
HAITONG

HAITONG BANK, S.A.
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Registered Share Capital: 844 769 000 euros
Corporate Registration and Tax Payer Number: 501 385 932

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# MANAGEMENT REPORT



# FINANCIAL REPORT



# ANNEXES

# Chairman and CEO's Review

*As the world faced extreme challenges during the first half of 2020, we are proud of Haitong Bank's resilience and speed in adjusting to this unprecedented environment.*

*Our first priority has been the safety and wellbeing of our workforce. The second was to ensure the operational performance of our Bank. We are proud that the Bank was able to implement its contingency plan successfully and continue supporting its clients with no disruption to ongoing business activities, with more than 90% of our employees working remotely, in multiple geographies.*

*Nonetheless, and as we were anticipating, our business in the first half of 2020 has not been immune to the sharp global economic contraction and depressed capital markets. This led to lower interest rates, a steep fall in oil prices, and currency devaluations, namely the depreciation of the Brazilian Real and of the Polish Zloty. In addition, the world has witnessed a further deterioration in geopolitical risks with ongoing newsflow about US-China relations.*

*The Bank's performance reflected a double impact from the pandemic, initially stemming in the Far East during the first quarter, affecting our China-related business, and then reaching the Western Markets in the second quarter. Banking Income in the first half fell by 57% to EUR 24 million, due to lower business activity, particularly in DCM, as these markets were closed to both Chinese and Western issuers, as well as due to the underperformance of FICC activities. As a result, the Bank has interrupted its sequence of consistent positive quarterly results to register a cumulative loss in the first half of EUR 12 million.*

*Despite the headwinds faced in the first half of the year, there have been important green shoots towards the end of the first half, with a strong recovery in the Debt Financing business, both in DCM and Structured Finance transactions as well as in M&A Advisory. In addition, we see that some of our core markets are becoming global growth drivers, particularly Asia. This business recovery, together with a strong pipeline of transactions for the second semester, underpins our optimism for a business rebalancing towards the end of 2020.*

*After the first impact of the pandemic, we entered into a new phase, maintaining our strong capital position as one of the highest capitalised banks of our system with a CET1 ratio of 26.6% and a Total Capital ratio of 33.8%, coupled with a sound liquidity position and record asset quality, with an NPL ratio of 2.3%.*

*This backdrop will support the delivery of our two strategic priorities:*

*(i) The Consolidation of our Business Model based on three main product areas – Debt Financing, Advisory, and Markets Related Activities – and on three business origination sources – our domestic regions in Europe and LatAm, our China access, and the cross-border flows among all these regions;*

*(ii) A Franchise-Driven Organic Growth, serving more clients in more regions, leveraging on our competitive capabilities and strong balance sheet.*

*A clear strategy and realistic business plan, the quality of our human capital and the strength of our shareholder will help us to stay the course and deliver on our goals whilst supporting our clients. We are also prepared to face any further uncertainties as shown by our proven resilience and perseverance.*

*Lin Yong | Chairman*
*Wu Min | CEO*

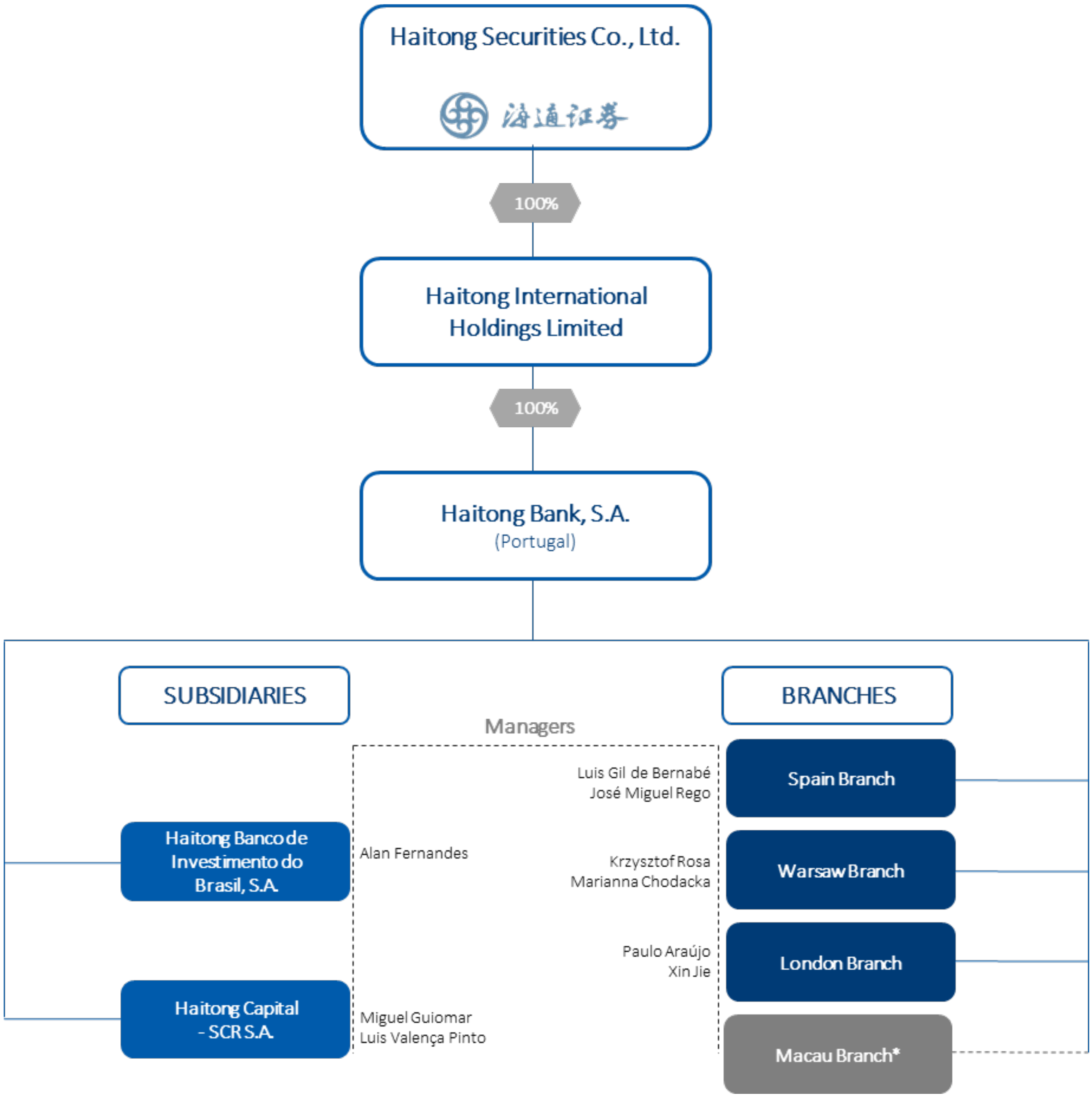
# Key Indicators

*(million euros)*

| | 1H2020 | FY2019 | 1H2019 |
|---|---|---|---|
| ***Balance Sheet*** | | | |
| Total Assets | 2,729 | 2,607 | 2,946 |
| Total Liabilities | 2,141 | 1,991 | 2,327 |
| Total Equity | 588 | 616 | 619 |
| ***Results*** | | | |
| Banking Income | 24 | 108 | 57 |
| Operating Costs | -31 | -72 | -39 |
| Operating Profit | -7 | 36 | 18 |
| Impairment and Provisions | -4 | -23 | -1 |
| Net Profit / Loss | -12 | 8 | 11 |
| ***Profitability*** | | | |
| Return on average shareholders' equity (ROE) | -3.9% | 1.2% | 3.5% |
| Income before tax and non-controlling interests / Average equity (1) | -3.5% | 2.0% | 5.5% |
| Return on average net assets (ROA) | -0.8% | 0.3% | 0.7% |
| Income before tax and non-controlling interests / Average net asset (1) | -0.8% | 0.4% | 1.2% |
| Banking Income / Average net assets (1) | 1.8% | 3.9% | 4.1% |
| ***Efficiency*** | | | |
| Operating costs / Banking income (Cost to Income ratio) (1) | 127.0% | 67.0% | 67.8% |
| Staff Costs / Banking Income (1) | 78.0% | 41.3% | 41.6% |
| ***Credit Quality*** | | | |
| Loan Portfolio (gross) | 335 | 327 | 486 |
| Loan Loss Charge | 2 | 2 | 0 |
| Non-Performing Loans Ratio | 2.3% | 3.6% | 4.6% |
| Non-Performing Loans Coverage | 52.3% | 40.6% | 55.9% |
| ***Solvency*** | | | |
| CET1 ratio (phased-in) | 26.6% | 28.4% | 24.3% |
| Total capital ratio (phased-in) | 33.8% | 35.9% | 30.4% |
| ET1 ratio (fully-loaded) | 26.5% | 28.2% | 24.0% |
| Total capital ratio (fully-loaded) | 33.6% | 35.5% | 30.1% |
| ***Leverage*** | | | |
| Leverage Ratio (phased-in) | 18.4% | 19.8% | 19.0% |
| Leverage Ratio (fully-loaded) | 18.3% | 19.7% | 18.8% |
| ***Liquidity Position*** | | | |
| Net Stable Funding Ratio (NSFR) | 176% | 181% | 152% |
| Liquidity Coverage Ratio (LCR) | 299% | 537% | 402% |
| Loans to deposits ratio ((Gross loans - provisions) / customer deposits) (1) | 31% | 31% | 151% |
| Total Headcount | 369 | 364 | 373 |

*(1) Bank of Portugal Reference Indicators (Notice 23/2011)*

# Organisational Structure




** Pending AMCM approval*

*Through its operations located in Iberia, the UK, Poland and Brazil, Haitong Bank is committed to serving its domestic corporate and institutional clients alongside a growing Chinese Clients base through a team of nearly four hundred professionals.*

# Senior Management

## Board of Directors

**Lin Yong**

*Chairman*

**Wu Min**

*Chief Executive Officer*

Treasury & FICC
Corporate Solutions
CEO Office
Human Resources
Finance

**Alan Fernandes**

*Executive Board Member*

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

**Miguel Guiomar**

*Executive Board Member*

Capital Markets
Structured Finance
M&A
Asset Management
Haitong Capital – SCR, S.A.

**Nuno Carvalho**

*Executive Board Member*

Compliance & AML-FT
Legal
Special Portfolio Management
IT & Administrative
Internal Audit

**Vasco Câmara Martins**

*Executive Board Member*

Risk Management
Rating
Operations

**António Domingues**

*Non-Executive Board Member*

**Martina García**

*Non-Executive Board Member*

**Pan Guangtao**

*Non-Executive Board Member*

**Paulo Martins**

*Non-Executive Board Member*

**Vincent Camerlynck**

*Non-Executive Board Member*

**Zhang Xinjun**

*Non-Executive Board Member*

## Senior Managers with a Seat on the Executive Committee

**António Pacheco**

*Head of Finance*

**Pedro Costa**

*Head of CEO Office*

*Head of Corporate Solutions*

*Secretary to the Executive Committee and Board of Directors*

# Business Strategy

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


*The Bank's strategy is underpinned by 3 drivers: (i) its domestic franchise in Iberia, Poland and Brazil, (ii) its China Angle, and (iii) the cross-border business among these regions as well as China.*

# PRODUCT

## Business Model

*Debt Financing*

### DCM

- Cross-border Eurobonds structuring and underwriting
- Local bonds issuance
- Short-term debt instruments

### Structured Finance

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

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### FICC

- Flow Bond Trading and Sales
- Corporate Hedging Solutions

### Investment Services

#### Asset Management

- Cross-asset Experience: Equity, Fixed Income and Quant
- Local expertise: Europe and China
- Discretionary Mandates and Fund management

#### Private Equity

- Infrastructure fund
- Growth capital funds

*Markets-Related*

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*Advisory*

### M&A Advisory

- Sell-side and buy-side advisory
- Advisory on asset disposals
- Company valuations

# Capital Markets

## OVERVIEW

The Capital Markets Division comprises origination, structuring and execution of market-oriented debt and equity instruments. The Bank provides its services to corporates, financial institutions, public companies and state-related entities.

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

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

**30%**

**Weight in Total Banking Income**

### *OFFERING*

- *Cross-border Eurobonds structuring and underwriting*
- *Local Bond Issuance*
- *Short-term debt instruments*

## STRATEGY

*Well positioned to play the "China House" role*

The Capital Markets business area is mainly focused on DCM activities with residual ECM origination on a case-by-case analysis.

**€7.2m**

**Banking Income Amount**

The DCM business strategy is based on two pillars: (i) Historical franchise (local debt issuance in Portugal, Spain, Poland and Brazil), leveraging on its local underwriting, structuring and distribution capabilities; and (ii) China-related business, leveraging on Haitong Group-wide origination capabilities and Haitong Bank's underwriting, structuring and distribution competences.

The Bank is well positioned to play the "China House" role, leveraging on its prominence over the last 3 years in EUR denominated transactions for Chinese issuers. In addition, the Bank leverages on the Group's unique access to Asian pools of demand. This includes the growing opportunities in Panda Bond markets as China opens up to foreign issuers in local CNY denominated instruments.

# 1H2020 MARKET REVIEW

## Debt Capital Markets (DCM)

The Covid-19 pandemic dominated world headlines during the first half of 2020 and its impact is being felt by every single nation, economy and its people across the globe. Therefore, this was the major influence on the international debt capital markets in the first half of this year.

Initially, as financial markets tried to assess any possible outcomes of the coronavirus, new issuances across all asset classes ground to a halt in mid-February, starting in Asia and then spreading to CEEMEA and LatAm until late March. Governments, their central banks and inter-governmental agencies such as the IMF and World Bank reacted quickly to implement fiscal measures to fight Covid-19. Although the coronavirus was not a financial crisis, many national governments and regulators knew they could not waste time and their collaboration and concerted action succeeded in reassuring global financial markets.

As confidence stemming from the international financial and political responses returned, there was a bond issuance rush in both developed and emerging market economies. As sovereigns raised funding to mitigate economic risks and shocks to their own economies and societies, many sovereign issuers returned – where possible – to sell new and unplanned bonds.

Overall, global debt capital markets activity totalled USD 5.5 trillion during the first half of 2020 (“1H2020”), a 35% increase compared to the same period of last year and the strongest opening six-month period for global debt capital markets activity since records began in 1980. The number of new offerings brought to market in the period surpassed 13,000 for the first time on record. The second quarter of 2020 (“2Q2020”) debt issuance, which ranks as the largest three-month period for activity on record, registered a 52% increase compared to the first quarter of 2020 (“1Q2020”).

With a record month for global high yield corporate debt in January (USD 65.0 billion) and US high yield corporate debt in June (USD 48.5 billion), 1H2020 global high yield debt reached USD 251.4 billion, an increase of 22% compared to the first half of 2019 (“1H2019”) and the strongest opening six-month period for global high yield issuance since 2014.

International bond offerings totalled a record USD 3.1 trillion during 1H2020, a 38% increase compared to a year ago and an all-time high. International offerings from issuers in Germany, France and the United Kingdom accounted for 21% of overall issuance, down from 23% a year ago. Green bond issuance totalled USD 73.9 billion during 1H2020, a 17% decrease compared to 1H2019. 2Q2020 green bond issuance totalled USD 46.6 billion, a 74% increase compared to 1Q2020 and the third largest quarter on record.

## Equity Capital Markets (ECM)

Equity capital markets activity totalled USD 447.2 billion during 1H2020, a 41% increase compared to a year ago and the strongest opening period for global equity capital markets activity since 2015. By number of issues, 2,444 ECM offerings were brought to market, a 12% increase compared to a year ago and a two-year high. 2Q2020 issuance totalled USD 317.2 billion, more than doubling the activity seen during 1Q2020 and marking the strongest quarter for global ECM proceeds since the fourth quarter of 2010.

Global initial public offering activity during 1H2020 totalled USD 57.3 billion, a 21% decrease compared to last year and the slowest first half for global IPOs since 2016. IPOs on US exchanges decreased 33% during 1H2020, while China-domiciled IPOs totalled USD 23.2 billion, a 37% increase and a two-year high. During June 2020, global IPO activity totalled USD 18.1 billion, more than doubling the activity seen during May 2020 and tripling April 2020 levels.

