HAITONG BANK, S.A.

Market Discipline

Annual Report: 2019

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

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1 Declaration of Responsibility

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

- In the present document “Market Discipline”, produced with reference to the end of 2019, all procedures deemed necessary for the public disclosure of information were developed and carried out. To the extent of its knowledge, all information disclosed in this document is true and reliable;
- The quality of all information disclosed is adequate, including that concerning or originating from entities included in the economic group of which the institution is part of;
- It undertakes to disclose, in due time, any significant changes that occur in the course of the financial year following the year that this “Market Discipline” report refers to.
- Haitong Bank has in place a risk management and control system to monitor and manage risks, which is adequate for the nature and size of the Bank.

The information presented in this document, has a reference date of December 31, 2019. During the subsequent exercise of 2020 the world economy suffered from the Covid 19 pandemic outbreak with severe consequences across all markets where Haitong Bank develops its activity. The Bank’s priority was to safeguard its operational capacity and continuing serving its clients, while protecting its workforce. Despite the challenges posed to its operations, Haitong Bank has continued serving its clients, preserving the Bank’s service levels.

The Board of Directors

Vasco Câmara Martins

Ana Martina García

Nuno Carvalho

Paulo Martins

Alan Fernandes

Pan Guangtao

Lin Yong

Vincent Carmerlynck

Zhang Xin Jun

António Domingues

José Miguel Guiomar

Wu Min

2 Identification and origins of the Banking Group

Haitong Bank, S.A. (Bank or Haitong Bank) is an investment bank based in Portugal, Lisbon, at Rua Alexandre Herculano, n.º 38. The Bank is duly authorized by the Portuguese authorities, central banks and regulators 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.

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.

3 Scope and basis of consolidation for accounting and prudential purposes

This document reflects the consolidation perimeter of Haitong Bank for prudential purposes, which coincides with its accounting consolidation scope. The group of companies where the Bank has a direct or indirect holding greater than or equal to 20%, over which the Bank exercises control or has significant influence, are included in the consolidated scope and the method applied for each entity within the accounting and the regulatory scopes of consolidation, is presented below:

Name of the entity	Incorporation Date	Acquisition Date	Headquarters	Activity	% Economic interest	Method of accounting consolidation
Haitong Bank, S.A.	1983	-	Portugal	Bank	100%	Full consolidation
Haitong Capital - SCR, S.A.	1988	1996	Portugal	Venture capital	100%	Full consolidation
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 Negócios, 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

Table 1 – Haitong Bank's scope of consolidation

Table 1 is aligned with EBA Template 3: EU LI3 – Scope of consolidation (entity by entity).

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 2019, and the main changes made to the group's structure are set forth below:

On September 30, 2019, Haitong Bank has entered into an agreement with its parent company, Haitong International Holdings Limited, an entity fully owned by Haitong Securities Co., Ltd., to sell and transfer the entirety of the shares representing the share capital of its wholly owned subsidiary Haitong Investment Ireland p.l.c., a company incorporated and headquartered in the Republic of Ireland. Having at that date the transaction pending to previous standard conditions as well as to the non-opposition of the relevant stakeholders.

On December 19, 2019, Haitong Bank has carried out the sale of the entire share capital of Haitong Investment Ireland p.l.c., to Haitong International Holdings Limited resulting from the share purchase and sale agreement dated September 30, 2019. The sales price was € 12,000,000.00.

On December 17, 2019, a public deed was celebrated in a registry office in Spain in which it was approved the liquidation, assets sharing and extinction of SES Iberia Private Equity S.A.. On the same date the notary submitted a copy of the deed to the *Registro Mercantil de Madrid* and proceeded with SES Iberia´s extinction. The proceeding was confirmed to the Notary on December 18, 2019.

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

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

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

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

4 Risk management objectives and policies

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

Haitong Bank is a Corporate and Institutional Bank, committed to serving its domestic corporate and institutional clients alongside a growing Chinese client base.

The Bank's strategy is to connect clients and business opportunities across its broad network, combining long-standing expertise in Europe and Latin America with the Group's cross-border origination skills with a China Angle.

Through its operations located in Iberia, the UK, Poland and Brazil, the Bank maintains a solid commitment to its domestic clients supported by a well-established team of local professionals.

The Bank's competitive differentiator lies in its China cross-border connection and expertise in European and LatAm markets. Haitong Bank's deep-rooted presence in its local markets, together with its Chinese heritage, makes it a unique player to support Chinese companies wishing to access foreign markets for funding and investment.

The increasing internationalization of Chinese companies has fuelled demand for value-added services within overseas Advisory Services, Structured Finance and Capital Markets. This provides the Bank with an unrivalled competitive advantage in core investment banking services.

Haitong Securities - the ultimate Shareholder of Haitong Bank - is a first mover Chinese securities firm with banking licenses in Western markets. Its expertise in those markets is a strong competitive advantage over other Chinese players, both domestically and abroad.

Chinese investors have assumed prominent positions as foreign investors in markets in Europe, including the main regions where Haitong Bank operates (Portugal, Spain, Poland and the United Kingdom). Regarding Brazil, China is not only the largest trading partner but also a key source of foreign direct investment. In addition, new Chinese foreign economic initiatives such as the "One Belt One Road" program will take Chinese foreign investments across Asia and into Central Europe where Haitong Bank has a presence through its Warsaw branch.

Haitong Bank will continue to be a local player in its historical franchises. This includes working on domestic transactions with local clients, in its core markets in Portugal, Spain, Poland, the UK and Brazil. However, the expected limited growth in pure domestic transactions in these markets should be counterbalanced by growing cross-border China-related business.

Haitong Bank has returned to profitability in 2018. Following the measures to achieve a leaner operating cost structure, Haitong Bank has succeeded in the last two years in improving and developing its business model, returning to consistent operating and bottom-line profitability. The strong performance in the origination of China-related business, the operating costs discipline and lower impairments have supported this performance.

Haitong Bank has succeeded, during 2019, in consolidating profitability and sustainability whilst simplifying its business model. Important results from the rebuilding of the Bank became more visible.

Going forward, the primary goal for 2020 is to expand the balance sheet, allowing the Bank to maintain operating profitability and improve recurrent revenues by leveraging on its core competitive advantages: the access to China-related business flow as well as its core domestic franchises.

Regarding asset quality, Haitong Bank registered a significant improvement by reducing the legacy credit portfolio, the stock of non-performing loans and creating some new quality assets. The NPL ratio fell from 8.2% in 2018 to 3.6% in 2019.

Haitong Bank's three-year Business Plan growth ensures the creation of enough capital to withstand the planned increase of assets and meet the internal and regulatory capital requirements. The prudent capital management implemented by the Bank has strengthened solvency levels, leading to a highly solid capital position over the next three years.

Haitong Bank has an adequate funding structure and a solid liquidity position, allowing it to maintain a Net Stable Funding Ratio above the 100% minimum requirement during the period of the business plan while accommodating the asset growth strategy.

The Risk Appetite Policy of Haitong Bank constitutes an essential pillar in the business development of Haitong Bank and in the execution of its business strategy.

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

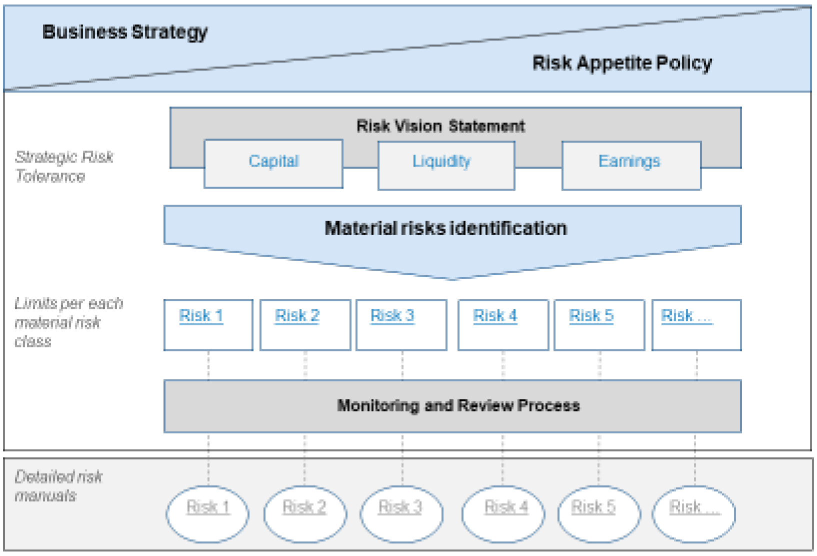

Figure 1 – Risk Appetite Framework

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

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

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

Haitong Bank acknowledges that its risk management function is a key factor for the prudent delivery of its strategic objectives by providing an additional line of defence to protect the Bank's enterprise value. Haitong Bank's 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 a whole, and all its subsidiaries individually, aims to maintain a solid short-term position and a sustainable medium long-term funding profile.*

- *Earnings: The Group has a goal of generating recurrent earnings to guarantee its sustainability and a reasonable level of profitability for shareholders*.

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

Thus, the Risk Vision Statement is reflected in the wide set of limits defined by the Board of Directors for all material risks, including Pillar I and Pillar II risks. These limits are set on a consolidated basis, with the Brazilian subsidiary having its own specific limits.

4.2 Capital and liquidity key ratios and figures

Haitong Bank's capital and liquidity key ratios and figures, over the period of the last three years, are presented in the table below:

(Amounts in Thousands of Euros)

	Dec. 19	Dec. 18	Dec. 17
CRD IV/CRR phasing in	(c)	(b)	(a)
Common equity tier 1	419,274	423,087	461,011
Risk Exposure	1,473,785	1,848,350	2,173,840
Ratio Common equity tier 1	28.4%	22.9%	21.2%
Leverage Ratio	19.8%	18.6%	15.0%
Liquidity Coverage Ratio	537%	426%	610%
Net Stable Funding Ratio	181%	116%	149%

(a) According to CRD IV/CRR phasing in rules for 2017

(b) According to CRD IV/CRR phasing in rules for 2018

(c) According to CRD IV/CRR phasing in rules for 2019

Table 2 – Haitong Bank's Capital and Liquidity key ratios and figures

As of December 2019, both capital and liquidity ratios present values well above the regulatory limits for each indicator, reflecting the solid capital and liquidity positions of Haitong Bank, well above the internal limits approved by the Board of Directors within the scope of the Risk Appetite Policy.

4.3 Strategies, policies and procedures to manage risks

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

Credit Risk

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

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

Limit Setting

The Credit Committee is responsible for:

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

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

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

Internal ratings

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

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

Monitoring

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

In this context, and with the central goal of complying with 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.

Individual analysis

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

The Risk Department identifies all exposures subject to individual analysis, encompassing Top 20 performing largest exposures, all under-performing (Stage 2) and non-performing (Stage 3) exposures, and ensures that they are subject of analysis by the Impairment Committee.

In the case of Stage 1 exposures, the individual analysis is carried out in order to confirm that the Top 20 largest exposures doesn't show any warning signals that causes a reclassification to Stage 2.

Stage 2 exposures are analysed individually, in order to verify the absence of indicative unlikeliness to pay of the debtor and the events considered by Capital Requirements Regulations (CRR) in its definition of default and by standard IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3.

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

Global risk analysis of credit portfolios

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

The portfolio limits are used to monitor the evolution of the risk appetite of the various credit portfolios. Compliance with the established ceilings is monitored and reported on a regular basis.

Regarding the concentration risk – that is, the risk arising from the possibility of an 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 individual exposures. Regular monitoring of these limits, together with regulatory limits, strengthens the bank's monitoring framework for the concentration of credit risk.

Credit recovery process

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

Market Risk

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

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

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

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

The Market Risk Control unit is responsible for analysing the relevant factors for each type of risk using statistical techniques, measuring market volatility, analysing depth and liquidity indicators, and simulating the transactions value under different market conditions to advise the Credit Committee 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 value-at-risk (VaR), greeks and sensitivity metrics for interest rates, credit spreads, foreign exchange rates, equity prices and volatility.

Trading Book

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

Haitong Bank assumes that the distribution of returns from the present to the future horizon matches the observed returns in a given historical time period. The distribution of risk factors is given by applying the historical returns to the currently observed values. In addition, it assumes a relationship between the distribution of risk factor returns and the historical observations of those risk factors.

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

Banking Book

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

The market value of equity securities, mutual funds and real estate in non-trading exposures in the banking book is also considered. These risks may broadly be described as the probability of a loss resulting from an adverse change in the market value of these financial instruments

Interest Rate Risk of the Banking Book

Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions.

Capital adequacy for IRRBB should be considered in relation to the risks to internal value given that such risks are embedded in the bank's assets, liabilities and off-balance sheet items. For risks to future earnings, given the possibility that future earnings may be lower than expected, banks should consider capital buffers.

Haitong Bank aims to capture all material sources of IRRBB and assess the effect of market changes on the scope of its activities and manage IRRBB by measuring the sensitivity of the Internal value of its banking book and the sensitivity of its net interest margin expected in a given time horizon. Although different concepts, EVE and NII are complementary as follows:

- Internal value measures the sensitivity to changes in the net present value of the bank's assets, liabilities and off-balance sheet items subject to specific interest rate shock and stress scenarios while earnings-based measures focus on changes in net interest income within a given time horizon eventually affecting future levels of a bank's own equity capital.
- Internal value measures reflect changes in value over the remaining life of the bank's assets, liabilities and off-balance sheet items, until all positions have run off, while earnings-based measures cover only the short to medium term, and therefore do not fully capture those risks that will continue to influence the P&L beyond the forecast period.

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

Credit Spread Risk

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

The Bank uses a historical simulation VaR to assess the unexpected losses associated with this risk, based on a 10-day holding period and 1-year historical observations and a 99% confidence interval. For internal capital requirements, the Bank scales the VaR amount to 99.9% confidence level and a 1-year time horizon.

