector had the highest percentage in terms of total transactions value. Cross-border transactions represented 45.8% of total completed transactions at a global level, with the volume of transactions reaching EUR 1.43 trillion.

Politics continues to plague European dealmakers as M&A experienced a considerable drop of 7.2% YoY in terms of the number of completed transactions. However, the European M&A market business increased in value by 23.3% YoY to EUR 737.4 billion of completed deals. Cross-border transactions remained the main catalyst for the European M&A market, accounting for 80.4% of the total value of completed transactions.

According to Bloomberg data, in 2018 the M&A market in Iberia decreased by 8.3% YoY in terms of the number of completed deals and increased by an impressive 138.4% YoY in value to EUR 90.6 billion.

In Portugal, the number of completed transactions registered a contraction of 12.2% YoY. In addition, the value of completed transactions saw a sharp decrease of 74.6%, to EUR 1.7 billion. Nevertheless, if we also take into account the announced deals, Portugal recorded an increase of 427.1% YoY to EUR 29.6 billion, totalling 98 deals, many of which may be completed during 2019. Spanish M&A activity reported considerable growth in the period of 184.6% in value (despite the 7.8% drop in the number of deals) of completed transactions to EUR 88.9 billion, explaining the expansion of the M&A market in Iberia. Cross-border activity accounted for the most number of transactions in Iberia, representing 98.8% of the value of the deals in Portugal and 95.7% in Spain.

Despite the uncertainty regarding its future position in Europe, the 2018 figures show the UK's leading position as the most active European M&A hub. In fact, the UK M&A business in 2018 reported a value of EUR 186.1 billion, which represents a 6.0% YoY increase in the value of completed transactions. The number of completed deals dropped by 7.3% to 2,857 deals. 69.2% of completed deals were cross-border transactions, according to Bloomberg.

M&A activity in Poland declined by 10.2% YoY in terms of the number of completed transactions during 2018; with 115 deals totalling EUR 6.6 billion, which is 36.4% less than the previous year. The Financial sector was the leading sector in Poland in terms of the value of M&A completed transactions.

As Brazil, Latin America's dominant economy, attempted to move political instability, it was once again the top country for M&A by both deal value and number in Latin America, recording EUR 24.9 billion and 243 completed transactions, which means a decrease of 43% YoY in the value and 26.6% in the number of completed transactions, according to Bloomberg.

In 2018, Mainland China saw a decrease both in value (32.9% YoY) and in the number of transactions (14.8% YoY), reaching a total amount of completed transactions of EUR 253.7 billion. Although the cross-border activity has increased compared to last year, only 26.3% of completed transactions in Mainland China for 2018 were related to cross-border activity. This is partially explained by internal capital outflow restrictions and stricter regulatory regimes in the EU and the US, especially in the latter.

ACTIVITY HIGHLIGHTS

In Portugal, during 2018, Haitong Bank advised on five transactions, of which one was a cross-border transaction where the buyer was a French investor and the remaining were domestic transactions:

- Financial advisory services to Andrade Gutierrez, Tecnovia, AFA Group, 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 closed 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 propriety 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;
- Financial advisory services to REN – Redes Energéticas Nacionais, SGPS, S.A. ("REN") on the sale of REN Portgás GPL, S.A., a Portugal-based company engaged in distributing and selling propane gas, to Energyco S.A. for a consideration of EUR 4 million. The transaction was announced and completed in July 2018;

- Financial advisory services to Aquila Capital, a German private equity company, on the acquisition of EDP Small Hydro, S.A., which, together with its subsidiary Pebble Hydro - Consultoria, Investimento e Serviços, Lda., owns 21 small hydro plants located in the Centre and North of Portugal regions and has a total of 103 MW. Signing occurred in November 2018 and the transaction was concluded in December 2018.

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

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

In Brazil, the Bank provided financial advisory services to China Gezhouba Group Co., Ltd. ("CGGC") in its first acquisition in Brazil. CGGC acquired a 100% stake in Sistema Produtor São Lourenço, S.A., a water treatment system plant, under construction, from two of the largest construction companies in Brazil, for BRL 572 million. The transaction was announced in 2017 and completed in 2018.

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

Additionally, the Haitong Bank team in Brazil provided a valuation report on Lwart Celulose Ltda., based in S. Paulo, to The Navigator Company, a Portuguese paper company, in relation to the sale process of this asset.

In Poland, Haitong Bank completed two transactions in 2018:

- 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 in the CEE region;
- Financial advisory services to the owners of Mlekoma Group, a leading dairy manufacturer in Poland focused on powdered products, on the disposal of their majority stake in the group to Saudi Dairy & Foodstuff Company (SADAFCO), the leading food manufacturer in Saudi Arabia.

CAPITAL MARKETS

Offering

- **Cross-border Eurobond structuring and underwriting**
- **Local bonds issuance**
- **Short-term debt issuance**

FY 2018 figures

32%	€32m
Weight in total Banking Income	Banking Income amount

2018 MARKET REVIEW

Debt Capital Markets (DCM)

Overall global debt capital markets activity totalled USD 6.6 trillion during 2018, an 8% decrease compared to 2017 and the slowest full year period activity since 2015. EMEA bond volumes decreased by 16.8% during 2018, reaching USD 3.6 trillion, the lowest annual total since 2013.

High-grade corporate debt offerings targeted at the US marketplace totalled USD 1.1 trillion during 2018, a 17% decrease compared to 2017 and a four-year low. Corporate debt from emerging markets issuers totalled USD 244.7 billion during 2018, down 26% compared to last year. Corporate debt issuers from India, Malaysia, Thailand and Russia accounted for 42% of full year 2018 activity.

The volume of global high yield corporate debt reached USD 267 billion during 2018, a decline of 37% compared to 2017 and the slowest full year for global high yield issuance since 2009, with the United States high yield issuers accounting for 45% of the total, down from 54% a year ago.

Asian G3 (USD, EUR, CNY) bond volume in 2018 totalled USD 271.6 billion from 564 issues, down 18.5% from 2017, but still posting the second highest annual volume on record. China G3 debt accounted for a 45.9% market share, down 25.9% from 2017, but remained the most active market in the region. Asian local currency bond offerings reached USD 1.4 trillion from 8,777 deals in 2018, up 3.9% year on year and recording the second highest annual volume to date, with China local currency issues capturing 78.4% of market activity.

Total proceeds from global green bonds reached USD 134.5 billion in 2018, a 29.3% increase compared to the same period last year.

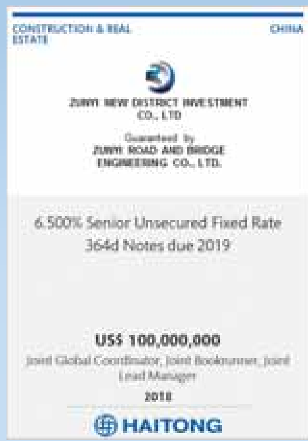
Equity Capital Markets (ECM)

Global equity capital markets activity totalled USD 695 billion during 2018, a 12.4% decline compared to 2017. 4,891 ECM offerings were brought to market, a 16% decrease compared to 2017, which was the largest 12-month period for global ECM offerings since records began in 1980. Led by Technology (15%), the overall volume of ECM activity remained highly concentrated among five main sectors including Financials (15%), Healthcare (11%) and Industrials and Energy & Power (10%).

ACTIVITY HIGHLIGHTS

Haitong Bank continues to successfully bring Chinese borrowers to the international debt capital markets via both public and private placement formats. Some of the cross-border DCM transactions successfully closed by Haitong Bank in 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 on the international debt capital markets with a public transaction;
- A debut USD 425 million dual tranche transaction for Tahoe Group. 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;
- USD 100 million 6.500% 364-day notes 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;
- USD 80 million 6.800% private placement of senior unsecured fixed-rate unrated and unlisted notes due 2019 for Zunyi Road and Bridge Construction (Group) Limited;
- The issue of guaranteed bonds for a company in the metals and mining sector: USD 100 million 7.500% due 2020 issued by New Dian Group Pte. Ltd. unconditionally and irrevocably guaranteed by Kunming Iron & Steel Holding Co., Ltd.;
- Two private placements of senior unsecured notes by Tongren Transport & Tourism Development & Investment Group Co., Ltd., of USD 50 million each, both with a 3-year maturity;
- Two bond issues by Yuyao Economic Development Zone Construction Investment and Development Co., Ltd., guaranteed by Yuyao Shuncai Investment Holding Co., Ltd.: the issue of USD 100 million 7.00% guaranteed bonds due 2021 and the issue of EUR 50 million 4.6% notes due 2019;



- Yongcheng Coal & Electricity Holding Group Co., Ltd. EUR 70 million notes due 2019; and;
- Nuoxi Capital Limited EUR 80 million 4.75% bonds due 2021 guaranteed by Peking University Founder Group Company Limited.

In Chinese issuers' related ECM activity, Haitong Bank participated in the EUR 278 million D-shares IPO of electric home appliances maker Qingdao Haier Co., Ltd., the first IPO to list on this segment of the Deutsche Boerse.

In Portugal, Haitong Bank's activity was marked by the leadership of two deals that stand out due to their innovative characteristics – Mota-Engil, SGPS, S.A.'s combined public bond subscription and exchange offer and the IPO of Raize Serviços de Gestão, S.A..

Mota-Engil's debt offer was the first ever in the Portuguese market to combine a public bond subscription offer with two public bond tenders and to target separately retail and institutional investors through different allocation criteria. The deal was a success, with total demand reaching EUR 139 million, i.e. 2.14x the initial offer amount of EUR 65 million and 1.26x the final offer amount of EUR 110 million.

Haitong Bank acted as Sole Global Coordinator and Listing Sponsor for the EUR 1.5 million IPO of Raize, the first IPO in Portugal since 2014, with several unique features in the Portuguese market so far: 1) the first fintech to be listed; 2) the first listing on Euronext Access Lisbon through a public offer; 3) the first public offer to be placed by commercial banks that operate exclusively online; and 4) the first public offer combined with a subsequent offer of shares.

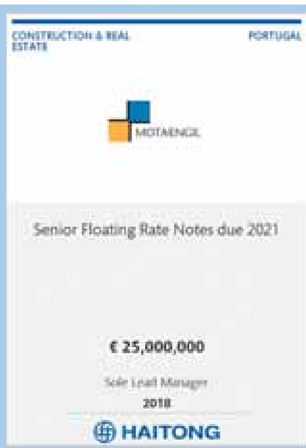
The Bank also acted as Joint Bookrunner of REN's senior unsecured EUR 300 million bond issue, as Sole Lead Manager of Mota-Engil's EUR 25 million bond issue and as Sole Global Coordinator of Benfica SAD's EUR 45 million Public Bond Offer.

In Spain, 2018 has been a very active year for Haitong Bank and marked the repositioning of the Banks's DCM business in the country. 2018 had two different halves: a very active first half saw intense marketing with customers and as a result the Bank obtained two mandates; the second part of the year, with a less active market, meant we actively worked on the execution of the mandates granted and we continued with the marketing activity. The lower activity was especially notable in the last quarter of the year, with only EUR 1.8 billion issued (EUR 5.2 billion in 2010), in a backdrop of high political uncertainty (Brexit, USA and Italy), a slowdown in world economic growth and expectations of the end of an expansive cycle in monetary policy.

The two closed deals, which represent the return of Haitong Bank to the Spanish DCM market, were the following:

- A EUR 5.1 million financing to Grupotec, an international renewable energy sector company with more than 19 years of experience and 450 MW installed capacity. This transaction represented Grupotec's first foray into the European Capital Markets and Haitong Bank acted as Placement Agent and Sole Bookrunner;
- A EUR 18.7 million, 4.05% project bond refinancing of a 5 MW ground-mounted solar PV Plant located in Spain. Taiga Mistral is an investment firm specializing in the renewable energy sector, with more than 2,000 MW of installed power in different technologies in more than 20 countries. This bond represents the first foray into the bond market for the company and Haitong Bank acted as Sole Bookrunner.

In Poland, Haitong Bank succeeded in carrying out one IPO transaction, which in spite of its mid-market size (PLN 94 million), turned out to be the largest IPO on the WSE over that period. Haitong Bank acted as Sole Offering Agent, Sole Coordinator and Boorkunner 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.



On the DCM side, Haitong Bank faced a very challenging year due to turbulence in the capital markets. The situation with one of the debt collection companies weakened investors' confidence and negatively affected the perception of the credibility of other issuers. This was also reflected in outflows from debt funds. The vast majority of projects were postponed until the corporate bond market conditions improve.

In Brazil, Haitong Bank participated in several emblematic capital markets deals including:

- Local debenture issued by Sabesp – Companhia de Saneamento do Estado de São Paulo, the country's largest water and sanitation company responsible for rendering such services to the State of São Paulo. The Bank acted as a Joint Bookrunner on a BRL 750 million 3-tranche deal;
- Asset Back Securitization ("FIDC") for Light, for the total amount of BRL 1.4 billion, allowing a substantial rating upgrade: Light, as the assignor of electricity bills to the securitization vehicle, had a local rating scale of A, whereas the transaction was rated AAA on the local scale by Fitch. The total book attained was 1.8x transaction amount for a dual-tranche CDI and inflation indexed transaction. The Bank acted as Joint Bookrunner;
- Local debenture issued by Copasa – Companhia de Saneamento de Minas Gerais, also one of the largest water and sanitation companies, responsible for covering this State. The Bank acted as Joint Bookrunner of this BRL 700 million transaction with 3 tranches, maturing in 3, 5 and 7 years, pegged to CDI and inflation indexed;
- Asset Back Securitization ("FIDC") for Contour Global Brasil, the local subsidiary of Contour Global – a global player in the renewable energy sector. This BRL 475 million dual-tranche deal (indexed to CDI and inflation) was backed by private debentures issued by each one of the operational subsidaries through an acquisition finance strategy;
- Real Estate Securitization ("CRI") for Embraed, a local company in the high-end residential real estate sector. The Bank acted as the Sole Lead Bookrunner of the BRL 10.4 million high-yield transaction, which was the company´s first access to debt capital markets. The deal was sold as a private placement .

ASSET MANAGEMENT

Offering

- **Discretionary portfolio management**
- **Fixed Income Asia Bonds Fund**
- **Other: e.g. Green Bonds**

FY 2018 figures

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

2018 MARKET REVIEW

2018 was a difficult year for stocks. US equities rallied for the first three quarters led by technology stocks, but ended the year down after the sharp fourth quarter correction. The S&P 500 fell by 6% while European equities underperformed US equities as the EuroStoxx50 fell by 14%. Emerging Market equities underperformed Developed Markets. The MSCI EM index fell by 17% in 2018. The weak equity performances have been driven by a mix of factors. Geopolitical tensions including the trade conflict between the two largest economies, the US and China, triggered concerns for global growth. Risk sentiment has weakened in Europe owing to tensions over the Italian budget deficit and the deadlock over Brexit. Oil prices fell in the fourth quarter and the record long US government shutdown has also weighed on global risk asset performances.

The global bond market has seen the year in decline, where the Bloomberg Barclays Global Aggregate Bond Index lost 1% in 2018. 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 strong impact on emerging markets and mostly in China, which was also affected by trade war fears, the deleveraging effort and a decelerating economy. The ensuing tightening of financing conditions made it more difficult for Chinese companies to refinance. Offshore bond credit spreads widened in both Investment Grade and High Yield segments and defaults rose in the Chinese bond market. Chinese authorities adjusted their policy focus accordingly from deleveraging to stabilization.

The People's Bank of China cut the Reserve Requirement Ratios for banking institutions, provided further liquidity to SMEs and increased the banks' medium-term lending facility quota. These contributed to stabilizing the currency and the bond market during the second half of the year. Nevertheless, the CNY still depreciated 5.3% against the USD, offshore investment grade spreads widened around 30 basis points in 2018 and the High Yield segment underperformed relative to the market, with the Bloomberg Barclays China HY USD Index declining by 4.2%.

ACTIVITY HIGHLIGHTS

Within this context, Haitong Bank closed the year with both portfolios (Flexible and Aggressive) registering a negative performance of 9.8% and 16.4%, respectively. With the Eurostoxx50 down 14.3%, these results are in line with historical averages.

The Haitong China High Income Bond Fund had a difficult first semester but ended the year above its objectives with a positive performance of +5.7%. The quality of the advisory services of Haitong Securities, and the government support to the LGFV segment of the market, helped achieve such a positive performance in such a difficult year.

Assets under Management increased by nearly 10%, mainly as a consequence of the launch of the 2 new UCITS funds (European Equity) in partnership with Credit Suisse in Luxembourg, the growth of the HY China Bond Fund and stable AUM in the rest of the mandates.

FICC - FIXED INCOME, CURRENCIES AND COMMODITIES

Offering

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

FY 2018 figures

13%	€13m
Weight in total Banking Income	Banking Income amount

ACTIVITY HIGHLIGHTS

Corporate Solutions

In Iberia, 2018 was an outstanding year and revenues from the Corporate Solutions activity rose by 87% YoY. Although it was a rather atypical year in terms of interest rate hedges because of their extremely low level and limited forecasts for rises, the results were more than offset by currencies and commodities hedging. The foreign exchange business line saw growth of about 330% YoY in Structured FX while Commodities saw a 120% YoY increase in volumes coming from the energy sector. Some unwinds were also carried out in Project Finance which contributed to an improvement in funding costs, risk-weighted assets and the capital position of the Bank. During 2018 and in coordination with the DCM team in China, the Bank was able to start introducing its products to Chinese corporates.

In Brazil, the Presidential election contributed to a very conservative approach by many market participants. We have seen more competition among the banks to capture flow business from corporate clients. In this sense, offering a broad set of products linking derivatives with credit facilities helped build close relationships and a profitable business.

Flow Trading

In 2018, the market was heavily affected by two main events: the Italian saga with the EU regarding the 2019 budget and overall stance vis-à-vis EU budgetary rules, and the US administration's new approach to International trade, especially with China. The widening of Italian spreads affected flow trading activity and peripheral spreads overall during a great part of the year, although it abated somewhat towards the end of the year when a deal with the EU seemed to be closer. Regarding the US/China trade war, it intensified in the last quarter, generating heavy risk aversion across markets, with wider credit spreads and most clients selling positions and taking refuge in cash. Despite the reduced liquidity in markets and low support from market players, who kept running quite thin books, we were able to maintain good levels of turnover with clients and keep the activity going.

Fixed Income Sales

In Iberia, the team maintained its focus on strengthening the distribution capacity platform for FICC and Investment Banking products and was able to increase the number of active clients. On top of the daily flow business and leveraging on a closer relationship with the client base, the team was able to provide relevant market information and obtain client reverse enquiries that helped Syndication and DCM pitch successfully for new primary deals (both in plain vanilla and more structured debt issues). At the end of the first semester, the Bank completed the restructuring of its Spanish team in line with the FICC and DCM strategy. In 2018, there was an increase in China-related DCM business that boosted the Bank's visibility as a China product player in Europe.

In Poland, the DCM activity was very challenging. There was a big outflow of funds from Corporate Bond Funds in the market and a shift of money to banks. The net assets of the Corporate Funds decreased from PLN 18.1 billion at the end of 2017 to PLN 14.6 billion at the end of 2018, stabilizing in the fourth quarter of 2018. The re-opening of the market for new issues is expected to start in the second quarter of 2019.

The overall situation had an impact on the secondary market, but helped by the good economic performance, Polish and international investors maintained their interest in investing in Polish debt. Thanks to the stability in the primary market, we expect it to have a significant impact on volumes traded in the first half of 2019.

In Brazil, the DCM market activity was very strong throughout 2018. There was a consistent flow of companies changing their funding sources from bank loans to capital markets instruments. On the back of this, we saw disruption through the emergence of retail platforms that have leveraged on the growth of independent asset management firms and the search for good assets to invest in. Throughout the year, the Bank has successfully participated in the distribution of several primary deals (bonds and ABS).

Syndication

After a very quiet first semester in 2018, in term of primary deals both in Iberian and Chinese markets, the primary market improved and we were able to be active in new issues both from Iberia and Asia. The syndicate team actively participated in every pitch made by DCM, by providing accurate market reading and pricing. We also contributed on the execution of deals including marketing, roadshow organization, pricing and allocation. We provide access to a broad range of investors with a focus on Iberia. We forecast a more positive year in 2019, with a special focus on Chinese issuers both in EUR and in USD.

Structured Products

Haitong Bank will refrain from actively pursuing new issuance of structured products under its own EMTN Program. In return, an important angle that continues to be pursued is the cooperation with Haitong Group entities in Asia to engage in future cross-border transactions.

PRIVATE EQUITY

Offering

- **Infrastructure Private Equity Fund**
- **Other new projects: Asia-related Funds**

FY 2018 figures

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

ACTIVITY HIGHLIGHTS

During the year, Haitong Capital continued to develop the work streams launched for the setup of a new investment vehicle focused on the infrastructure sector.

Taking into account the advanced maturity stage of the current funds under management, ES Iberia I Fund (liquidation phase), Haitong Infrastructure Fund (divestment phase), and FCR – PME /Novo Banco (term of Fund in 2020), the deal flow sourcing activities were not maximised. However, several investment opportunities were analysed, mainly in the development capital segment in Portugal, with one offer being submitted at the end of the year whose conclusion shall only produce effects during the first half of 2019. In parallel, two follow-on investments were completed for an aggregate equity amount of EUR 1.2 million. Additional investments in funds managed by third parties were also made, for a total amount of EUR 3 million.

In this period, follow-on activities and divestment operations assumed an important role. In fact, distribution of funds of the portfolio under management reached an aggregate amount of EUR 66.7 million mostly related to the disposal of assets, such as Empark (disposed of in 2017 but only distributed to investors in 2018), Globalwatt, Attentionfocus, GLT and SKV.

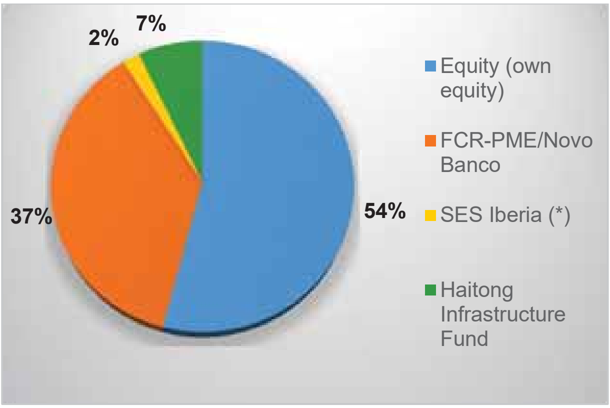
Additional distributions were registered from funds managed by third parties, totalling EUR 3.6 million, especially influenced by the partial disposal that occurred in Outsystems.

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

In December, the fair market valuation of the investment portfolio reached EUR 40 million. This compares with an amount of EUR 59 million calculated in December 2017, on a like-for-like basis. However, should we include dividends and interest payments resulting from the very same group of securities, the amount would have been EUR 59.5 million.

The private equity activity in 2018 posted a net profit for the period of approximately EUR 2.3 million and total equity amounted to EUR 48.8 million.

Breakdown of Funds under Management (2018)



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

EQUITIES / RESEARCH

Offering

- Equities brokerage
- Research on large and mid-cap companies

FY 2018 figures

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

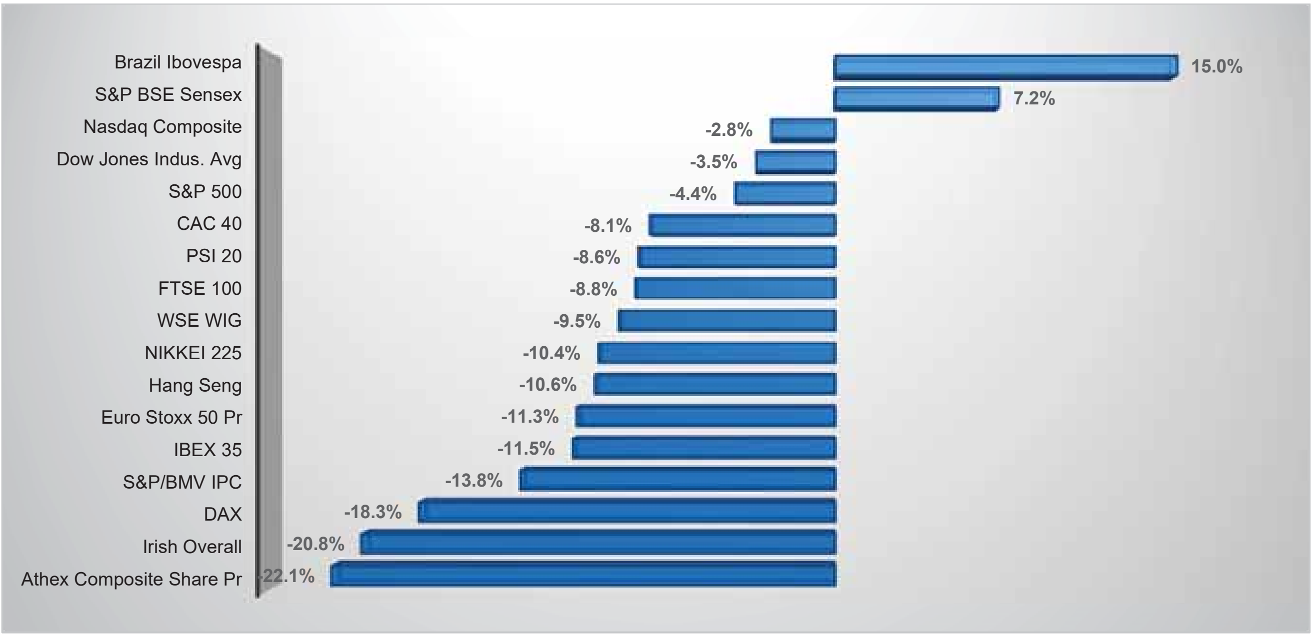
2018 MARKET REVIEW

Iberian equity markets experienced a negative performance during the year with the Portuguese main index PSI20 falling 8.6% and the Spanish index IBEX35 dropping by 11.5% (total return base). YoY turnover has dropped 13.5% in Portugal and 10% in Spain.

The restructuring and streamlining of the equity and research activities in the regions where Haitong Bank operated (UK, US and Iberia) had an impact on the Bank's Iberian equity product offering and distribution. Despite these headwinds and with MiFID II implementation, which was prepared for well in advance, Haitong Bank was able to secure the bulk of its key local trading relationships and was able to sign research agreements with important European institutional clients.

The year was also fruitful in terms of corporate access with Iberian corporates (NOS, Galp, Jerónimo Martins, EDP, Mota-Engil, Sonae, etc…) through roadshows in London, Madrid and Lisbon. In terms of primary deals Haitong Bank acted as co-lead manager in Qingdao Haier's D share listing, becoming the first Chinese company to trade on the Frankfurt exchange. The research report prepared by Haitong Bank on the company and the investor education that followed were a relevant contribution to the successful conclusion of this IPO. Finally Haitong Bank acted as co-lead manager on the IPO of the retail arm of SONAE (SONAE MC) that was cancelled in November due to adverse conditions in international market.

Leading Stock Market Performance



Source: Bloomberg (local currency, total return base)

In Poland, last year was also very challenging for the capital markets and brokerage business. Investors faced regulatory/legal changes related to MiFID II 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 had a 9.5% drop, while the Blue Chip Index WIG20 recorded a 7.5% drop. Moreover, total turnover decreased by 18.8% YoY. The breakdown of WSE members' activities shows that an increasing share of flow is coming from index 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% in the previous 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. 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, Polish local analysts were ranked highly. The Haitong Bank sales team was the sole bookrunner of the largest IPOs in 2018: Ten Square Games, a free-to-play gaming developer 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 its value by 100%, 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 turnover on the WSE decreased 31.4% YoY while its average market share went down to 1.06% vs 1.31% last year.

Commission generated on foreign markets fell by 52.4% 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 its cooperation with Haitong International Securities.

Expertise

“The Bank’s comparative advantage and main differentiator lies in its China cross-border connection and expertise in European and LatAm markets.”

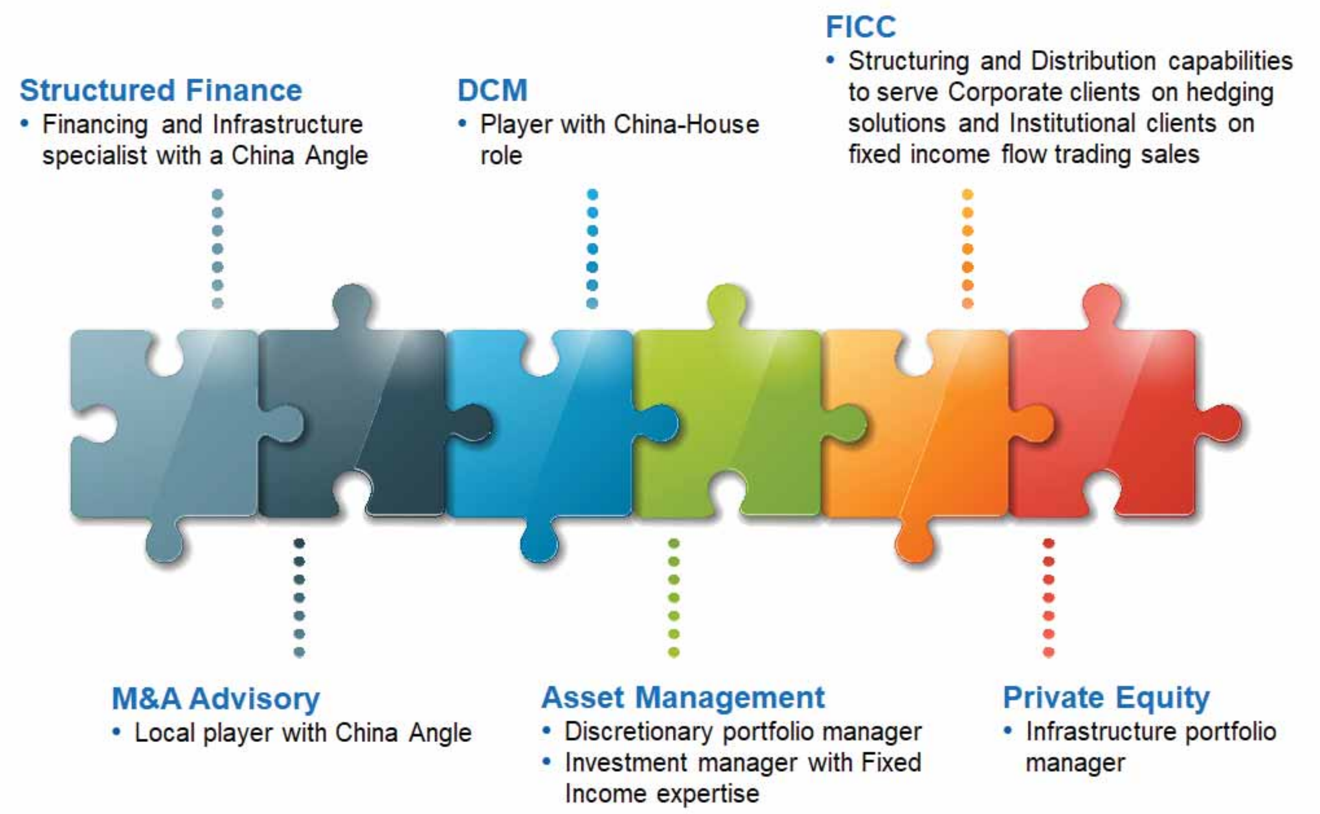
EXPERTISE

Haitong Bank combines unique competences

Haitong Securities is the only Tier I Chinese Securities firm with banking activities in Europe and LatAm. Haitong Bank's deep-rooted presence in its local markets, together with its Chinese heritage makes it a unique player to support Chinese companies to access foreign markets for funding and investment. In addition, the Bank maintains a solid commitment to its domestic clients supported by a well-established team of local professionals in Europe and Brazil.

Haitong Bank's high capitalization makes its balance sheet available to further support client's business.

Core Expertise



STRUCTURED FINANCE

A Structured Finance and Infrastructure Specialist with a 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.

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.

2019 OUTLOOK

Haitong Bank's Structured Finance business activity prospects remain positive, based on the Bank's 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 are key elements of this new strategic positioning.

The existing pipeline of deals, involving both lending and advisory potential mandates in several geographies, and the capacity to generate further opportunities due to deeper coordination with other Haitong Group entities, should allow for the successful completion in 2019 of several mandates in Europe, Africa and Latam.

In Brazil, it is worth mentioning the new Brazilian government's initiative of maintaining the concession programs that were underway and scheduling the auctions for airports, ports and railways assets for the first quarter of the year. In this context, the Structured Finance business should benefit from good business opportunities, both related to advisory mandates and the closing of new loans and the consequent increase in the loan portfolio.

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 exploring China-related opportunities intensely through connectivity with Haitong Group, leveraging on the Bank's unique positioning in both Eastern and Western markets.

2019 OUTLOOK

The outlook for 2019 in M&A in Portugal is very encouraging, based on a strong deal pipeline currently in execution. The Bank will maintain its focus on the sectors where it has developed strong competencies, namely energy, infrastructure, healthcare and tourism. Geographically, the Bank will continue to target cross-border transactions in the markets where it operates and attract the interest of Asian investors through cooperation with Haitong Securities in China.

In Spain, the M&A market has remained robust in the last 12 months, positively impacted by several large transactions (20 transactions with a value above EUR 1 billion) above the recurrent level of historical M&A transactions. In 2019, the domestic market is expected to continue its growth trend, mainly driven by the large amount of funds recently raised by local financial investors (above EUR 5 billion in the last 18 months), while the cross-border deals may slow partially as a consequence of the cyclical slowdown that the Eurozone is facing. However, the growth and return prospects of Spanish companies are expected to continue capturing the interest of international investors.

In the UK, the uncertainty of Brexit continues to weigh on corporate decision-making. If the UK leaves the EU with 'no-deal', it would significantly affect M&A values and bank lending. The volume of deals in the first quarter is therefore likely to be low. We would therefore expect to see more transactions in the second half, supported by continued financing at low interest rates for corporate/buy-out investors and by the weak pound for overseas investors. However, certain UK sectors remain a hot target for investors, including Fintech businesses, which have demonstrated customer traction, and IP-rich technology businesses.

In Poland, the significant activity of strategic and financial investors coupled with low interest rates and easy access to financing provide a strong tailwind for M&A transactions in the CEE region in 2019.

Finally, in Brazil, the new Federal and State Government administration took office at the beginning of 2019. The implementation of reforms may be a driver for economic growth as well as M&A activity. Privatizations and concession programmes for the infrastructure sector are gaining momentum and private consumption is expected to expand with a credit recovery.

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. The Bank provides its services to corporates, financial institutions, public companies and state related entities.

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

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

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. 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.

2019 OUTLOOK

In Portugal, we expect frequent issuers to tap the markets with benchmark deals as in previous years. After positive take-up by retail investors of non-rated issues by well-known names in the Portuguese market, we could see a renewed pipeline of similar transactions this year.

In Spain and in 2019 we expect a volatile market but we will continue with our marketing activity while we execute the deals that we have already being mandated for and others we have in the pipeline in order to be able to increase the number, quality and quantity of executed deals.

The outlook for the activity in 2019 in Poland remains quite challenging. The corporate bond market is waiting for regulatory changes due in the very near future. We perceive these changes as a risk factor for the further development of the market. However, the environment of low interest rates and favourable macro conditions continue to attract investors to the market. However, in 2019 we expect Haitong Bank Poland will be able to execute some bond issue transactions from the DCM Poland pipeline. To sum up, the corporate bond market in Poland is a relatively young market and we perceive the current slowdown in its growth, reflected in the number of newcomers and declines in quotations, as temporary and in the longer term trust should be rebuilt and more business opportunities should appear.

In Brazil, the outlook for Capital Markets is positive given the end of presidential elections uncertainties and increasing likelihood of continued low interest rates. The new government´s intention to boost privatization programs should also improve debt capital markets financing for new entrants. The reduction of BNDES´ subsidies and new level of lending rates (closer to market rates) should lead companies to seek alternative financing instruments, in some ways, with less guarantees and collaterals in comparison to the Institution´s traditional financing lines. Given the outlook of a low interest rates scenario, institutional investors began to look for a wider range of sectors and companies with good credit prospects but paying a higher return in comparison to those usually paid by the Brazilian frequent issuers. Unlike in past years, local investors are more inclined to acquire securities with longer average tenors (approximately 5,5yrs / 6yrs). This should be an additional motivating factor for companies to issue locally, given actual FX levels and higher costs for overseas' long-term financing.

ASSET MANAGEMENT

Leveraging on a long and successful track record

OVERVIEW

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

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.

2019 OUTLOOK

2019 will be a redefining moment for the asset management activity in the Bank. With the support of the Group and a strengthened team with more skills and expertise, the Bank will diversify its offer, refocusing priorities into the fixed income space. By creating new products, the Bank will try to attract AuM from both European and Asian investors. 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 products launched in 2018 (High Yield China 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.

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). This Division works as a 'product factory' and as a distribution platform for debt products and OTC derivatives, bringing strong local knowledge to an international platform level and capturing the flow between clients in different regions.

The FICC team covers four areas:

- Flow Trading and Fixed Income Sales
- Syndication
- Corporate Solutions
- Structured Products (discontinued in december)

STRATEGY

FICC will continue to follow Haitong Bank's strategic 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 will be able to distribute China-related offshore bond issues in European markets and trade these instruments in the secondary market. The access to more China-related investment banking business will be a cross-selling catalyst for Corporate Solutions, adding Chinese corporates to the existing client base.

2019 OUTLOOK

For 2019, the FICC team will remain committed to the coverage of international Institutional and corporate clients as a way to strengthen the Bank's distribution platform for different products as well as with the origination of Chinese-related business flow that will arise from our international presence. The team will endeavour to develop infrastructure capabilities in order to provide clients with an efficient, high-quality service incorporating market trends, i.e., technological and regulatory changes.

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.

2019 OUTLOOK

Haitong Capital expects to maintain the regular portfolio management activities during 2019 and to fulfil the investment mandates taken by the management company. It will also continue to develop the necessary work streams to launch new funds targeting the infrastructure and the East-West trade spaces.

EQUITIES / RESEARCH

Focus on Iberian and Polish markets

OVERVIEW

The Equities Division offers an order execution and sales service focused on Iberian and Polish equity 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 MiFID II.

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.

2019 OUTLOOK

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

People

"Human capital is central to the business. The Bank aims to continuously develop talent within a client-focused meritocratic culture, with effective mechanisms of accountability and reward."

HUMAN RESOURCES

Mission

To serve those clients involved in opportunities from China's internationalisation alongside local clients in Europe and Latin America that seek a dedicated corporate and Institutional Banking service.

HR is at the core of the Bank's support functions. Developing a highly motivated and engaged staff will lead to higher performance.

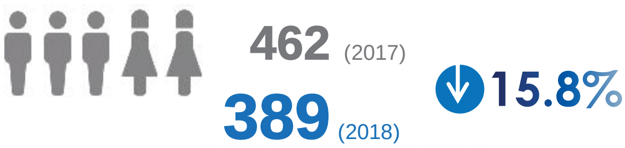
Corporate Values

HEADCOUNT

In the first half of 2018, Haitong Bank transferred the ownership of the NY and London subsidiaries to Haitong International. That transaction explains the majority of the 15.8% decrease in headcount.

In addition, Haitong Bank also closed down the Representative Office in Mexico, which contributed to the decrease.

Total Headcount



In Iberia, the workforce has been stabilized. In the UK, the Bank maintained its London Branch to develop Investment Banking opportunities.

Headcount Evolution by Region (Dec)

Source: Haitong Bank

TRAINING

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

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

The HR and Compliance Departments have worked together to prepare and deliver several training courses on MiFID II to ensure that all of the Bank's geographies were ready for its implementation.

ACTIVITY HIGHLIGHTS

The Human Resources (HR) Department continued to support the Executive Committee and the Senior Management of the Bank in finding ways to motivate talent. The main goals achieved by HR in this period were:

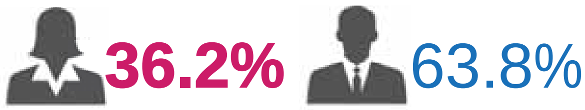
- Increase the efficiency of this department's response to queries - "Same day rule";
- Define HR policies regarding promotions and salary reviews;
- Define HR policies regarding variable compensation;
- Support the Remuneration Committee;
- Set out and keep track of employees' KPIs;
- Improve the ratio between Front Office and support areas;
- Oversee salary revisions;
- Revise the Management contract of the Pension Fund with Grupo Novo Banco;
- Support the Shareholder's Audit Team in HR issues;
- Support the audit of the 2017 Remuneration Policy conducted by the Internal Audit Department;
- Participate in negotiations for the revision of the Banking Union Agreement 2018, together with others banks and the unions;
- Initiate the performance appraisal process for Portugal, Spain, UK, Brazil and Poland, in order to ensure the evaluation of all employees for 2018;
- Provide support related to the sale of the NY Broker Dealer on HR issues, as well as resolving labour contracts of expatriates;
- Provide support to Hong Kong's HR Department;
- Provide support to the closing process of the Mexico Rep. Office, namely in terminating all labour contracts; and
- Coordinate Internships Programs between Lisbon, Shanghai and Hong Kong.

DIVERSITY

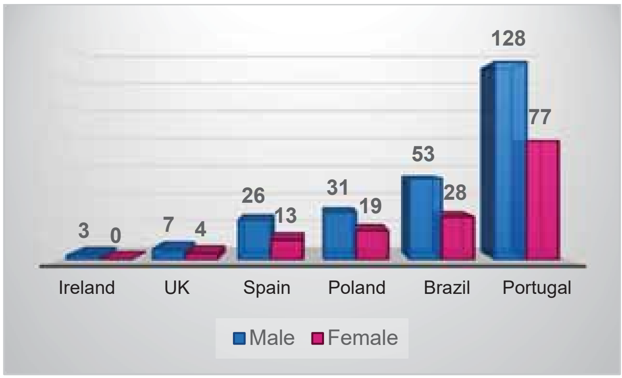
Haitong Bank is proud of its multinational heritage with 13 nationalities represented in the Bank's staff.

The multinational and multicultural nature of the staff strengths knowledge sharing and allows to allocate the best expertise to the client's needs. Haitong Bank promotes meritocracy in an organisation focused on serving clients with the highest levels of professionalism and integrity.

Haitong Bank has promoted equal opportunity principles. Currently, women represent 36.2% of the total workforce. There are also a large number of female employees in top positions at the Bank.



Employee Headcount by Gender



Source: Haitong Bank

Employee Headcount Average Age4

Geography	Average Age	Avg length of service (years)
Ireland	38.0	6.3
UK	44.5	4.8
Spain	42.3	10.5
Poland	36.7	5.1
Brazil	42.1	8.0
Portugal	40.3	9.6
Average	**40.6**	**8.7**

Source: Haitong Bank

BOARD OF DIRECTORS AND SENIOR MANAGERS

Board of Directors

Lin Yong
Chairman

Wu Min
Chief Executive Officer (CEO)

CEO Office & Administrative*
Treasury, FICC & Proprietary Trading**
Human Resources
Finance
IT & Operations

Alan Fernandes
Executive Board Member

CEO of Haitong Banco de Investimento do Brasil, S.A.

Nuno Carvalho
Executive Board Member

Compliance
Legal
Special Portfolio Management
Internal Audit

Paulo Martins
Executive Board Member

Investment Banking***
Structured Finance
Equities, Research & Asset Management****
Haitong Capital – SCR, S.A.

Vasco Câmara Martins
Executive Board Member

Risk Management
Rating
Middle Office

* Administrative support activities - CEO Office & Administrative
** Proprietary Markets Activities
*** M&A and ECM-DCM
**** Customer Markets Activities

António Domingues

Non-Executive Board Member

Poon Mo Yiu

Non-Executive Board Member

Pan Guangtao

Non-Executive Board Member

Vincent Camerlynck

Non-Executive Board Member

Zhang Xinjun

Non-Executive Board Member

Senior Managers with a seat on the Executive Committee

António Gomes Pacheco

Head of Finance

Pedro Costa

Head of CEO Office

Secretary to the Exco and Board of Directors


THE TREASURY DEPARTME

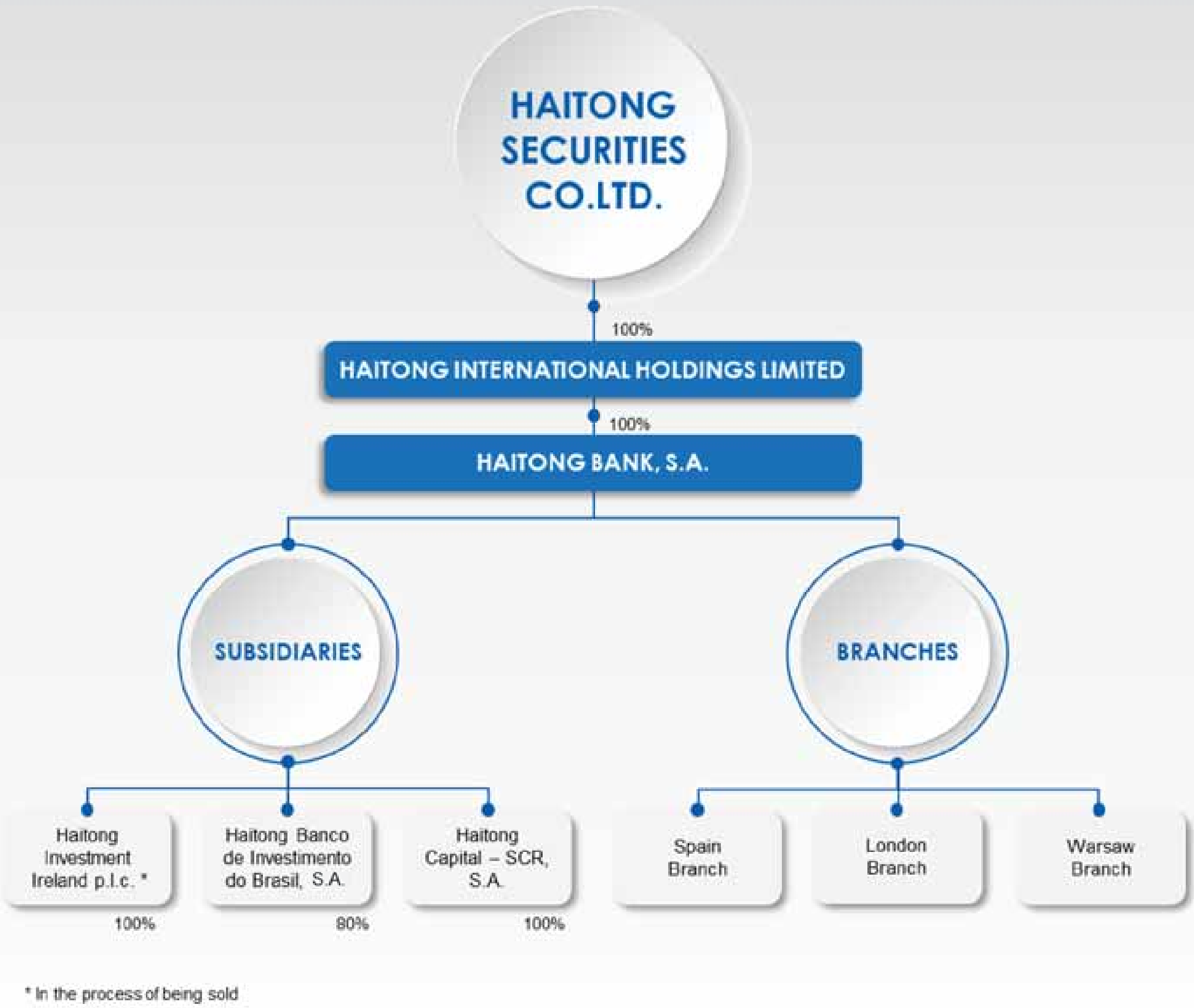
Structure

"Structure drives performance. The business structure has been optimised to promote efficiency across the various parts of Haitong Bank."

STRUCTURE

Organisational Structure

Haitong Bank, S.A. is part of Haitong Securities Co. Ltd., a leading investment bank and securities firm 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 business flows combining Group expertise in Asia and Haitong Bank's strong competitive position in domestic markets in Europe and LatAm. Through its operations located in Iberia, the UK, Ireland, Poland and Brazil, Haitong Bank has an unrivalled cross-border approach, connecting clients and opportunities across its broad network through a team of nearly four hundred professionals.



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

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
Peter Murphy

* in the process of being sold

MACROECONOMIC ENVIRONMENT

Overview

Global economic activity advanced at a slower than initially expected pace in 2018 according to preliminary estimates of the IMF. Global GDP growth for 2018 was lowered from 3.9% to 3.7% in the latest revision of the Fund, the same growth rate seen in 2017. The outlook for 2019 global GDP growth was also downgraded from 3.9% to 3.5%, mostly based on the persisting headwinds caused by the risk of a trade war between the US and its major trading partners like the EU and China.

Softer global GDP in 2018 was seen in China (6.6% vs. 6.9% in 2017) and the European Union (2.2% vs. 2.7% in 2017). The world's major economy kept up its growth momentum in 2018 with the US economy expected to grow 2.9% in 2018 by the IMF vs. 2.2% in 2017 due to the lagged effects of the fiscal stimulus and the slow pace of monetary normalization by the Fed.

Liquidity in global financial markets became less favourable in 2018 with the major central banks gradually adopting policies to normalize monetary policy. The US Federal Reserve raised the benchmark interest rate by 100 basis points in 2018 to 2.50% and continued the gradual phasing out of the balance sheet of assets acquired during the quantitative easing program. The ECB left its benchmark rates unchanged in 2018 but announced the end of the net purchasing of assets to its balance sheet in December 2018. Despite the downside risks to growth caused by the Brexit negotiations, the Bank of England made its second rate hike since the 2008 Great Recession in August 2018 by setting the benchmark rate at 0.75% (+25 basis points).

The interest rate based on the 10-year US Treasury notes fluctuated from 2.50% to as high as 3.24% in November and closed at 2.7% in 2018. Fears of a more intense trade war between China and the US caused, in our view, the volatility in global rates.

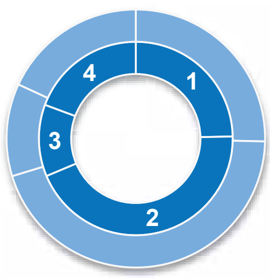
This volatility and the economic slowdown led Chinese monetary authorities to adopt defensive strategies to avoid a hard landing of the world's second economy. During 2018, the PBoC (People's Bank of China) cut the reserve requirements of the domestic banks, expanded the eligibility of lenders for reserve ratios cuts and lowered funding costs by fine tuning the medium-term lending facility. The yield of 10-year Chinese government bonds in CNY declined from 3.90% in January 2018 to 3.83% by the end of the year.

Currency markets were more exposed to fluctuations caused by the risk of trade wars in our view. The Dollar Index gained 5.2% in 2018 to 96.2 points while the Chinese yuan fell 5.7% to CNY/USD 6.86 in December 2018. Uncertainties caused by the challenges to approve a Brexit deal led the GBP to slide 5.7% in 2018 vs. the USD and the EUR/USD to drop 4.7%. Emerging markets were affected by the outlook for trade wars and the outlook of softer growth in China with the Brazilian BRL/USD devaluing 15.1% in 2018 despite the election of a more market-oriented government for the period of 2019-2022.

The main geopolitical issues of 2018 remained unresolved by the end of the year, especially those related to global trade and Brexit. According to preliminary indicators, growth became softer in Europe and China while the US economy continued to grow to near full employment in the second half of 2018. In our view, in 2019, global economic growth will remain more vulnerable to shocks from non-economic factors, namely the geopolitical uncertainties.

GDP Growth (YoY)

		2018	2019
1	Global	3.7%	3.5%
2	China	6.6%	6.2%
3	EU	1.8%	1.6%
4	USA	2.9%	2.5%



Source: IMF estimates

2019 Outlook

Economic Activity

Growth momentum weakened in the second half of 2018. Risk factors contributing to slower growth expected in 2019, in our view, include the impact of the fiscal crisis in the US (government shutdown), Brexit, weakened business and consumer confidence amid the outlook for trade wars, and slower domestic growth in China.

We expect real GDP growth in the main geographies of Haitong Bank, namely: Portugal 1.8% (vs. estimated 2.0% in 2018 by the IMF); Spain 2.2% (2.5% in 2018); Poland 3.5% (4.4% in 2018); and Brazil 2.5% (1.3% in 2018).

Monetary Policy

Slower growth in Europe, US, and China should keep inflation below monetary policy targets and limit the ability of central banks to normalize interest rates in 2019, in our view. The US Fed increased the benchmark rates by 100 basis points in 2018 to the range of 2.25%-2.50% and we expect two 25 basis points hikes in 2019 to the range of 2.75%-3.00%. We foresee the People's Bank of China to keep a supportive stance in monetary conditions with targeted liquidity stimulus in 2019 such as cuts in reserve requirement ratios, open market operations, lending facilities for domestic banks, among other instruments. We expect the ECB, the Bank of England and the Bank of Poland to keep benchmark rates unchanged in 2019. We expect Brazil's central bank to resume rate hikes in the second half of 2019 from the current historical low of 6.50% Selic rate to 7.00% by December 2019.

Foreign Exchange

Foreign exchange markets will remain exposed to the risk of geopolitical tensions in our main scenario (trade wars and Brexit). Due to the higher interest rates in the US, compared to other developed markets, we believe the USD should sustain the gains of 2018 in 2019 and trade close to USD/EUR 1.15 and USD/GBP 1.25 in Europe. The persistent risk of trade wars with China is expected to keep the CNY pressured to test new lows in 2019 (-5.7% in 2018) and trade close to the range of CNY/USD 6.90-7.00 in our view.

In Brazil, we foresee the combination of stronger GDP growth and the possible approval of a major pension system reform as a positive sign for the BRL and the projection of an average BRL/USD 3.50 in 2019.

We expect the PLN/EUR to remain stable due to forecast stronger GDP growth of 3.5% in 2019 following above expected growth of 4.4% in 2018 (IMF estimates).

Capital Markets

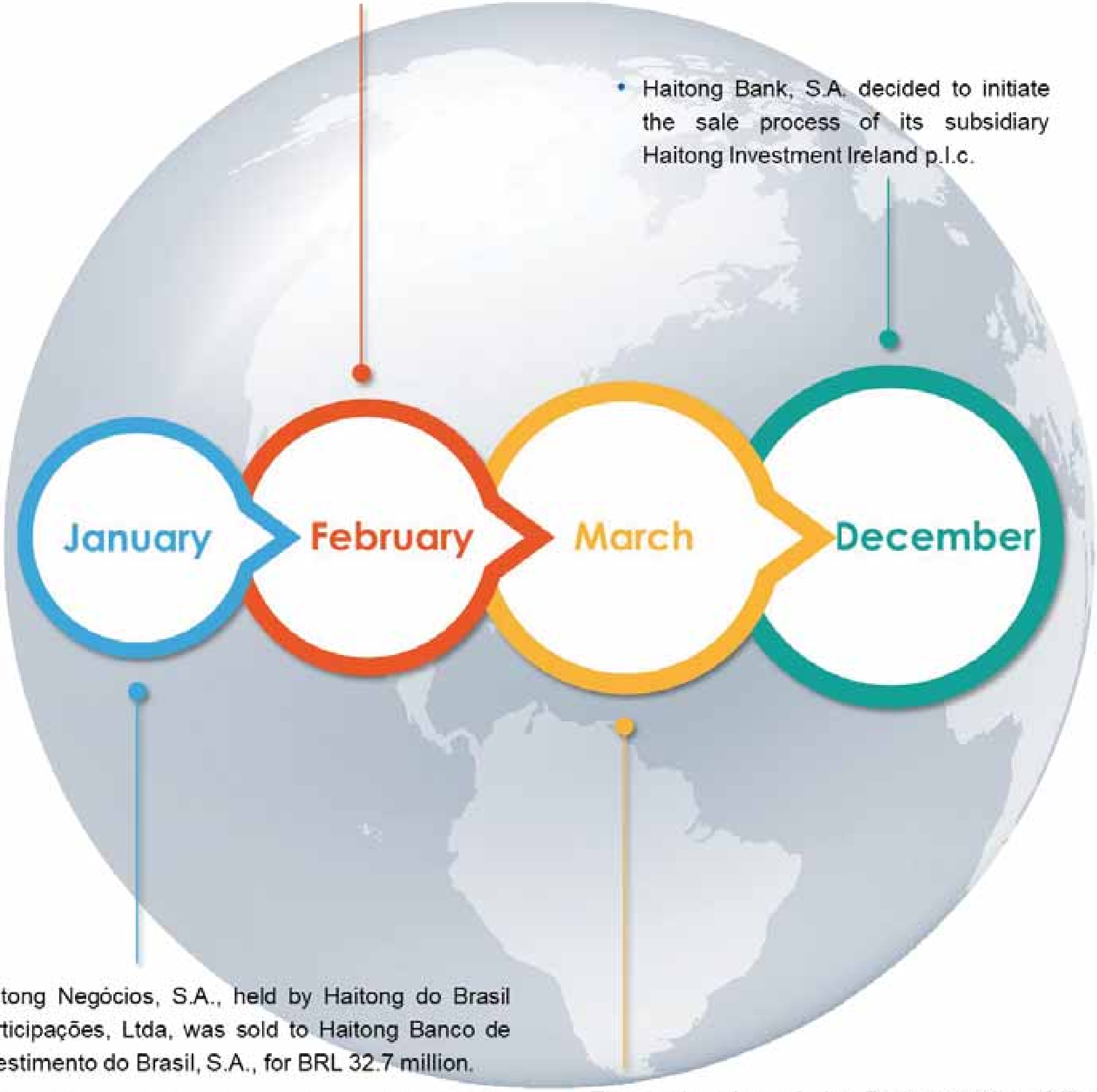
Risk appetite should remain limited in the first half of 2019 due to the strong correction in global markets seen in December 2018 and the outlook for softer growth of the global economy in 2019 in our opinion. We estimate the 10-year US Treasury note's yield to trade in the range of 2.70% to 3.25% in 2019 with strong volatility caused by the uncertainty in the US economy (extended government shutdown and lower business confidence). In the Euro area, the German 10-year Bund's yield is expected by us to range of 0.25% to 1.0% while the 3-month Euribor should remain close to -0.4% with the ECB expected to remain on hold in 2019.

Capital markets' activity in our main scenario should remain challenging with more potential for activity in fixed income and credit markets. Emerging markets, especially in Asia, should continue to grow stronger than developed markets despite the risk of trade wars and we expect them to keep growing in terms of share of global capital markets.

CORPORATE EVENTS

- 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 gain of EUR 13.2 million

- Haitong Bank, S.A. decided to initiate the sale process of its subsidiary Haitong Investment Ireland p.l.c.



- 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.

- Haitong Banco de Investimento do Brasil, S.A. fully subscribed to the share capital increase of Haitong Negócios, S.A., an investment of BRL 50.1 million.

- The registration of the Representation Office in Mexico was cancelled.

- Haitong Bank, S.A. issued Additional Tier 1 eligible for own funds, perpetual instruments worth USD 130 million, named "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments".

FINANCIAL OVERVIEW

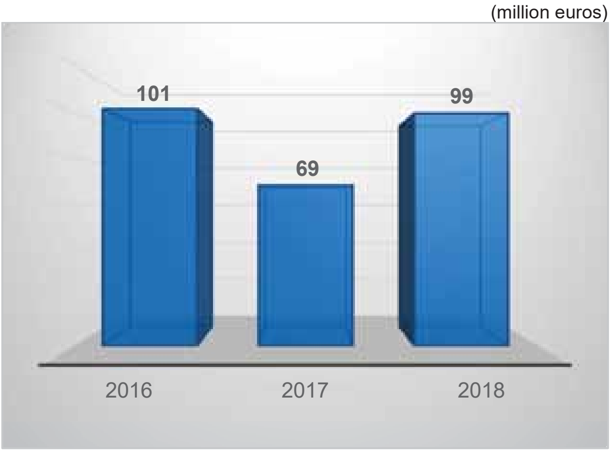
The target has been reached and Haitong Bank has become profitable again in 2018.
For Haitong Bank, the year of 2018 has been very rewarding. Following the measures to achieve a leaner operating cost structure, Haitong Bank has succeed on increasing revenues and returning to a consistent operating and bottom-line profitability.

The EUR 21 million operating profit in 2018 is the consequence of a significant effort to increase revenues, as a result of the successful business model turnaround, leveraging on China-related business together with a consistent performance of the local franchises in Europe and Brazil. On the costs side, by the end of 2018, the Bank was running at a 38% lower cost base vs the same period last year (EUR 78 million in 2018 vs. EUR 126 million in the previous year).

Banking Income reached EUR 99 million, a 43% YoY increase. The fee business performed positively, particularly in the Capital Markets, M&A and Structured Finance business areas. China-related business made an important contribution to these figures, in particular those from financial advisory services. The net margin from Chinese Structured Finance transactions came in below expectations as the pace to generate new assets was slower, particularly in the first half of the year.

Total Banking Income

(million euros)



Source: Haitong Bank

Impairment and provisions charges recorded a 67% decrease YoY to EUR 26 million in 2018 from EUR 79 million in 2017.

Following the decision from the Management, the Bank is preparing the sale of its Irish subsidiary Haitong Investment Ireland p.l.c..

This sale will take place inside Haitong Group and it allows Haitong Bank to achieve important milestones:

- Further simplify Haitong Bank's corporate and business structure;
- Improve the quality of Haitong Bank's assets as part of the legacy portfolio is booked by the Irish subsidiary;
- Increase RWA's and capital position.

This sale is dependent on the execution of the customary contractual agreements and conditions precedent.

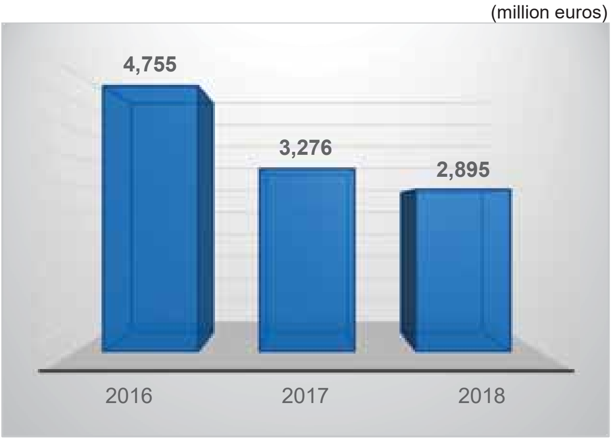
As a consequence of this decision, the Irish subsidiary's assets and results were reclassified to the discontinued operations line.

Over the past two years, Haitong Bank has made significant efforts to reduce the stock of non-performing loans, mainly through write-offs and redemptions. Together with the reclassification of Irish assets, these initiatives have led to a decrease to EUR 44 million at the end of 2018, from EUR 280 million in 2017. The non-performing loan ratio also registered a significant drop from 37.3% in 2017 to 8.2% in 2018. Without the accounting reclassification of Haitong Investment Ireland p.l.c., the NPL ratio would stand at 21.8%, which still represents a 41% reduction on the stock of NPL during the year.

Net profit was positive in 2018 after 4 years of losses, reaching EUR 1.2 million, including EUR 13.2 million capital gain resulting from the sale of the UK and US subsidiaries.

Total Assets

(million euros)

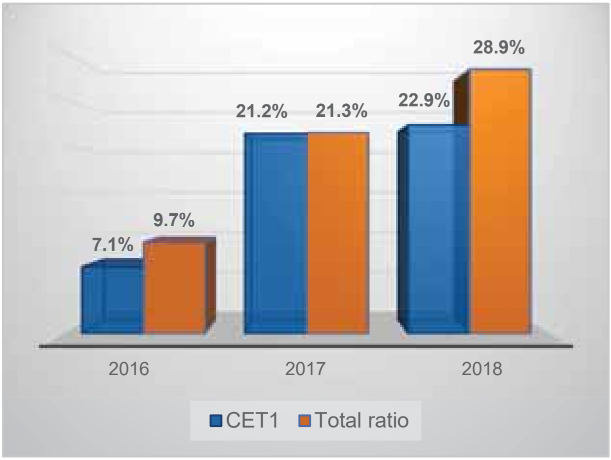


Source: Haitong Bank

Total assets reached EUR 2.9 billion, 12% below the same period of last year. After the significant deleveraging of the last years and following the additional capital support from Haitong Group through the issuance of a USD 130 million subordinated additional TIER I instrument in February, the Bank is now in position to reverse this trend and increase its lending and investing capacity.

Haitong Bank is currently highly capitalized with CET1 of 22.9% and Total Capital ratio of 28.9%. The combination of capital availability and transaction pipeline, both in the local regions and China-related, will allow to further expand the balance-sheet and improve recurrent revenues in the next financial years.

Capital Position



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..

On 4 December 2018, S&P maintained Haitong Bank's long- and short-term ratings at BB- and B, respectively. The outlook was kept as stable, reflecting the view of the rating agency that the ratings are unlikely to change over the next 12 months.

HAITONG BANK, S.A.

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

HAITONG INVESTMENT IRELAND P.L.C.

Senior Unsecured Subordinated	BB-

HAITONG BANCO DE INVESTIMENTO DO BRASIL, S.A.

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

TREASURY

MARKET BACKGROUND

The European Central Bank kept rates unchanged in 2018 and confirmed the low interest rate environment at least through the summer of 2019. However, it signalled the reduction and then announced the end of the asset purchase program's net asset purchases by the end of December 2018.

Euro Area government yields reflected the ECB's low interest rates monetary policy, trading in a tight range until the Italian political turmoil in May 2018. The confrontation between the Italian Government and the European Commission, through the second half of 2018, over the Italian budget deficit pushed Italian 10-year Government bond yields over 3.50% in October/November 2018. This led to a contagion effect and higher yields on European Peripheral Government bonds and the inverse movement on German debt that retained its safe haven status.