Bolstered by a record number of monthly offerings, global secondary offering activity totalled USD 295.6 billion during 1H2020, a 66% increase compared to a year ago and the strongest first half since 2016. Secondary offerings totalled USD 93.9 billion from 512 issues during June 2020, the second largest month for secondary offerings proceeds behind December 2009 (USD 120.7 billion) and the largest ever month for the number of secondary offerings ahead of November 2017 (449).

Global convertible offerings totalled USD 94.3 billion during 1H2020, accounting for 21% of global equity capital markets activity, on par with levels seen during 1H2019. Convertible offerings reached the highest first half levels since 2007. Convertible offerings from companies in the Technology, Healthcare and Industrials sectors accounted for 55% of overall issuance.

## ACTIVITY HIGHLIGHTS

In Portugal, Haitong Bank's activity during 1H2020 was marked by several private placements of commercial paper that functioned as liquidity buffers for the issuers to deal with the uncertainties caused by the Covid-19 pandemic and the quarantine imposed by the Portuguese Government.

The 3Q2020 is expected to be much stronger and several mandates should materialize during these months with issuers needing to refinance debt already repaid during 1H2020 or due to be repaid in the first months of 2021.

Haitong Bank continues to successfully bring Chinese borrowers to the international debt capital markets via both public and private placement formats. Some of the cross-border DCM transactions successfully closed by Haitong Bank in the first half of 2020 include:

- Private placement of USD 95 million 7.5% bonds due 2023 for Neijiang Investment Holding Group Co., Ltd.;
- USD 670 million 2.107% bonds due 2025 issued by Haitong International Finance Holdings 2015 Limited unconditionally and irrevocably guaranteed by Haitong Securities Co., Ltd.; and
- USD 500 million 4.3% guaranteed bonds due 2023 issued by Shangrao Investment Holdings International Company Limited.

In Poland, the beginning of 2020 in terms of number of bond issues in the market was not spectacular, but no-one could predict such an unprecedented situation as COVID-19. Panic in the financial markets caused, among others, significant outflows from investment funds with funds allocated to bonds' purchases as well as significantly reduced available financing from corporate banks and other entities. Therefore, the corporate debt market practically froze.

Despite such a difficult and unprecedented situation, Haitong Bank's branch in Poland is working to implement a new approach to bonds transactions, which will allow bond issuers to obtain financing under current market conditions. The branch expects to execute these transactions during the second half of the year.

Although market conditions have been hard over recent months, Capital Markets activity in Spain started the year at the same high level of operations as it closed 2019. During this first half of 2020, especially in the first quarter, some of the successfully closed transactions by Haitong Bank's branch in Spain include:

- Private Placement of EUR 9.75 million for Reden Solar, an integrated producer of solar energy. Haitong Bank acted as Placement Agent;

- Euro Commercial Paper Programme (ECP) of EUR 100 million for Sacyr, a listed Construction and Infrastructure company. Haitong Bank acted as Dealer;
- Promissory Note Programme of EUR 100 million for Via Celere, a Real Estate company. Haitong Bank acted as Dealer;
- Commercial Paper Programme of EUR 75 million for Tradebe, an Environmental services and waste management company. Haitong Bank acted as Dealer;
- Commercial Paper Programme of EUR 30 million for Copasa, a Construction, development of infrastructures and provision of urban, logistic, and energy services company. Haitong Bank acted as Dealer.

Debt Capital Markets activity in Brazil was severely affected by the Covid-19 pandemic and the continuous decrease in local interest rates, which reached its lowest historical levels. In the wake of that, 1H2020's debt issues totalled BRL 95 billion, representing a 31% YoY decrease, with an important characteristic: approximately 87% of this amount were bi-lateral credit transactions, in which the bookrunners exercised the firm underwriting commitment provided.

It is important to note that the aforementioned transactions' use of proceeds were for working capital needs, with the average tenor ranging from 1 to 2 years (with a substantial increase in the structuring of Commercial Paper as opposed to traditional long-term Debentures), given the companies were pursuing cash reinforcement in light of the strong revenues reduction due to quarantine-imposed restrictions during 2Q2020.

Despite all this, Haitong Bank in Brazil successfully closed 2 important transactions during the first 6 months of 2020:

- Ventos de São Clemente Holding S.A. – Haitong Bank acted as Sole Lead Manager in a 9-year BRL 20 million local debenture pursuant ICVM 476. The company is a prominent player in wind energy generation in the country's Northeast region ;
- Celesc Distribuição S.A. – Haitong Bank acted a Bookrunner in a syndicated 1-year BRL 489 million commercial paper, also pursuant ICVM 476. Amongst the Brazilian electricity distributors, Celesc was the 6th largest in supply revenues, the 7th in terms of amount of energy distributed and the 10th in terms of number of consumers in 2019.

## PORTUGAL

SOE CHINA

NJIH 南投集团

US$ 95,000,000 7.5% bonds
due 2023

**US$ 95,000,000**

Joint Lead Manager

**2020**

**HAITONG**

FIG CHINA

海通证券股份有限公司
HAITONG SECURITIES CO., LTD.

US$670,000,000 2.107% guaranteed bonds
due 2025

**US$ 670,000,000**

Joint Global Coordinator, Joint Lead Manager, Joint Bookrunner

**2020**

**HAITONG**

SOE CHINA

上饒投資控股集團有限公司
SHANGRAO INVESTMENT HOLDING GROUP CO., LTD.
(incorporated in the People's Republic of China with limited liability)

US$500,000,000 4.3% guaranteed bonds
due 2023

**US$ 500,000,000**

Joint Lead Manager, Joint Bookrunner

**2020**

**HAITONG**

## SPAIN

ENERGY | SPAIN

REDEN SOLAR

Private Placement

**€ 10,000,000**

Placing Agent

**2020**

HAITONG

INFRASTRUCTURE & TRANSPORT | SPAIN

sacyr

Commercial Paper Programme

**€ 200,000,000**

Dealer

**2020**

HAITONG

CONSTRUCTION & REAL ESTATE | SPAIN

vía célere
Casas que innovan tu vida

Promissory Note Programme

**€ 100,000,000**

Dealer

**2020**

HAITONG

SERVICES | SPAIN

TRADEBE

Commercial Paper Programme

**€ 75,000,000**

Dealer

**2020**

HAITONG

CONSTRUCTION & REAL ESTATE | SPAIN

COPASA

Commercial Paper Programme

**€ 30,000,000**

Dealer

**2020**

HAITONG

## BRAZIL

ENERGY | BRAZIL

Celesc Distribuição S.A.

Commercial Paper

**R$ 489,000,000**

Joint Bookrunner

**2020**

HAITONG

ENERGY | BRAZIL

echoenergia
Ventos de São Clemente Holding S.A.

Debenture

**R$ 20,000,000**

Sole Lead Manager

**2020**

HAITONG

## 2H2020 OUTLOOK

Despite the lingering threat of further waves of Covid-19, Haitong Bank is optimistic about the prospects for the global economy in the second half of 2020. At present, most major central banks are coordinated in their efforts to support the global economy and treasurers are sticking to an agenda. Reports across the globe are generally indicating an improvement in economic activity driven by new orders, even though exports and employment remain weak.

On the equities side we believe these markets remain attractive and will continue to rally further in 2020. Regarding fixed income, we believe that rising inflation will cause bond prices to fall moderately, especially among long-dated treasuries and investment grade issues. We expect frequent issuers to tap the markets with benchmark deals as in previous years, and given the deterioration in revenues we also expect to some issuers to ask bondholders to waive financial covenants, which could give the Bank an opportunity to generate fee-based income.

In Portugal, following the positive take-up by retail investors in 2019 of non-rated issues by well-known names in the Portuguese market, we expect to see a pipeline of similar transactions in 2H2020 and some opportunities in green or social bonds. In Spain, the DCM team is actively working to bring in business and has continued to win mandates and expects to execute deals during the second half of the year. In Brazil, the Bank foresees a recovery of overall activity during 2H2020, with a positive outlook with regards to the gradual return of the institutional investor-related DCM business. Additionally, in order to improve the range of transactions, Haitong Bank in Brazil is also acting as bookrunner in: (i) private placement deals for dedicated credit-oriented investors; and (ii) credit transactions to be allocated in the Structured Finance book on a hold-to-maturity basis.

# Structured Finance

## OVERVIEW

*A Structured Finance and Infrastructure Specialist with a China Angle*

With a long track record and expertise in project finance, acquisition finance and other credits, the Structured Finance Division develops financing solutions and provides services to its clients through the following main activities:

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

**26%**

**Weight in Total Banking Income**

## STRATEGY

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

**€6.3m**

**Banking Income Amount**

Taking advantage of Haitong Bank's expertise in project finance and in the infrastructure sector, a particular focus is placed on cross-border business opportunities in coordination with Haitong Group and other investors.

### *OFFERING*

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

# ACTIVITY HIGHLIGHTS

In the first half of 2020, the Structured Finance business area achieved total banking income of EUR 6.5 million and a cost-to-income ratio of 16%, ending the period with a positive gross profit of over EUR 5 million.

During this period, a total of 6 new transactions have been successfully closed in Europe, covering the real estate, telecoms and construction sectors in Portugal, Spain and Poland. Despite the negative effects of the Covid-19 pandemic, this achievement reflects the current positive dynamics of the Structured Finance activity as a result of the increased and coordinated commercial efforts between the product area and the various geographies in which the Bank has a presence.

The recently created area of Corporate Solutions within Haitong Bank in Portugal has also made a positive contribution to the Structured Finance business by intensifying the dialogue with the corporate space in Portugal and has led to the origination and closing of several new lending opportunities with some of the most important corporate names in the country.

The China-related business has also remained very active with a number of deals in the pipeline. Among these opportunities, a large real estate development in the London area, sponsored by a top tier Chinese company, is expected to reach financial close in the third quarter of 2020.

The active and careful management of the Bank's existing portfolio of credits and agency services, from both a risk and return perspective, have also continued to be one of the most important tasks for this product area.

Overall, in the Structured Finance activity, the Bank continues to position itself as a solution provider to clients guided by a constructive approach and a focus on added-value transactions.

In Brazil, the expectations of increasing financing activities during the first half of 2020, due to the prospect for even greater GDP growth compared to 2019, were negatively impacted by the Covid-19 pandemic. In addition to the reduction in the financing activities, the Government suspended the agenda for PPP and infrastructure concession auctions. Despite the extremely challenging environment, the Structured Finance activity was positive, especially taking into consideration the closing of 5 transactions and the granting of financing and guarantees to companies in the energy, packaging and logistics sectors, among others, in the amount of approximately BRL 180 million.

Structured Finance Division continued to collaborate with the Capital Markets Division, generating synergies and seeking mandates for bridge loan transactions – for which the take-out will be structured through Capital Market deals.

At the same time, the Bank continues to seek to position itself with investors, mainly Chinese and European, interested in closing structured financing transactions and in partaking in the infrastructure sector, namely in the railroad, energy transmission and generation, sanitation, highways, subway and waste management sectors.

CONSTRUCTION & REAL ESTATE — PORTUGAL

SONAE SIERRA

Loan Facility under the form of a Commercial Paper to Sierra European Retail Real Estate Assets Holdings B.V.

**€ 15,000,000**

Lender, Arranger

**2020**

HAITONG

CONSTRUCTION & REAL ESTATE — BRAZIL, PORTUGAL

SUPREMO SECIL CIMENTOS

Cross Border Loan to Supremo Cimentos, S.A.

**€ 12,500,000**

Mandated Lead Arranger

**2020**

HAITONG

TMT — SPAIN

BT

Senior Loan to Cartera Ruby, S.L.

**€ 89,500,000**

Hedge Provider

**2020**

HAITONG

ENERGY — BRAZIL

STEELCONS

Loan

**R$ 49,200,000**

Lender

**2020**

HAITONG

PACKAGING — BRAZIL

ADAMI S/A

Export Credit Note

**R$ 40,000,000**

Lender

**2020**

HAITONG

SERVICES — BRAZIL

aegea

Bank Guarantees

**R$ 20,000,000**

Guarantor

**2020**

HAITONG

## 2H2020 OUTLOOK

For 2H2020, the business prospects are positive as the completion of a number of Structured Finance deals is expected in several geographies in Europe and in Brazil.

The pipeline of new structured finance deals remains strong and growing where the real estate / accommodation, energy and waste to energy and infrastructure sectors are currently among the more representative ones in terms of new business opportunities.

The positive business prospects for Haitong Bank's Structured Finance activity are also supported by the Bank's unique positioning with a long established international footprint and as part of a strong Chinese financial group, where the Structured Finance business is one of the key products within the full range of investment banking services the Bank offers to its clients.

# Mergers and Acquisitions

## OVERVIEW

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

**22%**

**Weight in Total Banking Income**

Haitong Bank's dynamic M&A division leverages upon a team of experienced professionals with a longstanding local network and a strong execution track record in several geographies.

### *OFFERING*

- *Sell-side and buy-side advisory*
- *Advisory services on asset disposals*
- *Company valuations*

## STRATEGY

Global institutional and strategic investors constitute an important part of the Bank's client base, taking advantage of Haitong Group's strong position in various markets, including support provided to Chinese companies in executing their internationalization strategy in Europe and Latin America.

*Local Player with China Angle*

**€5.4m**

**Banking Income Amount**

## 1H2020 MARKET REVIEW

During 1H2020, global M&A activity decreased by 53% YoY in terms of the value of completed transactions, totalling USD 902 billion, according to Merger Market. In Europe, the M&A market did not follow the global trend, increasing by 31% YoY in terms of value of completed transactions, reaching USD 292 billion.

Portugal registered USD 4.1 billion of completed transactions during 1H2020, with 31 deals closed, which represents slight growth YoY. This performance, despite the economic slowdown due to the global pandemic, is due to three large transactions in the Real Estate, Infrastructure and Insurance sectors.

In Spain, the value of M&A completed transactions for 1H2020 amounted to circa USD 14.2 billion, totalling 155 closed deals and following the European trend.

The UK remains an important destination for global cross-border deals. However, the uncertainty caused by the COVID-19 pandemic as well as the ongoing Brexit process continues to impact M&A activity.

In Poland, the M&A market totalled 51 transactions during 1H2020 vs 109 during the same period of 2019. The value of M&A transactions completed amounted to circa USD 3.3 billion. Overall, the Polish economy seems to be quite resilient to the COVID-19 turbulence with the lowest envisaged GDP slowdown among all the EU countries in 2020, which should also help to generate good M&A flow of business.

In Brazil, M&A activity reached a total of USD 9.75 billion, a significant decrease when compared to 1H2019. It is worth noting that the deal value in 2019 was dominated by two large transactions, the merger of Fibria and Suzano (Pulp & Paper sector, USD 15 billion) and TAG (Oil and Gas sector, USD 9 billion).

## ACTIVITY HIGHLIGHTS

In Portugal, during 1H2020, Haitong Bank advised Mota-Engil on the sale of Mercado do Bom Sucesso to a consortium between Mercado Prime (Amorim family, with 80%) and Sonae Sierra (20%). Mercado do Bom Sucesso is an emblematic city-market located in Avenida da Boavista, in Oporto. The market was renovated in 2009 and is nowadays a commercial and tourist reference point in the city, including retail and office areas and a hotel.

Haitong Bank also acted as a sell-side advisor of a portfolio of renewable assets (which is expected to be concluded during 4Q2020); as a buy-side advisor to a leading healthcare player in the acquisition of a senior citizens' residence (expected to be concluded during 3Q2020) and performed valuation exercises on several subsidiaries of a major Portuguese group. Additionally, together with the Spanish team, Haitong Bank advised an investor on the acquisition of a significant portfolio of solar photovoltaic operating assets in Spain (expected to be concluded during the course of 2020).

In Spain, Haitong Bank advised on the following transactions

- Financial advisory services to Iberdrola and Naturgy on the divestment of their stake in Empresarios Agrupados. Empresarios Agrupados is a global leading independent engineering firm with over 45-year experience in the industry and has been involved in nuclear, thermoelectric and renewables projects worldwide. The deal was completed in January 2020;
- Financial advisory services to Aldesa in the sale of a majority stake to CRCC International Investment Group Limited. Aldesa is a top 10 construction group in Spain and Mexico and has completed more than 2,000 works worldwide. The deal was completed in May 2020.