Pension Fund Risk

The pension fund risk stems from the possibility that the pension plan assets are not sufficient to meet the fund's responsibilities (liabilities). In this scenario, 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 to make only 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 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's 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. The pension fund risk is managed through the following activities:

- Liabilities hedging with fixed-income securities and growth assets, this aims to leverage its long term growth taking into account the weight of the assets and liabilities, and the liabilities' duration;
- Regular reports are submitted to the regulatory authorities, including the appointed actuary annual report (Atuário Responsável) which elaborates on the pension scheme risk (assets and liabilities);
- Mercer provides an actuarial evaluation report and an integrated Value-at-Risk report (taking into account expected assets and liabilities evolution) and a sensitivity analysis;
- Identification and measurement of risks affecting financial assets: including analysis of the total investment portfolio and ALM which addresses the adequacy of the value of assets and liabilities each year;

- Limitation of new entries to the pension fund: where the pension fund only includes employees hired before March 31, 2008; and
- Regular review of the investment policy taking into account the liabilities and market condition.

Operational Risk

Haitong Bank defines operational risk as the risk of loss resulting from inadequate internal procedures or its negligent application, inadequacy or failure of information systems, staff behaviour or external events. Legal and IT risks are included in this definition. Operational risk is therefore considered as the sum of operational, information systems and compliance risks.

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

The management methodologies in place are supported by the principles and guidelines to operational risk management issued by the Basel Committee and those underlying the Risk Assessment Model implemented by the Bank of Portugal.

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.

Liquidity Risk

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

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

Liquidity management and Haitong's funding strategy are the responsibility of the Executive Committee which assures 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.

Reputational Risk

Haitong Bank defined this risk as the probability of negative impacts on earnings or capital arising from a negative perception of the public image of the Bank, founded or not, by customers, suppliers, financial analysts, employees, investors, media outlets or by public opinion in general. The bank believes that the materialization of this risk may be caused by the unavailability of services or a delayed response to a client, or by commercializing a product or service not in line with a customer's knowledge, risk appetite, or return expectations.

The governance set to address this risk relies on two main pillars, Business Continuity and the approval of new business, products or services committees (e.g. New Business Committee, or Adoption Committee).

The Business Continuity Plan aims to identify the business, support and control departments' self-assessment of the acceptable business recovery time and back-up recovery points in the event of disaster. One of this exercise's goal is to measure the time that the bank's services would be unavailable for and the potential impacts on the business.

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

Business Strategic Risk

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

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

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

Capital Management

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

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

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

Additionally, Haitong Bank as part of 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.

4.4 Structure and organization of the Risk Management Function

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

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

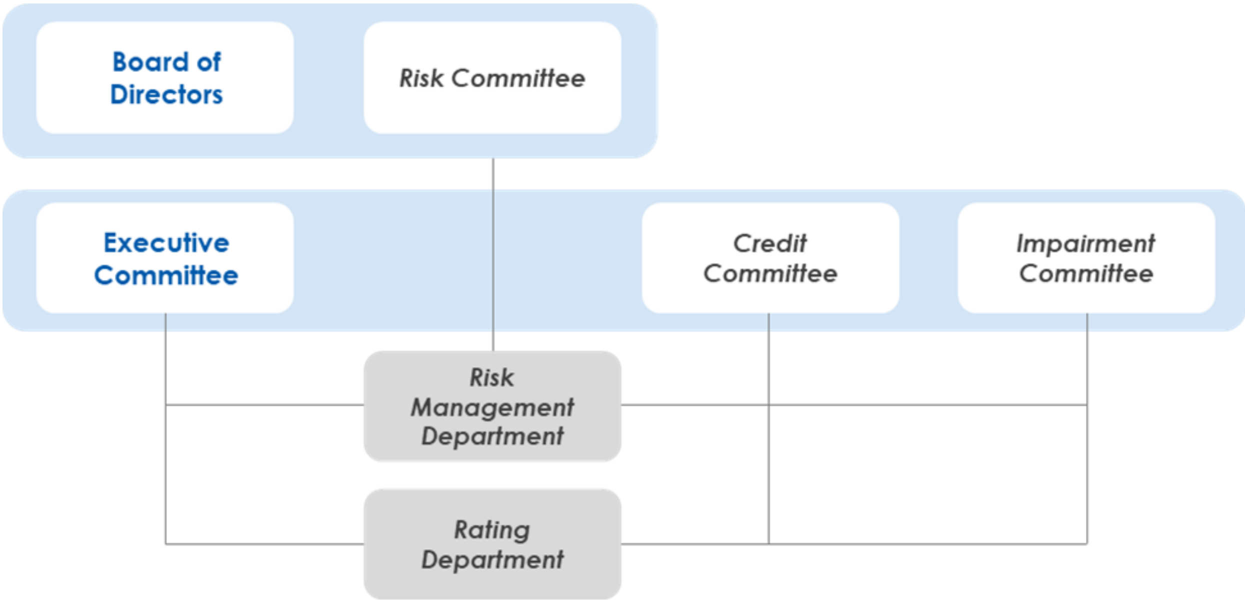

Figure 2 – Risk Management Framework

Risk Committee

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

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

The Risk Committee is responsible for:

- Advising the Board of Directors on the risk appetite and risk strategy of the Bank, both current and future, taking into account all categories of risk, ensuring its alignment with the business strategy, objectives, corporate culture and values;
- Assisting the Board of Directors in supervising the execution of the risk strategy of the Bank and in the fulfilment of its respective limits;
- Periodically reviewing the risk profile, risk policies and strategies of the institution;
- Assessing the consistency between the business model, strategy, recovery plan, remuneration policies and the budget, as well as the efficiency and effectiveness of the structure, procedures and instruments associated with the implementation and execution of the strategies regarding risk;
- Issuing recommendations on adjustments to the risk strategy resulting from changes in the business model, market developments or business context where the Bank operates;
- Analysing and evaluating the methodology and its results to support the process of identification, evaluation and measurement of risks;
- Examining scenarios, including stress tests, in order to determine their impact on the risk profile of the Bank and to assess the resilience of the changes within the institution caused by idiosyncratic, systemic or mixed factors;
- Analysing whether the conditions of the products offered and services provided to clients take into consideration the transaction model and risk strategy of the Bank, and, if necessary, submitting a correction plan to the Board of Directors whenever, as a result

of such analysis, it is established that those conditions do not appropriately reflect the risks;

- Establishing if the incentives set forth in the remuneration policy of the Bank take into consideration risk, capital, liquidity and the expectations regarding results, including revenue dates;
- Establishing the framework for reporting on risk to the Board of Directors;
- Ensuring the existence of effective procedures for monitoring risk, and monitoring internal control deficiencies related to the risk management framework;
- Specifying and reviewing the conditions of authority and independence to support the exercise of responsibilities for risk management, including the adoption of the work plan of the risk management function;
- Reviewing and periodically monitoring the scope and nature of the activities carried out by the Haitong Bank Group, related to risk management;
- Ensuring that the risk management function has adequate resources for the performance of its duties.

In 2019, the Risk Committee held nine meetings. Risk Committee has its ordinary meetings every two months and meets on an extraordinary basis when necessary to ensure the good performance of its duties, upon a reasoned request submitted by any of the corporate bodies of the Bank or of any of the members of the Risk Committee.

<u>Credit Committee</u>

The Credit Committee, established by the Executive Committee with the authorization of the Board of Directors, 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;

(ii) the Risk Appetite Framework ("RAF") approved by the Board of Directors; in these cases operations shall be submitted, respectively, to the Executive Committee or to 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.

<u>Impairment Committee</u>

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. The largest performing corporate exposures are subject to review by the Impairment Committee on an annual basis, with the purpose to confirm that these clients do not display any warning signals that imply a transfer of stage.

The Impairment 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.

The Impairment Committee is chaired by the Chief Executive Officer. This Committee shall meet whenever called by its Chairman or upon the request of any of its members, subject to the approval of the Chairman, and as a rule, once every month. The Impairment Committee shall meet on an extraordinary basis whenever deemed appropriate for the proper performance of its tasks.

Risk Management Department

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

The Risk Management Department is also in charge of the technical execution of the Risk Appetite Framework, Recovery Plan, ICAAP and ILAAP, and other regulatory reporting undertakings.

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

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

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

The Risk Management Department has the following structure:

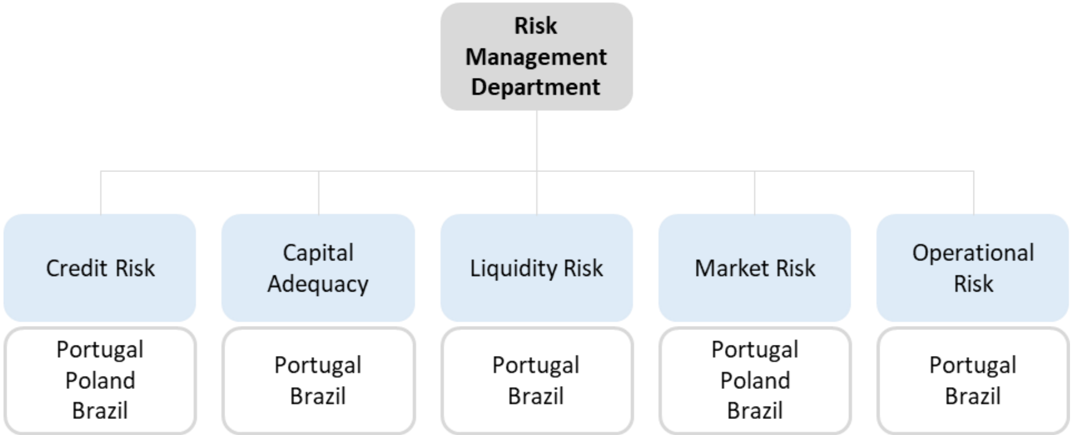

Figure 3 – Risk Management Department Structure

The Credit Risk Area is responsible for credit risk portfolio monitoring and control activities.

The Capital Adequacy Area is responsible for the constant monitoring of regulatory capital requirements and for the capital planning.

The Market Risk Area is responsible for monitoring and controlling market risks, namely trading book risk, interest rate risk of the banking book, credit spread risk, foreign exchange risk and risks in holding mutual funds and equity positions.

The Liquidity Risk Area is in charge of monitoring funding and liquidity risk of the Bank and participate in the funding planning.

The Operational Risk Area is responsible for conducting the processes for the identification, monitoring and control of operational risk and for the monitoring of reputational risk.

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

Rating Department

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

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

4.5 Risk reporting and measurement systems

Haitong Bank has in place an integrated set of processes that enable the identification, measurement, aggregation and appropriate reporting of the different risks to which the Bank is exposed to.

These processes allow the extraction, transformation and population of the Bank's data warehouse with information from the different systems to support the production of both internal and external reports, as well as prudential reports.

Based on the information available in the Bank's data warehouse, the Risk Management Department produces reports to monitor and control the risk taking activities, assessing their fit with the Bank's risk appetite and established risk limits, and distributes them to the risk taking units to support their decision-making process.

These reports are summarized as follows:

Credit Risk

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

Market Risk

- Daily collection, preparation, control and reporting to the different trading desks and to the treasury department information on positions, results, exposure and level of limits utilization based on the different risk metrics defined by the Bank such as VaR, Stop Loss,

sensitivity exposure to the different risk factors and other complementary concentration metrics;
- Weekly risk reporting with an overview of the Bank's market risk and limits utilization;
- Monthly report of the Bank's Global VaR and Stop Loss exposures *vis-à-vis* the approved limits;
- Monthly report of the Bank's interest rate risk of the banking book.

Operational Risk

- Operational risk report to the management bodies is included in the Risk Appetite Monitoring, being the focus of this report the following data:
  - Monthly, the operational events and losses that crystalized. If an event breach the limit set in the bank's Risk Appetite Framework, the resolution action is also presented in this forum;
  - Monthly, the key risk indicators, which enable the bank's monitoring of some of its risks;
  - Annually, the Risk Control Self-Assessment, which aims all the departments of the bank to identify, assess and mitigate its risks.

Liquidity Risk

- Liquidity risk reporting is included in the Risk Appetite Monitoring report and includes:
  - analysis on the evolution of liquidity prudential ratios;
  - analysis of the composition of the HQLA (High Quality Liquid Assets) portfolio;
  - analysis of balance sheet maturity mismatches;
  - analysis of retail deposits evolution and;
  - concentration of funding

Pension Fund Risk

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

Reputational Risk

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

Business Strategic Risk

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

4.6 Information flow on risk to the management body

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

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

4.7 Policies for hedging and mitigating risk

Haitong has in place risk mitigation techniques related with credit risk and credit concentration risk, namely:

- Guarantees and Collaterals: the main risk mitigation techniques used by the Bank are financial pledges (funded credit protection – financial collateral) and personal guarantees (unfunded credit protection with substitution effect). The 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 the haircut application;
- Risk mitigation techniques used in markets area: among the techniques used by the Bank for risk mitigation, we highlight the repo-style transactions, netting, margin accounts and credit derivatives;
- Portfolio limits: the definition and approval of limits is performed by the Credit Committee according to the Risk Appetite Framework;
- Existence of follow up and monitoring committees: the Executive Committee and Risk Committee follows the evolution of the Bank's credit risk on a regularly basis;
- Existence of a reporting system (internal and external): reports on the evolution of credit risk are performed on a daily, weekly and monthly basis and are distributed to relevant persons at different organization levels;

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

Haitong Bank enters into derivatives transactions to hedge the market risk on its issued debt designated at fair-value through profit and loss and has appropriate processes in place to clearly identify the relation between the hedging instrument and the financial liability being hedged.

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

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

Haitong Bank's liquidity risk mitigation techniques include:

- a process for monitoring and reporting a set of liquidity risk metrics whose limits are established within the Risk Appetite Framework, including prudential liquidity ratios for which a buffer above regulatory limits is established;
- proactive management of liquidity and funding with quarterly cash flow and liquid assets position forecast;

- stress test exercises within the scope of the ILAAP and the Recovery Plan;
- liquidity contingency plans;
- close monitoring of liquidity position by the Executive Committee.