10-year Yields

Country	Jan/18	Peak/18	Dec/18
Germany	0.423%	0.767% (Feb)	0.239%
Italy	2.005%	3.686% (Oct)	2.739%
Spain	1.558%	1.735% (Oct)	1.413%
Portugal	1.908%	2.193% (May)	1.714%
Greece	4.073%	4.799% (May)	4.346%

Source: Haitong Bank

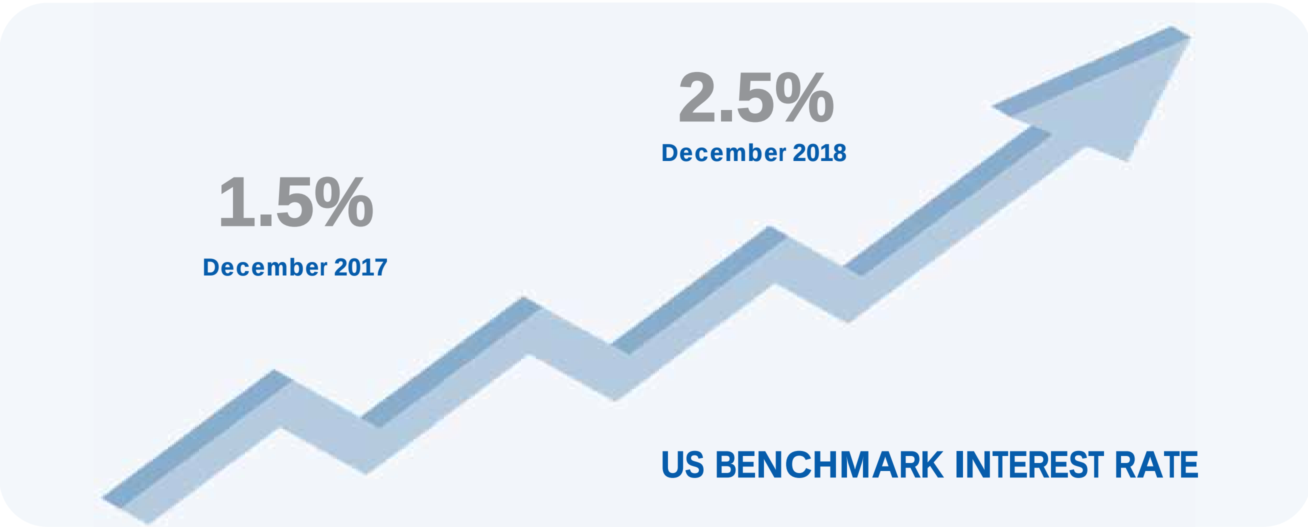
Despite investors' improved perception of Portuguese Sovereign risk and the AT1 issuance of Novo Banco and Caixa Geral de Depósitos, access to unsecured benchmark issuance at reasonable prices remained closed to the Portuguese banking sector.

An additional source of instability came from the Brexit process and the difficulties the UK Prime Minister has encountered to approve the agreement reached with Brussels in the Parliament. The UK's exit from the EU would undoubtedly hurt the British economy and, as a result, the British pound devalued by over 10% vs USD by the end of 2018.

In the US, monetary policy is one step ahead of the EU. The US Federal Reserve raised the federal funds target rate four times, to 2.50%, showing confidence in the economic and employment outlook. However, the trade war against China has apparently taken its toll and the pace of future rate hikes is now more uncertain. US 10-year yields reflect these concerns, ending 2018 at 2.68% after peaking at 3.30% in November.

In Brazil, the Presidential Election acted as the main driver for the markets and its result has generated much enthusiasm rooted in the prospects of changes in the economy. Brazilian asset prices subsequently rallied as the new Government has an agenda of important reforms such as Social Security Reform.

As far as the economic backdrop is concerned, inflation dynamics remained quite positive, with the IPCA official CPI closing 2018 at 3.75% (below the official target of 4.50%). This outcome was mainly driven by a moderate economic performance and considerable slack in economic resources utilization, especially in the labour market. Due to that, the Brazilian Central Bank was able to keep the Selic base rate at its historical low, i.e. 6.50% pa, throughout all the meetings during the second half of 2018.



ACTIVITY HIGHLIGHTS

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

Funding costs remained stable throughout the year and the Bank maintained a very comfortable liquidity position both in terms of cash and ECB eligible Government bonds.

The partnership with the online platform allowing access to retail deposits in Germany and Austria was rolled out to the Spanish market and despite the small variation in the volumes sourced via this channel, going forward we consider this an important and quality funding source and expect it to have increased importance in the Bank's funding profile.

Outstanding debt issued under the Medium-Term Note Program (MTNs) totalled EUR 143 million as of 31 December 2018 vs EUR 211 million by the end of 2017, highlighting the above-mentioned difficulties Portuguese banks had accessing international debt markets.

In Brazil, the Bank had a remarkable achievement through its public issuance of *Letras Financeiras*.

This transaction allowed the Bank to enlarge its institutional investor base and lengthen the liabilities profile.

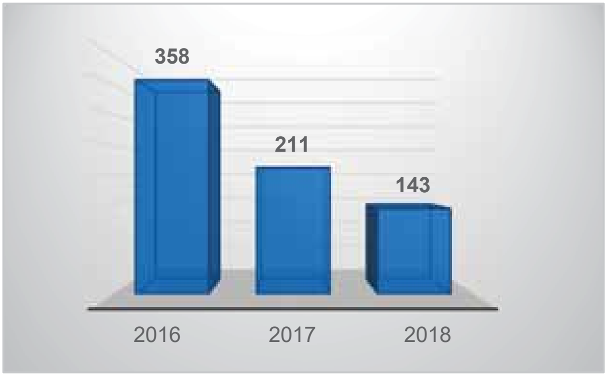
The Brazilian team is being able to improve the funding framework at the same time as reducing the cost of funding. The Bank has also continuously chased structured opportunities in order to generate recurring revenues and optimize the Bank's balance sheet.

The Treasury department's main goal for 2019 is to continue to ensure liquidity and a stable and diversified funding structure, adjusted to the balance sheet and business model.

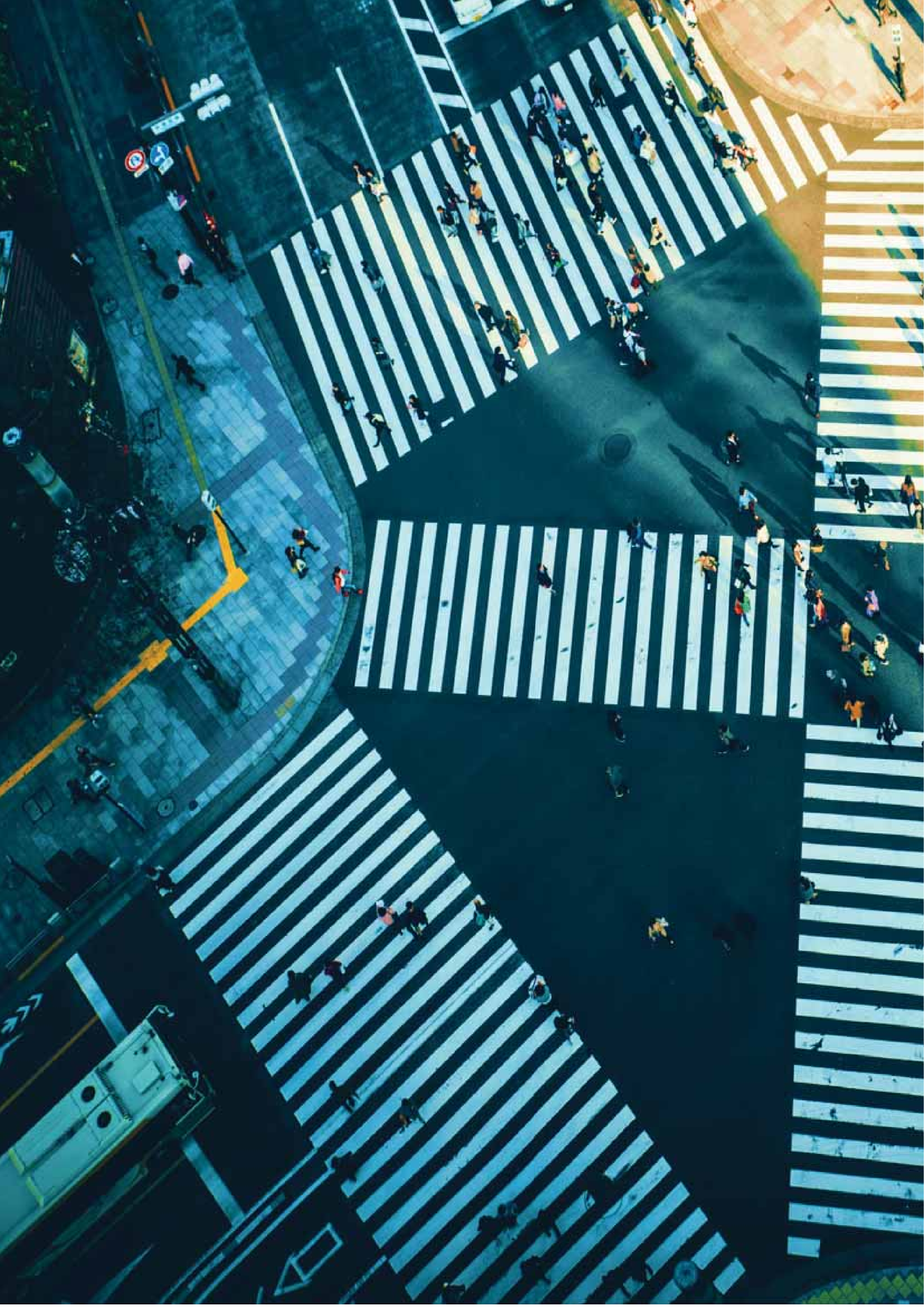
In Brazil, the pursuit of a better funding framework will continue in 2019. The Treasury department will focus on supporting Haitong Bank's activities and the business' growth through an adequate funding structure. In addition, new opportunities and structured solutions will be pursued to improve the Bank's balance sheet and generate recurring revenues.

EMTN programme / Total outstanding amount

(million euros)



Issue value outstanding deducted from buybacks   Source: Haitong Bank



IT & Internal Controls

"The Bank encourages a vibrant and innovative attitude underpinned by improvement in the IT infrastructure in anticipation to a changing market.

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

INFORMATION TECHNOLOGY

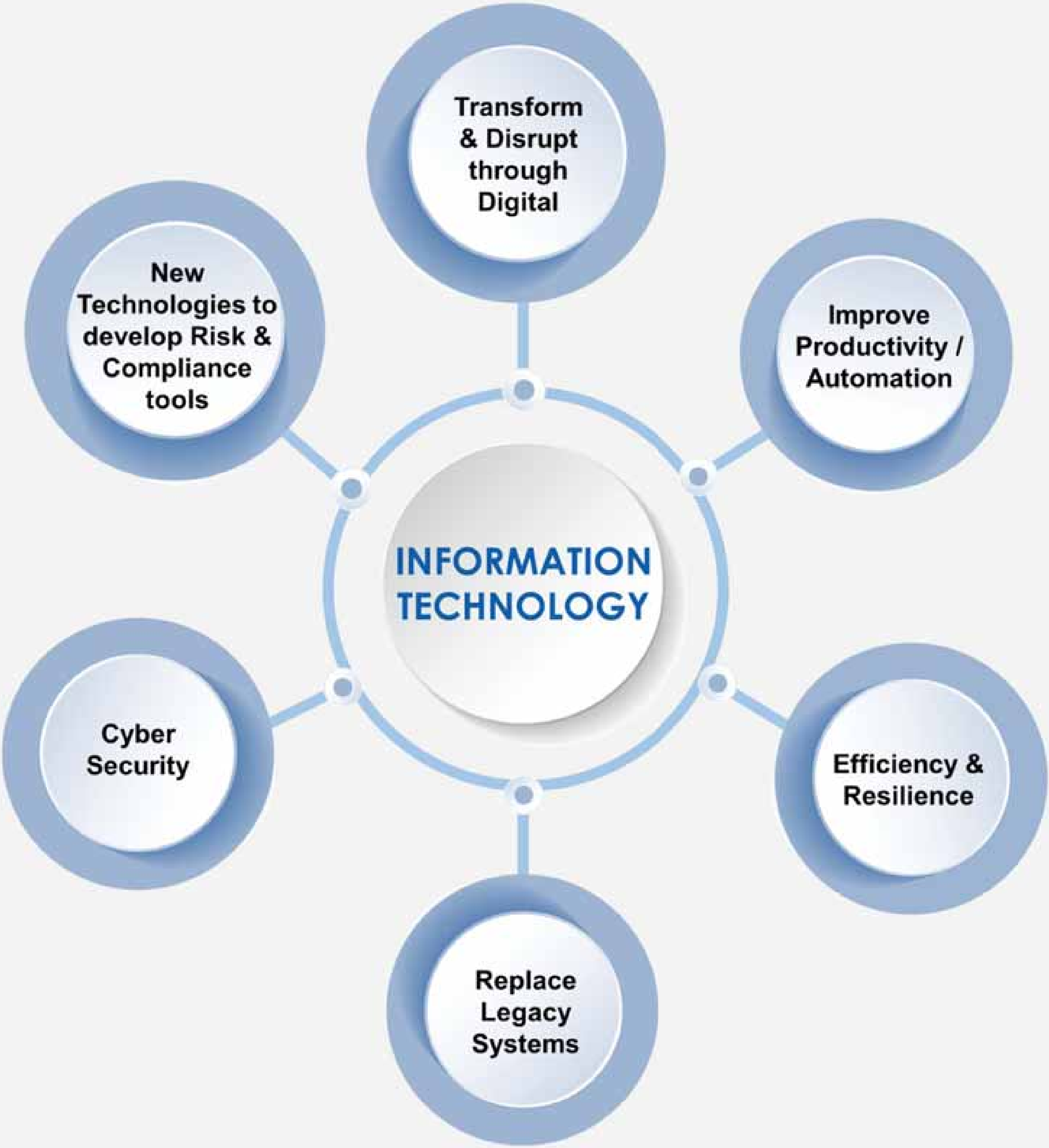
Haitong Group shares a common vision in terms of the role of technology to drive change and improve the market position.

IT development is at the core of an innovative spirit as the Bank embraces change and adapts to a changing market.

Haitong Bank is in a unique position to enter new business segments where it is unencumbered by legacy.

The financial services industry is facing strong challenges and disruption from fast moving, leaner platforms. The survival of the fittest depends on the agility to adapt and anticipate change without the burden of heavy structures and the right attitude to dare and innovate in order to be ahead of the curve.

ENHANCING INNOVATION



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 and relevant Committees for the Bank's Risk Management is summarized below.

RISK COMMITTEE

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

RISK MANAGEMENT DEPARTMENT

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

RATING DEPARTMENT

The Rating Department was created in October 2018 through the transfer of responsibilities from the Credit Risk Unit of the Risk Management Department.

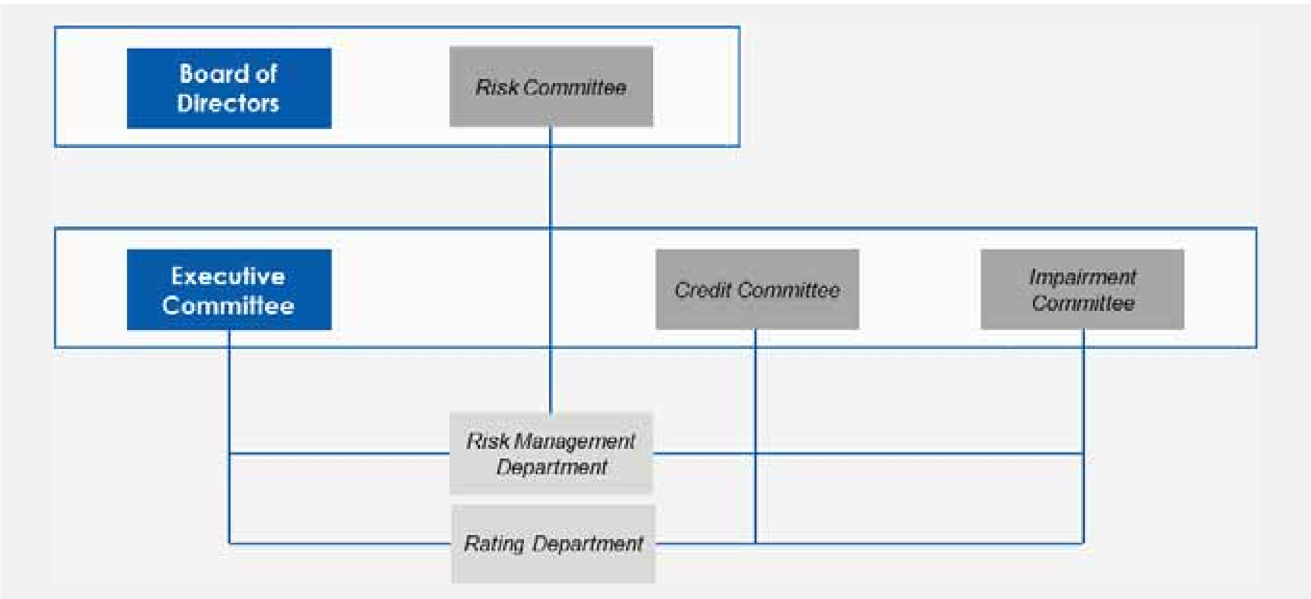
Together with the Risk Management Department, the Rating Department is part of the Risk Control Function of Haitong Bank. The purpose of the Rating Department is to play a key role in supporting the Bank's decision-making process at the Credit Committee and Executive Committee and assisting the Impairment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

CREDIT COMMITTEE

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

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

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



IMPAIRMENT COMMITTEE

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

RISK APPETITE

Haitong Bank's strategy is to leverage on the opportunities emerging from China's internationalization, combining its expertise in Western markets with Group cross-border origination. Haitong Bank is committed to serve its European and Latin American corporate and institutional clients alongside a growing Chinese client base.

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

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

- **Capital:** Haitong Bank aims to maintain prudent capital buffers on top of both internal and regulatory capital requirements;
- **Liquidity and Funding:** Haitong Bank as whole, and all its subsidiaries individually, aims to maintain a solid short-term liquidity 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 category to which the Bank is exposed, credit risk management and control are supported by a complete system that permits it to identify, assess, quantify and report risk.

Management Practices

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

INTERNAL RATINGS

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

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

MONITORING

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

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

CREDIT RECOVERY PROCESS

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

Asset Quality

LOAN PORTFOLIO

Portfolio breakdown

As of December 2018, as a result of the decision to dispose of Haitong Investment Ireland p.l.c., the credit portfolio of this entity was reclassified under “Non-Current Assets Held for Sale”.

In December 2018, the loan portfolio (gross exposure) amounted to EUR 536 million, a reduction of EUR 214 million occurring during the year, which reflects, in particular, the above mentioned fact.

Loan Portfolio Asset Classes and Geographic Breakdown

(thousand euros)

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

	December 2017		
	Domestic	International	Total
Loan Portfolio[1]	**330,740**	**419,384**	**750,123**
Specialized Lending	251,713	232,978	484,691
Corporate	63,130	180,722	243,853
Others	15,896	5,683	21,579

[1] Gross of provisions

Source: Haitong Bank

The breakdown of the loan portfolio by industry sector reflects the Bank’s lending activity developed in previous years in the various regions where it operates, with a special emphasis on Specialized Lending in the Transportation Infrastructure and Power sectors. The sectoral classification is distributed according to the industry risk (internal risk sector) and no longer follows the Portuguese classification of economic activities (CAE).

Loan Portfolio Asset Classes by Industry

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

Source: Haitong Bank

	December 2017			
	Specialized Lending	Corporate	Others	Total
TOTAL	**64.6%**	**32.5%**	**2.9%**	**100.0%**
Transportation Infrastructure	29.7%	3.6%	0.0%	**33.3%**
Power	31.7%	1.4%	0.0%	**33.1%**
Funds & Asset Managers	0.0%	0.0%	0.0%	**0.0%**
Metals & Mining	0.0%	0.6%	0.0%	**0.6%**
Insurance	0.0%	0.0%	0.0%	**0.0%**
Water Utilities	0.0%	2.0%	0.0%	**2.0%**
Transportation	0.4%	1.5%	0.0%	**1.9%**
Construction & Engineering	0.0%	8.4%	0.0%	**8.4%**
Agribusiness & Commodity Foods	0.0%	1.6%	0.0%	**1.6%**
Commercial & Professional Services	0.0%	8.2%	0.0%	**8.2%**
Others	2.8%	5.2%	2.9%	**10.9%**

Source: Haitong Bank

Internal Rating Profile

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

Loan Portfolio Rating Profile

	December 2018	December 2017
[aaa; a-]	7.3%	0.0%
[bbb+; bbb-]	17.0%	25.0%
[bb+; bb-]	20.3%	31.8%
[b+; b-]	55.4%	29.5%
[ccc+; lccc]	0.0%	13.7%

As a percentage of non-default rated gross portfolio

Source: Haitong Bank

Risk Indicators

Throughout 2018, Haitong Bank continued to pursue a reduction strategy for non-performing loans (NPL), as well as a conservative approach in what concerns the impairment coverage of its credit portfolio.

Credit Risk Indicators

(thousand euros)

	December 2018	December 2017
Loan Portfolio	**535,827**	**750,123**
Loan Portfolio (Incl. Ireland portfolio) [(1)]	*755,993*	*750,123*
NPL	**44,006**	**280,064**
NPL (Incl. Ireland portfolio) [(1)]	*164,658*	*280,064*
NPL Ratio	***8.2%***	***37.3%***
NPL Ratio (Incl. Ireland portfolio)(1)	*21.8%*	*37.3%*
Impairment for NPL	**15,437**	**120,217**
Impairment for NPL (Incl. Ireland portfolio) [(1)]	*70,700*	*120,217*
NPL coverage	***35.1%***	***42.9%***
NPL coverage (Incl. Ireland portfolio) [(1)]	*42.9%*	*42.9%*

[(1)] without the accounting reclassification of the entity Haitong Investment Ireland p.l.c.

Source: Haitong Bank

The improvement of the non-performing ratios results from the undertaken measures to reduce the non-performing loans of the Bank, as well as the accounting reclassification related to the entity Haitong Investment Ireland, p.l.c.. Without that effect, the NPL ratio would stand at 21.8% as of 31 December 2018.

FIXED INCOME ASSETS

Portfolio breakdown

The fixed income portfolio ended 2018 with a net total of EUR 1,070 million, representing an increase of EUR 170 million when compared with December 2017, as a result of the increase in European sovereign bonds and Brazil's activity, essentially Brazilian Sovereign Debt (issued and funded in local currency) but also deriving from the participation in and firm-underwriting of debt placements of international corporate clients, essentially from China.

Fixed Income Portfolio by Sector

(thousand euros)

	December 2018	December 2017
Total	**1 070 104**	**900 332**
Governments	801 624	690 588
Construction & Engineering	94 414	23 880
Metals & Mining	34 877	0
Technology Hardware & Equipment	34 713	0
Power	26 829	65 534
Oil & Gas	21 119	37 787
Commercial & Professional Services	18 972	29 016
Capital Goods	12 577	21 062
Paper & Forest Products	8 532	10 541
Retailing	5 122	4 992
Health Care	3 587	4 795
Banks	3 125	2 832
Transportation	2 115	3 474
Real Estate	1 182	2 239
Others	1 317	3 592

Source: Haitong Bank

Internal Rating Profile

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

Fixed Income Portfolio Rating Profile

	December 2018	December 2017
[aaa; a-]	1.3%	0.4%
[bbb+; bbb-]	27.9%	0.4%
[bb+; bb-]	65.6%	90.3%
[b+; b-]	5.2%	8.7%
[ccc+; lccc]	0.0%	0.2%

As a percentage of non-default rated portfolio

Source: Haitong Bank

DERIVATIVES PORTFOLIO

Portfolio Breakdown

The counterparty risk exposure in the Bank's portfolio of interest rate, exchange rate, credit and equity derivatives amounted to EUR 136 million at the end of 2018, which represents a reduction of EUR 41 million in comparison with the previous exercise, mainly due to the accounting reclassification related to the entity Haitong Investment Ireland, p.l.c..

In terms of the breakdown by counterparty risk sector, 79% of the global exposure relates to transactions both in Transportation Infrastructure, Transportation and Banks' counterparties. The sectoral classification is distributed according to the industry risk (internal risk sector) and no longer follows the Portuguese classification of economic activities (CAE).

Derivatives Portfolio by sector

(thousand euros)

	December 2018	December 2017
Total	**135 816**	**176 524**
Transportation Infrastructure	62 177	82 285
Transportation	22 915	1 242
Banks	22 779	24 510
Power	7 954	45 964
Broker Dealers	7 927	5 000
Agribusiness & Commodity Foods	6 181	2 647
Paper & Forest Products	4 484	1 235
Food, Beverage & Tobacco	67	10 318
Non Bank Financial Institutions	742	814
Health Care	199	117
Commercial & Professional Services	176	190
Others	215	2 202

Internal Rating Profile

Total exposure to derivative instruments is mainly concentrated in Specialized Lending interest rate swaps.

Derivatives Portfolio Rating Profile

	December 2018	December 2017
[aaa+;a-]	19.3%	12.7%
[bbb+;bbb-]	47.2%	39.4%
[bb+;bb-]	10.4%	32.2%
[b+;b-]	23.1%	9.9%
[ccc+;lccc]	0.0%	5.8%

As a percentage of non-default rated portfolio

Source: Haitong Bank

MARKET RISK

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

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

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

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

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

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

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 31 December 2018 Haitong Bank's VaR amounted to EUR 4.1 million, representing a decrease of EUR 0.9 million when compared with December 2017, following the reduction of the trading book activity verified throughout 2018.

VaR - 99% at 10 Days

(million euros)

	December 2018	December 2017
Exchange Risk	2.0	2.2
Interest Risk	0.2	0.8
Shares and Commodities	0.1	1.3
Credit Spread	2.0	1.3
Covariance	-0.2	-0.8
Total	**4.1**	**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 in the banking may be understood in two different but complementary ways, namely as the effect on the net interest margin, or as the effect on the banking book portfolio's economic value resulting from interest rate movements.

Haitong Bank measures interest rate risk in the banking book using income based (NII: Net Interest Income) and value based (EVE: Economic Value of Equity) metrics.

The Net Interest Income measures the sensitivity of an interest rate movement on the Bank's net interest income over a 1 year period assuming static balance sheet.

Under the Economic Value of Equity measure, the Bank assesses the impact on the present value of cash flows due to an interest rate movement, considering the current balance sheet run-off profile.

On 31 December 2018, the impact on the banking book economic value, under a scenario of 100 bps increase in interest rates, was estimated at EUR 644 thousand.

CREDIT SPREAD RISK

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

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

Pension Fund Risk

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

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 Asset Liability Modelling 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 considered as the sum of the operational, information systems and compliance risks.

Management Practices

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

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

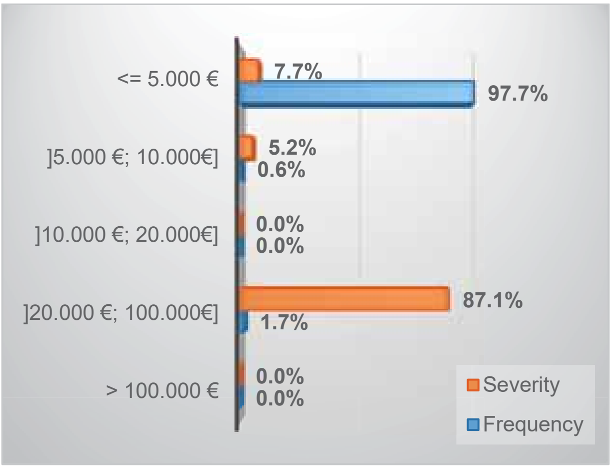
The operational risk management model is supported by an exclusively dedicated structure within the organisation which is responsible for the following processes:

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

Operational Risk Analysis

As shown below, in 2018 97.7% of all reported events carried losses below EUR 5.000.

Distribution of frequency and severity of events by individual loss bucket

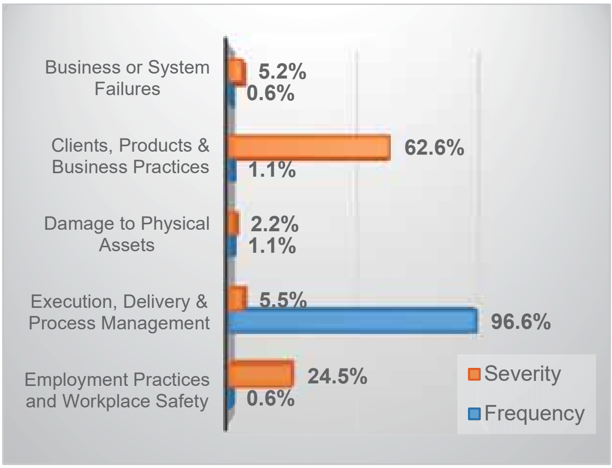


Source: Haitong Bank.

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

In 2018, Execution, Delivery & Process Management event type accounted for 96.6% of total reported events but only for 5.5% of reported losses. Clients, Products and Business Practices events was the event type with higher loss severity accounting for 62.6% of total reported 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.

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

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

- Ensure the ability to meet obligations as they come due in a timely manner and at a reasonable cost;
- Comply with regulatory standards on liquidity in each geography the Bank operates in;
- Ensure full alignment with liquidity risk appetite;

- Make available a sufficient immediate liquidity buffer to ensure ability to react to any event of stress that could restrict the ability to access financial markets under both normal and stressed conditions;
- Develop a diversified investors' base and maintain access to a variety of alternative funding sources, while minimising the cost of funding; and
- Continuously develop an appropriate internal framework for the identification, measurement, limitation, monitoring and mitigation of liquidity risk.

Liquidity Position

Liquidity Coverage Ratio

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

As of 31 December 2018, Haitong Bank reached an LCR of 426%, which represents a very resilient short term liquidity position, comfortably complying with regulatory standards.

Liquidity Coverage Ratio

(thousand euros)

	December 2018	December 2017
High-Quality Liquid Assets	633 823	746 344
30 days Net Outflow	148 947	122 248
Liquidity Coverage Ratio	426%	610%

Source: Haitong Bank

Net Stable Funding Ratio

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

On 31 December 2018, Haitong Bank reached a NSFR of 116%, ensuring an adequate medium to long term funding profile.

NSFR

	December 2018	December 2017
Net Stable Funding Ratio	116%	149%

Source: Haitong Bank

The NSFR ratio presented above is based on Haitong Bank interpretation of current regulatory rules.

CAPITAL MANAGEMENT

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

Management Practices

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

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

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

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

Regulatory Capital and Leverage Ratios

Solvency

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

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

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

Also related to the CRD IV capital buffers, in November 2016 the Bank of Portugal decided to impose a capital surcharge on six Portuguese banking groups classified as O-SIIs (Other Systemically Important Institutions) in the scope of its annual revision of the identification of the imposition of capital buffers, pursuant to Article 138-R (2) of the Legal Framework of Credit Institutions and Financial Companies (RGICSF). 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 31 December 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 1 July 2018 Haitong Bank became subject to an additional requirement with a specific add-on, determined and annually revised under the Supervisory Review and Evaluation Process performed by the Bank of Portugal.

As of 31 December 2018 Haitong Bank's capital ratios, were calculated under CRR (Regulation EU nº 575/2013) and CRD IV (Directive 2013/36/EU)Standard Approach on both a transitional and fully-loaded basis, are shown in the following table.

Solvency Ratios

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

	December 2017	
	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".

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

Leverage

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

As of 31 December 2018 Haitong Bank's leverage ratios, calculated under the Basel III Standard Approach on both transitional and fully-loaded basis, are shown in the following table.

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

Leverage Ratios

	December 2018	December 2017
Transitional	18.6%	15.0%
Fully-loaded	18.4%	14.5%

Source: Haitong Bank

Financial Report

CONSOLIDATED FINANCIAL STATEMENTS
AND
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for the financial years ended on the 31st December 2018 and 2017

(thousand euros)

	Notes	31.12.2018	31.12.2017 Restatement
Interest and similar income	5	98 174	166 827
Interest and similar expenses	5	60 652	122 635
Financial margin		**37 522**	**44 192**
Fees and commissions income	6	79 142	71 625
Fees and commissions expenses	6	(6 776)	(13 723)
Net trading income	7	(20 443)	(21 212)
Net income from other financial instruments at fair value through profit or loss	8	2 927	-
Net gain/(loss) from derecognition of financial assets measured at fair value through other comprehensive income	9	3 934	-
Net gains/(losses) from financial assets available for sale	10	-	2 391
Net gains / (losses) from foreign exchange differences	11	5 903	(4 427)
Net gain/(loss) from derecognition of financial assets measured at amortised cost	12	117	(835)
Other operating income and expense	13	(3 806)	(9 580)
Operating Income		**98 520**	**68 431**
Employee costs	14	44 324	77 938
Administrative costs	16	27 389	41 074
Depreciations and amortisations	25 and 26	5 844	6 617
Provisions	32	2 805	10 241
Net impairment loss on financial assets	32	23 590	68 588
Operating expenses		**103 952**	**204 458**
Share of profit of associates	27	12	307
Profit / (Loss) before Income Tax		**(5 420)**	**(135 720)**
Income tax			
Current tax	33	11 912	3 762
Deferred tax	33	(4 558)	(23 072)
		7 354	**(19 310)**
Net profit of continued operations		**(12 774)**	**(116 410)**
Net profit of discontinued operations	35	14 221	(19 771)
Net Profit / (Loss) for the year		**1 447**	**(136 181)**
Attributable to shareholders of the parent company		**1 159**	**(130 187)**
Attributable to non-controlling interests	37	**288**	**(5 994)**
		1 447	**(136 181)**
Basic Income per Share (in euros)	17	0,01	-1,01
Diluted Income per Share (in euros)	17	0,01	-1,01

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 financial years ended on the 31st December 2018 and 2017

(thousand euros)

	31.12.2018	31.12.2017 Restatement
Net income for the period		
Attributable to shareholders of the parent company	1 159	(130 187)
Attributable to non-controlling interests	288	(5 994)
	1 447	**(136 181)**
Other comprehensive income for the period		
Items that will not be reclassified to profit and loss		
Actuarial gains/(losses), net of taxes	(2 104)	(177)
	(2 104)	**(177)**
Items that may be reclassified to profit and loss		
Exchange differences net of taxes	(17 287)	(22 110)
Own credit risk effect on liabilities valuation	3 322	(3 380)
Other comprehensive income from associates	(510)	(522)
Fair value changes of financial assets available-for-sale	-	7 430
Fair value changes of debt instruments measured at fair value through other comprehensive income	(5 086)	-
Foreign exchange reserve recycled from discontinued operations	(285)	-
	(19 846)	**(18 582)**
Total comprehensive income/(loss) for the period	**(20 503)**	**(154 940)**
Attributable to shareholders of the parent company	**(16 862)**	**(144 347)**
Attributable to non-controlling interests	**(3 641)**	**(10 593)**
	(20 503)	**(154 940)**

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

Consolidated Statement of Financial Position as at the 31st December 2018 and 2017

(thousand euros)

	Notes	31.12.2018	31.12.2017
Assets			
Cash and cash equivalents	18	341 255	473 273
Financial assets at fair value through profit or loss		641 358	671 275
Financial assets held for trading		597 104	671 275
Securities	19	466 957	456 208
Derivative financial assets	20	130 147	215 067
Non-trading financial assets mandatorily at fair value through profit or loss		44 254	-
Securities	21	38 471	-
Loans and advances to customers	23	5 783	-
Financial assets at fair value through other comprehensive income	21	515 813	-
Financial assets available-for-sale	21	-	491 947
Financial assets measured at amortised cost		722 371	1 117 907
Securities	21	87 085	-
Loans and advances to banks	22	126 828	488 000
Loans and advances to customers	23	508 458	629 907
Non-current assets held-for-sale	24	2 533	2 533
Assets from discontinuing units	35	213 920	20 359
Other tangible assets	25	5 364	7 639
Intangible assets	26	18 243	21 327
Investments in associated companies	27	487	2 849
Tax assets		172 359	173 097
Current income tax assets	33	44 360	34 070
Deferred income tax assets	33	127 999	139 027
Other assets	28	261 060	293 699
Total Assets		**2 894 763**	**3 275 905**
Liabilities			
Financial liabilities held for trading		304 873	620 954
Securities	19	119 907	395 877
Derivative financial liabilities	20	184 966	225 077
Financial liabilities measured at amortised cost		921 775	1 723 768
Resources from credit institutions	29	358 957	1 179 511
Resources from customers	30	400 206	515 964
Debt securities issued	31	162 612	28 293
Financial liabilities designated at fair value through profit or loss		-	214 493
Debt securities issued	31	-	214 493
Liabilities from discontinuing units	35	903 169	5 920
Provisions	32	15 202	13 659
Tax liabilities		3 694	6 305
Current income tax liabilities	33	2 817	3 231
Deferred income tax liabilities	33	877	3 074
Other liabilities	34	130 544	157 040
Total Liabilities		**2 279 257**	**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	(173)	4 787
Other reserves and retained earnings	37	(373 847)	(229 212)
Net profit/(loss) for the year attributable shareholders of the parent company		1 159	(130 187)
Total equity attributable to the shareholders of the parent company		**589 477**	**502 684**
Non-controlling interests	37	26 029	31 082
Total Equity		**615 506**	**533 766**
Total Equity and Liabilities		**2 894 763**	**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 financial years ended on the 31st December 2018 and 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 (Restatement)	**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	-	-	-	7 099	-	-	7 099	331	7 430
Actuarial gains/ (losses), net of taxes	-	-	-	-	(177)	-	(177)	-	(177)
Other comprehensive income of associates	-	-	-	-	(522)	-	(522)	-	(522)
Exchange differences	-	-	-	-	(17 180)	-	(17 180)	(4 930)	(22 110)
Own credit risk changes	-	-	-	-	(3 380)	-	(3 380)	-	(3 380)
Net profit / (loss) for the year	-	-	-	-	-	(130 187)	(130 187)	(5 994)	(136 181)
Total comprehensive income for the year	**-**	**-**	**-**	**7 099**	**(21 259)**	**(130 187)**	**(144 347)**	**(10 593)**	**(154 940)**
Share capital increase (see Note 36)	38 500	-	-	-	-	-	38 500	-	38 500
Issuance of other equity instruments (see Note 36)	380 000	-	(80 000)	-	-	-	300 000	-	300 000
Reserve establishment	-	-	-	-	(96 181)	96 181	-	-	-
Interest of other equity instruments (see Note 36)	-	-	-	-	(317)	-	(317)	-	(317)
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	-	-	-	(4 641)	-	-	(4 641)	(447)	(5 088)
Other comprehensive income of associates	-	-	-	-	(510)	-	(510)	-	(510)
Exchange differences	-	-	-	-	(13 805)	-	(13 805)	(3 482)	(17 287)
Own credit risk changes	-	-	-	-	3 322	-	3 322	-	3 322
Actuarial gains/ (losses), net of taxes	-	-	-	-	(2 104)	-	(2 104)	-	(2 104)
Transfer of comprehensive income from discontinuing operations	-	-	-	(85)	86	-	1	-	1
Foreign exchange reserve recycle from discontinued operations	-	-	-	-	(285)	-	(285)	-	(285)
Net profit / (loss) for the year	-	-	-	-	-	1 159	1 159	288	1 447
Total comprehensive income for the year	**-**	**-**	**-**	**(4 726)**	**(13 296)**	**1 159**	**(16 863)**	**(3 641)**	**(20 504)**
Issuance of other equity instruments (see Note 37)	-	-	105 042	-	-	-	105 042	-	105 042
Transfers for reserves and retained earnings	-	-	-	-	(130 187)	130 187	-	-	-
Transactions with non-controlling interests (see Note 37)	-	-	-	-	-	-	-	(1 393)	(1 393)
Balance as at 31 December 2018	**844 769**	**8 796**	**108 773**	**(173)**	**(373 847)**	**1 159**	**589 477**	**26 029**	**615 506**

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

Consolidated Cash Flow Statement for the financial years ended on the 31st December 2018 and 2017

(thousand euros)

	Notes	31.12.2018	31.12.2017
Cash flows from operating activities			
Interests received		(5 338)	217 216
Interests paid		(88 562)	(162 020)
Fees and commissions received		73 155	86 740
Fees and commissions paid		(7 025)	(10 599)
Loans recovery		111	-
Cash payments to employees and suppliers		(82 057)	(144 091)
		(109 716)	**(12 754)**
Changes in operating assets and liabilities:			
Resources at central banks		(1 494)	(10 791)
Trading financial assets and liabilities		(277 180)	377 718
Loans and advances to banks		357 173	347 662
Resources from other credit institutions		(71 039)	(716 210)
Loans and advances to customers		(60 764)	162 430
Resources from costumers		(95 119)	(196 994)
Risk management derivatives		-	133
Other operating assets and liabilities		3 689	24 417
Net cash flow from operating activities before income tax		**(254 450)**	**(24 389)**
Income taxes paid		(23 379)	(20 450)
		(277 829)	**(44 839)**
Net cash flows from investment activities			
Sale of investments in subsidiaries and associates		25 660	7 289
Purchase of securities		(454 290)	(675 253)
Sale of securities		407 152	960 728
Purchase of fixed assets		(1 257)	(2 756)
Sale of of fixed assets		212	273
		(22 523)	**290 281**
Cash flows from financing activities			
Share capital increase	36	-	200 000
Debt securities issued	31	154 889	16 035
Reimbursement of debt securities issued	31	(93 090)	(131 583)
Issuance of other equity instruments	36	105 042	-
Interest received/(paid) from/to other equity instruments		-	(317)
Net cash flow from financing activities		**166 841**	**84 135**
Net changes in cash and equivalents		**(133 511)**	**329 577**
Cash and equivalents at the beginning for the year		469 456	139 879
Cash and equivalents at the end for the year		335 945	469 456
		(133 511)	**329 577**
Cash and equivalents includes:			
Cash	18	309 187	441 637
Deposits at other credit institutions	18	32 069	31 636
(-) Minimum Reserves	18	(5 311)	(3 817)
Total		**335 945**	**469 456**

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 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
Haitong Banco de Investimento do Brasil S.A.	2000	2000	Brazil	Investment bank	80%	Full Consolidation
FI Multimercado Treasury	2005	2005	Brazil	Investment fund	80%	Full Consolidation
Haitong do Brasil Participações Ltda	2004	2004	Brazil	Asset management	80%	Full Consolidation
Haitong Negocios, SA	1996	1999	Brazil	Holding company	80%	Full Consolidation
Haitong do Brasil DTVM, SA	2009	2010	Brazil	Asset management	80%	Full Consolidation
Haitong Securities do Brasil S.A.	2000	2000	Brazil	Brokerage house	80%	Full Consolidation

In 2013, Haitong Bank started a simplification plan for its group. Several measures were taken within the scope of such process, including the disposal and merger of several holdings, with no significant impact on the accounts. The simplification process continued throughout 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 September 2018 Haitong Banco de Investimento do Brasil, S.A. fully subscribed the capital increase of FI Multimercado Treasury, an investment of BRL 5,000 thousand.
- Following the decision from the management, since December, 2018 the Group is preparing the sale of its Irish subsidiary Haitong Investment Ireland plc, which should be concluded within 1 year. As a consequence of this decision, the Irish subsidiary's assets and results were reclassified to the discontinued operations line (see Note 35).

Associates (see note 27)

- In May 2018, MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A. has been closed, by the amount 37 thousand euros.
- In September 2018, a capital distribution of the Espírito Santo IBERIA I Fund was made, the amount of 942 thousand euros was attributed to Haitong Capital-SCR, S.A..
- In October 2018, Windpart, Lda. has been closed.
- In November 2018, a capital distribution of the Espírito Santo IBERIA I Fund was made, the amount of 871 thousand euros was attributed to Haitong Capital-SCR, S.A..

During the 2018 and 2017 financial years, the movements regarding acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(thousand euros)

	31.12.2018					
	Acquisitions		Disposals			
	Other Investments (a)	Total	Sale amount (a)	Other Reimbursements (b)	Total	Gains/ (losses) in sales/disposals
Subsidiaries						
Haitong (UK) Limited (Note 35)	-	-	10 167	-	10 167	2 902
Haitong Securities USA LLC (Note 35)	-	-	13 642	-	13 642	10 330
Haitong Negócios, S.A.	12 724	12 724	-	-	-	-
Haitong Investimento DTVM, S.A.	8 262	8 262	-	-	-	-
FI Multimercado Treasury	1 125	1 125	-	-	-	-
	22 111	**22 111**	**23 809**	**-**	**23 809**	**13 232**
Associates						
MCO2	-	-	-	37	37	(13)
Fundo Espírito Santo IBERIA I	-	-	-	1 813	1 813	-
WindPart, Lda	-	-	-	1	1	-
	-	**-**	**-**	**1 851**	**1 851**	**(13)**
Total	**22 111**	**22 111**	**23 809**	**1 851**	**25 660**	**13 219**

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

(thousand euros)

	31.12.2017					
	Acquisitions		Disposals			
	Other Investments (a)	Total	Sale amount	Other Reimbursements (b)	Total	Gains/ (losses) in sales/disposals
Subsidiaries						
Haitong (UK) Limited	11 536	11 536	-	-	-	-
FI Multimercado Treasury	-	-	21 596	-	21 596	-
	11 536	**11 536**	**21 596**	**-**	**21 596**	**-**
Associates						
Salgar Investments	-	-	6 345	-	6 345	3 597
Fundo Espírito Santo IBERIA I	-	-	-	519	519	-
MCO2	-	-	-	425	425	-
	-	**-**	**6 345**	**944**	**7 289**	**3 597**
Total	**11 536**	**11 536**	**27 941**	**944**	**28 885**	**3 597**

(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. Bases of preparation

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

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

Haitong Bank's consolidated financial statements set forth herein refer to the financial year ended on the 31st of December, 2018, which have been prepared in accordance with the IFRS in force, as adopted in the European Union until the 31st of December, 2018.

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 classification and measurement requirements, including financial assets impairment requirements.

The requirements provided by IFRS 9 are, in general, applied retrospectively by adjusting the opening balance at the date of initial application (1st January 2018). The impacts arising from the implementation of IFRS 9, with reference to 1 January 2018 are detailed in Note 41. No significant impacts on the consolidated financial statements related with the adoption of IFRS 15 were found. The reconciliation between the balance sheet balances as at 31 December 2017 and the balance sheet balances as at 1 January 2018, in accordance with IFRS 9, is detailed in Note 41. The balances included in the financial statements for 31 December 2017 are presented exclusively for comparative purposes (Note 41).

The consolidated financial statements are denominated in thousands of euros, rounded to the nearest thousand, and have been prepared in accordance with the historical cost principle, with the exception of the assets and liabilities accounted for at fair value, such as financial derivatives, financial assets and liabilities at fair value through profit and loss and financial assets and liabilities at fair value through other comprehensive income.. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount or fair value less costs to sell.

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

The consolidated financial statements herein have been approved in the Board of Directors meeting held on the 18th of March, 2019.

2.2. Basis of consolidation

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

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

Subsidiaries

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

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

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

Associates

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

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

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

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

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

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

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

Goodwill

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

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 instruments (IFRS 9)

As describe in Note 2.1 Basis of Presentation, the Group adopted IFRS 9 – Financial Instruments on 1 January 2018, replacing IAS 39 – Financial Instruments: Recognition and Measurement, which was in force until 31 December 2017. The Group, other than its own credit risk adjustment, has not previously adopted any of the requirements of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group chose not to restate the comparative balances of the previous period. All the adjustments to the book values of the financial assets and liabilities at the transition date were recognized in shareholder’s equity with reference to 1 January 2018 (see Note 41). Consequently, the changes occurred in the information disclosed in the notes to the financial statements arising from the amendments to IFRS 7, following the adoption of IFRS 9, were applied only to the current reporting period. The information presented in the notes to the financial statements related to the prior period corresponds to the one presented in the notes to the financial statements for that period.

The accounting policies in force after the adoption of IFRS 9 on 1 January 2018 applicable to the Group’s consolidated financial statements as at 31 December 2018, are described below. The accounting policies applicable to the comparative period (in IAS 39) are described in Note 2.5

2.4.1. Financial assets classification

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

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

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

a) Financial assets at amortised cost

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

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

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

b) Financial assets at fair value through other comprehensive income

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

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

In addition, in the initial recognition of a capital instrument that is not held for trading, nor a contingent consideration by an acquirer in a concentration of activities to which IFRS 3 applies, the Group may irrevocably choose to classify it in the category of " Financial assets at fair value through other comprehensive income ". This option is exercised on a case-by-case basis, investment by investment and is only available for financial instruments that comply with the definition of equity instruments set forth in IAS 32 and can not be used for financial instruments whose classification as a capital instrument in the issuer is made under the exceptions provided in paragraphs from 16A to 16D of IAS 32. On the transition date and on December 31, 2018, the Bank did not adopt this irrevocable option under IAS 39, and only debt securities were classified in this category.

c) Financial assets at fair value through profit or loss

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

In addition, the Bank may irrevocably designate a financial asset that meets the criteria to be classified as "Financial assets at amortized cost" or "Financial assets at fair value through other comprehensive income", at fair value through profit or loss, at the time of its initial recognition, if that eliminates or significantly reduces an accounting mismatch, which would otherwise result from the measurement of assets or liabilities or from the recognition of gains and losses thereon on different bases. On the transition date and on December 31, 2018, the Group did not adopt this irrevocable option, having classified in this category:

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

  i. are originated or acquired for the purpose of trading in the short term;
  ii. are part of a group of financial instruments identified and managed jointly for which there is evidence of recent actions with the aim of achieving gains in the short term;
  iii. are derivative instruments which do not comply with the definition of a financial guarantee and have not been designated as hedging instruments.

- financial assets in the sub-category of "Financial assets at fair value through profit or loss - financial assets not held for trading necessarily at fair value through profit and loss" when:

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

Gains and losses on financial assets and liabilities at fair value through profit or loss, namely, changes in fair value and interest on trading derivatives, as well as the dividends received from these portfolios, are recognized as "Results from financial assets at fair value through profit or loss and financial assets not held for trading necessarily at fair value through profit or loss "in the income statement.

Business model evaluation for financial assets management

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

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

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

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

Initial recognition

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

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

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

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

Reclassifications between categories of financial instruments

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

Derecognition criteria

The Bank derecognises a financial asset in the following situations:

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

Loans written-off

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

Purchase or originated credit impaired assets

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

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

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

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

Impairment of financial assets

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

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

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

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

Impairment Model

IFRS 9 replaces the IAS 39 incurred loss model by an expected credit losses (ECL) 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: : financial assets for which there was no significant increase in credit risk from the moment of initial recognition. In this case, the impairment will reflect ECL resulting from default events that may occur in the next 12 months after the reporting date;
- **Stage 2** – Under Performing: financial assets for which there was a significant increase in credit risk has occurred since the initial recognition but for which there is no objective evidence of impairment. In this stage, impairment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- **Stage 3** – Non Performing: financial assets for which there is objective evidence of impairment as a result of events that resulted in losses. In this case, the impairment amount will reflect the ECL over the expected residual life of the instrument.

The collective model implemented by the Bank is applicable to all instruments without warning signals (in Stage 1), 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 purchase or originated credit impaired acquired (POCI) which are allocated to 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 a financial asset 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 initial recognition increases significantly, the result would be a transfer into Stage 2 and, consequently to the recognition of the lifetime ECL over the residual life of the financial asset. A transfer into Stage 3 is required when objective evidence for a credit loss appears.

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

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

Expected Credit Losses

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

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

- Loans and advances to Customers;
- Loans and advances to Banks;
- Securities;
- Debtors and other receivables;
- Cash and Cash Equivalents.

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

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

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

IFRS 9 defines financial assets with warning signals similar to impaired financial assets in accordance with IAS 39, which correspond to impairment triggers.

Significant increase in credit risk

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

The Group identifies the occurrence of a significant increase in credit risk exposure through two approaches: (i) comparison between the current rating and the rating at the time of contract recognition and (ii) use of warning signals defined internally (internal impairment triggers).

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 (with no indication of unlikeliness to pay); (iv) renegotiated loans; (v) clients that are forbidden (by Banco de Portugal) to write a check; (vi) clients followed by Special Portfolio Management Department; (vii) clients with written-off loans in the banking system; (viii) clients with any of the abovementioned warning signals activated in the last 3 months; and (ix) other specific/exceptional situations (ad-hoc criteria).

According with internal procedures defined by the Group, when there is a significant increase in the credit risk of a debtor, the financial instruments are subject to the individual impairment analysis.

Default definition

Under IFRS 9, the Group considers its financial assets to be in default by applying the same used definition that is applied for prudential purposes. Thus, Haitong Bank defined default as incorporating 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, 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 Group follows article 178 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and includes the European Banking Association (“EBA”) definition of non-performing exposures (“NPE”) requirements according to its final report on the application of definition of default (EBA/GL/2016/07).

2.4.2. Financial liabilities

Classification, initial recognition and subsequent measurement

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

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

Financial liabilities at fair value through profit or loss

Classification

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

a) Financial liabilities held for trading

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

b) Financial liabilities designated at fair value through profit or loss

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

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

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

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

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. 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.

Initial recognition and subsequent measurement

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

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

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

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

Financial liabilities at amortised cost

Classification

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

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

Initial recognition and subsequent measurement

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

Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not allowed.

Derecognition of financial liabilities

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

2.4.3. Interest recognition

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

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

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

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

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

2.4.4. Financial guarantees

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

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

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

2.5. Financial instruments (IAS 39)

The Group's consolidated financial statements for the year 2017 were prepared in accordance with IAS 39 – Financial instruments – Recognition and measurement, as follows:

2.5.1. 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 28) and include the minimum required collateral regarding open interests.

2.5.2. 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.

2.5.3. 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.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which: (i) the Group intends to keep indefinitely, (ii) are designated as available-for-sale at the time of their initial recognition, or (iii) do not fall within the aforementioned categories.

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

The Group regularly assesses whether there is objective evidence that a financial asset or group thereof, shows indications of impairment. For the financial assets presenting impairment indicators, the respective recoverable amount is determined and the impairment losses are accounted for against income statement.

A financial asset, or group thereof, is impaired when there is objective evidence of impairment arising out of one or more events occurring after its initial recognition, such as: (i) in the case of shares and other equity instruments, a significant or prolonged decline in their market value, below the acquisition cost, (ii) in the case of debt securities, when such event (or events) has an impact on the estimated amount of the future cash flows of the financial asset, or group thereof, which may reasonably be estimated, and (iii) devaluation of 30% or consecutive devaluation during one year.

When there is evidence of impairment in the available-for-sale financial assets, the potential loss accumulated in other comprehensive income corresponds to the difference between the acquisition cost and the fair value, less any impairment loss in the financial asset previously recognised in income statement, is transferred to income statement. If the amount of the impairment loss decreases in a subsequent period, the previously recognised impairment loss is reversed against income statement of the financial year until recovery of the acquisition cost if the increase is objectively linked to an event occurring after the recognition of the impairment loss, except for shares or other equity instruments in which the subsequent gains are recognised in other comprehensive income.

2.5.4. 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.

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

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

2.5.5. 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.

2.6. Assets sold with repurchase agreement and securities lending

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

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

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

2.7. Equity instruments

An instrument is classified as equity instrument only if:

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

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

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

2.8. 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.

2.9. Non-current assets held-for-sale and assets from discontinuing operations

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

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

In 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 discontinuing units".

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

2.10. 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.

2.11. 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.

2.12. 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.

2.13. Employee benefits

Pensions

Pensions Pursuant to the signature of the Collective Labor Agreement (“Acordo Coletivo de Trabalho” (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note

14, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities' coverage is assured, for most of the Group companies, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA, subsidiary of the Group.

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

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

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

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

The Group recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 years-old (normal retirement age foreseen in the ACT) and which forms the basis of the actuarial calculation of pension 30 June 2018 Notes to the Interim Condensed Consolidated Financial Statements fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65 years-old.

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

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

Health-care benefits

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

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

Until 1 February 2017, the Group's annual mandatory contribution to SAMS amounted to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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

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

Long-term service bonuses

In accordance with the previous Collective Labour Agreement (ACT, "Acordo Coletivo de Trabalho") for the Banking Sector, in force until July 2016, the Group had the commitment to pay active employees who completed 15, 25 and 30 years of service in the Group, long-term service bonuses corresponding to one, two and three times, respectively, their monthly salary paid at the date the bonuses were paid.

At the date of early retirement due to disability or presumed disability, employees had 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.

These long-term service bonuses were accounted for by the Group in accordance with IAS 19, as other long-term employee benefits. The Group's liability with these long-term service bonuses were periodically estimated by the Group using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions. In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement.

Upon the signature of the new ACT on 5 July 2016, the long-term service bonus was extinguished and the Group paid its employees the proportional share of the bonuses due on entry into force of the new ACT.

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

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

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

Variable remuneration paid to employees

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

Income taxes

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

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

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

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

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

2.14. 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.

2.15. Recognition of interest income and expense (IAS 39)

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.

Recognition of fee and commission income

Income from services and commissions are recognised as follows:

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

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

2.16. Segment reporting

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.

2.17. Earnings per share

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

2.18. Cash and cash equivalents

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

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

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

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

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

3.1. Impairment losses on financial assets at amortised cost and debt instruments at fair value through other comprehensive income

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

Individual analysis

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

The Risk Department identifies all exposures subject to individual analysis, encompassing all under-performing (Stage 2) and non-performing (Stage 3) exposures, and ensures that they are subject of analysis by the Impairment Committee.

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

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

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

Collective analysis

The Group identifies the occurrence of a significant increase in credit exposure risk through two approaches: (i) comparison between the current rating and the rating at the time of initial recognition of the agreement and (ii) use of warning signals defined internally (internal impairment triggers).

The internal impairment triggers 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 (with no indication of unlikeliness to pay); (iv) renegotiated loans; (v) clients that are forbidden (by Banco de Portugal) to write a check; (vi) clients followed by Special Portfolio Management Department; (vii) clients with written-off loans in the banking system; (viii) clients with warning signals activated in the last 3 months; and (ix) other specific/exceptional situations (ad-hoc criteria).

Regarding Probability of Default (PD): It reflects the probability of default at a prospect of time. Haitong Bank takes into account S&P's PDs, whereas the rating assigning process is performed internally based on the S&P methodology, which ensures the alignment between internal risk management and the process of impairment calculation;

Regarding Loss Given Default (LGD): is the magnitude of loss at the time of default. The Bank applies LGD based on Moody's benchmarks covering a wide historical period.

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

3.2. Income taxes

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

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

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

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

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

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

Regarding the activity in Portugal, the specific rules regarding the tax regime applicable to credit impairment and provisions for guarantees for the taxation periods beginning on or after 1 January 2018 are not established, since the reference to the Notice of the Bank of Portugal No. 3/95, provided for in Regulatory Decree No. 13/2018 of December 28, is only applicable to the taxation period of 2018. In this context, the Bank considered, for the purpose of calculating taxable income and the recording and analysis of the recoverability of deferred tax assets by reference to December 31, 2018, that the amount of credit impairment and provisions for guarantees recorded that is deductible for the purposes of IRC corresponds to the amount of deductible provisions that would have been calculated if to keep in force the reference to Bank of Portugal Notice No. 3/95.

In 2018, the Bank adopted IFRS 9 - Financial Instruments. In this regard, there is no transitional regime that establishes the tax treatment to be applied to the transition adjustments to IFRS 9, so the treatment conferred resulted from the interpretation of the application of the rules of the IRC Code. The Bank carried out a review of the recoverability of deferred tax assets with reference to January 1, 2018, considering the impacts related to the adoption of IFRS 9 and the current interpretation of the tax implications applicable to the transition adjustments to IFRS 9.

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, for a period of four years, except where any deduction or tax credit has been made, where the time-limit is the exercise of that right. Hence, there is a possibility that the basis of assessment will be corrected, mainly due to differences in interpretation of the tax legislation. However, the Bank's Boards of Directors 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 and 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. Classification and Measurement

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

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

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

NOTE 4 – SEGMENT REPORTING

4.1. Description of Business Areas

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

Mergers and Acquisitions Division

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

Additionally, the purpose of this division is also to perform more specific projects, such as valuations, 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 organize, structure and arrange the respective transactions.

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

Fixed Income Currency and Commodities Division

The purpose of the FICC Division is to provide a professional, differentiated and high quality product and service to institutional and corporate clients. In addition, it provides Haitong Bank a strong international distribution platform that is available for Investment Banking products.

FICC Division provides market-making activity for corporate and sovereign debt securities. It links with the distribution capacity allowing to capture clients flow, identify, new business opportunities and promote cross border activities.

Furthermore, it is also responsible to provide tailor-made hedging solutions for Corporates (multi-asset and multi-currencies) offering a wide range of products with plain vanilla and structured payoffs.

Equities Division

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 plat form to support the Group's investment banking activities through the distribution of new equity issues and follow-on transactions.

Structured Finance Division

The mission of the Structured Finance Division is to generate new operations in the credit area, whether as finance provider and/or the provision of services by the Bank as arranger and/or agent of loan operations, or the provision of advisory services in the financial structuring of investment projects, public tenders relating to infrastructure concessions and other public utilities and the structuring and arrangement of financing operations, through bank loans or bond issues under a project finance regime (“project bonds”).

Treasury Division

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

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

Global Markets

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

Private Equity

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

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 Administration and Supervisory bodies, Compliance, CEO Office, Finance, Customers, 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, Special Portfolio Management, Research and other revenue centres).

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

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

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

Measurement of profits or losses from the segments

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

Haitong Bank's Structures dedicated to the Segment

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

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

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

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

Interest income and expenses

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

Net profit/(loss) from fee and commission

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

Investments consolidated under the equity method

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

Non-current assets

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

Deferred tax assets

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

Domestic and International Areas

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

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

(thousand euros)

	31.12.2018										
	Structured Finance	Mergers and Acquisitions	Capital Markets	FICC	Equities	Global Markets	Private Equity	Treasury	Corporate Centre	Other	Total
Net interest income	7 550	-	1 008	4 199	(118)	24 229	-	(4 954)	-	5 608	37 522
Net fees and comissions	13 631	17 810	30 787	2 556	4 000	283	2 354	(2 651)	-	4 747	73 517
COMERCIAL OPERATING INCOME	**21 181**	**17 810**	**31 795**	**6 755**	**3 882**	**24 512**	**2 354**	**(7 605)**		**10 355**	**111 039**
Results on financial operation	2 248	(206)	(91)	4 632	(39)	(12 777)	3 336	18 996	-	(28 606)	(12 507)
Intersegment Operating Income	(1 368)	(15)	-	1 483	41	3	-	(9 721)	-	9 577	-
TOTAL OPERATING INCOME	**22 061**	**17 589**	**31 704**	**12 870**	**3 884**	**11 738**	**5 690**	**1 670**	**-**	**(8 674)**	**98 532**
Operation expenses	1 861	6 141	2 180	5 679	2 522	3 737	1 922	3 189	46 268	4 058	77 557
Staff costs	1 409	4 393	1 607	2 885	983	1 560	933	589	27 328	2 637	44 324
General administration expenses	401	1 549	523	2 238	1 452	1 768	982	2 485	14 683	1 308	27 389
Depreciations and Amortisations	51	199	50	556	87	409	7	115	4 257	113	5 844
Gross income	**20 200**	**11 448**	**29 524**	**7 191**	**1 362**	**8 001**	**3 768**	**(1 519)**	**(46 268)**	**(12 732)**	**20 975**
Impairment and Provisions	(26 803)	(122)	(754)	(73)	-	(336)	(63)	188	(1 174)	2 742	(26 395)
Credit impairment	(19 400)	-	-	(8)	-	(88)	-	-	408	-	(19 088)
Securities impairment	(3 444)	-	(766)	(48)	-	(248)	-	143	(6)	(80)	(4 449)
Net provisions and other impairmen	(3 959)	(122)	12	(17)	-	-	(63)	45	(1 576)	2 822	(2 858)
Income before taxes	**(6 603)**	**11 326**	**28 770**	**7 118**	**1 362**	**7 665**	**3 705**	**(1 331)**	**(47 442)**	**(9 990)**	**(5 420)**

(thousand euros)

	31.12.2017										
	Structured Finance	Mergers and Acquisitions	Capital Markets	FICC	Equities	Global Markets	Private Equity	Treasury	Corporate Centre	Other	Total
Net interest income	11 746	-	525	444	(266)	25 843	-	3 895	-	2 005	44 192
Net fees and comissions	8 893	20 117	16 506	(654)	7 102	1 020	3 426	(2 553)	-	4 982	58 839
COMERCIAL OPERATING INCOME	**20 639**	**20 117**	**17 031**	**(210)**	**6 836**	**26 863**	**3 426**	**1 342**	**-**	**6 987**	**103 031**
Results on financial operation	(960)	(37)	(89)	9 426	(134)	(23 387)	3 521	(8 786)	-	(13 847)	(34 293)
Intersegment Operating Income	306	1 333	(296)	(803)	(894)	38	(28)	4 296	-	(3 952)	-
TOTAL OPERATING INCOME	**19 985**	**21 413**	**16 646**	**8 413**	**5 808**	**3 514**	**6 919**	**(3 148)**	**-**	**(10 812)**	**68 738**
Operation expenses	2 645	5 800	2 177	6 587	2 941	4 012	2 384	1 542	93 462	4 079	125 629
Staff costs	1 606	4 056	1 405	3 359	971	1 634	1 377	737	59 950	2 843	77 938
General administration expenses	961	1 531	705	2 691	1 829	1 897	993	610	28 763	1 094	41 074
Depreciations and Amortisations	78	213	67	537	141	481	14	195	4 749	142	6 617
Gross income	**17 340**	**15 613**	**14 469**	**1 826**	**2 867**	**(498)**	**4 535**	**(4 690)**	**(93 462)**	**(14 891)**	**(56 891)**
Impairment and Provisions	(69 543)	(724)	(138)	(1 988)	(456)	(165)	(1 012)	(912)	(8 688)	4 797	(78 829)
Credit impairment	(42 446)	(2)	-	(9)	(10)	-	-	-	636	(1 655)	(43 486)
Securities impairment	(20 980)	(923)	-	-	-	(174)	(1 330)	(901)	33	(53)	(24 328)
Net provisions and other impairment	(6 117)	201	(138)	(1 979)	(446)	9	318	(11)	(9 357)	6 505	(11 015)
Income before taxes	**(52 203)**	**14 889**	**14 331**	**(162)**	**2 411**	**(663)**	**3 523**	**(5 602)**	**(102 150)**	**(10 094)**	**(135 720)**

As at 31th of December 2017 and 31th of December 2018 "Other" balances include the reclassification of the results of the discontinuing operations.