During 1H2020, the Brazilian M&A team has worked on three cross-border deals in the energy and O&G sectors. Some of these projects were impacted by COVID-19 with the transactions being put on hold, with the aim of being resumed in future. In order to diversify its revenue stream, the team has enhanced its efforts to originate deals domestically, expanding its origination capabilities and putting a greater emphasis on local commercial initiatives. These are expected to bear fruit in the medium term as deal activity recovers and capital from financial investors returns to the market.

CONSTRUCTION & REAL ESTATE | PORTUGAL

MOTA-ENGIL

Financial advisory to Mota-Engil on the disposal of Mercado do Bom Sucesso to Mercado Prime (Amorim Family) and Sonae Sierra

Financial Adviser
**2020**
HAITONG

CONSTRUCTION & REAL ESTATE | SPAIN

aldesa

Financial Advisory to Aldesa in the sale of a majority stake to CRCC International Investment Group Ltd. a wholly owned subsidiary of China Railway Construction Corporation Ltd

Financial Adviser
**2020**
HAITONG

ENERGY | SPAIN

IBERDROLA Naturgy

Financial Advisory to Iberdrola and Naturgy in the sale of their stake in Empresarios Agrupados Group and Ghesa to China Energy Engineering Group Planning & Engineering Co. Ltd

Financial Adviser
**2020**
HAITONG

## 2H2020 OUTLOOK

The outlook for 2H2020 in the M&A business is very encouraging in all the regions where the Bank operates based on a robust deal pipeline.

In Iberia for 2H2020, M&A activities are expected to see a strong recovery mainly driven by a mix of reactivation of postponed processes and investments from private equities with abundant funds starting to be deployed once more and an environment of potentially lower valuation expectations.

In the UK, Brexit will continue to impact the M&A market in 2H2020 and some companies will likely consider turning to M&A in order to consolidate businesses, secure supply chains and overcome trade and regulatory barriers and tariffs.

In Poland, the M&A market for 2H2020 still looks positive with a number of envisaged transactions in the pipeline (large in the TMT and infrastructure sectors, mid-caps driven by consolidation trends and succession issues across a number of sectors such as financial services, agrifood, medical, etc). Because of COVID-19, some in-depth discussions with regards to valuations and a growing trend for using earn-out formulas are expected.

In Brazil, the coming months should see an increment in deal value as large divestments are planned to be pursued by Petrobras and large privatizations should be carried out by the Brazilian Federal Government. However, the number of deals should still remain low in 2H2020 as a consequence of the economic impact of the shutdowns in different regions of the country caused by COVID-19 and a potential increase in the unemployment rate.

# Fixed Income, Currency and Commodities

## OVERVIEW

The Fixed Income, Currency and Commodities (FICC) Division remains an important player in Haitong Bank's key markets (Iberia, Poland, Brazil and the UK). This Division works as a 'product factory' and as a distribution platform for debt products and OTC derivatives, bringing strong local knowledge to an international platform level and capturing the flow between clients in different regions.

**-5%**

**Weight in Total Banking Income**

The FICC team covers four areas:

- Flow Trading
- Fixed Income Sales
- Corporate Derivatives
- Syndication

### *OFFERING*

- *Flow Bond Trading and Sales*
- *Debt products placement*
- *Corporate Hedging Solutions*

## STRATEGY

*Product development and international distribution platform based on strong local expertise*

FICC will continue to follow Haitong Bank's strategic guidelines, making the necessary effort and developments to strengthen our local position in different geographies and add the Chinese Angle to our current offer. By building a strong connection with Chinese local teams and having dynamic teams in our different offices, we can create important synergies and become an execution hub crossing flow and business opportunities between different geographies.

**€-1.2m**

**Banking Income Amount**

# ACTIVITY HIGHLIGHTS

The shock waves across global capital markets as a result of the pandemic have significantly impacted the FICC activities during the first half of 2020.

During this period, the main focus was on protecting people and ensuring business continuity given a new and unknown work environment.

The FICC teams managed to mitigate the impacts resulting from the combination of several effects: the underperformance of portfolio assets, the general credit deterioration, the CVA costs associated to corporate hedging solutions, the increase in collateral on hedging positions and the general activity reduction both with institutional and corporate clients.

During this first semester and in order to deal better with the uncertainty and lack of knowledge about the real impact of the pandemic on the global economy and on the performance of the main assets, some measures to improve risk control were taken, while reducing the capacity to assume risk.

## Flow Trading

During 1H2020, the Bank had to adjust its activity rapidly to focus on clients' needs regarding liquidity by trying to find a home for their bonds, especially during the months of March and April. European policies, both from the ECB and the Counsel helped to stabilize markets and we were able to diminish risk by repositioning in investment grade front-end bonds. The tightening movement in spreads that drove stretched valuations to a plateau might suffer some volatility given the continuing pandemic environment together with US elections and significant geopolitical issues (i.e., China/US trade war).

We expect a more benign 4Q2020 with more volume, a more balanced flow between buyers and sellers as a result of a clearer view on COVID-19's impacts on the global economy.

## Fixed Income Sales

In Iberia, the team maintained its focus on strengthening the distribution capacity platform for FICC and investment banking products and was able to increase the number of active clients. Following the start of the COVID-19 pandemic, the sales teams had a significant role in increasing the flow and riskless trades taking advantage of wider bid/ offer spreads, lack of liquidity and fire sale from several investors.

New DCM transactions stopped during 1H2020 as a result of poor market conditions, particularly in the high yield market. The teams have managed to place a few short-term notes and focused on organising corporate and macroeconomic conference calls to update investors on issuers and the global economic situation.

In Poland, the National Bank of Poland launched its first-ever QE program in response to the COVID-19 pandemic and cut the base rate by 140 bps in three quick moves between March and May. It has since kept it stable at 0.1% and it will probably do so until the end of the year. This cut caused panic cash outflows both from local banks and investment funds pushing them to sell bonds. We have also seen, for at least the last three quarters, foreign investors reduce their share in Polish bonds. Only in May we see a slight increase as the Ministry of Finance issued new 2-year, 5-year and 10-year benchmarks.

This outflow led to lower liquidity and turnover on the market and even Bondspot, the main bonds prices delivery platform, decided to widen its bid/offer spread.

As a part of QE, NBP bought the equivalent of 2.3% of GDP in government bonds and another 1.7% of GDP in so-called COVID bonds issued by the development bank, BGK, and the sovereign investment fund, PFR (Polish Development Fund).

What we think is worth highlighting is that contrary to the intended purpose of QE to boost lending and investment local banks have kept over PLN 160 billion in NBP accounts .The lack of foreign investors has a huge impact on the liquidity of the Polish market and this situation seems unlikely to change any time soon. The market is illiquid and local investment funds have recently moved to a “wait and see” mode.

In Brazil, the capital markets were practically catatonic in the last quarter of 2019 due to the massive migration of investors’ portfolios from fixed-income to other asset classes due to the very low Selic rate. Activity saw the beginnings of a tentative recovery at the start of the year but this was halted by the COVID-19 pandemic.

The pandemic environment led to a huge reshaping of the Brazilian investment industry. In this process credit funds, who have been the main player in the recent DCM activity growth, will have to reinvent themselves.

In this environment, debt markets were led by commercial banks who controlled the refinancing of companies’ debt-deals through syndicate operations. It is important to highlight that credit spreads have been through an adjustment in order to take into account the new reality and changes on the demand side where the institutional investor is playing a smaller role.

Haitong Bank in Brazil set up a debentures portfolio with high quality names, taking advantage of the disruption in prices. It has also participated in a syndicate deal for the refinancing of a local bond of an energy sector company.

Going forward one see a very challenging environment. The usage of the balance sheet to absorb part of the deals and the focus on 2nd tier companies that attract credit specialized portfolio managers is the strategy we believe to be the most efficient.

## Corporate Derivatives

In Iberia, 2020 had a strong start in the first quarter, mainly in commodities hedging (energy) with growth of 280% YoY. This was reversed with the COVID-19 pandemic, with a drop of 42% YoY in the second quarter as the Bank chose prudential measures to reduce exposure to the most volatile underlying components of the derivatives portfolio, namely EUR/USD and oil. Nevertheless, although exposure to clients without CSA consumed a significant amount of CVA and funding, the exposure to more exotic derivatives in EUR/USD was controlled and maintained within the expected range for potential future exposure through restructurings and fewer deals traded.

The same did not happen with commodities as WTI reached negative levels never seen nor imagined. The commodities portfolio has been closely monitored and the exposure has been reduced to approximately 50% in the last 2 months, with the recovery of the Brent to over USD 40 and contracts expiring and settling as expected.

On the interest rate side, clients have shown no appetite for hedging and we expect a negative rates scenario to continue until at least until 2021.

In Brazil, we have continued our strategy to recover flow activities in order to build a broader client portfolio and to generate a recurring stream of revenues.

In this strategy, the increase in FX services business has been the big lever since 2H2019 and is responsible for the major share of revenues. A set of new clients are in place in this activity and revenues are been running at a good monthly amount. On the derivatives side we see good prospects of increasing the number of clients with very good names.

The crucial points are: achieve a more efficient and fast credit approval process; and provide clients credit lines in addition to the sole derivative limit. This approach should drive higher traction for the business.

## Syndication

In terms of primary deals in both the Iberian and Chinese markets, the first half of 2020 was market by COVID-19's effects on the economy and financial markets.

We first faced several weeks of closed markets as the markets readjusted in terms of pricing with an expected increase in spreads, especially for the high yield sector versus the investment grade. When the markets reopened, we saw a different path for investment grade and high yield sectors.

Taking advantage of the central banks' support packages of liquidity we saw a record number of new issues in the investment grade segment. That category of company tried to issue as much as possible to guarantee funding for this year and avoid another period of markets being closed without sufficient funding.

Conversely, the high yield sector has continued to seed new issues volumes very subdue and below normal. The vast majority of Haitong Bank's issuers are in this segment so the new issues business in the first half of 2020 was significantly reduced.

The teams continue to push meetings (in a digital format due to contagion risks) between companies and investors to discuss the changing business prospects and financial situations. JM Saúde was one of the issuers who requested we liaise with investors.

As the COVID-19 situation becomes clearer, the High Yield sector should resume its previous issuance pace. If that happens sooner rather than later we should have a good second half of 2020.

# Asset Management

## OVERVIEW

*Leveraging on a long and successful track record*

**4%**

**Weight in Total Banking Income**

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

**€1.1m**

**Banking Income Amount**

### *OFFERING*

- *Discretionary Portfolio Management*
- *Fixed Income Asia Bonds Fund*
- *New initiatives: Green Bonds; Quantitative strategies*

## STRATEGY

The strategy is to expand this business activity by increasing Assets under Management (AuM) both in the equities and in fixed income portfolio.

The Bank's strong performance track record in the European equities portfolio for over 19 years is a key comparative advantage to drive AuM upwards.

## 1H2020 MARKET REVIEW

Markets started 2020 with the same risk on mode as they had ended 2019.

However, the emergence of the virus Covid-19, as it became a global pandemic, reversed sentiment and led to strong corrections in higher-risk markets. Fear was now ruling and equity markets collapsed, discounting increasingly negative scenarios. By March 23rd the European and US main equity indexes were down on the year by more than 30%. As the virus spread, the measures to contain it and protect the health services around the world led to an almost global lockdown with unprecedented economic consequences. Fears mounted around the fact that with the lockdown both demand and supply would be hurt in an especially challenging shock on global GDP.

By the end of March, a recovery started that last throughout the whole semester and allowed for a significant part of the losses to be recovered. In some cases, like the tech sector and others, new all-time highs were reached before the end of the semester. A few main factors are behind this recovery. Central banks' action on an unprecedented scale, this time coordinated with governments with loose fiscal and spending policies, was probably the main cause for the support, leading to a rally in both the bond and equity markets. In addition, the acceleration of secular trends became clear, with tech companies benefiting the most and leading the recovery in the indexes. Finally, some glimmer of hope on the investigation front in the search for a vaccine and/or an effective treatment helped increase momentum.

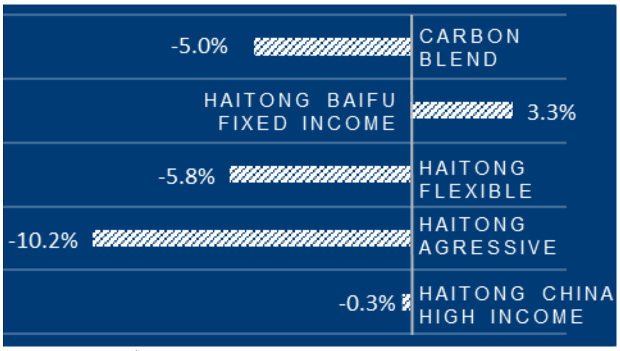
The extreme levels of liquidity injected into the system are leading market valuations to new levels as a result of the lack of returns in the less risky asset classes. Equity valuations in some sectors have more than doubled in a re-rating process seldom seen in our generation but that goes hand in hand with the measures taken to tackle the crisis. The second half of the year will see an economic reality check that will put these measures, and their effects on markets, to the test.

## ACTIVITY HIGHLIGHTS

Despite the market turmoil, the Asset Management team was able to navigate its way through the strong market fluctuations, outperforming comparable active managers and passive indexing. Haitong Flexible ended the semester down by 5.8%, Haitong Aggressive fell 10.2% and the Haitong China High Income Fund, only available to qualified investors, registered a return of -0.3% in USD.

The latest launched strategies also performed well in relative and in absolute terms considering the market downturn: Haitong Baifu Fixed Income Fund, launched on July 17th 2019, registered a positive performance of 3.3% YTD, while the new quant strategy Carbon Blend (euro hedged), launched on November 20th 2019, has lost approximately 5%.

*Performance of Haitong portfolios (1H2020)*




*Source: Haitong Bank*

Regarding Assets under Management (AuM) in all strategies, the net outcome was very positive as global assets grew by more than 27% in EUR terms, benefiting mainly from new money entering into the Chinese Fixed Income funds. Taking into consideration the potential increase in redemption requests due to panic selling, it was reassuring to see the trust deposited by our clients in our Asset Management team as the redemption requests were quite low, in both number and size. We believe this reflects our engagement with our clients, from communication to personalization of customer reporting. Our most valuable asset is the trust of our clients.

With an average of 19 years of investment experience, the team offers extensive equity knowledge together with Fixed Income and structuring experience as well as Quant programming, allowing Haitong Bank to deal with any challenge and meet demands in a robust way.

The team continues to work steadfastly to promote the existing strategies and create new ones suitable for target clients through the classic distribution channels (private banking and retail networks), but also with family offices and institutional clients as end clients. To that end, Haitong Bank has hired two new facilitator companies to help develop distribution in Europe, targeting institutional investors in countries like Germany, Austria, France, among others.

With the current social distancing and travel restrictions, we also had to adapt to the new normal by developing digital communication channels to engage with current and potential investors.

Our main objective is always to leverage on the team's long track record, expertise and experience and thorough knowledge of the Asian market backdrop of our Shareholder, which together makes it possible for the team to create unique and added value products.

It is worth mentioning the very successful partnership with the FICC team in Shanghai that continues in 2020 and from which the Bank expects to generate value for both clients and the Bank itself.

## 2H2020 OUTLOOK

The COVID-19 situation made the sales activity and promotion of our products very difficult in the first semester, especially in Europe. The team believes that conditions will improve and that the recently set-up channels will be put to good use in Europe and reinforce the growth trend in AuM in 2020. In a "chase for yield" environment like the one we are living in, we believe our high-income Chinese product will continue to attract investments and allow the activity to grow as a whole.

We will continue to leverage on the local expertise of the Bank's Chinese Shareholder to create and develop differentiated products. Most importantly, the team will continue to focus on delivering the best possible risk-adjusted return for its clients in these ever-challenging days we live in.

# Private Equity

## OVERVIEW

*Playing a Sino-European role in the market*

Haitong Capital manages a portfolio of equity stakes in private companies.

Haitong Capital leverages on sector and geographical expertise to support companies wishing to expand their businesses. The ultimate goal is to provide investors with an absolute return on their investments.

Historically, this business area has managed a combination of seed capital from the Group and funds raised from external Tier I investors.