In what regards reputational risk, Haitong Bank has in place the following risk mitigation and control techniques:

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

The Bank's Business Strategic mitigation techniques include:

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

5 Management body disclosures

The following table shows the number of directorship positions held by each member of the Board of Directors in 2019:

Board of Directors	Number of directorship positions
Chairman	
Lin Yong	6
Members	
Wu Min	3
Alan do Amaral Fernandes	3
António Domingues	4
Mo Yiu Poon	2
Nuno Miguel S. Figueiredo Carvalho	3
Pan Guangtao	5
Paulo José Lameiras Martins	1
Vincent Marie L. Camerlynck	5
Xinjun Zhang	6
Vasco Câmara Martins	1

Table 3 – Number of directorships held by the members of the Board of Directors

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

The Policy on the selection and assessment of members of the management and supervisory bodies and key function holders of Haitong Bank (the "Selection and Assessment Policy") was updated and approved by Shareholder resolution in February 14th 2020. This Policy aims at complying with provisions in Article 30-A/2 of the Legal Framework of Credit Institutions and Financial Companies (hereinafter "RGICSF") and ensuring that Haitong Bank adopts the highest national and international standards of governance of credit institutions.

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

The Selection and Assessment Policy establishes the following:

- *i)* identification of the persons responsible for assessing the suitability of the Bank's officers;
- *ii)* assessment of the adopted procedures;
- *iii)* suitability requirements;
- *iv)* diversity requirements;
- *v)* rules on the prevention, reporting and remedying of conflicts of interest;
- *vi)* Assurance that continuous training plan means for the management and supervisory bodies and key functions holders are made available.

The policy on the selection and assessment of members of the management and supervisory bodies and key function holders can be found in Haitong Bank web site.

6 Own Funds

Pillar 3 Own funds disclosures requirements are prepared under the CRR (Regulation (EU) no. 575/2013) and CRD IV (Directive 2013/36/EU), while the 2019 Annual Report is prepared in accordance with IFRSs.

The purpose of the below audited balance sheet as of December 31, 2019, is to provide a full reconciliation of Own funds, filters and deductions applied.

(Amounts in Thousands of Euros)

			Carrying values of items						
	IFRS Audited Consolidated Balance Sheet 31 Dec 2019	Carrying values under scope of regulatory consolidation	Subject to the credit risk framework	Subject to the CCR framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital	(*)	Balance amounts used for Own funds Prudencial calculations 31 Dec 2019
Assets									
Cash and deposits at central banks	637 829	637 829	637 829	-	-	-	-		-
Financial assets at fair value through profit or loss	**623 801**	**623 801**	**37 506**	**148 723**	**-**	**586 295**	**-**		**623,801**
Financial assets held-for-trading	586 295	586 295	-	148 723	-	586 295	-		-
Securities	437 572	437 572	-	-	-	437 572	-	(k)	437,572
Derivatives financial assets	148 723	148 723	-	148 723	-	148 723	-	(k)	148 723
Non-trading financial assets mandatorily ar fair value through profit or loss	37 506	37 506	37 506	-	-	-	-		-
Securities	37 399	37 399	37 399	-	-	-	-	(k)	37 399
Loans and advances to customers	107	107	107	-	-	-	-	(k)	107
Financial assets at fair value through other comprehensive income	**177 187**	**177 187**	**177 187**	**-**	**-**	**-**	**-**	(k)	**177 187**
Financial assets measured at amortised cost	**795 839**	**795 839**	**795 839**	**-**	**-**	**-**	**-**		**-**
Securities	335 755	335 755	335 755	-	-	-	-		-
Loans and advances to banks	145 470	145 470	145 470	-	-	-	-		-
Loans and advances to customers	314 614	314 614	314 614	-	-	-	-		-
Non current assets held-for-sale	2 244	2 244	2 244	-	-	-	-		-
Assets from discontinuing units	-	-	-	-	-	-	-		-
Other tangible assets	12 777	12 777	12 777	-	-	-	-		-
Intangible assets	6 967	6 967	-	-	-	-	6 967		6,967
Investments in associated companies	15	15	15	-	-	-	-		-
Tax assets	156 702	156 702	53 129	-	-	-	103 572		-
Current income tax assets	40 364	40 364	-	-	-	-	40 364		-
Deferred income tax assets	116 337	116 337	53 129	-	-	-	63 208	∑(n)	63,208
Other assets	193 549	193 549	58 804	-	-	-	134 745		-
Total Assets	**2,606,910**	**2,606,910**	**1,775,330**	**148,723**	**0**	**586,295**	**245,284**		**807,955**
Liabilities									
Financial liabilities held-for-trading	**281 660**	**281 660**	**-**	**148 902**	**-**	**281 660**	**-**		**281 660**
Securities	132 758	132 758	-	-	-	132 758	-	(l)	132,758
Derivatives financial liabilities	148 902	148 902	-	148 902	-	148 902	-	(l)	148,902
Financial liabilites Measured at amortised cost	**1 540 734**	**1 540 734**	**249 916**	**-**	**-**	**-**	**1 290 818**		**-**
Resources from credit institutions	302 248	302 248	249 916	-	-	-	52 332		-
Resources from customers	1 041 374	1 041 374	-	-	-	-	1 041 374		-
Debt securities issued	197 112	197 112	-	-	-	-	197 112		-
Hedging derivatives	300	300	-	-	-	-	300	(l)	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	-	-	-		-
Provisions	21 309	21 309	-	-	-	-	21 309		-
Tax liabilities	7 988	7 988	-	-	-	-	7 988		-
Current income tax liabilities	7 044	7 044	-	-	-	-	7 044		-
Deferred income tax liabilities	944	944	-	-	-	-	944		-
Other liabilities	139 377	139 377	-	-	-	-	139 377		-
Total Liabilities	**1,991,368**	**1,991,368**	**249,916**	**148,902**	**0**	**281,660**	**1,459,792**		**281,660**
Equity									
Share capital	844 769	844 769						(a)	844,769
Share premium	8 796	8 796						(a)	8,796
Other equity instruments	108 773	108 773						(d)	105,042
Fair-value reserves	468	468						(h)	468
Other reserves and retained income	(380 914)	(380 914)						∑(b)	(380 914)
Net profit/(loss) of the year attributable shareholders of the parent company	7 508	7 508						(c)	7,508
Total equity attributable to the shareholders of the parent company	**589,400**	**589,400**							
Non-controlling interests	26 142	26 142						(f) (g) (m)	9,473
Total Equity	**615,542**	**615,542**							
Total Equity and Liabilities	**2,606,910**	**2,606,910**							

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

Table 4 – Reconciliation of own funds, filters and deductions

A description of the main components of own funds as of December 31, 2019, is given below.

Share Capital

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

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

In September 2015, the Bank's entire share capital was acquired by Haitong International Holdings Limited.

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

In May 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank through the conversion into capital of a EUR 20,000,000 shareholder loan.

In May 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, an investment of EUR 40,000,000 in cash.

In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, an investment of EUR 160,000,000 in cash.

In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank through the conversion into capital of a EUR 80,000,000 shareholder loan.

In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank through the conversion into capital of a EUR 80,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instrument.

In August 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank through the conversion into capital of a EUR 38,500,000 shareholder loan.

Share premium

The share premiums of EUR 8,796 thousand at 31 December 2018 relates to the premium paid by the shareholders in the capital increase occurred in previous years.

Other equity instruments

In October 2010, the Group issued subordinated perpetual bonds with conditional interest for a total amount of EUR 50 million. Interest is conditioned and non-cumulative, and payable only if and when declared by the Board of Directors.

This conditioned interest, 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 due to their characteristics in accordance with the accounting policy described in Note 2.6 of the 2019 Annual Report.

In 2011, a total of EUR 46,269 thousand in other equity instruments was extinguished through the acquisition of own securities.

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

As at 31th of December 2019, 3,731 thousand euros regarding these bonds are in circulation. In the year of 2019 and 2018 the Group haven't paid interest.

In March 2018, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of USD 130,000 thousand, corresponding to 105,042 thousand euros, identified as "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments". Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments.

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

On December 31, 2019, Haitong Bank's Regulatory Own Funds and deductions were as follows:

(Amounts in Thousands of Euros)

	(*)	Dec. 19 Fully Loaded	Dec. 19 Phased-in	Dec. 18 Fully Loaded	Dec. 18 Phased-in
Common equity tier 1 (CET1) capital: instruments and reserves					
Capital instruments and the related share premium accounts	∑(a)	853,565	853,565	853 565	853 565
Retained earnings	(b)	(219 864)	(219 864)	(220 722)	(220 722)
Accumulated other comprehensive income (and other reserves)	(b)	(161 050)	(161 050)	(153 125)	(153 125)
Minority interests (amount allowed in consolidated CET1)	(f)	6,316	6,316	7 222	7 222
Independently reviewed interim net profits net of any foreseeable charge or dividend	(c)	7,508	7,508	1 159	1 159
Common equity tier 1 capital before regulatory adjustments		486,475	486,475	488 099	488 099
Common equity tier 1 capital: regulatory adjustments					
Gains or losses on assets and liabilities held for sale	(h)	469	469	(173)	(173)
Additional value adjustments	(j)	(943)	(943)	(1 339)	(1 339)
Intangible assets	(i)	(7 307)	(7 307)	(18 583)	(18 583)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(n)	(63 208)	(63 208)	(43 365)	(43 005)
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		-	-	2 161	2 161
Deferred tax assets arising from temporary differences (amount above 10% threshold)	(n)	-	-	(9 582)	(8 923)
Qualifying AT1 deductions that exceed the AT1 capital of the institution		-	-	-	-
IFRS9		-	3,788	-	4 847
Total regulatory adjustments to Common Equity Tier 1 (CET1)		**(70 989)**	**(67 201)**	**(70 880)**	**(65 014)**
Common equity tier 1 capital		**415,486**	**419,274**	**417 219**	**423 085**
Additional Tier 1 (AT1) capital: instruments					
Capital instruments and the related share premium accounts	(d)	105,042	106,161	105 042	106 534
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	(g)	1,353	1,353	1 699	1 699
Additional tier 1 capital before regulatory adjustments		**106,395**	**107,515**	**106 741**	**108 234**
Additional tier 1 (AT1) capital: regulatory adjustments					
Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out		-	-	-	-
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period		-	-	-	-
Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR		-	-	-	-
Total regulatory adjustments to additional tier 1 capital		**-**	**-**	**-**	**-**
Additional tier 1 capital		**106,395**	**107,515**	**106 741**	**108 234**
Tier 1 capital (T1 = CET1 + AT1)		**521,881**	**526,788**	**523 961**	**531 319**
Tier 2 capital: instruments and provisions					
Capital instruments and the related share premium accounts		-	-	-	-
Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third party	(m)	1,804	1,804	2 266	2 269
Tier 2 capital before regulatory adjustments		1,804	1,804	2 266	2 269
Tier 2 capital: regulatory adjustments					
Other AT2 adjustments		-	-	(25)	-
Total regulatory adjustments to Tier 2 (T2) capital		**-**	**-**	**(25)**	**-**
Tier 2 (T2) capital		**1,804**	**1,804**	**2 241**	**2 269**
Total capital (TC = T1 + T2)		**523,685**	**528,593**	**526 201**	**533 588**

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

Table 5 – Own Funds

Table 5 is aligned with Implementing Regulation (EU) No 1423/2013 – Annex IV of December 20, 2013.

Minority interest means the amount of Common Equity Tier 1 capital of a subsidiary of an institution that is attributable to natural or legal persons other than those included in the prudential scope of consolidation of the institution. On December 31, 2019, the Minority Interest adjustments to own funds were as detailed below:

(Amounts in Thousands of Euros)

	(*)	Dec. 19	%	Dec. 18	%
Haitong Banco de Investimento do Brasil S.A.		26,142	20%	25,913	20%
SES Iberia		0	0%	116	50%
Non-Controlling Interest		**26,142**		**26,029**	

		Dec. 19		Dec. 18	
	(*)	Fully Loaded	Phased-in	Fully Loaded	Phased-in
Minority interests (amount allowed in consolidated CET1)	(f)	6,316	6,316	7,222	7,222
Instruments issued by subsidiaries that are given recognition in AT1 Capital (minority Interests)	(g)	1,353	1,353	1,699	1,699
Instruments issued by subsidiaries that are given recognition in T2 Capital	(m)	1,804	1,804	2,266	2,266

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

Table 6 – Minority Interests' own funds regulatory adjustments

For prudential purposes, Deferred Tax Assets (DTA) has the same meaning as in the applicable accounting framework. On 31 December 2019 and 31 December 2018 the DTA regulatory adjustment was as detailed below:

(Amounts in Thousands of Euros)

	Dec. 19	(*)	Deducted to Own Funds	Not Deducted to Own Funds	Dec. 18	Deducted to Own Funds	Not Deducted to Own Funds
Deferred Tax Assets that rely on future profitability	**91,459**				**95,627**		
Not resulting from temporary differences	63,208	(n)	63,208	-	43,365	43,365	-
Resulting from temporary differences	28,251	(n)	-	28,251	52,262	9,582	42,680
Deferred Tax Assets that do not rely on future profitability	**24,878**		-	24,878	**32,371**	-	**32,371**
Total Deferred Tax Assets	**116,337**		**63,208**	**53,129**	**127,999**	**52,947**	**75,052**

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

Table 7 – Deferred Tax Assets (DTA) CET1 Regulatory Adjustment

When calculating the amount of their regulatory capital, CRR requires Banks to apply prudent valuation standards to all positions that are measured at fair value. The difference between the values obtained when applying a prudent valuation and the fair value recognized in accounting is known as additional valuation adjustment (AVA), which is directly deducted from the Common Equity Tier 1 (CET1). On December 31, 2019, Haitong Bank's AVA adjustment was as detailed below:

(Amounts in Thousands of Euros)

	(*)	Dec. 19	Dec. 18
Assets	∑(k)	800,988	1,157,171
Assets Matched Positions		(64,335)	(54,101)
Liabilities	∑(l)	281,960	304,873
Liabilities Matched Positions		(75,348)	(69,176)
Total		**943,265**	**1,338,767**
AVA (simplified approach)	(j)	943	1,339

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

Table 8 – AVA CET1 Regulatory Adjustment

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

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

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

Still under the context of CRD IV capital buffer requirements, the Bank of Portugal decided, on November 2016, to impose a capital surcharge to six Portuguese banking groups classified as O-SIIs (Other Systemically Important Institutions) in the scope of its annual revision of the identification of the imposition of capital buffers, pursuant to Article 138-R (2) of the RGICSF. The O-SII buffer has been effective since January 1, 2018, onwards. According to the Bank of Portugal's decision, Haitong Bank was, at this point in time, excluded from the scope of application of this macro prudential buffer.