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

(thousand euros)

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

(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)

	31.12.2018			31.12.2017		
	From assets/liabilities at amortised cost and at fair-value through other comprehensive income	From assets/liabilities at fair-value through profit and loss	Total	From assets/liabilities at amortised cost and available-for-sale financial assets	From assets/liabilities at fair-value through profit and loss	Total
Interest and similar income						
Interest from loans and advances to customers	17 811	-	17 811	22 883	-	22 883
Interest from deposits and investments in credit institutions	21 944	-	21 944	52 989	-	52 989
Interest from available-for-sale financial assets				2 915	-	2 915
Interest from financial assets at fair value through other comprehensive income	1 647	-	1 647			
Interest from financial assets at fair-value through profit and loss	-	56 110	56 110	-	88 035	88 035
Interest from debt securities at amortised cost	532	-	532	-	-	-
Other interest and similar income	130	-	130	5	-	5
	42 064	**56 110**	**98 174**	**78 792**	**88 035**	**166 827**
Interest and similar expenses						
Interest from deposits from central banks and other credit institutions	35 093	-	35 093	72 808	-	72 808
Interest from debt securities issued	10 888	-	10 888	7 339	-	7 339
Interest from customers accounts	13 708	-	13 708	41 782	-	41 782
Other interest and similar expenses	963	-	963	706	-	706
	60 652	**-**	**60 652**	**122 635**	**-**	**122 635**
	(18 588)	**56 110**	**37 522**	**(43 843)**	**88 035**	**44 192**

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

NOTE 6 – NET FEES AND COMMISSIONS INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Fees and commissions income		
From banking services	51 754	47 541
From guarantees provided	3 976	3 515
From transactions w ith securities	23 412	20 569
	79 142	**71 625**
Fees and commissions expenses		
From banking services rendered by third parties	343	1 125
From transactions w ith securities	1 401	3 058
From guarantees received	445	569
Other fee and comission expenses	4 587	8 971
	6 776	**13 723**
	72 366	**57 902**

NOTE 7 – NET TRADING INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Trading assets and liabilities		
Securities		
Bonds and other fixed-income securities		
Issued by public entities	(35 338)	(65 531)
Of other entities	1 548	774
Shares	(3 618)	1 037
	(37 408)	**(63 720)**
Financial derivatives		
Foreign-exchange contracts	25 718	(9 387)
Interest rates contracts	(15 406)	53 859
Equity/indexes contracts	7 199	(1 530)
Credit default contracts	-	(1 979)
Other	(546)	1 545
	16 965	**42 508**
	(20 443)	**(21 212)**

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

This heading's amount is composed of:

(thousand euros)

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

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

This heading's amount is composed of:

(thousand euros)

	31.12.2018
Bonds and other fixed-income securities	
Issued by public entities	3 301
Of other entities	633
	3 934

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

This heading's amount is composed of:

(thousand euros)

	31.12.2017
Bonds and other fixed income securities	
Issued by public entities	10
Of other entities	2 338
Shares	43
	2 391

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

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Currency revaluation	5 903	(4 427)
	5 903	**(4 427)**

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 31th of December, 2017 and 2018 , this heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Sale of loans and advances to customers	117	(835)
	117	**(835)**

NOTE 13 – OTHER OPERATING INCOME AND EXPENSES

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Other customer services	1 149	937
Direct and Indirect taxes	(4 926)	(4 671)
Other operating results	39	(9 003)
Non-financial assets	(68)	(177)
Investment in branches, associates and joint ventures	-	3 597
Others	-	(263)
	(3 806)	**(9 580)**

Direct and indirect taxes include 1,781 thousand euros concerning the cost associated with the Bank Levy (31st of December, 2017: 1,752 thousand euros), established pursuant to Law no. 55-A/2010, of the 31st of December (see Note 33).

As at the December 31, 2018, the balance Other operating income and expenses includes, among other costs, the following contributions:

i. There were no contribution relating to the Deposit Guarantee Fund Contributions (110 thousand euros at 31 December 2017);
ii. 1,862 thousand euros related to Contributions to the Resolution Fund (1,811 thousand euros at 31 December 2017); and
iii. 583 thousand euros relating to Contributions to the Loan Guarantee Fund applicable to the subsidiary Haitong Banco de Investimento do Brasil S.A. (1,624 thousand euros as at 31 December 2017).

NOTE 14 – EMPLOYEE COSTS

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Wages and salaries		
Remuneration	32 061	43 397
Career benefits (Note 15)	(13)	(85)
Changes from termination agreements (see Note 15)	1 256	2 316
Changes from Maximum Salary Cap implementation (see Note 15)	-	(4 097)
Expenses with retirement pensions (Note 15)	784	1 233
Other mandatory social charges	6 186	10 296
Other expenses	4 050	24 878
	44 324	**77 938**

At 31st December, 2018 this heading includes 1,256 thousand euros (31st December, 2017: 37,427 thousand euros) related with the Voluntary Termination Plan called Social Plan.

Expenses with remunerations and other benefits granted to the key management personnel of the Haitong Bank Group as at 31st December, 2018 and 2017 are as follows:

(thousand euros)

	Board of Directors	Other key management staff	Total
2018			
Remunerations and other short-term benefits	1 961	11 411	13 372
Variable remunerations	-	584	584
Total	**1 961**	**11 995**	**13 956**
2017			
Remunerations and other short-term benefits	1 697	13 434	15 131
Variable remunerations	-	580	580
Total	**1 697**	**14 014**	**15 711**

Chief Executive Officers and Central Directors are considered included in the category of other key management personnel.

As at the 31st of December, 2018 and 2017, the Haitong Bank Group does not have any loans granted to Administration Bodies.

The average number of employees of the Haitong Bank Group per professional category is analysed as follows:

	2018	2017
Directors	225	322
Management	3	3
Specific roles	135	160
Administrative roles	23	34
Support roles	12	16
	398	**535**

As at the 31st of December, 2018 and 2017, the Group had a total of 389 and 466 employees.

NOTE 15 – EMPLOYEES BENEFITS

Retirement pensions and healthcare benefits

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

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service ("Serviço de Assistência Médico-Social", SAMS), managed by the respective Union, having the Group made until February 2017 mandatory contributions to SAMS corresponding to 6.50% of the total effective remuneration of the active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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

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

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

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

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

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

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

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks' liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the "Instrumento de Regulação Colectiva de Trabalho" (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

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

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

	Assumptions	
	31.12.2018	31.12.2017
Financial Assumptions		
Expected return rates	2,32%	2,17%
Discount rate	2,32%	2,17%
Pension growth rates	0,50%	0,50%
Salary growth rates	1,00%	1,00%
Demographic Assumptions and Assessment Methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90 -3 years
Actuarial valuation method	Project Unit Credit Method	

Disability decrements are not included in the calculation of responsibilities. The discount rate used as reference to the 31st of December, 2018, was based on: (i) the development sustained by the main indices concerning high quality corporate bonds and (ii) the duration of the responsibilities (21 years).

Recipients of the pensions plan are disaggregated as follows:

	31.12.2018	31.12.2017
Active workers	109	120
Former employees with vested rights	70	55
Retired	33	32
Survivors	7	7
TOTAL	**219**	**214**

Former employees with vested rights refer to employees who ceased their activity in the Group in 2018 and 2017, under the terms of the Social Plan, and maintained the pension plan rights.

The IAS 19 application implies the following liabilities and coverage levels, which shall be reported on the 31st of December 2018 and 2017:

(thousand euros)

	31.12.2018	31.12.2017
Net Assets / (Liabilities) recognised in the statement of financial position		
Liabilities as at 31st of December		
Pensioners and former employees with vested rights	40 839	35 137
Active workers	31 820	36 933
	72 659	**72 070**
Balance of funds as at 31st of December	**69 641**	**72 552**
Excess of coverage / Contributions to the fund	(3 018)	482
Assets / (Liabilities) in the statement of financial position (see Notes 28 and 34)	**(3 018)**	**482**
Acummulated actuarial gains / losses recognised in other comprehensive income	34 616	31 792

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

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

. (thousand euros)

	31.12.2018	31.12.2017
Liabilities at the beginning of the period	**72 070**	**70 735**
Current service cost (see Note 14)	784	1 233
Interest expenses	1 556	1 474
Participants contributions	94	113
Actuarial (gains)/losses	(2 389)	1 327
-Changes in assumptions	(2 401)	1 470
- Experience (Gains)/losses	12	(143)
Pensions paid by the fund	(712)	(1 031)
Changes from termination agreements (see Note 14)	1 256	2 316
Changes from Maximum Salary Cap implementation (see Note 14)	-	(4 097)
Liabilities at the end of the period	**72 659**	**72 070**

Considering the situation on the 31st of December 2018, the analysis to the sensibility and alterations of the actuarial assumptions revealed the following impacts:

- An increase in the discount rate of 25 base points would have represented a reduction in liabilities of approximately 3,715 thousand euros. A discount rate decrease of the same proportion would have represented an increase in liabilities of approximately 3,909 thousand euros;
- An increase of 25 base points in the growth of salaries and pensions would have represented an increase in liabilities of approximately 3,605 thousand euros. A decrease in the growth of salaries of the same proportion would have represented a decrease in liabilities of approximately 3,440 thousand euros.

The evolution of value regarding the pension funds on the financial years ending on the 31st of December 2018 and 2017, may be analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Pension Funds at the beginning of the period	**72 552**	**67 349**
Real income of the fund	(3 619)	2 621
Group contributions	1 326	3 500
Participants contributions	94	113
Benefits paid	(712)	(1 031)
Pension Funds at the end of the period	**69 641**	**72 552**

In early 2019, the Group made an extraordinary contribution for the fund in the amount of 2,275 thousand euros, therefore, the fund is now in the amount of 71,916 thousand euros, thereby representing a liability financing level of 98,98%.

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

	% Portfolio	
	2018	2017
Bonds	66,00%	57,70%
Shares	28,00%	30,30%
Alternative investment	5,00%	8,70%
Liquidity	1,00%	3,30%
Total	100,00%	100,00%

The assets of the funds are valued at fair value.

On the 31st of December 2018 and 2017 the funds did not contain securities issued by entities of the Group.

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

(thousand euros)

	31.12.2018	31.12.2017
Deferred actuarial gains / (losses) as at 1st January	**31 792**	**31 641**
- Actuarial assumptions changes	(2 401)	1 470
- (Gains)/losses in experience	5 225	(1 319)
Deferred actuarial deviations as at 31st of December	**34 616**	**31 792**

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

(thousand euros)

	31.12.2018	31.12.2017
Current service cost (see Note 14)	784	1 233
Interest Expenses / (Income)	(38)	29
Expenses of the period	**746**	**1 262**

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

The evolution of the net assets / (liabilities) on the balance regarding the financial years ending on the 31st of December 2018 and 2017 may be analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Opening balance	**482**	**(3 386)**
Year expenses	(746)	(1 262)
Actuarial gains / (losses) recognised in other comprehensive income	(2 824)	(151)
Group contributions	1 326	3 500
Changes in termination agreements	(1 256)	(2 316)
Changes in Maximum Salary Cap implementation	-	4 097
Final Balance	**(3 018)**	**482**

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

(thousand euros)

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Liabilities	(72 659)	(72 070)	(70 735)	(70 744)	(63 867)
Funds balances	69 641	72 552	67 349	70 744	63 002
(Under) / over funded liabilities	**(3 018)**	**482**	**(3 386)**	**-**	**(865)**
Experience (gains) / losses from liabilities	12	(143)	(7 655)	177	(7 097)
Experience (gains) / losses from plan assets	5 213	(1 176)	6 013	6 707	(834)

Career bonuses

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

(thousand euros)

	31.12.2018	31.12.2017
Liabilities at the begining of the period	**498**	**583**
Year expenses (See Note 14)	(13)	(85)
Liabilities at the end of the period (see Note 34)	**485**	**498**

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

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)

	31.12.2018	31.12.2017
Rents and leases	5 347	6 313
Marketing and advertisement	4 295	11 978
Communications and expedition	1 366	3 354
Travels and representation costs	910	1 175
Maintenance and related services	241	472
Insurance	195	359
Legal and litigation	151	145
Specialised services		
IT services	4 190	5 315
Temporary labour	17	11
Independent labour	1 156	1 977
Other specialised services	5 407	6 652
Other expenses	4 114	3 323
	27 389	**41 074**

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.

The earnings from outstanding rents regarding non-cancellable operating lease contracts shall be as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to one year	1 094	1 241
One to five years	942	1 477
	2 036	**2 718**

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

(thousand euros)

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

Values shown are before taxes. The fees related to the statutory audit of annual accounts correspond to those agreed for the year 2018. The fees presented for the remaining services relate to amounts billed during the 2018 financial year.

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)

	31.12.2018	31.12.2017
Net income attributable to shareholders of the parent company(1)	1 159	(130 504)
Weighted average number of ordinary shares outstanding (thousand)	**168 954**	**129 351**
Basic earnings per share attributable to shareholders of the parent company (euros)	**0,01**	**-1,01**

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

Diluted earnings per share

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

On the 31st of December, 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 31st of December, 2018 and 2017, this heading is analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Cash	5	11
Demand deposit at central banks		
Bank of Portugal	308 246	438 668
Other central banks	936	2 958
	309 182	**441 626**
Deposits at other credit institutions in Portugal		
Demand deposits	20 299	14 797
Deposits at other credit institutions abroad		
Demand deposits	11 770	16 839
	32 069	**31 636**
	341 256	**473 273**
Impairment losses (Note 32)	(1)	-
	341 255	**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 31st of December, 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 31th of December, 2018, has been comprised in the maintenance period from the 19th of December, 2018, to the 29th of January, 2019, which corresponded a mandatory minimum reserve amounting to 5,311 thousand euros (31st of December, 2017: 3,817 thousand euros).

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

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

(thousand euros)

	31.12.2018	31.12.2017
Financial assets held-for-trading		
Bonds and other fixed-income securities		
From public issuers	423 793	364 291
From other issuers	42 707	75 987
Shares	457	15 930
	466 957	**456 208**
Financial liabilities held-for-trading		
Short selling	119 907	395 877
	119 907	**395 877**

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

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	18 459	29 587
From three months to one year	1 029	70 604
From one to five years	241 066	328 032
More than five years	205 946	12 055
Undetermined period	457	15 930
	466 957	**456 208**

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

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

(thousand euros)

	31.12.2018			31.12.2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed-income securities						
Issued by public entities	18 325	405 468	423 793	3 637	360 654	364 291
Issued by other entities	5 781	36 926	42 707	29 014	46 973	75 987
Shares	457	-	457	15 818	112	15 930
Total book value	**24 563**	**442 394**	**466 957**	**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 31st of December 2018 and 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 2.6, 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 31st of December 2018 and 2017, financial derivatives heading is analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Derivatives financial assets		
Trading derivatives (assets)		
Foreign-exchange contracts	3 423	16 668
Interest-rate contracts	105 278	178 818
Other contracts	21 446	8 315
	130 147	**203 801**
Derivatives for risk management purposes (assets)		
Interest-rate contracts	-	5 337
Equity / Index contracts	-	1 484
Other contracts	-	4 445
	-	**11 266**
	130 147	**215 067**
Derivatives financial liabilities		
Trading derivatives (liabilities)		
Foreign-exchange contracts	9 917	15 134
Interest-rate contracts	150 699	186 888
Other contracts	24 350	8 198
	184 966	**210 220**
Derivatives for risk management purposes (liabilities)		
Interest-rate contracts	-	5 412
Equity / Index contracts	-	9 281
Other contracts	-	164
	-	**14 857**
	184 966	**225 077**
	(54 819)	**(10 010)**

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

(thousand euros)

	31.12.2018			31.12.2017		
	Notional	Fair value		Notional	Fair value	
		Positive	Negative		Positive	Negative
Foreign-exchange contracts						
Forward		179	935		1 970	898
- buy	138 356			186 246		
- sell	139 482			185 803		
Currency Swaps		340	3 179		1 329	126
- buy	195 259			217 468		
- sell	198 576			216 428		
Currency Futures		-	-		-	-
- buy	861 160			526 088		
- sell	596 419			482 571		
Currency Interest Rate Swaps		35	2 865	-	11 933	12 359
- buy	13 450			38 143		
- sell	15 400			38 143		
Currency Options		2 869	2 938		1 436	1 751
- buy	216 592			103 942		
- sell	250 395			116 288		
	2 625 089	**3 423**	**9 917**	**2 111 120**	**16 668**	**15 134**
Interest-rate contracts						
Interest Rate Swaps		101 556	146 982		171 120	179 167
- buy	3 505 912			3 948 886		
- sell	3 505 912			3 948 886		
Interest Rate Caps & Floors		3 722	3 717		7 698	7 721
- buy	97 442			261 620		
- sell	59 460			261 620		
Interest Rate Futures		-	-	-	-	-
- buy	1 019 418			1 485 832		
- sell	1 063 404			1 451 084		
	9 251 548	**105 278**	**150 699**	**11 357 928**	**178 818**	**186 888**
Contracts on shares/indexes						
Equity / Index Swaps		19 535	22 465		4 755	4 647
- buy	153 968			28 895		
- sell	153 968			28 887		
Equity / Index Options		545	461		3 548	3 539
- buy	7 503			14 450		
- sell	7 523			14 012		
Equity / Index Futures		-	-		-	-
- buy	-			-		
- sell	6 602			-		
	329 564	**20 080**	**22 926**	**86 244**	**8 303**	**8 186**
Credit agreements						
Credit Default Swaps		1 366	1 424	-	12	12
- buy	-			5 000		
- sell	105 423			5 000		
	105 423	**1 366**	**1 424**	**10 000**	**12**	**12**
Total	**12 311 624**	**130 147**	**184 966**	**13 565 292**	**203 801**	**210 220**

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

(thousand euros)

	31.12.2018			31.12.2017		
	Notional		Fair Value	Notional		Fair Value
	Sale	Purchase	(net)	Sale	Purchase	(net)
Up to three months	1 543 831	1 284 254	(2 758)	1 266 148	837 421	2 467
From three months to one year	1 086 406	968 061	3 551	1 377 861	932 621	10 142
From one to five years	2 123 635	2 660 677	(37 963)	2 335 787	3 054 254	(23 309)
More than five years	1 348 691	1 296 069	(17 649)	1 768 928	1 992 272	4 281
	6 102 563	**6 209 061**	**(54 819)**	**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 Note 2.5.1 and that the Group did not assign to hedge accounting.

As at 31st of December 2017, these operations can be analysed as follows:

(thousand euros)

Financial liabilities economically hedged	Derivative Instrument	31.12.2017							
		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 31st of December 2017, can be analysed by maturity as follows:

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

NOTE 21 – SECURITIES

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

(thousand euros)

	31.12.2018	31.12.2017
Non-trading financial assets mandatorily at fair value through profit or loss		
Bonds and other fixed-income securities		
From other issuers	708	-
Shares	11 964	-
Other variable income securities	25 799	-
	38 471	**-**
Financial assets at fair value through other comprehensive income		
Bonds and other fixed-income securities		
From public issuers	377 829	-
From other issuers	137 984	-
	515 813	**-**
Financial assets measured at amortised cost		
Securities		
Bonds and other fixed-income securities		
From other issuers	87 085	-
	87 085	**-**
Financial assets avaiable-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**
	641 369	**491 947**

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

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

(thousand euros)

	Cost (1)	Fair value reserve (Note 37)		Impairment (Note 32)	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	378 043	2 404	(1 858)	(760)	377 829
Issued by other entities	139 587	414	(935)	(1 082)	137 984
Balance as at 31st December 2018	**517 630**	**2 818**	**(2 793)**	**(1 842)**	**515 813**

(1) Amortised cost

As at 31st of December 2018, the heading of financial assets is 280,618 thousand euros in securities pledged as collateral by the Group (see Note 38).

As at 31st of December 2018, the portfolio of financial assets at amortized cost is analysed as follows:

(thousand euros)

	Cost (1)	Impairment (Note 32)	Book value
Bonds and other fixed-income securities			
Issued by other entities	87 533	(448)	87 085
Balance as at 31st December 2018	**87 533**	**(448)**	**87 085**

(1) Amortised cost

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) Amortised cost

As at 31st of December 2017, the heading of financial assets held-for-sale includes 251,629 thousand euros in securities pledged as collateral by the group (Note 38).

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

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	13 493	228
From three months to one year	76 797	2 500
From one to five years	491 033	431 544
More than five years	22 281	25 783
Undetermined period	37 765	31 892
	641 369	**491 947**

As at 31st of December 2018 and 2017, the heading of securities, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2018			31.12.2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed-income securities						
Issued by public entities	280 978	96 851	377 829	251 988	74 309	326 297
Issued by other entities	29 535	196 242	225 777	41 531	92 227	133 758
Shares	-	11 964	11 964	-	4 389	4 389
Other variable-income securities	-	25 799	25 799	-	27 503	27 503
Total statement of financial position value	**310 513**	**330 856**	**641 369**	**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 31st of December 2018 and 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 31st of December 2018 and 2017, this heading is analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Loans and advances to banks in Portugal		
Deposits	56	55
	56	**55**
Loans and advances to banks abroad		
Reverse repos	122 873	394 807
Very short-term deposits	1 048	21 163
Other loans and advances	18 435	87 363
	142 356	**503 333**
	142 412	**503 388**
Impairment losses (Note 32)	(15 584)	(15 388)
	126 828	**488 000**

As at 31st of December 2018 and 2017, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	127 279	264 892
From three months to one year	56	223 419
Overdue	15 077	15 077
	142 412	**503 388**

NOTE 23 – LOANS AND ADVANCES TO CUSTOMERS

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

(thousand euros)

	31.12.2018	31.12.2017
At fair value throught profit and loss		
Domestic loans		
Corporate		
Loans	5 499	-
	5 499	**-**
Overdue loans and interest		
Up to 90 days	285	-
	285	**-**
	5 784	**-**
Loans fair values revaluation	(1)	-
	5 783	**-**
At amortized cost		
Domestic loans		
Corporate		
Commercial credit lines	150	234
Loans	206 386	298 412
Other loans	-	1 307
Retail		
Mortgage loans	526	252
	207 062	**300 205**
Foreign loans		
Corporate		
Loans	191 043	371 131
Reverse repos	116 618	-
Other loans	1 422	1 445
Retail		
Mortgage loans	14	-
Other loans	-	1
	309 097	**372 577**
Overdue loans and interest		
Up to 90 days	845	950
For more than 90 days	13 039	76 392
	13 884	**77 342**
	530 043	**750 124**
Impairment losses	(21 585)	(120 217)
	508 458	**629 907**
	514 241	**629 907**

As at 31st of December 2018 and 2017, the analysis of loans and advances to costumers, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	2 482	39 799
From three months to one year	139 772	61 064
From one to five years	133 090	97 088
More than five years	246 314	474 831
Undetermined period	14 169	77 342
	535 827	**750 124**

NOTE 24 - NON-CURRENT ASSETS HELD-FOR-SALE

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

(thousand euros)

	31.12.2018	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 December 31st,, 2017 of this investment corresponds to its recoverable amount based on the letter of intent received.

The Group continues to develop efforts to conclude the sale of the company, having entered into a NDA with another potential investor in November 2018.

The sale is estimated to be completed until the end of the first half of 2019.

NOTE 25 – OTHER TANGIBLE ASSETS

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

(thousand euros)

	31.12.2018	31.12.2017
Real Estate		
For own use	970	1 084
Improvements in leasehold property	9 053	9 230
	10 023	**10 314**
Equipment		
IT equipment	10 945	12 000
Indoor installations	2 940	3 382
Furniture	2 523	3 400
Machinery and tools	1 055	1 507
Motor vehicles	414	551
Security equipment	258	292
Others	155	170
	18 290	**21 302**
	28 313	**31 616**
Work in progress		
Equipment	23	-
	23	**-**
	28 336	**31 616**
Accumulated depreciations	(22 972)	(23 977)
	5 364	**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 to discontinued operations	(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	133	485	23	641
Write-offs / sales	(3)	(3 313)	-	(3 316)
Transfers to discontinued operations	-	(50)	-	(50)
Transfers	-	24	-	24
Exchange variation and other movements	(421)	(158)	-	(579)
Balance as at 31st December 2018	**10 023**	**18 290**	**23**	**28 336**
Depreciations				
Balance as at 31st December 2016	**7 998**	**21 128**	**-**	**29 126**
Depreciations of period	899	1 467	-	2 366
Depreciation for discontinued operations	-	6	-	6
Write-offs / sales	(627)	(1 126)	-	(1 753)
Transfers to discontinued operations	(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	1 076	1 312	-	2 388
Write-offs / sales	(3)	(3 153)	-	(3 156)
Transfers to discontinued operations	-	(43)	-	(43)
Exchange variation and other movements	(123)	(71)	-	(194)
Balance as at 31st December 2018	**6 748**	**16 224**	**-**	**22 972**
Net book value as at 31st December 2018	**3 275**	**2 066**	**23**	**5 364**
Net book value as at 31st December 2017	**4 516**	**3 123**	**-**	**7 639**

NOTE 26 – INTANGIBLE ASSETS

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

(thousand euros)

	31.12.2018	31.12.2017
Goodwill	9 859	9 859
Purchased from third parties		
Software	32 932	32 954
Others	916	916
	33 848	**33 870**
Work in progress	572	466
	44 279	**44 195**
Accumulated amortisations	(26 036)	(22 868)
	(26 036)	**(22 868)**
	18 243	**21 327**

Goodwill is registered in accordance with the accounting policy described in Note 2.2, and analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Subsidiaries		
Haitong Capital - Sociedade de Capital de Risco, S.A.	9 859	9 859
	9 859	**9 859**

Annually, the Group analyses the goodwill impairment in accordance with IAS 36 - Impairment of Assets.

The recoverable amount of Haitong Capital – Sociedade de Capital de Risco, S.A. was determined based on the discounted cash-flows method based on (i) the business plan of the company for the next 5 years and (ii) a discount rate of 9.26%. Based on these assumptions, the Board of Directors considers that there is no impairment of the goodwill of this company on 31st of December 2018.

Nonetheless, the undertaken analysis based on the described assumptions, the recoverable amount of the investment in Haitong Capital, depends on the company and the Group's ability to carry out measures deemed necessary in order to achieve the business plan. The Group carried out an analysis in order to determine the level of implementation of the business plan that would imply that the estimated recoverable amount of Haitong Capital would be equivalent to the corresponding balance-sheet value. It was concluded\that this shall be the case if the business plan is only achieved by 36%.

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 to discontinued operations	-	(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	-	467	-	149	616
Write-offs / sales	-	(264)	-	(17)	(281)
Transfers	-	-	-	(24)	(24)
Exchange rate variation and other movements	-	(225)	-	(2)	(227)
Balance as at 31st December 2018	**9 859**	**32 932**	**916**	**572**	**44 279**
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)
Transfers to discontinued operations	-	(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	-	3 456	-	-	3 456
Write-offs / sales	-	(229)	-	-	(229)
Exchange rate variation and other movements	-	(59)	-	-	(59)
Balance as at 31st December 2018	**-**	**25 120**	**916**	**-**	**26 036**
Net balance as at 31st December 2018	**9 859**	**7 812**	**-**	**572**	**18 243**
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	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Fundo Espírito Santo IBERIA I	1 076	6 103	15	21	1 061	6 082	1 059	1 163	38	763

(thousand euros)

	Aquisition cost		% held		Book Value		Net income from the associated companies attributable to the Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Fundo Espírito Santo IBERIA I	2 766	4 579	46%	46%	827	3 133	17	350
Other	-	738	-	-	-	56	(5)	(43)
	2 766	**5 317**			**827**	**3 189**	**12**	**307**
Impairment					**(340)**	**(340)**		
					487	**2 849**		

The movement of this heading is as follows:

(thousand euros)

	31.12.2018	31.12.2017
Opening balance	2 849	6 591
Disposals and other reimbursements	(1 851)	(3 692)
Net Income from associated companies	12	307
Other comprehensive income from associates	(510)	(522)
Impairment of the financial year	(13)	165
Closing balance	**487**	**2 849**

In 2018, the Haitong Capital Group - SC received 1,813 million euros from the Espírito Santo IBERIA I fund.

NOTE 28 – OTHER ASSETS

As at 31st of December 2018 and 2017, the Other Assets heading is analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Debtors and other assets		
Collateral deposited under collateral agreements (Note 40)	148 113	151 316
Supplies, supplementary capital instalments and subordinated assets	21	21
Public sector	38 097	39 186
Deposits placed under margin accounts (futures contracts)	6 795	4 653
Other sundry debtors	17 456	18 951
	210 482	214 127
Impairment losses for debtors and other investments (Note 32)	(8 781)	(12 675)
	201 701	**201 452**
Other assets		
Gold, other precious metals, numismatic, medals and other liquid assets	4 631	2 246
Other assets	5 480	5 574
	10 111	**7 820**
Prepayments and deferred costs	**807**	**2 103**
Other sundry assets		
Exchange transactions pending settlement	4 444	-
Market securities transactions pending settlement	38 228	67 794
Retirement pensions (Note 14)	-	482
Other transactions pending settlement	5 769	14 048
	48 441	**82 324**
	261 060	**293 699**

Stock exchange transactions pending settlement refer to transactions with securities recorded at the trade date pending settlement.

NOTE 29 – RESOURCES OF CREDIT INSTITUTIONS

The resources of credit institutions heading is presented as follows:

(thousand euros)

	31.12.2018	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	-	388
Repurchase agreements	292	11 313
	292	**20 701**
Foreign		
Deposits	2 251	38 038
Loans	-	750 000
Repurchase agreements	251 043	254 418
Other resources	45 371	56 354
	298 665	**1 098 810**
	358 957	**1 179 511**

As at 31st of December 2018 and 2017, the analysis of resources of credit institutions by residual maturity period is as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	237 412	277 849
From three months to one year	20	96 435
From one to five years	78 530	754 249
More than five years	42 995	50 978
	358 957	**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)

	31.12.2018	31.12.2017
Repayable on demand		
Demand deposits	11 357	59 904
Time deposits		
Fixed-term deposits	263 149	447 344
Other resources		
Repurchase agreements	124 910	7 659
Other Deposits	756	1 019
Other	34	38
	125 700	**8 716**
	400 206	**515 964**

As at 31st of December 2018 and 2017, the analysis of due to customers by residual maturity period is as follows:

(thousand euros)

	31.12.2018	31.12.2017
Demand deposits	11 357	59 942
Fixed-term deposits		
Up to 3 months	217 151	128 989
3 to 12 months	150 398	265 311
1 to 5 years	21 300	61 722
	388 849	456 022
	400 206	**515 964**

NOTE 31 – DEBT SECURITIES ISSUED

The debt securities issued heading can be divided as follows:

(thousand euros)

	31.12.2018	31.12.2017
Debt securities issued		
Euro Medium Term Notes	-	214 493
Other Bonds	162 612	28 293
	162 612	**242 786**

The fair-value of the portfolio regarding debt securities issued is presented in Note 40.

During 2018, Haitong Bank Group issued securities amounting to 154,889 thousand euros (31st of December 2017: 16,035 thousand euros), where 93,090 thousand euros were reimbursed (31st of December 2017: 131,583 thousand euros).

As at 31st of December 2018 and 2017, the residual duration of the debt securities issued is as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	1 312	10 419
From three months to one year	8 194	66 495
From one to five years	153 106	165 872
	162 612	**242 786**

As at 31st of December 2017 and 2016, the reconciliation of the flows from this financing activity is as follows:

(thousand euros)

	31.12.2018	31.12.2017
Opening balance	**242 786**	**341 567**
Cash Flows	61 799	(115 548)
Fair Value adjustments	(3 332)	14 797
Transfer to activities to be discontinued	(141 787)	-
Others	3 146	1 970
Final balance	**162 612**	**242 786**

The main characteristics of the debt securities issued is as follows:

(thousand euros)

Issuer	Designation	Currency	Issue Date	31.12.2018 Book Value	Maturity	Interest Rate
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLF12P2	BRL	2018	53245	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI211	BRL	2017	267	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI229	BRL	2017	265	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI237	BRL	2017	523	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI245	BRL	2017	522	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI252	BRL	2017	899	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI260	BRL	2017	205	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI278	BRL	2017	333	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI286	BRL	2017	255	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI294	BRL	2017	572	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2A4	BRL	2017	805	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2B2	BRL	2017	752	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2C0	BRL	2017	1989	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2D8	BRL	2017	1303	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2E6	BRL	2017	989	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2F3	BRL	2017	989	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2G1	BRL	2017	321	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2H9	BRL	2017	390	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2I7	BRL	2018	241	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2J5	BRL	2018	240	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2K3	BRL	2018	1203	2020	CDI 113,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2L1	BRL	2018	240	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2M9	BRL	2018	955	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2N7	BRL	2018	715	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2O5	BRL	2018	1917	2023	IPCA 100%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Q0	BRL	2018	94	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2R8	BRL	2018	1817	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2S6	BRL	2018	2873	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2T4	BRL	2018	328	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2U2	BRL	2018	515	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2V0	BRL	2018	7028	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2W8	BRL	2018	2338	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2X6	BRL	2018	234	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Y4	BRL	2018	2332	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Z1	BRL	2018	465	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI302	BRL	2018	1860	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI310	BRL	2018	1768	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI328	BRL	2018	105	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI336	BRL	2018	767	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI344	BRL	2018	1674	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI351	BRL	2018	1813	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI369	BRL	2018	872	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI377	BRL	2018	418	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI385	BRL	2018	732	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI393	BRL	2018	697	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3A2	BRL	2018	384	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3B0	BRL	2018	697	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3C8	BRL	2018	1046	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3D6	BRL	2018	1325	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3E4	BRL	2018	1393	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3F1	BRL	2018	3481	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3G9	BRL	2018	2320	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3H7	BRL	2018	696	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3I5	BRL	2018	3945	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3J3	BRL	2018	3478	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3K1	BRL	2018	139	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3L9	BRL	2018	2314	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3M7	BRL	2018	694	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3O3	BRL	2018	5777	2020	CDI 111,25%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3P0	BRL	2018	231	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3Q8	BRL	2018	693	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3R6	BRL	2018	346	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3S4	BRL	2018	691	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3T2	BRL	2018	1151	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3V8	BRL	2018	1727	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3W6	BRL	2018	92	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3X4	BRL	2018	2303	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3Y2	BRL	2018	460	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3Z9	BRL	2018	2299	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI401	BRL	2018	230	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI419	BRL	2018	2070	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI427	BRL	2018	4600	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI435	BRL	2018	138	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI443	BRL	2018	2299	2020	CDI 111%

(thousand euros)

Issuer	Designation	Currency	Issue Date	31.12.2018 Book Value	Maturity	Interest Rate
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLF12P2	BRL	2018	53245	2020	CDI 114%
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HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI237	BRL	2017	523	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI245	BRL	2017	522	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI252	BRL	2017	899	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI260	BRL	2017	205	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI278	BRL	2017	333	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI286	BRL	2017	255	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI294	BRL	2017	572	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2A4	BRL	2017	805	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2B2	BRL	2017	752	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2C0	BRL	2017	1989	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2D8	BRL	2017	1303	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2E6	BRL	2017	989	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2F3	BRL	2017	989	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2G1	BRL	2017	321	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2H9	BRL	2017	390	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2I7	BRL	2018	241	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2J5	BRL	2018	240	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2K3	BRL	2018	1203	2020	CDI 113,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2L1	BRL	2018	240	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2M9	BRL	2018	955	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2N7	BRL	2018	715	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2O5	BRL	2018	1917	2023	IPCA 100%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Q0	BRL	2018	94	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2R8	BRL	2018	1817	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2S6	BRL	2018	2873	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2T4	BRL	2018	328	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2U2	BRL	2018	515	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2V0	BRL	2018	7028	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2W8	BRL	2018	2338	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2X6	BRL	2018	234	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Y4	BRL	2018	2332	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2Z1	BRL	2018	465	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI302	BRL	2018	1860	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI310	BRL	2018	1768	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI328	BRL	2018	105	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI336	BRL	2018	767	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI344	BRL	2018	1674	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI351	BRL	2018	1813	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI369	BRL	2018	872	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI377	BRL	2018	418	2020	CDI 114%
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HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI393	BRL	2018	697	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3A2	BRL	2018	384	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3B0	BRL	2018	697	2020	CDI 114%
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HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3D6	BRL	2018	1325	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3E4	BRL	2018	1393	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3F1	BRL	2018	3481	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3G9	BRL	2018	2320	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3H7	BRL	2018	696	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3I5	BRL	2018	3945	2020	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3J3	BRL	2018	3478	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3K1	BRL	2018	139	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3L9	BRL	2018	2314	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3M7	BRL	2018	694	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3O3	BRL	2018	5777	2020	CDI 111,25%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3P0	BRL	2018	231	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3Q8	BRL	2018	693	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3R6	BRL	2018	346	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3S4	BRL	2018	691	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3T2	BRL	2018	1151	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3V8	BRL	2018	1727	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3W6	BRL	2018	92	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3X4	BRL	2018	2303	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3Y2	BRL	2018	460	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI3Z9	BRL	2018	2299	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI401	BRL	2018	230	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI419	BRL	2018	2070	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI427	BRL	2018	4600	2020	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI435	BRL	2018	138	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI443	BRL	2018	2299	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI450	BRL	2018	147	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI468	BRL	2018	92	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI476	BRL	2018	92	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI484	BRL	2018	138	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI492	BRL	2018	1148	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4A0	BRL	2018	69	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4B8	BRL	2018	1145	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4C6	BRL	2018	1144	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4D4	BRL	2018	183	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4E2	BRL	2018	1140	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4F9	BRL	2018	228	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4G7	BRL	2018	228	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4H5	BRL	2018	911	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4I3	BRL	2018	136	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4J1	BRL	2018	2273	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4K9	BRL	2018	681	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4L7	BRL	2018	2042	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4M5	BRL	2018	68	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4N3	BRL	2018	68	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4O1	BRL	2018	136	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4P8	BRL	2018	510	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4Q6	BRL	2018	2685	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4R4	BRL	2018	1111	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4S2	BRL	2018	90	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4T0	BRL	2018	34	2020	CDI 111%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI4U8	BRL	2018	137	2020	CDI 111%
HT_BR	COE BRINTLOE00G6	BRL	2018	92	2019	PRÉ 7,8932%
				162 612		

NOTE 32 – PROVISIONS AND IMPAIRMENT

As at 31st of December 2018 and 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	9 919	322	10 241
Write back	(5 438)	-	(5 438)
Foreign exchange differences and others	156	(115)	41
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	2 747	58	2 805
Write back	(2 389)	-	(2 389)
Foreign exchange differences and others	1 214	(114)	1 100
Balance as at 31st December 2018	**13 377**	**1 825**	**15 202**

In 2017, the Group recognized provisions for other risks and charges in the amount of 1,342 thousand euros related to the Social Plan in progress on that date (Note 14). In 2018, 1 251 thousand euros were used for payments made in this context.

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	Transfer to discontinued operations	Exchange differences and others	31.12.2018
Cash and cash equivalents (Note 18)	-	8	(4)	-	-	(2)	(1)	1
Financial assets measured at fair value through other comprehensive income (Note 21)		27 470	4 000	(26 998)	424	(85)	(2 969)	1 842
Financial assets held-for-sale (Note 21)	41 454	(41 454)	-	-	-	-	-	-
Financial assets measured at amortized cost								
Loan and advances to banks (Note 22)	15 388	448	(264)	-	-	-	12	15 584
Loan and advances to customers (Note 23)	120 217	185	19 088	(66 237)	370	(51 911)	(127)	21 585
Securities (Note 21)	-	-	448	-	-	-	-	448
Investments in associated companies (Note 27)	340	-	13	(13)	-	-	-	340
Other assets (Note 28)	12 675	274	309	(133)	-	(4 152)	(192)	8 781
	190 074	**(13 069)**	**23 590**	**(93 381)**	**794**	**(56 150)**	**(3 277)**	**48 581**

(thousand euros)

	31.12.2016	Net charge of the period	Net charge of the period from dicontinued operations	Write back	Exchange differences and others	31.12.2017
Financial assets held-for-sale (Note 21)	46 861	24 328	-	(23 681)	(6 054)	41 454
Financial assets measured at amortized cost						
Loan and advances to banks (Note 22)	15 419	11	-	-	(42)	15 388
Loan and advances to customers (Note 23)	255 949	43 487	5 716	(179 438)	(5 497)	120 217
Investments in associated companies (Note 27)	5 930	(165)	-	(5 425)	-	340
Other assets (Note 28)	13 808	927	1 902	(3 550)	(412)	12 675
	337 967	**68 588**	**7 618**	**(212 094)**	**(12 005)**	**190 074**

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 2018 and 2017 were 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.

In order to determine the current tax for the year ending on the 31st of December 2018 and 2017, the Decree-Law no. 127/2012 of December 31st, responsible for the normalisation of the transfer of liabilities linked to the burden with retirement and survivor's pensions to Social Security was taken into account together with article 183 of Law no. 64-B/2011 of December 30th (State Budget Law for 2012), establishing a special scheme for tax deduction of expenses and other asset variations from that transfer:

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

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

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date. Thus, for fiscal year 2018 deferred tax was calculated at the rate of 26% versus 27.5% for fiscal year 2017 (approximated values).

The Group's self-assessment declarations relating to the 2018 and previous financial years are subject to inspection and possible adjustment by the Tax Authorities for a period of four years, except where any deduction or tax credit has been made, where the term is the exercise of that right. As a result, additional tax assessments may be possible due to different interpretations of tax legislation. However, it is the Bank's belief that there will be no additional settlements of significant value in the context of the individual financial statements.

Special Scheme Applicable to Deferred Tax Assets

In 2014, Haitong Bank joined the special scheme applicable to deferred tax assets (REAID) related to impairment losses in credits and post-employment or long-term employee benefits, established by Law no. 61/2014, of August 26th. For the purpose of this scheme, the conversion of the mentioned assets in tax credits is expected in the following situations:

- Determining net losses;
- Voluntary winding-up, court insolvency or, when applicable, with the withdrawal of the corresponding authorisation by the competent supervising authority.

As at 31st of December 2015, Haitong Bank determined a tax credit of 5,869 thousand euros, which corresponds to a special reserve of 6,456 thousand euros recorded during the year of 2016.

As at 31st of December 2016, Haitong Bank determined a tax credit of 22,856 thousand euros, which corresponds to a special reserve of 25,141 thousand euros recorded during the year of 2017.

As at 31st of December 2017, Haitong Bank determined a tax credit of 10,057 thousand euros, which corresponds to a special reserve of 11,063 thousand euros recorded during the year of 2018.

As at 31st of December 2018, Haitong Bank determined a net loss within its individual financial statements, for which it shall, and upon approval of the statements, convert the deferred taxes covered by this scheme into tax credits proportionally, between net profit and loss and equity, as well as establish a special reserve and conversion of debt into equity rights in 2019, attributable to the Portuguese Government.

In pursuance of the abovementioned scheme, such conversion rights correspond to securities that grant the Government the right to request Haitong Bank to issue and deliver ordinary shares at no charge, following the increase in share capital through the inclusion of the reserve value. However, Haitong Bank´s shareholders are granted the right to acquire those conversion rights in accordance with Ordinance no. 293-A/2016 of November the 18th.

In the event that the shareholders do not exercise the right to acquire the conversion rights issued and attributed to the Portuguese State within the period established for that purpose, in the year in which the State exercises these rights, it will require the Bank to increase its capital by incorporating the amount of the special reserve and consequent issue and free delivery of ordinary shares representing the capital stock of the Bank, and it may be necessary to adjust the amount of the reserve initially constituted.

Indeed, in that year it will be necessary to recalculate the reference value of the rights and if it is different from the nominal value of the shares, it will be necessary to adjust the value of the special reserve. If this were to occur in 2019, and taking into account the amounts of the financial statements as at 31 December 2018, as well as the amount of tax credits converted by reference to the years 2015, 2016 and 2017, estimated value of 21,728 thousand euros.

The amount of assets by deferred taxes converted into tax credit, the establishment of the special reserve and the issuing and granting of conversion rights to the Government shall be certified by the certified public accountant.

It is important to note that, in accordance with Law no. 23/2016 of August the 19th, the special scheme applicable to deferred tax assets (REAID) stopped being applicable to expenses and other negative asset variations accounted for in previous tax periods starting on or after the 1st of January 2016.

In February 2019, the Bank was notified of a Draft Report of the Tax Inspection issued by the Tax and Customs Authority regarding an external inspection, general in scope, for the year 2015. In this draft report, certain procedures adopted by the Bank, within the REAID are being questioned. The Bank is still analyzing this project and defining the strategy to challenge possible corrections and to estimate the impacts that such possible corrections may have in the year 2015 , as well as possible repercussions in subsequent years. The Board of Directors believes that any corrections, if confirmed, will not have a material impact on the Bank's equity and net income as of December 31, 2018.

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 31st of December 2018 and 2017, current tax assets and liabilities can be analyzed as follows:

(thousand euros)

	Asset		Liabiity	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Corporate income tax	5 578	5 345	(2 817)	(3 231)
Tax Credit (Special Scheme for Deferred Taxes)	38 782	28 725	-	-
Current tax asset / (liability)	**44 360**	**34 070**	**(2 817)**	**(3 231)**

Deferred tax assets and liabilities recognized in the statement of financial position as at 31st of December 2018 and 2017 can be analyzed as follows:

(thousand euros)

	Asset		Liability		Net	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Derivative financial instruments	8 624	1 614	-	(2 257)	8 624	(643)
Securities	90	112	(855)	(2 960)	(765)	(2 848)
Loans and advances to customers	50 666	63 368	-	-	50 666	63 368
Provisions	21 327	32 278	-	-	21 327	32 278
Pension Fund	3 909	3 623	(1)	(2)	3 908	3 621
Other	18	435	(21)	(531)	(3)	(96)
Tax losses carried forward	43 365	40 273	-	-	43 365	40 273
Deferred tax asset/(liability)	**127 999**	**141 703**	**(877)**	**(5 750)**	**127 122**	**135 953**
Assets / liabilities compensation for deferred taxes	-	(2 676)	-	2 676	-	-
Net deferred tax asset / (liability)	**127 999**	**139 027**	**(877)**	**(3 074)**	**127 122**	**135 953**

The Group only recognizes deferred tax assets in relation to reportable tax losses when it considers that they are expected to be recovered in the near future.

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

(thousand euros)

	31.12.2018	31.12.2017
Opening balance	135 953	143 990
IFRS 9 transition impact (Note 41)	194	-
Recognised in profit or loss	4 558	23 072
Recognised in net profit of discontinued operations	-	31
Recognised in fair value reserves	2 470	(2 996)
Recognised in other reserves	388	66
Foreign exchange variation and others	(16 441)	(28 210)
Closing balance (Asset / (Liability))	**127 122**	**135 953**

Tax recognised in the income statement and reserves during the 2018 and 2017 financial years had the following sources:

(thousand euros)

	31.12.2018		31.12.2017	
	Recognised in profit or loss	Recognised in reserves	Recognised in profit or loss	Recognised in reserves
Deferred Taxes				
Derivative financial instruments	(9 267)	-	(4 713)	-
Securities	422	(2 485)	3 983	2 997
Loans and advances to customers	2 562	-	29 470	-
Provisions	10 950	-	(23 034)	-
Pension Fund	208	(373)	10	(67)
Other	(3 759)	-	(29 986)	-
Tax losses carried forward	(5 674)	-	1 198	-
	(4 558)	(2 858)	(23 072)	2 930
Current Taxes	11 912	-	3 762	-
Total recognised tax	**7 354**	**(2 858)**	**(19 310)**	**2 930**

Reconciliation of the tax rate, concerning the recognised amount in the income statement, can be analysed as follows:

(thousand euros)

	31.12.2018		31.12.2017	
	%	Value	%	Value
Profit or loss before tax and Non-controlling interests		**(5 420)**		**(135 970)**
Income tax rate of Haitong Bank	21,0		21,0	
Tax determined based on the income tax rate of Haitong Bank		(1 138)		(28 554)
Difference in the tax rate of subsidiaries	(35,4)	1 916	9,3	(12 615)
Tax benefits	0,0	-	0,5	(646)
Profits in units with most favorable tax regimes	9,9	(538)	0,2	(288)
Non-taxable capital gains	12,2	(659)	3,5	(4 748)
No taxable gains	(64,7)	3 508	0,0	-
Deferred tax asset not recognised on tax losses generated in the financial year	(8,6)	467	(16,8)	22 829
Differences arising from consolidation	21,2	(1 147)	0,0	-
Non-deductible costs	(65,9)	3 574	(1,0)	1 346
Other	(25,3)	1 371	(2,5)	3 366
	(135,7)	**7 354**	**14,2**	**(19 310)**

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 31st of December 2018, the Group recognised an expense of euro 1,782 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 31st of December 2018 and 2017, the Other liabilities heading is analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Creditors and other resources		
Public sector	12 817	10 055
Deposited collateral under collateral agreements (Note 20)	-	11 928
Sundry creditors		
Creditors from transactions with securities	16 683	21 114
Suppliers	1 459	2 420
Other sundry creditors	6 252	3 939
	37 211	**49 456**
Accrued expenses		
Career bonuses (see Note 15)	485	498
Other accrued expenses	9 847	12 873
	10 332	**13 371**
Deferred income	**340**	**3 958**
Other sundry liabilities		
Stock exchange transactions pending settlement	35 589	85 158
Foreign exchange transactions pending settlement	4 462	2 028
Other transactions pending settlement	39 592	3 069
	79 643	**90 255**
Retirement pensions (see Note 15)	**3 018**	**-**
	130 544	**157 040**

As at 31st of December 2018 and 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.

Following the decision from the Management Committee, the Group is preparing the sale of its Irish subsidiary Haitong Investment Ireland plc.

This sale would take place inside Haitong Group and it allows Haitong Bank Group to achieve important milestones:

- Further simplify Haitong Bank's corporate and business structure;
- Improve the quality of Haitong Bank's assets as part of the legacy portfolio is booked by the Irish subsidiary;
- Increase RWA's and capital position.

This sale is dependent on the execution of the customary contractual agreements and conditions precedent.

The sale is estimated to be completed until the end of 2019.

As a consequence of this decision, the Irish subsidiary's assets and liabilities were reclassified to "Assets and liabilities of discontinuing units". Also in accordance with the requirements of IFRS 5 - "Non-current assets held for sale and discontinued operations", the results generated by this entity is presented in a single line of the Income Statements ("Net profit of discontinued operations"). Comparative period has been restated accordingly.

The Group 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 in 2018 and 2017 is decomposed as follows:

(thousand euros)

		31.12.2018	31.12.2017
	Sell price *	10 167	10 453
	Haitong UK Equity as of February 23, 2018	7 803	7 789
	Consolidated Loss	2 364	-
(+)	Foreign exchange reserve reclassification to profit and loss	593	-
(+)	Haitong (UK) Limited Net Losses of the period	(56)	(9 638)
	Haitong (UK) Limited Net Profit of discontinued operations	**2 901**	**(9 638)**
	Sell price *	13 642	13 990
	Haitong Securities USA LLC Equity as of February 23, 2018	1 268	3 066
	Consolidated Loss	12 374	-
(+)	Foreign exchange reserve reclassification to profit and loss	(308)	-
(+)	Haitong Securities USA LLC Net Losses of the period	(1 736)	(9 914)
	Haitong Securities USA LLC Net Profit of discontinued operations	**10 330**	**(9 914)**
(+)	Haitong Investment Ireland PLC Net Losses of the period	1 123	(219)
(+)	Consolidation Adjustments	(133)	-
	Haitong Investment Ireland PLC Net Profit of discontinuing operations	**990**	**(219)**
	Net Profit of discontinuing operations	**14 221**	**(19 771)**

* Amounts in dollars converted in euros considering day of transaction exchange rates, February 23, 2018

For consolidation purposes of the discontinued operations assets and liabilities, the intragroup transactions with impact in the statement of financial position are eliminated, according to the following detail:

(thousand euros)

	31.12.2018	31.12.2017
Haitong (UK) Limited Total Assets as of December 31, 2017	-	13 016
Intragroup transactions	-	(2 546)
	-	**10 470**
Haitong Securities USA LLC Total Assets as of December 31, 2017	-	9 889
	-	**9 889**
Haitong Investment Ireland PLC Total Assets as of December 31, 2017	1 297 954	-
Intragroup transactions	(1 084 034)	-
	213 920	**-**
Assets of discontinuing operations	**213 920**	**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
Intragroup transactions	-	(6 129)
	-	**693**
Haitong Investment Ireland PLC Total Liabilities as of December 31, 2018	1 141 687	-
Intragroup transactions	(238 518)	-
	903 169	**-**
Liabilities of discontinuing operations	**903 169**	**5 920**

HAITONG UK LIMITED GROUP

Consolidated Balance sheet 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	31.12.2017
Interest and similar expense	-	25
Financial margin	**-**	**(25)**
Fees and commissions income	519	8 126
Fees and commissions expenses	-	(536)
Net trading income	-	(13)
Net gains/(losses) from foreign exchange revaluation	(62)	32
Net gains/(losses) arising from the disposal of other assets	-	(2)
Other operating results	981	(1 917)
Operating Income	**1 438**	**5 665**
Employee costs	241	9 846
Administrative costs	254	5 202
Depreciation and amortisation	999	255
Operating expenses	**1 494**	**15 303**
Profit / (Loss) before Income Tax	**(56)**	**(9 638)**
Net Profit / (Loss) for the period	**(56)**	**(9 638)**

HAITONG SECURITIES USA LLC

Individual Balance sheet 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	(8 166)	1 525
Net profit/(loss) for the period attributable shareholders of the parent company	(1 736)	(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	31.12.2017
Interest and similar expense	19	241
Financial margin	**(19)**	**(241)**
Fees and commissions income	3 089	8 509
Fees and commissions expenses	(11)	(449)
Other operating results	(4)	(74)
Operating Income	**3 055**	**7 745**
Employee costs	3 052	11 257
Administrative costs	1 707	5 984
Depreciation and amortisation	32	417
Operating expenses	**4 791**	**17 658**
Profit / (Loss) before Income Tax	**(1 736)**	**(9 913)**
Income tax		
Current tax	-	(1)
	-	**(1)**
Net Profit / (Loss) for the period	**(1 736)**	**(9 914)**

HAITONG INVESTMENT IRELAND PLC

Individual Balance sheet
31st December 2018
(Unaudited)

(thousand euros)

	31.12.2018
Assets	
Cash and cash equivalents	2 120
Financial assets at fair value through profit or loss	50 888
Financial assets held for trading	47 585
Securities	418
Derivative financial assets	47 167
Non-trading financial assets mandatorily at fair value through profit or loss	3 303
Securities	3 303
Financial assets at fair value through other comprehensive income	256 534
Financial assets measured at amortised cost	977 660
Loans and advances to banks	749 563
Loans and advances to customers	228 097
Other tangible assets	3
Current income tax assets	5
Deferred income tax assets	2 091
Other assets	8 653
Total Assets	**1 297 954**
Liabilities	
Financial liabilities held for trading	50 427
Derivative financial liabilities	50 427
Financial liabilities measured at amortised cost	939 215
Resources of credit institutions	939 215
Financial liabilities designated at fair value through profit or loss	150 294
Debt securities issued	150 294
Current income tax liabilities	12
Other liabilities	1 739
Total Liabilities	**1 141 687**
Equity	
Share capital	825
Other equity instruments	150 000
Fair-value reserves	903
Other reserves and retained earnings	3 416
Net profit/(loss) for the year attributable shareholders of the parent company	1 123
Total equity attributable to the shareholders of the parent company	**156 267**
Total Equity and Liabilities	**1 297 954**

HAITONG INVESTMENT IRELAND PLC

Individual Statement of Financial Position
31st December 2018
(Unaudited)

(thousand euros)

	31.12.2018
Interest and similar income	30 601
Interest and similar expenses	30 054
Financial margin	**547**
Fees and commissions income	2 666
Fees and commissions expenses	(4 059)
Net trading income	8 197
Net gains / (losses) from foreign exchange differences	324
Net gain/(loss) from derecognition of financial assets measured at amortised cost	(6)
Other operating income and expense	(67)
Net income from other financial instruments at fair value through profit or loss	(5 556)
Operating Income	**2 046**
Employee costs	283
Administrative costs	275
Depreciations and amortisations	4
Net impairment loss on financial assets	195
Operating expenses	**757**
Profit / (Loss) before Income Tax	**1 289**
Income tax	
Current tax	(166)
	(166)
Net Profit / (Loss) for the year	**1 123**

The results of discontinued operations relating to Haitong Investment Ireland PLC of 31 December 2018 are broken down as follows:

(thousand euros)

	Individual	Adjustments	Net
Interest and similar income	30 601	-	30 601
Interest expense and similar charges	30 054	154	30 208
Financial margin	**547**	**(154)**	**393**
Fee and Commission income	2 666	-	2 666
Fee and Commission expense	(4 059)	-	(4 059)
Net trading income	8 197	173	8 370
Net gain/(loss) from derecognition of financial assets measured at FVTOCI	-	(157)	(157)
Net gains / (losses) from foreign exchange differences	324	-	324
Net gain/(loss) from derecognition of financial assets measured at amortised cost	(6)	-	(6)
Other operating income and expense	(67)	-	(67)
Net income from other financial instruments at FVTPL	(5 556)	3 834	(1 722)
Operating Income	**2 046**	**3 696**	**5 742**
Staff costs	283	(6)	277
General and administrative expenses	275	-	275
Depreciation and amortisation	4	-	4
Net impairment loss on financial assets	195	3 835	4 030
Operating expenses	**757**	**3 829**	**4 586**
Profit / (Loss) before Income Tax	**1 289**	**(133)**	**1 156**
Income tax			
Current tax	(166)	-	(166)
	(166)	-	(166)
Net Profit / (Loss) for the year	**1 123**	**(133)**	**990**

The assets and liabilities of discontinued activities of Haitong Investment Ireland PLC show the following amounts:

(thousand euros)

	Individual	Adjustments	Net
Assets			
Cash and cash equivalents	2 120	(1 828)	292
Financial assets at fair value through profit or loss	50 888	(16 634)	34 254
Financial assets held for trading	47 585	(13 331)	34 254
Securities	418	-	418
Derivative financial assets	47 167	(13 331)	33 836
Non-trading financial assets mandatorily at fair value through profit or loss	3 303	(3 303)	-
Securities	3 303	(3 303)	-
Financial assets at fair value through other comprehensive income	256 534	(252 058)	4 476
Financial assets measured at amortised cost	977 660	(813 487)	164 173
Loans and advances to banks	749 563	(749 563)	-
Loans and advances to customers	228 097	(63 924)	164 173
Other tangible assets	3	-	3
Current income tax assets	5	-	5
Deferred income tax assets	2 091	99	2 190
Other assets	8 653	(126)	8 527
Total Assets	**1 297 954**	**(1 084 034)**	**213 920**
Liabilities			
Financial liabilities held for trading	50 427	(38 876)	11 551
Derivative financial assets	50 427	(38 876)	11 551
Financial liabilities measured at amortised cost	939 215	(189 658)	749 557
Deposits from banks	939 215	(189 658)	749 557
Financial liabilities designated at fair value through profit or loss	150 294	(8 507)	141 787
Debt securities issued	150 294	(8 507)	141 787
Current income tax liabilities	12	-	12
Other liabilities	1 739	(1 477)	262
Total Liabilities	**1 141 687**	**(238 518)**	**903 169**

In the table below it is presented the gross exposure by financial instrument, internal rating bucket, impairment stage and days of overdue in what concerns the non-current assets held for sale corresponding to the Ireland portfolio.

(thousand euros)

Ireland 'Non-current assets held for sale' under IFRS5	Banks		Commercial & Professional Services		Construction & Engineering		Health Care		Power		Transportation Infrastructure		Total	
Asset Type / Stage / Rating class	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment
Cash and cash equivalents	**292**	-	-	-	-	-	-	-	-	-	-	-	**292**	-
Stage 1	**292**	-	-	-	-	-	-	-	-	-	-	-	**292**	-
[aaa+;a-]	256	-	-	-	-	-	-	-	-	-	-	-	**256**	-
[bbb+;bbb-]	36	-	-	-	-	-	-	-	-	-	-	-	**36**	-
Loans and advances to customers	-	-	**8 635**	**6 276**	**51 343**	**33 929**	**17 952**	**121**	**62 638**	**723**	**79 599**	**14 945**	**220 167**	**55 994**
Stage 1	-	-	-	-	-	-	**9 353**	**4**	**36 954**	**291**	**3 714**	**4**	**50 021**	**299**
[bbb+;bbb-]	-	-	-	-	-	-	9 353	4	-	-	3 714	4	13 067	8
[bb+;bb-]	-	-	-	-	-	-	-	-	14 294	70	-	-	14 294	70
[b+;b-]	-	-	-	-	-	-	-	-	22 660	221	-	-	22 660	221
Stage 2	-	-	-	-	-	-	**8 599**	**117**	**25 684**	**432**	**15 211**	**182**	**49 494**	**731**
[bbb+;bbb-]	-	-	-	-	-	-	-	-	7 040	35	-	-	7 040	35
[bb+;bb-]	-	-	-	-	-	-	-	-	8 761	44	-	-	8 761	44
[b+;b-]	-	-	-	-	-	-	8 599	117	9 883	353	15 211	182	33 693	652
Stage 3	-	-	**8 635**	**6 276**	**51 343**	**33 929**	-	-	-	-	**60 674**	**14 759**	**120 652**	**54 964**
[d]	-	-	8 635	6 276	51 343	33 929	-	-	-	-	60 674	14 759	120 652	54 964
Banking Book Debt Securities	-	-	-	-	**4 555**	**79**	-	-	-	-	-	-	**4 555**	**79**
Stage 1	-	-	-	-	**4 555**	**79**	-	-	-	-	-	-	**4 555**	**79**
[b+;b-]	-	-	-	-	4 555	79	-	-	-	-	-	-	4 555	79
Total	**292**	-	**8 635**	**6 276**	**55 898**	**34 008**	**17 952**	**121**	**62 638**	**723**	**79 599**	**14 945**	**225 014**	**56 073**

(thousand euros)

Ireland 'Non-current assets held for sale' under IFRS5	Banks		Commercial & Professional Services		Construction & Engineering		Health Care		Power		Transportation Infrastructure		Total	
Asset Type / Stage / Past Due Status	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment	Gross Exposure	Impairment
Cash and cash equivalents	**292**	-	-	-	-	-	-	-	-	-	-	-	**292**	-
Stage 1	**292**	-	-	-	-	-	-	-	-	-	-	-	**292**	-
No overdue	292	-	-	-	-	-	-	-	-	-	-	-	292	-
Loans and advances to customers	-	-	**8 635**	**6 276**	**51 343**	**33 929**	**17 952**	**121**	**62 638**	**723**	**79 599**	**14 945**	**220 167**	**55 994**
Stage 1	-	-	-	-	-	-	**9 353**	**4**	**36 954**	**291**	**3 714**	**4**	**50 021**	**299**
No overdue	-	-	-	-	-	-	9 353	4	36 954	291	3 714	4	50 021	299
Stage 2	-	-	-	-	-	-	**8 599**	**117**	**25 684**	**432**	**15 211**	**182**	**49 494**	**731**
No overdue	-	-	-	-	-	-	8 599	117	25 684	432	15 211	182	49 494	731
Stage 3	-	-	**8 635**	**6 276**	**51 343**	**33 929**	-	-	-	-	**60 674**	**14 759**	**120 652**	**54 964**
No overdue	-	-	2 644	611	22 578	8 467	-	-	-	-	-	-	25 222	9 078
More than 181 days	-	-	5 991	5 665	28 765	25 462	-	-	-	-	60 674	14 759	95 430	45 886
Banking Book Debt Securities	-	-	-	-	**4 555**	**79**	-	-	-	-	-	-	**4 555**	**79**
Stage 1	-	-	-	-	**4 555**	**79**	-	-	-	-	-	-	**4 555**	**79**
No overdue	-	-	-	-	4 555	79	-	-	-	-	-	-	4 555	79
Total	**292**	-	**8 635**	**6 276**	**55 898**	**34 008**	**17 952**	**121**	**62 638**	**723**	**79 599**	**14 945**	**225 014**	**56 073**

At 31 December 2018 and 2017, the resources from credit institutions refers to a loan agreement the Company entered with a banking syndicate in the amount of 750,000 thousand euros, of which 375,000 thousand euros is due in June 2019 and 375,000 thousand euros in June 2021. The ultimate shareholder Haitong Securities Co., Ltd. has provided a guarantee to the banking syndicate.