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

**7%**

**Weight in Total Banking Income**

### *OFFERING*

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

## STRATEGY

Haitong Capital holds a differentiated positioning within the East-West trade space. The firm's strategy comprises combining European and Chinese expertise to invest in sectors that can benefit from the dynamics of both worlds.

## ACTIVITY HIGHLIGHTS

During the first half of 2020, the activity of Haitong Capital was strongly influenced by the reaction to the Covid-19 pandemic and its impact on the portfolio companies. Value preservation measures were generally implemented across the portfolio to ensure business continuity. During this period, some companies saw their activity reduced, or even suspended, but by the end of the semester all portfolio companies saw their production plans resume.

Taking into account the advanced stage of maturity of the current funds under management - ES Iberia I Fund (liquidation phase), Haitong Infrastructure Fund (liquidation phase), and FCR – PME /Novo Banco (to mature in 2021, after having its term extended by one year) - the deal flow sourcing activities were not maximised. Follow-on investments were completed for an aggregate equity amount close to EUR 781,000.

**€1.7m**

**Banking Income Amount**

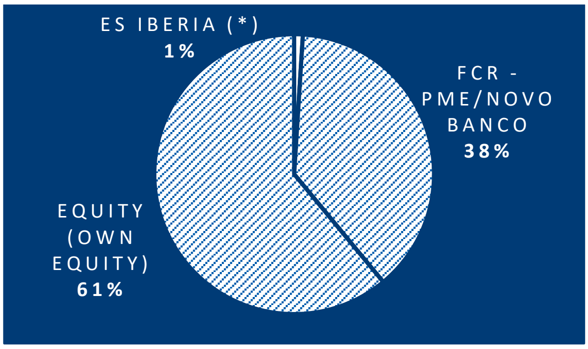
Aggregate disposals of portfolios under management amounted to circa EUR 167,000. Total distributions from funds managed by third parties amounted to circa EUR 460,000, from Fondo PPP Italia, an Italian dedicated infrastructure fund.

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

In June, the fair market valuation of the investment portfolio reached EUR 34.9 million. This compares with EUR 36.9 million calculated in June 2019, on a like-for-like basis. However, should we include dividends and accrued interests resulting from the same group of securities, the amount would have been EUR 38.7 million.

In June 2020, the private equity activity posted a net profit of circa EUR 362,900 and total equity amounted to EUR 53.1 million.

*Breakdown of Funds under Management (June 2020)*




*(*) includes ES Iberia I fund alongside its mirror fund Siparex Iberia I fund*
*Source: Haitong Capital.*

## 2H2020 OUTLOOK

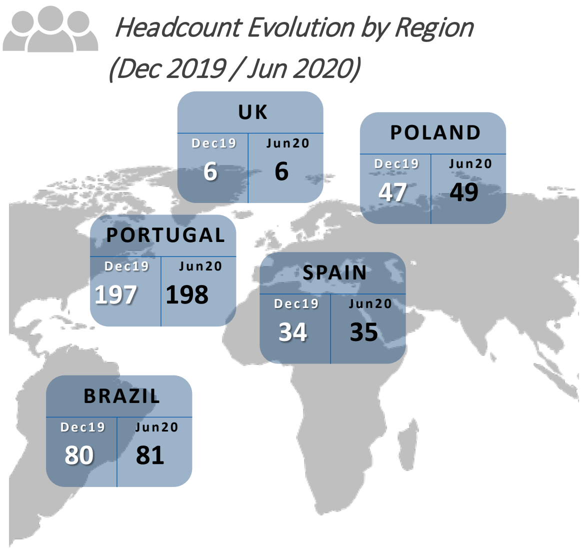
The Haitong Bank Group is considering a reorganisation of Haitong Capital - Sociedade de Capital de Risco, S.A. with a change in its business model. Going forward, it is expected that Haitong Capital will focus on broad asset management activities beyond the pure private equity focus.

# PEOPLE

## Human Capital

The effects of the global ongoing COVID-19 pandemic have dramatically changed the way businesses around the world operate, putting an additional increased focus on the importance and safety of people as the most valuable asset of any firm. This is a key aspect for Haitong Bank, which positions Human Resources (HR) as a core support function. Now more than ever, Haitong Bank's HR strategy follows the vision of a lean, yet solid and sustainable Bank. HR will continue its commitment to building talent based on the Bank's Corporate Values, making continuous efforts to identify and recruit the ideal candidates for every job opening, while preserving at all times the well-being of its workforce.

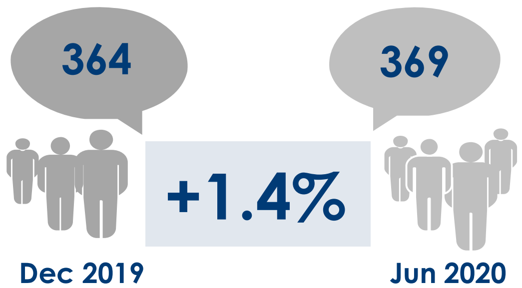
*Headcount Evolution by Region (Dec 2019 / Jun 2020)*




Source: Haitong Bank

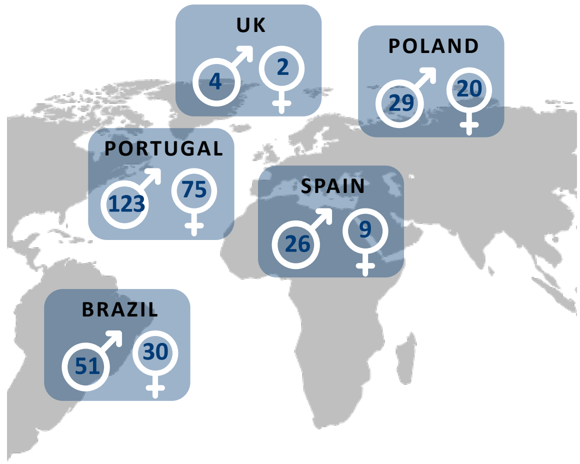
During the first half of 2020, Haitong Bank's headcount saw a small increase as a result of further positioning the Bank towards its business strategy and strengthening specific teams across the different locations.

*Headcount 1H2020*




Haitong Bank continues to support equal opportunity principles. Currently, women represent 37% of the total workforce. There are also a considerable number of female employees in senior positions at the Bank.

*Employee Headcount by Gender*




*Source: Haitong Bank*

*Employee Headcount Average Age*

| | Average (years) | |
|---|---|---|
| | Age | Length of service |
| UK | 43.5 | 7.9 |
| Spain | 44.0 | 12.2 |
| Poland | 38.3 | 6.2 |
| Brazil | 44.0 | 9.4 |
| Portugal | 41.5 | 11.3 |
| **Total** | **41.9** | **10.2** |

*Source: Haitong Bank*

## HAITONG BANK'S RESPONSE TO COVID-19

In March 2020, in the midst of the global spread of the COVID-19 pandemic, Haitong Bank took proactive measures and successfully activated its contingency plan.

Like many other companies, notably our Shareholder, we have had to act fast against COVID-19, making unprecedented adjustments to the way we work. Our two essential goals were to safeguard our staff's health and safety and to continue to serve our clients. During the month of March and in record time, 90% of our staff started to work from home in a fully functioning environment, as close as possible to normality. In April, some of the regions where we operate had all staff working remotely. We are now operating with minimum staff in our locations, i.e. those who handle key functions that ensure our critical daily processes run smoothly.

Our response also meant providing additional IT resources quickly, such as laptops, screens and Virtual Private Network (VPN) accesses, which we did flawlessly. With the majority of our staff working remotely, our IT teams also had to adapt quickly to new emerging risks arising from increased cyber-attacks.

In this new environment, Haitong Bank is doing everything it can to ensure the safety and wellbeing of its workforce, with a particular focus on those staff onsite keeping operations running. The main measures included:

- Increased the frequency of sanitisation of our office premises;
- Implementation of additional controls, such as temperature checks for all incoming staff in offices and installation of acrylic dividers for onsite staff workstations;
- Constant supply of adequate protective equipment such as face masks and alcohol-based sanitising gel;
- Provided employees with continuous guidance on the steps that must be taken when entering and leaving the Bank's premises;

Human Resources' main goals will continue to be ensure the wellbeing and safety of our employees. As we live through the COVID-19 pandemic, our focus is also on helping our workforce align with the Bank's business strategy and help our colleagues to prepare for a recovery scenario.

## OTHER HR ACTIVITY HIGHLIGHTS

The HR Department continued to support the Bank's senior management, the supervisory boards and their respective committees. The main milestones achieved by HR in this period were:

- Continuously improving the efficiency of HR's responses to queries - "Same day rule";
- Talent acquisition, including forecasting hiring needs, candidates sourcing (internal and external) and global selection and recruitment processes;
- Improving daily HR services, with a constant focus on efficient data administration and reporting and managing payroll and benefits;
- Supported the Corporate Governance and Remuneration Committees in the implementation of new and updated policies;
- Together with other major national Credit Institutions, HR represents Haitong Bank in the annual negotiations with the Banking Sector unions (ongoing for 2020);
- Contributing to accelerating digital transformations as the shift to remote working became a priority;
- Increased and effective communication in global uncertainty, leading with responsive, empathetic communications and policies that helped our workforce feel informed and supported.

## 2H2020 OUTLOOK

Haitong Bank's Human Resources support function has evolved significantly over recent years, moving away from a "personnel department" towards a more modern and efficient HR Business Partner function that is more integrated with the overall organisation. HR is involved in employee recruitment and hiring, training and professional development, performance reviews and assessments, workplace wellness, and employee engagement, as well as in the defining and disseminating of the Bank's corporate culture.

Some of our short-term goals include the following:

- Continued focus on attracting and recruiting the best talent available to ensure the Bank has the right people with the right skills;
- Building on the knowledge, skills and abilities of our workforce and helping them develop and achieve their potential;
- Providing options and services required to meet our staff's professional needs;
- Simplifying talent management processes by converging to more effective and digital solutions;
- Designing and implementing a culture of connection, using innovative digital platforms to establish and consolidate new models of collaboration and productivity;
- A continued focus on central tasks such as workforce and organisational management, and global mobility;
- Constant focus on our talent sourcing processes and continuously increasing the Bank's visibility on social media recruiting platforms;
- Continue optimising existing administrative processes, driving increased efficiency, increased automation, consistent data and excellent response times.

Haitong Bank will continue to pursue these goals, cultivating a leaner, more innovative HR function that focuses on developing and championing programs that support the changing needs of our business and employees.

# SOCIAL RESPONSIBILITY

In the context of the crisis caused by the COVID-19 pandemic, Haitong Bank in Lisbon acquired 1,000 full-face visors from Apametal, a Portuguese company that has restructured its production line to be able to produce acrylic full-face visors as protective gear against the COVID-19 pandemic. These full-face visors were gifted to the Alfredo da Costa Maternity hospital in April.

In May, the Lisbon Municipality received the medical materials and equipment donated by the Shanghai Municipal Government, Fosun Group and Haitong Securities at the end of March. Staff from Fosun Group and Haitong Bank were present for the donation.

In partnership with the Fosun Foundation, Rio Bravo and Guide Investimento, Haitong Bank in Brazil made a donation in May to the Health Department of the Government of the Federal District of the following items:

- 9,600 PCR tests for COVID-19;
- Equipment for diagnosis of tests; and
- 2,000 masks for teams working in hospitals.

In addition, between May and June, the Bank donated more than 2,000 basic food baskets and hygiene and cleaning kits to needy families in the Sao Paulo region, directly or through collaboration with 5 social institutions in the city of Sao Paulo: “Obra do Berço", "Liga Solidária", "Casa do Zezinho", "Instituto Reciclar" and "Vocação".

In Poland, Haitong Bank donated a prize to the laureate of the 4th edition of the "Competition for the best diploma thesis in the field of contemporary economic cooperation of the Republic of Poland with the People's Republic of China" organized by the Polish Chinese Business Council.

# FINANCIAL PERFORMANCE

## Macroeconomic Overview

2020 is the year of the rat in the Chinese zodiac calendar. However, a black swan called Covid-19 emerged as the unpredictable factor to end a global economic cycle of imbalanced growth that started in 2010, just after the Great Recession of 2008-2009.

Even before the WHO declared a pandemic in March, our views for 2020 were already based on a modest outlook for the global economy. In our 2019 Annual Report, the major risks for the global outlook were economic stagnation in Europe (led by Germany and Brexit), the continuing distress in global trade led by the nationalist policies of the US government, and the risk of slower growth in emerging economies led by China. GDP growth of 2.9% in 2019 was already the weakest rate since 2009 and the IMF only expected a mild acceleration to 3.3% in 2020 (Jan20 revision of the World Economic Outlook).

During 1H2020, and for the first time in modern post-war history, economic activity was greatly limited by the need to contain the devastating effects of the pandemic. According to preliminary economic indicators, GDP has fallen in most of the developed nations since 1Q2020. First hit by the disease in late Dec19, China's GDP fell for the first time in more than 40 years to -6.8% YoY in 1Q2020. The contagion spread to Europe and the US in Febr20 and led GDP to drop -3.1% YoY in the Eurozone and 0.3% YoY (-5.0% annualized QoQ) in the US.

In our view, due to previous experience in fighting contagious diseases like SARS, H1N1, and intense influenza epidemics in the past decades, East Asian countries managed to mitigate a larger scale spread of Covid-19 ahead of western nations. According to the global tracking by Johns Hopkins University, China, Japan, and South Korea represent less than 1% of confirmed worldwide cases by Jul20.

Following the reopening of the economy in Apr20, China's GDP jumped 11.5% QoQ (+3.2% YoY and -1.6% YTD). In our view, the government's fiscal incentives and credit policies to accelerate economic reconstruction were the major contribution to the strong rebound in 2Q2020.

The worst period of the first wave of the pandemic in Europe occurred between March and April with consensus expectations for the Eurozone pointing to a GDP contraction of -12.2% YoY in 2Q2020 and -8.1% in 2020 (Bloomberg Jul20). Available expectation indicators like consumer and business confidence indexes released by Jun20 suggest a rebound in economic activity during 3Q2020. However, we foresee economic activity remaining subpar in Europe during 2H2020 due to the persistent existence of infectious clusters and the cumulative effects of lockdown in 2Q2020.

Based on the correlation between the spreading of Covid-19 and the downside risk of economic activity, the US and the UK were possibly the worst performers among developed nations during 2Q2020 in our view. According to consensus estimates, US GDP could drop -10.3% YoY in 2Q2020 and -5.5% in 2020. After falling -1.7% YoY in 1Q2020, the UK's GDP could slide -20% YoY in 2Q2020 and -9.0% in 2020 according to consensus (Bloomberg Jul20).

Covid-19 advanced into many emerging markets (EMs) in Latin America, Africa, the Middle East and Asia-Pacific during 2Q2020. However, economic activity in EMs was already declining since late 1Q2020 due to many disruptions in supply chains with the volume of global trade of merchandise sliding 3.9% YoY in Mar20 followed by -16.1% YoY in Apr20 (according to CPB Netherlands).

Following the experience of the recent recessions (Great Recession of 2008-2009 and the European Sovereign Debt Crisis of 2010-2012), central banks in Europe, the US and Asia resumed an aggressive cycle of monetary stimulus in 2Q2020. This new cycle of central bank policy includes a wide adoption of credit policy with asset purchasing programs including credit securities of private corporate issuers in secondary markets.

For the first time since the Great Recession, the US Federal Reserve slashed the benchmark rate to near zero (-150bps to the range of 0%-0.25% in Mar20). With the Fed fund rate at a historical low, the US monetary authorities resumed QE (quantitative easing) monetary expansion and a new credit expansion policy. Similar to the ECB APP (asset purchasing program), the Fed adopted the strategy of supporting US credit markets with a new program called Secondary Market Corporate Credit Facility (SMCCF) of USD 750 billion in Jun20.

Meanwhile, the ECB also reinforced the APP with the PEPP (Pandemic Emergency Purchasing Program), which includes a broader range of eligible public and private sector securities. According to the ECB, up to EUR 750 billion will be the balance sheet allocation for the PEPP during the period of the pandemic, which is part of a potential increase of EUR 1.35 trillion in the total balance sheet.

Similar to the US Fed, the Bank of England reduced its benchmark rate to the historical low of 0.1% (-65bps since Mar20), resumed QE and an asset purchasing program including public and private sector credit securities.