The regulation also provides a counter-cyclical capital buffer of up to 2.5%, to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth in Portugal. As of January 1, 2020, the Bank of Portugal decided not to impose any additional counter-cyclical capital buffer, by setting a 0% of total risk exposure amount. This decision applies to the first quarter of 2020 and will be subject to a quarterly revision.

On December 31, 2019, Capital ratios were as detailed below:

(Amounts in Thousands of Euros)

	Dec. 19		Dec. 18	
	Fully Loaded	Phased-in	Fully Loaded	Phased-in
Risk Exposure	1,473,785	1,473,785	1,848,350	1,848,350
Common equity tier 1	28.2%	28.4%	22.6%	22.9%
Tier 1	35.4%	35.7%	28.3%	28.7%
Total capital	35.5%	35.9%	28.5%	28.9%

Table 9 – Capital Ratios

7 Internal capital adequacy (ICAAP)

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

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

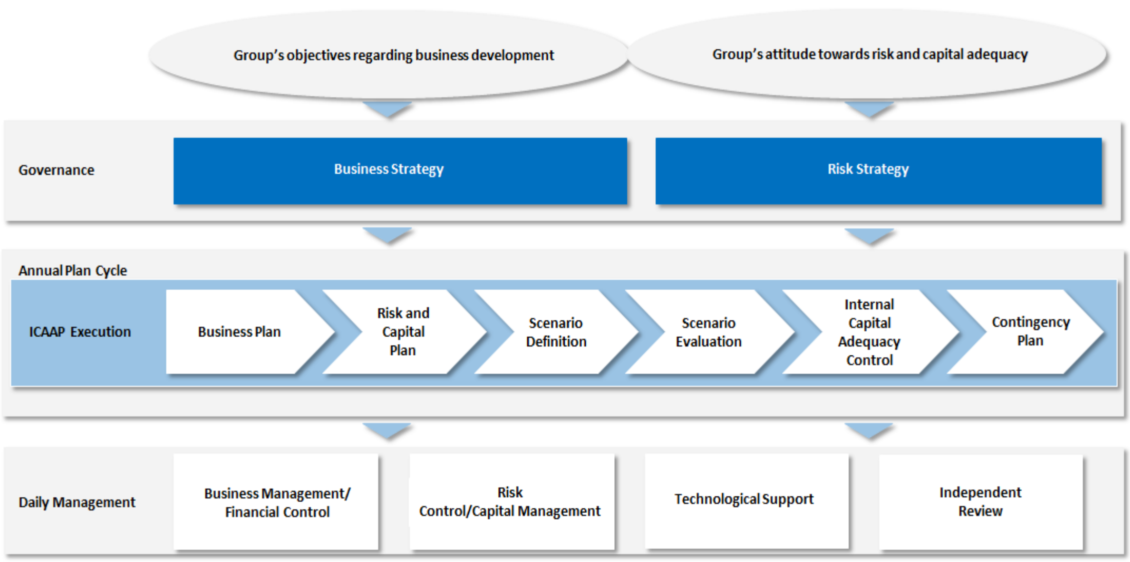

Figure 4 – Integration of the ICAAP in the Bank's management and decision-making process

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

Pillar	Risk Categories
Pillar I	Credit + Concentration Risk
	CVA Risk (Credit Valuation Adjustment)
	Market Risk
	Operational Risk
Pillar II	Interest Rate Risk - Banking Book
	Credit Spread Risk
	Business Strategic Risk
	Pension Fund Risk
	Reputational Risk

Figure 5 – Haitong Bank's ICAAP Risks

The Bank uses internal models to assess capital requirements for all material risks. These models are approved by the Board of Directors and are subject to validation by the Bank's Internal Audit Department.

Internal capital requirements are assessed both on a static perspective, for the reference date of the exercise, and on a prospective basis, considering the business plan of the Bank for the next three years. This ensures that the strategy pursued by the Bank has adequate capital support.

On a third stage, Haitong Bank subjects the internal capital requirements calculated on a prospective basis to stress scenarios to assess the resilience of the Bank's capital position.

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

The table below summarizes Haitong Bank's approach to assessing the adequacy of its internal capital per risk category.

Pillar	Risk type	Key risk methodologies
Pillar I	**Credit Risk** **Counterparty Credit Risk (CCR)**	IRB Foundation approach
	Concentration Risk	Quantified at sectorial, individual and geographical level, based on Herfindahl Index
	CVA Risk	Pillar I standardized approach
	Market Risk	Historical VaR simulation approach
	Operational Risk	New standardized approach introduced under the Basel III Dec. 2017 review
Pillar II	**IRRBB**	Change in EVE
	Credit Spread Risk	Historical VaR simulation approach
	Pension Fund Risk	VaR to stress the mismatch between the fund's assets and the fund's liabilities
	Business Strategic Risk	Predefined shock over prospective increase of revenues of core business activities
	Reputation Risk	Simulate the impact of a reputational risk event that affects the trust from customers/investors

Figure 6 – ICAAP Key Risk Methodologies

8 Risk weighted assets (RWAs)

On December 31, 2019, and December 31, 2018, Haitong Bank's risk weighted assets (RWAs) and minimum capital requirements under Part Three, Title I, Chapter 1 of the CRR were as follows:

(Amounts in Thousands of Euros)

			RWAs		Minimum capital requirements	
			Dec. 19	Dec. 18	Dec. 19	Dec. 18
	1	Credit risk (excluding CCR)	843,798	1,116,624	67,504	89,330
Article 438(c)(d)	2	Of which the standardised approach	843,798	1,116,624	67,504	89,330
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	-	-	-	-
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	-	-	-	-
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-	-
Article 107,Article 438(c)(d)	6	Counterparty Credit Risk (CCR)	168,850	221,687	13,508	17,735
Article 438(c)(d)	7	Of which mark to market	137,736	180,206	11,019	14,416
Article 438(c)(d)	8	Of which original exposure	-	-	-	-
	9	Of which the standardised approach	-	-	-	-
	10	Of which internal model method (IMM)	-	-	-	-
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-	-
Article 438(c)(d)	12	Of which CVA	31,114	41,482	2,489	3,319
Article 438(e)	13	Settlement risk	10	1,500	1	120
Article 449(o)(i)	14	Securitisation exposures in the banking book (after the cap)	-	-	-	-
	15	Of which IRB approach	-	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-	-
	18	Of which standardised approach	-	-	-	-
Article 438 (e)	19	Market risk	238,108	286,968	19,049	22,957
	20	Of which the standardised approach	238,108	286,968	19,049	22,957
	21	Of which IMA	-	-	-	-
Article 438(e)	22	Large exposures	-	-	-	-
Article 438(f)	23	Operational risk	223,018	221,571	17,841	17,726
	24	Of which basic indicator approach	-	-	-	-
	25	Of which standardised approach	223,018	221,571	17,841	17,726
	26	Of which advanced measurement approach	-	-	-	-
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	28,251	43,339	2,260	3,467
Article 500	28	Floor adjustment	-	-	-	-
	29	Total	1,473,785	1,848,350	117,903	147,868

Table 10 – RWAs

Table 10 is aligned with EBA Template 4: EU OV1 – Overview of RWAs.

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

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

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

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

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

On December 31, 2019, and December 31, 2018, Haitong Bank's minimum capital requirements (8% of RWAs) composition was as follows:

(Amounts in Thousands of Euros)

	Dec. 19	Dec. 18
1. Capital requirements (=∑ (1.1 to 1.5))	**117,903**	**147,868**
1.1. For credit, counterparty credit and dilution risks and free deliveries (= 1.1.1 + 1.1.2)	**78,523**	**103,746**
1.1.1. Standardised approach (=1.1.1.1+1.1.1.2)	78,523	103,746
1.1.1.1. Standardised Approach exposure classes, excluding securitisation positions	78,523	103,746
1.1.1.1.1. Claims or contingent claims on central governments or central banks	-	-
1.1.1.1.2. Claims or contingent claims on regional governments or local authorities	41	425
1.1.1.1.3. Claims or contingent claims on Public Sector Entities	-	-
1.1.1.1.4. Claims or contingent claims on multilateral development banks	-	-
1.1.1.1.5. Claims or contingent claims on international organisations	-	-
1.1.1.1.6. Claims or contingent claims on institutions	4,833	4,089
1.1.1.1.7. Claims or contingent claims on corporates	57,222	70,687
1.1.1.1.8. Retail claims or contingent retail claims	-	-
1.1.1.1.9. Claims or contingent claims secured on real estate property	-	-
1.1.1.1.10. Past due items	4,126	6,870
1.1.1.1.11. Items belonging to regulatory high-risk categories	3,329	677
1.1.1.1.12. Claims on covered bonds	-	-
1.1.1.1.13. Claims on collective investments undertakings (CIU)	486	2,364
1.1.1.1.14. Other items	8,340	18,419
1.1.1.1.15. Equity positions	145	214
1.1.1.2. Securitisation positions under the Standardised Approach	-	-
1.1.2. IRB approach	-	-
1.2. Settlement risk	**1**	**120**
1.3. Capital requirements for position, foreign-exchange and commodities risks (= 1.3.1 + 1.3.2)	**19,049**	**22,957**
1.3.1. Standardised approach (=∑(1.3.1.1 to 1.3.1.4))	19,049	22,957
1.3.1.1. Traded debt instruments	13,922	18,432
1.3.1.2. Equity	1,133	60
1.3.1.3. Foreign exchange risks	3,994	4,373
1.3.1.4. Commodities risks	-	93
1.3.2. Internal models approach	-	-
1.4. Capital requirements for operational risk	**17,841**	**17,726**
1.4.1. Basic indicator approach	-	-
1.4.2. Standard method	17,841	17,726
1.4.3. Advanced measurement approach	-	-
1.5. Capital requirements for Credit Valuation Adjustment (CVA)	**2,489**	**3,319**

Table 11 – Capital Adequacy – Own Funds Requirements

For the Operational Risk risk-weighted exposures calculation, Haitong Bank applies the Standardized Approach (STA) as set in Article 317 of the Regulation (EU) no. 575/2013.

On December 31, 2019, and December 31, 2018, Haitong Bank's Operational Risk minimum capital (8% of RWAs) composition was EUR 17,841 thousand and EUR 17,726 thousand, respectively.

9 Counterparty credit risk

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

Haitong Bank defines limits to counterparty credit risk exposures at counterparty level as a way to mitigate Counterparty Credit Risk (CCR).

Haitong Bank's derivative transactions with financial counterparties are made under ISDA Master Agreements, which include netting clauses. Haitong International Securities Group Limited is a member of ISDA, and, as an affiliate entity, Haitong Bank is entitled to use the legal opinions on validity and enforceability of netting clauses prepared at the request of ISDA for the benefit of its members (and affiliates of its members).

Repo and securities lending transactions are governed by the GMRA Master Agreement prepared by ICMA. Haitong Bank is a member of ICMA and as such is entitled to use the legal opinions on validity and enforceability of netting clauses included in the GMRA prepared at the request of ICMA for the benefit of its members.

To manage the risk exposure to each counterparty, such master agreements (or the relevant collateral support annexes) provide for the collection of margin for trades not cleared through a non-central counterparty. In the case of derivative transactions cleared through a central counterparty, the documentation governing the clearing through the central counterparty is also provided for the provision of margin.

Wrong-way risk occurs when a counterparty's exposure is adversely correlated with its credit quality.

OTC derivatives wrong-way risk with financial counterparties is mitigated through bilateral ISDA contracts with CSA, which require both parties to post collateral to mitigate the other party's counterparty credit risk. This collateral is in the form of cash and as such, the Bank does not bear any specific wrong-way risk.

The Bank does not enter into securities lending transactions in which the collateral being provided is issued by the counterparty or its affiliates, and it does not have credit derivatives transactions where there is a legal connection between the risk being covered and the counterparty.

A credit rating downgrade clause in a Master Agreement or a credit rating downgrade threshold clause in a CSA is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party or the assignment of transactions by the affected party.

The master agreements governing derivatives, repo and securities lending transactions outstanding on December 31, 2019, do not include provisions requiring the posting of additional collateral in a scenario of downgrading of Haitong Bank's credit rating.

Haitong Bank calculates the counterparty credit risk own funds and internal capital of derivative instruments according to the mark-to-market method defined in Part III, Title II, Chapter 6, Section 3 of Regulation (EU) no. 575/2013 and, for repurchase transactions, calculates counterparty credit risk own funds and internal capital according to the rules defined for the standardized approach in Part III, Title II, Chapter 6, Section 5 of Regulation (EU) no. 575/2013.

Credit Valuation Adjustment ('CVA') risk is the risk of adverse movements in the credit valuation adjustment for expected credit losses on derivative transactions. Haitong Bank applies the standardised approach for the calculation of own funds for CVA risk.

The template below provides an overview of the impact of netting and collateral held for transactions where the exposure value is measured as per Part Three, Title II, Chapter 6 of the CRR, including exposures arising from transactions cleared through a CCP, as of December 31, 2019.

(Amounts in Thousands of Euros)

	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Derivatives	206,487	80,884	125,603	-	125,603
SFT (Securities Financing Transaction)	385,123	-	385,123	326,743	58,380
Cross-product netting	-	-	-	-	-
Total	**591,611**	**80,884**	**510,727**	**326,743**	**183,984**

Table 12 – Impact of netting and collateral held on exposure

Table 12 is aligned with EBA Template 31: EU CCR5-A – Impact of netting and collateral held on exposure values.

On December 31, 2019, Haitong Bank's derivatives exposures to financial institutions amount EUR 84,031 thousand before netting benefits and EUR 31,508 thousand after netting benefits.