The main characteristics of the debt securities issued of Haitong Investment Ireland PLC is as follows:

(thousand euros)

Issuer	Designation		Currency	Issue Date	Book Value	Maturity	Interest Rate
				31.12.2018			
HTI PLC	ESIP 5Y CLN BRISA MAR2019	a)	EUR	2014	6254	2019	5.65% + Brisa CLN
HTI PLC	ESIP 6Y CLN BASKET 0 REC MAR20	a)	EUR	2014	104	2020	5.5% + g)
HTI PLC	ESIP APR2019 PT EDP GALP LINKED	a)	EUR	2014	4172	2019	k)
HTI PLC	ESIP 7Y SAN GDF SANOFI LKD APR21	a)	EUR	2014	361	2021	h)
HTI PLC	ESIP 7Y SAN GDF LINKED APR21 2	a)	EUR	2014	423	2021	5.5% + i)
HTI PLC	ESIP 5Y CLN BASKET JUN2019 4 (MTN-S-821)	a)	EUR	2014	1926	2019	6% + j)
HTI PLC	ESIP MAY19 BASKET LKD	a)	EUR	2014	4475	2019	n)
HTI PLC	ESIP MAY19 PSI IBEX FTSEMIB LKD	a)	EUR	2014	4639	2019	o)
HTI PLC	HIIP CPN SD3E DEC2022 (MTN-S-902)	a)	EUR	2018	991	2022	Partcipation SD3E
HTI PLC	HIIP CPN SD3E DEC2022 (MTN-S-903)	a)	EUR	2018	969	2022	Partcipation SD3E
HTI PLC	ESIP 5Y CLN PETROBRAS USD JUN19	a)	USD	2014	878	2019	5.15% + Petrobras CLN
HTI PLC	ESIP 5Y CLN THYSSEN EUR JUN19 10	a)	EUR	2014	4047	2019	4.35% + ThyssenKrupp AG CLN
HTI PLC	ESIP PORTUGUESE REP CLN DEC2021	a)	EUR	2011	555	2021	6% + Republica Portuguesa CLN
HTI PLC	ESIP APR2019 RECOV BASKET LINKED	a)	EUR	2012	71	2019	b)
HTI PLC	ESIP 5Y CLN BASKET EUR JUN19 11	a)	EUR	2014	2627	2019	5.9% + i)
HTI PLC	ESIP 5Y CLN BASKET EUR JUN19 13 (MTN-S-853)	a)	EUR	2014	3039	2019	6% + p)
HTI PLC	ESIP 5Y CLN PEUGEOT JUN19 15 (MTN-S-862)	a)	EUR	2014	1446	2019	4.15% + Peugeot CLN
HTI PLC	ESIP 5Y CLN BASKET JUN19 16	a)	EUR	2014	1791	2019	5% + q)
HTI PLC	ESIP APR2020 BES PROTECCAO LKD	a)	EUR	2012	660	2020	Inflation Linked
HTI PLC	ESIP BASKET OCT2019 EQL2	a)	EUR	2012	1334	2019	REP e BSCH Linked
HTI PLC	ESIP 5Y CLN GALP JUN20	a)	EUR	2015	2452	2020	4.15% + GALP CLN
HTI PLC	ESIP 5Y CLN ARC MIT JUN20 (MTN-S-871)	a)	EUR	2015	12911	2020	4.4% + ARCELORMITTAL CLN
HTI PLC	ESIP AUTOCALL JAN20 EQL	a)	EUR	2013	396	2020	c)
HTI PLC	ESIP CLN COMPORTA OCT2020	a)	EUR	2013	300	2020	d)
HTI PLC	ESIP EUR 6Y CLN EDP DEC19 (MTN-S-763)	a)	EUR	2013	476	2019	6.25% + EDP CLN
HTI PLC	HIIP EQF OMEAEHA JUL2023 (MTN-S-904)	a)	EUR	2018	1147	2023	Equity Performance
HTI PLC	ESIP 5Y FTD EUROPE MAR2019	a)	EUR	2014	6024	2019	6% + g)
HTI PLC	HIIP CLN FIAT DEC2020 (MTN-S-884)	a)	EUR	2015	993	2020	4.55% + Fiat CLN
HTI PLC	ESIP 5Y CLN ARCELORMITT 4 JUN20 (MTN-S-874)	a)	EUR	2015	6209	2020	4.4% + ARCELORMITTAL CLN
HTI PLC	ESIP 5Y CLN ALTICE JUN20 (MTN-S-873)	a)	EUR	2015	4309	2020	5.35% + ALTICE CLN
HTI PLC	ESIP 5Y CLN PETROBRAS JUN2019 7	a)	EUR	2014	5359	2019	4.75% + Petrobras CLN
HTI PLC	ESIP APR2019 PT EDP GALP LINKED6	a)	EUR	2014	4467	2019	k)
HTI PLC	ESIP BASKET CLN JUL2020	a)	EUR	2015	3801	2020	3% e r)
HTI PLC	ESIP BASKET CLN SEP2020 USD II	a)	USD	2015	438	2020	5.6% + s)
HTI PLC	ESIP APR2019 PT EDP GALP LINKED7	a)	EUR	2014	3879	2019	k)
HTI PLC	ESIP MAY2019 PT EDP GALP LINKED	a)	EUR	2014	4180	2019	l)
HTI PLC	ESIP BASKET CLN SEP2020 EUR IV	a)	EUR	2015	1728	2020	3% e 4.65% t)
HTI PLC	ESIP BASKET CLN SEP2020 EUR III	a)	EUR	2015	1038	2020	5.25% + u)
HTI PLC	ESIP 5Y CLN BASKET JUN2020 5	a)	EUR	2014	105	2020	6.75% + m)
HTI PLC	HIIP DUAL CLN BASKET SEP2020 EUR III	a)	EUR	2015	1796	2020	3% e 5.4% t)
HTI PLC	HIIP BASKET CLN SEP2020 EUR (MTN-S-882)	a)	EUR	2015	7673	2020	5.8% + v)
HTI PLC	HIIP CLN BASKET DEC2020 (MTN-S-885)	a)	EUR	2015	3710	2020	5% + w)
HTI PLC	HIIP CLN BASKET DEC2020 (MTN-S-886)	a)	EUR	2015	3578	2020	5% + x)
HTI PLC	HIIP CLN BASKET DEC2020 (MTN-S-888)	a)	EUR	2015	5326	2020	4.5% + x)
HTI PLC	HIIP CLN BASKET DEC2020 (MTN-S-890)	a)	EUR	2015	5075	2020	4.5% + y)
HTI PLC	HIIP CRUDE OIL FEB2019 (MTN-S-893)	a)	EUR	2016	2855	2019	Crude Oil
HTI PLC	HIIP CLN MITTAL DEC2020 (MTN-S-895)	a)	EUR	2016	710	2020	9.70% + CLN ArcelorMittal
HTI PLC	HIIP EQL BASKET OCT2020 (MTN-S-898)	a)	EUR	2017	1193	2020	aa)
HTI PLC	HIIP EUR INDEX DEC2022 (MTN-S-899)	a)	EUR	2017	1400	2022	ab)
HTI PLC	HIIP EUR INDEX 12-2022 (MTN-S-900)	a)	EUR	2017	1332	2022	ab)
HTI PLC	HIIP EUR INDEX 01-2026 (MTN-S-901)	a)	USD	2018	550	2026	ac)
HTI PLC	ESIP EUR 6Y CLN BKT 0 REC DEC19	a)	EUR	2013	381	2019	7.15% + e)
HTI PLC	ESIP 5Y AIR FRANCE CLN MAR2019	a)	EUR	2014	995	2019	6.25% + Air France CLN
HTI PLC	ESIP EUR 6Y CLN BKT 0 RECO DEC19	a)	EUR	2014	671	2019	6.1% + f)
HTI PLC	HIIP CRUDE OIL USD MAR2019 (MTN-S-896)	a)	USD	2016	897	2019	Crude Oil
HTI PLC	HIIP CRUDE OIL MAR2019 (MTN-S-894)	a)	EUR	2016	1000	2019	Crude Oil
HTI PLC	HIIP CLN BASKET JUN2019 (MTN-S-897)	a)	USD	2016	1671	2019	z)
					141 787		

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., only shareholder of the capital of the Bank, and established Novo Banco, S.A., with the share capital of 4.9 billion euros, which incorporated assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal. In this regard, the Bank, its branches and subsidiaries were transferred to Novo Banco, S.A.

On the 7th of September 2015, the capital of the Bank was fully purchased by Haitong International Holdings Limited.

On the 17th of December 2015, the Bank increased its capital in 100,000 thousand euros, through the issuance of 20,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 22nd of May 2017, the Bank increased its capital in 40,000 thousand euros, through the issuance of 8,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 25th of May 2017, the Bank increased its capital in 20,000 thousand euros, through the issuance of 4,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 13th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 26th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, resulted from a in the conversion of a shareholder loan in the amount of 80,000 thousand euros and the conversion of the Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments, amounting to 80,000 thousand euros, which was fully subscribed and paid-up by Haitong International Holdings Limited.

On the 31st of August 2017, the Bank increased its capital in 38,500 thousand euros, through the issuance of 7,700,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

As at 31st of December 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 31th December 2018 and 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 2.7 due to their characteristics.

During the year of 2011, 46,269 thousand euros in other capital instruments were cancelled due to a transaction regarding owned instruments.

These bonds are subordinated in relation to any liability of Haitong Bank and *pari passu* regarding any identical subordinated bonds that may be issued by the Bank.

As at 31th of December 2018, 3,731 thousand euros regarding these bonds are in circulation. In the year of 2018 the Group haven't paid interest (in 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 2.7.

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 2.7.

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 financial assets trough other comprehensive income portfolio, net of impairment recognised in the income statement of the year and/or previous years. The value of this reserve is presented net of deferred tax. The movements of these headings were the following:

(thousand euros)

	Fair Value reserves			Other reserves and retained earnings				
	Revaluation reserves	Income tax reserves	Total fair value reserve	Legal Reserve	Actuarial gains/losses (net of taxes)	Exchange differences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31 December 2016	**(2 781)**	**469**	**(2 312)**	**39 878**	**(25 999)**	**(133 539)**	**8 205**	**(111 455)**
Actuarial gains/losses (net of taxes)	-	-	-	-	(177)	-	-	(177)
Own credit risk changes	-	-	-	-	-	-	(3 380)	(3 380)
Interest of other equity instruments	-	-	-	-	-	-	(317)	(317)
Changes in fair value (net of taxes)	10 095	(2 996)	7 099	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	(17 180)	-	(17 180)
Transfer to reserves	-	-	-	-	-	-	(96 181)	(96 181)
Other comprehensive income from associates	-	-	-	-	-	-	(522)	(522)
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)	-	-	-	-	(2 104)	-	-	(2 104)
Own credit risk change	-	-	-	-	-	-	3 322	3 322
Changes in fair value (net of taxes)	(7 098)	2 457	(4 641)	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	(13 805)	-	(13 805)
operations	(98)	13	(85)	-	-	86	-	86
Foreign exchange reserve recycle from discontinued operations	-	-	-	-	-	(285)	-	(285)
Transfer to reserves	-	-	-	-	-	-	(130 187)	(130 187)
Other comprehensive income of associates	-	-	-	-	-	-	(510)	(510)
Balance as at 31 December 2018	**(132)**	**(41)**	**(173)**	**39 878**	**(28 280)**	**(164 723)**	**(220 722)**	**(373 847)**

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

(thousand euros)

	31.12.2018	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	(7 165)	(9 678)
Disposals of the year	(3 934)	(4 556)
Impairment recognised in the year	4 001	24 329
Transfer of comprehensive income from discontinuing operations	(98)	-
Deferred taxes recognised in reserves during the year	2 470	(2 996)
Closing balance	**(173)**	**4 787**

Non-controlling interests

The Non-controlling interests heading information per subsidiary is as follows:

(thousand euros)

	31.12.2018		31.12.2017	
	Statement of Financial Position	Income statement	Statement of Financial Position	Income statement
Haitong Banco de Investimento do Brasil S.A.	11 633	(253)	21 692	(6 765)
Haitong Securities do Brasil S.A.	4 336	157	4 653	62
Haitong Negócios S.A.	4 213	116	2 078	(85)
Haitong do Brasil Participações Ltda	2 973	74	(34)	34
FI Multimercado Treasury	905	291	441	802
WindPart, Lda	-	-	1	-
Others	1 969	(97)	2 251	(42)
	26 029	**288**	**31 082**	**(5 994)**

The movement of Non-controlling interests of the periods ended on the 31st of December 2018 and 2017, can be analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Opening balance	**31 082**	**41 675**
IFRS 9 transition impact (Note 41)	(19)	-
Dividends paid	(1 393)	-
Changes in fair value reserve	(448)	331
Exchange difference and other	(3 481)	(4 930)
Net income for the period	288	(5 994)
Closing balance	**26 029**	**31 082**

NOTE 38 – CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

As at 31st of December 2018 and 2017, off-balance elements are as follows:

(thousand euros)

	31.12.2018	31.12.2017
Contingent liabilities, guarantees and stand by letters of credit		
Guarantees and stand by letters of credit	149 466	174 416
Assets pledged as collateral	694 359	277 996
	843 825	**452 412**
Commitments		
Irrevocable commitments	16 462	13 939
	16 462	**13 939**

The rendered guarantees and sureties are banking transactions that do not necessarily represent any outflow for the Group, at initial moment.

As at 31st of December 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 31th of December, 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) 78,664 thousand euros of collaterals not discounted, being the total of securities eligible for rediscount with the Bank of Portugal amounted to 258,889 thousand euros as at the 31th of December, 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: 385,399 thousand euros (31st of December 2017: 44,009 thousand euros).
- Securities pledged as collateral within the scope of derivatives compensation contracts: 49,863 thousand euros

Additionally, the off-balance elements related to banking services provided are as follows:

(thousand euros)

	31.12.2018	31.12.2017
Liabilities related to services provided		
Commercial paper programmes agency	176 750	493 160
Other responsabilities related with services provided	848 637	1 643 105
	1 025 387	**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 and the cases are pending decision. In the opinion of the external lawyers to whom the proceedings have been entrusted, it is considered unlikely that any judgment will be made against Haitong Bank in relation of this cases.

Haitong Bank is also a defendant in 44 proceedings, nearly all of which are associated with issues of commercial paper of GES’s entities (Rioforte and ESI – Espirito Santo International) (1 of which concerns issue of notes by paper of GES's entities (Rioforte and ESI – Espirito Santo International) (1 of which concerns issue of notes by Haitong Bank's subsidiary based in Ireland (HIIP) whose underlying asset were bonds issued by Espírito Santo Financial Portugal (ESFP)), and which was brought towards the courts in 2017.

In note 38, in what concerns the 2018 half-year 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 HIIC 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 30 final and unappealable decisions regarding such legal proceedings (commercial paper of GES).

Therfore Haitong Bank has not establish any provision related to such legal proceedings.

Without prejudice of the above mentioned regarding the successful outcome for Haitong Bank from such proceedings, and in order to comply with the applicable accounting rules, it is not possible to achieve an amount of expected losses which could eventually arise for Haitong Bank, individually considered, once such legal proceedings are brought against several entities and not only against Haitong Bank.

In Brazil, there is a judicial discussion around the constitutionality of the law applicable to the contributions of PIS ("Programa de Integração Social") and COFINS ("Financiamento da Seguridade Social) taxes which falls over other income that is not originated from sale of goods or from services rendered. Based on a court decision, all Brazilian group entities are monthly depositing to the court the amount under discussion and only are assessing to Tax Authorities the amount of tax related to services rendered, which are not under such discussion. The amounts subject to judicial deposit are recorded on Balance Sheet, in other assets, and are reported to Brazilian Tax Authorities in the corresponding returns. It's the understanding of the Group, based on external legal opinions, that the chances to obtain an unfavourable decision are below 50%, which supports the Group decision to not record any provision for this contingency, although the Group in Brazil records a provision for such contingency. At 31 December 2018, the accumulated amount of the mentioned non-assessed contributions, but judicially deposited by the group was 26 004 thousand euros.

Therfore Haitong Bank has 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 2018, the Bank made periodic contributions to the Resolution Fund and banking sector contributions in the amounts of 590 thousand euros and 1,782 thousand euros, respectively.

From 2015 on, the Bank also started to pay contributions regarding the constitution of the European Resolution Fund, having this contributions amounted to 1,272 thousand euros in 2018. 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.

On the other hand, and in the context of the sale of Novo Banco, SA, the Council of Ministers approved on October 2, 2017 a resolution authorizing the Portuguese State, as the ultimate guarantor of financial stability, to enter into an agreement with the Resolution Fund, with a view to making financial resources available to the Resolution Fund, if and when it is deemed necessary, in order to satisfy any contractual obligations that may arise from the sale of the 75% of Novo Banco, SA.

On October 18, 2017, the Resolution Fund announced the conclusion of the sale of 75% of Novo Banco, SA's share capital to Lone Star, whose selection had been communicated by the Bank of Portugal on March 31, 2017. The conditions include the existence of a contingent capitalization mechanism under which the Resolution Fund undertakes to make capital injections up to a maximum total of EUR 3 890 000 thousand if certain cumulative conditions materialize.

On May 24, 2018, the Resolution Fund notified the payment to Novo Banco, SA of the amount of approximately 791,695 thousand euros, as a result of the application of the aforementioned contingent capitalization mechanism, for the purpose own resources, supplemented by an additional State loan amounting to 430 000 thousand euros.

For the year 2019, in the State budget is forecast a maximum value of 850,000 thousand euros for loans to the Resolution Fund.

According to the Resolution Fund announcement of 1 March 2019, following the results released by the Novo Banco, the amount to be paid in 2019 by the Resolution Fund resulting from the application of the aforementioned contingent capitalization mechanism will amount to EUR 1 149 million. The payment due in 2019 by the Resolution Fund will be made after the legal certification of accounts of the Novo Banco and after a verification procedure, to be carried out by an independent entity, to confirm that the amount payable by the Fund has been correctly calculated. In order to make the payment, the Resolution Fund will use, first, the available financial resources, resulting from the contributions paid, directly or indirectly by the banking sector. These resources will be complemented by the use of a loan agreed with the State in October 2017, with the annual ceiling, then set, of 850 million euros.

In this context, as at 31 December 2018, there is no estimate of the total amount of losses resulting from the process of divestiture of the Novo Banco, of the said litigations and other contingencies associated with the resolution process of Banco Espírito Santo and of any losses to be incurred by the Resolution Fund following the resolution of BANIF.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the State and by a banking syndicate, and to the public announcements made by the Resolution Fund and the Office of the Minister of Finance, which refer that this possibility will not be used, the financial statements as of December 31, 2018 reflect the Bank's Board of Directors' expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif or any other contingent liability or liability assumed by the Resolution Fund.

NOTE 39 – RELATED PARTIES TRANSACTIONS

The Group's related parties transactions as at 31st of December 2018 and 2017, as well as the respective expenses and income recognized in the year, are summarized as follows:

(thousand euros)

	31.12.2018					
	Assets					
	Others	Total	Guarantees	Liabilities	Income	Expenses
Shareholders						
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	15 972	-	-	-
Subsidiaries and associates						
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	-	10 870	-
HAITONG SECURITIES	2 776	2 776	-	-	20 685	-
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	-	-	5	-
HAITONG INTERNATIONAL CREDIT COMPANY LTD	-	-	-	-	5 366	-
HAITONG UNITRUST HOLDING LIMITED	-	-	-	-	2 600	-
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED	-	-	-	-	2 016	264
HAITONG INTERNATIONAL SECURITIES USA INC	-	-	-	-	20	-
HAITONG INTERNATIONAL SECURITIES (UK) LIMITED	-	-	-	-	5	-
HAITONG SECURITIES USA LLC	-	-	-	-	31	3
HAITONG SECURITIES (UK) LIMITED	-	-	-	191	-	181
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	-	-	15 023	-
HAITONG INNOVATION SECURITIES INVESTMENT	-	-	-	-	2 800	-
UNICAM LIMITED	-	-	-	-	1 000	-
HAITONG INTERNATIONAL (UK) LIMITED	-	-	-	-	-	162
TOTAL	**2 77**	**2 77**	**15 972**	**191**	**60 4**	**610**

(thousand euros)

	31.12.2017			
	Assets			
	Others	Total	Income	Expenses
Shareholders				
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	3 458	-
Subsidiaries and associates				
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	5 408	-
HAITONG SECURITIES	50	50	18 254	3
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 31th of December, 2018, the income heading includes 40,692 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 31st December 2018						
Cash and cash equivalents	341 255	-	-	-	341 255	341 255
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Securities	-	24 563	424 671	17 723	466 957	466 957
Derivative financial assets	-	-	104 011	26 136	130 147	130 147
Non-trading financial assets mandatorily at fair value through profit or loss						
Securities	-	707	8 851	28 913	38 471	38 471
Loans and advances to customers	-	-	-	5 783	5 783	5 783
Financial assets at fair value through other comprehensive income	-	309 806	111 113	94 894	515 813	515 813
Financial assets measured at amortised cost						
Securities	87 085	-	-	-	87 085	87 002
Loans and advances to banks	126 828	-	-	-	126 828	126 828
Loans and advances to customers	508 458	-	-	-	508 458	491 852
Financial Assets	**1 063 626**	**335 076**	**648 646**	**173 449**	**2 220 797**	**2 204 108**
Financial liabilities held for trading						
Securities	-	15 924	103 788	195	119 907	119 907
Derivative financial liabilities	-	-	151 333	33 633	184 966	184 966
Financial liabilities measured at amortised cost						
Resources of credit institutions	358 957	-	-	-	358 957	358 957
Resources of customers	400 206	-	-	-	400 206	400 206
Debt securities issued	162 612	-	-	-	162 612	162 612
Financial Liabilities	**921 775**	**15 924**	**255 121**	**33 828**	**1 226 648**	**1 226 648**
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

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 2018, there were 22,275 thousand euros of securities transferred from Level 1 to Level 2 and 15 thousand euros of 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 December 31st , 2017 and December 31st , 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 to costumers			
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	1 422	-	410	-	-	8 200	**10 032**
Net trading income and from other financial instruments at fair value through profit or loss	14	4 748	3 221	-	-	-	**7 983**
Net gains/(losses) derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(3 985)	**(3 985)**
Impairment on other financial assets net of reversal and recoveries	-	-	-	-	-	(1 278)	**(1 278)**
Other fair value changes	(707)	(212)	(412)	(100)	-	(7 061)	**(8 492)**
Fair value reserve changes	-	-	(169)	-	-	551	**382**
Acquisitions	(194)	-	-	-	-	61 708	**61 514**
Sales	-	-	(139)	-	-	(44 834)	**(44 973)**
Reimbursements	(22 249)	-	(4 562)	-	-	(5 600)	**(32 411)**
Derivatives financial flows	-	5 704	-	-	-	-	**5 704**
Transfers to discontinuing activities	(256)	(15 167)	-	-	-	(4 301)	**(19 724)**
Transfers from other levels	-	-	1 111	-	-	-	**1 111**
Transfers to other levels	(3 733)	-	-	-	-	-	**(3 733)**
Closing Balance	**17 528**	**(7 497)**	**28 913**	**5 783**	**-**	**94 894**	**139 621**

In what regards Level 3 classification, in 2018 there were additional 1,111 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 parameters used during 2018 in what concerns valuation models were the following:

Yield curves

The short-term rates set out below reflect indicative values of deposit interest rates and/or futures. Swap rates are used for the long-term:

(%)

	31.12.2018			31.12.2017		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0,42	2,41	0,67	-0,43	1,45	0,50
1 month	-0,39	2,53	0,73	-0,34	1,57	0,51
3 months	-0,34	2,82	0,91	-0,42	1,70	0,58
6 months	-0,33	2,73	1,03	-0,43	1,73	0,47
1 year	-0,27	2,71	1,07	-0,23	1,87	1,28
3 years	-0,07	2,72	1,22	1,08	0,00	1,35
5 years	0,20	2,56	1,30	1,46	2,25	0,65
7 years	0,47	2,60	1,36	-0,15	2,31	1,45
10 years	0,83	2,70	1,44	0,17	2,40	0,88
15 years	1,20	2,80	1,52	0,44	2,50	1,09
20 years	1,39	2,84	1,55	0,57	2,55	1,15
25 years	1,41	2,84	1,55	0,68	2,55	1,19
30 years	1,44	2,82	1,54	0,79	2,54	1,24

Credit spreads

Credit spreads curves and recovery rates used by the Group are sourced on a daily basis from Markit. The table below reflects the evolution of the main CDS indices:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
Year 2017						
CDX USD Main	**29**	-	24,93	49,02	72,45	90,48
iTraxx Eur Main	**28**	-	22,08	44,83	64,93	83,44
iTraxx Eur Senior Financial	**28**	-	-	43,86	-	-
Year 2018						
CDX USD Main	**31**	-	54,19	87,75	112,99	132,62
iTraxx Eur Main	**30**	-	55,63	87,37	111,31	131,15
iTraxx Eur Senior Financial	**30**	-	-	108,52	-	-

Interest rate volatilities

The following figures reflect at-the-money implied volatilities:

(%)

	31.12.2018			31.12.2017		
	EUR	USD	GBP	EUR	USD	GBP
1 year	1,79	11,25	33,95	--	15,31	52,35
3 years	1,44	22,87	--	103,44	22,10	--
5 years	20,27	27,29	58,01	69,95	28,62	58,67
7 years	34,46	28,35	61,25	57,70	30,07	63,27
10 years	48,13	30,29	--	50,27	28,18	--
15 years	60,46	--	--	44,11	--	--

Foreign exchange rate and volatilities

The table below reflects ECB's (European Central Bank) foreign exchange rates fixings and at-the-money implied volatilities:

	Exchange Rate		Volatiliy (%)				
	31.12.2018	31.12.2017	1 month	3 months	6 months	9 months	1 year
EUR/USD	1,1450	1,1993	7,29	7,33	7,50	7,61	7,68
EUR/GBP	0,8945	0,8872	10,77	11,30	10,96	10,61	10,34
EUR/CHF	1,1269	1,1702	5,34	5,61	5,94	6,12	6,27
EUR/PLN	4,3014	4,1770	4,84	5,13	5,47	5,75	5,93
EUR/CNY	7,8751	7,8044	-	-	-	-	-
USD/BRL a)	3,8812	3,3127	14,97	14,64	14,46	14,42	14,35

a) Determined based on EUR/USD and EUR/BRL

Equity Indexes

The evolution of the main equity indices and the corresponding volatilities are summarised in the following table:

	Quotation			Historical volatility (%)		Implied volatility (%)
	31.12.2018	31.12.2017	Range %	1 month	3 months	
DJ Euro Stoxx 50	3 001	3 504	(14,34)	18,39	14,71	21,05
PSI 20	4 731	5 388	(12,19)	15,40	12,85	-
IBEX 35	8 540	10 044	(14,97)	18,48	14,69	-
DAX	10 559	12 918	(18,26)	20,35	9,75	21,83
S&P 500	2 507	2 674	(6,24)	27,40	20,58	22,39
BOVESPA	87 887	76 402	15,03	19,08	24,45	24,83

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 – IFRS 9 ADOPTION

The figures for December 31st, 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, quantification and control of the different types of risk assumed, progressively adopting uniform principles and methodologies;
- Continuous contribution to the improvement of tools to support the structuring of operations and the development of internal techniques for evaluating performance and optimizing the capital base;
- Proactive management of situations of significant delay and non-compliance with contractual obligations..

Credit Risk

The Credit Risk results from the possibility of financial losses arising from the default of the customer or counterparty in relation to the contractual 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.

The evaluation of the non-bank portfolio is analyzed in the scope of Market Risk.

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: Impairment assessment is carried out based 12-month expected credit loss (ECL). ECL is determined as the exposure as of the reference date multiplied by the 12-month probability of default and the loss given default;
- **Stage 2** – Under Performing: Impairment assessment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- **Stage 3** – Non Performing: Impairment assessment will reflect the ECL over the expected residual life of the instrument.

Inputs in the measurement of ECL

As a result of the characteristics of the Bank's portfolio (reduced number of transactions and high heterogeneity), the calculation of the ECL has as the main vector of measurement the individual analysis assessment. In order to complement this analysis, the Bank developed an internal model for calculating collective impairment, incorporating 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 internally based on the S&P methodology. This assures the alignment between the internal risk management and the impairment calculation process.
- Loss Given Default (LGD): is the magnitude of the loss at the time of a default. The Bank applies the LGD based on Moody's LGD benchmarks covering a wide historical period.
- Exposure at Default (EAD): the expected exposure in the event of a default. The calculation of EAD depends of the asset type.

Regarding undrawn loan commitments and financial guarantees, the amount considered in the calculation of impairment at each stage results from the exposure as of the reference date weighted by the credit conversion factor (according with Regulation (EU) No 575/2013).

Forward-Looking Information

Under IFRS 9, the Group incorporates forward-looking information both in its assessment of the significant risk increase and in the measurement of the expected credit losses.

The Group uses forward-looking information based on a simplified approach, grounded on the proportionality and characteristics of the Bank. The Group implemented a single central scenario approach, based on external information and making use of Bank of Portugal's statistical information. This approach ensures consistency and alignment with the Regulator.

This prospective exercise was defined exclusively for IFRS 9, given the specificity of the exercise and the available information.

Since the Bank's impairment framework only considers Stage 1 clients subject to the collective model, all the designed forward looking have a 12 months' time horizon. All the portfolios exposures/obligors are subject to the same forward-looking information assuring all the assets are compliant with IFRS 9 guidelines.

The financial instruments subject to IFRS 9 impairment requirements are presented below, detailed by stage, as of December 31 2018.

(thousand euros)

Asset Type	Stage 1				Total Stage 1	Stage 2			Total Stage 2	Stage 3	Total Stage 3
	Low to Fair risk [aaa+;a-]	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Not rated		Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Doubtful [lccc]		Impaired [d]	
Loans and advances to customers	29 142	274 310	-	92 093	395 545	96 276	-	-	96 276	44 006	44 006
Guarantees	-	142 831	-	825	143 656	-	-	2 973	2 973	2 837	2 837
Securities	-	585 055	-	9 288	594 343	-	-	-	-	10 820	10 820
Loans and advances to banks	1 048	91 265	-	-	92 313	31 664	3 358	-	35 022	15 077	15 077
Cash and cash equivalents	317 075	23 061	-	194	340 330	921	-	-	921	-	-
Debtors and other receivables	30	8 097	285	14 534	22 946	-	-	-	-	1 305	1 305
Total	**347 295**	**1 124 619**	**285**	**116 934**	**1 589 133**	**128 861**	**3 358**	**2 973**	**135 192**	**74 045**	**74 045**

The maximum exposure to credit risk of financial assets not subject to impairment requirements amounts to 309.2 million euros, as of December 31 2018, corresponding to exposures to central banks.

The table below compiles all financial instruments at amortized cost by industry, stage and days of delay as of December 31, 2018.

(thousand euros)

Financial instruments at amortised cost (including Financial Guarantees) by past due status	Stage 1				Stage 2		Stage 3			
	No overdue		1 - 29 days		No overdue		No overdue		More than 181 days	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Agribusiness & Commodity Foods	68	1	-	-	5 343	123	-	-	-	-
Banks	472 030	293	1 645	1 645	35 943	498	-	-	15 077	15 077
Broker Dealers	1 942	8	-	-	-	-	-	-	-	-
Building Materials	13	3	192	192	-	-	258	27	-	-
Capital Goods	6 616	5	40	40	-	-	1 172	234	-	-
Chemicals	827	827	-	-	-	-	-	-	-	-
Commercial & Professional Services	4 351	121	106	106	2 973	297	4 787	1 160	-	-
Construction & Engineering	76 621	155	407	407	-	-	4 032	3 665	2 957	1 563
Containers & Packaging	-	-	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	994	133	-	-	-	-	-	-	-	-
Funds & Asset Managers	-	-	-	-	-	-	-	-	-	-
Governments	3 064	1	214	214	-	-	-	-	-	-
Health Care	11	-	-	-	-	-	-	-	-	-
Hotels & Gaming	50	-	-	-	-	-	2 127	302	-	-
Household & Personal Products	12	1	-	-	-	-	-	-	-	-
Insurance	29 172	-	-	-	-	-	-	-	-	-
Media & Entertainment	1	-	94	94	-	-	-	-	-	-
Metals & Mining	103 521	839	-	-	-	-	-	-	-	-
Non Bank Financial Institutions	3 264	28	-	-	-	-	-	-	-	-
Oil & Gas	2 837	7	-	-	-	-	-	-	-	-
Others	95 087	370	3 171	3 171	-	-	-	-	-	-
Paper & Forest Products	1 893	1	60	60	-	-	-	-	-	-
Pow er	93 234	825	57	57	32 984	2 236	1 306	1 306	-	-
Real Estate	2 010	20	43 225	930	4 995	649	-	-	1 229	910
Retailing	3 256	16	-	-	-	-	-	-	-	-
Softw are	1 174	1	-	-	-	-	-	-	-	-
Technology Hardw are & Equipment	27 061	264	-	-	-	-	-	-	-	-
Telecoms	23 530	230	-	-	-	-	-	-	-	-
Transportation	76	2	-	-	2 560	25	-	-	9 648	7 122
Transportation Infrastructure	79 117	99	-	-	50 394	621	3 228	1 062	-	-
Water Utilities	1 280	3	-	-	-	-	11 620	116	-	-
Total	**1 033 112**	**4 253**	**49 211**	**6 916**	**135 192**	**4 449**	**28 530**	**7 872**	**28 911**	**24 672**

The gross exposure is presented below, by financial instrument type, internal rating bucket and impairment stage.

Loans and advances to costumers

The table below presents a summary of the portfolio of loans and advances to costumers of Haitong Bank S.A. Group, as of 31 December 2018 and 31 December 2017:

(thousand euros)

Loans and advances to customers		31/12/2018 Stage 1	Stage 2	Stage 3	POCI	Total	31/12/2017 Total
Amortized cost							
Low to fair risk	[aaa+;a-]	29 142	-	-	-	**29 142**	**-**
Monitoring	[bbb+;b-]	274 310	96 276	-	-	**370 586**	**399 674**
Substandard	[ccc+;ccc]	-	-	-	-	**-**	**57 953**
Doubtful	[lccc]	-	-	-	-	**-**	**4 065**
Impaired	[d]	-	-	38 222	-	**38 222**	**280 064**
Not rated		92 093	-	-	-	**92 093**	**8 368**
Gross carrying amount		**395 545**	**96 276**	**38 222**	**-**	**530 043**	**750 124**
Loss allowance (Note 32)		2 494	3 654	15 436	-	**21 584**	**120 217**
Carrying amount		**393 051**	**92 622**	**22 786**	**-**	**508 459**	**629 907**
Fair Value Trough Profit and Loss							
Impaired	[d]	-	-	5 784	-	**5 784**	**-**
Gross carrying amount		**-**	**-**	**5 784**	**-**	**5 784**	**-**
Reavaluation		-	-	(1)	-	**(1)**	**-**
Carrying amount		**-**	**-**	**5 783**	**-**	**5 783**	**-**
Total gross carrying amount		**395 545**	**96 276**	**44 006**	**-**	**535 827**	**750 124**
Loss allowance		2 494	3 654	15 437	-	21 585	120 217
Reavaluation		-	-	(1)	-	(1)	-
Total Carrying amount		**393 051**	**92 622**	**28 568**	**-**	**514 241**	**629 907**

Guarantees

The table below presents a summary of the portfolio of guarantees granted to clients of Haitong Bank S.A. Group, as of 31 December 2018 and 31 December 2017:

(thousand euros)

Guarantees		31-12-2018 Stage 1	Stage 2	Stage 3	POCI	Total	31-12-2017 Total
Monitoring	[bbb+;b-]	142 831	-	-	-	**142 831**	**90 657**
Substandard	[ccc+;ccc]	-	-	-	-	**-**	**55 766**
Doubtful	[lccc]	-	2 973	-	-	**2 973**	**-**
Impaired	[d]	-	-	2 837	-	**2 837**	**25 484**
Not rated		825	-	-	-	**825**	**2 509**
Total gross carrying amount		**143 656**	**2 973**	**2 837**	**-**	**149 466**	**174 416**
Loss allowance (Note 32)		741	297	726	-	**1 764**	**1 801**
Total Carrying amount		**142 915**	**2 676**	**2 111**	**-**	**147 702**	**172 615**

Banking book debt securities

The table below presents a summary of the portfolio of banking book debt securities of Haitong Bank, S.A. Group, as of December 31 2018 and 31 December 2017:

(thousand euros)

Banking Book Debt Securities		31-12-2018					31-12-2017
		Stage 1	Stage 2	Stage 3	POCI	Total	Total
Amortized cost							
Monitoring	[bbb+;b-]	87 533	-	-	-	**87 533**	-
Gross carrying amount		**87 533**	**-**	**-**	**-**	**87 533**	**-**
Loss allowance (Note 32)		448	-	-	-	**448**	-
Carrying amount (Note 21)		**87 085**	**-**	**-**	**-**	**87 085**	**-**
Fair Value through Other Comprehensive Income							
Monitoring	[bbb+;b-]	497 522	-	-	-	**497 522**	**88 758**
Substandard	[ccc+;ccc]	-	-	-	-	**-**	**2 141**
Impaired	[d]	-	-	929	9 891	**10 820**	**43 336**
Not rated		9 288	-	-	-	**9 288**	**345 230**
Gross carrying amount		**506 810**	**-**	**929**	**9 891**	**517 630**	**479 465**
Loss allowance (Note 32)		1 379	-	145	318	**1 842**	**25 869**
Reavaluation		661	-	-	(636)	**25**	**6 459**
Carrying amount		**506 092**	**-**	**784**	**8 937**	**515 813**	**460 055**
Total gross carrying amount		**594 343**	**-**	**929**	**9 891**	**605 163**	**479 465**
Loss allowance		1 827	-	145	318	2 290	25 869
Reavaluation		661	-	-	(636)	25	6 459
Total Carrying amount		**593 177**	**-**	**784**	**8 937**	**602 898**	**460 055**

Cash and Cash Equivalents

The table below presents a summary of the cash and cash equivalents portfolio of Haitong Bank, S.A. Group, as of December 31 2018 and 31 December 2017:

(thousand euros)

Cash and cash equivalents		31-12-2018					31-12-2017
		Stage 1	Stage 2	Stage 3	POCI	Total	Total
Amortized cost							
Low to fair risk	[aaa+;a-]	317 075	-	-	-	**317 075**	**448 034**
Monitoring	[bbb+;b-]	23 061	921	-	-	**23 982**	**3 235**
Substandard	[ccc+;ccc]	-	-	-	-	**-**	**18 857**
Not rated		194	-	-	-	**194**	**3 136**
Total gross carrying amount		**340 330**	**921**	**-**	**-**	**341 251**	**473 262**
Loss allowance (Note 32)		1	-	-	-	**1**	**-**
Total Carrying amount		**340 329**	**921**	**-**	**-**	**341 250**	**473 262**

Loans and advances to banks

The table below presents a summary of the portfolio of loans and advances to banks of Haitong Bank, S.A. Group, as of December 31 2018 and 31 December 2017:

(thousand euros)

Loans and advances to Banks		31-12-2018					31-12-2017
		Stage 1	Stage 2	Stage 3	POCI	Total	Total
Amortized cost							
Low to fair risk	[aaa+;a-]	1 048	-	-	-	**1 048**	**17 560**
Monitoring	[bbb+;b-]	91 265	31 664	-	-	**122 929**	**455 121**
Substandard	[ccc+;ccc]	-	3 358	-	-	**3 358**	**-**
Doubtful	[lccc]	-	-	-	-	**-**	**-**
Impaired	[d]	-	-	15 077	-	**15 077**	**15 077**
Not rated		-	-	-	-	**-**	**15 630**
Total gross carrying amount		**92 313**	**35 022**	**15 077**	**-**	**142 412**	**503 388**
Loss allowance (Note 32)		9	498	15 077	-	**15 584**	**15 388**
Total Carrying amount		**92 304**	**34 524**	**-**	**-**	**126 828**	**488 000**

Debtors and other receivables

The table below presents a summary of the debtors and other receivables portfolio of Haitong Bank, S.A. Group, as of December 31 2018 and 31 December 2017:

(thousand euros)

Debtors and other receivables		31/12/2018					31/12/2017
		Stage 1	Stage 2	Stage 3	POCI	Total	Total
Amortized cost							
Low to fair risk	[aaa+;a-]	30	-	-	-	**30**	**4**
Monitoring	[bbb+;b-]	8 097	-	-	-	**8 097**	**990**
Substandard	[ccc+;ccc]	285	-	-	-	**285**	**6 000**
Doubtful	[lccc]	-	-	-	-	**-**	**-**
Impaired	[d]	-	-	1 305	-	**1 305**	**1 345**
Not rated		14 534	-	-	-	**14 534**	**15 265**
Total gross carrying amount		**22 946**	**-**	**1 305**	**-**	**24 251**	**23 604**
Loss allowance (Note 32)		7 476	-	1 305	-	**8 781**	**12 675**
Total Carrying amount		**15 470**	**-**	**-**	**-**	**15 470**	**10 929**

During 2018, there were no modified financial assets since initial recognition for which the expected credit losses have gone from lifetime expected credit losses to 12 month expected credit losses.

As at 31st of December 2018, the modified financial assets that did not result in derecognition are analysed as follows:

(thousand euros)

Financial assets modified during the year	31.12.2018
Amortised cost before changes	**30 646**
Impairment losses befores changes	(153)
Net amortised cost before changes	**30 493**
Net gain / (loss)	2 144
Others	88
Amortized cost after changes	**32 725**
Impairment losses after changes	(2 237)
Net amortized cost after changes	**30 488**

The use of credit protection is a key element of the risk policy and credit decision process, influencing the acceptance criteria, the decision levels, and the pricing.

The main risk mitigation techniques used by the Bank are financial pledges (funded credit protection – financial collateral in the form of securities and cash) and personal guarantees (unfunded credit protection with substitution effect).

Other types of guarantees are also used, which, while not eligible as risk mitigating for purposes of calculating regulatory capital requirements, effectively reduce the credit risk to which the Bank is subject. Due to their broad use, we highlight the personal guarantees provided by company's partners ("shareholders") in certain financing operations.

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

Frequency and methods of collateral valuation depends on the nature of the collateral. For listed equity securities and debt securities, valuation occurs on a daily basis using market prices.

The pledge of bank accounts valuation takes place on a quarterly basis according to information provided by the depositary bank.

Regarding pledges over non listed equity securities, pledges over equipment and mortgages valuation, it is done at least on an annual basis and it is based on financial information of the borrower or on valuation reports of external entities (e.g.: real estate).

The maximum exposure to credit risk at the end of the period and without taking into account any risk mitigating techniques was already been presented on the previous pages.

As of 31 December 2018, the amount of financial instruments with no losses identified, due to credit risk's mitigation techniques, was 873 thousand euros, accounted under loans and advances to customers.

The table below disaggregates the financial instrument and financial guarantees' gross exposure, and exposure at default separately for each stage and POCI's.

(thousand euros)

Rating bucket		Stage 1		Stage 2		Stage 3		POCI	
		Gross Exposure	Exposure at Default	Gross Exposure	Exposure at Default	Gross Exposure	Exposure at Default	Gross Exposure	Exposure at Default
Low to fair risk	[aaa+;a-]	347 295	318 774	-	-	-	-	-	-
Monitoring	[bbb+;b-]	1 124 618	956 962	128 860	100 178	-	-	-	-
Substandard	[ccc+;ccc]	285	285	3 358	3 358	-	-	-	-
Doubtful	[lccc]	-	-	2 973	2 973	-	-	-	-
Impaired	[d]	-	-	-	-	65 520	55 184	9 891	9 891
Not rated	Not Rated	115 570	24 192	-	-	-	-	-	-
Total		**1 587 768**	**1 300 213**	**135 191**	**106 509**	**65 520**	**55 184**	**9 891**	**9 891**

Concentration risk

Concerning the concentration risk - that is, the risk arising from the possibility of exposure or from a group of exposures sharing common or interrelated risk factors that produce losses large enough to affect the Bank's solvency - Haitong Bank has internal limits established for the largest solo exhibitions. Regular monitoring of these limits, together with regulatory limits, strengthens the bank's monitoring framework for the concentration of credit risk.

The breakdown of loans and advances to costumers, financial assets held for trading and securities, by sector of activity, for the years ended 31st December 2018 and 31st December 2017, is as follows:

(thousand euros)

	31.12.2018							
	Loans and advances to customers				Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Securities	Derivative financial assets	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans				
Agribusiness & Commodity Foods	10 842	-	123	-	-	5 469	-	-
Automobiles & Components	-	-	-	-	103	-	-	-
Banks	-	-	-	-	213	28 831	2 934	22
Broker Dealers	1 942	-	8	-	-	7 581	-	-
Building Materials	258	-	27	-	-	-	-	-
Capital Goods	1 172	-	234	-	3 004	-	9 891	318
Commercial & Professional Services	4 103	-	663	-	17 723	33	1 251	2
Construction & Engineering	8 657	2 446	3 705	1 365	1 042	-	93 834	344
Containers & Packaging	-	-	-	-	-	426	-	-
Food, Beverage & Tobacco	994	-	133	-	-	-	-	-
Funds & Asset Managers	85 534	-	2	-	15	312	13 240	-
Governments	3 064	-	1	-	423 740	-	378 590	760
Health Care	-	-	-	-	3 587	111	-	-
Hotels & Gaming	2 127	-	302	-	-	-	-	-
Insurance	29 142	-	-	-	-	-	-	-
Investment Holdings	-	-	-	-	53	-	-	-
Media & Entertainment	-	-	-	-	367	-	-	-
Metals & Mining	71 544	-	697	-	-	-	35 049	172
Oil & Gas	-	-	-	-	99	-	21 125	106
Paper & Forest Products	-	-	-	-	8 536	4 532	-	-
Power	105 546	-	2 880	-	4 795	7 091	22 105	72
Real Estate	47 208	2 075	2 244	78	1 894	-	2 690	-
Retailing	-	-	-	-	-	-	5 131	9
Software	814	-	1	-	152	31	21	-
Technology Hardware & Equipment	-	-	-	-	-	-	35 057	341
Telecoms	-	-	-	-	303	-	-	-
Transportation	2 636	9 648	27	7 124	1 331	18 416	928	144
Transportation Infrastructure	132 635	-	1 781	-	-	57 186	-	-
Water Utilities	12 900	-	120	-	-	-	-	-
Others	540	-	70	-	-	128	21 813	-
TOTAL	**521 658**	**14 169**	**13 018**	**8 567**	**466 957**	**130 147**	**643 659**	**2 290**

(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				
Agribusiness & Commodity Foods	11 674	-	708	-	-	2 404	228	-
Automobiles & Components	150	-	1	-	82	120	-	-
Banks	-	-	-	-	30	44 105	2 802	-
Broker Dealers	-	-	-	-	-	9 821	-	-
Building Materials	5 151	-	59	-	-	258	-	-
Capital Goods	1 284	-	251	-	7 696	-	19 095	5 728
Chemicals	6 792	-	5 828	-	-	-	-	-
Commercial & Professional Services	59 426	1 248	34 742	677	24 010	8 508	20 143	15 137
Construction & Engineering	35 137	27 669	12 492	14 904	34 829	-	8 741	4 440
Consumer Durables & Apparel	15 201	-	76	-	-	-	-	-
Containers & Packaging	-	-	-	-	-	-	2 085	-
Food, Beverage & Tobacco	1 342	-	7	-	69	15 005	-	-
Funds & Asset Managers	-	-	-	-	43	16	4 504	-
Governments	3 679	-	18	-	364 290	-	326 297	-
Health Care	18 818	-	94	-	4 795	19	-	-
Hotels & Gaming	2 127	-	11	-	-	-	3	3
Media & Entertainment	-	-	-	-	14	-	-	-
Metals & Mining	4 781	-	24	-	-	-	-	-
Oil & Gas	-	-	-	-	4 537	-	33 249	-
Paper & Forest Products	-	-	-	-	10 558	919	-	-
Pharmaceuticals	-	-	-	-	21	-	-	-
Power	241 513	6 784	1 960	6 784	1 597	42 271	63 937	-
Real Estate	20 598	2 003	1 502	1 403	3 098	-	7 128	4 239
Retailing	2 179	-	55	-	-	630	4 992	-
Software	2 445	-	12	-	25	191	1 220	1 190
Telecoms	-	-	-	-	-	-	880	563
Transportation	4 893	9 212	24	8 483	-	354	3 474	-
Transportation Infrastructure	218 923	30 426	8 239	17 744	-	79 180	-	-
Water Utilities	16 375	-	4 118	-	-	-	-	-
Others	294	-	1	-	514	-	34 623	10 154
TOTAL	672 782	77 342	70 222	49 995	456 208	203 801	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)

	31.12.2018				31.12.2017			
	December	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Foreign Exchange Risk	1,97	2,09	1,89	1,31	2,23	2,79	4,74	0,83
Interest Rate Risk	0,17	0,45	0,47	0,17	0,84	1,72	3,12	0,53
Shares	0,12	1,29	0,18	1,40	1,34	0,78	0,63	0,91
Credit spread	2,01	1,81	4,92	0,54	1,33	1,58	2,27	1,22
Covariance	-0,20	-1,03	-0,40	-0,51	-0,76	-1,05	-0,38	-0,87
Total	**4,06**	**4,60**	**7,06**	**2,91**	**4,97**	**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 December 31st 2018 and 2017, as well as the respective average balances and interest of the period:

(thousand euros)

	31.12.2018			31.12.2017		
	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	848 141	21 944	2,59%	854 944	51 362	6,01%
Loans and advances to customers	667 417	17 811	2,67%	809 557	32 426	4,01%
Investment in securities	1 032 801	58 289	5,64%	1 456 422	92 820	6,37%
Collateral accounts	141 460	130	0,09%	157 870	10	0,01%
Financial assets	**2 689 819**	**98 174**	**3,65%**	**3 278 793**	**176 618**	**5,39%**
Monetary resources	1 200 712	35 092	2,92%	1 503 129	73 591	4,90%
Resources of customers	370 811	13 708	3,70%	664 185	41 768	6,29%
Liabilities represented by securities	266 530	10 888	4,09%	294 789	10 891	3,69%
Other resources	234 442	964	0,41%	789 154	780	0,10%
Financial liabilities	**2 072 495**	**60 652**	**2,93%**	**3 251 257**	**127 030**	**3,91%**
Financial Result		**37 522**			**49 588**	

As of 31st December 2018 and 31st December 2017, the exposure of assets and liabilities by currency in regards to the foreign exchange risk was as follows:

(thousand euros)

		31.12.2018			31.12.2017		
		Spot	Forward	Net Exposure	Spot	Forward	Net Exposure
USD	U.S. DOLLAR	138 634	(150 866)	(12 232)	199 251	(312 573)	(113 322)
GBP	STERLING POUND	182	-	182	3 081	-	3 081
BRL	BRAZILIAN REAL	100 676	(76 355)	24 321	58 634	(52 211)	6 423
DKK	DANISH KRONE	21	-	21	19	-	19
JPY	YEN	257	-	257	255	-	255
CHF	SWISS FRANC	180	-	180	544	-	544
PLN	PLISH ZLOTY	24 146	-	24 146	(22 163)	48 233	26 070
NOK	NORWEGIAN KRONE	22	-	22	18	-	18
CAD	CANADIAN DOLLAR	14	-	14	3 835	(4 522)	(687)
ZAR	RAND	5	-	5	5	-	5
AUD	AUSTRALIAN DOLLAR	14	-	14	14	-	14
CZK	CZECH KORUNA	24	-	24	28	-	28
CNY	YUAN RENMINBI	358	-	358	16 833	-	16 833
HKD	HONG KONG DOLLAR	43 238	(42 888)	350	13	-	13
	OTHER	(65)	-	(65)	(600)	-	(600)
		307 706	**(270 109)**	**37 597**	**259 767**	**(321 073)**	**(61 306)**

Note: asset (liability)

Haitong Bank measures interest rate risk in the banking book using income based (NII: Net Interest Income) and value based (EVE: Economic Value of Equity) metrics.

The Net Interest Income measures the sensitivity of an interest rate movement on the Bank's net interest income over a 1 year period assuming static balance sheet.

Under the Economic Value of Equity measure, the Bank assesses the impact on the present value of cash flows due to an interest rate movement, considering the current balance sheet run-off profile.

As of 31 December 2018 and 2017, the Bank's interest-rate risk sensitive assets and liabilities in the banking book had the following repricing profile:

(million euros)

	31 December 2018				
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	674	286	174	463	64
Liabilities	(407)	(522)	(103)	(633)	(42)
Gap	**267**	**(236)**	**71**	**(170)**	**22**

(million euros)

	31 December 2017				
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	1 043	242	137	500	16
Liabilities	(519)	(190)	(99)	(1 045)	(3)
Gap	**524**	**52**	**38**	**(545)**	**13**

The impact on the banking book portfolio economic value, under a scenario of +/-100 bps movement in interest rates, in 31 December 2018 and 31 December 2017 was as follows:

(million euros)

Scenario	December 2018	December 2017
+100 bps	0,6	9,4
-100 bps	(0,5)	(9,4)

As at 31st of December 2018 and 2017, the exposure of the Group to the public debt of "peripheral" countries within the Euro Area is as follows:

(thousand euros)

	31.12.2018		
	Financial assets held for trading - Securities	Securities	Total
Portugal	3 808	182 495	186 303
Spain	749	-	749
Poland	13 768	-	13 768
Italy	-	98 483	98 483
	18 325	**280 978**	**299 303**

(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)

	31.12.2018					
	Nominal	Market value	Accrued Interest	Book Value	Impairment	Fair value reserves
Securities						
Portugal	**165 300**	**179 890**	**2 816**	**182 495**	**(211)**	**1 229**
Maturity over 1 year	165 300	179 890	2 816	182 495	(211)	1 229
Italy	**100 000**	**98 500**	**58**	**98 483**	**(75)**	**(1 858)**
Maturity over 1 year	100 000	98 500	58	98 483	(75)	(1 858)
	265 300	**278 390**	**2 874**	**280 978**	**(286)**	**(629)**
Financial assets held for trading - Securities						
Portugal	3 300	3 749	59	3 808	-	-
Spain	703	726	23	749	-	-
Poland	12 605	13 641	126	13 768	-	-
	16 608	**18 116**	**208**	**18 325**	**-**	**-**

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

Haitong Bank aims to maintain a solid short-term liquidity position and sustainable medium and long-term funding profile, at Group level as well as in its subsidiaries individually, ensuring the Bank is able to meet its obligations as they come due at a reasonable cost to meet the Bank's liquidity risk appetite, while complying with regulatory requirements across all geographies where it operates.

To achieve this, the Bank seeks to keep a diversified investors' base, ensuring access to alternative funding sources and instruments, and keeping an adequate funding structure to finance its activity.

Haitong Bank's liquidity and funding management are under the direct responsibility of the Executive Committee.

The Global Coordinator of Treasury is in charge of the operational management of liquidity, with local teams ensuring liquidity daily management in each of the Bank's treasury hubs (Lisbon, São Paulo and Warsaw).

The Bank manages its liquidity by establishing a liquidity risk policy, monitoring a set liquidity risk metrics, including prudential liquidity ratios, stress testing and liquidity contingency plans, and by setting limits consistent with the Bank's liquidity risk appetite and regulatory requirements.

As of 31 December 2018, the Bank held 634 million Euros of High Quality Liquid Assets (746 million Euros in 31 December 2017), of which 303 million were available demand deposits in the Bank of Portugal (449 million Euros in 31 December 2017). The remainder of the High Quality Liquid Assets (HQLA) was mainly composed by sovereign debt of European Union countries and Brazilian Government bonds denominated in Brazilian Reais owned by Haitong Bank subsidiary in Brazil.

In 31 December 2018, Haitong Bank held a surplus of 485 million Euros of its 30 days stressed net outflows which corresponded to a LCR of 426% (610% on 31 December 2017) comfortably above both regulatory and internal limits.

Liquidity Coverage Ratio	December 2018	December 2017
High Quality Liquid Assets	634	746
Surplus over stressed net outflows	485	624
Liquidity Coverage Ratio	**426%**	**610%**

Haitong Bank funding from the Bank of Portugal amounts to 60 million Euros on 31 December 2018 (the same as at the end of 2017) obtained through the Targeted Longer-Term Refinancing Operations facility, maturing in 2020.

In 2018, Haitong Bank's main sources of funding were wholesale facilities provided by financial institutions, debt securities issued, deposits from clients (households and corporate clients) and equity.

Haitong Bank enters into derivative transactions with corporate clients and financial institutions, most of which under master netting agreements (e.g. ISDA) and margin agreements (e.g. Credit Support Annex). In market stress situations where the value of derivatives is significantly impacted, additional collateral amounts may be required from Haitong Bank. Derivatives positions and collateral received and posted are detailed in notes 20 and 28, respectively.

As of 31 December 2018, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousands of euros)

	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and deposits at central banks	309 178	-	-	-	-	-	309 178
Deposits at other credit institutions	32 039	-	-	-	-	-	32 039
Financial assets held-for-trading (Securities)	38 410	19 377	3 520	241 510	207 417	-	510 233
Available-for-sale financial assets	144 033	13 633	130 018	339 659	5 452	-	632 794
Loans and advances to banks	-	124 927	-	-	-	-	124 927
Loans and advances to customers	1 943	119 391	52 151	99 320	345 721	-	618 525
Derivatives Instruments	-	299 429	142 573	534 917	36 709	148 113	1161 741
	525 603	576 756	328 262	1215 405	595 298	148 113	3389 437
Liabilities							
Resources of central banks	-	-	-	60 000	-	-	60 000
Resources of other credit institutions	292	236 950	375 020	393 490	42 995	-	1048 746
Resources of customers	22 904	214 278	142 202	20 755	-	-	400 139
Debt securities issued	-	20 773	65 711	225 975	699	-	313 158
Financial liabilities held-for-trading (Securities)	119 907	-	-	-	-	-	119 907
Derivatives Instruments	-	308 304	135 669	564 783	36 703	-	1045 458
	143 103	780 305	718 601	1265 002	80 396	-	2987 408

As of 31 December 2017, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and deposits at central banks	453 356	-	-	-	-	-	453 356
Deposits at other credit institutions	30 466	-	-	-	-	-	30 466
Financial assets held-for-trading (Securities)	1 618	29 721	73 332	346 215	12 184	-	463 071
Available-for-sale financial assets	-	313	16 255	459 609	14 652	-	490 828
Loans and advances to banks	470 369	-	-	-	-	-	470 369
Loans and advances to customers	850	7 925	81 980	132 255	268 038	138 860	629 907
Derivatives Instruments	330 862	246 676	247 259	580 955	82 552	-	1488 305
	1287 522	284 636	418 827	1519 033	377 425	138 860	4026 303
Liabilities							
Resources of central banks	-	-	-	60 000	-	-	60 000
Resources of other credit institutions	271 214	12 119	24 972	761 165	49 279	-	1118 748
Resources of customers	85 411	122 766	216 525	59 942	-	-	484 643
Debt securities issued	1 015	16 632	64 979	175 070	-	-	257 695
Financial liabilities held-for-trading (Securities)	512 058	-	-	-	-	-	512 058
Derivatives Instruments	189 771	244 977	236 791	596 924	77 373	-	1345 836
Provisions	11 802	-	-	-	-	-	11 802
	1071 271	396 493	543 266	1653 100	126 652	-	3790 781

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.

The Bank has in place a framework to ensure the standardization and systematization of the regular activities regarding the identification, monitoring, control and mitigation of operational risk. A team within the Risk Management Department is exclusively dedicated to the management of this framework.

Capital Management and Solvency Ratio

The main purposes of capital management in the Group are (i) to promote sustainable growth of activity by creating enough capital to withstand the increase of assets, (ii) meet the minimum requirements established by the supervising entities in relation to capital adequacy and (iii) ensure the achievement of the strategic goals set by Group in relation to capital adequacy.

In prudential terms, the Group is subject to inspection by the Bank of Portugal who, in accordance with the EU Directive on capital adequacy, establishes the necessary regulations in this regard that must be fulfilled by the different institutions under their inspection. These regulations establish a minimum rate for the own funds total in relation to the requirements associated with the undertaken risks, which the institutions must comply with.

At the moment and for reporting purposes related to prudential effects before the supervising authorities, the Group uses the Standard method for handling credit risk and operational risk ("The Standardized Approach" - TSA method).

The following table summarises the capital adequacy of the Haitong Bank S.A. Group as at 31th of December 2018 and 31st of December 2017:

	31.12.2018		31.12.2017	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	22,9%	22,6%	21,2%	20,3%
Tier 1 ratio	28,7%	28,3%	21,2%	20,4%
Total Capital ratio	28,9%	28,5%	21,3%	20,5%

The assumptions used in the capital adequacy calculations are described in chapter IT & Internal Control | Risk Management | Solvency in the Management Report.

NOTE 43 – ACCOUNTING STANDARDS AND RECENT INTERPRETATIONS

Standards, interpretations, amendments and revisions that came into force in this year

Up to the date of approval of these financial statements, the following accounting standards, interpretations, amendments and revisions have been endorsed by the European Union, with mandatory application for the financial year beginning on January 1, 2018:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 9 – Financial instruments	1-jan-18	This standard is included in the draft revision of IAS 39 and establishes the new requirements regarding the classification and measurement of financial assets and liabilities, the methodology for calculating impairment and the application of hedge accounting rules.
IFRS 15 – Revenue from contracts with costumers	1-jan-18	This standard introduces a principles-based revenue recognition framework based on a template to be applied to all contracts entered into with clients, replacing IAS 18 - Revenue, IAS 11 - Construction contracts; IFRIC 13 - Loyalty programs; IFRIC 15 - Agreements for the construction of real estate; IFRIC 18 - Transfers of Assets from Customers and SIC 31 - Revenue - Direct exchange transactions involving advertising services.
Clarifications on IFRS 15 - Revenue from contracts with costumers	1-jan-18	These amendments introduce a number of clarifications in the standard in order to eliminate the possibility of divergent interpretations of various topics.
Amendment to IFRS 4: Application of IFRS 9, Financial instruments, with IFRS 4, Insurance contracts	1-jan-18	This amendment provides guidance on the application of IFRS 4 in conjunction with IFRS 9. IFRS 4 will be replaced with the entry into force of IFRS 17.
Amendment to IFRS 2: Classification and measurement of share payment transactions	1-jan-18	This amendment introduces several clarifications in the standard related to: (i) recording cash-settled share-based payment transactions; (ii) recording changes in share-based payment transactions (from cash settled to settled with equity instruments); (iii) the classification of transactions with cleared securities.

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
Improvements to international financial reporting standards (cycle 2014-2016)	1-jan-18 except for amendments to IFRS 12, which the application date is 1-jan-17	These improvements involve the clarification of some aspects related to: IFRS 1 - First-time adoption of international financial reporting standards: eliminates some short-term exemptions; IFRS 12 - Disclosure of interests in other entities: clarifies the scope of the rule regarding its application to interests classified as held for sale or held for distribution under IFRS 5; IAS 28 - Investments in associates and joint ventures: introduces clarifications on the fair value measurement by results of investments in associates or joint ventures held by venture capital companies or by investment funds.
IFRIC 22 - Transactions in foreign currency including advances for purchase of assets	1-jan-18	This interpretation establishes the date of the initial recognition of the advance or deferred income as the date of the transaction for the purpose of determining the exchange rate of recognition of revenue.
Amendment to IAS 40: Transfers of investment property	1-jan-18	This amendment clarifies that a change in classification of or for investment property should only be made when there is evidence of a change in the use of the asset.

Except for the effects of the implementation of IFRS 9, described in Note 4.1, no significant effects were recorded in the Group's financial statements for the year ended December 31, 2018, as a result of the adoption of the standards, interpretations, amendments and revisions referred to above.

Standards, interpretations, amendments and revisions that will take effect in future years

The following accounting standards and interpretations, which have to be applied in future financial years, have been endorsed by the European Union up to the date of approval of these financial statements:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 16 – Leases	1-jan-19	This standard introduces the principles of recognition and measurement of leases, replacing IAS 17 - Leases. The standard defines a single accounting model for lease contracts that results in the lessee's recognition of assets and liabilities for all lease contracts, except for leases with a period of less than 12 months or for leases that relate to assets of value reduced. Lessors will continue to classify the leases between operational or financial, and IFRS 16 will not entail substantial changes to such entities as defined in IAS 17.
Amendment to IFRS 9: Negative compensation prepayment characteristics	1-jan-19	This amendment allows financial assets subject to contractual conditions which, in their early amortization, allow the payment of a considerable amount by the creditor, can be measured at amortized cost or at fair value for reserves (depending on the business model), since that: (i) on the date of the initial recognition of the asset, the fair value of the early amortization component is insignificant; and (ii) the possibility of negative com-pensation in early amortization is the only reason for the asset in question not to be considered as an instrument that only includes payments of principal and interests.
IFRIC 23 - Uncertainties in the treatment of income tax	1-jan-19	This interpretation provides guidance on the determination of taxable income, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty as to the treatment of income tax.

These standards, although endorsed by the European Union, were not adopted by the Group in 2018, as their application is not yet mandatory. As a result of the application of the aforementioned standards, no relevant impacts are expected.

In the case of IFRS 16, the Bank have performed an assessment of its impact and, taking into account the contracts that it holds potentially within the scope of this standard, understands that the impacts of its adoption will be immaterial.

Standards, interpretations, amendments and revisions not yet adopted by the European Union

The following accounting standards and interpretations have been issued by the IASB and are not yet endorsed by the European Union:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 17 - Insurance Contracts	1-jan-21	This standard establishes, for insurance contracts within its scope, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 - Insurance Contracts.
Improvements to international financial reporting standards (2015-2017 cycle)	1-jan-19	These improvements involve the clarification of some aspects related to: IFRS 3 - Concentration of business activities: it requires remeasurement of interests previously held when an entity obtains control over an investee over which it previously had joint control; IFRS 11 - Joint ventures: clarifies that there should be no remeasurement of interests previously held when an entity obtains joint control over a joint operation; IAS 12 - Income Tax: clarifies that all tax consequen-ces of dividends should be recorded in profit or loss, regardless of how the tax arises; IAS 23 - Borrowing costs: clarifies that the part of the loan directly related to the acquisition / construction of an asset, outstanding after the corresponding asset has been ready for the intended use, is, for the purpose of determining the capitalization rate, considered an integral part of the entity's general funding.
Amendment to IAS 28: Long-term investments in associates and joint arrangements	1-jan-19	This amendment clarifies that IFRS 9 should be applied (including related impairment requirements) to investments in associates and joint arrangements when the equity method is not applied in their measurement.
Amendments to IAS 19: Change in Plan, Restriction or Settlement	1-jan-19	If a plan amendment, cut or settlement occurs, it is now mandatory that the current service cost and net interest for the period after remeasurement are determined using the assumptions used for remeasurement. In addition, amendments were included to clarify the effect of a change, reduction or settlement of the plan on the asset ceiling requirements.
Amendments to references to the Framework in IFRS	1-jan-20	IFRS 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32, IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 34, IAS 37, IAS 37, in accordance with references to the revised Conceptual Framework in March 2018. The revised Conceptual Framework includes revised definitions of an asset and a liability and new guidance on measurement, derecognition, presentation and disclosure.

These standards have not yet been endorsed by the European Union and as such have not been applied by the Group for the year ended 31 December 2018.