In China, the People’s Bank of China reinforced domestic market operations aiming to support liquidity in credit markets and reduce counterpart risk in the banking system since Jan20. Monetary policy makers of the National Bank of Poland also reduced the benchmark rate to an all-time low of 0.1% (-140bps since Mar20) combined with QE. Benchmark rates reached the lowest on record in Brazil after a 225bps cut in the Central Bank rate to 2.25% since Jan20. Brazilian monetary authorities also adopted an asset-purchasing program aimed at supporting credit markets.

Government support has been crucial to reduce the economic distress in all developed economies since Mar20 in our view. Governments in the EU announced 5% to 7% of GDP in fiscal incentives, which included financial lifelines to support temporary layoff programs by private sector companies (reducing the risk of sudden mass unemployment), a tax relief program for distressed sectors, financial support for strategic economic sectors, etc. The US government also approved a fiscal stimulus plan of USD 3 trillion in Congress in May20, which included financial support for distressed companies and stimulus checks for low and middle-income households.

Strong policy coordination between G20 finance ministers and central banks also supported liquidity conditions in currency markets during 1H2020. Additionally, the BIS (Bank of International Settlements), regional regulatory authorities and supervisory authorities announced measures to alleviate the impact of the pandemic in the banking industry. These measures target the provision of lending by banks to the real economy and facilitate banks' ability to absorb losses in an orderly manner.

Due to the strong flow to liquidity during 1H2020, the major currency crosses remained mostly stable with the Dollar Index only gaining 1.0%. Prior to the approval of the EU pandemic rescue plan of EUR 750 billion on July 20th, the EUR/USD was mostly unchanged in 1H2020 (+0.3%YTD). The British Pound had the weakest performance in liquidity currencies and dropped 6.5% in 1H2020. A negative combination of a severe

Covid-19 outbreak in the UK and the persisting uncertainties on Brexit continued to pressure the GBP vs major currencies in 1H2020 in our view.

During 1H2020, the Chinese Yuan Renminbi slightly appreciated 1.5% to CNY/USD 7.07 on the back of stronger economic activity, including the exports sector. The Brazilian Real was the worst performer among liquid EM currencies with a devaluation of 36% vs. the Euro in 1H2020. In our view, the negative performance to mitigate the Covid-19 outbreak combined by the decision of monetary policymakers to slash domestic interest rates to historical lows triggered the outflows from the BRL. Meanwhile, Poland managed to mitigate the outbreak in 2Q2020, but the Central Bank's decision to cut benchmark rates to a near zero level (0.1%) led the Zloty to slide 4.5% in 1H2020.

Volatility in global financial markets spiked with strong losses in equity, credit, commodities and EM securities between Mar20 and Apr20. The S&P 500 fell -30.8% (vs. Jan20) and the Eurostoxx 50 -34.5% (vs. Jan20) during the worst period of uncertainty in mid-Mar20 with Europe and the US heading into lockdown. The high yield corporate credit spread measured by the iTraxx Xover (5Y CDS in EUR) widened 510bps to 720bps in mid-Mar20, the Haitong EM FX index (15 most liquid EM currencies) fell 15.3% by Apr20, and the CRB commodity index dropped 13.5% by Apr20.

Strategies to mitigate the pandemic started to succeed in May20 and supported a gradual reopening of economies in Europe. Many regions in the US and Brazil decided to reopen in May20 and Jun20 despite the growing number of confirmed Covid-19 cases. Driven by the prospect of the reactivation of many economic activities in Europe and the US, financial markets conditions have improved since May20. The outlook for strong fiscal expansion in the EU and in the US also fuelled optimism in global financial markets during 2Q2020. Most equity markets reduced the losses of Mar20-Apr20 by the end of Jun20 with -4.0% YTD for the S&P 500, -11.6% YTD for the Eurostoxx 50, and +0.3% YTD for the Shanghai Composite (vs. the worst drop of -15% in Apr20).

Global economic and financial conditions remain very susceptible to the imbalanced control of the pandemic in different regions despite the recent improvement in the financial, economic and pandemic conditions in Europe and Eastern Asia, in our opinion. The so-called first wave of the pandemic was still advancing by the closing of this report with 15.5 million confirmed cases worldwide. The global mortality rate reached 7% in Apr20 and declined to 4% in Jul20 with improved testing capacity and medical treatments.

According to the WHO, four potential vaccine candidates were advancing to phase 3 of 3 required clinical trials in Jul20. The recent developments improved the approval prospects of one or more vaccines for global distribution by the end of 1H2021.

The learning curve of the pandemic with better mitigation strategies (testing, tracing and control of infectious clusters) should reduce the need for the large-scale lockdowns seen in 1H2020 in our view. However, financial market conditions are likely to remain vulnerable to persisting headwinds from the legacy effects of the first wave and the risk of a second wave outbreak in 4Q2020. Moreover, risks related to geopolitical tensions persists in 2H2020 with the current US administration reinforcing its nationalist tone ahead of the general elections in Nov20.

In our opinion, global economy activity will possibly remain well below potential and challenged by the risk of a second wave of the pandemic before a viable vaccine becomes available in 2021. According to the latest forecasts, the IMF expects global GDP to decrease -4.9% in 2020 (vs. +2.9% in 2019) followed by a strong rebound of 5.4% in 2021.

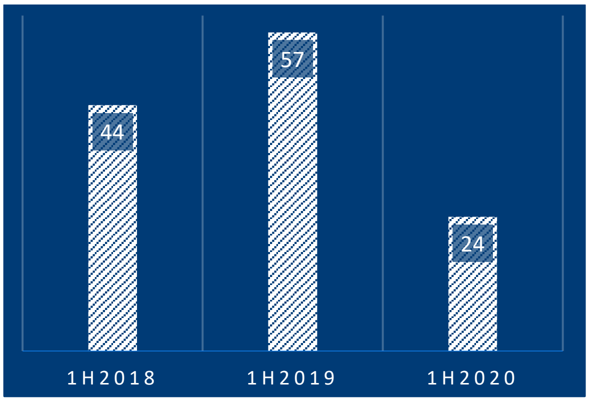
# Financial Overview

After a very promising year of 2019, Haitong Bank's activity was significantly impacted by the negative impacts of COVID-19 in the first half of 2020.

Notwithstanding the significant improvements made during the last 3 years that have allowed the Bank to boost its financial performance and rebuild the organisation with strong foundations, the pandemic has created a very challenging economic and business environment that has negatively impacted Haitong Bank's first-half results. Since the beginning of 2020, when the initial outbreak of COVID-19 in Asia resulted in lockdown measures in China, we have seen immediate impacts on the Bank's China-related business, particularly in Capital Markets, which has been one of the strongest contributors to Banking Income over recent years.

The Clients and Corporate Solutions' teams have kept up their efforts to remain close to local clients but the lockdown significantly constrained business activity. Banking Income reached EUR 24 million, down 57% YoY, mainly on the back of a significant drop in fees and commissions (-56% YoY). Net margin (-21% YoY) and markets' losses (+417% YoY) also contributed to this performance.

*Banking Income (EUR million)*



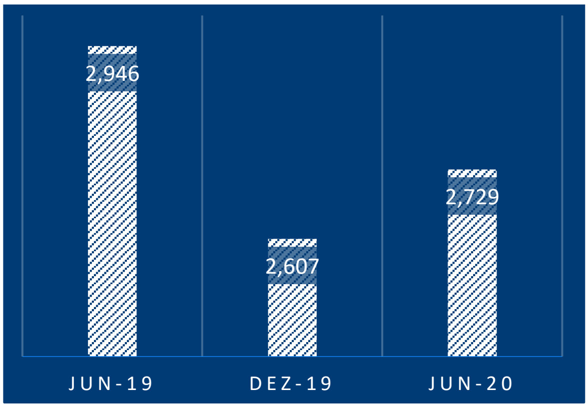

*Source: Haitong Bank*

Operating costs were EUR 31 million in 1H2020, a positive performance and down 20% vs the EUR 39 million of 1H2019. However, due to lower revenues, Operating Income turned negative and reached EUR -7 million, significantly below the EUR 18 million profit in 1H2019. Impairment and provisions remained at low levels, benefiting from the important work done in previous years to reduce the Bank's NPL ratio.

In the context of these challenging times, Haitong Bank's has interrupted its sequence of consistent positive quarter results to register a net loss of EUR 12 million by 1H2020 vs the EUR 10 million profit in the same period of last year.

The expansion of the balance sheet is key to the future development of Haitong Bank. During 1H2020, Haitong Bank remained committed to this goal and Total Assets increased 5% to EUR 2.7 billion vs YE2019 on the back of increased investment in trading assets.

*Total Assets (EUR million)*




*Source: Haitong Bank*

After the first impact of the pandemic, the Bank enters into a new phase, maintaining its strong capital position as one of the highest capitalised banks of Portuguese banking system with a CET1 of 26.6% and Total Capital Ratio of 33.8%, coupled with a sound liquidity position and a record asset quality, with a NPL ratio of 2.3%.

# Corporate Events

- On JANUARY 28, 2020, the merger of Haitong do Brasil Participações Ltda in Haitong Negócios, S.A. was approved.

- On JULY 17, 2020, Haitong Bank's Sole Shareholder decided to nominate the following Officers to the Corporate Bodies for the 2020/2022 triennium, following the Bank of Portugal's decision disclosed to the market on 7 July 2020:

  *General Meeting Board*

  Chair: Maria João de Oliveira Ricou Mora do Vale.

  Secretary: David Luís Marques Ramalhete.

  *Board of Directors*

  Chair: Lin Yong.

  Members: Wu Min; Alan Fernandes; Miguel Guiomar; Nuno Carvalho; Vasco Câmara Martins; António Domingues; Martina García; Pan Guangtao; Paulo Martins; Vincent Camerlynck; Xinjun Zhang.

  *Executive Committee*

  Chair: Wu Min.

  Members: Alan Fernandes; Miguel Guiomar; Nuno Carvalho; Vasco Câmara Martins.

  *Supervisory Board*

  Chair: Maria do Rosário Mayoral Robles Machado Simões Ventura.

  Members: Mário Paulo Bettencourt de Oliveira; Cristina Maria da Costa Pinto.

  Alternate: Paulo Ribeiro da Silva.

  *Statutory Auditor*

  DELOITTE & ASSOCIADOS, SROC, S.A., represented by Mr. João Carlos Henriques Gomes Ferreira.

# Treasury

## 1H2020 MARKET REVIEW

In the wake of the Covid-19 pandemics, central banks like the European Central Bank, US Federal Reserve, Bank of England, People´s Bank of China, Bank of Japan, Brazil Central Bank and the National Bank of Poland adopted extraordinary measures during 1H2020 aimed at limiting the impacts of a potential economic depression in 2020. Such measures included highly expansionary monetary policy, open market liquidity operations, FX swap agreements between key central banks, and credit policies (purchasing of public and private securities).

The ECB increased the asset purchasing program (APP) with a new temporary program named the pandemic emergency purchase program (PEPP) totalling EUR 750 billion on March 18th. Under the rules of PEPP, the eligibility of public and private sector securities included a waiver for the Greek government with a non-investment grade rating (S&P BB-). Such a waiver could also keep Italy, Portugal, and Spain eligible to access liquidity lines of the ECB in the event of multiple rating downgrades. Forward guidance on the deposit rate was reinforced with the outlook for rates at -0.50% for a prolonged period. After bottoming at -0.856% on March 9th due to the declaration of a pandemic by the WHO, the yield of 10-year German Bunds rebounded to an average yield of -0.44% between April and June.

Following the ECB's new stimulus plan, EU member states began a debate on a joint economic rescue plan for EUR 750 billion (approved in July). Sovereign spreads of peripheral euro nations vs. German government securities reached a 1-year high in March and fell close to January levels at the end of 1H2020.

Since February, the FED has reduced benchmark interest rates from 1.25%-1.50% to 0.0%-0.25%, resumed the quantitative easing (purchasing of Treasury securities), and announced a new program called a Secondary Market Corporate Credit Facility (SMCCF) of USD 750 billion in June. Risk aversion in global financial markets favours the US Treasury securities during periods of uncertainty and the yield of the 10-year Treasury notes dropped from 1.92% at the end of 2019 to 0.66% at the end of 1H2020.

*10Y Sovereign Yields*

| Country | Jan-2020 | 2020 Peak | 2020 Low | Jun-2020 |
|---|---|---|---|---|
| Germany | -0.19% | -0.16% (Jan) | -0.86% (Mar) | -0.46% |
| Italy | 1.41% | 2.42% (Mar) | 0.90% (Feb) | 1.25% |
| Spain | 0.46% | 1.21% (Mar) | 0.17% (Mar) | 0.46% |
| Portugal | 0.43% | 1.43% (Mar) | 0.22% (Mar) | 0.47% |
| Greece | 1.39% | 3.67% (Mar) | 0.91 % (Mar) | 1.19% |

*Source: Bloomberg.*

Currency markets were less volatile compared to 2008-2009 and the US dollar was favoured by global flows to liquid asset classes. The Dollar Index (DXY) gained 1.0% and the EUR/USD was mostly unchanged (+0.2%) in 1H2020. Nonetheless, the outlook for further trade wars promoted by the US ahead of the Presidential elections in November, combined with the prolonged impact of Covid-19 on the US economy, could cause a larger devaluation of the USD in 2H2020 in our view.

Brazil's central bank reached a landmark of low interest rates in 1H2020, reducing the benchmark rate to 2.25% (vs. 4.50% at 2019 year-end). Similar to other central banks, the Brazilian monetary authority also initiated several open market liquidity operations to support domestic credit markets equivalent to 3.5% of GDP. FX devaluation of the Real (BRL) reached 33% during 1H2020 on the back of historically low domestic interest rates and a global risk aversion to commodities & emerging markets in our opinion. However, liquidity in FX markets remained strong with a USD 60 billion FX swap line agreed between the US Fed and the Brazil central bank combined with strong international reserves of USD 350 billion by June.

In our opinion, if the economic and financial policies in Brazil remains market oriented, further risk aversion to BRL securities should be contained.

## ACTIVITY HIGHLIGHTS

The funding structure maintains the same pattern vis-à-vis the evolution of Bank's balance sheet, where the strategy is to diversify the funding sources in order to optimize the cost versus stability and improve the funding quality.

As of June 2020, the Bank had sourced via online platforms in the German, Austrian and Spanish markets a total of EUR 185 million in retail term deposits versus EUR 191 million at the end of 2019, a slight reduction due to a combination of factors like price reductions and some uncertainties caused by COVID-19.

Going forward we continue to see these alternatives as a source of quality funding for the Bank and we are working on improving the volume at acceptable prices.

Following the sale of Haitong Investment Ireland plc (HIIP), Haitong Bank maintains a credit facility from HIIP amounting to EUR 625 million, of which EUR 570 million was recently renegotiated by extending its maturity to 5 years, creating a positive impact on funding stability.

In Brazil, the Bank reaches a diversified range of investors through several types of deposits and securities instruments. The most relevant channel is the Institutional channel where the Bank has a very close link to several institutional investors. Other relevant sources are banking lines, retail platforms and corporate deposits.

In the last couple of years, debt issuance has been the most important source of funding and liquidity of the Bank in Brazil. The recent events linked to Covid-19 have hit the Brazilian Capital Markets and the investment management industry heavily.

Based on that, the Credit Fixed Income Funds, which are the biggest investor in fixed income instruments, have taken to re-shape themselves and re-invent their business. This process is supposed to decrease the demand for banking securities in the near future.

We believe that as soon as this process matures debt securities will regain their prominence as our main funding source.

# Rating

On April 8, 2020, Standard & Poor's ("S&P") announced a review of the Bank's rating Outlook from "Stable" to "Negative". S&P reaffirmed the long-term credit rating at "BB" and the short-term credit rating at "B".

According to S&P, the Outlook review derived from the current situation originated by the COVID-19 pandemic and was in line with the decision taken for other Portuguese banks.

On July 7, 2020, S&P has also reaffirmed the credit rating of Haitong Banco de Investimento do Brasil, at "BB-" with a stable outlook (brAAA/Stable on the local scale).

This was a reflection of its significant revenue contribution and its position as the hub for the LatAm operations of the Haitong Bank Group. Furthermore, capital levels were in line with the average of other investment banks in Brazil and the subsidiary's liquidity levels comfortably cover short-term needs.