On December 31, 2019, Haitong Bank's breakdown of CCR Net credit exposure (post CCF and CRM) calculated in accordance with Part Three, Title II, Chapter 6 of the CRR and risk-weights according to Chapter 3 of the same title by risk weight (risk weight assigned according to the standardised approach) was as follows:

(Amounts in Thousands of Euros)

Exposure classes	Risk Weight											Exposure post CRM and CCF
	0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Others	
Central governments or central banks	13,542	-	-	-	-	-	-	-	-	-	-	13,542
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	-	-	32,885	12,170	-	-	13,882	-	-	58,936
Corporates	-	-	-	-	1,914	-	-	-	108,199	1,392	-	111,505
Retail	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	-	-
Total	**13,542**	**-**	**-**	**-**	**34,799**	**12,170**	**-**	**-**	**122,081**	**1,392**	**-**	**183,984**

Table 13– CCR exposures by exposure class and risk weight

Table 13 is aligned with EBA Template 28: EU CCR3 – Standardised approach – CCR exposures by regulatory portfolio and risk.

The comprehensive view of Haitong Bank's methods used to calculate CCR regulatory requirements and its respective main parameters on December 31, 2019, was as follows:

(Amounts in Thousands of Euros)

CCR approach	Notional	Replacement cost	Potential future credit exposure	EAD post CRM	RWAs
Mark to market		148,246	58,242	125,603	111,877
Financial collateral comprehensive method (for SFTs)				58,380	25,860
Total					137,736

Table 14 – CCR exposure by approach

Table 14 is aligned with EBA Template 25: EU CCR1 – Analysis of CCR exposure by approach.

On December 31, 2019, OTC derivatives cleared through a qualified central counterparty (QCCP) were immaterial, totalizing EUR 32 million in nominal amount.

On December 31, 2019, the CVA Risk own funds were as follows:

(Amounts in Thousands of Euros)

	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)	-	-
(ii) SVaR component (including the 3× multiplier)	-	-
All portfolios subject to the standardised method	56,101	31,114
Based on the original exposure method	-	-
Total subject to the CVA capital charge	**56,101**	**31,114**

Table 15 – CVA capital charge

Table 15 is aligned with EBA Template 26: EU CCR2 – CVA capital charge.

On December 31, 2019, Haitong Bank's credit derivatives transactions were solely related with intermediation activities. The breakdown of nominal amounts by protection side, bought or sold, within each product group were as follows:

(Amounts in Thousands of Euros)

Credit derivatives transactions	Long positions	Short positions
Credit default swaps	63,229	97,629
Credit linked notes	-	-

Table 16 – Credit derivatives transactions

10 Geographical distribution of credit exposures relevant for the calculation of countercyclical capital buffer

On December 31, 2019, the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer were as follows:

(Amounts in Thousands of Euros)

Country	General credit exposures	Trading book exposures	Own funds requirements			Own funds requirement weights	Countercyclical capital buffer rate
	Exposures value for SA	Sum of long and short positions of trading book exposures for SA	Of which: General credit exposures	Of which: Trading book exposures	Total		
Portugal	1,228,087	9,919	32,342	761	33,103	0.41	0.00%
Brazil	601,175	284,182	13,292	565	13,857	0.17	0.00%
Poland	75,018	14,428	2,728	907	3,634	0.04	0.00%
Spain	58,302	2,775	1,467	173	1,639	0.02	0.00%
China	120,737	0	9,639	0	9,639	0.12	0.00%
Italy	96,861	-213	122	34	156	0.00	0.00%
Cayman islands	73,409	0	5,873	0	5,873	0.07	0.00%
British Virgin Islands	0	0	0	0	0	0.00	0.00%
United Kingdom	51,911	0	1,368	0	1,368	0.02	1.00%
Luxembourg	23,928	518	2,410	41	2,452	0.03	0.00%
Netherlands	21,578	-373	1,726	104	1,830	0.02	0.00%
France	16,446	359	549	9	558	0.01	0.00%
Bermuda	15,285	0	1,439	0	1,439	0.02	0.00%
Mexico	11	0	0	0	0	0.00	0.00%
United States	1,618	0	26	0	26	0.00	0.00%
Germany	13,349	0	381	0	381	0.00	0.00%
Angola	2,985	0	239	0	239	0.00	0.00%
Belgium	2,590	0	47	0	47	0.00	0.00%
Malta	0	0	0	0	0	0.00	0.00%
Chile	0	0	0	0	0	0.00	0.00%
Japan	0	0	0	0	0	0.00	0.00%
Andorra	172	0	14	0	14	0.00	0.00%
Switzerland	96	0	2	0	2	0.00	0.00%
Ireland	61,437	373	4,915	30	4,945	0.06	0.00%
Czech Republic	12	0	0	0	0	0.00	1.50%
Hungary	6	0	0	0	0	0.00	0.00%
Sweden	0	-93	0	9	9	0.00	0.00%
Total	**2,465,012**	**311,875**	**78,577**	**2,634**	**81,211**	**1.00**	

Table 17 – Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

Table 17 is aligned with EBA Annex I - Table 1 - Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer.

Haitong Bank's specific countercyclical buffer amount is presented below as of December 31, 2019:

(Amounts in Thousands of Euros)

	Dec. 19
Total risk exposure amount	2,776,887
Institution specific countercyclical buffer rate	0.02%
Institution specific countercyclical buffer requirement	468

Table 18 – Amount of specific countercyclical capital buffer

Table 18 is aligned with EBA Annex I - Table 2 - Amount of institution-specific countercyclical capital buffer.

11 Exposure to credit risk and dilution risk

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

Under IFRS 9, the Group determines the expected credit losses (ECL) using a forward-looking model. The expected credit losses over the lifetime of financial instruments are required to be measured through a loss allowance. Accordingly, the calculation of ECL incorporates macroeconomic factors, as well as other forward-looking information, whose changes impact expected losses.

The instruments subject to impairment are divided into three stages, taking into account their level of credit risk:

- *Stage 1 – Performing:* financial assets for which there was no significant increase in credit risk from the moment of initial recognition. In this case, the impairment will reflect ECL resulting from default events that may occur in the next 12 months after the reporting date;
- *Stage 2 – Under Performing*: financial assets for which a significant increase in credit risk has occurred since the initial recognition but for which there is no objective evidence of impairment. In this stage, impairment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- *Stage 3 – Non Performing*: financial assets for which there is objective evidence of impairment as a result of events that resulted in losses. In this case, the impairment amount will reflect the ECL over the expected residual life of the instrument.

The collective model implemented by the Group is applicable to all instruments without warning signals (in Stage 1), as well to determine the lifetime expected credit losses, in the case of exposures with a significant increase in credit risk (Stage 2). Stage 2 exposures are analysed individually, confirming that there are no indications of unlikeliness to pay of the debtor and the events considered by Capital Requirements Regulations (CRR) in its definition of default and by

IFRS 9 in the definition of impaired financial instruments, which could determine a transfer to Stage 3. Stage 2 exposures are subject to the application of a lifetime impairment rate, determined by the use of a lifetime collective model. All Stage 3 clients are subject to an individual analysis

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

- Financial assets with no signs of impairment at the reporting date (Stage 1 – Performing): correspond to expected credit losses that result from a default event that may occur within 12 months after the reporting date (credit losses expected at 12 months);
- Financial assets with a significant increase in credit risk or with impairment at the reporting date (Stage 2 – Under Performing and Stage 3 – Non Performing): correspond to the expected lifetime credit losses calculated by the difference between the gross accounting value and the net present value of the estimated cash flows weighted, for assets in Stage 2, by the prospect of default;
- Unused credit commitments: 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 Group considers all relevant information available without incurring undue costs or efforts.

The Group identifies the occurrence of a significant increase in credit risk exposure through three approaches: (i) comparison between the current rating and the rating at the time of contract recognition, (ii) use of warning signals defined internally and (iii) early warning signals (EWS) assessment in order to trace certain events and/or circumstances that could indicate a SICR.

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 individual analysis, confirming that there are no indications of unlikeliness to pay of the debtor and the events considered by CRR in its definition of default, and by IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3. The exposures properly classified in Stage 2 are subject to the use of a lifetime impairment rate determined using a lifetime collective model.

Definitions of Past Due and Default exposures

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

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

Default Definition

Under IFRS 9, the Group considers its financial assets to be in default by applying the same definition that is applied for prudential purposes. Thus, Haitong Bank defines default as incorporating the following criteria: 1) material exposures which are more than 90-days past due; 2) the debtor is assessed as unlikely to reimburse credit obligations, without collateral claim, regardless of the existence of any past due amount or of the number of days past due; and 3) if 20% of the exposures of one obligor are determined as non-performing, all other exposures should be considered non-performing ("pulling effect").

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) the Bank sells the credit obligation at a material (more than 5%) credit-related economic loss; iv) the obligor has been placed (or is likely to be placed) in bankruptcy or similar protection; v) interest related to credit obligations is no longer recognized (non-accrued status) in the income statement (part or under conditionality); and vi) other conditions (ad-hoc) that may suggest reduced likelihood of payments by the debtor.

The definition of default followed by the Group follows article 178 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and includes the European Banking 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).

Forbearance definition

The internal definition of forbearance follows the ECB guidance, consisting of concessions extended to any exposure towards a debtor facing or about to face difficulties in meeting its financial commitments. An exposure can only be forborne if the debtor is facing financial difficulties that have led the Bank to make some kind of concession.

A concession may entail a loss for the Bank and shall refer to either of the following actions:

(i) a modification of the previous terms and conditions of a contract that the debtor is considered unable to comply with due to financial difficulties resulting in insufficient debt service ability and that would not have been granted had the debtor not been experiencing such difficulties;

(ii) a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been experiencing financial difficulties.

When granting forbearance measures to performing exposures with significant increase in credit risk, the Bank assesses whether these measures lead to a reclassification of that exposure as non-performing, being this assessment subject to compliance with the following conditions:

a) If the difference between the net present values of cash flows before and after the restructuring arrangement exceeds a certain threshold (1%), the exposure is considered to be non-performing;

b) If there are other indicators that may suggest an unlikeliness to pay of the debtor.

The definition of forbearance followed by the Group follows the guidance to Banks on Non-Performing Loans by the European Central Bank (from March 2017), which address the concept of forborne exposures, and Bank of Portugal's Carta Circular CC/2018/00000062 (from November 2018), addressing the criteria and principles for calculating expected credit losses under IFRS 9, which includes the timely and appropriate identification of forborne exposures.

<u>Inputs in the measurement of ECL</u>

As a result of the characteristics of the Bank's portfolio (reduced number of transactions and high heterogeneity), the calculation of the ECL has as the main vector of measurement the individual analysis assessment. Under the collective model, which is applied to financial instruments classified in Stage 1 and to determine the minimum impairment rate applicable to financial instruments classified in Stage 2, the key inputs for ECL measurement are the following:

- *Probability of Default (PD):* describes the likelihood of default in a prospect of time. Haitong Bank takes in account the 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 CRR).

On December 31, 2019, Haitong Bank's total and the average amount of net exposures over the period by exposure class were as follows:

(Amounts in Thousands of Euros)

Exposure classes	Original Exposure Factors (1)					Net Exposure Value (2)				
	On balance sheet exposures	Off balance sheet exposures	Exposures subject to counterparty credit risk	Total exposures subject to credit risk 31 Dec 2019	2019 Average	On balance sheet exposures	Off balance sheet exposures	Exposures subject to counterparty credit risk	Total exposures subject to credit risk 31 Dec 2018	2018 Average
Central governments or central banks	899 778	-	130 460	1 030 237	929 935	898 234	-	130 445	1 028 679	928 286
Regional governments or local authorities	2 788	-	-	2 788	3 034	2 573	-	-	2 573	2 819
Public sector entities	0	-	-	0	0	-	-	-	-	-
Institutions	33 239	33 754	261 021	328 014	389 331	32 939	33 511	260 901	327 351	388 741
Corporates	531 778	106 315	119 862	757 955	1 062 096	521 374	105 970	119 381	746 725	1 049 761
Exposures in default	69 272	23 481	-	92 754	147 550	37 760	8 968	-	46 728	73 307
Items associated with particular high risk	27 801	-	-	27 801	17 094	27 742	-	-	27 742	17 057
Collective investments undertakings (CIU)	6 754	-	-	6 754	19 130	6 754	-	-	6 754	19 130
Equity exposure	2 701	-	-	2 701	3 295	1 815	-	-	1 815	2 412
Other exposures	276 646	-	-	276 646	289 791	276 646	-	-	276 646	289 791
Total standardised approach	**1 850 756**	**163 551**	**511 342**	**2 525 649**	**2 861 256**	**1 805 836**	**148 449**	**510 727**	**2 465 012**	**2 771 304**

(1) Exposure: In accordance with Article 5 of the CRR, exposure refers to an asset or an off-balance-sheet item that gives rise to a credit risk exposure according to the CRR framework.
(2) Net value of the exposure: For on-balance-sheet items, the net value is the gross carrying value of exposure less allowances/impairments. For off-balance-sheet items, the net value is the gross carrying value of exposure less provisions.

Table 19 – Total and average net amount of exposures

Table 19 is aligned with EBA Template 7: EU CRB-B – Total and average net amount of exposures.

On December 31, 2019, Haitong Bank's geographic distribution of the exposures by exposure classes was:

(Amounts in Thousands of Euros)

Original Exposure Factors	Europe	Portugal	Spain	Italy	Germany	Poland	South America	Asia	Other geographical areas	Total
							Brazil	China		
Central governments or central banks	824 386	727 164	-	94 965	-	2 257	204 293	-	-	1 028 679
Regional governments or local authorities	2 573	-	2 573	-	-	-	-	-	-	2 573
Institutions	70 254	14 871	41 692	-	13 349	343	233 776	318	23 003	327 351
Corporates	402 001	248 438	9 585	880	71 271	71 826	148 082	98 131	98 511	746 725
Exposures in default	6 084	1 041	4 452	-	-	591	10 889	22 289	7 466	46 728
Items associated with particular high risk	8 816	7 800	-	1 016	-	-	4 135	-	14 790	27 742
Collective investments undertakings	-	-	-	-	-	-	-	-	6 754	6 754
Equity exposures	1 815	1 815	-	-	-	-	-	-	-	1 815
Other exposures	276 646	276 646	-	-	-	-	-	-	-	276 646
Total standardised approach	**1 592 575**	**1 277 774**	**58 302**	**96 861**	**84 620**	**75 018**	**601 175**	**120 737**	**150 524**	**2 465 012**

Table 20 – Geographical breakdown of exposures

Table 20 is aligned with EBA Template 8: EU CRB-C – Geographical breakdown of exposures.