With respect to these standards and interpretations, issued by the IASB but not yet endorsed by the European Union, it is not estimated that the adoption of these standards will significantly impact the Group financial statements.ote 39

Report and Opinion of the Supervisory Board

Haitong Bank, S.A.
for financial year 2018

To the Shareholder of Haitong Bank, S.A.,

In accordance with the applicable legislation, we hereby present our report on the audit performed by the Supervisory Board to the Management Report, the individual and the consolidated financial statements and the proposal for the distribution of the year's results presented by the Board of Directors of Haitong Bank (hereinafter Haitong) for the year ended 31 December 2018.

The members of the Supervisory Board appointed for the 2017-2019 three-year period took office on 24 January 2018 after notifying Banco de Portugal that the legal requirements set forth in Article 30b (3) of the General Law on Credit Institutions and Financial Companies ("*Regime Geral das Instituições de Crédito e Sociedades Financeiras*") approved by Decree-Law no. 298/92 of 31 December had been met.

Haitong's Supervisory Board, as part of its designated functions, monitored, in accordance with the law and the company's articles of association, the development of Haitong's management and business activities, namely:

(i) assessed the adequacy and effectiveness of the risk management, internal control and internal audit systems;

(ii) attended Board of Directors meetings whenever invited;

(iii) took part in the meetings of the Internal Audit, Risk, and Corporate Governance Committees;

(iv) reviewed management information documents submitted to the Supervisory Board by the Board of Directors;

(v) monitored the verification of the accounting records and underlying support documents;

(vi) assessed the accounting policies and valuation criteria adopted by Haitong; and

(vii) held meetings with the Statutory Auditor, whenever necessary, on the assessment of the accounting policies and valuation criteria adopted by Haitong, which always provided the information required.

In accordance with the applicable legislation, the Supervisory Board also assessed the Auditor's Report and Statutory Audit Certification ("*Certificação Legal de Contas*") prepared by the Statutory Auditor (Deloitte & Associados, SROC, S.A.) on the individual and consolidated financial statements for financial year 2018 and took note of the Additional Report on said financial statements submitted by the Statutory Auditor to the Supervisory Board, with which the Supervisory Board agrees.

The Supervisory Board also analysed the Management Report submitted by the Board of Directors, which, in the opinion of the members of the Supervisory Board, complies with the applicable legal and statutory requirements and elucidates the main aspects of Haitong's activities in 2018, both in individual and in consolidated terms.

The Supervisory Board also highlights the following:

- The Group is currently preparing the sale process of its subsidiary in Ireland, Haitong Investment Ireland plc. This Group should take place within Haitong Bank and is expected to allow the Bank to achieve important strategic objectives. This sale is subject to the execution of the contractual agreements and verification of the customary conditions precedent. The Supervisory Board was informed that the sale should be concluded before the end of 2019. As a consequence of this decision, this entity's assets and liabilities were reclassified to "Assets and liabilities of discontinuing units".

- In 2018 Haitong reinforced own funds through the issuance of perpetual debt instruments in the amount of 105,042 thousand euros.

- Haitong opted for not restating the 2017 balances, as permitted under the transitional provisions of IFRS 9. All adjustments to assets and liabilities were recognised in equity with reference to 1 January 2018, as disclosed in Note 41.

- In February 2018 Haitong concluded the sale of the subsidiaries Haitong Securities USA LLC, Haitong UK Limited and Haitong Securities (UK) Limited to Haitong International BVI. The sale value of Haitong Securities USA LLC was 16 778 thousand US dollars. The sale value of Haitong UK Limited and Haitong Securities (UK) Limited was 12 536 thousand US dollars.

- The relevant audit issues and other issues at both individual and consolidated level that are reported in the Statutory Audit Certification and Audit Report.

In light of the above, it is the opinion of the Supervisory Board that the following should be approved:

- The Management Report and remaining individual and consolidated reporting documents relative to the financial year ended on 31 December 2018;

- The proposal submitted by the Board of Directors on the allocation of the net loss for the year 2018, in the amount of 4,566,182.56 euros.

Lisbon, 22 March 2019

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

3/9

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto.

Declaration of Conformity with the Financial Information Reported

The present declaration is submitted under the terms of Article 245 (1-c)) of the Portuguese Securities Code.

The Supervisory Board hereby declares that, to the best of its knowledge:

- The information referred to in Article 245 (1-a)) of the Portuguese Securities Code as at 31 December 2018 was prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of Haitong and the companies included within its consolidated scope; and

- The management report faithfully details the evolution of the business and the performance and position of Haitong and the companies included within its consolidation scope, and contains a description of the main risks and uncertainties faced within the framework of ongoing activities.

Lisbon, 22 March 2019

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto.

5/9

Annual report on the activity of the Supervisory Board in financial year 2018

Pursuant to the provisions of Article 420-1(g) of the Portuguese Company Law Act ("*Código das Sociedades Comerciais*") and Article 2-1(g) of the Regulations of the Supervisory Board of Haitong, the Supervisory Board hereby presents its report on the supervisory activity carried out in 2018.

1. **Introduction**

In accordance with its Regulations, the following are the main powers and responsibilities of the Supervisory Board:

i. Monitoring the activity of Haitong, watching over compliance with the Law and the company's Articles of Association, and supervising the management of the company;

ii. Supervise compliance with the accounting policies as well as the process of preparation and disclosure of financial information and of audit of Haitong's accounts and accounting documents;

iii. Monitoring and supervising the effectiveness of the internal control and risk management systems;

iv. Proposing to the General Meeting the appointment of the Statutory Auditor or Audit Firm;

v. Supervising the independence of the Statutory Auditor with regard to non-audit services provided;

2. **Activity developed by the Supervisory Board in Financial Year 2018**

i. Monitoring the activity of Haitong, watching over compliance with the Law and the company's Articles of Association, and supervising the management of Haitong

During 2018 the Supervisory Board held 32 meetings, some of which with the Board of Directors (four meetings), the Internal Audit Committee, (six meetings), the Risk Committee (five meetings), and the Corporate Governance Committee (three meetings). The Supervisory Board had access to all the information requested and obtained all the documents and clarifications from all the persons from which this was requested.

ii. Supervise compliance with the accounting policies and the process of preparation and disclosure of the financial information and statutory audit

The Supervisory Board supervised compliance with the accounting policies and verified the reliability of the financial information against the financial information received from the Financial Division and the Statutory Auditor (Deloitte & Associados, SROC, S.A.). The Supervisory Board held several meetings with the relevant officers in which the audit reports were analysed and the audit procedures and conclusions were reviewed.

The Supervisory Board analysed the accounting documents and the legal certification of accounts for financial year 2018, having issued a favourable opinion on the same.

iii. Monitoring and supervising the effectiveness of the internal control and risk management systems

The Supervisory Board monitored and assessed the adequacy of the internal control, risk management, internal audit and compliance systems, pursuant to its powers and responsibilities, through meetings held with and information reported by the heads of said functions at Haitong, and by assessing the work carried out by the Bank's Statutory Auditor (Deloitte & Associados, SROC, S.A.), within the scope of assessment of the Internal Control System, having issued its opinion on the adequacy of the internal control system, which was drawn up under the terms of Article 25-5 (a) of Banco de Portugal Notice 5/2008, of 25 June.

iv. Monitoring the activity of the Internal Audit Function

During financial year 2018 the Supervisory Board supervised the activity of the Internal Audit Function, which reports functionally to the Internal Audit Committee and to the Supervisory Board and reports hierarchically to the Executive Director responsible for the Function. The Supervisory Board approved the budget and activity plan and regularly monitored the execution of the Internal Audit Function's activity plan, having for the purpose received the necessary information to discharge its duties.

v. Monitoring the activity of Haitong's Statutory Auditor

During financial year 2018 the Supervisory Board regularly monitored the activity developed by the Statutory Auditor by critically assessing the documents produced by the Statutory Auditor in the performance of its functions. The Statutory Auditor confirmed to the Supervisory Board that it had not detected any irregularities in connection to the performance of its duties and that it had not met any obstacles to the pursuance of said duties. During financial year 2018 the Supervisory Board assessed the provision of non-audit services, having confirmed that the independence of the Statutory Auditor had been safeguarded.

vi. Monitoring of Haitong's transactions with related parties

The Supervisory Board monitored the implementation of the related party transactions policy during financial year 2018. The majority of the transactions carried out with related parties in 2018 concerned financial advisory services and other transactions not involving credit or market risk for Haitong.

vii. Reporting of Irregularities (whistleblowing)

Under article 420-j) of the Company Law Act, it is the responsibility of the Supervisory Board to receive communications of irregularities submitted by employees, clients, shareholders or any other entities. The Whistleblowing policy was updated in October 2018. During financial year 2018 no communications or irregularities came to the attention of the Supervisory Board.

To conclude, the Supervisory Board expresses its recognition to the Board of Directors and to all the employees of Haitong for the cooperation provided throughout the performance of its functions.

Lisbon, 22 March 2019

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto.

STATUTORY AUDITOR'S REPORT AND AUDIT REPORT
(Amounts stated in thousands of euros – t.euros)

(Free translation of a report originally issued in Portuguese language: in case of doubt the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Haitong Bank, S.A. (the "Bank") and of its subsidiaries (the "Group"), which comprise the consolidated financial position as at 31 December 2018 (that presents a total of 2,894,763 t.euros and total equity of 615,506 t.euros, including a net income attributable to the shareholders of the Bank of 1,159 t.euros), the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Haitong Bank, S.A. as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section. We are independent from the entities that constitute the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the most significant assessed risks of material misstatement**
Impairment for loans to customers (Notes 2.4.1, 23, 32 and 41)	
As of 31 December 2018, the accumulated impairment losses in loans to customers and provisions for guarantees and other commitments (together, the "Impairment losses"), amount to 21,585 t.euros and 1,825 t.euros, respectively. The impairment losses represent management's best estimate of the expected losses in the Group's loan portfolio, at the reference date of the financial statements. At 31 December 2018 these impairment losses were determined using the methodologies described in Note 2.4.1 to the consolidated financial statements, in accordance with IFRS 9 – Financial Assets ("IFRS 9"), that was applied for the first time in 2018 (Note 41). According to IFRS 9, the Group classifies its loans to customers portfolio in Stages, based on the changes in its credit risk since initial recognition. This classification determines, among other aspects, the type of analysis (individual or collective) to perform, as well as the parameters used by the Group in the calculation of impairment losses. Considering the characteristics of the Group's loan portfolio, a significant part of its impairment losses results from individual impairment loss analysis. The determination of impairment losses through individual analysis inherently has a strong judgmental component from management about the information available, namely in estimating the present value of the amount that the Bank expects to recover from the loan, that incorporates also assumptions about future events that may not occur as expected and reflects management's intentions at each moment regarding management and future holding of the loans.	We analysed the relevant internal control procedures implemented by the Group in the process of determining impairment losses for its loan portfolio. We reviewed the documentation of the impairment methodology implemented by the Group in the scope of IFRS 9 adoption, and analysed it reasonableness considering the requirements of that standard. We reviewed the calculation of the transition adjustment arising from the adoption of IFRS 9 as of 1 January 2018, and its consistency with the methodology for calculating impairment losses implemented by the Group. We selected a sample of clients from the Group's loan portfolio for which we analysed the classification in stages, considering the criteria defined by the Group. For a sample of clients subject to individual impairment analysis by the Group we analysed the reasonableness of the estimated impairment losses recorded in the financial statements based on the review of the Group's judgments on the economic and financial situation of clients, valuation of the collaterals received and perspectives on the evolution of their activity and on the future management of those loans by the Group. For a sample of clients subject to collective impairment analysis, we recalculated the impairment losses considering the methodology and assumptions defined by the Group.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
Impairment for loans to customers (Notes 2.4.1, 23, 32 and 41)	
In face of the above, and taking into account the materiality of the amounts in the context of the financial statements, the determination of loan impairment was considered a key audit matter.	We reviewed the disclosures related to impairment for loans to customers, considering the applicable accounting framework.
Recoverability of deferred tax assets (Notes 2.14, 3.2 and 33)	
As of 31 December, 2018, the Group has recorded deferred tax assets in the amount of 127,999 t.euros, of which 87,355 t.euros originated by the Bank, essentially related with: (i) temporary differences arising from impairment for loans to customers (50,666 t.euros); (ii) tax losses carried forward (31,350 t.euros), essentially originated in 2015 and 2016, that can be used within a period of 12 years, not exceeding 70% of taxable profit in each of those years. In accordance with IAS 12 - Income Taxes, deferred tax assets can only be recorded up to the extent that it is probable that future taxable profit will be available against which they can be utilised. The Bank prepared a forecast of its future taxable profit to assess the recoverability of deferred tax assets. This estimate is judgmental by nature and depends on the assumptions made by management to estimate the evolution of profits before taxes and its interpretation of the tax legislation, including what concerns deferred tax assets in the scope of the Special Regime applicable to deferred tax assets. To this extent, the recoverability of deferred tax assets is dependent on the Bank's ability to generate the estimated results. Any deviations from the estimation of future results or changes in the tax legislation or its interpretation may have a material impact on the recoverability of deferred tax assets. Given the materiality of deferred tax assets in the Bank's individual financial statements and the need to use estimates to determine their recoverability, this area was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of assessing the recoverability of deferred tax assets. We reviewed the main assumptions considered by the Bank to estimate the evolution of pre-tax profits in the period covered by its analysis. We reviewed the reasonableness of the interpretation of the relevant tax legislation considered by the Bank in the estimation of future taxable profits. We reviewed the reasonableness of the calculations prepared by the Bank to demonstrate the recoverability of deferred tax assets, taking into account the understanding of the assumptions and the review of the interpretation of the tax legislation described above. We reviewed the disclosures related to deferred taxes, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
Legal contingencies (Notes 2.15 and 38)	
As disclosed in Note 38 to the individual financial statements, as of 31 December 2018 there are contingencies involving several lawsuits against the Group, including some related to commercial paper issued by entities of the Espírito Santo Group and a capital increase of Banco Espírito Santo, S.A. According to the opinion of the Bank's Legal Department and with external lawyers' opinion, whom are in charge of the lawsuits, management classifies as unlikely an unfavourable outcome, and therefore no provisions were booked for that purpose. Taking into account the relevance of the amounts involved, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Group in the process of monitoring legal contingencies. We obtained information from external lawyers accompanying the lawsuits, including the description of disputes and the probability of loss for the Group. We discussed with management, the Bank's Legal Department and with the external lawyers the current state of the more relevant lawsuits and expectations regarding their outcome. We reviewed the disclosures related to legal contingencies.
Resolution Fund (Note 38)	
As described in detail in note 38 to the financial statements, following the resolution measures applied to Banco Espírito Santo, S.A. (BES) and Banif – Banco Internacional do Funchal, S.A. (Banif), the Resolution Fund became the holder of the entire share capital of Novo Banco, S.A. and Oitante, S.A.. In this context, it obtained loans from the Portuguese State and from a banking syndicate (in which the Bank does not participate) and assumed other responsibilities and contingent liabilities, including those related to the litigation associated with these processes, as well as to a contingent capital mechanism defined in the sale of Novo Banco, S.A. to Lone Star in October 2017.	We analysed the publicly by available information throughout 2017, 2018 and 2019, until the date of this report, including the public communications from the Resolution Fund and the contents of the resolution of the Council of Ministers on 2 October 2017, which authorised the formalisation by the Portuguese State, as ultimate grantor of financial stability, of a framework agreement with the Resolution Fund. We analysed the framework agreement established between the Portuguese State and the Resolution Fund.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
Resolution Fund (Note 38)	
In order to reimburse these loans and to meet other responsibilities that may have to be assumed by the Fund, the proceeds available for the Resolution Fund arise essentially from the periodic contributions from participating institutions (including the Bank) and the contribution over the banking sector. It is also established the possibility of the member of the Portuguese Government responsible for the finance area also determine, by ministerial order, that the participating institutions make special contributions in the situations established for it in the applicable legislation, particularly in the event that the Resolution Fund does not have enough own resources for the fulfilment of its obligations. The annual contributions to the Fund and the contribution over the banking sector are recognised as losses on an annual basis, as set out in IFRIC 21 – Levies. The financial statements as at 31 December 2018 reflect management's expectation that no special contributions or any other extraordinary contributions will be required from the Bank in order to finance the resolution measures applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund, considering: • The conditions established in the scope of the renegotiation, announced in March 2017, of the loans obtained by the Resolution Fund to finance the referred resolution measures, including the extension of the maturity date to 31 December 2046 and the possibility to adjust that date, with the purpose of guaranteeing the capacity of the Resolution Fund to fully meet its obligations based on regular revenues and without the need to resort to special contributions or any other type of extraordinary contributions from the banking sector; and • The public communications made by the Resolution Fund and by the Office of the Portuguese Minister of Finance which refer as an objective ensuring that such contributions will not be necessary.	We read the last Report and Accounts of the Resolution Fund that refers to the year 2017. We reviewed the accounting framework of the contributions to the Resolution Fund. We obtained representation from the Bank's management regarding their expectation that the liabilities and contingent liabilities assumed by the Resolution Fund, as well as the responsibilities arising from the transactions it performed, will not imply the payment by the Bank of any special contributions or any other type of extraordinary contributions to the Resolution Fund. We reviewed the disclosures included in the financial statements related to this matter.

Given the responsibilities of the Resolution Fund and the judgements of management as described above, this area was considered a key audit matter.	

Responsibilities of management and supervisory body for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRS);

- the preparation of the management report, including the corporate governance report, in accordance with applicable laws and regulations;

- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

- the adoption of accounting policies and principles appropriate in the circumstances; and

- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter;
- provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements and the verification of the requirements as provided in numbers 4 and 5 of article 451.º of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

Pursuant to article 451.º, n.º 3, al. e) of the Portuguese Companies' Code ("Código das Sociedades Comerciais"), it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge of the Group, we have not identified any material misstatements.

On the corporate governance report

Pursuant to article 451.º, number 4, of the Portuguese Company's Code ("Código das Sociedades Comerciais"), we conclude that the corporate governance report includes the elements required to the Group under the terms of article 245.º-A of the Portuguese Securities Code ("Código dos Valores Mobiliários"), and we have not identified any material misstatements on the information disclosed therein, which, accordingly, complies with the requirements of items c), d), f), h), i) and m) of that article.

On the consolidated non financial information defined in article 508.º-G of the Portuguese Company's Code

Pursuant to article 451.º, number 6, of the Portuguese Company's Code ("Código das Sociedades Comerciais"), we inform that the Bank prepared a specific report on consolidated non financial information, as required under article 508.º-G of the Portuguese Company's Code, which is presented together with the management report.

On the additional matters provided in article 10 of Regulation (UE) 537/2014

Pursuant to article 10 of Regulation (UE) 537/2014 of the European Parliament and of the Council of 16 April 2014, in addition to the key audit matters mentioned above, we also report on the following:

- We were appointed auditors of the Bank in the shareholders' general assembly held on 16 November 2016, to conclude the ongoing mandate until the end of 2016. We were reappointed as auditors of the Bank in the shareholder's general meeting held on 17 August 2017 for a mandate from 2017 to 2019.

- Management has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs, we maintained professional skepticism and we designed audit procedures to respond to the risk of material misstatements in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement on the consolidated financial statements due to fraud.

- We confirm that the audit opinion issued is consistent with the additional report that we prepared and delivered to the Group's supervisory body as at 22 March 2019.

- We declare that we have not provided any prohibited services as described in article 77, number 8, of the Ordem dos Revisores Oficiais de Contas statutes (Legal Regime of the Portuguese Statutory Auditors) and we have remained independent from the Group in conducting the audit.

Lisbon, 22 March 2019

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

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC S.A. internal procedures, the report is not to be signed. In the event of discrepancies, the Portuguese language version prevails.)

INDIVIDUAL FINANCIAL STATEMENTS
AND
NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

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

1. INDIVIDUAL FINANCIAL STATEMENTS

Individual Income Statement for the financial years ended on the 31st December 2018 and 2017

(thousand euros)

	Notes	31.12.2018	31.12.2017
Interest and similar income	4	19 285	19 667
Interest and similar expense	4	16 191	18 010
Financial margin		**3 094**	**1 657**
Income from equity instruments	5	5 401	-
Fees and commissions income	6	71 007	65 950
Fees and commissions expenses	6	(6 406)	(13 277)
Net trading income	7	(4 631)	143
Net Income from other financial instruments at fair value trough profit or loss	8	(1 380)	56
Net gains/(losses) from derecognition of financial assets measured at fair value through other comprehensive income	9	3 302	-
Net gains/ (losses) from financial assets available-for-sale	10	-	2 577
Net gains/(losses) from foreign exchange differences	11	7 246	(220)
Net gain /(loss) from derecognition of financial assets measured at amortised cost	12	117	122
Other Operating income and expense	13	(2 293)	(8 915)
Operating Income		**75 457**	**48 093**
Employee costs	14	32 900	56 744
Administrative costs	16	21 846	32 541
Depreciations and amortisations	25 and 26	4 959	5 295
Provisions	32	19 823	9 223
Net impairment loss on financial assets	32	(3 765)	78 014
Operating expenses		**75 763**	**181 817**
Profit / (Loss) before Income Tax		**(306)**	**(133 724)**
Income tax			
Current tax	33	755	1 795
Deferred tax	33	3 505	5 022
		4 260	**6 817**
Net Profit / (Loss) for the year		**(4 566)**	**(140 541)**
Basic Income per Share (in euros)	17	-0,03	-1,09
Diluted Income per Share (in euros)	17	-0,03	-1,09

The following notes form an integral part of these financial statements

The Director of the Finance Department

The Board of Directors

Individual Statement of Comprehensive Income for the financial years ended on the 31st December 2018 and 2017

(thousand euros)

	31.12.2018	31.12.2017
Net income of the year	**(4 566)**	**(140 541)**
Other comprehensive income for the year		
Items that will not be reclassified to profit and loss		
Actuarial gains/(losses), net of taxes	(2 104)	(177)
	(2 104)	**(177)**
Items that may be reclassified to profit and loss		
Exchange differences net of taxes	14	-
Fair value changes of financial assets held-for-sale	-	5 128
Fair value changes of debt instruments measured at fair value through other comprehensive income	(2 963)	-
	(2 949)	**5 128**
Total comprehensive income/(loss) of the year	**(9 619)**	**(135 590)**

The following notes form an integral part of these financial statements

Individual Statement of Financial Position as at 31st December 2018 and 2017

(thousand euros)

	Notes	31.12.2018	31.12.2017
Assets			
Cash and cash equivalents	18	317 433	469 683
Financial assets at fair value through profit or loss		240 585	306 984
Financial assets held-for-trading		228 955	306 984
Securities	19	69 996	98 456
Derivative financial assets	20	158 959	208 528
Non-trading financial assets mandatorily at fair value through profit or loss		11 630	-
Securities	21	11 346	-
Loans and advances to customers	23	284	-
Financial assets at fair value through other comprehensive income	21	371 780	-
Financial assets available-for-sale	21	-	280 920
Financial assets measured at amortised cost		722 270	465 110
Loans and advances to banks	22	3 965	164 527
Loans and advances to customers	23	631 220	300 583
Securities	21	87 085	-
Non-current assets held-for-sale	24	153 358	25 185
Other tangible assets	25	2 391	3 953
Intangible assets	26	6 703	9 224
Investments in associated companies	27	173 643	166 785
Tax assets		127 128	129 614
Current income tax assets	33	39 893	29 434
Deferred income tax assets	33	87 235	100 180
Other assets	28	201 688	369 252
Total Assets		**2 316 979**	**2 226 710**
Liabilities			
Financial liabilities held for trading		178 619	200 883
Securities	19	16 119	-
Derivative financial assets	20	162 500	200 883
Financial liabilities measured at amortised cost		1 346 545	1 318 431
Resources from credit institutions	29	60 292	884 688
Resources from customers	30	1 035 108	290 616
Debt securities issued	31	251 145	143 127
Provisions	32	79 809	62 775
Tax liabilities		2 068	3 766
Current income tax liabilities	33	2 068	3 020
Deferred income tax liabilities	33	-	746
Other liabilities	34	113 513	138 391
Total Liabilities		**1 720 554**	**1 724 246**
Equity			
Share capital	35	844 769	844 769
Share premium	35	8 796	8 796
Other equity instruments	35	108 773	3 731
Fair-value reserves	36	(545)	1 967
Other reserves and retained income	36	(360 802)	(216 258)
Net profit/(loss) of the year attributable shareholders of the parent company		(4 566)	(140 541)
Total equity attributable to the shareholders of the parent company		**596 425**	**502 464**
Total Equity and Liabilities		**2 316 979**	**2 226 710**

The following notes form an integral part of these financial statements

The Director of the Finance Department

The Board of Directors

Individual Statement of Changes in Equity for the financial years ended on the 31st December 2018 and 2017

(thousand euros)

	Share Capital	Share premium	Other equity instruments	Fair value reserve	Other Reserves, Retained Income and Other Comprehensive Income	Total	Net profit / (loss) for the year	Total equity
Balance as at 31st of December 2016	**426 269**	**8 796**	**83 731**	**(3 161)**	**(64 445)**	**(67 606)**	**(151 281)**	**299 909**
Other movements recorded directly in equity (see Note 36):								
Changes in fair value, net of taxes	-	-	-	5 128	-	5 128	-	5 128
Actuarial gains/ (losses), net of taxes	-	-	-	-	(177)	(177)	-	(177)
Net profit / (loss) for the period	-	-	-	-	-	-	(140 541)	(140 541)
Total comprehensive income of the year	**-**	**-**	**-**	**5 128**	**(177)**	**4 951**	**(140 541)**	**(135 590)**
Share capital increase (see Note 35)	418 500	-	(80 000)	-	-	-	-	338 500
Reserve establishment	-	-	-	-	(151 281)	(151 281)	151 281	-
Interests on other equity instruments (see Note 35)	-	-	-	-	(317)	(317)	-	(317)
Other movements	-	-	-	-	(38)	(38)	-	(38)
Balance as at 31st of December 2017	**844 769**	**8 796**	**3 731**	**1 967**	**(216 258)**	**(214 291)**	**(140 541)**	**502 464**
IFRS 9 adoption impact (see Note 40)	-	-	-	452	(1 368)	(916)	-	(916)
Balance as at 01st of January 2018	**844 769**	**8 796**	**3 731**	**2 419**	**(217 626)**	**(215 207)**	**(140 541)**	**501 548**
Other movements directly recorded in equity (see Note 36):								
Changes in fair value, net of taxes	-	-	-	(2 964)	-	(2 964)	-	(2 964)
Exchange differences	-	-	-	-	14	14	-	14
Actuarial gains / (losses) net of taxes	-	-	-	-	(2 104)	(2 104)	-	(2 104)
Net profit / (loss) for the period	-	-	-	-	-	-	(4 566)	(4 566)
Total of comprehensive income of the year	**-**	**-**	**-**	**(2 964)**	**(2 090)**	**(5 054)**	**(4 566)**	**(9 620)**
Issuance of other equity instruments (see Note 36):	-	-	105 042	-	(545)	(545)	-	104 497
Reserve establishment	-	-	-	-	(140 541)	(140 541)	140 541	-
Balance as at 31st of December 2018	**844 769**	**8 796**	**108 773**	**(545)**	**(360 802)**	**(361 347)**	**(4 566)**	**596 425**

The following notes form an integral part of these financial statements

Individual Cash Flow Statement for the financial years ended on the 31st December 2018 and 2017

(thousand euros)

	Notes	31.12.2018	31.12.2017
Cash flows from operating activities			
Interests received		16 398	24 018
Interests paid		(15 977)	(17 147)
Fees and commission received		67 249	66 250
Fees and commission paid		(6 406)	(10 362)
Cash payments to employees and suppliers		(60 248)	(80 083)
		1 016	**(17 324)**
Changes in operating assets and liabilities:			
Resources at central banks		(1 494)	(1 891)
Resources from central banks		-	9 499
Trading financial assets and liabilities		52 700	(8 084)
Loans and advances to banks		(30 459)	-
Resources from other credit institutions		(70 653)	(77 035)
Loans and advances to customers		(143 881)	78 713
Resources from customers		(2 973)	9 552
Other operating assets and liabilities		4 133	(28 209)
Net cash flow from operating activities before income tax		**(191 611)**	**(34 779)**
Income taxes paid		(12 770)	(1 662)
		(204 381)	**(36 441)**
Net cash flows from investment activities			
Sale of investments in subsidiaries and associates		23 846	-
Subsidiaries and associates share capital increase		-	(11 536)
Purchase of securities		(478 132)	(547 385)
Sale of securities		294 243	698 697
Purchase of fixed assets		(906)	(1 696)
Sale of fixed assets		89	181
		(160 860)	**138 261**
Cash flows from financing activities			
Increase in share capital	35	-	200 000
Debt securities issued	31	250 000	40 391
Reimbursement of debt securities issued	31	(143 000)	(391)
Issuance of other equity instruments	35	104 497	-
Interest received/(paid) from/to other equity instruments		-	(317)
Net cash flow from financing activities		**211 497**	**239 683**
Net changes in cash and equivalents		**(153 744)**	**341 503**
Cash and equivalents at the beginning of the year		465 866	124 363
Cash and equivalents at the end of the year		312 122	465 866
		(153 744)	**341 503**
Cash and equivalents includes:			
Cash	18	308 990	441 333
Deposits at other credit institutions	18	8 443	28 350
(-) Minimum Reserves	18	(5 311)	(3 817)
Total		**312 122**	**465 866**

The following notes form an integral part of these financial statements

2. NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

Haitong Bank, S.A.

NOTE 1 - ACTIVITY

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

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

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

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

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.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Bases of preparation

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005, and Regulation no. 5/2015, of 7 December 2015 from the Bank of Portugal, Haitong Bank is required to prepare its financial statements in accordance with the International Financial Reporting Standards (IFRS), as established by the European Union.

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

Haitong Bank's individual financial statements set forth herein refer to the financial year ended on the 31st of December, 2018, which have been prepared in accordance with the IFRS in force, as adopted in the European Union until the 31st of December, 2018.

These individual financial statements are expressed in thousands of euro, rounded to the nearest thousand, and have been prepared under the historical cost convention, except for assets and the liabilities accounted for at fair value, namely, derivative contracts, financial assets and financial liabilities at fair value through profit and loss and through other comprehensive income. All other financial and non-financial assets or liabilities, are accounted at amortised or historical cost. Non-current assets available for sale are recognised at the lowest of book value and fair value, net of sale costs.

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

The individual financial statements herein have been approved in the Board of Directors meeting held on the 18th of March, 2019.

2.2. Bases Foreign currency transactions

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

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

2.3. Financial instruments (IFRS 9)

The Bank adopted IFRS 9 – Financial Instruments on 1 January 2018, replacing IAS 39 – Financial Instruments: Recognition and Measurement, which was in force until 31 December 2017. The Bank, other than its own credit risk adjustment, has not previously adopted any of the requirements of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Bank chose not to restate the comparative balances of the previous period. All the adjustments to the book values of the financial assets and liabilities at the transition date were recognized in shareholder's equity with reference to 1 January 2018 (Note 40). Consequently, the changes occurred in the information disclosed in the notes to the financial statements arising from the amendments to IFRS 7, following the adoption of IFRS 9, were applied only to the current reporting period. The information presented in the notes to the financial statements related to the prior period corresponds to the one presented in the notes to the financial statements for that period.

The accounting policies in force after the adoption of IFRS 9 on 1 January 2018 applicable to the Bank individual financial statements as at 31 December 2018, are described below. The accounting policies applicable to the comparative period (in IAS 39) are described in Note 2.4.

2.3.1. Financial assets classification

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

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

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

a) Financial assets at amortised cost

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

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

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

b) Financial assets at fair value through other comprehensive income

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

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

In addition, in the initial recognition of a capital instrument that is not held for trading, or a contingent consideration by an acquirer in a concentration of activities to which IFRS 3 applies, the Bank may irrevocably choose to classify it in the category of " Financial assets at fair value through other comprehensive income ". This option is exercised on a case-by-case basis, investment by investment and is only available for financial instruments that comply with the definition of equity instruments set forth in IAS 32 and can not be used for financial instruments whose classification as a capital instrument in the issuer is made under the exceptions provided in paragraphs from 16A to 16D of IAS 32. On the transition date and on December 31, 2018, the Bank did not adopt this irrevocable option under IAS 39, and only debt securities were classified in this category.

c) Financial assets at fair value through profit or loss

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

In addition, the Bank may irrevocably designate a financial asset that meets the criteria to be classified as "Financial assets at amortized cost" or "Financial assets at fair value through other comprehensive income", at fair value through profit or loss, at the time of its initial recognition, if that eliminates or significantly reduces an accounting mismatch, which would otherwise result from the measurement of assets or liabilities or from the recognition of gains and losses thereon on different bases. On the transition date and on December 31, 2018, the Bank did not adopt this irrevocable option, having classified in this category:

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

i. are originated or acquired for the purpose of trading in the short term;
ii. are part of a group of financial instruments identified and managed jointly for which there is evidence of recent actions with the aim of achieving gains in the short term;
iii. are derivative instruments which do not comply with the definition of a financial guarantee and have not been designated as hedging instruments.

- financial assets in the sub-category of "Financial assets at fair value through profit or loss - financial assets not held for trading mandatorily at fair value through profit and loss" when:

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

Gains and losses on financial assets and liabilities at fair value through profit or loss, namely, changes in fair value and interest on trading derivatives, as well as the dividends received from these portfolios, are recognized as "Results from financial assets at fair value through profit or loss and financial assets not held for trading mandatorily at fair value through profit or loss "in the income statement.

Business model evaluation for financial assets management

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

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

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

be generated during the life of the instrument, due to the exercise of the contractual clause, are only payments of principal and interest on the value of the capital outstanding.

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

Initial recognition

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

d) The remaining changes in value are recognized in other comprehensive income.

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

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

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

Reclassifications between categories of financial instruments

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

Derecognition criteria

The Bank derecognises a financial asset in the following situations::

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

Loans written-off

When the Bank considers that a certain loan is unrecoverable, and a 100% impairment loss has been recognised, such loan is written off from assets. This registration occurs after all the recovery actions developed by the Bank prove to be fruitless. Loans written off are recognised in off-balance sheet accounts.

Purchase or originated credit impaired assets

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

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

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

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

Impairment of financial assets

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

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

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

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

Impairment Model

IFRS 9 replaces the IAS 39 incurred loss model by an expected credit losses (ECL) 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: financial assets for which there was no significant increase in credit risk from the moment of initial recognition. In this case, the impairment will reflect ECL resulting from default events that may occur in the next 12 months after the reporting date;
- **Stage 2** – Under Performing: financial assets for which there was a significant increase in credit risk has occurred since the initial recognition but for which there is no objective evidence of impairment. In this stage, impairment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- **Stage 3** – Non Performing: financial assets for which there is objective evidence of impairment as a result of events that resulted in credit losses. In this case, the impairment amount will reflect the ECL over the expected residual life of the credit.

The collective model implemented by the Bank 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 purchased or originated credit impaired and acquired (POCI) which are allocated to Stage 3). For each of the following reporting dates, an assessment of the change in the risk of a default occurring over the expected life of the financial instrument is required for that contract.

A change in the risk of a default may result in a transfer from Stage 1 to Stage 2 or 3. As long as the risk of default of a financial asset 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, consequently to the recognition of the lifetime ECL over the residual life of the financial asset. A transfer into Stage 3 is required when objective evidence for a credit loss appears.

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

A probation period was established when a financial asset ceases to be classified in stage 3, 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 minimum 24 months period in order to be reclassified on Stage 1.

Expected Credit Losses

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

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

- Loans and advances to Customers;
- Loans and advances to Banks;
- Securities;
- Debtors and other receivables;
- Cash and cash equivalents.

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

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

- Financial assets with no signs of impairment at the reporting date (Stage 1 – Performing): correspond to expected credit losses that result from a default event that may occur within 12 months after the reporting date (credit losses expected at 12 months);
- Financial assets with a significant increase in credit risk or with impairment at the reporting date (Stage 2 – Under Performing e Stage 3 – Non Performing): correspond to the expected lifetime credit losses calculated by the difference between the gross accounting value and the net present value of the estimated cash flows;

- Unused credit commitments: the amount of the unused commitment as of the reference date multiplied by the credit conversion factor, the probability of default and the loss given default;
- Financial guarantees: the net present value of expected repayments less the amounts that the Bank expects to recover.

Significant increase in credit risk

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

The Bank identifies the occurrence of a significant increase in credit risk exposure through two approaches: (i) comparison between the current rating and the rating at the time of contract recognition and (ii) use of warning signals defined internally (internal impairment triggers).

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 Bank of Portugal; (iii) restructured loans as a result of client's financial difficulties (with no indication of unlikeliness to pay); (iv) renegotiated loans; (v) clients that are forbidden (by Banco de Portugal) to write a check; (vi) clients followed by Special Portfolio Management Department; (vii) clients with written-off loans in the banking system; (viii) clients with any of the abovementioned warning signals activated in the last 3 months; and (ix) other specific/exceptional situations (ad-hoc criteria).

According with internal procedures defined by the Bank, when there is a significant increase in the credit risk of a debtor, the financial instruments are subject to the individual impairment analysis.

Default definition

Under IFRS 9, the Bank considers its financial assets to be in default by applying the same definition 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, 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).

2.3.2. Financial liabilities

Classification, initial recognition and subsequent measurement

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

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

Financial liabilities at fair value through profit or loss

Classification

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

a) Financial liabilities held for trading

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

b) Financial liabilities designated at fair value through profit or loss

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

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

Initial recognition and subsequent measurement

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

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

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

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

Financial liabilities at amortised cost

Classification

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

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

Initial recognition and subsequent measurement

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

Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not allowed.

Derecognition of financial liabilities

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

2.3.3 Interest recognition

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

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

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

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

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

2.3.4. Financial guarantees

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

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

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

2.4. Financial instruments (IAS 39)

The Bank individual financial statements for the year 2017 were prepared in accordance with IAS 39 – Financial instruments – Recognition and measurement, as follows:

2.4.1. Financial derivatives

Classification

The Bank 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 Bank, such derivatives evidence a null statement of financial position value. The margin accounts are accounted for in Other assets (see Note 28) and include the minimum required collateral regarding open interests.

2.4.2. Loans and advances to customers

Loans and advances to customers include loans originated by the Bank, 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 Bank contractual rights concerning their corresponding cash flows have terminated, (ii) the Bank has substantially transferred all risks and benefits linked to the holding thereof, or (iii) the control over the assets is transferred, notwithstanding the Bank 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 Bank 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 through 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 Bank 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 Bank amongst others, considers 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 custumers 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.

2.4.3. Other financial assets

Classification

The Bank 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 Bank 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 Bank, 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.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which: (i) the Bank intends to keep indefinitely, (ii) are designated as available-for-sale at the time of their initial recognition, or (iii) do not fall within the aforementioned categories.

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 bank 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 Bank contractual rights to receive their corresponding cash flows have terminated, (ii) the Bank has substantially transferred all risks and benefits of ownership, or (iii) the control over the assets is transferred, notwithstanding the Bank having partly, but not wholly, retained the risks and benefits linked to the ownership.

Subsequent measurement

Following their initial recognition, the available-for-sale financial assets 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 Bank 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 own credit risk and counterparty risk. These methodologies may require the use of assumptions or judgments in the estimate of fair value.

Impairment

The Bank regularly assesses whether there is objective evidence that a financial asset or group thereof, shows indications of impairment. For the financial assets presenting impairment indicators, the respective recoverable amount is determined and the impairment losses are accounted for against income statement.

A financial asset, or group thereof, is impaired when there is objective evidence of impairment arising out of one or more events occurring after its initial recognition, such as: (i) in the case of shares and other equity instruments, a significant or prolonged decline in their market value, below the acquisition cost, (ii) in the case of debt securities, when such event (or events) has an impact on the estimated amount of the future cash flows of the financial asset, or group thereof, which may reasonably be estimated, and (iii) devaluation of 30% or consecutive devaluation during one year.

When there is evidence of impairment in the available-for-sale financial assets, the potential loss accumulated in other comprehensive income corresponds to the difference between the acquisition cost and the fair value, less any impairment loss in the financial asset previously recognised in income statement, is transferred to income statement. If the amount of the impairment loss decreases in a subsequent period, the previously recognised impairment loss is reversed against income statement of the financial year until recovery of the acquisition cost if the increase is objectively linked to an event occurring after the recognition of the impairment loss, except for shares or other equity instruments in which the subsequent gains are recognised in other comprehensive income.

2.4.4 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 Bank 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.

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

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

2.4.5. Financial guarantees

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

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

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

2.5. Assets sold with repurchase agreement and securities lending

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

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

Securities assigned through loan agreements are not derecognised from the statement of financial positions, being classified and measured in accordance with the accounting policy referred to in Note 2.4.3. Securities received through loan agreements are not recognised in the statement of financial positions.

2.6. Equity instruments

An instrument is classified as equity instrument only if:

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

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

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

2.7. Offsetting financial instruments

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

2.8. Non-current assets held-for-sale and assets from discontinuing operations

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

Immediately prior to the initial classification of the asset (or disposal group) as held-for-sale, the measurement of non-current assets (or of all the Bank 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 24, the Bank's participation in these entities was reclassified to "Non-current assets held for sale".

In 2018, as a result of the decision for the sale of Haitong Investment Ireland PLC, the Bank's participation in these entities was reclassified to "Non-current assets held for sale" (Note 24).

2.9. Other tangible assets

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

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

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

	Number of Years
Improvements in leasehold property	10
Computer Equipment	4 to 5
Indoor Installations	5 to 12
Furniture and supplies	4 to 10
Safety Equipment	4 to 10
Tools and Machines	4 to 10
Transportation Material	4
Other Equipment	5

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

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

2.10. Intangible assets

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

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

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

2.11. Leases

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

Operating leases

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

Financial leases

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

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

- As a lessor

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

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

2.12. Employee benefits

Pensions

Pensions Pursuant to the signature of the Collective Labor Agreement (“Acordo Coletivo de Trabalho” (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 15, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

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

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

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

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

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

The Bank recognizes as a cost in the income statement a net total amount that includes (i) current service costs, (ii) net interest income / expense with the pension fund, (iii) the effect of early retirement, (iv) past service costs, and (v) the effect of settlements or curtailments occurring during the period. The net interest income / expense with the pension plan is recognised as interest and similar income or interest expense and similar charges, depending on its nature. Early retirement costs correspond to increases in liabilities due to employees retiring before turning 65 years-old (normal retirement age foreseen in the ACT) and which forms the basis of the actuarial calculation of pension 30 June 2018 Notes to the Interim Condensed Consolidated Financial Statements fund liabilities. Whenever the possibility of the early retirement provided for in the pension fund regulation is invoked, the responsibilities of same must be incremented by the value of the actuarial calculation of the liabilities corresponding to the period between the early retirement and the employee turning 65 years-old.

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

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

Health-care benefits

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

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

Until 1 February 2017, the Bank's annual mandatory contribution to SAMS amounted to 6.50% of the total annual remuneration of active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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

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

Long-term service bonus and Career bonus

In accordance with the previous Collective Labour Agreement (ACT, "Acordo Coletivo de Trabalho") for the Banking Sector, in force until July 2016, the Bank had the commitment to pay active employees who completed 15, 25 and 30 years of service in the Bank, long-term service bonuses corresponding to one, two and three times, respectively, their monthly salary paid at the date the bonuses were paid.

At the date of early retirement due to disability or presumed disability, employees had 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.

These long-term service bonuses were accounted for by the Bank in accordance with IAS 19, as other long-term employee benefits. The Bank's liability with these long-term service bonuses were periodically estimated by the Bank using the Projected Unit Credit Method. The actuarial assumptions used were based on expectations as to future salary increases and mortality tables. The discount rate used in this calculation was determined using the methodology described for retirement pensions. In each period, the increase in the liability for long-term service bonuses, including actuarial gains and losses and past service costs, was charged to the income statement.

Upon the signature of the new ACT on 5 July 2016, the long-term service bonus was extinguished and the Bank paid its employees the proportional share of the bonuses due on entry into force of the new ACT.

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

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

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

Variable remuneration paid to employees

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

2.13. Income taxes

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

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

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

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

2.14. Provisions

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

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

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

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

2.15. Recognition of interest income and expense (IAS 39)

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.

2.16. Recognition of fee and commission income

Income from services and commissions are recognised as follows:

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

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

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

2.17. Segment reporting

According to paragraph 4 of IFRS 8 – Operating Segments, the Bank is exempt from submitting a report on an individual basis by segment, since the individual financial statements are presented together with the individual financial statements.

2.18. Earnings per share

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

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

2.19. Cash and cash equivalents

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

2.20. Investments in subsidiaries and associated companies

These assets are recorded at acquisition cost, being subject to periodic analyses of impairment.

Dividends are recorded as an income in the year in which its distribution is decided by the subsidiaries and associated companies.

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

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

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

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

3.1. Impairment losses on financial assets at amortised cost and debt instruments at fair value through other comprehensive income

The Bank periodically reviews financial assets at amortized cost and debt at fair value through other comprehensive income in order to accurately evaluate the existence of impairment, as referred on Note 2.3.1.

Individual analysis

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

The Risk Department identifies all exposures subject to individual analysis, encompassing all under-performing (Stage 2) and non-performing (Stage 3) exposures, and ensures that they are subject of analysis by the Impairment Committee.

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

The individual analysis process is subject to several estimates and judgments, including over the recovery estimates and the valuation of the existent collaterals. The using of alternative scenarios or alternative metodogies and other assumptions and estimates may result in differents amounts of impairment losses, with the corresponding impact in the Bank results.

Collective analysis

The Bank identifies the occurrence of a significant increase in credit exposure risk through two approaches: (i) comparison between the current rating and the rating at the time of initial recognition of the agreement and (ii) use of warning signals defined internally (internal impairment triggers).

The internal impairment triggers are the following: (i) clients with payment overdue over 30 days; (ii) clients in dispute in the Central Credit Register (CCR) from the Bank of Portugal; (iii) restructured loans as a result of client’s financial difficulties (with no indication of unlikeliness to pay); (iv) renegotiated loans; (v) clients that are forbidden (by Banco de Portugal) to write a check; (vi) clients followed by Special Portfolio Management Department; (vii) clients with written-off loans in the banking system; (viii) clients with warning signals activated in the last 3 months; and (ix) other specific/exceptional situations (ad-hoc criteria).

Regarding Probability of Default (PD): It reflects the probability of default at a prospect of time. Haitong Bank takes into account S&P's PDs, whereas the rating assigning process is performed internally based on the S&P methodology, which ensures the alignment between internal risk management and the process of impairment calculation;

Regarding Loss Given Default (LGD): is the magnitude of loss at the time of default. The Bank applies LGD based on Moody's benchmarks covering a wide historical period.

The using of alternative scenarios or alternative metodogies and other assumptions and estimates may result in differents amounts of impairment losses, with the corresponding impact in the Bank results.

3.2. Income Taxes

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

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

On the other hand, the Bank accounts for deferred taxes in accordance with the policy set forth in Note 2.13, whereby deferred tax assets are accounted for only insofar as it is expected that there will be taxable profit in the future, which are able to absorb tax losses carried forward and deductible temporary differences.

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

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

The estimate of future taxable profit involves a significant level of judgment regarding the future development of the Bank 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.

Regarding the activity in Portugal, the specific rules regarding the tax regime applicable to credit impairment and provisions for guarantees for the taxation periods beginning on or after 1 January 2018 are not established, since the reference to the Notice of the Bank of Portugal No. 3/95, provided in the Regulatory Decree No. 13/2018 of December 28, is only applicable to the tax period of 2018. In this context, the Bank considered, for the purpose of calculating taxable income and the recording and analysis of the recoverability of deferred tax assets by reference to December 31, 2018, that the amount of credit impairment and provisions for guarantees recorded that is deductible for the purposes of IRC corresponds to the amount of deductible provisions that would have been calculated if to keep in force the reference to Bank of Portugal Notice No. 3/95.

In 2018, the Bank adopted IFRS 9 - Financial Instruments. In this regard, there is no transitional regime that establishes the tax treatment to be applied to the transition adjustments to IFRS 9, so the treatment conferred resulted from the interpretation of the application of the rules of the IRC Code. The Bank carried out a review of the recoverability of deferred tax assets with reference to January 1, 2018, considering the impacts related to the adoption of IFRS 9 and the current interpretation of the tax implications applicable to the transition adjustments to IFRS 9.

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, for a period of four years, except where any deduction or tax credit has been made, where the time-limit is the exercise of that right. Hence, there is a possibility that the basis of assessment will be corrected, mainly due to differences in interpretation of the tax legislation. However, the Bank's Board of Directors believe that there will be no significant corrections to the Income taxes accounted for in the financial statements.

3.3. Impairment losses in subsidiaries and associated companies

Investments in subsidiaries and associated companies are analysed periodically for the purpose of identifying signs of impairment. If any, the impairment is determined in accordance with the rules set forth in IAS 36. In the absence of an available market value, the recoverable amount is normally determined based on discounted value techniques using a discount rate that considers the risk associated with unit to be tested. The determination of the future cash flows to be discounted and the discount rate to be used involves judgment. Changes in expected cash flows and in the discount rates to be used could lead to different conclusions from those that formed the basis of the preparation of these financial statements.

3.4. Pensions and other employee benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, responsabilities discount rate, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values

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

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

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

3.6. Classification and Measurement

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

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

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

NOTE 4 – FINANCIAL MARGIN

This heading's amount is composed of:

(thousand euros)

	31.12.2018			31.12.2017		
	Assets/Liabilities at Amortised Cost and at fair value through other comprehensive income	Assets/Liabilities at Fair Value Through Profit or Loss	Total	Assets/Liabilities at Amortised Cost and at fair value through other comprehensive income	Assets/Liabilities at Fair Value Through Profit or Loss	Total
Interest and similar income						
Interest from loans and advances to customers	12 154	-	12 154	9 563	-	9 563
Interest from deposits and investments in credit institutions	286	-	286	2 904	-	2 904
Interest from available-for-sale financial assets	-	-	-	2 870	-	2 870
Interest from financial assets at fair value through other comprehensive income	2 071	-	2 071	-	-	-
Interest from financial assets at fair-value through profit and loss	-	4 112	4 112	-	4 269	4 269
Interest from debt securities measured at amortised cost	532	-	532	-	57	57
Other interest and similar income	130	-	130	4	-	4
	15 173	**4 112**	**19 285**	**15 341**	**4 326**	**19 667**
Interest and similar expenses						
Interest from deposits from central banks and other credit institutions	478	-	478	9 097	-	9 097
Interest from risk management derivatives	-	-	-	-	57	57
Interest from debt securities issued	4 078	-	4 078	4 169	-	4 169
Interest from customers accounts	10 672	-	10 672	3 982	-	3 982
Other interest and similar expenses	963	-	963	705	-	705
	16 191	**-**	**16 191**	**17 953**	**57**	**18 010**
	(1 018)	**4 112**	**3 094**	**(2 612)**	**4 269**	**1 657**

As at the 31st of December, 2018, interest and similar income includes an amount of 809 thousand euros and 328 thousand euros concercing contracts flagged as stage 2 and stage 3, respectively.

NOTE 5 – INCOME FROM EQUITY INSTRUMENTS

This heading's amount is composed of:

(thousand euros)

	31.12.2018
Dividend income	
HAITONG BANCO DE INVESTIMENTO DO BRASIL S.A.	5 401
	5 401

NOTE 6 – NET FEES AND COMMISSIONS INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Fees and commissions income		
From banking services	45 369	44 712
From guarantees provided	2 226	2 253
From transactions with securities	23 412	18 985
	71 007	**65 950**
Fees and commissions expenses		
From banking services rendered by third parties	343	1 125
From transactions with securities	1 031	2 612
From guarantees received	445	569
Other fee and comission expenses	4 587	8 971
	6 406	**13 277**
	64 601	**52 673**

As at 31th of December 2018 the amount of Fees and comissions present the following distribution:

(thousand euros)

	31.12.2018
Fees and commissions income	
Capital Markets Division	30 306
Mergers and Acquisitions Division	15 627
Structured Finance Division	11 563
Equities Division	5 527
Fixed Income Currency and Commodities Division	5 163
Private Equity	1 040
Global Markets	508
Treasury Division	607
Other	666
	71 007

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

Mergers and Acquisitions Division

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

Additionally, the purpose of this division is also to perform more specific projects, such as valuations, 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 organize, structure and arrange the respective transactions.

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

Structured Finance Division

The mission of the Structured Finance Division is to generate new operations in the credit area, whether as finance provider and/or the provision of services by the Bank as arranger and/or agent of loan operations, or the provision of advisory services in the financial structuring of investment projects, public tenders relating to infrastructure concessions and other public utilities and the structuring and arrangement of financing operations, through bank loans or bond issues under a project finance regime (“project bonds”).

Equities Division

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 plat form to support the Group's investment banking activities through the distribution of new equity issues and follow-on transactions.

Fixed Income Currency and Commodities Division

The purpose of the FICC Division is to provide a professional, differentiated and high quality product and service to institutional and corporate clients. In addition, it provides Haitong Bank a strong international distribution platform that is available for Investment Banking products.

FICC Division provides market-making activity for corporate and sovereign debt securities. It links with the distribution capacity allowing to capture clients flow, identify, new business opportunities and promote cross border activities.

Furthermore, it is also responsible to provide tailor-made hedging solutions for Corporates (multi-asset and multi-currencies) offering a wide range of products with plain vanilla and structured payoffs.

Private Equity

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

Global Markets

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

Treasury Division

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

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

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, Special Portfolio Management, Research and other revenue centres).

NOTE 7 – NET TRADING INCOME

This heading’s amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Trading assets and liabilities		
Securities		
Bonds and other fixed income securities		
Issued by public entities	(48)	38
Of other entities	466	1 490
Shares	(3 865)	710
	(3 447)	**2 238**
Financial derivatives		
Foreign-exchange contracts	(7 408)	1 340
Interest rates contracts	(450)	(822)
Equity/indexes contracts	7 222	(1 647)
Credit default contracts	-	(1 996)
Other	(548)	1 030
	(1 184)	**(2 095)**
	(4 631)	**143**

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

This heading’s amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Assets and liabilities at fair value through profit or loss		
Securities		
Loans and advances to customers	(1)	-
Shares	(1 379)	-
	(1 380)	**-**
Financial derivatives for risk managment purposes		
Equity/indexes contracts	-	40
Credit contracts	-	16
	-	**56**
	(1 380)	**56**

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

This heading's amount is composed of:

(thousand euros)

	31.12.2018
Bonds and other fixed income securities	
Issued by public entities	3 302
	3 302

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

This heading's amount is composed of:

(thousand euros)

	31.12.2017
Bonds and other fixed income securities	
Issued by public entities	10
Of other entities	2 567
	2 577

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

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Currency revaluation	7 246	(220)
	7 246	**(220)**

This heading includes results arising out of the exchange rate revaluation of monetary assets and liabilities denominated in foreign currency, in accordance with the accounting policy set forth in Note 2.2.

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

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Sale of loans and advances to customers	117	122
	117	**122**

NOTE 13 – OTHER OPERATING RESULTS

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Other customer services	1 094	791
Direct and Indirect taxes	(2 824)	(2 906)
Other operating results	(1 911)	(6 800)
Non-current assets held-for-sale (Note 24)	1 417	-
Non-financial assets	(69)	-
	(2 293)	**(8 915)**

Direct and indirect taxes include 1,782 thousand euros concerning the cost associated with the Bank Levy (31st of December, 2017: 1,751 thousand euros), established pursuant to Law no. 55-A/2010, of the 31st of December (see Note 33).

As at the December 31, 2018, the balance Other operating income and expenses includes, among other costs, the following contributions:

I. There were no contribution relating to the Deposit Guarantee Fund Contributions (110 thousand euros at 31 December 2017); and

II. 1,862 thousand euros related to Contributions to the Resolution Fund (1,811 thousand euros at 31 December 2017).

NOTE 14 – EMPLOYEE COSTS

This heading's amount is composed of:

(thousand euros)

	31.12.2018	31.12.2017
Wages and salaries		
Remuneration	25 124	26 831
Career benefits (see Note 15)	(13)	(85)
Changes from termination agreements (see Note 15)	1 256	2 316
Changes from Maximum Salary Cap implementation (see Note 15)	-	(4 097)
Expenses with retirement pensions (see Note 15)	784	1 233
Other mandatory social charges	4 351	8 601
Other expenses	1 398	21 945
	32 900	**56 744**

At 31st December, 2018 this heading includes 1,256 thousand euros (31st December, 2017: 30,038 thousand euros) related with the Voluntary Termination Plan called Social Plan.

Expenses with remunerations and other benefits granted to the key management personnel of the Haitong Bank as at 31st December, 2018 and 2017 are as follows:

(thousand euros)

	Board of Directors	Other Key Management staff	Total
2018			
Remuneration and other short-term benefits	1 560	10 420	11 980
Variable remuneration	-	566	566
Total	**1 560**	**10 986**	**12 546**
2017			
Remunerations and other short-term benefits	1 357	8 296	9 653
Variable remunerations	-	542	542
Total	**1 357**	**8 838**	**10 195**

Other key management personnel includes Executive Directors and Managing Directors.

As at the 31st of December, 2018 and 2017, the Haitong Bank does not have any loans granted to Administration Bodies.

The average number of employees of the Haitong Bank per professional category is analysed as follows:

	2018	2017
Directors	164	208
Management	3	3
Specific roles	105	117
Administrative roles	17	24
Support roles	12	13
	301	**365**

NOTE 15 – EMPLOYEES BENEFITS

Retirement pensions and healthcare benefits

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

Banking employees also receive health-care benefits through a specific Social-Medical Assistance Service (“Serviço de Assistência Médico-Social”, SAMS), managed by the respective Union, having the Bank made until February 2017 mandatory contributions to SAMS corresponding to 6.50% of the total effective remuneration of the active employees, including, amongst others, the holiday subsidy and Christmas subsidy.

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

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

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

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

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

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

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

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

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

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

	Assumptions	
	31.12.2018	31.12.2017
Financial Assumptions		
Expected return rates	2.32%	2.17%
Discount rate	2.32%	2.17%
Pension growth rates	0.50%	0.50%
Salary growth rates	1.00%	1.00%
Demographic Assumptions and Assessment Methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 - 3 years	TV 88/90 - 3 years
Actuarial valuation method	Project Unit Credit Method	

Disability decrements are not included in the calculation of responsibilities. The discount rate used as reference to the 31st of December, 2018, was based on: (i) the development sustained by the main indices concerning high quality corporate bonds and (ii) the duration of the responsibilities (21 years).

Recipients of the pensions plan are disaggregated as follows:

	31.12.2018	31.12.2017
Active workers	109	120
Former employees with vested rights	70	55
Retired	33	32
Survivors	7	7
TOTAL	**219**	**214**

Former employees with vested rights refer to employees who ceased their activity in the Bank in 2017 and 2018, under the terms of the Social Plan, and maintained the pension plan rights.

The IAS 19 application implies the following liabilities and coverage levels, which shall be reported on the 31st of December 2018 and 2017:

(thousand euros)

	31.12.2018	31.12.2017
Net Assets / (Liabilities) recognised in the statement of financial position		
Liabilities as at 31st of December		
Pensioners and former employees with vested rights	40 839	35 137
Active workers	31 820	36 933
	72 659	**72 070**
Balance of the Funds at 31 December	**69 641**	**72 552**
Excess of coverage / (Contributions to the fund)	(3 018)	482
Assets / (Liabilities) in the statement of financial position (see Notes 28 and 34)	**(3 018)**	**482**
Acummulated actuarial gains / losses recognised in other comprehensive income	34 616	31 792

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

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

(thousand euros)

	31.12.2018	31.12.2017
Liabilities at the beginning of the year	**72 070**	**70 735**
Current service cost (see Note 14)	784	1 233
Interest expenses	1 556	1 474
Participants contributions	94	113
Actuarial (gains)/losses	(2 389)	1 327
-Changes in assumptions	(2 401)	1 470
- Experience (Gains)/losses	12	(143)
Pensions paid by the fund	(712)	(1 031)
Changes from termination agreements (see Note 14)	1 256	2 316
Changes from Maximum Salary Cap implementation (see Note 14)	-	(4 097)
Liabilities at the end of the year	**72 659**	**72 070**

Considering the situation on the 31st of December 2018, the analysis to the sensibility and alterations of the actuarial assumptions revealed the following impacts:

An increase in the discount rate of 25 base points would have represented a reduction in liabilities of approximately 3,715 thousand euros. A discount rate decrease of the same proportion would have represented an increase in liabilities of approximately 3,909 thousand euros;

An increase of 25 base points in the growth of salaries and pensions would have represented an increase in liabilities of approximately 3,605 thousand euros. A decrease in the growth of salaries of the same proportion would have represented a decrease in liabilities of approximately 3,440 thousand euros.

The evolution of value regarding the pension funds on the financial years ending on the 31st of December 2018 and 2017, may be analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Pension Funds at the beginning of the year	**72 552**	**67 349**
Real income of the fund	(3 619)	2 621
Bank contributions	1 326	3 500
Participants contributions	94	113
Benefits paid	(712)	(1 031)
Pension Funds at the end of the year	**69 641**	**72 552**

In early 2019, the Bank made an extraordinary contribution for the fund in the amount of 2,275 thousand euros, therefore, the fund is now in the amount of 71,916 thousand euros, thereby representing a liability financing level of 98,98%.

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

	% Portfolio	
	2018	2017
Bonds	66.00%	57.70%
Shares	28.00%	30.30%
Alternative investment	5.00%	8.70%
Liquidity	1.00%	3.30%
Total	100.00%	100.00%

On the 31st of December 2018 and 2017 the funds did not contain securities issued by entities of the Group.

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

(thousand euros)

	31.12.2018	31.12.2017
Accumulated actuarial gains / (losses) as at 1st January	**31 792**	**31 641**
- Actuarial assumptions changes	(2 401)	1 470
- (Gains)/losses in experience	5 225	(1 319)
Accumulated actuarial deviations as at 31st of December	**34 616**	**31 792**

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

(thousand euros)

	31.12.2018	31.12.2017
Current service cost (See Note 14)	784	1 233
Interest Expenses / (Income)	(38)	29
Expenses of the period	**746**	**1 262**

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

The evolution of the net assets / (liabilities) on the balance regarding the financial years ending on the 31st of December 2018 and 2017 may be analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Opening balance	**482**	**(3 386)**
Year expenses	(746)	(1 262)
Actuarial gains / (losses) recognised in other comprehensive income	(2 824)	(151)
Bank contributions	1 326	3 500
Changes in termination agreements	(1 256)	(2 316)
Changes in Maximum Salary Cap implementation	-	4 097
Closing balance	**(3 018)**	**482**

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

(thousand euros)

	31.12.2018	31.12.2017	31.12.2016	31.12.2015	31.12.2014
Liabilities	(72 659)	(72 070)	(70 735)	(70 744)	(63 867)
Funds balances	69 641	72 552	67 349	70 744	63 002
(Under) / over funded liabilities	**(3 018)**	**482**	**(3 386)**	**-**	**(865)**
Experience (gains) / losses from liabilities	12	(143)	(7 655)	177	(7 097)
Experience (gains) / losses from plan assets	5 213	(1 176)	6 013	6 707	(834)

Career bonuses

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

(thousand euros)

	31.12.2018	31.12.2017
Liabilities at the begining of the period	**498**	**583**
Year expenses (See Note 14)	(13)	(85)
Liabilities at the end of the period (see Note 34)	**485**	**498**

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

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)

	31.12.2018	31.12.2017
Lease and rental	3 559	9 726
Marketing and advertisement	131	288
Press releases and expedition	4 602	5 112
Travelling and representation	1 074	2 966
Maintenance and related services	778	1 023
Insurances	171	385
Legal and litigation	119	120
Specialised services		
IT services	3 173	3 991
Temporary labour	13	32
Independent work	1 156	1 930
Other specialised services	3 939	4 799
Other expenses	3 131	2 169
	21 846	**32 541**

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

The earnings from outstanding rents regarding non-cancellable operating lease contracts shall be as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to one year	1 071	1 217
One to five years	931	1 447
	2 002	**2 664**

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

(thousand euros)

	31.12.2018
Statutory audit of annual accounts (Haitong Bank)	375
Other reliability assurance services	151
Other non-statutory audit services	79
Total amount of agreed services	**605**

Values shown are before taxes. The fees related to the statutory audit of annual accounts correspond to those agreed for the year 2018. The fees presented for the remaining services relate to amounts billed during the 2018 financial year.

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)

	31.12.2018	31.12.2017
Net Profit / (Loss) attributable to equity holders of the Bank [1]	(4 566)	(140 858)
Weighted average number of ordinary shares outstanding (thousands)	**168 954**	**129 351**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**-0,03**	**-1,09**

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

Diluted earnings per share

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

On the 31st of December, 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 31st of December, 2018 and 2017, this heading is analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Cash	3	9
Demand deposit at central banks		
Bank of Portugal	308 245	438 668
Other central banks	742	2 656
	308 987	**441 324**
Deposits at other credit institutions in Portugal		
Demand deposits	4 474	13 932
	4 474	**13 932**
Deposits at other credit institutions abroad		
Demand deposits	3 969	14 418
	3 969	**14 418**
	317 433	**469 683**

The 'Demand deposits in central banks – Bank of Portugal' heading, includes deposits with a mandatory nature, intended to comply with the legal minimum cash deposits requirements. In accordance with Regulation (EU) no. 1358/2011 of the European Central Bank, of the 14th of December, 2011, the mandatory minimum deposits in demand deposits in the Bank of Portugal, are paid and represent 1% of the deposits and debt securities with maturity up to 2 years, whereof are excluded deposits and debt securities from entities subject to the minimum reserve requirement scheme of the European System of Central Banks. On the 31st of December, 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 31th of December, 2018, has been comprised in the maintenance period from the 19th of December, 2018, to the 29th of January, 2019, which corresponded a mandatory minimum reserve amounting to 5,311 thousand euros (31st of December, 2017: 3,817 thousand euros).

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

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

(thousand euros)

	31.12.2018	31.12.2017
Financial assets held-for-trading		
Securities		
Bonds and other fixed-income securities		
From public issuers	18 325	3 637
From other issuers	51 214	78 889
Shares	457	15 930
	69 996	**98 456**
Financial liabilities held-for-trading		
Securities		
Short-selling	16 119	-
	16 119	**-**

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

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	19 416	15 922
From three months to one year	4 566	29 609
From one to five years	34 728	35 844
More than five years	10 829	1 151
Undetermined period	457	15 930
	69 996	**98 456**

In accordance with the accounting policy described in Note 2.4., trading financial assets and liabilities are bought for the purpose of short-term trading, regardless of their maturity.