The stable outlook on the Agency ratings on Haitong Brazil for the next 12 months reflects the outlook on the foreign currency sovereign rating of Brazil (BB-/Stable/B) and its importance as a core subsidiary to Haitong Bank.

# RISK MANAGEMENT

## GOVERNANCE

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

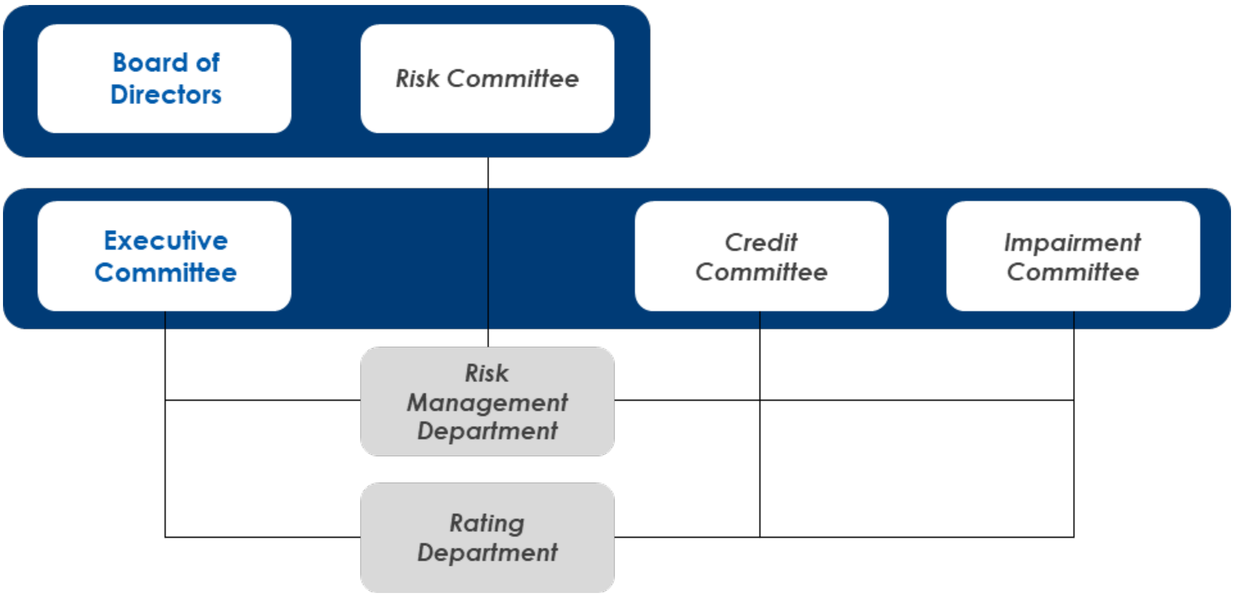
The current structure and relevant Committees for the Bank's Risk Management are summarized below.

### Risk Committee

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

### Risk Management Department

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



## Rating Department

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.

## Credit Committee

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

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

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

## Impairment Committee

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

## Risk Appetite

Haitong Bank's strategy is to 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, aim to maintain a solid short-term position and a sustainable medium- to long-term funding profile.
- **Earnings**: The Group has the goal of generating recurrent earnings to guarantee its sustainability and a reasonable level of profitability for shareholders.

# CREDIT RISK

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

# MANAGEMENT PRACTICES

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

## Internal Ratings

Internal ratings, which 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 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 the risk appetite framework established by the Board of Directors, the Credit Risk Monitoring function and its implementation are objectively considered as one of the top priorities of the risk management and control system.

## Credit Recovery Process

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

# ASSET QUALITY

## Loan Portfolio

### Portfolio breakdown

In June 2020, the loan portfolio (gross exposure) amounted to EUR 335 million, which represents an increase of approximately EUR 8 million compared to December 2019.

*Loan Portfolio Asset Classes and Geographic Breakdown (EUR thousand)*

| | June 2020 | | |
|---|---|---|---|
| | Domestic | International | Total |
| **Loan Portfolio[1]** | **141,886** | **192,950** | **334,836** |
| Specialized Lending | 135,568 | 33,967 | **169,535** |
| Corporate | 2,127 | 151,223 | **153,350** |
| Others | 4,191 | 7,760 | **11,951** |

| | December 2019 | | |
|---|---|---|---|
| | Domestic | International | Total |
| **Loan Portfolio[1]** | **160,071** | **166,657** | **326,728** |
| Specialized Lending | 149,627 | 46,210 | **195,837** |
| Corporate | 2,127 | 120,427 | **122,554** |
| Others | 8,317 | 20 | **8,337** |

*Source: Haitong Bank.* *1 Gross of provisions*

The breakdown of the loan portfolio by industry sector reflects the Bank's lending activity developed in previous years in the various regions where it operates, with a special emphasis on Specialized Lending in the Transportation Infrastructure and Power sectors. The sectoral classification is distributed according to the industry risk (internal risk sector).

*Loan Portfolio Asset Classes by Industry*

| | June 2020 | | | |
|---|---|---|---|---|
| | Specialized Lending | Corporate | Others | Total |
| **TOTAL** | **50.7%** | **45.8%** | **3.5%** | **100.0%** |
| Transportation Infrastructure | 32.1% | 0.7% | 0.0% | **32.8%** |
| Power | 18.0% | 0.0% | 0.0% | **18.0%** |
| Metals & Mining | 0.0% | 20.2% | 0.0% | **20.2%** |
| Telecoms | 0.0% | 8.4% | 0.0% | **8.4%** |
| Paper & Forest Products | 0.0% | 7.3% | 0.0% | **7.3%** |
| Construction & Engineering | 0.0% | 3.5% | 0.0% | **3.5%** |
| Agribusiness & Commodity Foods | 0.0% | 1.6% | 0.0% | **1.6%** |
| Commercial & Professional Services | 0.1% | 0.4% | 0.0% | **0.5%** |
| Transportation | 0.5% | 0.1% | 0.0% | **0.6%** |
| Water Utilities | 0.0% | 0.0% | 0.0% | **0.0%** |
| Others | 0.0% | 3.6% | 3.5% | **7.1%** |

| | December 2019 | | | |
|---|---|---|---|---|
| | Specialized Lending | Corporate | Others | Total |
| TOTAL | 59.8% | 37.6% | 2.6% | 100.0% |
| Transportation Infrastructure | 34.8% | 0.9% | 0.0% | 35.7% |
| Power | 24.2% | 0.0% | 0.0% | 24.2% |
| Metals & Mining | 0.0% | 22.1% | 0.0% | 22.1% |
| Telecoms | 0.0% | 0.0% | 0.0% | 0.0% |
| Paper & Forest Products | 0.0% | 5.5% | 0.0% | 5.5% |
| Construction & Engineering | 0.0% | 4.9% | 0.0% | 4.9% |
| Agribusiness & Commodity | 0.0% | 1.7% | 0.0% | 1.7% |
| Commercial & Professional | 0.2% | 0.8% | 0.0% | 1.0% |
| Transportation | 0.6% | 0.3% | 0.0% | 0.9% |
| Water Utilities | 0.0% | 0.2% | 0.0% | 0.2% |
| Others | 0.0% | 1.2% | 2.6% | 3.8% |

*Source: Haitong Bank*

### Internal Rating Profile

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

*Loan Portfolio Rating Profile*

| | June 2020 | December 2019 |
|---|---|---|
| [aaa+; a-] | 0.7% | 0.8% |
| [bbb+; bbb-] | 19.6% | 21.0% |
| [bb+; bb-] | 26.1% | 23.1% |
| [b+; b-] | 50.5% | 55.1% |
| [ccc+; lccc] | 3.1% | 0.0% |

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

### Risk Indicators

Throughout 2020, Haitong Bank continued to pursue a reduction strategy for non-performing loans (NPL), as well as a conservative approach with regards to the impairment coverage of its credit portfolio.

*Credit Risk Indicators (EUR thousand)*

| | June 2020 | December 2019 |
|---|---|---|
| Loan Portfolio | 334,836 | 326,728 |
| Non-Performing Loans (NPL) | 7,711 | 11,882 |
| NPL Ratio | 2.3% | 3.6% |
| Impairment for NPL | 4,032 | 4,830 |
| NPL coverage | 52.3% | 40.6% |
| Gross Exposure | 1,638,434 | 1,804,836 |
| Non-performing exposures (NPE) (1) | 81,453 | 91,657 |
| NPE Ratio | 5.0% | 5.1% |
| NPE Impairment Coverage | 51.4% | 49.4% |
| Forborne Exposures (1) | 118,405 | 64,859 |
| Of which performing exposure (%) | 87.2% | 68.7% |

*(1) The Bank follows the criteria set for non-performing and forborne exposures on EBA's Final Report on Guidelines on Management of Non-Performing and Forborne exposures (EBA/GL/2018/06), as of 21 October 2018, and classification defined on the Part 2 – Template Related Instruction of Annex V – Reporting on Financial Information included in the Commission Implementing Regulation (EU) 2018/1627, of 09 October 2018, amending Implementing Regulation (EU) No. 680/2014, as regards prudent valuation for supervisory reporting.*
*Source: Haitong Bank.*

The improvement of the non-performing loan (NPL) ratio to 2.3% in June 2020 results from the measures undertaken throughout the year to reduce the non-performing loans of the Bank.

## Fixed Income Assets

### Portfolio breakdown

The fixed income portfolio ended 2020 with a net total of EUR 936 million, representing a decrease of EUR 15.2 million when compared with December 2019.

*Fixed Income Portfolio by Sector (EUR thousand)*

| | June 2020 | December 2019 |
|---|---|---|
| Total | 936,056 | 951,250 |
| Governments | 744,138 | 696,029 |
| Real Estate | 60,147 | 85,791 |
| Construction & Engineering | 45,216 | 56,412 |
| Power | 26,381 | 20,804 |
| Technology Hardware & Equipment | 20,913 | 22,289 |
| Building Materials | 7,897 | 8,719 |
| Capital Goods | 5,989 | 11,896 |
| Commercial & Professional Services | 5,445 | 6,883 |
| Paper & Forest Products | 5,203 | 6,253 |
| Transportation | 3,452 | 1,367 |
| Metals & Mining | 3,240 | 3,737 |
| Banks | 3,041 | 4,733 |
| Oil & Gas | 1,710 | 22,628 |
| Others | 3,284 | 3,709 |

*Source: Haitong Bank.*

### Internal Rating Profile

In June 2020, the rating profile of the Bank's fixed income portfolio was the following:

*Fixed Income Portfolio Rating Profile*

| | June 2020 | December 2019 |
|---|---|---|
| [aaa; a-] | 0.1% | 0.3% |
| [bbb+; bbb-] | 27.0% | 23.5% |
| [bb+; bb-] | 72.7% | 74.3% |
| [b+; b-] | 0.1% | 1.9% |

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

## Derivatives Portfolio

### Portfolio Breakdown

The counterparty risk exposure in the Bank's portfolio of interest rate, exchange rate, credit and equity derivatives amounted to EUR 221 million in 2020, which represents an increase of EUR 96 million in comparison with FY 2019, mainly due to the increase of derivatives in the Transportation sector.

In terms of the breakdown by counterparty risk sector, 49% of the global exposure relates to transactions in Transportation, followed by 29% in Transportation Infrastructure's counterparties. The sectoral classification is distributed according to the industry risk (internal risk sector).

*Derivatives Portfolio by sector (EUR thousand)*

| | June 2020 | December 2019 |
|---|---|---|
| Total | 221,384 | 125,603 |
| Transportation | 109,545 | 4,750 |
| Transportation Infrastructure | 63,977 | 63,857 |
| Banks | 16,868 | 32,683 |
| Food, Beverage & Tobacco | 8,465 | 4,735 |
| Agribusiness & Commodity Foods | 5,971 | 2,869 |
| Power | 5,969 | 6,142 |
| Broker Dealers | 3,450 | 5,073 |
| Non-Bank Financial Institutions | 3,033 | 3,670 |
| Oil & Gas | 2,872 | 1,061 |
| Paper & Forest Products | 636 | 754 |
| Others | 598 | 9 |

*Source: Haitong Bank.*

### Internal Rating Profile

Total exposure to derivative instruments is centred on Corporate commodity swaps on jet fuel and Specialized Lending interest rate swaps.

*Derivatives Portfolio Rating Profile*

| | June 2020 | December 2019 |
|---|---|---|
| [aaa+;a-] | 6.1% | 17.0% |
| [bbb+;bbb-] | 29.3% | 52.7% |
| [bb+;bb-] | 9.1% | 11.2% |
| [b+;b-] | 55.5% | 19.0% |

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

# MARKET RISK

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

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

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

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

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

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

## TRADING BOOK RISK

### Management Practices

Haitong Bank estimate the potential change in the market value of the trading book positions, by considering an historical simulation VaR, based on a 10-day holding period and a 1-year historical observations and a 99% confidence interval.

As of June 2020 Haitong Bank's VaR amounted to EUR 6.3 million, representing an increase of EUR 2.5 million when compared with December 2019.

*Value at Risk by Risk Factor (EUR million)*

| | June 2020 | December 2019 |
|---|---|---|
| Exchange Risk | 4.0 | 1.7 |
| Interest Risk | 0.8 | 1.0 |
| Shares and Commodities | 0.0 | 0.5 |
| Credit Spread | 1.6 | 1.2 |
| Covariance | -0.1 | -0.6 |
| **Total** | **6.3** | **3.8** |

*Source: Haitong Bank.*

## BANKING BOOK RISKS

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

### Interest Rate Risk

Interest rate risk in the banking 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.

Haitong Bank aims to capture all material source of IRRBB and assess the effect of market changes on the scope of its activities, and manage IRRBB by measuring the sensitivity of the economic value of its banking book and the sensitivity of its net interest margin expected in a 1-year time horizon.

Changes in interest rates can affect the underlying economic value of the bank's assets, liabilities and off-balance sheet instruments, because the present value of future cash flows change when interest rates change. Change in interest rates also affect a bank's earnings by increasing or decreasing its net interest income (NII).

As of June 2020, the impact on the banking book economic value, under a parallel shock on the yield curve of +/- 200 bps was estimated at EUR 4.87 million. A floor of -100 bps was applied to the yield curve to address unrealistic scenarios of extremely negative interest rates.

### Credit Spread Risk

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

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

## PENSION FUND RISK

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

# OPERATIONAL RISK

Operational risk may be defined as the probability of occurrence of events with a negative impact on earnings or capital resulting from inadequate internal procedures or their 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 considered as the sum of the operational, information systems and compliance risks.

### Management Practices

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

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

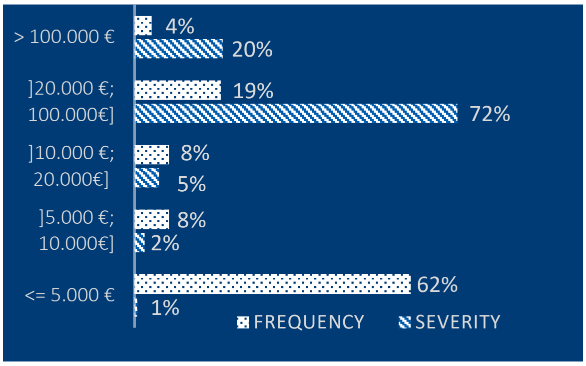
The operational risk management model is supported by an exclusively dedicated structure within the organisation which is responsible for the following processes:

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

## OPERATIONAL RISK ANALYSIS

As shown below, in the first half of 2020 62% of all reported events carried losses below EUR 5,000.

*Distribution of frequency and severity of events by individual loss bucket*

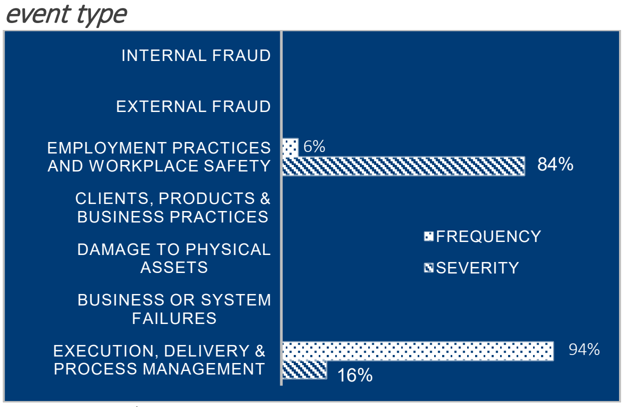



*Source: Haitong Bank.*

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

In 2020, Execution, Delivery & Process Management event type accounted for 94% of total reported events but only for 16% of reported losses. Employment Practices and Workplace Safety events was the event type with higher loss severity accounting for 84% of total reported losses, with these losses generated in Haitong's Brazilian subsidiary.