On December 31, 2019, Haitong Bank's distribution of the exposures by Industry broken down by exposure classes was as follows:

(Amounts in Thousands of Euros)

Exposure classes	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Manufacture of wood and paper products, and printing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Financial service activities, except insurance and pension funding	Insurance, reinsurance and pension funding, except compulsory social security	Activities auxiliary to financial services and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Arts, entertainment and recreation	Other service	Total
Central governments or central banks	-	-	-	-	-	-	-	-	-	-	-	744 707	-	-	-	-	-	283 972	-	-	**1 028 679**
Regional governments or local authorities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2 573	-	-	**2 573**
Institutions	-	-	-	-	-	-	-	-	-	-	-	314 492	-	12 859	-	-	-	-	-	-	**327 351**
Corporates	5 655	11 329	37 873	18 096	89 678	72 544	158 994	7 947	173 609	3 912	19 735	39 988	880	73 961	12 613	18 567	1 345	-	-	-	**746 725**
Exposures in default	1 041	-	8 292	-	-	148	2 884	-	1 962	-	-	7 466	-	1 474	-	22 289	1 172	-	-	-	**46 728**
Items associated with particular high risk	-	-	-	-	-	-	-	-	-	-	-	26 726	1 016	-	-	-	-	-	-	-	**27 742**
Collective investments undertakings (CIU)	-	-	-	-	-	-	-	-	-	-	-	6 754	-	-	-	-	-	-	-	-	**6 754**
Equity	-	-	33	-	-	-	40	15	5	498	-	-	-	1 174	-	-	-	-	50	-	**1 815**
Other items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	276 646	**276 646**
Total standardised approach	**6 696**	**11 329**	**46 198**	**18 096**	**89 678**	**72 692**	**161 919**	**7 961**	**175 575**	**4 411**	**19 735**	**1 140 132**	**1 897**	**89 468**	**12 613**	**40 856**	**2 517**	**286 545**	**50**	**276 646**	**2 465 012**

Table 21 – Concentration of exposures by industry

Table 21 is aligned with EBA Template 9: EU CRB-D – Concentration of exposures by industry or counterparty types.

On December 31, 2019, Haitong Bank's residual maturity breakdown by exposure classes was as follows:

(Amounts in Thousands of Euros)

Exposure classes	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	614 262	130 550	283 867	-	-	1 028 679
Regional governments or local authorities	-	-	-	2 573	-	2 573
Institutions	202 738	42 268	52 824	27 401	2 120	327 351
Corporates	835	266 605	191 335	267 649	20 302	746 725
Exposures in default	-	1 490	41 380	2 226	1 632	46 728
Items associated with particular high risk	-	-	-	-	27 742	27 742
Collective investments undertakings (CIU)	-	-	-	-	6 754	6 754
Equity	-	-	-	-	1 815	1 815
Other items	-	-	-	-	276 646	276 646
Total standardised approach	**817 835**	**440 913**	**569 405**	**299 849**	**337 009**	**2 465 012**

Table 22 – Maturity of exposures

Table 22 is aligned with EBA Template 10: EU CRB-E – Maturity of exposures.

On December 31, 2019, Haitong Bank's credit quality of exposures by exposure class and instrument was as follows:

(Amounts in Thousands of Euros)

	Gross carrying values of						Net values
Exposure classes	Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	(a+b-c-d)
Central governments or central banks	-	1 030 237	-	1 559	-	(223)	1 028 679
Regional governments or local authorities	-	2 788	-	215	-	-	2 573
Institutions	-	328 014	-	663	-	16	327 351
Corporates	11	757 944	573	10 657	-	(2 968)	746 725
Exposures in default	92 754	-	44 931	1 094	(13 377)	(26 337)	46 728
Items associated with particular high risk	-	27 801	-	59	-	58	27 742
Collective investments undertakings (CIU)	-	6 754	-	-	-	-	6 754
Equity exposures	13	2 688	-	886	-	12	1 815
Other exposures	-	276 646	-	-	-	-	276 646
Total standardised approach	**92 777**	**2 432 872**	**45 504**	**15 133**	**(13 377)**	**(29 442)**	**2 465 012**
Of which: loans to customers	11 883	314 845	4 830	7 177	(12 037)	897	314 721
Of which: loans to banks	15 077	146 008	15 077	538	-	528	145 470
Of which: debt instruments	41 217	484 439	10 636	1 320	(57)	9 666	513 700
Of which: assets from discontinuing units	-	-	-	-	-	(51 955)	-
Of which: off-balance	23 481	130 066	14 721	596	-	13 338	138 231

Table 23 – Credit quality of exposures by exposure class and instrument

Table 23 is aligned with EBA Template 11: EU CR1-A – Credit quality of exposures by exposure class and instrument.

On December 31, 2019, Haitong Bank's credit quality of exposures by industry or counterparty types was as follows:

(Amounts in Thousands of Euros)

Industry	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net Values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Agriculture, forestry and fishing	2 186	5 981	1 145	327	-	988	6 696
Mining and quarrying	-	11 331	-	3	-	(179)	11 329
Manufacturing	8 435	39 838	143	1 932	-	(882)	46 198
Manufacture of wood and paper products, and printing	-	18 449	-	353	-	169	18 096
Electricity, gas, steam and air conditioning supply	-	92 877	-	3 200	-	(589)	89 678
Water supply	165	73 851	17	1 307	-	465	72 692
Construction	5 177	160 338	2 342	1 255	(802)	(31 328)	161 919
Wholesale and retail trade	-	8 080	-	119	-	(3 813)	7 961
Transport and storage	3 084	174 467	1 123	853	(7 419)	(11 193)	175 575
Accommodation and food service activities	-	4 803	-	392	-	(369)	4 411
Information and communication	0	19 973	-	239	-	(52)	19 735
Financial service activities, except insurance and pension funding	36 556	1 134 309	29 593	1 140	-	14 598	1 140 132
Insurance, reinsurance and pension funding, except compulsory social security	-	1 897	-	-	-	(0)	1 897
Activities auxiliary to financial services and insurance activities	2 761	88 358	223	1 427	(5 156)	(864)	89 468
Real estate activities	-	12 789	-	177	-	24	12 613
Professional, scientific and technical activities	32 782	19 015	10 493	449	-	9 633	40 856
Administrative and support service activities	1 631	1 357	426	45	-	(5 665)	2 517
Public administration and defence, compulsory social security	-	288 303	-	1 758	-	(229)	286 545
Human health and social work activities	-	0	-	0	-	(123)	-
Arts, entertainment and recreation	-	207	-	157	-	-	50
Other service	-	276 646	-	0	-	(33)	276 646
Total	**92 777**	**2 432 872**	**45 504**	**15 133**	**(13 377)**	**(29 442)**	**2 465 012**

Table 24 – Credit quality of exposures by industry or counterparty types

Table 24 is aligned with EBA Template 12: EU CR1-B – Credit quality of exposures by industry or counterparty types.

On December 31, 2019, Haitong Bank's credit quality of exposures by geography was as follows:

(Amounts in Thousands of Euros)

Country	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net Values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Europe	*10 259*	*1 593 355*	*4 151*	*6 888*	*(11 134)*	*(22 921)*	*1 592 575*
Portugal	2 227	1 281 711	1 145	5 018	(11 134)	(922)	1 277 774
Spain	5 815	54 257	1 331	440	-	(22 625)	58 302
Italy	-	96 933	-	72	-	(4)	96 861
Germany	-	85 911	-	1 292	-	595	84 620
Poland	2 217	74 543	1 675	67	-	35	75 018
South America	*12 156*	*595 525*	*1 267*	*5 239*	*(2 243)*	*(268)*	*601 175*
Brazil	12 156	595 525	1 267	5 239	(2 243)	(268)	601 175
Asia	*32 782*	*98 824*	*10 493*	*376*	*-*	*9 353*	*120 737*
China	32 782	98 824	10 493	376	-	9 353	120 737
Other geographical areas	*37 579*	*145 168*	*29 593*	*2 630*	*-*	*(15 606)*	*150 524*
Total	**92 777**	**2 432 872**	**45 504**	**15 133**	**(13 377)**	**(29 442)**	**2 465 012**

Table 25 – Credit quality of exposures by geography

Table 25 is aligned with EBA Template 13: EU CR1-C – Credit quality of exposures by geography.

On December 31, 2019, Haitong Bank's credit quality by past due days were as follows:

(Amounts in Thousands of Euros)

Past due class	Gross carrying amount											
	Performing exposures			Non-Performing exposures								
		Not past due or ≤ 30 days	> 30 days ≤ 90 days		Unlikely to pay not past due or ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year ≤ 2 years	> 2 years ≤ 5 years	> 1 years ≤ 7 years	> 7 years	of which Defaulted
Loans and advances to customers	314 845	317 419	-	11 883	9 666	-	-	2 217	-	-	-	11 883
Loans and advances to banks	146 008	146 008	-	15 077	-	-	-	15 077	-	-	-	15 077
Debt securities	484 439	484 439	-	41 217	41 217	-	-	-	-	-	-	41 217
Off-balance-sheet exposures	130 066	130 066	-	23 481	23 481	-	-	-	-	-	-	23 481
Total exposures	**1 075 358**	**1 077 932**	**-**	**91 659**	**74 365**	**-**	**-**	**17 294**	**-**	**-**	**-**	**91 659**

Table 26 – Credit quality of performing and non-performing exposures by past due days

Table 26 is aligned with EBA/GL/2018/10 Template 3: Credit quality of performing and non-performing exposures by past due days.

On December 31, 2019, Haitong Bank's forborne exposures to debt securities, loans and advances and off-balance sheet exposures were as follows:

(Amounts in Thousands of Euros)

	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
		Performing forborne	Non-performing forborne		On performing forborne exposures	On non-performing forborne exposures		Of which collateral and financial guarantees received on non-performing exposures with forbearance measures
				Of which defaulted				
Loans and advances to customers	56 422	44 539	11 883	11 883	4 244	4 830	-	-
Loans and advances to banks	-	-	-	-	-	-	-	-
Debt Securities	8 435	-	8 435	8 435	-	142	-	-
Off-balance sheet exposures	-	-	-	-	-	-	-	-

Table 27 – Credit quality of forborne exposures

Table 27 is aligned with EBA/GL/2018/10 Template 1: Credit quality of forborne exposures.

On December 31, 2019, Haitong Bank's credit quality of performing and non-performing exposures and related provisions was as follows:

(Amounts in Thousands of Euros)

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received		
	Performing exposures			Non-performing forborne			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions					On performing exposures	On non-performing exposures
		of which: Stage 1	of which: Stage 2		of which: Stage 2	of which: Stage 3		of which: Stage 1	of which: Stage 2		of which: Stage 2	of which: Stage 3				
Loans and advances to customers	314 845	238 483	76 362	11 883	-	11 883	7 177	2 374	4 803	4 830	-	4 830	(12 037)	-	-	-
Loans and advances to banks	146 008	142 499	3 509	15 077	-	15 077	538	14	524	15 077	-	15 077	-	120 185	120 185	-
Debt Securities	484 439	484 439	-	41 217	-	41 217	1 320	1 320	-	10 636	-	10 636	(57)	-	-	-
Off-balance sheet exposures	130 067	128 127	1 940	23 481	-	23 481	596	547	49	14 721	-	14 721	-	-	-	-

Table 28 – Performing and non-performing exposures and related provisions

Table 28 is aligned with EBA/GL/2018/10 Template 4: Performing and non-performing exposures and related provisions.

According EBA/GL/2018/10 Template 9, Haitong Bank didn't obtain collateral by taking possession or execution processes.

On December 31, 2019, Haitong Bank's credit risk adjustments annual movement was as follows:

(Amounts in Thousands of Euros)

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**47 851**	**730**
Increases due to amounts set aside for estimated loan losses during the period	13 278	7 085
Decreases due to amounts reversed for estimated loan losses during the period	(5 067)	(3 696)
Decreases due to amounts taken against accumulated credit risk adjustments	(13 321)	(57)
Transfers between credit risk adjustments	-	-
Impact of exchange rate differences	1 261	(44)
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Other adjustments	-	(217)
Closing balance	**44 001**	**3 803**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	-
Specific credit risk adjustments directly recorded to the statement of profit or loss	(41)	-

Table 29 – Changes in the stock of general and specific credit risk adjustments

Table 29 is aligned with EBA Template 16: EU CR2-A – Changes in the stock of general and specific credit risk adjustments.

On December 31, 2019, changes in Haitong Bank's stock of defaulted loans and debt securities were as follows:

(Amounts in Thousands of Euros)

	Gross carrying value defaulted exposures
Opening balance	**54 826**
Loans and debt securities that have defaulted or impaired since the last reporting period	32 782
Returned to non-defaulted status	-
Amounts written off	(13 377)
Other changes	(21 131)
Closing Balance	**53 101**

Table 30 – Changes in the stock of defaulted and impaired loans and debt securities

Table 30 is aligned with EBA Template 17: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities.

On December 31, 2019, the amount of the impaired exposures and past due exposures broken down by exposure class, country and significant geographical areas were as follows:

(Amounts in Thousands of Euros)

	Impaired Exposures	Past due exposures	Impairment
Exposures in default	92 778	17 359	46 026
Total by Risk Classes	**92 778**	**17 359**	**46 026**
Portugal	2 227	-	1 174
Spain	5 815	-	1 364
Poland	2 217	2 217	1 626
Brazil	12 156	-	1 267
China	32 782	-	10 493
Other geographical areas	37 579	15 142	30 102
Total by Country	**92 777**	**17 359**	**46 026**
Agriculture, forestry and fishing	2 186	-	1 145
Manufacturing	8 435	-	143
Water supply	165	-	17
Construction	5 177	2 217	2 293
Transport and storage	3 084	-	1 123
Financial service activities, except insurance and pension funding	36 556	15 077	29 079
Activities auxiliary to financial services and insurance activities	2 761	65	1 274
Professional, scientific and technical activities	32 782	-	10 493
Administrative and support service activities	1 631	-	459
Total by industry or counterparty types	**92 777**	**17 359**	**46 026**

Table 31 – Additional disclosure related to the credit quality of assets

Table 31 is aligned with EBA Template 6: EU CRB-A – Additional disclosure related to the credit quality of assets.