The short selling represents securities sold by the Bank, which had been purchased under a reverse repurchase agreement. In accordance with the accounting policy described in Note 2.6, securities purchased under a repurchase agreement are not recognised in the statement of financial position. If those securities are sold, the Bank recognises a financial liability equivalent to the fair-value of the assets which shall be returned in pursuance of the repurchase agreement.

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

(thousand euros)

	31.12.2018			31.12.2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by public entities	18 325	-	18 325	3 637	-	3 637
Issued by other entities	5 781	45 433	51 214	24 427	54 462	78 889
Shares	457	-	457	15 818	112	15 930
Total book value	**24 563**	**45 433**	**69 996**	**43 882**	**54 574**	**98 456**

As at 31 December 2018 and 2017, the exposure to public debt from peripheral Eurozone countries is analysed in Note 41.

NOTE 20 – DERIVATIVES

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

(thousand euros)

	31.12.2018	31.12.2017
Trading derivatives (assets)		
Foreign-exchange contracts	6 268	21 835
Interest-rate contracts	127 395	163 066
Other contracts	25 296	23 627
	158 959	**208 528**
Trading derivatives (liabilities)		
Interest-rate contracts	9 744	19 574
Equity / index contracts	126 846	157 790
Other contracts	25 910	23 519
	162 500	**200 883**
	(3 541)	**7 645**

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

(thousand euros)

	31.12.2018			31.12.2017		
	Notional	Fair value		Notional	Fair value	
		Positive	Negative		Positive	Negative
Foreign-exchange contracts						
Forward		182	789		1 970	849
- buy	115 240			174 736		
- sell	116 366			174 293		
Currency Swaps		340	3 179		1 329	126
- buy	195 259			217 468		
- sell	198 576			216 428		
Currency Interest Rate Swaps		2 900	2 900		17 279	17 279
- buy	28 850			47 519		
- sell	28 850			47 519		
Currency Options		2 846	2 876		1 257	1 320
- buy	231 784			103 942		
- sell	261 311			111 509		
	1 176 236	**6 268**	**9 744**	**1 093 414**	**21 835**	**19 574**
Interest rate contracts						
Interest Rate Swaps		120 299	119 750		156 185	150 908
- buy	2 805 122			3 659 482		
- sell	2 805 122			3 659 482		
Interest Rate Caps & Floors		7 096	7 096		6 881	6 882
- buy	121 442			261 620		
- sell	121 442			261 620		
Interest Rate Futures		-	-		-	-
- buy	3 000					
- sell	8 677			4 752		
	5 864 805	**127 395**	**126 846**	**7 846 956**	**163 066**	**157 790**
Equity / index contracts						
Equity / Index Swaps		22 093	22 707		15 491	15 383
- buy	193 948			135 587		
- sell	193 948			135 585		
Equity / Index Options		415	413		3 539	3 539
- buy	3 247			14 012		
- sell	3 247			14 012		
Equity / Index Futures		-	-		-	-
- sell	6 602			-		
	400 992	**22 508**	**23 120**	**299 196**	**19 030**	**18 922**
Credit default contracts						
Credit Default Swaps		2 788	2 790		4 597	4 597
- buy	105 423			150 978		
- sell	105 423			150 978		
	210 846	**2 788**	**2 790**	**301 956**	**4 597**	**4 597**
Total	**7 652 879**	**158 959**	**162 500**	**9 541 522**	**208 528**	**200 883**

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

(thousand euros)

	31.12.2018			31.12.2017		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Sale	Purchase		Sale	Purchase	
Up to three months	605 891	577 077	(2 222)	622 943	684 070	2 430
From three months to one year	636 529	620 585	(1 772)	471 557	465 508	901
From one to five years	1 144 174	1 142 685	(463)	2 062 311	1 996 401	(326)
More than five years	1 462 969	1 462 969	916	1 619 367	1 619 365	4 640
	3 849 563	**3 803 316**	**(3 541)**	**4 776 178**	**4 765 344**	**7 645**

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

NOTE 21 – SECURITIES

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

(thousand euros)

	31.12.2018	31.12.2017
Non-trading financial assets mandatorily at fair value through profit or loss		
Securities		
Shares	8 900	-
Other variable income securities	2 446	-
	11 346	**-**
Financial assets at fair value through other comprehensive income		
Securities		
Bonds and other fixed-income securities		
From public issuers	280 978	-
From other issuers	90 802	-
	371 780	**-**
Financial assets available- for-sale		
Securities		
Bonds and other fixed-income securities		
From public issuers	-	251 988
From other issuers	-	26 206
Shares	-	80
Other variable income securities	-	2 646
	-	**280 920**
Financial assets measured at amortised cost		
Securities		
Bonds and other fixed-income securities		
From other issuers	87 085	-
	87 085	**-**
	470 211	**280 920**

In accordance with the accounting policy described in Note 2.3, the Bank regularly assesses whether there is objective evidence of impairment in the investment securities portfolios, following the judgement criteria described in Note 3.1.

As at 31st of December 2018, the portfolio of financial assets at fair value through other comprehensive income is analysed as follows:

(thousand euros)

	Cost (1)	Fair value reserve (Note 36)		Impairment (Note 32)	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	281 891	1 229	(1 858)	(284)	280 978
Issued by other entities	91 309	328	(450)	(385)	90 802
Balance as at 31st December 2018	**373 200**	**1 557**	**(2 308)**	**(669)**	**371 780**

(1) Amortised cost

As at 31st of December 2018, the heading of financial assets is 280,618 thousand euros in securities pledged as collateral by the Bank.

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

(thousand euros)

	Cost (1)	Impairment (Note 32)	Book value
Bonds and other fixed-income securities			
Issued by other entities	87 532	(447)	87 085
Balance as at 31st December 2018	**87 532**	**(447)**	**87 085**

(1) Amortised cost

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

(thousand euros)

	Cost (1)	Fair value reserve (Note 36)		Impairment (Note 32)	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	249 126	2 862	-	-	251 988
Issued by other entities	26 356	6	(156)	-	26 206
Shares	1 870	-	-	(1 790)	80
Other variable-income securities	6 886	-	-	(4 240)	2 646
Balance as at 31st December 2017	**284 238**	**2 868**	**(156)**	**(6 030)**	**280 920**

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

As at 31st of December 2017, the heading of financial assets held-for-sale includes 251,629 thousand euros in securities pledged as collateral by the Bank (Note 37).

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

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	13 493	-
From three months to one year	76 013	-
From one to five years	298 644	256 736
More than five years	70 715	21 458
Undetermined period	11 346	2 726
	470 211	**280 920**

As at 31st of December 2018 and 2017, the heading of securities, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2018			31.12.2017		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed-income securities						
Issued by public entities	280 978	-	280 978	251 988	-	251 988
Issued by other entities	5 122	172 765	177 887	4 992	21 214	26 206
Shares	8 829	71	8 900	-	80	80
Other variable-income securities	-	2 446	2 446	-	2 646	2 646
Total book value	**294 929**	**175 282**	**470 211**	**256 980**	**23 940**	**280 920**

As at 31st of December 2018 and 2017, the exposure to the public debt of "peripheral" countries within the Euro Area is presented in Note 41.

NOTE 22 - LOANS AND ADVANCES TO BANKS

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

(thousand euros)

	31.12.2018	31.12.2017
Loans and advances to banks in Portugal		
Deposits	56	56
Other loans and advances	-	6 145
	56	**6 201**
Loans and advances to banks abroad		
Loans	-	139 671
Very short-term deposits	1 048	15 067
Other loans and advances	18 435	18 976
	19 483	**173 714**
	19 539	**179 915**
Impairment losses (Note 32)	(15 574)	(15 388)
	3 965	**164 527**

As at 31st of December 2018 and 2017, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	4 406	18 966
From three months to one year	56	56
From one to five years	-	139 671
More than five years	-	6 145
Overdue	15 077	15 077
	19 539	**179 915**

NOTE 23 – LOANS AND ADVANCES TO CUSTOMERS

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

(thousand euros)

	31.12.2018	31.12.2017
At fair value throught profit and loss		
Overdue loans and interest		
Up to 90 days	285	-
	285	**-**
Loans fair value revaluation	(1)	-
	284	**-**
At amortized cost		
Domestic loans		
Corporate		
Commercial lines of credit	150	234
Loans	206 360	289 625
Other credits	-	1 307
Retail		
Mortgage loans	526	252
	207 036	**291 418**
Foreign loans		
Corporate		
Loans	316 604	35 296
Operations with reverse repo	116 618	-
Other credits	1 422	2 102
Retail		
Mortgage loans	14	-
	434 658	**37 398**
Overdue loans and interest		
Up to 90 days	845	2 917
For more than 90 days	77 541	107 807
	78 386	**110 724**
	720 080	**439 540**
Impairment losses (Note 32)	(88 860)	(138 957)
	631 220	**300 583**
	631 504	**300 583**

As at 31st of December 2018 and 2017, the analysis of loans and advances to customers, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	166 787	7 232
From three months to one year	5 461	36 276
From one to five years	271 881	58 028
More than five years	197 565	227 280
Undetermined period	78 670	110 724
	720 364	**439 540**

NOTE 24 - NON-CURRENT ASSETS HELD-FOR-SALE

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

(thousand euros)

	31.12.2018	31.12.2017
HAITONG (UK) LIMITED	-	10 453
HAITONG SECURITIES USA	-	12 199
POLISH HOTEL COMPANY	2 533	2 533
HAITONG INVESTMENT IRELAND PUBLIC LIMITED COMPANY	150 825	-
	153 358	**25 185**

Non-current assets held-for-sale only includes the investment in Polish Hotel Company. The Bank has implemented a plan for the immediate sale of this subsidiary. However, due to market conditions, it was not possible to carry out the divestiture within the period originally foreseen.

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 December 31st, 2017 of this investment corresponds to its recoverable amount based on the letter of intent received.

The Bank continues to develop efforts to conclude the sale of the company, having entered into a NDA with another potential investor in November 2018.

The sale is estimated to be completed until the end of 2019.

The movement in this heading was as follows:

(thousand euros)

	31.12.2018	31.12.2017
Opening balance	**25 185**	**3 600**
Indicative Sell price of HAITONG (UK) LIMITED	-	10 453
Investment transfer in HAITONG SECURITIES USA	-	12 199
Value reduction of POLISH HOTEL COMPANY	-	(1 067)
Foreign exchange revaluation of HAITONG (UK) LIMITED	(260)	-
Sell Price of (UK) LIMITED	(10 167)	-
Sell price of HAITONG SECURITIES USA	(13 642)	-
Net gains /(loss) from selling HAITONG (UK) LIMITED (Note 13)	(26)	-
Net gains /(loss) from selling HAITONG SECURITIES USA (Note 13)	1 443	-
Investment transfer in HAITONG INVESTMENT IRELAND PLC+	150 825	-
Closing balance	**153 358**	**25 185**

In February 2018 the Haitong Securities USA LLC, Haitong UK Limited and Haitong Securities (UK) Limited subsidiaries were sold to Haitong International BVI. The sale price of Haitong Securities USA LLC. was 16 778 thousand dollars (13 642 thousand euros). The sales value of Haitong UK Limited and Haitong Securities (UK) Limited amounted to 12 536 thousand dollars (10 167 thousand euros).

Following the decision from the Management, the Bank is preparing the sale of its Irish subsidiary Haitong Investment Ireland plc.

This sale would take place inside Haitong Group and it allows Haitong Bank to achieve important milestones:

- Further simplify Haitong Bank's corporate and business structure;
- Improve the quality of Haitong Bank's assets as part of the legacy portfolio is booked by the Irish subsidiary;
- Increase RWA's and capital position.

This sale is dependent on the execution of the customary contractual agreements and the standard due diligence procedures. The sale is estimated to be completed until the end of 2019.

As a consequence of this decision, the investment in the Irish subsidiary was reclassified to the non-current assets held for sale caption.

NOTE 25 - OTHER TANGIBLE ASSETS

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

(thousand euros)

	31.12.2018	31.12.2017
Real Estate		
Improvements in leasehold property	6 446	6 317
	6 446	**6 317**
Equipment		
IT equipment	10 576	11 676
Indoor installations	2 918	3 361
Furniture	2 233	3 051
Machinery and tools	772	1 031
Motor vehicles	68	68
Security equipment	252	286
Others	154	168
	16 973	**19 641**
	23 419	**25 958**
Work in progress		
Equipment	23	-
	23	**-**
	23 442	**25 958**
Accumulated depreciation	(21 051)	(22 005)
	2 391	**3 953**

The movement in this heading was as follows:

(thousand euros)

	Property	Equipment	Work in progress	Total
Balance as at 31st December 2016	**6 141**	**20 016**	**242**	**26 399**
Acquisitions	293	167	-	460
Write-offs / sales	(117)	(542)	-	(659)
Exchange differences and other movements	-	-	(242)	(242)
Balance as at 31st December 2017	**6 317**	**19 641**	**-**	**25 958**
Acquisitions	133	165	23	321
Write-offs / sales	(3)	(2 833)	-	(2 836)
Exchange variation and other movements	(1)	-	-	(1)
Balance as at 31st December 2018	**6 446**	**16 973**	**23**	**23 442**
Accumulated depreciation				
Balance as at 31st December 2016	**4 420**	**16 671**	**-**	**21 091**
Depreciations of the financial year	378	1 143	-	1 521
Write-offs / sales	(86)	(521)	-	(607)
Balance as at 31st December 2017	**4 712**	**17 293**	**-**	**22 005**
Depreciations of the financial year	753	1 092	-	1 845
Write-offs / sales	(4)	(2 795)	-	(2 799)
Exchange differences and other movements	-	-	-	-
Balance as at 31st December 2018	**5 461**	**15 590**	**-**	**21 051**
Net book value as at 31st December 2018	**985**	**1 383**	**23**	**2 391**
Net book value as at 31st December 2017	**1 605**	**2 348**	**-**	**3 953**

NOTE 26 – INTANGIBLE ASSETS

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

(thousand euros)

	31.12.2018	31.12.2017
Purchased from third parties		
Software	30 557	30 242
Others	916	916
	31 473	**31 158**
Work in progress	571	466
	32 044	**31 624**
Accumulated depreciation	(25 341)	(22 400)
	(25 341)	**(22 400)**
	6 703	**9 224**

The movement in this heading was as follows:

(thousand euros)

	Software	Other	Work in progress	Total
Acquisition cost				
Balance as at 31st December 2016	**29 087**	**916**	**1 302**	**31 305**
Acquisitions:				
Purchased from third parties	183	-	998	1 181
Write-offs / sales	(510)	-	(94)	(604)
Transfers	1 482	-	(1 482)	-
Exchange rate variation and other movements	-	-	(258)	(258)
Balance as at 31st December 2017	**30 242**	**916**	**466**	**31 624**
Acquisitions:				
Purchased from third parties	461	-	124	585
Write-offs / sales	(208)	-	(17)	(225)
Exchange rate variation and other movements	62	-	(2)	60
Balance as at 31st December 2018	**30 557**	**916**	**571**	**32 044**
Accumulated depreciation				
Balance as at 31st December 2016	**18 185**	**916**	**-**	**19 101**
Amortisations of the financial year	3 774	-	-	3 774
Write-offs / sales	(475)	-	-	(475)
Balance as at 31st December 2017	**21 484**	**916**	**-**	**22 400**
Amortisations of the financial year	3 114	-	-	3 114
Write-offs / sales	(173)	-	-	(173)
Balance as at 31st December 2018	**24 425**	**916**	**-**	**25 341**
Net book value as at 31st December 2018	**6 132**	**-**	**571**	**6 703**
Net book value as at 31st December 2017	**8 758**	**-**	**466**	**9 224**

NOTE 27 – INVESTMENTS IN ASSOCIATED COMPANIES

Financial information regarding associated companies is presented in the following table:

(thousand euros)

	31.12.2018				31.12.2017			
	Number of shares	Owned by the bank	Par Value (Euro)	Acquisition Cost	Number of shares	Owned by the bank	Par Value (Euro)	Acquisition Cost
Associates								
MCO2 - SOCIEDADE GESTORA DE FUNDOS DE INV MOBILIARIO, S.A	-	0,00%	0,00	-	31 250	25,0%	1,00	738
Subsidiaries								
HAITONG BANCO DE INVESTIMENTO DO BRASIL S.A.	101 870 930	80,00%	0,45	174 496	101 870 930	80,0%	0,52	174 496
HAITONG CAPITAL - SCR, S.A.	5 000 000	100,00%	5,00	42 660	5 000 000	100,0%	5,00	42 660
HAITONG INVESTMENT IRELAND PUBLIC LIMITED COMPANY	-	0,00%	0,00	-	164 994	100,0%	5,00	825
				217 156				**218 719**
Impairment losses (Note 32)				(43 513)				(51 934)
				173 643				**166 785**

During the period 2018, the balance Investments in subsidiaries and associates presented the following changes:

- In May 2018, MCO2 – Sociedade Gestora de Fundos de Investimento Mobiliário, S.A. has been closed, by the amount of 37 thousand euros.
- In December 2018, Haitong Banco de Investimento do Brasil, S.A. approved the payment of interest on own capital in the amount of 30,000 thousand reais. From this amount 80% will be received by Haitong Bank S.A (see Note 5).
- In December 2018, Haitong Bank S.A. decided to sell its subsidiary Haitong Investment Ireland PLC (see note 24), in a period under one year.

During the period 2017, the balance Investments in subsidiaries and associates presented the following changes:

- In March 2017 Haitong Bank, S.A. fully subscribed the capital increase of Haitong (UK) limited, an investment of GBP 5,900 thousand GBP.
- In June 2017 Haitong Bank, S.A. fully subscribed the capital increase of Haitong (UK) Limited, an investment of GBP 4,080 thousand GBP.
- In November 2017, Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R. was dissolved.
- In December 2017, subject to the terms and conditions of the Share Purchase Agreements, Haitong Bank has conditionally agreed to sell to Haitong International BVI the shares representing 100% of the capital of its subsidiaries in London and New York. Consideration for the Haitong Securities USA LLC Membership Interests was USD 16,778 thousand. The Consideration for the Haitong (UK) Ltd and Haitong Securities (UK) Ltd sale shares was USD 12,536 thousand. Subsequently, these subsidiaries have been recorded as Non-current assets held for sale, with an impairment charge for Haitong Haitong UK Limited investment of 7,220 thousand euros (31st December, 2016: 165,383 thousand euros). This sale was concluded on February 23, 2018 (see Note 40).

In 2018, the Bank recognized an impairment reversion of 7,683 thousand euros (In 2017 the Bank recognized an impairment increase of 51,196 thousand euros) for the investment in Haitong Banco de Investimento do Brasil S.A.

NOTE 28 – OTHER ASSETS

As at 31st of December 2018 and 2017, the Other Assets heading is analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Debtors and other assets		
Collateral deposited under collateral agreements (Note 20)	120 215	111 605
Supplies, supplementary capital instalments and subordinated assets	-	150 125
Public sector	4 040	4 059
Deposits placed under margin accounts (futures contracts)	6 795	4 653
Other sundry debtors	22 249	24 488
	153 299	294 930
Impairment losses for debtors and other investments (Note 32)	(6 562)	(6 589)
	146 737	**288 341**
Other assets		
Gold, other precious metals, numismatic, medals and other liquid assets	4 631	2 246
Other assets	5 368	6 264
	9 999	**8 510**
Income receivable	**418**	**422**
Prepayments and deferred costs	**338**	**1 895**
Other sundry assets		
Exchange transactions pending settlement	4 442	1 476
Market securities transactions pending settlement	36 293	63 467
Other transactions pending settlement	3 461	4 659
	44 196	**69 602**
Retirement Benefits (Note 15)	-	482
	201 688	**369 252**

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 2.4.3.

NOTE 29 – RESOURCES OF CREDIT INSTITUTIONS

The resources of credit institutions heading is presented as follows:

(thousand euros)

	31.12.2018	31.12.2017
Resources of central banks		
Bank of Portugal	60 000	60 000
	60 000	**60 000**
Resources of other credit institutions		
Domestic		
Interbank money market	-	9 000
Deposits	292	388
Repurchase agreements	-	11 319
	292	**20 707**
Foreign		
Deposits	-	53 981
Loans	-	750 000
	-	**803 981**
	60 292	**884 688**

As at 31st of December 2018 and 2017, the analysis of resources of credit institutions by residual maturity period is as follows:

(thousand euros)

	31.12.2018	31.12.2017
Up to three months	292	54 369
From three months to one year	-	20 713
From one to five years	60 000	809 606
	60 292	**884 688**

NOTE 30 – RESOURCES OF CUSTOMERS

The balance of the resources of customers heading is composed, with regard to its nature, as follows:

(thousand euros)

	31.12.2018	31.12.2017
Repayable on demand		
Demand deposits	16 724	62 397
Time deposits		
Fixed-term deposits	897 319	227 163
Other resources		
Repurchase agreements	120 277	-
Other Deposits	756	1 019
Other	32	37
	121 065	**1 056**
	1 035 108	**290 616**

As at 31st of December 2018 and 2017, the analysis of due to customers by residual maturity period is as follows:

(thousand euros)

	31.12.2018	31.12.2017
Demand deposits	16 756	62 434
Fixed-term deposits		
Up to 3 months	158 469	92 723
3 to 12 months	478 978	125 470
1 to 5 years	380 905	9 989
	1 018 352	228 182
	1 035 108	**290 616**

NOTE 31 – DEBT SECURITIES ISSUED

The debt securities issued heading can be divided as follows:

(thousand euros)

	31.12.2018	31.12.2017
Debt securities issued		
Euro Medium Term Notes	251 145	143 127
	251 145	**143 127**

The fair-value of the portfolio regarding debt securities issued is presented in Note 39.

During 2018, Haitong Bank issued securities amounting to 250,000 thousand euros (31st of December 2017: 40,391 thousand euros) and were reimbursed an amount of 143,000 thousand euros (there were no reimbursements in 2017).

As at 31st of December 2018 and 2017, the residual duration of the debt securities issued is as follows:

(thousand euros)

	31.12.2018	31.12.2017
From three months to one year	-	143 127
From one to five years	251 145	-
	251 145	**143 127**

As at 31st of December 2018 and 2017, the reconciliation of the flows from this financing activity is as follows:

(thousand euros)

	31.12.2018	31.12.2017
Opening balance	**143 127**	**103 092**
Cash Flows	107 000	40 000
Other	1 018	35
Final balance	**251 145**	**143 127**

The main characteristics of the debt securities issued is as follows:

(thousand euros)

Issuer	Designation	Currency	Issue Date	31.12.2018 Book Value	Maturity	Interest Rate
HT Bank	HTB FIXED RATE AGO21 (HTB-S-905)	EUR	2018	251 145	2021	1,350%
				251 145		

(thousand euros)

Issuer	Designation	Currency	Issue Date	31.12.2017 Book Value	Maturity	Interest Rate
HT Bank	HTB FLOATING RATE DEC18 (HTB-S-892)	EUR	2015	143 127	2018	Euribor3m + 3.95%
				143 127		

NOTE 32 – PROVISIONS AND IMPAIRMENT

As at 31st of December 2018 and 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	**7 093**	**81 132**	**88 225**
Net charge of the period	3 349	5 874	9 223
Write back	-	(33 276)	(33 276)
Foreign exchange differences and others	(67)	(1 330)	(1 397)
Balance as at 31st December 2017	**10 375**	**52 400**	**62 775**
IFRS 9 transition impact (Note 40)	-	118	118
Net charge of the period	3 408	16 415	19 823
Write back	(2 389)	(625)	(3 014)
Foreign exchange differences and others	14	93	107
Balance as at 31st December 2018	**11 408**	**68 401**	**79 809**

These provisions are meant to cover possible contingencies related to the activity of the Bank, including contingencies associated with ongoing tax proceedings.

In 2017, the Bank recognized provisions for other risks and charges in the amount of 1,342 thousand euros related to the Social Plan in progress on that date (Note 14). In 2018, 1 251 thousand euros were used for payments made in this context.

The movements in impairment losses can be analyzed as follows:

(thousand euros)

	31.12.2017	IFRS 9 transition impact (Note 40)	Net charge of the period	Write back	Stage 3	Exchange differences and others	31.12.2018
Cash and cash equivalents (Note 18)	-	2	(2)	-	-	-	-
Financial assets measured at fair value through profit or loss (Note 21)	-	452	203	-	-	14	669
Financial assets available-for-sale (Note 21)	6 030	(6 030)	-	-	-	-	-
Financial assets measured at amortized cost		-					
Securities (Note 21)	-	-	447	-	-	-	447
Loan and advances to banks (Note 22)	15 388	142	8	-	-	36	15 574
Loan and advances to customers (Note 23)	138 957	395	3 479	(55 490)	52	1 467	88 860
Investments in associated companies (Note 27)	51 934	-	(7 683)	(738)	-	-	43 513
Other assets (Note 28)	6 589	260	(217)	(93)	-	23	6 562
	218 898	**(4 779)**	**(3 765)**	**(56 321)**	**52**	**1 540**	**155 625**

(thousand euros)

	31.12.2016	Net charge of the period	Write back	Exchange differences and others	31.12.2017
Financial assets available-for-sale (Note 21)	5 940	90	-	-	6 030
Financial assets measured at amortized cost					
Loan and advances to banks (Note 22)	15 419	11	-	(42)	15 388
Loan and advances to customers (Note 23)	164 047	19 230	(41 836)	(2 484)	138 957
Investments in associated companies (Note 27)	165 917	58 679	(172 662)	-	51 934
Other assets (Note 28)	7 525	4	(769)	(171)	6 589
	358 848	**78 014**	**(215 267)**	**(2 697)**	**218 898**

NOTE 33 – INCOME TAXES

The Bank is 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 for 2018 and 2017 were 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.

In order to determine the current tax for the year ending on the 31st of December 2018 and 2017, the Decree-Law no. 127/2012 of December 31st, responsible for the normalisation of the transfer of liabilities linked to the burden with retirement and survivor’s pensions to Social Security was taken into account together with article 183 of Law no. 64-B/2011 of December 30th (State Budget Law for 2012), establishing a special scheme for tax deduction of expenses and other asset variations from that transfer:

- The impact from the negative equity change associated to the change in the accounting policy relating to the recognition of previously deferred actuarial gains and losses will be fully deductible, in equal parts, for 10 years from the period beginning 1st of January 2012. This impact is booked in equity accounts.

- The impact resulting from liquidation (determined by the difference between liabilities as measured in accordance with the criteria of IAS 19 and the criteria defined in the agreement) will be fully deductible for the purposes of determining taxable income, in equal parts, based on the average number of years of life expectancy for pensioners whose liabilities have been transferred (17 years), from the period beginning 1st of January 2012. The impact is recorded in income items.

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

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date. Thus, for fiscal year 2018 and 2017, deferred tax were determined using rates of approximately 26% and 27.5%.

The Bank's self-assessment declarations relating to the 2018 and previous financial years are subject to inspection and possible adjustment by the Tax Authorities for a period of four years, except where any deduction or tax credit has been made, where the term is the exercise of that right. As a result, additional tax assessments may be possible due to different interpretations of tax legislation. However, it is the Bank's belief that there will be no additional settlements of significant value in the context of the individual financial statements.

Special Scheme Applicable to Deferred Tax Assets

In 2014, Haitong Bank joined the special scheme applicable to deferred tax assets (REAID) related to impairment losses in credits and post-employment or long-term employee benefits, established by Law no. 61/2014, of August 26th. For the purpose of this scheme, the conversion of the mentioned assets in tax credits is expected in the following situations:

- Determining net losses;
- Voluntary winding-up, court insolvency or, when applicable, with the withdrawal of the corresponding authorisation by the competent supervising authority.

As at 31st of December 2015, Haitong Bank determined a tax credit of 5,869 thousand euros, which corresponds to a special reserve of 6,456 thousand euros recorded during the year of 2016.

As at 31st of December 2016, Haitong Bank determined a tax credit of 22,856 thousand euros, which corresponds to a special reserve of 25,141 thousand euros recorded during the year of 2017.

As at 31st of December 2017, Haitong Bank determined a tax credit of 10,057 thousand euros, which corresponds to a special reserve of 11,063 thousand euros recorded during the year of 2018.

As at 31st of December 2018, Haitong Bank determined a net loss within its individual financial statements, for which it shall, and upon approval of the statements, convert the deferred taxes covered by this scheme into tax credits proportionally, between net profit and loss and equity, as well as establish a special reserve and conversion of debt into equity rights in 2019, attributable to the Portuguese Government.

In pursuance of the abovementioned scheme, such conversion rights correspond to securities that grant the Government the right to request Haitong Bank to issue and deliver ordinary shares at no charge, following the increase in share capital through the inclusion of the reserve value. However, Haitong Bank´s shareholders are granted the right to acquire those conversion rights in accordance with Ordinance no. 293-A/2016 of November the 18th.

In the event that the shareholders do not exercise the right to acquire the conversion rights issued and attributed to the Portuguese State within the period established for that purpose, in the year in which the State exercises these rights, it will require the Bank to increase its capital by incorporating the amount of the special reserve and consequent issue and free delivery of ordinary shares representing the capital stock of the Bank, and it may be necessary to adjust the amount of the reserve initially constituted.

Indeed, in that year it will be necessary to recalculate the reference value of the rights and if it is different from the nominal value of the shares, it will be necessary to adjust the value of the special reserve. If this were to occur in 2019, and taking into account the amounts of the financial statements as at 31 December 2018, as well as the amount of tax credits converted by reference to the years 2015, 2016 and 2017, estimated value of 21,728 thousand euros.

The amount of assets by deferred taxes converted into tax credit, the establishment of the special reserve and the issuing and granting of conversion rights to the Government shall be certified by the certified public accountant.

It is important to note that, in accordance with Law no. 23/2016 of August the 19th, the special scheme applicable to deferred tax assets (REAID) stopped being applicable to expenses and other negative asset variations accounted for in previous tax periods starting on or after the 1st of January 2016.

In February 2019, the Bank was notified of a Draft Report of the Tax Inspection issued by the Tax and Customs Authority regarding an external inspection, general in scope, for the year 2015. In this draft report, certain procedures adopted by the Bank, within the REAID are being questioned. The Bank is still analyzing this project and defining the strategy to challenge possible corrections and to estimate the impacts that such possible corrections may have in the year 2015 , as well as possible repercussions in subsequent years. The Board of Directors believes that any corrections, if confirmed, will not have a material impact on the Bank's equity and net income as of December 31, 2018.

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%

As at 31st of December 2018 and 2017, current tax assets and liabilities can be analyzed as follows:

(thousand euros)

	Asset		Liability	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Corporate income tax	1 111	709	(2 068)	(3 020)
Tax Credit (Special Scheme for Deferred Taxes)	38 782	28 725	-	-
Current tax asset / (liability)	**39 893**	**29 434**	**(2 068)**	**(3 020)**

Deferred tax assets and liabilities recognized in the statement of financial position as at 31st of December 2018 and 2017 can be analyzed as follows:

(thousand euros)

	Asset		Liabilities		Net	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Securities	195	-	-	(746)	195	(746)
Loans and advances to customers	50 666	63 368	-	-	50 666	63 368
Provisions	1 108	1 752	-	-	1 108	1 752
Pension Fund	3 909	3 623	-	-	3 909	3 623
Other	7	-	-	-	7	-
Tax losses carried forward	31 350	31 437	-	-	31 350	31 437
Net deferred tax asset / (liability)	**87 235**	**100 180**	**-**	**(746)**	**87 235**	**99 434**

The Bank only recognizes deferred tax assets in relation to reportable tax losses when it considers that they are expected to be recovered in the near future.

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

(thousand euros)

	31.12.2018	31.12.2017
Opening balance	99 434	129 337
Recognised in profit or loss	(3 505)	(5 022)
Recognised in fair value reserves	952	(1 959)
Recognised in other reserves	373	66
Foreign exchange variation and others	(10 019)	(22 988)
Closing balance (Asset / (Liability))	**87 235**	**99 434**

The amount reported as "foreign exchange variation and others" includes the recognition, as at 31st December, 2018, of the tax credit under the special regime applicable to deferred tax assets of 10,057 thousand euros (31st December 2017: 22,856 thousand euros).

Tax recognised in the income statement and reserves during the 2018 and 2017 financial years had the following sources:

(thousand euros)

	31.12.2018		31.12.2017	
	Recognised in profit or loss	Recognised in reserves	Recognised in profit or loss	Recognised in reserves
Deferred Taxes				
Securities	-	(952)	-	1 959
Loans and advances to customers	2 562	-	29 470	-
Provisions	644	-	208	-
Pension Fund	208	(373)	10	(66)
Others	5	-	(24 666)	-
Tax loss carried forward	86	-	-	-
	3 505	**(1 325)**	**5 022**	**1 893**
Current Taxes	755	-	1 795	-
Total recognised taxes	**4 260**	**(1 325)**	**6 817**	**1 893**

Reconciliation of the tax rate, concerning the recognised amount in the income statement, can be analysed as follows:

(thousand euros)

	31.12.2018		31.12.2017	
	%	Value	%	Value
Profit or loss before taxes		**(1 723)**		**(133 724)**
Income tax rate of Haitong Bank	21,0		21,0	-
Tax determined based on the income tax rate of Haitong Bank		(362)		(28 082)
Change in the tax rate of subsidiaries	(203,6)	3 508	(1,2)	1 625
No taxable gains	17,3	(298)	-	-
Flat taxation	(27,9)	481	(0,9)	1 260
Deferred tax asset not recognised on tax losses generated in the year	(27)	467	(15,5)	20 776
Non-deductible costs	(37,0)	638,0	(8,4)	11 238
Other	10,1	(174,0)	-	-
	(247,2)	**4 260**	**(5,0)**	**6 817**

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 31st of December 2018, the Bank recognised an expense of euro 1,782 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 31st of December 2018 and 2017, the Other liabilities heading is analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Creditors and other resources		
Public sector	4 220	3 461
Deposited collateral under collateral agreements (Note 20)	-	5 428
Sundry creditors	-	-
Creditors from transactions with securities	16 683	21 114
Suppliers	1 398	9 483
Other sundry creditors	2 386	2 835
	24 687	**42 321**
Accrued expenses		
Career bonuses (see Note 15)	485	498
Other accrued expenses	7 471	11 567
	7 956	**12 065**
Deferred income	**108**	**3 758**
Other sundry liabilities		
Stock exchange transactions pending settlement	33 671	75 688
Foreign exchange transactions pending settlement	4 462	1 483
Other transactions pending settlement	39 611	3 076
	77 744	**80 247**
Retirement pensions (Note 15)	**3 018**	**-**
	113 513	**138 391**

As at 31st of December 2018 and 2017, the headings regarding Stock exchange transactions pending settlement refer to transactions with securities pending settlement.

NOTE 35 – CAPITAL, SHARE PREMIUM AND OTHER CAPITAL INSTRUMENTS

Ordinary shares

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

On the 3rd of August 2014, the Bank of Portugal applied a resolution action to Banco Espírito Santo, S.A., shareholder of 100% of the capital of the Bank, and established Novo Banco, S.A., with the share capital of 4.9 billion euros, which incorporated assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal. In this regard, the Bank, its branches and subsidiaries were transferred to Novo Banco, S.A.

On the 7th of September 2015, the capital of the Bank was fully purchased by Haitong International Holdings Limited.

On the 17th of December 2015, the Bank increased its capital in 100,000 thousand euros, through the issuance of 20,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 22nd of May 2017, the Bank increased its capital in 40,000 thousand euros, through the issuance of 8,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 25th of May 2017, the Bank increased its capital in 20,000 thousand euros, through the issuance of 4,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 13th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

On the 26th of June 2017, the Bank increased its capital in 160,000 thousand euros, through the issuance of 32,000,000 shares with the nominal value of 5 euros each, resulted from a in the conversion of a shareholder loan in the amount of 80,000 thousand euros and the conversion of the Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments, amounting to 80,000 thousand euros, which was fully subscribed and paid-up by Haitong International Holdings Limited.

On the 31st of August 2017, the Bank increased its capital in 38,500 thousand euros, through the issuance of 7,700,000 shares with the nominal value of 5 euros each, fully subscribed and paid-up by Haitong International Holdings Limited.

As at 31st of December 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 31th December 2018 and 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 Bank issued perpetual subordinated bonds with conditioned interest in the overall amount of 50 million euros. These bonds have a noncumulative conditioned interest, payable only if and when declared by the Board of Directors.

This conditioned interest, corresponding to the applicable annual rate of 8.5% on nominal value, is paid biannually. These securities may be fully, but not partially, reimbursed after the 15th of September 2015, relying solely on the choice of Haitong Bank, upon approval of the Bank of Portugal. These bonds are considered a capital instrument in accordance with the accounting policy described in Note 2.6 due to their characteristics.

During the year of 2011, 46,269 thousand euros in other capital instruments were cancelled due to a transaction regarding owned instruments.

These bonds are subordinated in relation to any liability of Haitong Bank and *pari passu* regarding any identical subordinated bonds that may be issued by the Bank.

As at 31th of December 2018, 3,731 thousand euros regarding these bonds are in circulation. In the year of 2018 the Bank haven't paid interest (in 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 2.6.

In June 2017, the perpetual instruments referred as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments” where converted into Capital.

In March 2018, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of USD 130,000 thousand, corresponding to 105,042 thousand euros, identified as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments”. Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.6.

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

Legal reserve, fair-value reserves and other reserves

Legal reserves can only be used to cover accumulated loss carryover or to increase capital. Under Portuguese legislation applicable to the banking sector (Article 97 of RGICSF [Legal Framework of Credit Institutions and Financial Companies]), the Bank is required to set-up annually a legal reserve equal to a minimum of 10% of annual profits until the reserve equals the share capital.

Fair-value reserves represent the possible capital gains and losses in relation to the 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				
	Available for-sale financial assets	Income tax reserves	Total fair value reserve	Legal reserve	Actuarial deviations (net of taxes)	Exchange diferences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31st December 2016 (Restatement)	**(4 375)**	**1 214**	**(3 161)**	**39 878**	**(25 998)**	**-**	**(78 325)**	**(64 445)**
Actuarial deviations net of taxes	-	-	-	-	(177)	-	-	(177)
Interest of other equity instruments	-	-	-	-	-	-	(317)	(317)
Fair value changes	7 087	(1 959)	5 128	-	-	-	-	-
Transfer to reserves	-	-	-	-	-	-	(151 281)	(151 281)
Other movements	-	-	-	-	-	-	(38)	(38)
Balance as at 31st December 2017	**2 712**	**(745)**	**1 967**	**39 878**	**(26 175)**	**-**	**(229 961)**	**(216 258)**
IFRS 9 transition impact:	452	-	452	-	-	-	(1 368)	(1 368)
Balance as at 1st January 2018	**3 164**	**(745)**	**2 419**	**39 878**	**(26 175)**	**-**	**(231 329)**	**(217 626)**
Actuarial deviations net of taxes	-	-	-	-	(2 104)	-	-	(2 104)
Interest of other equity instruments								
Fair value changes	(3 916)	952	(2 964)	-	-	-	-	-
Exchange diferences	-	-	-	-	-	14	-	14
Transfer to reserves	-	-	-	-	-	-	(140 541)	(140 541)
Issuance of other equity instruments	-	-	-	-	-	-	(545)	(545)
Balance as at 31st December 2017	**(752)**	**207**	**(545)**	**39 878**	**(28 279)**	**14**	**(372 415)**	**(360 802)**

The equity variations arising from the adoption of IFRS 9 do not include a tax effect.

The movement of the fair-value reserve, net of deferred taxes can be analysed as follows:

(thousand euros)

	31.12.2018	31.12.2017
Opening Balance	**1 967**	**(3 161)**
IFRS 9 transition impact (Note 40)	452	-
Balance at 01.01.2018	**2 419**	**(3 161)**
Fair Value changes	(817)	9 574
Disposals of the period	(3 302)	(2 577)
Impairment recognised in the period (Note 32)	203	90
Deferred taxes recognised in reserves during the period	952	(1 959)
Closing balance	**(545)**	**1 967**

NOTE 37 – CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

As at 31st of December 2018 and 2017, off-balance elements are as follows:

(thousand euros)

	31.12.2018	31.12.2017
Contingent liabilities, guarantees and stand by letters of credit		
Guarantees and stand by letters of credit	374 612	451 208
Assets pleged as collateral	379 754	277 997
	754 366	**729 205**
Commitments		
Irrevocable commitments	11 105	5 572
	11 105	**5 572**

The rendered guarantees and sureties are banking transactions that do not necessarily represent any outflow for the Bank, in the inception.

As at 31st of December 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 31th of December, 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) 78,664 thousand euros of collaterals not discounted, being the total of securities eligible for rediscount with the Bank of Portugal amounted to 258,889 thousand euros as at the 31th of December, 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: 120,656 thousand euros (31st of December 2017: 44,009 thousand euros).

Additionally, the off-balance elements related to banking services provided are as follows:

(thousand euros)

	31.12.2018	31.12.2017
Liabilities related to services provided		
Commercial paper agency	176 750	493 160
Other responsabilities related with services provided	848 637	1 215 555
	1 025 387	**1 708 715**

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 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 and the cases are pending. In the opinion of the external lawyers to whom the proceedings have been entrusted, it is considered unlikely that any judgment will be made against Haitong Bank in relation thereto.

Haitong Bank is also a defendant in 44 proceedings, nearly all of which are associated with issues of commercial paper of GES's entities (Rioforte and ESI – Espirito Santo International) (1 of which concerns issue of notes by Haitong Bank's subsidiary based in Ireland (HIIP) whose underlying asset were bonds issued by Espírito Santo Financial Portugal (ESFP)), and which was brought towards the courts in 2017.

In note 38, in what concerns the 2018 half-year 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 HIIC 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 30 final and unappealable decisions regarding such legal proceedings (commercial paper of GES).

Therfore Haitong Bank has not establish any provision related to such legal proceedings.

Without prejudice of the above mentioned regarding the successful outcome for Haitong Bank from such proceedings, and in order to comply with the applicable accounting rules, it is not possible to achieve an amount of expected losses which could eventually arise for Haitong Bank, individually considered, once such legal proceedings are brought against several entities and not only against Haitong Bank.

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 2018, the Bank made periodic contributions to the Resolution Fund and banking sector contributions in the amounts of 590 thousand euros and 1,782 thousand euros, respectively. 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 1,272 thousand euros in 2018. 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.

On the other hand, and in the context of the sale of Novo Banco, SA, the Council of Ministers approved on October 2, 2017 a resolution authorizing the Portuguese State, as the ultimate guarantor of financial stability, to enter into an agreement with the Resolution Fund, with a view to making financial resources available to the Resolution Fund, if and when it is deemed necessary, in order to satisfy any contractual obligations that may arise from the sale of the 75% of Novo Banco, SA.

On October 18, 2017, the Resolution Fund announced the conclusion of the sale of 75% of Novo Banco, SA's share capital to Lone Star, whose selection had been communicated by the Bank of Portugal on March 31, 2017. The conditions include the existence of a contingent capitalization mechanism under which the Resolution Fund undertakes to make capital injections up to a maximum total of EUR 3 890 000 thousand if certain cumulative conditions materialize.

On May 24, 2018, the Resolution Fund notified the payment to Novo Banco, SA of the amount of approximately 791,695 thousand euros, as a result of the application of the aforementioned contingent capitalization mechanism, for the purpose own resources, supplemented by an additional State loan amounting to 430 000 thousand euros.

For the year 2019, in the State budget is forecast a maximum value of 850,000 thousand euros for loans to the Resolution Fund.

According to the Resolution Fund announcement of 1 March 2019, following the results released by the Novo Banco, the amount to be paid in 2019 by the Resolution Fund resulting from the application of the aforementioned contingent capitalization mechanism will amount to EUR 1 149 million. The payment due in 2019 by the Resolution Fund will be made after the legal certification of accounts of the Novo Banco and after a verification procedure, to be carried out by an independent entity, to confirm that the amount payable by the Fund has been correctly calculated. In order to make the payment, the Resolution Fund will use, first, the available financial resources, resulting from the contributions paid, directly or indirectly by the banking sector. These resources will be complemented by the use of a loan agreed with the State in October 2017, with the annual ceiling, then set, of 850 million euros.

In this context, as at 31 December 2018, there is no estimate of the total amount of losses resulting from the process of divestiture of the Novo Banco, of the said litigations and other contingencies associated with the resolution process of Banco Espírito Santo and of any losses to be incurred by the Resolution Fund following the resolution of BANIF.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the State and by a banking syndicate, and to the public announcements made by the Resolution Fund and the Office of the Minister of Finance, which refer that this possibility will not be used, the financial statements as of December 31, 2018 reflect the Bank's Board of Directors' expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif or any other contingent liability or liability assumed by the Resolution Fund.

NOTE 38 – RELATED PARTIES TRANSACTIONS

The Bank's related parties transactions as at 31st of December 2018 and 2017, as well as the respective expenses and income recognized in the year, are summarized as follows:

(thousand euros)

	31.12.2018								
	Assets								
	Loans and advances to banks	Loans	Securities	Others (A)	Total	Guarantees	Liabilities	Income	Expenses
Subsidiaries									
HAITONG BANCO DE INVESTIMENTO DO BRASIL SA	-	-	-	-	-	-	1 020	-	1 020
HAITONG CAPITAL - SCR, S.A.	-	-	-	77	77	656	9 854	126	96
HAITONG INVESTMENT IRELAND PLC	-	189 658	-	190 686	380 344	284 303	765 070	9 644	29 742
SES IBERIA PRIVATE EQUITY, SA	-	-	-	1	1	-	-	7	-
TOTAL	**-**	**189 658**	**-**	**190 764**	**380 422**	**284 959**	**775 944**	**9 777**	**30 858**

(A) Includes acquisition cost of subsidiaries.

(thousand euros)

	31.12.2017								
	Assets								
	Loans and advances to banks	Loans	Securities	Others (A)	Total	Guarantees	Liabilities	Income	Expenses
Subsidiaries									
HAITONG BANCO DE INVESTIMENTO DO BRASIL SA	-	-	-	123 300	123 300	-	-	-	-
HAITONG CAPITAL - SCR, S.A.	-	-	-	42 627	42 627	656	18 727	3	28
HAITONG (UK) LIMITED	-	-	-	-	-	-	-	-	-
HAITONG INVESTMENT IRELAND PUBLIC LTD COMP	-	-	7 756	229 986	237 742	337 876	835 030	(42 558)	(28 196)
HAITONG SECURITIES (UK) LIMITED	-	-	-	4 476	4 476	-	7 080	-	3 801
LUSITANIA CAPITAL, S.A.P.I. C.V., SOFOM, E.N.R.	-	-	-	-	-	-	-	-	-
HAITONG SECURITIES USA LLC	6 145	-	-	-	6 145	-	-	68	6 440
TOTAL	**6 145**	**-**	**7 756**	**400 389**	**414 290**	**338 532**	**860 837**	**(42 487)**	**(17 927)**

(A) Includes acquisition cost of subsidiaries.

The Bank's related parties transactions with entities of the group Haitong as at 31st of December 2018 and 2017, as well as the respective expenses and income recognized in the year, are summarized as follows:

(thousand euros)

	31.12.2018				
	Assets				
	Others	Total	Liabilities	Income	Expenses
HAITONG INTERNACIONAL HOLDINGS LIMITED	-	-	-	-	-
Subsidiaries and associates					
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	10 870	-
HAITONG SECURITIES	2 776	2 776	-	20 685	-
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	-	5	-
HAITONG INTERNATIONAL CREDIT COMPANY LTD	-	-	-	5 366	-
HAITONG UNITRUST HOLDING LIMITED	-	-	-	2 600	-
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED	-	-	-	2 016	264
HAITONG INTERNATIONAL SECURITIES USA INC	-	-	-	20	-
HAITONG INTERNATIONAL SECURITIES (UK) LIMITED	-	-	-	5	-
HAITONG SECURITIES USA LLC	-	-	-	31	3
HAITONG SECURITIES (UK) LIMITED	-	-	191	-	181
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	-	15 023	-
HAITONG INNOVATION SECURITIES INVESTMENT	-	-	-	1 780	-
UNICAM LIMITED	-	-	-	1 000	-
HAITONG INTERNATIONAL (UK) LIMITED	-	-	-	-	162
TOTAL	**2 776**	**2 776**	**191**	**59 401**	**610**

(thousand euros)

	31.12.2017					
	Assets					
	Others	Total	Garantees	Liabilities	Income	Expenses
Shareholders						
HAITONG INTERNACIONAL HOLDINGS LIMITED	-	-	-	-	3 458	-
Subsidiaries and associates						
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	-	5 408	-
HAITONG SECURITIES	50	50	-	-	18 254	3
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 31th of December, 2018, the income heading includes 39,672 thousand euros concerning fee and commission income heading from banking services (31st of December 2017: 33,756 thousand euros).

NOTE 39 – FAIR-VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair-value of financial assets and liabilities

Haitong Bank estimates the fair value of its instruments based on prices quoted in active markets or, when such prices are not available, based on valuation techniques following standard valuation models such as discounted cash flows and option pricing models. The valuation models' parameter inputs are based on observable data, when available, derived from prices of financial instruments actively traded or based on indicative broker quotes.

The Bank performs valuation adjustments to reflect counterparty credit risk (CVA) for uncollateralized derivatives assets considering the current exposure, loss given default and the probability of default. This probability of default is based on the Bank's credit risk assessment model or market information where applicable.

The fair-value of financial assets and liabilities for the Bank's is analysed as follows:

(thousand euros)

	Amortised cost	Valuated at fair value			Total book value	Fair value
		Level 1	Level 2	Level 3		
Balance as at 31st December 2018						
Cash and cash equivalents	317 433	-	-	-	317 433	317 433
Financial assets at fair value through profit or loss						
Financial assets held-for-trading						
Securities	-	24 563	27 710	17 723	69 996	69 996
Derivative financial assets		-	122 612	36 347	158 959	158 959
Non-trading financial assets mandatorily at fair value through profit or loss						
Securities	-	8 829	21	2 496	11 346	11 346
Loans and advances to customers	-	-	-	284	284	284
Financial assets at fair value through other comprehensive income	-	286 100	13 493	72 187	371 780	371 780
Financial assets measured at amortised cost						
Securities	87 085	-	-	-	87 085	87 534
Loans and advances to banks	3 965	-	-	-	3 965	3 965
Loans and advances to customers	631 220	-	-	-	631 220	626 471
Financial Assets	**1 039 703**	**319 492**	**163 836**	**129 037**	**1 652 068**	**1 647 768**
Financial liabilities held for trading						
Securities	-	15 924	-	195	16 119	16 119
Derivative financial assets	-	-	124 386	38 114	162 500	162 500
Financial liabilities measured at amortised cost						
Resources of credit institutions	60 292	-	-	-	60 292	60 292
Resources of customers	1 035 108	-	-	-	1 035 108	1 035 108
Debt securities issued	251 145	-	-	-	251 145	252 078
Financial liabilities	**1 346 545**	**15 924**	**124 386**	**38 309**	**1 525 164**	**1 526 097**
Balance as at 31st December 2017						
Cash and cash equivalents	469 683	-	-	-	469 683	469 683
Financial assets at fair value through profit or loss						
Financial assets held-for-trading						
Securities	-	43 882	11 600	42 974	98 456	98 456
Derivative financial assets	-	-	166 800	41 728	208 528	208 528
Available-for-sale financial assets	50	256 980	31	23 859	280 920	280 920
Financial assets measured at amortised cost						
Loans and advances to banks	164 527	-	-	-	164 527	164 527
Loans and advances to customers	300 583	-	-	-	300 583	299 376
Financial assets	**934 843**	**300 862**	**178 431**	**108 561**	**1 522 697**	**1 521 490**
Financial liabilities held for trading						
Securities	-	-	-	-	-	-
Derivative financial assets	-	-	159 534	41 349	200 883	200 883
Financial liabilities measured at amortised cost						
Resources of credit institutions	884 688	-	-	-	884 688	884 688
Resources of customers	290 616	-	-	-	290 616	290 616
Debt securities issued	143 127	-	-	-	143 127	148 894
Financial liabilities	**1 318 431**	**-**	**159 534**	**41 349**	**1 519 314**	**1 525 081**

Fair-value 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 2018, there were 23,958 thousand euros of securities transferred from Level 1 to Level 2 based on their liquidity assessment.

For financial instruments recorded in the balance sheet at fair value, the movement occurred between December 31st , 2017 and December 31st , 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 available-for-sale	Financial assets at fair value through other comprehensive income	Total
	Securities	Derivative financial assets				
Opening Balance	**42 975**	**378**	**-**	**23 859**	**-**	**67 212**
IFRS 9 reclass transition impact	**-**	**-**	**2 645**	**(23 859)**	**21 214**	**-**
Results recognized in Net Interest Margin	1 409	216	-	-	925	2 550
Net trading income and from other financial instruments at fair value through profit or loss	15	(2 739)	-	-	-	(2 724)
Impairment on other financial assets net of reversal and recoveries	-	-	-	-	(129)	(129)
Other fair value changes	(629)	360	-	-	-	(269)
Fair value reserve changes	-	-	-	-	(110)	(110)
Acquisitions	-	-	-	-	52 900	52 900
Reimbursements	(22 314)	-	-	-	(2 613)	(24 927)
Derivatives financial flows	-	18	-	-	-	18
Transfers from other levels	-	-	(149)	-	-	(149)
Transfers to other levels	(3 733)	-	-	-	-	(3 733)
Closing Balance	**17 723**	**(1 767)**	**2 496**	**-**	**72 187**	**90 639**

In what regards Level 3 classification, in 2018 there were additional 50 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 parameters used during 2017 in what concerns valuation models were the following:

Yield curves

The short-term rates set out below reflect indicative values of deposit interest rates and/or futures. Swap rates are used for the long-term:

(%)

	31.12.2018			31.12.2017		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.42	2.41	0.67	-0.43	1.45	0.50
1 month	-0.39	2.53	0.73	-0.34	1.57	0.51
3 months	-0.34	2.82	0.91	-0.42	1.70	0.58
6 months	-0.33	2.73	1.03	-0.43	1.73	0.47
1 year	-0.27	2.71	1.07	-0.23	1.87	1.28
3 years	-0.07	2.72	1.22	1.08	0.00	1.35
5 years	0.20	2.56	1.30	1.46	2.25	0.65
7 years	0.47	2.60	1.36	-0.15	2.31	1.45
10 years	0.83	2.70	1.44	0.17	2.40	0.88
15 years	1.20	2.80	1.52	0.44	2.50	1.09
20 years	1.39	2.84	1.55	0.57	2.55	1.15
25 years	1.41	2.84	1.55	0.68	2.55	1.19
30 years	1.44	2.82	1.54	0.79	2.54	1.24

Credit spreads

Credit spreads curves and recovery rates used by the Group are sourced on a daily basis from Markit. The table below reflects the evolution of the main CDS indices:

(basis points)

Index	Series	1 year	3 year	5 year	7 year	10 year
2017						
CDX USD Main	**29**	-	24.929	49.02	72.453	90.482
iTraxx Eur Main	**28**	-	22.079	44.826	64.926	83.438
iTraxx Eur Senior Financial	**28**	-	-	43.857	-	-
2018						
CDX USD Main	**31**	-	54.186	87.749	112.986	132.62
iTraxx Eur Main	**30**	-	55.626	87.369	111.307	131.153
iTraxx Eur Senior Financial	**30**	-	-	108.524	-	-

Interest rate volatilities

The following figures reflect at-the-money implied volatilities:

	31.12.2018			31.12.2017		
	EUR	USD	GBP	EUR	USD	GBP
1 year	1.79	11.25	33.95	1.83	15.312	52.35
3 years	1.44	22.87	--	5.2	22.1	--
5 years	20.27	27.29	58.005	28.08	28.62	58.666
7 years	34.46	28.35	61.25	37.36	30.07	63.27
10 years	48.13	30.292	--	48.98	28.18	--
15 years	60.46	--	--	62.03	--	--

Foreign exchange rate and volatilities

The table below reflects ECB's (European Central Bank) foreign exchange rates fixings and at-the-money implied volatilities:

	Exchange Rates		Volatilities (%)				
	31.12.2018	31.12.2017	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.15	1.20	7.29	7.33	7.50	7.61	7.68
EUR/GBP	0.89	0.89	10.77	11.30	10.96	10.61	10.34
EUR/CHF	1.13	1.17	5.34	5.61	5.94	6.12	6.27
EUR/PLN	4.30	4.18	4.84	5.13	5.47	5.75	5.93
EUR/CNY	7.88	7.80	-	-	-	-	0.00
USD/BRL [a)]	3.88	3.31	14.97	14.64	14.46	14.42	14.35

[a)] Calculation based in EUR/USD and EUR/BRL exchange rates

Equity Indexes

The evolution of the main equity indices and the corresponding volatilities are summarised in the following table:

	Prices			Historical volatility (%)		Implied volatility (%)
	31.12.2018	31.12.2017	% Variation	1 month	3 months	
DJ Euro Stoxx 50	3 001	3 504	- 14.3	18.39	14.71	21.05
PSI 20	4 731	5 388	- 12.2	15.40	12.85	-
IBEX 35	8 540	10 044	- 15.0	18.48	14.69	-
DAX	10 559	12 918	- 18.3	20.35	9.75	21.83
S&P 500	2 507	2 674	- 6.2	27.40	20.58	22.39
BOVESPA	87 887	76 402	15.0	19.08	24.45	24.83

The main methods and assumptions used in the abovementioned valuation of the fair-value of financial assets and liabilities are analyzed as follows:

Cash and cash equivalents and Loans and advances to banks

The statement of financial position value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Loans and advances to customers

The fair-value of loans and advances to customers is estimated based on the update of expected cash flows and interest, by taking into account market spreads for similar transactions (if they were entered into in the current moment) considering that the instalments are paid in compliance with the deadlines contractually agreed upon.

Resources of other credit institutions

The balance-sheet value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Resources of customers

The fair-value of these financial instruments is determined based on the update of expected cash flows in capital and interest, considering that the payments are in compliance with the deadlines agreed upon contract. Considering that the applicable interest rates are of variable nature and the maturity period of the deposits is substantially inferior to one year, there are no measurable differences in fair-value.

Debt securities issued and Subordinated Liabilities

The fair-value of these instruments is based in market prices, when available. When unavailable, the fair-value it is estimated based on the update of expected cash flows in capital and interest regarding these instruments in the future.

NOTE 40 – IFRS9 ADOPTION

The figures for December 31st, 2017 included in the interim consolidated financial statements are presented only for comparative purposes.

The Bank 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)

	Cash and cash equivalents	Financial assets held-for-trading - Securities	Securities: Financial assets available for sale	Securities: Financial Assets required to be measured at fair value through profit or loss	Securities: Financial Assets at fair value through other comprehensive income	Loans and advances to banks	Loans and advances to customers at amortised cost	Other Assets	Provisions	Fair-value reserves	Other reserves and retained income
Balance at 31 December 2017 – IAS 39	**469 683**	**98 456**	**280 920**	**-**	**-**	**164 527**	**300 583**	**369 252**	**62 775**	**1 967**	**(216 258)**
IFRS 9 transition impact:	(2)	-	(280 920)	2 726	278 194	(142)	(395)	(259)	118	452	(1 368)
Reclassification:	**-**	**-**	**(280 920)**	**2 726**	**278 194**	**-**	**-**	**-**	**-**	**-**	**-**
From financial Assets available-for-sale:	-	-	(280 920)	2 726	278 194	-	-	-	-	-	-
Shares	-	-	(2 726)	2 726	-	-	-	-	-	-	-
Gross Amount	-	-	(8 756)	8 756	-	-	-	-	-	-	-
Reavaluation	-	-	-	(6 030)	-	-	-	-	-	-	(6 030)
Impairment	-	-	6 030	-	-	-	-	-	-	-	6 030
Bonds	-	-	(278 194)	-	278 194	-	-	-	-	-	-
Gross Amount	-	-	(275 482)	-	275 482	-	-	-	-	-	-
Reavaluation	-	-	(2 712)	-	2 712	-	-	-	-	-	-
Remeasurement	**(2)**	**-**	**-**	**-**	**-**	**(142)**	**(395)**	**(259)**	**118**	**452**	**(1 368)**
Impairment	(2)	-	-	-	(452)	(142)	(395)	(259)	118	-	(1 368)
Reavaluation from fair value through other comprehensive income	-	-	-	-	452	-	-	-	-	452	-
Balance at 1 January 2018 - IFRS 9	**469 681**	**98 456**	**-**	**2 726**	**278 194**	**164 385**	**300 188**	**368 993**	**62 893**	**2 419**	**(217 626)**

On January 1st, 2018, the Bank reclassified its financial assets to the portfolios established in IFRS 9 (Note 2.3):

- Loans to costumers (loans and debt instruments from clients) remains classified and measured at amortized cost;
- Debt instruments classified as financial assets held-for-sale (278,194 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 (278,194 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 (2,726 thousand euros).

The impact on Total Equity of the IFRS 9 transition on January 1st, 2018 (-916 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 680 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 (1,967 thousand euros after taxes) were reclassified to Other comprehensive income (452 thousand euros), the debt instruments non realized gains or losses reclassified to financial assets at fair value through other comprehensive income.

NOTE 41 – RISK MANAGEMENT

Comparability of information

In terms of risk management, the following qualitative information of the Haitong Bank is presented.

Control and risk management, for the role they have played in active management support, are one of the main strategic axes supporting their balanced and sustained development.

The Risk Department has maintained the following main objectives:

- Identification, quantification and control of the different types of risk assumed, progressively adopting uniform principles and methodologies;
- Continuous contribution to the improvement of tools to support the structuring of operations and the development of internal techniques for evaluating performance and optimizing the capital base;
- Proactive management of situations of significant delay and non-compliance with contractual obligations.

Credit Risk

The Credit Risk results from the possibility of financial losses arising from the default of the customer or counterparty in relation to the contractual obligations established with the Bank in the scope of its credit activity. Credit risk is mainly present in traditional banking products - loans, guarantees and other contingent liabilities - and in trading products - swaps, forwards and options (counterparty risk).

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 Bank'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.

The evaluation of the non-bank portfolio is analyzed in the scope of Market Risk.

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: Impairment assessment is carried out based 12-month expected credit loss (ECL). ECL is determined as the exposure as of the reference date multiplied by the 12-month probability of default and the loss given default;

- **Stage 2** – Under Performing: Impairment assessment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;

- **Stage 3** – Non Performing: Impairment assessment will reflect the ECL over the expected residual life of the instrument.

Inputs in the measurement of ECL

As a result of the characteristics of the Bank's portfolio (reduced number of transactions and high heterogeneity), the calculation of the ECL has as the main vector of measurement the individual analysis assessment. In order to complement this analysis, the Bank developed an internal model for calculating collective impairment, incorporating 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 internally based on the S&P methodology. This assures the alignment between the internal risk management and the impairment calculation process.
- Loss Given Default (LGD): is the magnitude of the loss at the time of a default. The Bank applies the LGD based on Moody's LGD benchmarks covering a wide historical period.
- Exposure at Default (EAD): the expected exposure in the event of a default. The calculation of EAD depends of the asset type.

Regarding undrawn loan commitments and financial guarantees, the amount considered in the calculation of impairment at each stage results from the exposure as of the reference date weighted by the credit conversion factor (according with Regulation (EU) No 575/2013).

Forward-Looking Information

Under IFRS 9, the Bank incorporates forward-looking information both in its assessment of the significant risk increase and in the measurement of the expected credit losses.

The Bank uses forward-looking information based on a simplified approach, grounded on the proportionality and characteristics of the Bank. The Bank implemented a single central scenario approach, based on external information and making use of Bank of Portugal's statistical information. This approach ensures consistency and alignment with the Regulator.

This prospective exercise was defined exclusively for IFRS 9, given the specificity of the exercise and the available information.

Since the Bank's impairment framework only considers Stage 1 clients subject to the collective model, all the designed forward looking have a 12 months' time horizon. All the portfolios exposures/obligors are subject to the same forward-looking information assuring all the assets are compliant with IFRS 9 guidelines.

The financial instruments subject to IFRS 9 impairment requirements are presented below, detailed by stage, as of December 31 2018.

(thousand euros)

Asset Type	Stage 1				Total Stage 1	Stage 2		Total Stage 2	Stage 3	Total Stage 3
	Low to Fair risk [aaa+;a-]	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Not rated		Monitoring [bbb+;b-]	Substandard [ccc+;ccc]		Impaired [d]	
Loans and advances to customers	29 142	461 295	-	91 080	581 517	45 931	-	45 931	92 917	92 917
Guarantees	-	248 506	-	1 106	249 612	-	-	-	125 000	125 000
Securities	-	460 732	-	-	460 732	-	-	-	-	-
Loans and advances to banks	1 048	56	-	-	1 104	-	3 358	3 358	15 077	15 077
Cash and cash Equivalents	309 952	7 478	-	-	317 430	-	-	-	-	-
Debtors and other receivables	30	14 209	285	13 319	27 843	-	-	-	1 201	1 201
Total	**340 172**	**1 192 276**	**285**	**105 505**	**1 638 238**	**45 931**	**3 358**	**49 289**	**234 195**	**234 195**

The maximum credit risk's exposure to financial instruments non subject to impairment analysis, on 31th December 2018 is, approximately, 309 million Euros, linked with Deposits with Central Banks.

The table below compiles all financial instruments at amortized cost by industry, stage and days of delay as of December 31, 2018.