*Distribution of frequency and severity of events by event type*




*Source: Haitong Bank.*

## LIQUIDITY RISK

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

### Management Practices

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

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

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

- Ensure the ability to meet obligations as they come due in a timely manner and at a reasonable cost;
- Comply with regulatory standards on liquidity in each geography the Bank operates in;
- Ensure full alignment with liquidity risk appetite;
- Make available a sufficient immediate liquidity buffer to ensure ability to react to any event of stress that could restrict the ability to access financial markets under both normal and stressed conditions;
- Develop a diversified investors' base and maintain access to a variety of alternative funding sources, while minimising the cost of funding; and

- Continuously develop an appropriate internal framework for the identification, measurement, limitation, monitoring and mitigation of liquidity risk.

## LIQUIDITY POSITION

### Liquidity Coverage Ratio

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

As of June 2020, Haitong Bank reached an LCR of 299%, which represents a resilient short-term liquidity position, comfortably complying with regulatory standards.

*Liquidity Coverage Ratio (EUR thousand)*

| | June 2020 | December 2019 |
|---|---|---|
| High-Quality Liquid Assets | 725,975 | 885,719 |
| 30 days Net Outflow | 242,555 | 164,981 |
| Liquidity Coverage Ratio | 299% | 537% |

*Source: Haitong Bank.*

### Net Stable Funding Ratio

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

As of June 2020, Haitong Bank reached a NSFR of 176%, ensuring an adequate medium- to long-term funding profile.

*NSFR*

| | June 2020 | December 2019 |
|---|---|---|
| Net Stable Funding Ratio | 176% | 181% |

*Source: Haitong Bank.*

The NSFR ratio presented above is based on Haitong Bank's interpretation of the Basel Committee on Banking Supervision NSFR rules.

In May 2019, Regulation (EU) 2019/876 of the European Parliament and of the Council was published, amending Regulation (EU) 575/2013 (CRR), with a specific chapter dedicated to the NSFR, which shall be applied from June 2021.

# CAPITAL MANAGEMENT

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

### Management Practices

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

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

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

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

## REGULATORY CAPITAL AND LEVERAGE RATIOS

### Solvency

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

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

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

Also related to the CRD IV capital buffers, in November 2016 the Bank of Portugal decided to impose a capital surcharge on six Portuguese banking groups classified as O-SIIs (Other Systemically Important Institutions) in the scope of its annual revision of the identification of the imposition of capital buffers, pursuant to Article 138-R (2) of the Legal Framework of Credit Institutions and Financial Companies (RGICSF). Haitong Bank is 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 30 June 2020, the Bank of Portugal decided not to impose any additional counter-cyclical capital buffer, by setting it at 0% of the total risk exposure amount. This decision is subject to revision on a quarterly basis.

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

As of June 2020, Haitong Bank's capital ratios were calculated under the CRR (Regulation EU nº 575/2013) and CRD IV (Directive 2013/36/EU) Standard Approach on both a transitional and fully-loaded basis, and are shown in the following table.

*Solvency Ratios*

| | June 2020 | |
|---|---|---|
| | Phased-in | Fully-loaded |
| CET1 ratio | 26.6% | 26.5% |
| Tier 1 ratio | 33.7% | 33.5% |
| Total capital ratio | 33.8% | 33.6% |

| | December 2019 | |
|---|---|---|
| | Phased-in | Fully-loaded |
| CET1 ratio | 28.4% | 28.2% |
| Tier 1 ratio | 35.7% | 35.4% |
| Total capital ratio | 35.9% | 35.5% |

*Source: Haitong Bank.*

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

## Leverage

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

As of June 2020, Haitong Bank's leverage ratios, calculated under the Basel III Standard Approach on both a transitional and fully-loaded basis, are shown in the following table.

*Leverage Ratios*

| | June 2020 | December 2019 |
|---|---|---|
| Transitional | 18.4% | 19.8% |
| Fully-loaded | 18.3% | 19.7% |

*Source: Haitong Bank*

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

# FINANCIAL REPORT

# CONNSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

# 1. CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated Income Statement for the six month period ended 30 June 2020 and 2019

(thousand euros)

| | Notes | 30.06.2020 | 30.06.2019 |
|---|---|---|---|
| Interest and similar income | 5 | 31 240 | 39 946 |
| Interest and similar expenses | 5 | 19 158 | 24 700 |
| **Financial margin** | | **12 082** | **15 246** |
| Fees and commissions income | 6 | 22 605 | 45 464 |
| Fees and commissions expenses | 6 | ( 3 562) | ( 2 377) |
| Net trading income | 7 | ( 13 510) | 2 304 |
| Net income from other financial instruments at fair value through profit or loss | 8 | 106 | 3 679 |
| Net gain/(loss) from derecognition of financial assets measured at fair value through other comprehensive income | 9 | ( 60) | 1 756 |
| Net gains/(losses) from hedge accounting | 19 | 1 | ( 6) |
| Net gains / (losses) from foreign exchange differences | 10 | 9 889 | ( 4 674) |
| Net gain/(loss) from derecognition of financial assets measured at amortised cost | 11 | 864 | 62 |
| Other operating income and expense | 12 | ( 4 062) | ( 4 368) |
| **Operating Income** | | **24 353** | **57 086** |
| Employee costs | 13 | 19 045 | 23 704 |
| Administrative costs | 15 | 8 470 | 10 762 |
| Depreciations and amortisations | 24 and 25 | 3 480 | 4 181 |
| Provisions | 31 | 1 232 | 860 |
| Net impairment loss on financial assets | 31 | 2 876 | 461 |
| **Operating expenses** | | **35 103** | **39 968** |
| Share of profit of associates | 26 | 51 | ( 52) |
| **Profit / (Loss) before Income Tax** | | **( 10 699)** | **17 066** |
| Income tax | | | |
| Current tax | 32 | ( 6 806) | 1 971 |
| Deferred tax | 32 | 7 632 | 6 499 |
| | | **826** | **8 470** |
| **Net profit of continued operations** | | **( 11 525)** | **8 596** |
| Net profit of discontinued operations | 34 | - | 2 573 |
| **Net Profit / (Loss) for the year** | | **( 11 525)** | **11 169** |
| **Attributable to shareholders of the parent company** | | **( 11 738)** | **10 649** |
| **Attributable to non-controlling interests** | 36 | **213** | **520** |
| | | **( 11 525)** | **11 169** |
| Basic Income per Share (in euros) | 16 | -0,07 | 0,06 |
| Diluted Income per Share (in euros) | 16 | -0,07 | 0,06 |

The Director of the Finance Department

The Board of Directors

## Consolidated Statement of Comprehensive Income for the six month period ended 30 June 2020 and 2019

(thousand euros)

| | 30.06.2020 | 30.06.2019 |
|---|---|---|
| **Net income for the period** | | |
| Attributable to shareholders of the parent company | ( 11 738) | 10 649 |
| Attributable to non-controlling interests | 213 | 520 |
| | **( 11 525)** | **11 169** |
| **Other comprehensive income for the period** | | |
| **Items that will not be reclassified to profit and loss** | | |
| Actuarial gains/(losses), net of taxes | 1 341 | ( 8 123) |
| | **1 341** | **( 8 123)** |
| **Items that may be reclassified to profit and loss** | | |
| Exchange differences net of taxes | | |
| Foreign currency translation differences for foreign operations | ( 33 461) | 2 763 |
| Net gains/(losses) on hedges of net investments in foreign operatons (see Note 40) | 18 966 | ( 5 569) |
| taxes on hedges of net investments in foreign operatons | - | 1 392 |
| Own credit risk effect on liabilities valuation net of taxes | - | 356 |
| Other comprehensive income from associates | ( 37) | - |
| Comprehensive income from discontinued operations net of taxes | - | ( 42) |
| Fair value changes of debt instruments measured at fair value through other comprehensive income net of taxes | ( 2 651) | 1 887 |
| | **( 17 183)** | **787** |
| **Total comprehensive income/(loss) for the period** | **( 27 367)** | **3 833** |
| **Attributable to shareholders of the parent company** | **( 20 553)** | **2 495** |
| **Attributable to non-controlling interests** | **( 6 814)** | **1 338** |
| | **( 27 367)** | **3 833** |

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

## Consolidated Statement of Financial Position as at 30 June 2020 and 31 December 2019

(thousand euros)

| | Notes | 30.06.2020 | 31.12.2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 17 | 550 199 | 637 829 |
| Financial assets at fair value through profit or loss | | 793 546 | 623 801 |
| Financial assets held for trading | | 757 550 | 586 295 |
| Securities | 18 | 526 349 | 437 572 |
| Derivative financial assets | 19 | 231 201 | 148 723 |
| Non-trading financial assets mandatorily at fair value through profit or loss | | 35 996 | 37 506 |
| Securities | 20 | 35 988 | 37 399 |
| Loans and advances to customers | 22 | 8 | 107 |
| Financial assets at fair value through other comprehensive income | 20 | 99 734 | 177 187 |
| Financial assets measured at amortised cost | | 782 599 | 795 839 |
| Securities | 20 | 309 358 | 335 755 |
| Loans and advances to banks | 21 | 150 618 | 145 470 |
| Loans and advances to customers | 22 | 322 623 | 314 614 |
| Non-current assets held-for-sale | 23 | 2 187 | 2 244 |
| Other tangible assets | 24 | 10 294 | 12 777 |
| Intangible assets | 25 | 5 819 | 6 967 |
| Investments in associated companies | 26 | 29 | 15 |
| Tax assets | | 144 307 | 156 702 |
| Current income tax assets | 32 | 40 574 | 40 364 |
| Deferred income tax assets | 32 | 103 733 | 116 337 |
| Other assets | 27 | 340 364 | 193 549 |
| **Total Assets** | | **2 729 078** | **2 606 910** |
| **Liabilities** | | | |
| Financial liabilities held for trading | | 410 489 | 281 660 |
| Securities | 18 | 126 398 | 132 758 |
| Derivative financial liabilities | 19 | 284 091 | 148 902 |
| Financial liabilities measured at amortised cost | | 1 607 220 | 1 540 734 |
| Resources of credit institutions | 28 | 476 677 | 302 248 |
| Resources of customers | 29 | 1 030 729 | 1 041 374 |
| Debt securities issued | 30 | 99 814 | 197 112 |
| Hedging derivatives | 19 | 209 | 300 |
| Provisions | 31 | 18 171 | 21 309 |
| Tax liabilities | | 7 827 | 7 988 |
| Current income tax liabilities | 32 | 6 666 | 7 044 |
| Deferred income tax liabilities | 32 | 1 161 | 944 |
| Other liabilities | 33 | 96 987 | 139 377 |
| **Total Liabilities** | | **2 140 903** | **1 991 368** |
| **Equity** | | | |
| Share capital | 35 | 844 769 | 844 769 |
| Share premium | 35 | 8 796 | 8 796 |
| Other equity instruments | 35 | 108 773 | 108 773 |
| Fair-value reserves | 36 | ( 1 889) | 468 |
| Other reserves and retained earnings | 36 | ( 379 864) | ( 380 914) |
| Net profit/(loss) for the period attributable shareholders of the parent company | | ( 11 738) | 7 508 |
| **Total equity attributable to the shareholders of the parent company** | | **568 847** | **589 400** |
| Non-controlling interests | 36 | 19 328 | 26 142 |
| **Total Equity** | | **588 175** | **615 542** |
| **Total Equity and Liabilities** | | **2 729 078** | **2 606 910** |

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

The Director of the Finance Department

The Board of Directors

# Consolidated Statement of Changes in Equity for the six month period ended 30 June 2020, 31 December 2019 and 30 June 2019

(thousand euros)

| | Share Capital | Share Premium | Other equity instruments | Fair-value reserves | Other Reserves, Retained Earnings and Other Comprehensive Income | Net profit/(loss) for the period attributable shareholders of the parent company | Equity attributable to shareholders of the parent company | Non-controlling interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 31 December 2018** | **844 769** | **8 796** | **108 773** | **( 173)** | **( 373 847)** | **1 159** | **589 477** | **26 029** | **615 506** |
| Other movements recorded directly in equity (see Notes 36 and 40): | | | | | | | | | |
| Changes in fair value, net of taxes | - | - | - | 1 611 | - | - | 1 611 | 276 | 1 887 |
| Other comprehensive income of associates | - | - | - | - | ( 42) | - | ( 42) | - | ( 42) |
| Exchange differences, net of taxes | - | - | - | - | ( 1 956) | - | ( 1 956) | 542 | ( 1 414) |
| Own credit risk changes | - | - | - | - | 356 | - | 356 | - | 356 |
| Actuarial gains/ (losses), net of taxes | - | - | - | - | ( 8 123) | - | ( 8 123) | - | ( 8 123) |
| Net profit / (loss) for the period | - | - | - | - | - | 10 649 | 10 649 | 520 | 11 169 |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **1 611** | **( 9 765)** | **10 649** | **2 495** | **1 338** | **3 833** |
| Transfers for reserves and retained earnings | - | - | - | - | 1 159 | ( 1 159) | - | - | - |
| **Balance as at 30 June 2019** | **844 769** | **8 796** | **108 773** | **1 438** | **( 382 453)** | **10 649** | **591 972** | **27 367** | **619 339** |
| Other movements recorded directly in equity (see Notes 36 and 40): | | | | | | | | | |
| Changes in fair value, net of taxes | - | - | - | ( 970) | - | - | ( 970) | 85 | ( 885) |
| Other comprehensive income of discontinuied | - | - | - | - | ( 45) | - | ( 45) | - | ( 45) |
| Other comprehensive income of associates | - | - | - | - | ( 272) | - | ( 272) | - | ( 272) |
| Exchange differences, net of taxes | - | - | - | - | ( 2 513) | - | ( 2 513) | ( 955) | ( 3 468) |
| Own credit risk changes | - | - | - | - | ( 298) | - | ( 298) | - | ( 298) |
| Actuarial gains/ (losses), net of taxes | - | - | - | - | 4 667 | - | 4 667 | - | 4 667 |
| Net profit / (loss) for the period | - | - | - | - | - | ( 3 141) | ( 3 141) | ( 149) | ( 3 290) |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **( 970)** | **1 539** | **( 3 141)** | **( 2 572)** | **( 1 019)** | **( 3 591)** |
| Transactions with non-controlling interests (see Note 36) | - | - | - | - | - | - | - | ( 206) | ( 206) |
| **Balance as at 31 December 2019** | **844 769** | **8 796** | **108 773** | **468** | **( 380 914)** | **7 508** | **589 400** | **26 142** | **615 542** |
| Other movements recorded directly in equity (see Notes 36 and 40): | | | | | | | | | |
| Changes in fair value, net of taxes | - | - | - | ( 2 357) | - | - | ( 2 357) | ( 294) | ( 2 651) |
| Other comprehensive income of associates | - | - | - | - | ( 37) | - | ( 37) | - | ( 37) |
| Exchange differences, net of taxes | - | - | - | - | ( 7 762) | - | ( 7 762) | ( 6 733) | ( 14 495) |
| Actuarial gains/ (losses), net of taxes | - | - | - | - | 1 341 | - | 1 341 | - | 1 341 |
| Net profit / (loss) for the period | - | - | - | - | - | ( 11 738) | ( 11 738) | 213 | ( 11 525) |
| **Total comprehensive income for the period** | **-** | **-** | **-** | **( 2 357)** | **( 6 458)** | **( 11 738)** | **( 20 553)** | **( 6 814)** | **( 27 367)** |
| Transfers for reserves and retained earnings | - | - | - | - | 7 508 | ( 7 508) | - | - | - |
| **Balance as at 30 June 2020** | **844 769** | **8 796** | **108 773** | **( 1 889)** | **( 379 864)** | **( 11 738)** | **568 847** | **19 328** | **588 175** |