12 Encumbered and unencumbered assets

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

Based on this regulatory framework, on January 15, 2014, the Bank of Portugal issued instruction no. 28/2014, which stipulates that the credit institutions and investment companies listed in Article 4-A (subparagraphs a) to d) of the RGICSF that fall under the scope of Regulation (EU) no. 575/2013 and Directive 2013/36/ EU of the European Parliament and of the Council of 26 June (Directive no. 2013/36/EU) are required to provide information on a consolidated basis to the Bank of Portugal and must disclose consolidated information about encumbered and unencumbered assets.

On December 31, 2019, encumbered and unencumbered assets were:

(Amounts in Thousands of Euros)

Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**469,667**		**2,137,243**	
Equity instruments	-	-	36,660	36,660
Debt securities	359,841	359,841	591,411	591,411
of which: issued by general governments	322,190	322,190	373,478	373,478
of which: issued by financial corporations	37,651	37,651	36,787	36,787
of which: issued by non-financial corporations	-	-	181,147	181,147
Other Assets	109,826	-	1,509,171	-
of which: Loans on demand	6,053		631,769	
of which: Loans and advances other than loans on demand	-		460,192	
of which: Other assets	103,774		417,211	

Table 32 – Asset encumbrance - Template A-Assets

On December 31, 2019, the fair value of the collateral was:

Collateral received	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**-**	**135,101**
Equity instruments	-	-
Debt securities	-	135,101
of which: covered bonds	-	-
of which: asset-backed securities	-	-
of which: issued by general governments	-	133,966
of which: issued by financial corporations	-	-
of which: issued by non-financial corporations	-	1 135
Loans on demand	-	-
Loans and advances other than loans on demand	-	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or ABSs	**-**	**0**

Table 33– Asset encumbrance - Template B-Collateral

On December 31, 2019, the liabilities related to encumbered assets and collaterals received were:

(Amounts in Thousands of Euros)

Encumbered assets, encumbered collateral received and matching liabilities	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**373,956**	**463,615**

Table 34 – Asset encumbrance - Template C-Sources of encumbrance

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

- The European Central Bank (ECB) and Brazil Central Bank. ECB funding operations are regulated by Instruction 3/2015 and 1/2016 from Bank of Portugal;
- Repurchase Agreements' transactions where there are Global Master Repurchase Agreements signed between Haitong Bank and each one of its counterparties;
- Initial and variation margins for derivatives where collateral is transferred in line with the Credit Support Annex ('CSA') signed between Haitong Bank and its counterparties;

- Fundo de Garantia de Depósitos (Deposit Guarantee Funds) regulated by the Decree law 176/94, of December 13, 1994, and Bank of Portugal Notice 11/94, December 21, 1994, as amended from time to time.

13 Use of ECAIs

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

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

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

On December 31, 2019, the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2, as well as those deducted from own funds, were as follows:

(Amounts in Thousands of Euros)

Exposure classes	Risk Weight							Original Exposure Factors
	0%	20%	50%	100%	150%	250%	Others	
Central governments or central banks	1,029,208	-	-	1,030	-	-	-	1,030,237
Regional governments or local authorities	-	2,788	-	-	-	-	-	2,788
Public sector entities	-	-	0	-	-	-	-	0
Multilateral Development Banks	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-
Institutions	-	266,836	45,924	15,254	-	-	-	328,014
Corporates	-	1,914	-	728,202	27,839	-	-	757,955
Retail	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	82,866	9,888	-	-	92,754
Items associated with particular high risk	-	-	-	-	27,801	-	-	27,801
Covered bonds	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	2,619	-	-	4 135	6,754
Equity	-	-	-	2,701	-	-	-	2,701
Other items	133 890	-	-	114,505	-	28,251	-	276,646
Total standardised approach	**1,163,098**	**271,538**	**45,924**	**947,177**	**65,527**	**28,251**	**4,135**	**2,525,649**

Exposure classes	Risk Weight							Exposure post CRM and CCF
	0%	20%	50%	100%	150%	250%	Others	
Central governments or central banks	911,776	-	-	-	-	-	-	911,776
Regional governments or local authorities	-	2,573	-	-	-	-	-	2,573
Public sector entities	-	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-
Institutions	-	64,872	18,872	14,834	-	-	-	98,577
Corporates	-	1,914	-	667,458	11,067	-	-	680,439
Retail	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	37,022	9,704	-	-	46,727
Items associated with particular high risk	-	-	-	-	27,742	-	-	27,742
Covered bonds	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	2,619	-	-	4,135	6,754
Equity	-	-	-	1,815	-	-	-	1,815
Other items	133,890	-	-	114,505	-	28,251	-	276,646
Total standardised approach	**1,045,667**	**69,358**	**18 872**	**838,253**	**48,513**	**28,251**	**4,135**	**2,053,048**

Table 35 – Risk Weight by Standardised approach

Table 34 is aligned with EBA Template 20: EU CR5 – Standardised approach.

14 Market Risk

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

On December 31, 2019, and December 31, 2018, Haitong Bank's Market Risk minimum capital (8% of RWAs) composition was as follows:

(Amounts in Thousands of Euros)

Market Risk	Dec. 19	Dec. 18
Capital requirements = Σ(1 to 4)	**19,049**	**23,077**
1. Position risk	**15,055**	**18,492**
1.1. Standardised approach for trading book =(1.1.1.+1.1.2.)		
1.1.1. Debt Instruments	**13,922**	**18,432**
1.1.1.1. Specific Risk	2,067	4,974
1.1.1.2. General risk	11,855	13,455
1.1.1.3. Additional requirements for Options - Non-Delta risk	0	3
1.1.2. Equity	**1,133**	**60**
1.1.2.1. Specific Risk	567	30
1.1.2.2. General risk	567	30
1.1.2.3. Additional requirements for Options - Non-Delta risk	0	0
2. Foreign exchange risk	**3,994**	**4,373**
3. Commodity risk	**0**	**93**
4. Settlement Risk	**1**	**120**

Table 36 – Market Risk own funds requirements

(Amounts in Thousands of Euros)

	RWAs	Capital requirements
Outright products		
Interest rate risk (General and Specific)	174,022	13,922
Equity risk (General and Specific)	14,163	1,133
Foreign exchange risk	49,921	3,994
Commodity risk	-	-
Options		
Simplified approach	-	-
Delta-plus method	2	0
Scenario approach	-	-
Securitisation (Specific risk)	-	-
Total	**238,108**	**19,049**

Table 37 – Market risk under standardised approach (excluding settlement risk)

Table 37 is aligned with EBA Template 34 - EU MR1: Market risk under standardised approach.

15 Operational Risk

Operational Risk own funds requirements determined for prudential reporting purposes as of December 31, 2018, were calculated in accordance with the Standardized Approach (Part III, Title III, Chapter 3 of the CRR). In the standardized approach, own fund requirements are computed as the three-year average of the sum of annual own fund requirements for all segments indicated in figure 7.

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

Figure 7 – Standardized Approach – Business Segments

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

Calculation of the relevant indicator

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

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

The relevant indicator is calculated according to Article 316 of Regulation (EU) no. 575/2013 of the European Parliament and Council:

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

Table 38 – Relevant indicator accounting items

The abovementioned items must reflect the following adjustments, when necessary:

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

(Amounts in thousand Euros)

Operational Risk Relevant Indicator	2017	2018	2019
Standardized Approach	**97 130**	**110 904**	**110 986**
Corporate Finance	45 922	52 452	70 172
Trading and Sales	11 243	20 432	10 389
Retail Brokerage	119	600	662
Commercial Banking	34 893	30 186	21 764
Retail Banking			
Payment and Settlement			
Agency Services			
Asset Management	4 952	7 234	7 999

Table 39 – Operational Risk relevant indicator

Operational Risk own funds requirements determined for prudential reporting purposes, according to information in Figure 7, amounted to EUR 17,841 thousand as of December 31, 2019, an increase of EUR 0,116 thousand when compared to December 31, 2018.

16 Exposures in equities not included in the trading book

The Bank holds positions in shares and risk capital funds in the banking book with the objective of value creation. These include strategic holdings, holdings in companies where the Bank sees an upside potential, equities received as payment in kind for loans and credit converted into equity.

The Bank's banking book exposure in equities is accounted in the investment securities measured at fair value through P&L (FVTPL) portfolio, with changes in value recognized under equity as a separate item - "Fair Value Reserves" – until they are sold or subject to impairment losses.

The methods used to determine fair value emphasize market prices where the securities are listed, whenever available. In the absence of market prices, the Bank uses valuation techniques considered to be the most appropriate for each of the exposures, including the use of recent transactions, when such transactions are known, valuations based on market multiples of entities of a similar nature or valuations carried out by external entities.

The Bank determines that investment securities FVTPL are impaired when there has been a significant or prolonged decline in their fair value. This determination requires a judgment based on the collection and assessment of all available relevant information, including the normal volatility of the financial instruments' prices. For this purpose and considering the high volatility of the markets, the parameter used as impairment trigger for equity securities is the continued or significant decline in their market value against the acquisition cost. In addition, valuations are obtained through mark to market or mark to model that require the implementation of certain assumptions or judgments when estimating fair value. The use of alternative methodologies and of different assumptions and estimates may result in a different level of recognized impairment losses, along with its corresponding impact in the Group's income statement.

(Amounts in Thousands of Euros)

	Quoted shares		Unquoted shares				Other equity instruments		Total	
			Private Equity		Others					
	Dec. 2018	Dec. 2019	Dec. 2018	Dec. 2019	Dec. 2018	Dec. 2019	Dec. 2018	Dec. 2019	Dec. 2018	Dec. 2019
Acquisition cost/Notional amount	1,220	1,220	9,152	8,522	10,295	1,453	27,768	33,226	48,436	44,422
Fair Value	21	13	2,248	1,407	9,695	853	25,800	34,367	37,764	36,640
Market Value	21	13								
Gains or losses arising from sales and liquidations in the period [1]									-1,326	4,700
Total unrealized gains or losses [2]									-10,672	-7,781
Total latent revaluation gains or losses [3]									-10,672	-7,781

[1] Results in the period, before taxes.

[2] Gross fair value reserves, on the reporting date, before taxes and minority interests.

[3] Difference between the fair value and the acquisition cost on the reporting date.

Table 40 – Exposures in equities in the banking book

17 Exposures to interest rate risk on positions not included in the trading book

Interest rate risk in the banking book (IRRBB) refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the Bank's banking book positions.

When evaluating the amounts, types and distributions of internal capital pursuant to Article 79 of Directive 2013/36/EU, Haitong Bank should base the contribution of IRRBB to the overall internal capital assessment on the bank's internal measurement systems output, taking into account key assumptions and risk limits. The overall level of capital should be commensurate with both the bank's actual measured level of risk (including for IRRBB) and its risk appetite.

Capital adequacy for IRRBB should be considered in relation to the risks to internal value given that such risks are embedded in the Bank's assets, liabilities and off-balance sheet items. For risks to future earnings, given the possibility that future earnings may be lower than expected, banks should consider capital buffers.

Haitong Bank aims to capture all material sources of IRRBB and assess the effect of market changes on the scope of its activities and manage IRRBB by measuring the sensitivity of the Internal value of its banking book and the sensitivity of its net interest margin expected in a given time horizon. Although different concepts, EVE and NII are complementary as follows:

- Internal value measures the sensitivity to changes in the net present value of the bank's assets, liabilities and off-balance sheet items subject to specific interest rate shock and stress scenarios while earnings-based measures focus on changes in net interest income within a given time horizon eventually affecting future levels of a bank's own equity capital.
- Internal value measures reflect changes in value over the remaining life of the bank's assets, liabilities and off-balance sheet items, until all positions have run off, while earnings-based measures cover only the short to medium term, and therefore do not fully capture those risks that will continue to influence the P&L beyond the forecast period.

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

The main risk that Haitong is subjected to in terms of IRRBB is the gap risk that arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The extent of the gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve. The change in interest rates leads to the present value and timing of future cash flows, changing the underlying value of Haitong's assets, liabilities and off-balance sheet items and hence, its internal value (EVE). This internal value measure is based on assumptions made for the purposes of risk quantification. In Haitong Bank's case, the assumptions made are the following:

- Own equity and almost equity instruments, like perpetual bonds, are excluded from the calculations.

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

For capital requirements, Haitong considers the following:

$$\Delta EVE = \max(0, \Delta\mathrm{EVE}_{i\in\{1,2\}})$$

where i is the scenario based on a parallel shock of 200 basis points (up and down). A floor of -100bps is set to address unrealistic scenarios for O/N and increases +5bps per year until reaching 0% by the 20y time bucket, maintaining that level for longer terms. The change in EVE is the difference between a base case and an alternative scenario.

$$\Delta\mathrm{EVE}_{i\in\{1,2\}} = \mathrm{EVE}_0 - \mathrm{EVE}_i$$

Both EVE_0 and EVE_i is calculated based on:

$$\mathrm{EVE}_0 = \sum_{t=1}^{19} CF(t_k)DF_0\,(t_k)$$

$$\mathrm{EVE}_i = \sum_{t=1}^{19} CF(t_k)DF_i\,(t_k)$$

The final outcome is presented in the table below:

(Amounts in Thousands of Euros)

Interest Rate Risk	Dec. 2019	Dec. 2018
Total	10,419	1,436
% Own Funds	1.97%	0.27%

Table 41 – Change in EVE as a percentage of own funds.

18 Exposure to securitisation positions

As of December 31, 2019, Haitong Bank did not have asset securitization operations originated by the Group.

19 Leverage

Haitong Bank's leverage disclosures were done according to Regulation (EU) 2016/200 of February 15, 2016, which specifies technical standards to be implemented regarding the disclosure of the leverage ratio for institutions, according to Regulation (EU) no. 575/2013 of the European Parliament and of the Council.