(thousand euros)

Financial instruments at amortised cost	Stage 1				Stage 2		Stage 3					
	No overdue		1 - 29 days		No overdue		No overdue		1 - 29 days		More than 181 days	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Banks	715 199	282	1 555	626	3 358	497	122 163	67 227	1 019	1 019	15 077	15 077
Broker Dealers	1 942	8	-	-	-	-	-	-	-	-	-	-
Building Materials	13	3	192	192	-	-	258	27	-	-	-	-
Capital Goods	6 519	4	40	40	-	-	1 172	234	-	-	2 200	2 200
Chemicals	-	-	-	-	-	-	4 089	4 089	-	-	-	-
Commercial & Professional Services	3 000	95	7	7	-	-	5 777	2 138	99	99	3 954	3 954
Construction & Engineering	76 526	140	407	407	-	-	4 049	3 679	-	-	2 957	1 563
Containers & Packaging	-	-	-	-	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	-	-	-	-	-	-	-	-	-	-	-	-
Governments	3 064	1	214	214	-	-	-	-	-	-	-	-
Health Care	11	-	-	-	-	-	-	-	-	-	-	-
Hotels & Gaming	50	-	-	-	-	-	-	-	-	-	5 950	5 950
Insurance	29 172	-	-	-	-	-	-	-	-	-	-	-
Media & Entertainment	1	-	94	94	-	-	-	-	-	-	-	-
Metals & Mining	97 972	834	-	-	-	-	-	-	-	-	-	-
Non Bank Financial Institutions	3 914	28	-	-	-	-	-	-	-	-	242	242
Oil & Gas	-	-	-	-	-	-	-	-	-	-	10 324	10 324
Others	95 993	322	3 137	3 138	-	-	1	-	-	-	-	-
Paper & Forest Products	1	-	60	60	-	-	-	-	-	-	-	-
Power	73 363	726	57	57	-	-	-	-	-	-	-	-
Real Estate	2 010	20	43 182	887	4 995	649	-	-	43	43	44 879	44 879
Retailing	-	-	-	-	-	-	-	-	-	-	-	-
Software	1 174	1	-	-	-	-	-	-	-	-	-	-
Technology Hardware & Equipment	27 061	264	-	-	-	-	-	-	-	-	-	-
Telecoms	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	-	-	-	-	2 560	25	-	-	-	-	9 648	7 124
Transportation Infrastructure	79 108	99	-	-	38 376	192	9	-	-	-	-	-
Total	**1 216 093**	**2 827**	**48 945**	**5 722**	**49 289**	**1 363**	**137 518**	**77 394**	**1 161**	**1 161**	**95 231**	**91 313**

The gross exposure is presented below, by financial instrument type, internal rating bucket and impairment stage.

Loans and advances to costumers

The table below presents a summary of the portfolio of loans and advances to costumers of Haitong Bank S.A. Group, as of 31 December 2018 and 31 December 2017:

(thousand euros)

Loans and advances to customers		31/12/2018 Stage 1	Stage 2	Stage 3	Total	31/12/2017 Total
Amortized cost						
Low to fair risk	[aaa+;a-]	29 142	-	-	**29 142**	**-**
Monitoring	[bbb+;b-]	461 295	45 931	-	**507 226**	**250 008**
Substandard	[ccc+;ccc]	-	-	-	**-**	**16 868**
Doubtful	[lccc]	-	-	-	**-**	**296**
Impaired	[d]	-	-	92 632	**92 632**	**168 395**
Not rated		91 080	-	-	**91 080**	**3 973**
Gross carrying amount		**581 517**	**45 931**	**92 632**	**720 080**	**439 540**
Loss allowance (Note 32)		2 333	866	85 661	**88 860**	**138 957**
Carrying amount		**579 185**	**45 065**	**6 971**	**631 220**	**300 583**
Fair Value Trough Profit and Loss					**-**	**-**
Impaired	[d]	**-**	**-**	285	**285**	**-**
Gross carrying amount		**-**	**-**	**285**	**285**	**-**
Revaluation		**-**	**-**	(1)	**(1)**	**-**
Carrying amount		**-**	**-**	**284**	**284**	**-**
Total gross carrying amount		**581 517**	**45 931**	**92 917**	**720 365**	**439 540**
Total impairment		2 333	866	85 661	**88 860**	**138 957**
Total revaluation		-	-	(1)	**(1)**	**-**
Total Carrying amount		**579 184**	**45 065**	**7 255**	**631 504**	**300 583**

Guarantees

The table below presents a summary of the portfolio of guarantees granted to clients of Haitong Bank S.A. Group, as of 31 December 2018 and 31 December 2017:

(thousand euros)

Guarantees		31-12-2018				31-12-2017
		Stage 1	Stage 2	Stage 3	Total	Total
Monitoring	[bbb+;b-]	248 506	-	-	**248 506**	**389 977**
Substandard	[ccc+;ccc]	-	-	-	**-**	**55 766**
Doubtful	[lccc]	-	-	-	**-**	**-**
Impaired	[d]	-	-	125 000	**125 000**	**2 826**
Not rated		1 106	-	-	**1 106**	**2 639**
Total gross carrying amount (Note 37)		**249 612**	**-**	**125 000**	**374 612**	**451 208**
Loss allowance		385	-	67 952	**68 337**	**52 345**
Total Carrying amount		**249 227**	**-**	**57 048**	**306 275**	**398 863**

Banking book debt securities

The table below presents a summary of the portfolio of banking book debt securities of Haitong Bank, S.A. Group, as of December 31 2018 and 31 December 2017:

(thousand euros)

Banking Book Debt Securities		31-12-2018				31-12-2017
		Stage 1	Stage 2	Stage 3	Total	Total
Amortized cost						
Monitoring	[bbb+;b-]	87 532	-	-	**87 532**	**-**
Not rated		-	-	-	**-**	**-**
Gross carrying amount		**87 532**	**-**	**-**	**87 532**	**-**
Loss allowance (Note 21)		447	-	-	**447**	**-**
Carrying amount		**87 085**	**-**	**-**	**87 085**	**-**
Fair Value through Other Comprehensive Income					**-**	**-**
Monitoring	[bbb+;b-]	373 200	-	-	**373 200**	**26 356**
Not rated		-	-	-	**-**	**249 126**
Gross carrying amount		**373 200**	**-**	**-**	**373 200**	**275 482**
Loss allowance (Note 32)		669	-	-	**669**	**-**
Revaluation		(751)	-	-	**(751)**	**2 712**
Carrying amount (Note 21)		**371 780**	**-**	**-**	**371 780**	**278 194**
Total gross carrying amount		**460 732**	**-**	**-**	**460 732**	**275 482**
Total Impaiment		1 116	-	-	**1 116**	**-**
Total Revaluation		(751)	-	-	**(751)**	**2 712**
Total Carrying amount (Note 21)		**458 865**	**-**	**-**	**458 865**	**278 194**

Cash and Cash Equivalents

The table below presents a summary of the cash and cash equivalents portfolio of Haitong Bank, S.A. Group, as of December 31 2018 and 31 December 2017:

(thousand euros)

Cash and cash equivalents		31-12-2018				31-12-2017
		Stage 1	Stage 2	Stage 3	Total	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	309 952	-	-	**309 952**	**446 803**
Monitoring	[bbb+;b-]	7 478	-	-	**7 478**	**1 669**
Substandard	[ccc+;ccc]	-	-	-	**-**	**18 541**
Doubtful	[lccc]	-	-	-	**-**	**-**
Impaired	[d]	-	-	-	**-**	**-**
Not rated		-	-	-	**-**	**2 661**
Total gross carrying amount		**317 430**	**-**	**-**	**317 430**	**469 674**
Total Carrying amount (Note 18)		**317 430**	**-**	**-**	**317 430**	**469 674**

Loans and advances to banks

The table below presents a summary of the portfolio of loans and advances to banks of Haitong Bank, S.A. Group, as of December 31 2018 and 31 December 2017:

(thousand euros)

Loans and advances to Banks		31-12-2018 Stage 1	Stage 2	Stage 3	Total	31-12-2017 Total
Amortized cost						
Low to fair risk	[aaa+;a-]	1 048	-	-	**1 048**	**3 336**
Monitoring	[bbb+;b-]	56	-	-	**56**	**139 727**
Substandard	[ccc+;ccc]	-	3 358	-	**3 358**	**-**
Doubtful	[lccc]	-	-	-	**-**	**-**
Impaired	[d]	-	-	15 077	**15 077**	**15 077**
Not rated		-	-	-	**-**	**21 775**
Total gross carrying amount (Note 22)		**1 104**	**3 358**	**15 077**	**19 539**	**179 915**
Loss allowance (Note 32)		**-**	497	15 077	**15 574**	**15 388**
Total Carrying amount		**1 104**	**2 861**	**-**	**3 965**	**164 527**

Debtors and other receivables

The table below presents a summary of the receivables portfolio of Haitong Bank, S.A. Group, as of December 31 2018 and 31 December 2017:

(thousand euros)

Debtors and other receivables		31-12-2018 Stage 1	Stage 2	Stage 3	Total	31-12-2017 Total
Amortized cost						
Low to fair risk	[aaa+;a-]	30	-	-	**30**	**4**
Monitoring	[bbb+;b-]	14 209	-	-	**14 209**	**2 615**
Substandard	[ccc+;ccc]	285	-	-	**285**	**6 000**
Doubtful	[lccc]	-	-	-	**-**	**-**
Impaired	[d]	-	-	1 201	**1 201**	**1 235**
Not rated		13 319	-	-	**13 319**	**19 287**
Total gross carrying amount (Note 22)		**27 843**	**-**	**1 201**	**29 044**	**29 141**
Loss allowance (Note 32)		5 384	-	1 178	**6 562**	**6 589**
Total Carrying amount		**22 459**	**-**	**23**	**22 482**	**22 552**

During 2018, there were no modified financial assets since initial recognition for which the expected credit losses have gone from lifetime expected credit losses to 12 month expected credit losses.

The use of credit protection is a key element of the risk policy and credit decision process, influencing the acceptance criteria, the decision levels, and the pricing.

The main risk mitigation techniques used by the Bank are financial pledges (funded credit protection – financial collateral in the form of securities and cash) and personal guarantees (unfunded credit protection with substitution effect).

Other types of guarantees are also used, which, while not eligible as risk mitigating for purposes of calculating regulatory capital requirements, effectively reduce the credit risk to which the Bank is subject. Due to their broad use, we highlight the personal guarantees provided by company's partners ("shareholders") in certain financing operations.

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

Frequency and methods of collateral valuation depends on the nature of the collateral. For listed equity securities and debt securities, valuation occurs on a daily basis using market prices.

The pledge of bank accounts valuation takes place on a quarterly basis according to information provided by the depositary bank.

Regarding pledges over non listed equity securities, pledges over equipment and mortgages valuation, it is done at least on an annual basis and it is based on financial information of the borrower or on valuation reports of external entities (e.g.: real estate).

The maximum exposure to credit risk at the end of the period and without taking into account any risk mitigating techniques was already been presented on the previous pages.

As of 31 December 2018, the amount of financial instruments with no losses identified, due to credit risk's mitigation techniques, was 873 thousand euros, accounted under loans and advances to customers.

The table below disaggregates the financial instrument and financial guarantees' gross exposure and exposure at default separately for each Stage and POCI's.

(thousand euros)

Rating bucket		Stage 1		Stage 2		Stage 3	
		Gross Exposure	Exposure at Default	Gross Exposure	Exposure at Default	Gross Exposure	Exposure at Default
Low to fair risk	[aaa+;a-]	340 172	311 652	-	-	-	-
Monitoring	[bbb+;b-]	1 192 277	995 876	45 931	45 931	-	-
Substandard	[ccc+;ccc]	285	285	3 358	3 358	-	-
Impaired	[d]	1 201	1 201	-	-	232 994	217 467
Not rated		105 504	14 339	-	-	-	-
Total		**1 639 439**	**1 323 353**	**49 289**	**49 289**	**232 994**	**217 467**

Concentration risk

Concerning the concentration risk - that is, the risk arising from the possibility of exposure or from a group of exposures sharing common or interrelated risk factors that produce losses large enough to affect the Bank's solvency - Haitong Bank has internal limits established for the largest solo exhibitions. Regular monitoring of these limits, together with regulatory limits, strengthens the bank's monitoring framework for the concentration of credit risk.

The breakdown of loans and advances to customers by sector of activity for the years ended 31 December 2018 and 31 December 2017 is as follows:

(thousand euros)

Industry	31.12.2018							
	Loans and advances to customers				Financial assets held for trading		Securities	
	Gross amount		Impairment					
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Securities	Derivative financial assets	Gross amount	Impairment
Automobiles & Components	-	-	-	-	103	-	-	-
Banks	-	-	-	-	213	27 562	-	-
Broker Dealers	1 942	-	8	-	-	7 581	-	-
Building Materials	258	-	27	-	-	-	-	-
Capital Goods	2 900	472	1 962	472	3 004	-	-	-
Chemicals	4 089	-	4 089	-	-	-	-	-
Commercial & Professional Services	3 743	3 954	1 615	3 954	17 723	-	-	-
Construction & Engineering	8 657	2 446	3 705	1 365	1 042	-	84 636	253
Containers & Packaging	-	-	-	-	-	426	-	-
Food, Beverage & Tobacco	-	-	-	-	-	-	-	-
Funds & Asset Managers	85 534	-	2	-	15	312	8 829	-
Governments	3 064	-	1	-	18 272	-	281 264	286
Health Care	-	-	-	-	3 587	111	-	-
Hotels & Gaming	-	5 950	-	5 950	-	-	-	-
Insurance	29 142	-	-	-	-	-	-	-
Investment Holdings	-	-	-	-	53	-	-	-
Media & Entertainment	-	-	-	-	367	-	-	-
Metals & Mining	71 544	-	697	-	-	-	35 049	172
Non Bank Financial Institutions	189 748	152	90	152	8 507	38 875	-	-
Oil & Gas	-	10 324	-	10 324	99	-	-	-
Paper & Forest Products	-	-	-	-	8 536	1 368	-	-
Power	72 561	-	644	-	4 795	7 091	18 847	56
Real Estate	47 208	45 724	1 397	44 894	1 894	-	2 446	-
Retailing	-	-	-	-	-	-	5 131	9
Software	814	-	1	-	152	31	21	-
Technology Hardware & Equipment	-	-	-	-	-	-	35 054	341
Telecoms	-	-	-	-	303	-	-	-
Transportation	2 560	9 648	25	7 124	1 331	18 416	-	-
Transportation Infrastructure	117 389	-	290	-	-	57 186	-	-
Others	541	-	72	-	-	-	51	-
TOTAL	**641 694**	**78 670**	**14 625**	**74 235**	**69 996**	**158 959**	**471 328**	**1 117**

As of 31 December 2018, the amount of loans and advances to customers includes debt instruments at Fair-Value through Profit or Loss (FVTPL).

(thousand euros)

Industry	31.12.2017							
	Loans and advances to customers				Financial assets held for trading		Securities	
	Gross amount		Impairment					
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Securities	Derivative financial assets	Gross amount	Impairment
Automobiles & Components	-	-	-	-	82	-	-	-
Banks	-	-	-	-	30	44 971	-	-
Broker Dealers	-	-	-	-	-	14 747	-	-
Building Materials	355	-	35	-	-	258	-	-
Capital Goods	3 112	340	2 111	340	7 696	-	-	-
Chemicals	4 216	-	3 618	-	-	-	-	-
Commercial & Professional Services	29 575	12 613	21 275	12 043	24 010	-	-	-
Construction & Engineering	12 800	27 669	4 783	14 905	34 563	-	-	-
Consumer Durables & Apparel	126	920	126	920	-	-	-	-
Food, Beverage & Tobacco	-	-	-	-	69	721	-	-
Funds & Asset Managers	-	-	-	-	43	16	-	-
Governments	3 679	-	18	-	3 637	-	251 988	-
Health Care	-	-	-	-	4 795	19	-	-
Hotels & Gaming	-	5 950	-	5 950	-	-	-	-
Media & Entertainment	-	-	-	-	14	-	-	-
Metals & Mining	4 781	-	24	-	-	-	-	-
Non Bank Financial Institutions	138	104	138	104	7 756	77 657	-	-
Oil & Gas	2 564	7 759	2 564	7 759	-	-	-	-
Paper & Forest Products	-	-	-	-	10 558	919	-	-
Pharmaceuticals	-	-	-	-	21	-	-	-
Power	100 981	-	848	-	1 547	8 707	21 214	-
Real Estate	20 598	44 880	1 502	44 879	3 098	-	6 884	4 239
Retailing	-	-	-	-	-	-	4 992	-
Software	2 445	-	14	-	23	191	1 220	1 190
Transportation	3 182	9 212	16	8 483	-	-	-	-
Transportation Infrastructure	139 970	1 277	5 671	830	-	60 322	-	-
Others	294	-	1	-	514	-	651	600
TOTAL	**328 816**	**110 724**	**42 744**	**96 213**	**98 456**	**208 528**	**286 949**	**6 029**

Market risk

Market risk is the possibility of losses resulting from adverse movements in market prices, such as equity, interest rates or foreign exchange rates and credit spreads

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

	31.12.2018				31.12.2017			
	December	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Foreign Exchange Risk	10,06	5,82	11,16	3,94	4,42	3,85	8,28	1,18
Interest Rate Risk	0,12	0,18	0,22	0,25	0,04	0,23	0,62	0,16
Shares	0,07	1,43	1,47	2,85	1,51	0,78	0,62	0,59
Credit spread	0,38	0,29	0,40	0,13	0,05	0,42	0,40	0,34
Covariance	-0,17	-1,45	-1,35	-3,22	-1,41	-0,97	-1,41	-0,84
Total	**10,47**	**6,27**	**11,90**	**3,96**	**4,61**	**4,31**	**8,51**	**1,43**

The following table presents the average interest rates as well as the average balances and interest for the period, relating to the Bank's major financial asset and liability categories, for the periods ended at December 31st 2018 and 2017, as well as the respective average balances and interest of the period:

(thousand euros)

	31.12.2018			31.12.2017		
	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	511 991	286	0,06%	416 736	2 904	0,70%
Loans and advances to customers	430 399	12 154	2,82%	413 396	9 563	2,31%
Investment in securities	629 641	6 715	1,07%	513 597	7 139	1,39%
Collateral accounts	258 515	130	0,05%	124 695	5	0,00%
Financial assets	**1 830 546**	**19 285**	**1,05%**	**1 468 424**	**19 611**	**1,34%**
Monetary resources	819 283	478	0,06%	1 004 027	9 097	0,91%
Deposits from customers	307 670	10 672	3,47%	296 881	3 982	1,34%
Liabilities represented by securities	175 667	4 078	2,32%	106 767	4 160	3,90%
Other resources	23 701	963	4,06%	217 730	715	0,33%
Financial liabilities	**1 326 321**	**16 191**	**1,22%**	**1 625 405**	**17 954**	**1,10%**
Financial result		**3 094**			**1 657**	

As of 31st December 2018 and 31st December 2017, the exposure of assets and liabilities by currency in regards to the foreign exchange risk was as follows:

(thousand euros)

	31.12.2018			31.12.2017		
	Spot	Forward	Net Exposure	Spot	Forward	Net Exposure
AUD	14	-	14	7	-	7
BRL	6 659	(109 128)	(102 469)	2 054	(129 582)	(127 528)
CAD	(854)	-	(854)	2 943	(4 522)	(1 579)
CHF	179	-	179	541	-	541
CNY	(218)	-	(218)	16 261	-	16 261
CZK	24	-	24	28	-	28
DKK	21	-	21	19	-	19
GBP	(125)	-	(125)	2 873	-	2 873
HKD	43 238	(42 888)	350	13	-	13
HUF	17	-	17	18	-	18
INR	-	-	-	-	-	-
JPY	193	-	193	194	-	194
MXN	(13)	-	(13)	143	-	143
NOK	22	-	22	18	-	18
PLN	24 145	-	24 145	(22 159)	48 233	26 074
SEK	64	-	64	60	-	60
TRY	17	-	17	21	-	21
USD	109 686	(114 370)	(4 684)	98 613	(154 257)	(55 644)
UYU	-	-	-	(41)	-	(41)
ZAR	5	-	5	5	-	5
	183 074	**(266 386)**	**(83 312)**	**101 611**	**(240 128)**	**(138 517)**

Note: asset / (liability)

Haitong Bank measures interest rate risk in the banking book using income based (NII: Net Interest Income) and value based (EVE: Economic Value of Equity) metrics.

The Net Interest Income measures the sensitivity of an interest rate movement on the Bank's net interest income over a 1 year period assuming static balance sheet.

Under the Economic Value of Equity measure, the Bank assesses the impact on the present value of cash flows due to an interest rate movement, considering the current balance sheet run-off profile.

As of 31 December 2018 and 2017, the Bank's interest-rate risk sensitive assets and liabilities in the banking book had the following repricing profile:

(million euros)

	31 December 2018				
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	594	287	110	736	5
Liabilities	(86)	(495)	(101)	(898)	(1)
Gap	508	(208)	9	(162)	4

(million euros)

	31 December 2017				
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	672	293	54	429	218
Liabilities	(398)	(181)	(64)	(858)	(218)
Gap	274	112	(10)	(429)	-

The impact on the banking book portfolio economic value, under a scenario of +/-100 bps movement in interest rates, in 31 December 2018 and 31 December 2017 was as follows:

(million euros)

Scenario	December 2018	December 2017
+100 bps	3.5	8.1
-100 bps	(3.6)	(8.1)

As at 31st of December 2018 and 2017, the exposure of the Bank to the public debt of "peripheral" countries within the Euro Area is as follows:

(thousand euros)

	31.12.2018		
	Financial assets at fair value through profit or loss	Securities	Total
Portugal	3 808	182 495	186 303
Poland	13 768	-	13 768
Italy	-	98 483	98 483
	17 576	**280 978**	**298 554**

(thousand euros)

	31.12.2017		
	Financial assets at fair value through profit or loss	Securities	Total
Portugal	-	251 988	251 988
	-	**251 988**	**251 988**

(1) Net values: receivable/(payable)

All presented exposures are recorded in the statement of financial position of the Bank at fair-value based on quoted market values or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding investment securities and trading assets is as follows:

(thousand euros)

	31.12.2018					
	Nominal	Market value	Accrued interest	Book value	Impairment	Fair value reserve
Securities						
Portugal	**165 300**	**179 890**	**2 816**	**182 495**	**(211)**	**1 229**
Maturity more than 1 year	165 300	179 890	2 816	182 495	(211)	1 229
Italy	**100 000**	**98 500**	**58**	**98 483**	**(75)**	**(1 858)**
Maturity more than 1 year	100 000	98 500	58	98 483	(75)	(1 858)
	265 300	**278 390**	**2 874**	**280 978**	**(286)**	**(629)**
Trading financial assets						
Portugal	3 300	3 750	58	3 808	-	-
Poland	12 605	13 641	127	13 768	-	-
	15 905	**17 391**	**185**	**17 576**	**-**	**-**

(thousand euros)

	31.12.2017				
	Nominal	Market value	Accrued interest	Book value	Fair value reserve
Securities					
Portugal					
Maturity up to 1 year	220 200	246 225	5 763	251 988	2 862
	220 200	**246 225**	**5 763**	**251 988**	**2 862**

Liquidity risk

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

Haitong Bank aims to maintain a solid short-term liquidity position and sustainable medium and long-term funding profile, at Group level as well as in its subsidiaries individually, ensuring the Bank is able to meet its obligations as they come due at a reasonable cost to meet the Bank's liquidity risk appetite, while complying with regulatory requirements across all geographies where it operates.

To achieve this, the Bank seeks to keep a diversified investors' base, ensuring access to alternative funding sources and instruments, and keeping an adequate funding structure to finance its activity.

Haitong Bank's liquidity and funding management are under the direct responsibility of the Executive Committee. The Global Coordinator of Treasury is in charge of the operational management of liquidity, with local teams ensuring liquidity daily management in each of the Bank's treasury hubs (Lisbon, São Paulo and Warsaw).

The Bank manages its liquidity by establishing a liquidity risk policy, monitoring a set liquidity risk metrics, including prudential liquidity ratios, stress testing and liquidity contingency plans, and by setting limits consistent with the Bank's liquidity risk appetite and regulatory requirements.

As of 31 December 2018, the Bank held 512 million Euros of High Quality Liquid Assets (626 million Euros in 31 December 2017), of which 303 million were available demand deposits in the Bank of Portugal (449 million Euros in 31 December 2017). The remainder of the High Quality Liquid Assets (HQLA) was mainly composed by sovereign debt of European Union countries.

In 31 December 2018, Haitong Bank held a surplus of 492 million Euros of its 30 days stressed net outflows which corresponded to a LCR of 2 462% (529% on 31 December 2017) comfortably above both regulatory and internal limits.

Liquidity Coverage Ratio	December 2018	December 2017
High Quality Liquid Assets	512	626
Surplus over stressed net outflows	492	508
Liquidity coverage Ratio	**2462%**	**529%**

Haitong Bank funding from the Bank of Portugal amounts to 60 million Euros on 31 December 2018 (the same as at the end of 2017) obtained through the Targeted Longer-Term Refinancing Operations facility, maturing in 2020.

In 2018, Haitong Bank's main sources of funding were wholesale facilities provided by financial institutions, debt securities issued, deposits from clients (households and corporate clients) and equity.

Haitong Bank enters into derivative transactions with corporate clients and financial institutions, most of which under master netting agreements (e.g. ISDA) and margin agreements (e.g. Credit Support Annex). In market stress situations where the value of derivatives is significantly impacted, additional collateral amounts may be required from Haitong Bank. Derivatives positions and collateral received and posted are detailed in notes 20 and 28, respectively.

As of 31 December 2018, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousands of euros)

	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and deposits at central banks	308 983	-	-	-	-	-	308 983
Deposits at other credit institutions	8 388	-	-	-	-	-	8 388
Financial assets held-for-trading (Securities)	11 803	20 356	7 235	34 270	12 126	-	85 790
Available-for-sale financial assets	-	13 550	125 534	339 659	5 452	-	484 195
Loans and advances to banks	-	55 014	-	138 500	-	-	193 514
Loans and advances to customers	1 943	119 334	51 819	95 052	194 291	-	462 439
Derivatives Instruments	-	167 129	71 648	62 907	34 926	120 215	456 825
	331 117	375 383	256 236	670 388	246 795	120 215	2000 134
Liabilities							
Resources of central banks	-	-	-	60 000	-	-	60 000
Resources of other credit institutions	292	-	375 000	375 000	-	-	750 292
Resources of customers	28 887	155 844	100 415	5 907	-	-	291 053
Debt securities issued	-	-	3 375	256 750	-	-	260 125
Financial liabilities held-for-trading (Securities)	16 119	-	-	-	-	-	16 119
Derivatives Instruments	-	166 978	72 165	62 159	35 115	-	336 417
	45 298	322 822	550 955	759 816	35 115	-	1714 006

As of 31 December 2017, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and deposits at central banks	453 054	-	-	-	-	-	453 054
Deposits at other credit institutions	27 178	-	-	-	-	-	27 178
Financial assets held-for-trading (Securities)	15 930	17 644	33 160	36 962	1 117	-	104 813
Available-for-sale financial assets	2 725	-	13 673	258 698	8 755	-	283 851
Loans and advances to banks	10 245	3 108	-	138 500	-	-	151 853
Loans and advances to customers	-	4 809	35 248	29 742	211 038	19 747	300 584
Derivatives Instruments	288 054	123 379	54 164	96 243	48 108	-	609 948
	797 186	148 940	136 245	560 145	269 018	19 747	1931 281
Liabilities							
Resources of central banks	-	-	-	60 000	-	-	60 000
Resources of other credit institutions	54 377	-	20 700	750 000	-	-	825 077
Resources of customers	78 637	75 833	124 402	9 905	-	-	288 777
Debt securities issued	-	2 469	257 598	-	-	-	260 067
Financial liabilities held-for-trading (Securities)	23 713	-	-	-	-	-	23 713
Derivatives Instruments	176 970	122 763	53 245	94 295	43 679	-	490 952
Provisions	10 375	-	-	-	-	-	10 375
	344 072	201 065	455 945	914 200	43 679	-	1958 961

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.

The Bank has in place a framework to ensure the standardization and systematization of the regular activities regarding the identification, monitoring, control and mitigation of operational risk. A team within the Risk Management Department is exclusively dedicated to the management of this framework.

Capital Management and Solvency Ratio

The main purposes of capital management in the Bank are (i) to promote sustainable growth of activity by creating enough capital to withstand the increase of assets, (ii) meet the minimum requirements established by the supervising entities in relation to capital adequacy and (iii) ensure the achievement of the strategic goals set by Group in relation to capital adequacy.

The Capital management strategy is defined by the Executive Committee and is aligned and embedded in the Group Capital management strategy.

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 31th of December 2018 and 31st of December 2017:

	December 18		December 17	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	23,6%	23,0%	23,4%	23,0%
Tier 1 ratio	29,1%	28,4%	23,4%	23,0%
Total capital ratio	29,1%	28,4%	23,4%	23,0%

The assumptions used in the capital adequacy calculations are described in chapter IT & Internal Control | Risk Management | Solvency in the Management Report.

NOTE 42 – ACCOUNTING STANDARDS AND RECENT INTERPRETATIONS

Standards, interpretations, amendments and revisions that came into force in this year

Up to the date of approval of these financial statements, the following accounting standards, interpretations, amendments and revisions have been endorsed by the European Union, with mandatory application for the financial year beginning on January 1, 2018:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 9 – Financial instruments	1-jan-18	This standard is included in the draft revision of IAS 39 and establishes the new requirements regarding the classification and measurement of financial assets and liabilities, the methodology for calculating impairment and the application of hedge accounting rules.
IFRS 15 – Revenue from contracts with costumers	1-jan-18	This standard introduces a principles-based revenue recognition framework based on a template to be applied to all contracts entered into with clients, replacing IAS 18 - Revenue, IAS 11 - Construction contracts; IFRIC 13 - Loyalty programs; IFRIC 15 - Agreements for the construction of real estate; IFRIC 18 - Transfers of Assets from Customers and SIC 31 Revenue - Direct exchange transactions involving advertising services.

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
Clarifications on IFRS 15 - Revenue from contracts with costumers	1-jan-18	These amendments introduce a number of clarifications in the standard in order to eliminate the possibility of divergent interpretations of various topics.
Amendment to IFRS 4: Application of IFRS 9, Financial instruments, with IFRS 4, Insurance contracts	1-jan-18	This amendment provides guidance on the application of IFRS 4 in conjunction with IFRS 9. IFRS 4 will be replaced with the entry into force of IFRS 17.
Amendment to IFRS 2: Classification and measurement of share payment transactions	1-jan-18	This amendment introduces several clarifications in the standard related to: (i) recording cash-settled share-based payment transactions; (ii) recording changes in share-based payment transactions (from cash settled to settled with equity instruments); (iii) the classification of transactions with cleared securities.
Improvements to international financial reporting standards (cycle 2014-2016)	1-jan-18 except for amendments to IFRS 12, which the application date is 1-jan-17	These improvements involve the clarification of some aspects related to: IFRS 1 - First-time adoption of international financial reporting standards: eliminates some short-term exemptions; IFRS 12 - Disclosure of interests in other entities: clarifies the scope of the rule regarding its application to interests classified as held for sale or held for distribution under IFRS 5; IAS 28 - Investments in associates and joint ventures: introduces clarifications on the fair value measurement by results of investments in associates or joint ventures held by venture capital companies or by investment funds.
IFRIC 22 - Transactions in foreign currency including advances for purchase of assets	1-jan-18	This interpretation establishes the date of the initial recognition of the advance or deferred income as the date of the transaction for the purpose of determining the exchange rate of recognition of revenue.
Amendment to IAS 40: Transfers of investment property	1-jan-18	This amendment clarifies that a change in classification of or for investment property should only be made when there is evidence of a change in the use of the asset.

Except for the effects of the implementation of IFRS 9, described in Note 40, no significant effects were recorded in the Bank's financial statements for the year ended in December 31, 2018, as a result of the adoption of the standards, interpretations, amendments and revisions referred to above.

Standards, interpretations, amendments and revisions that will take effect in future years

The following accounting standards and interpretations, which have to be applied in future financial years, have been endorsed by the European Union up to the date of approval of these financial statements:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 16 – Leases	1-jan-19	This standard introduces the principles of recognition and measurement of leases, replacing IAS 17 - Leases. The standard defines a single accounting model for lease contracts that results in the lessee's recognition of assets and liabilities for all lease contracts, except for leases with a period of less than 12 months or for leases that relate to assets of value reduced. Lessors will continue to classify the leases between operational or financial, and IFRS 16 will not entail substantial changes to such entities as defined in IAS 17.
Amendment to IFRS 9: Negative compensation prepayment characteristics	1-jan-19	This amendment allows financial assets subject to contractual conditions which, in their early amortization, allow the payment of a considerable amount by the creditor, can be measured at amortized cost or at fair value for reserves (depending on the business model), since that: (i) on the date of the initial recognition of the asset, the fair value of the early amortization component is insignificant; and (ii) the possibility of negative compensation in early amortization is the only reason for the asset in question not to be considered as an instrument that only includes payments of principal and interests.
IFRIC 23 - Uncertainties in the treatment of income tax	1-jan-19	This interpretation provides guidance on the determination of taxable income, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty as to the treatment of income tax.

These standards, although endorsed by the European Union, were not adopted by the Bank in 2018, as their application is not yet mandatory. As a result of the application of the aforementioned standards, no relevant impacts are expected.

In the case of IFRS 16, the Bank have performed an assessment of its impact and, taking into account the contracts that it holds potentially within the scope of this standard, understands that the impacts of its adoption will be immaterial.

Standards, interpretations, amendments and revisions not yet adopted by the European Union

The following accounting standards and interpretations have been issued by the IASB and are not yet endorsed by the European Union:

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
IFRS 17 - Insurance Contracts	1-jan-21	This standard establishes, for insurance contracts within its scope, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 - Insurance Contracts.
Improvements to international financial reporting standards (2015-2017 cycle)	1-jan-19	These improvements involve the clarification of some aspects related to: IFRS 3 - Concentration of business activities: it requires remeasurement of interests previously held when an entity obtains control over an investee over which it previously had joint control; IFRS 11 - Joint ventures: clarifies that there should be no remeasurement of interests previously held when an entity obtains joint control over a joint operation; IAS 12 - Income Tax: clarifies that all tax consequences of dividends should be recorded in profit or loss, regardless of how the tax arises; IAS 23 - Borrowing costs: clarifies that the part of the loan directly related to the acquisition / construction of an asset, outstanding after the corresponding asset has been ready for the intended use, is, for the purpose of determining the capitalization rate, considered an integral part of the entity's general funding.
Amendment to IAS 28: Long-term investments in associates and joint arrangements	1-jan-19	This amendment clarifies that IFRS 9 should be applied (including related impairment requirements) to investments in associates and joint arrangements when the equity method is not applied in their measurement.
Amendments to IAS 19: Change in Plan, Restriction or Settlement	1-jan-19	If a plan amendment, cut or settlement occurs, it is now mandatory that the current service cost and net interest for the period after remeasurement are determined using the assumptions used for remeasurement. In addition, amendments were included to clarify the effect of a change, reduction or settlement of the plan on the asset ceiling requirements.

Standard / Interpretation	Applicable in the European Union for financial years beginning on or after	
Amendments to references to the Framework in IFRS	1-jan-20	IFRS 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC 32, IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 34, IAS 37, IAS 37, in accordance with references to the revised Conceptual Framework in March 2018. The revised Conceptual Framework includes revised definitions of an asset and a liability and new guidance on measurement, derecognition, presentation and disclosure.

These standards have not yet been endorsed by the European Union and as such have not been applied by the Bank for the year ended 31 December 2018.

With respect to these standards and interpretations, issued by the IASB but not yet endorsed by the European Union, it is not estimated that the adoption of these standards will significantly impact the Bank financial statements.

Report and Opinion of the Supervisory Board

Haitong Bank, S.A.
for financial year 2018

To the Shareholder of Haitong Bank, S.A.,

In accordance with the applicable legislation, we hereby present our report on the audit performed by the Supervisory Board to the Management Report, the individual and the consolidated financial statements and the proposal for the distribution of the year's results presented by the Board of Directors of Haitong Bank (hereinafter Haitong) for the year ended 31 December 2018.

The members of the Supervisory Board appointed for the 2017-2019 three-year period took office on 24 January 2018 after notifying Banco de Portugal that the legal requirements set forth in Article 30b (3) of the General Law on Credit Institutions and Financial Companies ("*Regime Geral das Instituições de Crédito e Sociedades Financeiras*") approved by Decree-Law no. 298/92 of 31 December had been met.

Haitong's Supervisory Board, as part of its designated functions, monitored, in accordance with the law and the company's articles of association, the development of Haitong's management and business activities, namely:

(i) assessed the adequacy and effectiveness of the risk management, internal control and internal audit systems;

(ii) attended Board of Directors meetings whenever invited;

(iii) took part in the meetings of the Internal Audit, Risk, and Corporate Governance Committees;

(iv) reviewed management information documents submitted to the Supervisory Board by the Board of Directors;

(v) monitored the verification of the accounting records and underlying support documents;

(vi) assessed the accounting policies and valuation criteria adopted by Haitong; and

(vii) held meetings with the Statutory Auditor, whenever necessary, on the assessment of the accounting policies and valuation criteria adopted by Haitong, which always provided the information required.

In accordance with the applicable legislation, the Supervisory Board also assessed the Auditor's Report and Statutory Audit Certification ("*Certificação Legal de Contas*") prepared by the Statutory Auditor (Deloitte & Associados, SROC, S.A.) on the individual and consolidated financial statements for financial year 2018 and took note of the Additional Report on said financial statements submitted by the Statutory Auditor to the Supervisory Board, with which the Supervisory Board agrees.

The Supervisory Board also analysed the Management Report submitted by the Board of Directors, which, in the opinion of the members of the Supervisory Board, complies with the applicable legal and statutory requirements and elucidates the main aspects of Haitong's activities in 2018, both in individual and in consolidated terms.

The Supervisory Board also highlights the following:

- The Group is currently preparing the sale process of its subsidiary in Ireland, Haitong Investment Ireland plc. This Group should take place within Haitong Bank and is expected to allow the Bank to achieve important strategic objectives. This sale is subject to the execution of the contractual agreements and verification of the customary conditions precedent. The Supervisory Board was informed that the sale should be concluded before the end of 2019. As a consequence of this decision, this entity's assets and liabilities were reclassified to "Assets and liabilities of discontinuing units".

- In 2018 Haitong reinforced own funds through the issuance of perpetual debt instruments in the amount of 105,042 thousand euros.

- Haitong opted for not restating the 2017 balances, as permitted under the transitional provisions of IFRS 9. All adjustments to assets and liabilities were recognised in equity with reference to 1 January 2018, as disclosed in Note 41.

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- In February 2018 Haitong concluded the sale of the subsidiaries Haitong Securities USA LLC, Haitong UK Limited and Haitong Securities (UK) Limited to Haitong International BVI. The sale value of Haitong Securities USA LLC was 16 778 thousand US dollars. The sale value of Haitong UK Limited and Haitong Securities (UK) Limited was 12 536 thousand US dollars.

- The relevant audit issues and other issues at both individual and consolidated level that are reported in the Statutory Audit Certification and Audit Report.

In light of the above, it is the opinion of the Supervisory Board that the following should be approved:

- The Management Report and remaining individual and consolidated reporting documents relative to the financial year ended on 31 December 2018;

- The proposal submitted by the Board of Directors on the allocation of the net loss for the year 2018, in the amount of 4,566,182.56 euros.

Lisbon, 22 March 2019

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

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Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto.

Declaration of Conformity with the Financial Information Reported

The present declaration is submitted under the terms of Article 245 (1-c)) of the Portuguese Securities Code.

The Supervisory Board hereby declares that, to the best of its knowledge:

- The information referred to in Article 245 (1-a)) of the Portuguese Securities Code as at 31 December 2018 was prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of Haitong and the companies included within its consolidated scope; and

- The management report faithfully details the evolution of the business and the performance and position of Haitong and the companies included within its consolidation scope, and contains a description of the main risks and uncertainties faced within the framework of ongoing activities.

Lisbon, 22 March 2019

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto.

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Annual report on the activity of the Supervisory Board in financial year 2018

Pursuant to the provisions of Article 420-1(g) of the Portuguese Company Law Act ("*Código das Sociedades Comerciais*") and Article 2-1(g) of the Regulations of the Supervisory Board of Haitong, the Supervisory Board hereby presents its report on the supervisory activity carried out in 2018.

1. Introduction

In accordance with its Regulations, the following are the main powers and responsibilities of the Supervisory Board:

i. Monitoring the activity of Haitong, watching over compliance with the Law and the company's Articles of Association, and supervising the management of the company;

ii. Supervise compliance with the accounting policies as well as the process of preparation and disclosure of financial information and of audit of Haitong's accounts and accounting documents;

iii. Monitoring and supervising the effectiveness of the internal control and risk management systems;

iv. Proposing to the General Meeting the appointment of the Statutory Auditor or Audit Firm;

v. Supervising the independence of the Statutory Auditor with regard to non-audit services provided;

2. Activity developed by the Supervisory Board in Financial Year 2018

i. Monitoring the activity of Haitong, watching over compliance with the Law and the company's Articles of Association, and supervising the management of Haitong

During 2018 the Supervisory Board held 32 meetings, some of which with the Board of Directors (four meetings), the Internal Audit Committee, (six meetings), the Risk Committee (five meetings), and the Corporate Governance Committee (three meetings). The Supervisory Board had access to all the information requested and obtained all the documents and clarifications from all the persons from which this was requested.

ii. Supervise compliance with the accounting policies and the process of preparation and disclosure of the financial information and statutory audit

The Supervisory Board supervised compliance with the accounting policies and verified the reliability of the financial information against the financial information received from the Financial Division and the Statutory Auditor (Deloitte & Associados, SROC, S.A.). The Supervisory Board held several meetings with the relevant officers in which the audit reports were analysed and the audit procedures and conclusions were reviewed.

The Supervisory Board analysed the accounting documents and the legal certification of accounts for financial year 2018, having issued a favourable opinion on the same.

iii. Monitoring and supervising the effectiveness of the internal control and risk management systems

The Supervisory Board monitored and assessed the adequacy of the internal control, risk management, internal audit and compliance systems, pursuant to its powers and responsibilities, through meetings held with and information reported by the heads of said functions at Haitong, and by assessing the work carried out by the Bank's Statutory Auditor (Deloitte & Associados, SROC, S.A.), within the scope of assessment of the Internal Control System, having issued its opinion on the adequacy of the internal control system, which was drawn up under the terms of Article 25-5 (a) of Banco de Portugal Notice 5/2008, of 25 June.

iv. Monitoring the activity of the Internal Audit Function

During financial year 2018 the Supervisory Board supervised the activity of the Internal Audit Function, which reports functionally to the Internal Audit Committee and to the Supervisory Board and reports hierarchically to the Executive Director responsible for the Function. The Supervisory Board approved the budget and activity plan and regularly monitored the execution of the Internal Audit Function's activity plan, having for the purpose received the necessary information to discharge its duties.

v. Monitoring the activity of Haitong's Statutory Auditor

During financial year 2018 the Supervisory Board regularly monitored the activity developed by the Statutory Auditor by critically assessing the documents produced by the Statutory Auditor in the performance of its functions. The Statutory Auditor confirmed to the Supervisory Board that it had not detected any irregularities in connection to the performance of its duties and that it had not met any obstacles to the pursuance of said duties. During financial year 2018 the Supervisory Board assessed the provision of non-audit services, having confirmed that the independence of the Statutory Auditor had been safeguarded.

vi. Monitoring of Haitong's transactions with related parties

The Supervisory Board monitored the implementation of the related party transactions policy during financial year 2018. The majority of the transactions carried out with related parties in 2018 concerned financial advisory services and other transactions not involving credit or market risk for Haitong.

vii. Reporting of Irregularities (whistleblowing)

Under article 420-j) of the Company Law Act, it is the responsibility of the Supervisory Board to receive communications of irregularities submitted by employees, clients, shareholders or any other entities. The Whistleblowing policy was updated in October 2018. During financial year 2018 no communications or irregularities came to the attention of the Supervisory Board.

To conclude, the Supervisory Board expresses its recognition to the Board of Directors and to all the employees of Haitong for the cooperation provided throughout the performance of its functions.

Lisbon, 22 March 2019

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto.

STATUTORY AUDITOR'S REPORT

(Amounts expressed in thousands of euros – t.euros)

(Free translation of a report originally issued in Portuguese language: In case of doubt the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE INDIVIDUAL FINANCIAL STATEMENTS

Opinion

We have audited the accompanying individual financial statements of Haitong Bank, S.A. (the "Bank"), which comprise the statement of financial position as at 31 December 2018 (that presents a total of 2,316,979 t.euros and total equity of 596,425 t.euros, including a net loss of 4,556 t.euros), the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended, and the accompanying notes to the financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the financial position of Haitong Bank, S.A. as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent from the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a individual opinion on these matters.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
Impairment for loans to customers (Notes 2.3.1, 23, 32 and 40)	
As of 31 December 2018, the accumulated impairment losses in loans to customers and provisions for guarantees and other commitments (together, the "Impairment losses"), amount to 88,860 t.euros and 68,401 t.euros, respectively. The impairment losses represent management's best estimate of the expected losses in the Bank's loan portfolio, at the reference date of the financial statements. At 31 December 2018 these impairment losses were determined using the methodologies described in Note 2.3.1 to the individual financial statements, in accordance with IFRS 9 – Financial Assets ("IFRS 9"), that was applied for the first time in 2018 (Note 40). According to IFRS 9, the Bank classifies its loans to customers portfolio in Stages, based on the changes in its credit risk since initial recognition. This classification determines, among other aspects, the type of analysis (individual or collective) to perform, as well as the parameters used by the Bank in the calculation of impairment losses. Considering the characteristics of the Bank's loan portfolio, a significant part of its impairment losses results from individual impairment loss analysis. The determination of impairment losses through individual analysis inherently has a strong judgmental component from management about the information available, namely in estimating the present value of the amount that the Bank expects to recover from the loan, that incorporates also assumptions about future events that may not occur as expected and reflects management's intentions at each moment regarding management and future holding of the loans.	We analysed the relevant internal control procedures implemented by the Bank in the process of determining impairment losses for its loan portfolio. We reviewed the documentation of the impairment methodology implemented by the Bank in the scope of IFRS 9 adoption, and analysed it reasonableness considering the requirements of that standard. We reviewed the calculation of the transition adjustment arising from the adoption of IFRS 9 as of 1 January 2018, and its consistency with the methodology for calculating impairment losses implemented by the Bank. We selected a sample of clients from the Bank's loan portfolio for which we analysed the classification in stages, considering the criteria defined by the Bank. For a sample of clients subject to individual impairment analysis by the Bank we analysed the reasonableness of the estimated impairment losses recorded in the financial statements based on the review of the Bank's judgments on the economic and financial situation of clientes, valuation of the collaterals received and perspectives on the evolution of their activity and on the future management of those loans by the Bank. For a sample of clients subject to collective impairment analysis, we recalculated the impairment losses considering the methodology and assumptions defined by the Bank.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
Impairment for loans to customers (Notes 2.3.1, 23, 32 and 40)	
In face of the above, and taking into account the materiality of the amounts in the context of the financial statements, the determination of loan impairment was considered a key audit matter.	We reviewed the disclosures related to impairment for loans to customers, considering the applicable accounting framework.
Recoverability of deferred tax assets (Notes 2.13, 3.2 and 33)	
As of 31 December, 2018, the Bank has recorded deferred tax assets in the amount of 87,235 t.euros, essentially related with: (i) temporary differences arising from impairment for loans to customers (50,666 t.euros); (ii) tax losses carried forward (31,350 t.euros), essentially originated in 2015 and 2016, that can be used within a period of 12 years, not exceeding 70% of taxable profit in each of those years. In accordance with IAS 12 - Income Taxes, deferred tax assets can only be recorded up to the extent that it is probable that future taxable profit will be available against which they can be utilised. The Bank prepared a forecast of its future taxable profit to assess the recoverability of deferred tax assets. This estimate is judgmental by nature and depends on the assumptions made by management to estimate the evolution of profits before taxes and its interpretation of the tax legislation, including what concerns deferred tax assets in the scope of the Special Regime applicable to deferred tax assets. To this extent, the recoverability of deferred tax assets is dependent on the Bank's ability to generate the estimated results. Any deviations from the estimation of future results or changes in the tax legislation or its interpretation may have a material impact on the recoverability of deferred tax assets. Given the materiality of deferred tax assets in the Bank's individual financial statements and the need to use estimates to determine their recoverability, this area was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of assessing the recoverability of deferred tax assets. We reviewed the main assumptions considered by the Bank to estimate the evolution of pre-tax profits in the period covered by its analysis. We reviewed the reasonableness of the interpretation of the relevant tax legislation considered by the Bank in the estimation of future taxable profits. We reviewed the reasonableness of the calculations prepared by the Bank to demonstrate the recoverability of deferred tax assets, taking into account the understanding of the assumptions and the review of the interpretation of the tax legislation described above. We reviewed the disclosures related to deferred taxes, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
Legal contingencies (Notes 2.14 and 37)	
As disclosed in Note 37 to the individual financial statements, as of 31 December 2018 there are contingencies involving several lawsuits against the Bank, including some related to commercial paper issued by entities of the Espírito Santo Group and a capital increase of Banco Espírito Santo, S.A. According to the opinion of the Bank's Legal Department and with external lawyers' opinion, whom are in charge of the lawsuits, management classifies as unlikely an unfavourable outcome, and therefore no provisions were booked for that purpose. Taking into account the relevance of the amounts involved, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of monitoring legal contingencies. We obtained information from external lawyers accompanying the lawsuits, including the description of disputes and the probability of loss for the Bank. We discussed with management, the Bank's Legal Department and with the external lawyers the current state of the more relevant lawsuits and expectations regarding their outcome. We reviewed the disclosures related to legal contingencies.
Impairment for investments in subsidiaries and associates (Notes 3.3 and 27)	
As of 31 December 2018, the caption "Investments in subsidiaries and associates" presents a balance of 173,643 t.euros net of impairment. Investments in subsidiaries and associates are recorded at acquisition cost net of impairment losses. Whenever impairment triggers are identified, these investments are subject to impairment tests. The determination of its recoverable amount carries a high degree of judgment by management, including the estimation of future results of the investees, the determination of the discount rate and the definition of market inputs. Therefore, and given the materiality of the amounts involved, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of determining impairment losses for its investments in subsidiaries and associates. We reviewed the impairment tests prepared by the Bank for the subsidiaries and associates where it identified impairment triggers, including a critical analysis of profit forecasts and of the main assumptions made by management.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the assessed risks of material misstatement
Resolution Fund (Note 37)	
As described in detail in note 37 to the financial statements, following the resolution measures applied to Banco Espírito Santo, S.A. (BES) and Banif - Banco Internacional do Funchal, S.A. (Banif), the Resolution Fund became the holder of the entire share capital of Novo Banco, S.A. and Oitante, S.A.. In this context, it obtained loans from the Portuguese State and from a banking syndicate (in which the Bank does not participate) and assumed other responsibilities and contingent liabilities, including those related to the litigation associated with these processes, as well as to a contingent capital mechanism defined in the sale of Novo Banco, S.A. to Lone Star in October 2017. In order to reimburse these loans and to meet other responsibilities that may have to be assumed by the Fund, the proceeds available for the Resolution Fund arise essentially from the periodic contributions from participating institutions (including the Bank) and the contribution over the banking sector. It is also established the possibility of the member of the Portuguese Government responsible for the finance area also determine, by ministerial order, that the participating institutions make special contributions in the situations established for it in the applicable legislation, particularly in the event that the Resolution Fund does not have enough own resources for the fulfilment of its obligations.	We analysed the publicly available information throughout 2017, 2018 and 2019, until the date of this report, including the public communications from the Resolution Fund and the contents of the resolution of the Council of Ministers on 2 October 2017, which authorised the formalisation by the Portuguese State, as ultimate grantor of financial stability, of a framework agreement with the Resolution Fund. We analysed the framework agreement established between the Portuguese State and the Resolution Fund. We read the last Report and Accounts of the Resolution Fund that refers to the year 2017. We reviewed the accounting framework of the contributions to the Resolution Fund. We obtained representation from the Bank's management regarding their expectation that the liabilities and contingent liabilities assumed by the Resolution Fund, as well as the responsibilities arising from the transactions it performed, will not imply the payment by the Bank of any special contributions or any other type of extraordinary contributions to the Resolution Fund. We reviewed the disclosures included in the financial statements related to this matter.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the assessed risks of material misstatement**
Resolution Fund (Note 37)	
The annual contributions to the Fund and the contribution over the banking sector are recognised as losses on an annual basis, as set out in IFRIC 21 – Levies. The financial statements as at 31 December 2018 reflect management's expectation that no special contributions or any other extraordinary contributions will be required from the Bank in order to finance the resolution measures applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund, considering: • The conditions established in the scope of the renegotiation, announced in March 2017, of the loans obtained by the Resolution Fund to finance the referred resolution measures, including the extension of the maturity date to 31 December 2046 and the possibility to adjust that date, with the purpose of guaranteeing the capacity of the Resolution Fund to fully meet its obligations based on regular revenues and without the need to resort to special contributions or any other type of extraordinary contributions from the banking sector; and • The public communications made by the Resolution Fund and by the Office of the Portuguese Minister of Finance which refer as an objective ensuring that such contributions will not be necessary. Given the responsibilities of the Resolution Fund and the judgements of management as described above, this area was considered a key audit matter.	

Other matters

The accompanying individual financial statements refer to the activity of the Bank at the individual level and have been prepared for approval and publication in accordance with the legislation in force. As indicated in Note 2.20, financial investments in subsidiaries and associates are recorded at acquisition cost less impairment losses. The accompanying individual financial statements do not include the effect of full consolidation, nor the application of the equity method, which will be done in consolidated financial statements to be approved and published separately.

Responsibilities of management and supervisory body for the individual financial statements

Management is responsible for:

- the preparation of individual financial statements that give a true and fair view of the Bank's financial position, financial performance and cash flows in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union;

- the preparation of the management report, including the corporate governance report, in accordance with applicable laws and regulations;

- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

- the adoption of accounting policies and principles appropriate in the circumstances; and

- assessing the Bank's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Bank's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the individual financial statements

Our responsibility is to obtain reasonable assurance about whether the individual financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these individual financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the individual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the individual financial statements, including the disclosures, and whether the individual financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- we communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiency in internal control that we identify during our audit;

- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the individual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter;

- provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the Management report is consistent with the individual financial statements and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management report
Pursuant to article 451, number 3.e) of the Portuguese Companies Code ("Código das Sociedades Comerciais"), it is our opinion that the Management report was prepared in accordance with the applicable law and regulatory requirements and the information contained therein is consistent with the audited individual financial statements and, having regard to our knowledge of the Bank, we have not identifed material misstatements.

On the Corporate governance report
Pursuant to article 451, number 4, of the Portuguese Companies Code ("Código das Sociedades Comerciais"), we conclude that the corporate governance report includes the elements required to the Bank under the terms of article 245-A of the Portuguese Securities Code ("Código dos Valores Mobiliários"), and we have not identified any material misstatements on the information disclosed therein which, accordingly, complies with the requirements of items c), d), f), h), i) and m) of that article.

On the additional matters provided in article 10 of Regulation (UE) 537/2014

Pursuant to article 10 of Regulation (UE) 537/2014 of the European Parliament and of the Council of April 16th, 2014, in addition to the key audit matters mentioned above, we also report on the following:

- We were appointed auditors of the Bank in the shareholders' general meeting held on 16 November 2016, to conclude the ongoing mandate until the end of 2016. We were reappointed as auditors of the Bank in the shareholder's general meeting held on 17 August 2017 for a mandate from 2017 to 2019.

- Management has confirmed to us that they are not aware of any fraud or suspection of fraud having occurred that has a material effect on the individual financial statements. In planning and executing our audit in accordance with ISAs, we maintained professional skepticism and we designed audit procedures to respond to the risk of material misstatements in the individual financial statements due to fraud. As a result of our work, we have not identified any material misstatement in the individual financial statements due to fraud.

- We confirm that the audit opinion issued is consistent with the additional report that we prepared and delivered to the Bank's supervisory body as at 22 March 2019.

- We declare that we have not provided any prohibited services as described in article 77, number 8, of the Ordem dos Revisores Oficiais de Contas statutes (Legal Regime of the Portuguese Statutory Auditors) and we have remained independent from the Bank in conducting the audit.

Lisbon, 22 March 2019

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

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC S.A. internal procedures, the report is not to be signed. In the event of discrepancies, the Portuguese language version prevails.)

Corporate Governance Report

"This report constitutes an integral part of Haitong Bank's 2018 Annual Report and aims to disclose the structure and corporate governance practices adopted by Haitong Bank, S.A.. This report was prepared in accordance with Articles 7 and 245-A of the Portuguese Securities Code."

GOVERNANCE REPORT

PART I – SHAREHOLDER STRUCTURE

1. Capital Structure (Article 245-A/1/a)

As at 31 December 2018, the share capital of the Bank was EUR 844,769,000.00 (eight hundred and forty four million, seven hundred and sixty nine thousand euros), fully subscribed and paid up. The share capital is divided into 168,953,800 (one hundred and sixty eight million, nine hundred and fifty three thousand and eight hundred shares registered and book-entry with a nominal value of EUR 5.00 (five euros) each.

Haitong International Holdings Limited, a Hong-Kong based subsidiary of Haitong Securities Co., Ltd. holds 100% (less 4 shares) of the share capital of the Bank with voting rights. The remaining 4 shares are held by Haitong International Global Strategic Investment Limited (incorporated in the Cayman Islands); Haitong Capital International Investment Co., Ltd (incorporated in Hong Kong); Haitong Innovation International Capital Management Co., Ltd (incorporated in the Cayman Islands) and Haitong ALIC Innovation Growth PE Fund I (incorporated in the Cayman Islands).

The Bank's share capital is entirely represented by ordinary shares.

2. Restrictions on the transfer of shares (Article 245-A/1/b)

The Articles of Association of the Bank do not provide for restrictions on the transferability of shares.

3. Possible restrictions on voting rights, such as limitations on the voting rights dependent on holding a certain number or percentage of shares, deadlines imposed on the right to vote, or key rights of patrimonial content (Article 245-A/1/f)

Pursuant to the Bank's Articles of Association, Shareholders or groups of shareholders who hold a minimum of one hundred shares at least five days prior to the date of the Bank's Annual General Meeting are entitled to participate in the meeting. Each one hundred shares are entitled to one vote.

4. Rules governing the appointment and replacement of members of the management body and the amendment of the Articles of Association (Article 245-A/1/h)

The members of the Board of Directors are selected and approved at the General Meeting. There are no specific rules concerning the replacement of Board Members. Any replacements shall be made in accordance with the terms set out in the Portuguese Commercial Companies Code.

There are no specific rules concerning changes to the Bank's Articles of Association. Any such changes shall be made under the general terms foreseen in the Portuguese Commercial Companies Code.

5. Powers of the management body, particularly with regards to resolutions on capital increases (Article 245-A/1/i)

The Board of Directors does not hold any powers with regard to resolutions on capital increases.

6. Agreements between the Bank and members of the management body or senior staff which foresee indemnity payments in case of unilateral termination of the employment contract by the employee or dismissal with no cause (Article 245-A/1/l)

The Bank is not aware of the existence of these agreements.

7. Shares and Bonds held by members of the Board of Directors and Supervisory bodies

(Annex referred to in paragraph 5 of Article 447 of the Portuguese Commercial Companies Code)

Board of Directors	Securities	Securities held as of 31/12/2017	Transactions in 2018			Securities held as of 31/12/2018
			Date	Acquisitions	Disposals	
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)		
			24/10/2018	155,087 (3)		5,269,706
	Haitong International Securities Group Limited - Share Options	1,601,431	11/05/2018	3,555 (4)		
			24/10/2018	4,112 (5)		
			28/11/2018	1,800,000 (6)		3,409,098
	Haitong International Securities Group Limited - Awarded Shares (unvested)	744,301	15/03/2018		173,348 (1)	
			19/03/2018		132,534 (2)	
			28/05/2018	533,187 (7)		971,606
Alan do Amaral Fernandes	-	-	-	-	-	-
António Domingues	-	-	-	-	-	-
Poon Mo Yiu	**Haitong International Securities Group Limited** - Ordinary Shares	94,533	15/03/2018	94,533 (8)		
			19/03/2018	11,976 (9)		
			22/06/2018	2,108,893 (10)		2,309,935
	Haitong International Securities Group Limited - Share Options	3,105,473	11/05/2018	6,894 (4)		
			20/06/2018		2,108,893 (10)	
			24/10/2018	2,570 (5)		
			28/11/2018	700,000 (6)		1,706,044
	Haitong International Securities Group Limited - Awarded Shares (unvested)	224,994	15/03/2018		94,533 (8)	
			19/03/2018		11,976 (9)	118,485
Nuno Miguel Sousa Figueiredo Carvalho	-	-	-	-	-	-
Pan Guangtao	-	-	-	-	-	-

Board of Directors	Securities	Securities held as of 31/12/2017	Transactions in 2018			Securities held as of 31/12/2018
			Date	Acquisitions	Disposals	
Paulo José Lameiras Martins	-	-	-	-	-	-
Vasco Câmara Pires dos Santos Martins	-	-	-	-	-	-
Vincent Marie L. Camerlynck	-	-	-	-	-	-
Zhang Xinjun	-	-	-	-	-	-

Supervisory Board / Statutory Auditor	Securities	Securities held as of 31/12/2017	Transactions in 2018			Securities held as of 31/12/2018
			Date	Acquisitions	Disposals	
Mário Paulo Bettencourt de Oliveira	-	-	-	-	-	-
Cristina Maria da Costa Pinto	-	-	-	-	-	-
Maria do Rosário Mayoral Robles Machado Simões Ventura	-	-	-	-	-	-
Paulo Ribeiro da Silva	-	-	-	-	-	-
Deloitte & Associados, SROC, S.A.	-	-	-	-	-	-

Notes:

(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) Share option adjustment as a result of the allotment of ordinary shares under the interim dividend for the 6 months ended 30 June 2018 in the form of scrip dividend.

(6) Grant of share options

(7) Grant of awarded shares

(8) 94 533 unvested awarded shares were vested on 15/3/2018.

(9) 11 976 unvested awarded shares were vested on 19/3/2018.

(10) 2 108 893 ordinary shares were alloted on 22/06/2018 upon exercise of share options on 20/06/2018.

PART II – CORPORATE BODIES AND COMMITTEES

As of 31 December 2018

General Meeting Board

Chairman
Maria João Ricou

Secretary
Sara Begonha

Supervisory Board

Chairman
Mário Paulo Bettencourt de Oliveira

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

Alternate
Paulo Ribeiro da Silva

Statutory Auditor

Member in office
Deloitte & Associados, SROC, S.A.[1]

Remuneration Committee

Chairman
Vincent Camerlynck

Members
António Domingues
Poon Mo Yiu

Risk Committee

Chairman
Vincent Camerlynck

Members
António Domingues
Pan Guangtao

Board of Directors

Chairman
Lin Yong

Members
Wu Min
Alan do Amaral Fernandes
António Domingues
Nuno Miguel Sousa F. Carvalho
Pan Guangtao
Paulo José Lameiras Martins
Poon Mo Yiu
Vasco Câmara Martins
Vincent Marie L. Camerlynck
Zhang Xinjun

Secretary
Pedro Alexandre Martins Costa

Internal Audit Committee

Chairman
António Domingues

Members
Vincent Camerlynck
Zhang Xinjun

Corporate Governance Committee

Chairman
António Domingues

Members
Lin Yong
Vincent Camerlynck

Credit Committee

Voting Members (8)
Head of Risk Management Function
Moderator
Secretary

Impairment Committee

Chairman
CEO
Voting Members (4)
Non-Voting Members (4)
Secretary

Executive Committee

CEO
Wu Min

Members
Alan do Amaral Fernandes
Nuno Miguel Sousa F. Carvalho
Paulo José Lameiras Martins
Vasco Câmara Martins

Senior Managers with a Seat on the Executive Committee
António Carlos Gomes Pacheco
Pedro Alexandre Martins Costa

Secretary
Pedro Alexandre Martins Costa

IBK Global Adoption Committee

Chairman
IBK Executive Board Member

Secretary

Members
Head of Risk Management Function
Brazil Executive Board Member
Branch Managers
IBK and SF Global Coordinators
Global Head of Compliance
CEO Office
Head of Cross-Border M&A

New Business Committee

Chairman
Head of CEO Office

Members
Global Coordinators of Product Areas
Head of Middle Office
CEO Office
Support and Control Areas

Secretary

[1] Deloitte & Associados, SROC, S.A. nominated João Carlos Henriques Gomes Ferreira

8. General Meeting

Composition of the General Meeting Board

Under the terms of article 7 of the Bank's Articles of Association, the General Meeting Board is composed of one Chairman and one Secretary appointed by the General Meeting for a period of three years and they can always be re-elected, provided that legal requirements are met.

The Chairman and Secretary of the General Meeting Board were appointed on 17 August 2017 by Shareholder Resolution for the three-year period of 2017-2019. They are both in their first term of office.

The General Meeting Board is composed as follows:

Chairman	Maria João Ricou
Secretary	Sara de Almeida Azevedo Begonha

Voting Rights

Under the terms of the Bank's Articles of Association, the General Meeting is made up of all shareholders who within five business days prior to the date of the respective General Meeting and in relation to at least one hundred shares: (i) register the shares in their name in the Bank's register of shares; or (ii) in case of de-materialized shares, provide evidence of a respective deposit or registration into a de-materialized securities account with a financial intermediate.

Each lot of one hundred shares corresponds to one vote. Under the terms of the Bank's Articles of Association, resolutions of the General Meeting shall require absolute majority of the votes cast at each meeting, except where the law or the Articles of Association require a qualified majority.

The Bank has a single voting Shareholder and in 2018 all Shareholder resolutions were taken by written resolution.

The General Meeting deliberates on matters specially assigned by law or the Articles of Association – including the election of corporate bodies, the approval of the annual report and accounts for the year, distribution of profits and capital increases – as well as, if so requested by the Board of Directors, management matters of the Bank.

9. Management and Supervision

9.1. GOVERNANCE MODEL

The Bank currently has in place a governance model that includes a Board of Directors (*Conselho de Administração*) and a Supervisory Board (*Conselho Fiscal*), with a separate Statutory Auditor (*Revisor Oficial de Contas*). This is the so-called Latin model of corporate governance, considered the most suitable model taking into consideration the current situation of the Bank.

The Board of Directors, which includes an Executive Committee to which the Board delegated broad management powers to conduct day-to-day activity, is responsible for management of the company.

Four specialised committees function within the Board of Directors, which are responsible for monitoring specific matters.

9.2. BOARD OF DIRECTORS

The Statutes do not contain any rules governing procedural or material requirements related to the appointment or replacement of members of the Board of Directors. The RGICSF (*Regime Geral das Instituições de Crédito e Sociedades Financeiras*) lays down the suitability requisites (integrity, professional qualifications, independence and availability) that the members of the Management and Supervisory Board must possess to exercise the respective functions.

Pursuant to the provisions of article 30-A(2) of the RGICSF the most recent "Policy on the Selection and Assessment of members of the Management and Supervisory bodies and Key Function Holders", which contain the legal requirements and requisites applicable to the members of the Board of Directors, was approved by the General Meeting on 27 December 2018.

The composition of the Board of Directors and of its advisory committees as at 31 December 2018 is presented in the organizational chart included on the previous page.

On 19 January 2018, the Bank of Portugal authorised the Supervisory Board and the following Board Members for the 2017/2019 mandate:

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

On 16 April 2018, Nuno Miguel Sousa Figueiredo Carvalho took office as a member of the Board of Directors.

On 25 September 2018, Vasco Câmara Pires dos Santos Martins took office as a member of the Board of Directors.

On 8 October 2018, Christian Georges Jacques Minzolini, member of the Board of Directors and the Executive Committee, tendered his resignation and left office on the same date.

The date of the first term of office and qualification of each of the Non-Executive Board Members is identified in the following table:

Composition of the Board of Directors (Non-Executive Members)	First Term of Office Starting Date	Qualification
Lin Yong	Apr-16	Non-Independent
Poon Mo Yiu	Nov-15	Non-Independent
Pan Guangtao	Nov-15	Non-Independent
Zhang XinJun	Jan-18	Non-Independent
Vincent Marie L. Camerlynck	Nov-16	Independent*
António Domingues	Jan-18	Independent*
% of Non-independent Members		**66.66%**
% of Independent Members		**33.33%**

* Without prejudice to the other criteria for assessing the quality of "Independent", particularly those arising from joint recommendations of the ESMA (European Securities and Markets Authority) and EBA (European Banking Authority) of 26 September 2017 (EBA / GL / 2017 / 12) and those resulting from the "Guide to fit and proper assessments" published by the ECB (European Central Bank) in May 2017, the qualification indicated in the table reflects the internal judgment of the Board of Directors of Haitong Bank, S.A..

Pursuant to CMVM Regulation 4/2013, a member of the Board of Directors is considered to be independent if he or she is not associated with any specific interest group and is not in any circumstance likely to affect his or her exemption from analysis or decision, particularly by virtue of:

a) Having been an employee of the company or of a company controlled by it or with which there has been a group relationship in the preceding three years;

b) Having, in the preceding three years, rendered services or established a significant commercial relationship with the company or a company controlled by it or with which there has been a group relationship, whether directly or as member, administrator, director or officer of a corporate entity;

c) Being a beneficiary of remuneration paid by the company or by a company controlled by it or with which there has been a group relationship, besides the remuneration derived from the exercise of directorship functions;

d) Living under a common law union or being the spouse, relative or direct relative up to the 3rd degree of lineage, inclusive, of directors or natural persons who are the direct or indirect holders of a qualified holding;

e) Being the holder of a qualified holding or the representative of a shareholder with a qualified holding.

The directors concerned are not covered by any of the situations referred to in sub-paragraphs a) to e) which constitute the norm in question.

Board of Directors		Attendance	
Minutes No.	**Date**	**Attendees**	**Absences**
226	28-feb	Alan Fernandes (call), Paulo Martins, Christian Minzolini, Zhang Xinjun (call), Poon Mo Yiu, António Domingues, Pan Guangtao (call), Vincent Camerlynck, Wu Min, Lin Yong.	0
227	26-mar	Alan Fernandes (call), Paulo Martins, Christian Minzolini, Zhang Xinjun (call), Poon Mo Yiu (call), António Domingues, Pan Guangtao, Vincent Camerlynck, Wu Min, Lin Yong (call).	0
228 (ELEC)	28-jun	Alan Fernandes, Paulo Martins, Christian Minzolini, Zhang Xinjun, Poon Mo Yiu, António Domingues, Pan Guangtao, Vincent Camerlynck, Wu Min, Lin Yong, Nuno Carvalho.	0
229	09-jul	Nuno Carvalho, Paulo Martins, Christian Minzolini, Zhang Xinjun (call), Poon Mo Yiu (call), António Domingues, Pan Guangtao (call), Vincent Camerlynck, Wu Min, Lin Yong.	Alan F.
230	18-sep	Alan Fernandes (call), Nuno Carvalho, Paulo Martins, Zhang Xinjun, Poon Mo Yiu (call), António Domingues, Pan Guangtao, Vincent Camerlynck, Wu Min, Lin Yong.	Christian M.
231	10-dec	Alan Fernandes, Nuno Carvalho, Paulo Martins, Zhang Xinjun, Poon Mo Yiu (call), António Domingues (call), Pan Guangtao, Vasco Câmara Martins, Vincent Camerlynck, Wu Min, Lin Yong.	0

The professional qualifications and other curricular details of each member of the Board of Directors is presented in the Appendix to this Corporate Governance Report.

There is no family relationship between the members of the Board of Directors.

The Board of Directors met 6 times (including 1 electronic meeting) in 2018.

9.3. EXECUTIVE COMMITTEE

The organizational chart in the beginning of Part II of this report presents the composition of the Board of Directors, indicating the members who make up the Executive Committee.

On 28 February 2018, the Board of Directors appointed the following Directors as members of the Executive Committee for the 2017/2019 mandate[(1)]:

- Wu Min, as the chairman of the Executive Committee;
- Alan do Amaral Fernandes
- Christian Georges Jacques Minzolini
- Paulo José Lameiras Martins

On 8 October 2018, Christian Georges Jacques Minzolini, a member of the Executive Committee tendered his resignation and left office on the same date.

The Board of Directors delegates to the Chairman of the Executive Committee (CEO) the powers to distribute the responsibilities among the members of the Executive Committee.

On 10 December 2018, the Board of Directors approved the following changes to the composition of the Executive Committee for the 2017/2019 mandate:

Executive Committee	Main areas of responsibility
Chairman	
Wu Min	CEO Office and General Administrative Treasury FICC & Prop trading IT & Operations Human Resources Finance
Members	
Alan do Amaral Fernandes	Haitong Brazil
Paulo José Lameiras Martins	Investment Banking Structured Finance Equities, Research & Asset Management Haitong Capital
Nuno Miguel Sousa Figueiredo Carvalho	Compliance & AML-FT Legal Special Portfolio Management Internal Audit
Vasco Câmara Pires dos Santos Martins	Risk Management Rating Middle Office

All the members of the Executive Committee play an active role in the day-to-day management of the Bank's business, having under their stewardship one or more specific business areas, in accordance with the respective profile and with individual expertise, and corresponding to the distribution of responsibilities that at any moment best contributes to that body's effective balanced functioning.

The Executive Committee normally meets on a weekly basis to deal with matters of general interest relating to the Bank and its subsidiaries.

(1) As the commencement of the duties of the elected members of the Board of Directors required authorization by the BoP which was only granted in January 2018, the former directors in office continued to perform their duties until the commencement of office of those replacing them. Prior to the appointment of the new Executive Committee by the Board of Directors, Mr. Alan Fernandes, Mr. Paulo Martins, Mr. Christian Minzolini and Mr. Poon Mo Yiu remained in office.

The Executive Committee met 54 times in 2018:

			Attendance						
Minutes No.	Date	Electronic	Poon Mo Yiu	Wu Min	Paulo Martins	Alan Fernandes	Christian Minzolini	Nuno Carvalho	Vasco C. Martins
Ad Hoc	03-jan								
1	09-jan								
2	15-jan								
3	18-jan								
4	18-jan								
5	28-feb								
6	01-mar	ELEC							
7	05-mar								
8	12-mar								
9	20-mar								
10	26-mar								
11	03-apr								
12	09-apr								
13	03-may								
14	16-may								
15	30-may								
16	06-jun								
17	08-jun	ELEC							
18	20-jun								
19	27-jun								
20	02-jul								
Ad Hoc	05-jul	ELEC							
21	18-jul	ELEC							
22	23-jul								
23	26-jul								
24	01-aug	ELEC							
25	13-aug								
26	17-aug	ELEC							
27	17-aug								
28	17-aug								
29	31-aug	ELEC							
30	31-aug	ELEC							
31	04-sep								
32	06-sep	ELEC							
33	11-sep								
34	18-sep	ELEC							
35	20-sep	ELEC							
36	25-sep	ELEC							
37	26-sep								
38	03-oct								
39	10-oct								
40	11-oct	ELEC							
41	24-oct								
42	31-oct								
43	13-nov								
44	21-nov								
45	22-nov	ELEC							
46	28-nov								
47	04-dec								
48	07-dec	ELEC							
49	10-dec	ELEC							
50	18-dec								
51	27-dec								
52	28-dec								
Total	**54 meetings**		**4/4**	**54/54**	**49/54**	**52/54**	**31/40**	**38/41**	**16/16**

Member not in office | Present | Absent

The Corporate Governance Committee is responsible for the individual and collective ongoing assessment of the management and supervisory bodies of the Bank.

The professional qualifications and other curricular details of each member of the Executive Committee and the list of positions occupied in other companies and other important functions is presented in the Appendix to this Corporate Governance Report.

9.4. CONSULTATIVE COMMITTEES OF THE BOARD OF DIRECTORS

Risk Committee

The purpose of the Risk Committee is to continuously monitor the definition and implementation of the Bank's risk strategy and risk appetite and assess whether they are consistent with a sustainable strategy in the medium and long term and the approved action plan and budget, advising the Executive Committee in this respect.

Amongst the competences of the Risk Committee, the following are highlighted:

- To advise the Board of Directors on the Bank's risk appetite and risk strategy taking into account all risk categories, ensuring that they are in line with the Bank's business strategy, corporate culture and values;
- To assist the Board of Directors in supervising the implementation of the Bank's risk strategy and compliance with the applicable limits set;
- To periodically review the Bank's risk profile and risk strategies and policies;
- To assess the reciprocal consistency of the business model, the strategy, the recovery plan, the remuneration policies and the budget, as well as the efficacy and effectiveness of the structure, procedures and instruments associated with the implementation and execution of risk strategies;
- To draw up recommendations on any necessary adjustments to the risk strategy resulting from changes to the business model, market developments or the Bank's business environment;
- To analyse and assess the methodology and its results supporting the risk identification, assessment and measurement process;
- To analyse scenarios, including stress tests, with a view to calculating their impact on the Bank's risk profile and assessing the Bank's resilience to changes caused by idiosyncratic, systemic or mixed factors;
- To analyse whether the terms and conditions of products and services offered to clients take into account the Bank's business model and risk strategy and to submit a corrective action plan to the management body should this analysis reveal that the terms and conditions applied do not appropriately reflect the risks;
- To examine whether the incentives established in the Bank's remuneration policy take into account risk, capital, liquidity and expectations in terms of income, including the timing of revenues;
- To define the risk reporting framework for reports to the Board of Directors;
- To ensure effective risk control processes and monitor any shortfalls in internal control related to the risk management framework;
- To specify and review the conditions of authority and independence that support risk management responsibilities, including approval of the risk management function's working plan;
- To periodically review and monitor at group level the scope and nature of the risk-related activities performed by the Haitong Bank Group; and
- To ensure that the risk management function has appropriate resources to perform its duties.

The Risk Committee is composed of 3 members of the Board of Directors who are not members of the Executive Committee and are appointed by the Board of Directors. The majority of these members is independent.

During 2018, the Risk Committee held 7 meetings, received logistical and technical support from the CEO Office with secretarial services being administered by this office.

During 2018, the Risk Committee was composed as follows:

	Risk Committee	Attendance
Chairman	Vincent Camerlynck	7/7
Members	António Domingues	7/7
	Pan Guangtao	7/7

Remuneration Committee

The purpose of the Remuneration Committee is to form informed and independent judgements on the Bank's and the Haitong Bank Group's remuneration policies and practices, as well as on the incentives created for risk, capital and liquidity management purposes, and prepare the decisions pertaining to remuneration, including decisions with implications in terms of the Bank's risk and risk management, which must be made by the General Meeting.

Amongst the competences of the Remuneration Committee, the following are highlighted:

- To draw up proposals and recommendations on the setting of the remuneration of members of the management and supervisory bodies, as well as of the employees with the highest total remuneration in the Bank;
- To appraise the Executive Directors on the basis of the criteria laid down in the Remuneration Policy for Members of Management and Supervisory Bodies approved by the General Meeting;
- To provide all necessary assistance and make recommendations for the purposes of approval of the Bank's and the Haitong Bank Group's Global Remuneration Policy, promoting its review whenever necessary;
- To assess the mechanisms and systems adopted to ensure that the remuneration system implemented in the Bank and the Haitong Bank Group takes into account all types of risk, as well as the levels of liquidity and equity, and that the Global Remuneration Policy is consistent with and fosters a healthy and effective risk management and is in line with the Bank's and the Haitong Bank Group's strategy, goals, culture and long-term interests;
- To test the reaction capacity of the system implemented, using a set of likely external and internal scenarios, as well as to promote a retrospective test of the model used to this end;
- To inform the General Meeting each year on its activities, including issuing a substantiated statement on the suitability of the General Remuneration Policy and any changes thereto that it may deem necessary.

The Remuneration Committee is composed of 3 members of the Board of Directors who are not members of the Executive Committee and are appointed by the Board of Directors. The majority of these members is independent.

During 2018, the Remuneration Committee held 3 meetings (1 electronic meeting), received logistical and technical support from the CEO Office, with secretarial services being administered by this office.

During 2018, the Remuneration Committee was composed as follows:

Remuneration Committee		Attendance
Chairman	Vincent Camerlynck	3/3
Members	Poon Mo Yiu	3/3
	António Domingues	3/3

Corporate Governance Committee

The purpose of the Corporate Governance Committee is to monitor the application and ensure the full effectiveness of: (i) the Bank's Policy on the Selection and Assessment of Members of Management and Supervisory Bodies and Key Function Holders; (ii) the Bank's Conflicts of Interest Prevention and Management Policy; and (iii) the Bank's internal governance and control system.

Amongst the competences of the Corporate Governance Committee, the following are highlighted:

- To appraise and review the execution of the succession plan of the Bank;
- To appraise and review the report on the individual evaluation of each of the candidates to successors to key function holders identified within the Succession Plan;
- To submit the Initial Assessment Report to the Chairman of the Bank's General Meeting, as well as informing the shareholders on the suitability requirements of the individuals to be elected, as laid down in the Policy on the Selection and Assessment of Members of Management and Supervisory Bodies and Key Function Holders;
- To prepare an annual subsequent assessment report concerning the individual and collective skills of the members of the Management and Supervisory Bodies, called the “Subsequent Assessment Report”, which must contain the points stated in the Recruitment and Assessment Policy;

- To review, on a biennially basis, the Policy on the Selection and Assessment, submitting recommendations for its enhancement to the Board of Directors and the Supervisory Board;
- To assess whether the overall composition of the Management and Supervisory Bodies ensures that the decision-taking in these bodies is not controlled by any individual or small group of individuals to the detriment of the Bank's interests as a whole;
- To issue a prior written substantiated opinion on any communication preceding a significant deal to be made between the Bank or a controlled entity and a related party, as defined in the Conflict of Interest Policy;
- To issue a prior written substantiated opinion on any significant deal to be made between a related party and any third party when the underlying business opportunity has come to the knowledge of the related party in the course of his/her/its functions in the Bank;
- To assess and analyse any event which may reasonably be likely to constitute or cause a conflict of interest between the Bank's interests and those of another party;
- To draw up an annual report on its activity of prevention and remedying of conflicts of interest and send it to the Bank's senior executives;
- To assess the adequacy of the Bank's internal governance model to implement the business strategy set and support the implementation of an effective internal control system;
- To propose measures to enhance the internal governance model, notably in terms of structure, division of powers, reporting lines and operation of company bodies, bearing in mind the applicable legal, regulatory and corporate provisions, as well as recommendations and best practice in this field.

The Corporate Governance Committee is composed of 3 members of the Board of Directors, who do not form part of the Executive Committee. The majority of its members is independent and they are appointed by the Board of Directors.

During 2018, the Corporate Governance Committee held 9 meetings (4 electronic), received logistical and technical support from the CEO Office, with secretarial services being administered by this office.

During 2018, the Corporate Governance Committee was composed as follows:

Corporate Governance Committee		Attendance
Chairman	António Domingues	9/9
Members	Lin Yong	9/9
	Vincent Camerlynck	9/9

Internal Audit Committee

The purpose of the Internal Audit Committee is to ensure that the Internal Audit function is effective, permanent and independent, is bestowed with the material, human and financial resources appropriate to the full pursuit of the mission entrusted to it and to promote the authority of the function within the Bank and Haitong Bank Group.

Amongst the competences of the Internal Audit Committee, the following are highlighted:

- Together with the Head of the Function, to approve the proposal of the Annual Plan and Functional Budget to be submitted for approval by the Supervisory Board and the Board of Directors;
- To decide on actions necessary for the full execution of the budget and the training plan of the Internal Audit Function;
- To decide on actions regarding the management of employees of the Internal Audit Function, including their hiring and internal mobility;
- To convene meetings with the person in charge of the Internal Audit Function, to discuss and monitor the Audit Plan and its conclusions;
- Other actions, which do not fall within the responsibilities of the Board of Directors and the Supervisory Board, that may be necessary for the proper functioning of the Internal Audit Function.

The Internal Audit Committee is composed of 3 members of the Board of Directors, who do not form part of the Executive Committee. The majority of its members must be independent and they are appointed by the Board of Directors.

During 2018, the Internal Audit Committee held 6 meetings, received logistical and technical support from the CEO Office, with secretarial services being administered by this office.

During 2018, the Internal Audit Committee was composed as follows:

Internal Audit Committee		Attendance
Chairman	António Domingues	6/6
Members	Vincent Camerlynck	6/6
	Zhang Xinjun	6/6

9.5. OTHER COMMITTEES

Credit Committee

The purpose of the Credit Committee is to decide on operations involving risk taking for the Bank within the Credit Committee's Decision Framework established by the Executive Committee and to issue non-binding opinions in the remaining cases.

Amongst the competences of the Credit Committee, the following are highlighted:

- To assess and decide on the approval of operations involving risk taking for the Bank within the Credit Committee's Decision Framework established by the Executive Committee;
- To issue non-binding opinions regarding operations that fall outside of (i) the Credit Committee's Decision Framework, which have to be approved at the Executive Committee; (ii) the Risk Appetite Framework approved by the Board of Directors, which have to be approved at the Board of Directors.

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

Since November 2018, the Credit Committee is composed of 8 members with voting rights and the Head of the Risk Management Function (HRMF) and a Credit Committee Moderator, without voting rights. The Credit Committee may decide to call upon external persons to take part in the meetings. Previously, this committee was called Global Credit Committee and had a different composition and applicable rules.

During 2018, the Credit Committee held 29 meetings, secretaried by the Head of the Legal Department.

Impairment Committee

The purpose of the Impairment Committee is to analyse the individual impairment of financial instruments, accounted at the amortized costs and/or the Fair Value through Other Comprehensive Income ("FVOCI") and with impairments triggers (i.e., Under-Performing and Non-Performing exposures).

This Committee has deliberative powers as part of its duties established by the Executive Committee. The duties of the Impairment Committee cover all entities of the Haitong Bank Group.

Amongst the competences of the Impairment Committee, the following are highlighted:

- The Impairment Committee shall analyse and decide 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 ("FVOCI") and with impairments triggers (i.e., Under-Performing and Non-Performing exposures);
- The Risk Department is responsible for identifying all above-mentioned positions and assure the Committee discusses them at least every six months.
- The managers in charge for managing the exposures are responsible for presenting the impairment proposals, which should be duly justified and documented.
- The Finance and Risk Departments are responsible for presenting the conclusions reached by the Impairment Committee at the Executive Committee.

The Impairment Committee is composed of a Chairman of the Committee (CEO); the Executive Board member responsible for the Special Portfolio Management division and the Head of Finance as voting members. The non-voting members of the Impairment Committee are the Head of the Structured Finance, the Head of the Special Portfolio Management, the Head of Debt Capital Markets and the Head of Treasury.

The Impairment Committee was created in August 2018. Since then, the Impairment Committee has held 14 meetings, secretaried by the Head of the Legal department.

Investment Banking Global Adoption Committee

The purpose of the IBK Global Adoption Committee is to approve all prospective Investment Banking mandates in relation to proposed transactions or new clients.

Amongst the competences of the Investment Banking Global Adoption Committee, the following are highlighted:

- Discussion forum on the overall direction of the investment banking business, cross-border matters and prospective transactions;
- Approval of all prospective Investment Banking mandates in relation to proposed transactions or new clients that don´t involve credit nor market risk. This includes all Merger & Acquisitions ("M&A"), Equity Capital Markets ("ECM") and Debt Capital Markets ("DCM") transactions with which the Bank is associated, with the exception of mandates involving Privileged Information that the Chairman of the Committee considers that should not be submitted to this Committee. In such cases, the mandate shall be approved by the Executive Committee;
- Approval of other advisory mandates such as part of Structured Finance;
- Approval of proposals where the Bank has solely reputational risk;
- Identification of restrictions to be implemented throughout the Bank and its subsidiaries.

The Investment Banking Global Adoption Committee is composed of the Executive Board Member with the responsibility for Investment Banking, who chairs the Committee (the "Chairman"); the Executive Board Member with the responsibility of Brazil; the Spanish Branch manager; the Polish Branch manager; the London Branch manager; the Head of the Risk Management Function ("HRMF"); the Global Head of Compliance; the Global Coordinators of Investment Banking products and of Structured Finance; the Head of Cross-Border M&A; the CEO Office representatives with the responsibility of China Business Development; and Business Development.

The Investment Banking Global Adoption Committee was created in August 2018. Since then, the Investment Banking Global Adoption Committee has held 4 presential meetings and 14 electronic meetings, secretaried by the Legal Department.

New Business Committee

The purpose of the New Business Committee is to encourage, promote and analyse new ideas, new business or support initiatives and new products, acting as a brainstorming forum and providing all the necessary means to support the respective development.

After an overall assessment, such ideas and initiatives will be submitted for approval and implementation by the Executive Committee.

The New Business Committee analyzes all new initiatives from the following perspectives, when applicable:

- Strategy – (i) rationale for the business; (ii) strategic fit in the group's overall strategy; (iii) competitive advantage; and (iv) competitive position;
- Business Plan – pricing mechanism; addressable market; clients; counterparties; revenues and costs;
- Risk - market risk; credit risk; operational risk; reputational risk; regulatory risks;
- Balance Sheet needs – credit exposure; hedging instruments if needed; funding; RWA consumption;
- Finance – accounting and tax impacts;
- Infrastructure – IT infrastructure required; developments that will be needed;
- Operations – existing capabilities and possible developments required;
- Compliance framework;
- Human Resources – team organizational chart; in-house vs hiring externally; remuneration structure.

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.

The new Business Committee was created in April 2018. During 2018, the New Business Committee held 10 meetings.

9.6. SUPERVISORY BOARD

In accordance with article 15 of the Articles of Association, the Supervisory Board is composed of "three full members, one of whom shall be appointed as Chairman, and an alternate". The Supervisory Board shall be elected for a three-year period. The elected members are deemed to be sworn in after the election and will continue to perform their duties until the election of those replacing them.

The General Meeting of 17 August 2017 elected members of the Supervisory Board to the 2017-2019 term of office. However, as under the terms of the law, the commencement of the duties of the elected members requires authorisation from the Bank of Portugal, which was granted on 19 January 2018, the elected members of the Supervisory Board took office on such date.

The Supervisory Board's key powers are:

- To supervise the Bank's management and request any information from the Executive Committee whenever it so deems necessary;
- To ensure compliance with the law and the company's Articles of Association;
- To inspect the correctness of the accounting books, records and their supporting documentation;
- To verify the size of cash and stocks of goods or valuables of any description belonging to the Bank or received by way of security, deposit or otherwise;
- To verify whether the accounting policies and valuation criteria adopted by the company lead to an accurate valuation of its assets and results;
- To convene the General Meeting when its direction is under an obligation to convene it, but fails to do so;
- To monitor the process of preparation and disclosure of financial information and submit recommendations or proposals to ensure its integrity;
- To draw up each year a report on its inspection actions and issue an opinion on the report, accounts and proposals submitted by the Board of Directors;
- To inform the Board of Directors of the outcome of the legal review of the accounts and explain how it contributed to the integrity of the process of preparation and disclosure of financial information, as well as the role performed by the Supervisory Board in this process;
- To examine the effectiveness of the risk management system, the internal control system and the internal audit system, if any, notably with regard to the process of preparation and disclosure of financial information, without breaching its independence, to which end it shall: (i) assess the operational procedures with a view to ascertaining whether the respective activities are efficiently managed through appropriate risk management and comprehensive accounting and financial information; (ii) monitor the annual activity reports of the control functions, conveying to the Board of Directors any recommendations it may deem appropriate on the matters concerned by these reports; and (iii) hold periodic meetings with the Control Functions;
- To receive reports of breaches submitted by shareholders, employees or other persons;
- To retain the services of any experts to assist one or several of its members in performing their duties, provided that the retaining and remuneration of these experts must take into account the significance of the matters entrusted to them and the economic condition of the company;
- To propose the appointment of a Statutory Auditor or firm of Statutory Auditors to the General Meeting, duly substantiating its proposal;
- To supervise the review of the company's accounts and related documents;
- To assess the opinion of the Statutory Auditor on the suitability and effectiveness of internal controls underlying the process of preparation and disclosure of financial information;
- To scrutinise the independence of the Statutory Auditor or the firm of Statutory Auditors in accordance with the law and, in particular, in respect of provision of other additional services;
- To issue an annual opinion on:
    - The effectiveness, suitability and consistency of the internal control, risk management and audit systems;
    - The anti-money laundering and terrorist financing internal control system;

The members of the Supervisory Board must make any direct reports to the Bank of Portugal which are mandatory under the law or any other regulations or regulatory provisions and must report to the Public Prosecution Service any offences that may come to their knowledge and correspond to offences subject to prosecution by the Public Prosecution Service.

During 2018, the Supervisory Board has held 32 meetings:

	Supervisory Board	Attendance
Chairman	Mário Paulo Bettencourt de Oliveira	32/32
Members	Cristina Maria da Costa Pinto	30/32
	Maria do Rosário Mayoral Robles Machado Simões Ventura	28/32
Alternate	Paulo Ribeiro da Silva	0/32

In addition to participating in the Supervisory Board meetings, members of the Supervisory Board were present at 4 meetings of the Board of Directors, at 6 meetings of the Internal Audit Committee, at 3 meetings of the Corporate Governance Committee and at 5 meetings of the Risk Committee.

In terms of article 414(5) of the Portuguese Commercial Companies Code, independent within the meaning of a company means a person who is not associated with any group of specific interests of the company, nor are there any of circumstances capable of affecting his / her impartiality of analysis or decision, namely by virtue of:

a) Being the holder or acting in the name or on behalf of the holders of qualified holdings of 2% or more of the company's capital; or

b) Having been re-elected for more than two terms of office, continuous or interspersed.

The following table identifies the Supervisory Board members who, not being associated with any group of specific interests of the company, as at 31 December 2018 comply or do not comply with the independence criteria in terms of the abovementioned sub-paragraphs (a) or (b):

	Satisfaction of independence criteria of the members of the Supervisory Board	(a)	(b)
Chairman	Mário Paulo Bettencourt de Oliveira	Complies	Does not comply
Members	Cristina Maria da Costa Pinto	Complies	Complies
	Maria do Rosário Mayoral Robles Machado Simões Ventura	Complies	Complies
Alternate	Paulo Ribeiro da Silva	-	-

The professional qualifications and other curricular details of each member of the Supervisory Board and the list of positions occupied in other companies and other important functions is presented in the Appendix to this Corporate Governance Report.

9.7. STATUTORY AUDITOR

The entity responsible for auditing the accounts is appointed by the General Meeting, on the proposal of the Supervisory Board. Deloitte & Associados, SROC, S.A. – which is part of the international network of Deloitte Touche Tohmatsu Limited and registered at the CMVM under no. 231 – was appointed as the Bank's Statutory Auditor by the General Meeting, on the proposal of the Supervisory Board, on 17 August 2017 for the 2017-2019 period. Deloitte is represented by Mr. João Carlos Henriques Gomes Ferreira.

Deloitte has performed the duties of Statutory Auditor for the Bank since 16 November 2016 (for the remainder of the 2014-2016 term), represented by Mr. João Carlos Henriques Gomes Ferreira.

9.8. EXTERNAL AUDITOR

The External Auditor is appointed by the Executive Committee. Deloitte & Associados, SROC, S.A. – which is part of the international network of Deloitte Touche Tohmatsu Limited and registered at the CMVM under no. 231 – was appointed as the Bank's External Auditor by the Executive Committee on 14 June 2016. In the preceding years, the Bank had a different external auditor.

The Supervisory Board is responsible for evaluation of the Statutory Auditor / External Auditor.

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

(thousand euros)

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

Values shown are before taxes. The fees related to the statutory audit of annual accounts correspond to those agreed for the year 2018. The fees presented for the remaining services relate to amounts billed during the 2018 financial year.

PART III – INTERNAL ORGANISATION

10. Articles of Association

See point 4.

11. Reporting of Irregularities

The Supervisory Board is responsible in terms of article 420 j) of the Portuguese Commercial Companies Code, for the receiving the communications of irregularities presented by employees, customers, shareholders and any other entities.

The whistleblowing policy of the Bank was updated in October 2018.

Employees must communicate to the Supervisory Board, any wilful or negligent events or behaviours which they detect or are aware of, or have justified suspicions of so, that may suggest a breach of a legal obligation of the Bank or one of its employees. According to the Bank's policy, employees also have a duty to inform their line manager of any wrongdoing or irregular behaviour which might come to their knowledge. The communication of an irregularity shall be made orally (in which case, a written report shall be prepared and signed by those who are physically present) or in writing and be treated with confidentiality. The report must contain all the details and information that the employee has available, including the identification of the individual(s) accused or involved; the wrongdoing(s) observed; a description of the events or indications subject to reporting and whether it is possible to obtain evidence or not.

The communications of irregularities are received, opened and processed by the Head of the Compliance Department, who prepares an investigation report to be submitted to the Board of Directors. The Board of Directors, having heard the other members of the Supervisory Board, when deemed necessary, shall decide on what course of action to take.

12. Internal control

The Bank has in place an effective internal control system that is populated by the relevant control areas as set out in Notice 5/2008 of the Bank of Portugal.

The Bank's internal control system is based on the objectives and guidelines defined by the Board of Directors and the Internal Audit Committee, corresponding to a structure that includes a Risk Management Function (includes Operational Risk and a Rating Department), an Internal Audit Function and a Compliance Function.

The Head of the Internal Audit Function reports functionally to the Internal Audit Committee and to the Supervisory Board and reports hierarchically to the Executive Director responsible for the Function. The Internal Audit Function conducts its activities directly in the head office and its branches through the Lisbon-based team. The affiliate in Brazil (Haitong Banco de Investimento do Brasil) is the only structure that has its own internal audit team.

The reporting line of the Risk Management Function is the Board of Directors and the Supervisory Board. The Head of the Risk Management Function and the Head of the Rating Department report hierarchically and functionally to the Executive Director responsible for risk control. The risk team in Lisbon has direct risk management responsibilities in the branches in Spain and in the United Kingdom, while the branch in Poland has a local risk management team acting with Lisbon oversight.

The Compliance Function reports hierarchically to the Executive Director and functionally to the full Board of Directors of the Bank, as well as to its Supervisory Board. Local heads of branches and subsidiaries of the respective units located in the geographies where the Bank is present report functionally to the Head of the Compliance Function. As at the date of this report, there are local Heads of Compliance in the branches in Spain, United Kingdom and Poland and in the affiliate in Brazil (Haitong Banco de Investimento do Brasil).

The Supervisory Board, in full coordination with the Internal Audit Committee, supervises and evaluates this internal control system by:

- Assessing the operational procedures in order to ascertain whether the respective activities are efficiently managed through appropriate risk management and comprehensive accounting and financial information;
- Monitoring the annual activity reports by each of the control functions; and
- Holding periodic meetings with the heads of the control functions, and conveys to the Board

of Directors any recommendations it may deem appropriate.

The CEO Office and the Finance Department are responsible for preparing the Bank's semi-annual and annual reports and accounts. The process takes place in permanent dialogue with the Executive Committee and persons with lead responsibilities in the departments involved. The documents to be disclosed and their timing – depending on the specific document – require express approval of the shareholder (annual report and accounts) and / or the Board of Directors (semi-annual report and accounts). The Representative for Investor Relations is responsible for the release of the financial information.

13. Risk control

The Board of Directors is ultimately responsible for the Bank's Risk Management Framework.

The Risk Committee is responsible for monitoring the development and implementation of the risk strategy and the risk appetite of the Bank and verifying whether they are compatible with a sustainable strategy in the medium and long-term.

As an independent control function, the Risk Management Department supports the Bank to make informed decisions and ensures implementation of and compliance with the risk policies approved by the management body.

For further details, please refer to Risk Management section in the Management Report.

14. Investor relations

The main functions of the Representative for Investor Relations are assuring authorities and the market that the Bank is compliant with legal and regulatory reporting obligations and responding to requests for information from investors, bondholders, financial analysts and other agents.

In March 2018, Mr. Pedro Alexandre Martins Costa, who is also the Head of the CEO Office, was appointed as the Representative for Investor Relations, replacing Mrs. Sara de Almeida Azevedo Begonha.

Within the scope of regulatory reporting obligations, the dissemination of information within the framework of "privileged information", the preparation of annual and semi-annual reports and accounts should be emphasised.

All public information about the Bank can be requested from the Representative for Investor Relations through the contact indicated on the Bank's website.

15. Website

The Bank's website is as follows: www.haitongib.com

The location where the information about the firm, its status as a public limited company, the registered office and the other details referred to in article 171 of the Commercial Companies Code is provided: http://www.haitongib.com/en/about-haitong/legal-information

The place where information is provided on the identity of members of the corporate bodies, the market relations representative, the Investor Relations Office, respective functions and means of access: http://www.haitongib.com/en/about-haitong/corporate-information

http://www.haitongib.com/en/contacts/

The place where the financial statements of the previous five years are made available: http://www.haitongib.com/en/corporate-governance/annual-report

PART IV – REMUNERATION

1) Annual amount of the fixed remunerations paid by Haitong Bank, S.A. or companies under its control in 2018 to each of the members of the Board of Directors and the Supervisory Board:

BOARD OF DIRECTORS

(euros)

Executive Members of the Board of Directors	Haitong Bank and Branches	Subsidiaries and Affiliates	Total
Wu Min (1)	644,689	-	644,689
Paulo José Lameiras Martins	395,295	-	395,295
Nuno Miguel Sousa Figueiredo Carvalho (2)	186,178	-	186,178
Vasco Câmara Pires Santos Martins (3)	76,991	-	76,991
Alan do Amaral Fernandes	-	344,797	344,797
Total	**1,303,153**	**344,797**	**1,647,950**

(1) During 2018, these Board Members received an allowance to cover their stay outside their usual place of residence, for periods longer than 10 days per month

(2) Appointed an Executive Board Member on 16th April 2018

(3) Appointed an Executive Board Member on 25th September 2018

(euros)

Ex-Executive Members of the Board of Directors	Haitong Bank and Branches	Subsidiaries and Affiliates	Total
Christian Georges Jacques Minzolini (1)	291,104	-	291,104
Poon Mo Yiu(2)	74,374	-	74,374
Total	**365,478**	**-**	**365,478**

(1) Ceased to be an Executive Board Member on 8th October 2018

(2) Ceased to be an Executive Board Member on 19 January 2018 and became a non-Executive Board Member

(euros)

Independent Non-Executive Board of Directors	Haitong Bank and Branches	Subsidiaries and Affiliates	Total
António Domingues	110,000	-	110,000
Vincent CamerLynck	109,165	-	109,165
Total	**219,165**	**-**	**219,165**

Note: Other non-executive (and non-independent) Board members who perform functions at Haitong Securities Group and/or at Haitong International Securities are not authorized, in accordance with local legislation, to receive remuneration for their position at Haitong Bank.

The members of the Supervisory Board of Haitong S.A. did not receive any variable remuneration in 2018, having been paid the following fixed remunerations:

SUPERVISORY BOARD

(euros)

Supervisory Board Members	Haitong Bank and Branches Total Remuneration
Mário Paulo Bettencourt de Oliveira	20,000
Maria do Rosário Simões Ventura	17,000
Cristina Maria da Costa Pinto	17,000
Total	**54,000**

The deputy member of the Supervisory Board did not receive any fixed or variable remuneration paid by Haitong Bank, S.A. or companies under its control for the duties performed during the year 2018.

STATUTORY AUDITORS

(euros)

Statutory Auditors	Haitong Bank and Branches Total Remuneration
Deloitte e Associados SROC S.A.	375,000

2) Amount and type of variable remuneration received / awarded by / to the members of the Board of Directors:

a) Variable remuneration regarding 2018:

No variable remuneration has so far been awarded regarding 2018.

b) Variable remuneration regarding previous years (paid):

No variable remuneration was awarded relative to previous years.

c) Variable remuneration regarding previous years (due but not paid):

No variable remuneration was due but not paid.

d) Variable remuneration regarding previous years that was cancelled:

The conditions foreseen in the "Variable Remuneration Plan Based on Financial Instruments for the Executive Members of the Board of Directors of Haitong Bank, S.A." were not met. Therefore the medium-term variable remuneration was cancelled.

3) Relevant Staff of the Bank or companies under its control (Senior Managing Directors or Control Functions Staff)

a) Annual amount of the fixed and variable remunerations paid by Haitong Bank, S.A. or companies under its control in 2018 to Senior Managing Directors or Control Functions Staff:

(euros)

Employees	Fixed Remuneration	Variable Remuneration paid in 2018 relative to 2017	Variable Remuneration paid in 2018 relative to other years	Haitong Bank and Branches Total Remuneration
Senior Managing Directors	4,262,595	217,417	195,113	4,675,125
Risk Control Function	753,598			753,598
Compliance Function	608,474			608,474
Internal Audit Function	522,618			522,618

b) Variable Remuneration regarding previous years:

Although the results of the Bank were negative, some areas/geographies achieved their KPIs in 2017 and, as such, the Executive Committee decided to grant variable remuneration in these cases (EUR 217,417).

In 2018, the Bank also paid deferred variable remuneration to some SMDs regarding their performance in the year 2016 (EUR 195,113).

4) Number of Senior Managing Directors or Control Functions Staff hired by the Bank or by companies under its control:

New Staff	Nr.
Senior Managing Directors	1
Risk Control Function	9
Compliance Function	1
Internal Audit Function	0

5) Payments made by the Bank or by companies under its control to Board members that resigned their mandate or for early termination of the labour contract or Senior Managing Directors or Control Functions Staff, with the number of beneficiaries of such payments and the largest payment made:

(euros)

Employees Departures	Nr.	Amount
Board Members	2	0
Senior Managing Directors	1	767,362
Risk Control Function	6	126,232
Compliance Function	1	31,529
Internal Audit Function	0	0

The largest payment made was 767,362 euros.

PART V – TRANSACTIONS WITH RELATED PARTIES

The Bank's Policy of Transactions with Related Parties ("Policy") lays down the internal procedures and limitations for approval of transactions between the Bank or companies in a parent-subsidiary or group relationship with the Bank and a related party. The Corporate Governance Committee is responsible for the assessment and approval of related parties' transactions. For this purpose, according to the Bank's Policy and in line with IAS 24, "related parties" are (i) members of management or supervisory bodies of the Bank; (ii) key function holders and senior managing directors of the Bank; (iii) any person or entity, independently of the legal status they have, holding a family, business or legal tie with the persons referred to in (i) and (ii).

These rules ensure stringent control over compliance with the legal rules set out in the RGICSF, including the arm's-length rule and prevention of conflicts of interest.

The Policy describes the procedure to be followed regarding these transactions: a Prior Notice needs to be provided to the Corporate Governance Committee with a description of the envisaged transaction, before the Committee issues an opinion on the business. The Supervisory Board was the body responsible for analysing the Related Parties' Transactions before the Committee was fully up and running (from February 2018 onwards).

The Corporate Governance Committee Regulation defines that the Committee is responsible for issuing a prior and reasoned opinion on any Related Party Transaction (the outcome being one of "no objections raised", "conditions imposed" or "objections raised"), based on an assessment of compliance with the arm's-length rules and with the Bank's Conflicts of Interest Policy. Transactions in which one of the Bank's members participates, and which do not refer to a Haitong Group Related Party, will also have to be reviewed by the Supervisory Board.

The Corporate Governance Committee approved a framework of Transactions with Related Parties involving companies from the Haitong Group (i.e., Haitong Securities Co. Ltd and all the companies under its control) which shall not raise objections and are deemed as pre-approved. This framework is only applicable to advisory services that do not bear any credit or market risk for the Bank. Therefore, no Prior Notice needs to be submitted to the Corporate Governance Committee in relation to all transactions that qualify according to the Framework and no objections will be raised by the Corporate Governance Committee in relation to those transactions.

The majority of the related parties' transactions concluded in 2018 consist of financial advisory services and other transactions without credit or market risk for the Bank, to the amount of EUR 40.6 million and corresponding to 50 transactions.

APPENDIX

BOARD OF DIRECTORS

Board of Directors of Haitong Bank, S.A.	Professional Experience	Academic Background
 **Lin Yong** *Chairman*	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.	Mr. Lin Yong gained a PhD in Economics from Xi'an Jiaotong University in 2004.
 **Wu Min** *Chief Executive Officer (CEO)*	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.	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 do Amaral Fernandes** *Executive Board Member*	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.	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.

Positions in Haitong Group companies	Positions in companies outside the Haitong Group
CEO of Haitong International Holdings Limited	Non-Executive Member of Zhongsheng Group Holdings Limited
Member and Deputy Chairman of Haitong International Securities Group Limited	
Assistant to General Manager of Haitong Securities Company Limited	
Non-Executive Member of Haitong Banco de Investimento do Brasil, S.A.	
Non-Executive Board Member of Haitong Banco de Investimento do Brasil, S.A.	n.a.
CEO of Haitong Banco de Investimento do Brasil S.A.	Non-Executive Member of Empresa Brasileira de Projectos, S.A. – EBP

Board of Directors of Haitong Bank, S.A.	Professional Experience	Academic Background
 **António Domingues** *Non-Executive Board Member*	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 Atlântico in France; Adviser in the Department of Foreign Affairs of the Bank of Portugal and Economist at the Ministry of Industry and Energy. Currently, he is a member of the Board of Directors of NOS, S.A., Vice-Chairman of BFA – Banco de Fomento Angola and chairman of the Audit and Finance Committee of EFACEC.	He has a degree in Economics from the Instituto Superior de Economia in Lisbon.
 **Poon Mo Yiu (Patrick Poon)** *Non-Executive Board Member*	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, S.A.	He holds an MBA from the Chinese University of Hong Kong. He is a 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 Miguel Sousa Figueiredo Carvalho** *Executive Board Member*	Mr. Nuno Carvalho has a 20 years of professional experience in the Legal and Financial sectors, particularly in Investment Banking, as a Lawyer, MLRO or Head of Compliance, having also held a number of other Corporate Functions such as Investor Relations and Representative with the CMVM. Mr. Nuno Carvalho re-joined the Bank in 2017, from Barclays Capital Investment Banking, and was appointed to the Board of Directors in May 2018.	Mr. Nuno Carvalho has a law degree from the University of Lisbon, Faculty of Law and a Post-Graduate degree in Accounting and Finance from ISCTE Business School, Lisbon.
 **Pan Guangtao** *Non-Executive Board Member*	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.	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.

Positions in Haitong Group companies	Positions in companies outside the Haitong Group
n.a.	Vice-Chairman of BFA Chairman of Audit and Finance Committee of EFACEC Non-Executive Board Member of NOS, S.A.
Non-Executive Member of Haitong International Securities Group Limited CEO of Haitong Investment Ireland p.l.c. (until 9th May 2018)	n.a.
n.a.	n.a.
General Manager of Haitong Securities Co. Ltd Non-executive Member of Haitong (UK) Limited Executive Member of SPV - Haitong International Strategic Investment Europe Ltd.	n.a.

Board of Directors of Haitong Bank, S.A.	Professional Experience	Academic Background
 **Paulo Martins** *Executive Board Member*	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.	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.
 **Vasco C. Martins** *Executive Board Member*	Mr. Vasco Câmara Martins has extensive experience of working in Financial Institutions, approximately 20 years, in multiple Risk Management roles, with a particular focus on the (Risk related) activities pursued by the Bank. A significant part of the roles held by Mr. Vasco Martins (from the past 10 years) were senior managerial positions in Risk Management, with Lead Functions and direct reporting to the Board of Directors.	Mr. Vasco Câmara Martins holds an Inter-Alpha Banking Program Institution qualification from INSEAD, a Master's of Science in Finance from Instituto Superior de Ciências do Trabalho e da Empresa (ISCTE), a Post-Graduate qualification in Financial Institutions from Centro de Investigação de Activos e Mercados Financeiros (CEMAF) and a degree in Management, from Lusíada University.
 **Vincent Camerlynck** *Non-Executive Board Member*	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 (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.	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 (Jeff Zhang)** *Non-Executive Board Member*	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.	He has a degree in Economics (Accounting) and a Master's in Management (Accounting) from Nankai University, in China.

Positions in Haitong Group companies	Positions in companies outside the Haitong Group
Chairman of Haitong Capital - SCR, S.A.	Non-executive Member of Polish Hotel Company sp.
Non-executive Member of Haitong Banco de Investimento do Brasil S.A.	Non-executive Member of Polish Hotel Management Company sp. Z.o.o
n.a.	n.a.
Non-Executive Member of Haitong Securities (UK) Limited (until 23rd February 2018)	Non-Executive
	Non-Executive Member of C Worldwide Asset Management
	Non-Executive Member of CAPFI Delen Asset Management NV
	Non-Executive Member of EdtechX Holdings
CFO of Haitong International Holdings Limited	n.a.
CFO of Haitong International Securities Group Limited	

SUPERVISORY BOARD

Supervisory Board of Haitong Bank, S.A.	Professional Experience	Academic Background	Positions in Haitong Group companies
Mário Paulo Bettencourt de Oliveira *Chairman of the Supervisory Board*	Mr. Oliveira is an auditor and partner at Ribeiro da Cunha da Associados - Sociedade de Revisores Oficiais de Contas. Mr. Oliveira has been an auditor since 2001.	Mr. Oliveira obtained his degree in economics from the Faculdade de Economia at Oporto University in 1996. He obtained a master's degree in economics and science and technology management in 2004 from ISEG. Mr. Oliveira has also obtained several postgraduate degrees in economics (in 2000 from ISCTE) and in commercial law and securities law (in 2005 from the Catholic University and in 2006 from the University of Lisbon), as well as several professional training courses.	Member of the Supervisory Board of Haitong Capital, SCR, S.A.
Cristina Maria da Costa Pinto *Member of the of the Supervisory Board*	Ms. Costa Pinto is a tax consultant and has been working for Pinheiro Pinto Consultadoria, Lda. since 2010. From that year Ms. Costa Pinto has also been working as a professor at the Catholic University and at the Católica Porto Business School.	Ms. Costa Pinto obtained her management degree from the Faculdade de Economia at Oporto University in 1996, having also obtained a law degree from the Catholic University Law School in 2014.	
Maria do Rosário Mayoral Robles Machado Simões Ventura *Member of the Supervisory Board*	Ms. Maria do Rosário Ventura has extensive experience in the financial sector, having worked at Banco Mello and later Millennium BCP from 1991 to 2002. From 2002 to 2004 she was a Senior member of the Portuguese Government – Secretary of State for Commerce, Services and industry. From 2004 to 2005 she was Chairman of the Board of EMPORDEF Group, State Owned Defense Contractor. From 2005 to 2016 she has held several CFO positions in large Portuguese companies.	Ms. Maria do Rosário Ventura obtained her degree in Management from the Universidade Católica in 1982. She obtained her AMP – Advanced Management Program from IESE in 2006.	
Paulo Ribeiro da Silva *Alternate Member of the Supervisory Board*	Mr. Ribeiro da Silva is an auditor and partner at Amável Calhau, Ribeiro da Cunha e Associados. Mr. Ribeiro da Silva has been an auditor since 1994.	Mr. Ribeiro da Silva obtained his degree in accounting and management from ISCAL (Lisbon) in 1990. He obtained a degree in financial auditing in 1993 from ISCAL. Mr. Ribeiro da Silva has also obtained a postgraduate degree in computer security and auditing (ISCTE) and in corporate finance from ISCTE (2000), as we as several training courses.	

Positions in companies outside the Haitong Group

Alternate Member of the Supervisory Board of the:

A. Milne Carmo, SA, Ardma Imobiliária, S.A., Alublister Europa - Produção e Comercialização de Embalagens para indústria, SA, Bigempire, SA, Bluemint Investment Advisors, SA, Cada Lugar, SA, Casa do Guincho - Sociedade de Administração de Bens, SA. Citydomus II - Sociedade Imobiliária, SA, Coruche 1A Fotovoltaica, S.A., Coruche 1B Fotovoltaica, S.A., Coruche 1C Fotovoltaica, S.A., Cota de Soleira - Gestão Mobiliária e Imobiliária, SA, Dunas Capital, SA, Duncap - SGPS, S.A., Espírito Santo Financial (Portugal) - SGPS, SA, Espirito Santo Resources (Portugal), S.A., Esporão, SA, Esporão - Vendas e Marketing, SA, Eurodisplay - Gestão de Investimentos, SA, Gotan, SGPS, SA, Herdade dos Coelheiros - Sociedade Agrícola, SA, Higifarma, SGPS, SA, Higigráfica - Prestação de Serviços de Consultoria e Gestão, SA, HS - Consultores de Gestão, SA, IBCO - Gestão de Patrimónios, SA, JBS - Consulting Services, Serviços de Consultoria, SA, JHR - SGPS, SA, Just Bright Solutions, SGPS, SA, Lifresca - Sociedade de Produtos Higiénicos, SA, Localimão - Sociedade Imobiliária, SA, Luso Partners - Sociedade Corretora, SA, Maislar - Sociedade de Gestão Imobiliária, SA, Machrent, SA, Mendesal, SGPS, SA, Monte da Várzea - Sociedade Agrícola Florestal, SA, Montiqueijo - Queijos de Montemuro, S.A., MQP Ambiente, SA, MQP, SGPS, SA, Murças, SA, New Capital, SGPS, SA, New Discount - Publicidade e Criatividade, SA, NRD - Núcleo de Rádio-Diagnóstico, SA, Obvious Purpose - Sociedade de Capital de Risco, S.A., Pinhal dos Corvos - Sociedade Agricola e Florestal, S.A., Pedro Silveira 2 - Investimentos Imobiliários, SA, Refundos - Sociedade Gestora de Fundos de Investimento Imobiliário, SA, Rendimento Seguro - Investimentos Imobiliários, SA, Risgil, SA, Silpredil - Sociedade Predial, SA, Silvip - Sociedade Gestora de Fundos de Investimento Imobiliário, SA, Sociedade Agrícola da Carregueira do Mato, SA and STDA - Sociedade Turística do Alentejo, SGPS, SA

Member of the Supervisory Board of Sogrape SGPS, S.A

Member of the Supervisory Board of Unicer - União Cervejeira S.A.

n.a.

Alternate Member of the Supervisory Board of the:

A Artimbal - Merchandising e Promoções, Lda, ACP - Mediação de Seguros, SA, Ariozza, SA, Ariozza, SGPS, SA, Astituris - Investimentos Imobiliários e Turísticos, SA, Azicapital - SGPS, SA, Azigep, SGPS, SA, Azilis - Empreendimentos Hoteleiros, SA, Azimar - Investimentos Turísticos, SA, Azinor - Middle East, SGPS, SA. Azinor Africa Austral, SGPS, SA, Azinor Capital & Investments, SGPS, SA, Azinor Consulting & Services, SA, Azinor Distribuição, SGPS, SA, Azinor Serviços, SA, Azinor Turismo, SGPS, SA, Azinor, SGPS, SA, Azioni - Mobiliário e Decoração, SA, Azipalace - Investimentos Turísticos, SA, Aziparque - Empreendimentos Turísticos, SA, Azitejo - Empreendimentos Turísticos, SA, BBSF - SGPS, S.A., BGP - Batalha Growth Capital, SGPS, SA, Board de Comunicação - Business Development and Communication, SA, Brinvestigest - Investimentos, SA, Calbrita - Sociedade de Britas, SA, Carl & Dittgen, SA, Catebrita - Sociedade Industrial de Britas, SA, Comporta Dunes Hoteis e Golfe - Promoção e Desenvolvimento de Actividades Hoteleiras e Turísticas, SA, Comporta Links Golfe - Promoção e Exploração de Actividades Turist. SA, Comporta Links Hoteis - Promoção e Exploração de Actividades Hoteleiras, Concentra - Produtos para Criança, SA, Copta - Companhia Portuguesa de Turismo do Algarve, SA, Corbroker - Corretores de Seguros, SA, CSB - Mediação de Seguros, SA, Deigest, SGPS, SA, De Viris - Natura e Ambiente, SA, Domus Tagus - Turismo e Lazer, SA, Du Tage - Animação Turística e Lazer, SA, Emprendibérica, SGPS, SA, Euroexpansão - Sociedade de Estudos Empresariais, SA, EXFA - Sociedade de Iniciativas Turísticas, SA, Forus Premium Projects, S.A., Federação Portuguesa de Vela, Frandur Treze - Gestão Mobiliária e Imobiliária, Lda, Fundação Ricardo do Espirito Santo Silva, Gadsa - Arquivo e Depósito, SA, Garotel - Sociedade de Iniciativas Turísticas, SA, HDC - Serviços de Turismo e Imobiliários, SA, Herdade da Comporta - Actividades Agro Silicolas e Turisticas S.A., GNB - Companhia de Seguros, SA, GNB - Companhia de Seguros Vida, SA, Gualdino Crisóstomo, SGPS, SA, Hotel Paris - Sociedade Hoteleira e Turística, SA, International-Domus - Investimento e Gestão de Patrimónios, SA, Intra Douro - Investimentos Turísticos, S.A., Inperseg - Corretores de Seguros, Lda, IVOL - Sociedade de Investimentos Hoteleiros, SA, Jardins do Paço - Arquitectura Paisagista, SA, LCPA - Empreendimentos Imobiliários e Comerciais, SA, Lusomorango - Organização de Produtores de Pequenos Frutos, SA, Madrilisboa, SGPS, SA, Masaveu Investimentos SGPS, SA, MHC Participações SGPS, Moncresta - Sociedade de Investimentos Imobiliários, Lda, Nazgest, SGPS, SA, Newsplex, S.A., Nobiasa - Sociedade Imobiliária, SA, OCFT Find, SGPS, SA, Património Crescente - Investimentos Imobiliários, SA, Património Global - SGPS, SA, Pinto Basto, SGPS, SA, Pinto Basto Comercial, SA, Pinto Basto Gest - Gestão de Transportes Lda, Pisotienda, SA, Portas de Lisboa - Sociedade de Investimentos Imobiliários, SA, Portas de Lisboa Dois - Sociedade de Investimentos Imobiliários, SA, Pralimarte, SA, PTL, SGPS, SA, Rashul - SGPS, AS, Realgest - Gestão de Propriedades, SA, Sana Hotels Portugal, SA, Santa Mónica - Empreendimentos e Turismo, SA, Segurassiste - Corretores e Consultores de Seguros, SA, SEP - Sancho Equipamentos Pecuários e Construção, SA, Sesimbrotel - Sociedade de Iniciativas Turísticas, SA, Simões de Sousa, SGPS, SA, SKTB - SGPS, SA, Sobrissul - Sociedade de Britas Seleccionadas do Sul, SA, Sociedade Hoteleira de Sete-Rios, SA, Sonagi, SGPS SA, Sonatalp, SA, Suncool - Climatização Ecológica, SA, Teravim - Actividades Imobiliárias e Investimentos, SA, Terra de paixão, E.E.M., The Atlantic Company (Portugal) - Turismo e Urbanização, SA, Trigo "In Situ" - Torre Vasco da Gama, SA, UP - United Plan - Compra e Venda de Imóveis, S.A., VB, SGPS, SA, Villas Boas-ACP - Corretores Associados de Seguros, SA, Villas Boas-ACP, Archer & Camacho - Corretores Associados de Seguros, SA, Vivalybia, SA, WLA3 Properties, Lda., Woburn, SGPS, SA.

Annexes

NON-FINANCIAL INFORMATION AND DIVERSITY

(*Article 508º G – Portuguese Corporate Code)*

This section discusses the development, performance, position and impact of the group's activities in relation to: environmental, social and worker issues; equality between women and men; non-discrimination; respect for human rights; corruption and bribery prevention.

SOCIAL RESPONSIBILITY

Haitong Bank endeavours to ensure that it has, at all times, a responsible relationship with all its stakeholders, particularly Employees, Customers, and Shareholders. It aims to develop its activities under a sound culture of social responsibility and to contribute to the social benefit and development of the sectors and communities with which it interacts in the course of its activities.

In 2018, Haitong Bank remained committed to its social responsibilities and has continued to participate, support and encourage its employees and related parties to be active and fully engaged, illustrated by their significant participation in the following social initiatives

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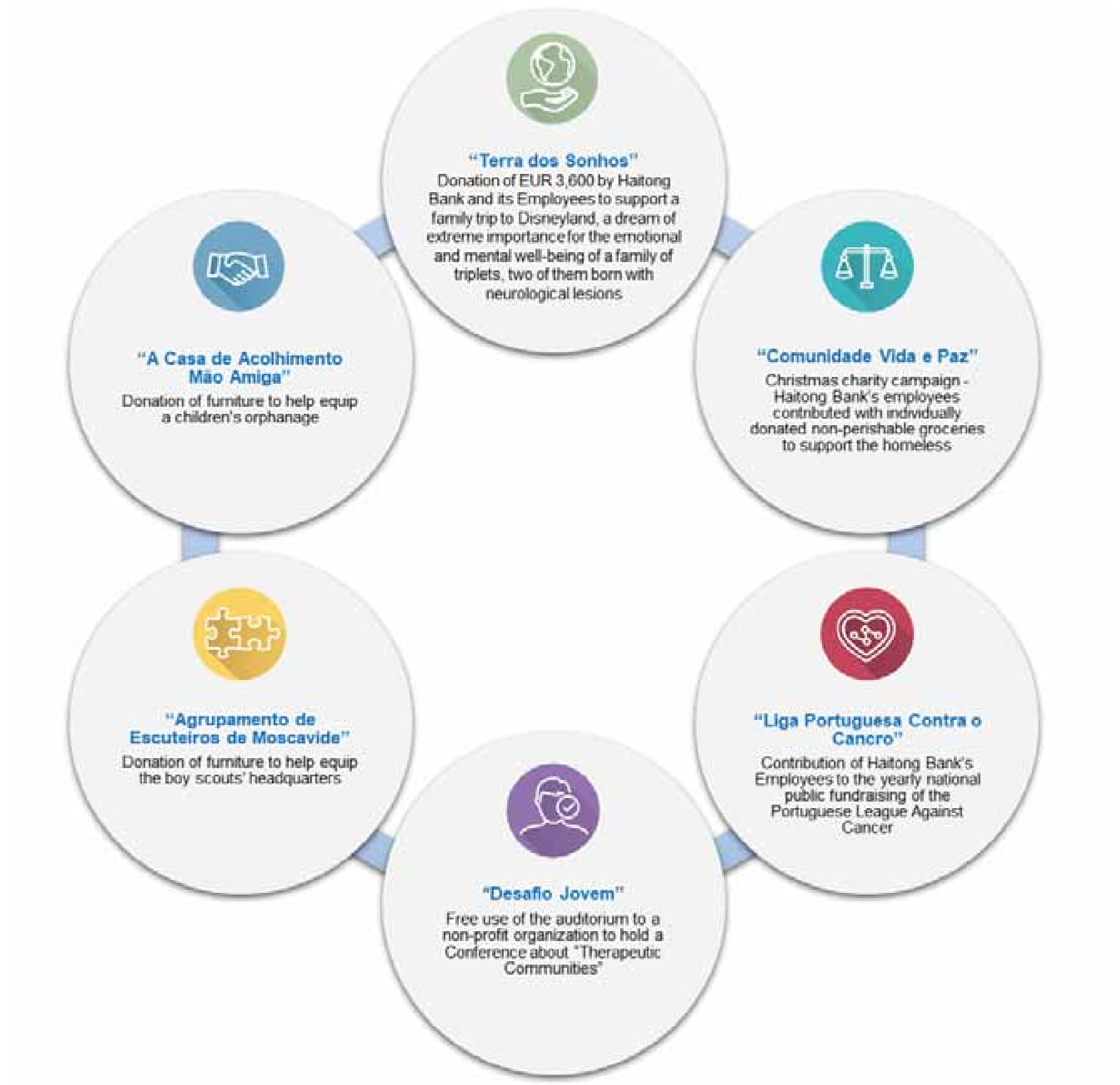

ENVIRONMENT

Haitong Bank is a Credit Institution and Financial Intermediary, operating mostly in the Investment Banking Sector, with minimal exposure to retail customers. It has no significant infrastructure and a limited headcount and hence has a very limited environmental footprint.

Notwithstanding this limited footprint, Haitong Bank is committed to operating based on sustainable and environmentally friendly practices, such as the secure and confidential destruction of documentation. Haitong Bank contributed with 7 tons of recycled paper to reduce the ecological footprint through the safe and confidential destruction of documents.

Minimizing its environmental footprint is of increasing importance for the Bank, both in terms of reducing the environmental impact and costs. It is with this purpose that the Bank continuously seeks to implement new measures related to the reduction of energy, water and materials consumption.

WORKERS' ISSUES

Please see "Human Resources" section of the Management Report.

EQUALITY AND DIVERSITY

Although the Bank advocates the diversity of skills, geography and generations, it gives priority to gender diversity to the extent that it is under represented within the Bank's management bodies, which is seen as an instrument of efficiency in the use of the human resources, increase the independence of its officers and foster equal opportunities and a socially responsible behaviour at the Bank.

In this regard, Haitong Bank has achieved significant progress over the period, moving from a scenario of inexistent gender diversity on its corporate bodies to a current rate of around 25% of representation of the sub-represented gender.

CORRUPTION AND BRIBERY PREVENTION

Haitong Bank is an international financial institution active in multiple geographies and jurisdictions. As such, it is its responsibility to ensure that its employees conduct themselves with the utmost integrity and due diligence while carrying out their activities. As per the Bank's Code of Conduct, employees must perform their functions according to the highest standards of professionalism, competence, due diligence and loyalty, and in strict compliance with the relevant legal and regulatory provisions in force in the geographies where they operate.

The Bank has approved an Anti-bribery Policy aimed at establishing specific internal guidance for the prevention of bribery. This is based on national and international legal provisions, including, but not limited to, the Portuguese Laws on bribery prevention, the Organisation for Economic Cooperation and Development (OECD) Convention on bribery of foreign public officials in international business transactions, the Convention on the fight against bribery involving officials of the European Communities or officials of member states of the European Union, the Criminal Law Convention on bribery of the Council of Europe and the United Nations Convention against bribery.

Given the Bank's presence and/or operations in different geographies, this policy also encompasses a set of anti-bribery rules and principles in force in such jurisdictions, notwithstanding the obligation of each employee to acknowledge the anti-bribery laws applicable in each case and take the necessary steps to comply with such laws. In this respect, the following acts in force in the United States and the United Kingdom, respectively, are particularly noteworthy: U.S. Foreign Corrupt Practices Act and the UK Bribery Act.

OVERALL ASSESSMENT

Taking into account the scope of its activities and their impact on the environment and stakeholders and naturally bearing in mind the proportionality principle and its limited footprint and exposure to the issues above, Haitong Bank views the above policies and procedures in a positive way.

EARNINGS DISTRIBUTION PROPOSAL

Considering that, for the year ended on 31 December 2018, the Bank showed a consolidated net profit of EUR 1,158,818.32 (one million, one hundred and fifty eight thousand, eight hundred and eighteen euros and thirty two cents) and an individual net loss of EUR 4,566,182.56 (four million, five hundred and sixty six thousand, one hundred and eighty two euros and fifty six cents), the Board of Directors proposes to the Annual General Meeting that the net loss showed in the individual accounts be allocated to other reserves and retained earnings.

DECLARATION OF CONFORMITY

In accordance with Article 245, number 1, paragraph c, of the Portuguese Securities Code, the Members of the Board of Directors of Haitong Bank, S.A. hereby declare that, to the best of their knowledge:

a) The individual financial statements of Haitong Bank, S.A. for the year ended on 31 December 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 245, number 3, of the Portuguese Securities Code;

b) The consolidated financial statements of Haitong Bank, S.A. for the year ended on 31 December 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 245, number 3, of the Portuguese Securities Code;

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

d) The Management Report describes faithfully Haitong Bank, S.A. and the consolidated companies' business evolution, performance and financial position for the year ended on 31 December 2018, and includes a description of the main risks and uncertainties that could affect the business.

Lisbon, 18 March 2019

Lin Yong
Chairman of the Board of Directors

Wu Min
Chief Executive Officer

Alan do Amaral Fernandes
Executive Board Member

Nuno Miguel Sousa Figueiredo Carvalho
Executive Board Member

Paulo José Lameiras Martins
Executive Board Member

Vasco Câmara Pires Santos Martins
Executive Board Member

António Domingues
Non-Executive Board Member

Pan Guangtao
Non-Executive Board Member

Poon Mo Yiu
Non-Executive Board Member

Vincent Marie L. Camerlynck
Non-Executive Board Member

Zhang Xinjun
Non-Executive Board Member

HAITONG BANK, S.A.

Edifício Quartzo - Rua Alexandre Herculano, 38 | 1269-180 Lisbon | PORTUGAL

Registered Share Capital: 844 769 000 euros

Corporate Registration na Tax Payer Number: 501 385 932