Haitong Bank's leverage ratio is defined as the capital measure (given by the amount of Tier 1 capital) divided by the total exposure measure, as defined in Article 499 of Regulation (EU) no. 575/2013, which corresponds to the sum of the exposure values of all of the Bank's assets and off-balance sheet items after adjustments (namely the application of credit conversion factors to off-balance-sheet items or the exclusion of elements deducted to own funds).

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

Article 429, no. 11, of Regulation (EU) no. 575/2013 is not applicable to Haitong Bank.

The increase in leverage ratio from 18.6% in 2018 to 19.8% in 2019 is mainly justified by the decrease of EUR 198 million exposure eligible for leverage ratio. As of December 31, 2019, Haitong Bank holds a comfortable leverage ratio, compared with the minimum prudential percentage of 3%. Leverage ratio is monitored on a monthly basis, which allows the identification of proper mitigation actions in the case of signs of excessive leverage.

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

(Amounts in Thousands of Euros)

	CRR leverage ratio exposures	Dec. 19
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2,323,096
2	(Asset amounts deducted in determining Tier 1 capital)	(67,201)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**2,255,895**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	148,246
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	58,242
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	**Total derivatives exposures (sum of lines 4 to 10)**	**206,487**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	385,138
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(385,138)
14	Counterparty credit risk exposure for SFT asset	58,380
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**58,380**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	163,550
18	(Adjustments for conversion to credit equivalent amounts)	(28,426)
19	**Other off-balance sheet exposures (sum of lines 17 and 18)**	**135,124**
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
	Capital and total exposures	
20	Tier 1 capital	526,788
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**2,655,887**
	Leverage ratio	
22	**Leverage ratio**	**19.83%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
EU-23	Choice on transitional arrangements for the definition of the capital measure	Phased-in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

Table 42 – Leverage ratio

(Amounts in Thousands of Euros)

	Dec. 19
Total assets as per published financial statements	2,606,910
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
Adjustments for derivative financial instruments	57,764
Adjustments for securities financing transactions "SFTs"	(76,710)
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	135,124
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
Other adjustments	(67,202)
Of which Deferred Tax Assets	(63,208)
Of which Goodwill	(340)
Of which Other Intangibles Assets	(6,967)
Of which IFSR9	3,788
Of which Others	(475)
Total leverage ratio exposure	**2,655,887**

Table 43 – Summary reconciliation of accounting assets and leverage ratio exposures

The leverage tables 42 and 43 are in line with the Commission Implementing Regulation (EU) No 2016/200 of February 15, 2016.

20 Credit risk mitigation techniques

The use of credit protection is a key element of the risk policy and credit decision process, influencing the acceptance criteria, the decision levels, and 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). The calculation of regulatory capital requirements encompasses the effects of the instruments foreseen in Section 2, Chapter 4, Title II, Part III of Regulation (EU) no. 575/2013, namely immovable property collaterals, eligible financial instruments in the Financial Collateral Comprehensive Method, and guarantees provided by sovereigns, financial institutions or entities with external ratings.

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. Because of 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.

As of December 31, 2019, Haitong Bank did not have credit derivatives transactions as unfunded credit protection.

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

Frequency and methods of collateral valuation depend on the nature of the collateral. For listed equity securities and debt securities, valuation is done on a daily basis using market prices.

The pledge of bank accounts valuation is done 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, valuation is based on financial information of the borrower or valuation reports made by external independent entities.

The Bank has an internal system with automatic alerts in place aiming the reassessment of the value of collateral. The Bank also carries out the daily monitoring of credits covered by financial collateral in the form of listed companies (e.g.: verification of loan-to-value covenants).

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

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

On December 31, 2019, in accordance with Part Three, Title II, Chapter 4 of the CRR, including the financial collateral simple method and the financial collateral comprehensive method in application of Articles 222, 223 and 224 of the same regulation on standardised approach capital requirements' calculations and RWA density, Haitong Bank's Credit Risk Mitigation (CRM) techniques applied as follows:

(Amounts in Thousands of Euros)

Exposure Class	Net Exposure Value	CREDIT RISK MITIGATION (CRM) TECHNIQUES WITH SUBSTITUTION EFFECTS ON THE EXPOSURE						CRM techniques affecting the amount of the exposure: funded credit protection. Financial collateral comprehensive method		Exposure post CRM and CCF
		(-) Guarantees	(-) Credit derivatives	(-) Financial collateral: simple method	(-) Other funded credit protection	(-) Total Outflows	Total Inflows (+)	Volatility adjustment to the exposure	(-) Financial collateral: adjusted value (Cvam)	
Central governments or central banks	1,028,679	-	-	-	-	-	-	-	(116,903)	911,776.30
Regional governments or local authorities	2,573	-	-	-	-	-	-	-	-	2,573.00
Institutions	327,351	-	-	-	-	-	-	30,783	(232,748)	98,577.42
Corporates	746,725	-	-	-	-	-	-	4,971	(12,847)	680,438.76
Exposures in default	46,728	-	-	-	-	-	-	-	-	46,726.62
Items associated with particular high risk	27,742	-	-	-	-	-	-	-	-	27,741.66
Collective investments undertakings (CIU)	6,754	-	-	-	-	-	-	-	-	6,753.91
Equity	1,815	-	-	-	-	-	-	-	-	1,814.79
Other items	276,646	-	-	-	-	-	-	-	-	276,646
Total	**2,465,012**	**-**	**-**	**-**	**-**	**-**	**-**	**35,754**	**(362,497)**	**2,053,048**

Table 44 – Credit risk mitigation techniques

(Amounts in Thousands of Euros)

Industry	Unfunded Credit Protection		Funded Credit Protection
	Guarantees	Credit derivatives	
Mining and quarrying	-	-	8 393
Wholesale and retail trade	-	-	4 454
Financial service activities, except insurance and pension funding	-	-	349 650
Total	**-**	**-**	**362 497**

Table 45 – Credit Protection Concentration

Table 45 shows the effect of prudential mitigations and its respective risk exposures by risk class according with Part III, Title II, Chapter 4 of CRR regulation as of December 31, 2019.

(Amounts in Thousands of Euros)

Exposure classes	Exposures before CCF and CRM (Net Exposure Value)		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	898,234	-	898,234	-	0	0.00%
Regional governments or local authorities	2,573	-	2,573	-	515	0.03%
Institutions	32,939	33,511	32,939	6 702	10,701	0.57%
Corporates	521,374	105,970	521,374	47 560	572,077	30.61%
Exposures in default	37,761	8,967	37,761	8 966	51,579	2.76%
Exposures associated with particularly high risk	27,742	-	27,742	-	41,612	2.23%
Collective investments undertakings (CIU)	6,754	-	6,754	-	6,079	0.33%
Equity	1,815	-	1,815	-	1,815	0.10%
Other items	276,646	-	276,646	-	104,248	5.58%
Total	**1,805,836**	**148,449**	**1,805,836**	**63,228**	**788,625**	**42.19%**

Table 46– Standardised approach – Credit risk exposure and CRM effects

Table 46 is aligned with EBA Template 19: EU CR4 – Standardised approach – Credit risk exposure and CRM effects.

Table 46 does not cover derivative instruments, repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions subject to Part Three, Title II, Chapter 6 of the CRR or subject to Article 92(3) point (f) of the same regulation.

21 Liquidity Risk

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

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

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

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

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

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

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

Haitong Bank's liquidity and funding management is under the direct responsibility of the Executive Committee, coordinated at Group level, under the ultimate responsibility of the Chief Executive Officer (CEO) and operational management by the Global Coordinator of Liquidity and Funding Management.

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

Funding from the parent company to its operating subsidiaries is at this point non-existent and, although it cannot be ruled out some sort of assistance when or if needed, it is not considered a regular source of funding. Thus, the Brazilian subsidiary manages its activity in order to ensure that the funding needs are sourced locally in local currency. As a result, the flows between

Portugal and Brazil are extremely rare. Local market idiosyncrasies and the lack of full convertibility of the BRL are the main reasons for this historical segregation.

In 2019, Haitong Bank's major sources of funding were wholesale facilities provided by a Haitong Securities Group company, securities issued and deposits from clients, with the bank using repo markets to fund short term positions especially in Brazil. At the end of 2019, the major funding provider – a Haitong Securities Group company – accounted for 44% of the total funding. Deposits from clients include both retail deposits and other deposits from corporate clients and financial institutions.

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

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

The Brazilian subsidiary's funds are mainly raised in the local currency and thus there is very little foreign currency funding. Excluding Brazil, the main funding currency is EUR, except for the Warsaw subsidiary, which is mostly funded locally in PLN.

The bulk of Haitong Bank's foreign currency funding is done in Haitong Lisbon and although from time to time the Bank may raise funds directly in that foreign currency via deposits and in small amounts, the standard practice is to swap EUR (the main funding currency) into the desired currency.

The majority of the swaps to fund the foreign currency activity of the Bank are the EUR/USD pair, with all other currencies having a residual impact on the amount of funds raised. Given the depth of the market and the sheer volumes traded on a daily basis, Haitong needs are minimal and as such it is considered that convertibility and availability risks are negligible.

Haitong Bank Liquidity Coverage Ratio (LCR)

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

Haitong Bank's LCR average annual figures per quarter for 2019 are presented in the table below:

(Amounts in Thousands of Euros)

LCR Consolidated		Total weighted value (average)			
Quarter ending on		31-03-2019	30-06-2019	30-09-2019	31-12-2019
Number of data points used in the calculation of averages		12	12	12	12
21	LIQUIDITY BUFFER	717.889	686.721	677.880	719.476
22	TOTAL NET CASH OUTFLOWS	120.782	139.847	152.375	151.789
23	**LIQUIDITY COVERAGE RATIO (%)**	**649%**	**512%**	**454%**	**489%**

Table 47 – LCR disclosure table

As shown in Table 47, Haitong Bank has maintained a very solid short-term liquidity position in 2019, with the ratio sitting comfortably above the regulatory minimum requirements of 100%.

22 Remuneration Policy

Regarding Haitong Bank's remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile ("Identified Staff"), information is disclosed in the Remuneration Policy of the Board of Directors and Supervisory Board, in Remuneration Policy of Identified Staff of Haitong Bank, S.A. and in the Annual Report. References to these documents are shown below, together with complementary information, where appropriate:

a) *information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, if applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders;*

Remuneration Policy of the Board of Directors and Supervisory Board – **Sections II, III and IV**
Remuneration Policy of Identified Staff – **Sections III and IV**
The Remuneration Committee held **six meetings in 2019** (one being electronic)
(Haitong Bank's 2019 annual report, "Corporate Governance Report", section II "Corporate Bodies and Committees").

b) *information on the link between pay and performance*

Remuneration Policy of the Board of Directors and Supervisory Board – **Sections VI, VI.II, e) and j)**
Remuneration Policy of Identified Staff – **Sections I, II, IV.10 e)**

c) *the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria*

Remuneration Policy of the Board of Directors and Supervisory Board – **Sections II, VI.II b), c), d), e), f) and j)**
Remuneration Policy of Identified Staff – **Sections VI, VII, VIII and IX**

d) *the ratios between fixed and variable remuneration set in accordance with Article 94(1)(g) of Directive 2013/36/EU*

Remuneration Policy of the Board of Directors and Supervisory Board – **Sections VI, VI.2, b) and c)**
Remuneration Policy of Identified Staff – **Section V**

e) *information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based*

Remuneration Policy of the Board of Directors and Supervisory Board – **Sections II, VI.II a)**

Remuneration Policy of Identified Staff – **Sections I, IV.10 e)**

f) *the main parameters and rationale for any variable component scheme and any other non-cash benefits*

Remuneration Policy of the Board of Directors and Supervisory Board – **Sections II, VI.II** Remuneration Policy of Identified Staff – **Sections III, IV, VII, VIII, IX**

g) *aggregate quantitative information on remuneration, broken down by business area*

(Amounts in Thousand of Euros)

Business Area / Department	Remunerations
Structured Finance	1,500
Capital Markets	1,492
Fixed Income, Currency and Commodities (FICC)	2,767
M&A Advisory	2,567
Asset Management	994
Private Equity	972
Equities & Research	1,175
Global Markets	473
Treasury	871
Control Areas	3,508
Support Areas	17,326
Total	**33,646**

Table 48 – Aggregate quantitative remuneration by business area

h) *aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the institution, indicating the following:*

(i) the amounts of remuneration for the financial year, split into fixed and variable remuneration, and the number of beneficiaries;

2019 Haitong Bank Annual Report, "Corporate Governance Report", Part IV (Remuneration)

(Amounts in Thousand of Euros)

	Fixed Remuneration	Variable Remuneration	# of Beneficiaries
Board Members	1,793	372	5
Identified Staff	5,326	620	32

Table 49 – Aggregate remuneration and number of beneficiaries

(ii) the amounts and forms of variable remuneration, split into cash, shares, share-linked instruments and other types

2019 Haitong Bank Annual Report, "Corporate Governance Report", Part IV (Remuneration)

In 2019 all remuneration was in cash.

(iii) the amounts of outstanding deferred remuneration, split into vested and unvested portions

2019 Haitong Bank Annual Report, "Corporate Governance Report", Part IV (Remuneration)

(iv) the amounts of deferred remuneration awarded during the financial year, paid out and reduced through performance adjustments

2019 Haitong Bank Annual Report, "Corporate Governance Report", Part IV (Remuneration)

(v) new sign-on and severance payments made during the financial year, and number of beneficiaries of such payments

2019 Haitong Bank Annual Report, "Corporate Governance Report", Part IV (Remuneration)

(vi) the amounts of severance payments awarded during the financial year, number of beneficiaries and highest such award to a single person

2019 Haitong Bank Annual Report, "Corporate Governance Report", Part IV (Remuneration)

i) the number of individuals being remunerated EUR 1 million or more per financial year, for remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and remunerations of EUR 5 million and above broken down into pay bands of EUR 1 million

No individual was remunerated EUR 1 million or above in 2019 financial year.

j) Upon demand from the Member State or competent authority, the total remuneration for each member of the management body or senior management

2019 Haitong Bank Annual Report, "Corporate Governance Report", Part IV (Remuneration)