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

## Consolidated Cash Flow Statement for the six month ended 30 June 2020 and 2019

(thousand euros)

| | Notes | 30.06.2020 | 30.06.2019 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interests received | | 51 233 | 63 375 |
| Interests paid | | ( 27 023) | ( 19 528) |
| Fees and commissions received | | 23 916 | 45 892 |
| Fees and commissions paid | | ( 3 562) | ( 2 377) |
| Loans recovery | | 864 | 62 |
| Cash payments to employees and suppliers | | ( 29 778) | ( 38 410) |
| | | **15 650** | **49 014** |
| *Changes in operating assets and liabilities:* | | | |
| Resources at central banks | | 3 865 | ( 1 298) |
| Trading financial assets and liabilities | | ( 38 302) | ( 64 888) |
| Loans and advances to banks | | ( 6 190) | ( 162 413) |
| Resources of other credit institutions | | 173 139 | 210 631 |
| Loans and advances to customers | | ( 12 165) | 32 501 |
| Resources of costumers | | ( 12 619) | 31 867 |
| Risk management derivatives | | ( 91) | - |
| Other operating assets and liabilities | | ( 196 260) | ( 57 813) |
| **Net cash flow from operating activities before income tax** | | **( 72 973)** | **37 601** |
| Income taxes paid | | ( 1 590) | ( 2 379) |
| | | **( 74 563)** | **35 222** |
| **Net cash flows from investment activities** | | | |
| Purchase of securities | | ( 80 324) | ( 395 428) |
| Sale and repaymentsof securities | | 163 097 | 284 722 |
| Purchase of fixed assets | | ( 1 279) | ( 990) |
| Sale of of fixed assets | | - | ( 85) |
| | | **81 494** | **( 111 781)** |
| **Cash flows from financing activities** | | | |
| Debt securities issued | 30 | 11 299 | 11 550 |
| Reimbursement of debt securities issued | 30 | ( 101 464) | ( 353) |
| **Net cash flow from financing activities** | | **( 90 165)** | **11 197** |
| **Net changes in cash and equivalents** | | **( 83 234)** | **( 65 362)** |
| **Cash and equivalents at the beginning for the period** | | 631 876 | 335 945 |
| **Cash and equivalents at the end for the period** | | 548 642 | 270 583 |
| | | **( 83 234)** | **( 65 362)** |
| **Cash and equivalents includes:** | | | |
| Cash | 17 | 527 802 | 247 914 |
| Deposits at other credit institutions | 17 | 22 928 | 29 278 |
| (-) Minimum Reserves | 17 | ( 2 088) | ( 6 609) |
| **Total** | | **548 642** | **270 583** |

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

# 2. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Haitong Bank, S.A.

## NOTE 1 – ACTIVITY AND GROUP STRUCTURE

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

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

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

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

| | Incorporation date | Acquisition date | Headquarters | Activity | % Economic interest | Consolidation method |
|---|---|---|---|---|---|---|
| **Haitong Bank SA** | **1983** | **-** | **Portugal** | **Bank** | **100%** | **Full Consolidation** |
| Haitong Capital - SCR, S.A. | 1988 | 1996 | Portugal | Venture capital | 100% | Full Consolidation |
| 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 Negocios, SA | 2004 | 2004 | Brazil | Holding company | 80% | Full Consolidation |
| Haitong do Brasil DTVM, SA | 2009 | 2010 | Brazil | Asset management | 80% | Full Consolidation |
| Haitong Securities do Brasil S.A. | 2000 | 2000 | Brazil | Brokerage house | 80% | Full Consolidation |

In 2013, Haitong Bank started a simplification plan for its group. Several measures were taken within the scope of such process, including the disposal and merger of several holdings. The simplification process continued throughout 2020, and the main changes made to the group's structure are set forth below.

### Subsidiaries

- On January 28, 2020, the merger of Haitong do Brasil Participações Ltda in Haitong Negócios, SA was approved.

During the six months period endend at June 30th, 2020, there was no movements regarding acquisitions and disposals of investments in subsidiaries and associates. During the 2019 financial year, the movements regarding acquisitions and disposals of investments in subsidiaries and associates are presented as follows:

(thousand euros)

| | 31.12.2019 | |
|---|---|---|
| | Disposals | |
| | Sale amount | Gains/ (losses) in sales/disposals |
| **Subsidiaries** | | |
| Haitong Investment Ireland PLC (Note 34) | 12 000 | 1 967 |
| SES Iberia | 3 | - |
| **Total** | **12 003** | **1 967** |

# NOTE 2 – MAIN ACCOUNTING POLICIES

## 2.1. BASES OF PREPARATION

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

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

Haitong Bank's consolidated financial statements set forth herein refer to the period ended on the 30th of June, 2020, which have been prepared in accordance with the IFRS in force, as adopted in the European Union until the 30th of June, 2020. This consolidated financial statements disclosures are in accordance with the requirements set by IAS 34 and do not include all the information to be published in the annual financial statements.

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1st January 2020. The accounting policies in this note were consistently to all entities of the Group and are consistent with those used in the preparation of the financial statements of the previous period.

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

Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost. Non-current assets and disposal groups held for sale are stated at the lower of carrying amount or fair value less costs to sell.

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

The consolidated financial statements herein have been approved in the Board of Directors meeting held on the 15 of September, 2020.

## 2.2. BASIS OF CONSOLIDATION

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

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

### Subsidiaries

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

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

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

### Associates

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

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

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

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

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

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

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

### Goodwill

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

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

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

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

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

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

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

### Transactions with non-controlling interests

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

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

### Translation of financial statements in foreign currency

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

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

- Assets and liabilities are converted at the exchange rate as at the date of the statement of financial positions;
- Income and expenses are converted based on the application of exchange rates approximated to the real rates as at the date of each transaction;
- Exchange rate differences determined between the conversion amount in euros of the financial position at the beginning of the year and its amount converted at the exchange rate in force as at the date of statement of financial position to which the consolidated accounts relate are accounted for against reserves. Similarly, regarding the subsidiaries' and associated companies' results, the exchange differences arising from the translation of income and expenses at the rates ruling at the dates of the transactions and that determined at the statement of financial position date are recorded in reserves. As at the date of the company's divestiture, such differences are recognised in income statement as an integral part of the gain or loss arising from the divestiture.

### Balances and transactions eliminated on consolidation

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

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

## 2.3. FOREIGN CURRENCY TRANSACTIONS

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

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

## 2.4. FINANCIAL INSTRUMENTS

### 2.4.1 FINANCIAL ASSETS CLASSIFICATION

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

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

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

a) Financial assets measured at amortised cost

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

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

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

b) Financial assets at fair value through other comprehensive income

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

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

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

c) Financial assets at fair value through profit or loss

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

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

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

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

- financial assets in the sub-category of " Financial assets at fair value through profit or loss - Non-trading financial assets mandatorily at fair value through profit or loss" when:

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

Gains and losses on financial assets and liabilities at fair value through profit or loss, namely, changes in fair value and interest on trading derivatives, as well as the dividends received from these portfolios, are recognized as "Net income from other financial instruments at fair value through profit or loss" in the income statement.

### Business model evaluation for financial assets management

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

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

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

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

### Initial recognition

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

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

### Subsequent measurement

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

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

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

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

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

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

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

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

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

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

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

### Reclassifications between categories of financial instruments

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

### Derecognition criteria

The Bank derecognises a financial asset in the following situations:

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

### Loans written-off

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

### Purchase or originated credit impaired assets

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

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

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

- financial assets acquired with a significant discount, that the existence of a significant discount reflects credit losses incurred at the time of its initial recognition.

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

### Impairment of financial assets

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

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

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

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

### Impairment Model

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 there was a significant increase in credit risk that 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). In addition, the top 20 performing largest debtors are annually subject to an individual analysis, in order to trace early warning signals that may indicate a transfer to 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.

At initial recognition, any instrument is allocated to Stage 1 (except for purchased or originated credit impaired (POCI) financial instruments which are allocated to Stage 3). For each of the following reporting dates, an assessment of the change in the risk of a default occurring over the expected life of the financial instrument is required for that contract.

A change in the risk of default may result in a transfer from Stage 1 to Stage 2 or Stage 3. As long as the risk of default of a financial asset is low or has not increase significantly since initial recognition, it remains in Stage 1 with a 12-months ECL. Otherwise, if there is a significant increase in credit risk compared with the initial recognition, the result would be a transfer into Stage 2 and, consequently to the recognition of the lifetime ECL over the residual life of the financial asset. A transfer into Stage 3 is required when objective evidence for a credit loss appears.

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

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

### Expected Credit Losses

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

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

- Loans and advances to customers;
- Loans and advances to banks;
- Securities;
- Debtors and other receivables;
- Cash and cash equivalents.

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

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 consider all relevant information available without incurring undue costs or efforts.

The Group identifies the occurrence of a significant increase in credit risk exposure through 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.

The internal warning signals are the following: (i) delay of payments (including capital, interest, fees or other charges) of more than 30 days; (ii) registration of at least one debtor's credit under a dispute in the Central Credit Register (CCR) from Banco de Portugal; (iii) debt restructuring towards a debtor facing and/or about to face financial difficulties in meeting its financial commitments (with no indication of unlikeliness to pay); (iv) debts to tax agency, social security and/or to employees under a default; (v) clients with warning signals activated in the last three months; and (vi) other specific situations (ad-hoc) criteria). The Group identifies a SICR in the following circumstances: (a) debtors with one of the triggers (i), (iii), (v) and (vi) activated; and (b) debtors with triggers (ii) and (iv) simultaneously activated.

EWS assessment includes the annual review by the Impairment Committee of the Top 20 performing largest exposures in order to confirm that the largest debtors do not display any warning signals that convene a transfer to Stage 2.

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.

## Default definition

Under IFRS 9, the Group considers its financial assets to be in default by applying the same used definition that is applied for prudential purposes. Thus, Haitong Bank defined default as incorporating 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.

### 2.4.2. HEDGE ACCOUNTING

The Group designates derivatives to hedge its exposure to foreign exchange risk, resulting from investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on revaluation are recognised in accordance with the hedge accounting model adopted by the Group. A hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is assessed in a continuous basis and highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange variations arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative is recognised through profit and loss, as well as changes in currency risk of the monetary items.

#### Hedge effectiveness

For a hedge relationship to be classified as such according to IFRS 9, effectiveness has to be demonstrated. As such, the Group performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, demonstrating that the variations in fair value of the hedging instrument are hedged by the fair value variations of the hedged item in the portion assigned to the risk covered. Any ineffectiveness is recognised immediately in profit and loss when incurred.

### Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The hedge is done using a forward currency instrument. Any exchange gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is immediately recognised in profit and loss. Gains and losses accumulated in equity related to the investment in a foreign operation and to the associated hedge operation are recognised in equity and transferred to profit and loss, on the disposal of the foreign operation as part of the gain or loss from the disposal.

## 2.4.3. FINANCIAL LIABILITIES

### Classification, initial recognition and subsequent measurement

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

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

### Financial liabilities at fair value through profit or loss

### Classification

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

a) Financial liabilities held for trading

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

b) Financial liabilities designated at fair value through profit or loss ("Fair Value Option")

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

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

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

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

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

### Initial recognition and subsequent measurement

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

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

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

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

### Financial liabilities at amortised cost

### Classification

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

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

### Initial recognition and subsequent measurement

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

### Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not allowed.

### Derecognition of financial liabilities

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

### 2.4.4. INTEREST RECOGNITION

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

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

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

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

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

### 2.4.5. FINANCIAL GUARANTEES

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

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

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

## 2.5. ASSETS SOLD WITH REPURCHASE AGREEMENT AND SECURITIES LENDING

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

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

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

## 2.6. EQUITY INSTRUMENTS

An instrument is classified as equity instrument only if:

i. The instrument includes no contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable conditions for the issuer; and

ii. The instrument will or may be settled in the issuer's own equity instruments, it is either a non-derivative that includes no contractual obligation on the issuer to deliver a variable number of its own equity instruments or a derivative that will be settled only by the issuer exchanging a fixed amount in cash or another financial asset for a fixed number of its own equity instruments.

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

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

## 2.7. OFFSETTING FINANCIAL INSTRUMENTS

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

## 2.8. NON-CURRENT ASSETS HELD-FOR-SALE AND ASSETS FROM DISCONTINUING OPERATIONS

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

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

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

## 2.9. OTHER TANGIBLE ASSETS

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

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

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

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

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

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

## 2.10. INTANGIBLE ASSETS

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

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

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

## 2.11. LEASE TRANSACTIONS (IFRS 16)

As described in note 2.1, the Group adopted IFRS 16 – "Lease transactions" on 1 January 2019, replacing IAS 17 – "Lease transactions", which was in force until 31 December 2018. The Group did not adopt any of the requirements of IFRS 16 in prior periods.

At inception of a contract, the Banks assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
- the Bank has the right to operate the asset; or
- the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on or after 1 January 2019.

The Group chose not to apply this standard to short-term lease contracts which are less or equal to one year, and to lease contracts where the underlying asset has no significant amount (up to € 5,000).

## As a lessee

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

### As a lessor

When the Bank acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Bank is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Bank applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration in the contract.

The Bank recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'. The accounting policies applicable to the Bank as a lessor in the comparative period were not different from IFRS 16. However, when the Bank was an intermediate lessor the sub-leases were classified with reference to the underlying asset.

## 2.12. EMPLOYEE BENEFITS

### Pensions

Pensions Pursuant to the signature of the Collective Labor Agreement ("Acordo Coletivo de Trabalho" (ACT)) for the banking sector and its subsequent amendments resulting from the 3 tripartite agreements described in Note 14, pension funds and other mechanisms were set up to cover liabilities assumed with pensions on retirement, disability, survival and health-care benefits.

The liabilities' coverage is assured, for the Bank, by pension funds managed by GNB - Sociedade Gestora de Fundos de Pensões, SA.

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

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

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

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

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

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

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

### Health-care benefits

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

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

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

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

### Long-term service bonuses

Under the new ACT, signed at the 5$^{th}$ July 2016, the long-term service bonus was replaced by a career bonus, payable immediately prior to the employee´s retirement date, if the employee retires at the service of the Group, corresponding to 1.5 of his/her salary at the time of its payment.

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

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

### Variable remuneration paid to employees

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

## 2.13. INCOME TAXES

Income taxes comprise current and deferred taxes. Income taxes are recognised in income statement, unless when relating to items directly recognised in equity, in which case they are also accounted for against equity. Taxes recognised in equity, as a result of the reassessment of financial assets at fair value through other comprehensive income, are subsequently recognised in income statement when the gains and losses which were in their origin are recognised in income statement.

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

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

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

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

## 2.14. PROVISIONS

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

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

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

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

Until December 31st, 2018, contingencies with the Tax Authority were accounted following with IAS 37, and the estimated amounts arising from these uncertainties were recorded in Provisions. As of January 1st, 2019, as a result of the application of IFRIC 23, the aforementioned situations started to be accounted in separate items.

## 2.15. RECOGNITION OF FEE AND COMMISSION INCOME

Income from services and commissions are recognised as follows:

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

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

## 2.16. SEGMENT REPORTING

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

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

### 2.17. EARNINGS PER SHARE

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

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

### 2.18. CASH AND CASH EQUIVALENTS

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

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

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

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

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

### 3.1. IMPAIRMENT LOSSES ON FINANCIAL ASSETS AT AMORTISED COST AND DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

#### Individual analysis

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

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

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

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

### Collective analysis

Impairment assessment on the collective basis is based upon the evaluation of the net present value of the expected cash flows for each loan, using pre-defined risk parameters supported by external information.

Taking into account the specificities of Haitong Bank credit portfolio, the collective model is based on external information for all the key risk parameters used. The main parameters used are: (i) Probability of Default (PD), (ii) Loss Given Default (LGD), (iii) Collateral haircut, and (iv) Credit Conversion Factor (CCF) for off-balance exposures.

- Probability of Default (PD) reflects the probability of default at a prospect of time. The Group takes into account Standard & Poor's ("S&P"'s) PD's, whereas the rating assigning process is performed internally based on the S&P methodology, which ensures the alignment between internal risk management and the process of impairment calculation.
- Loss Given Default (LGD) is the magnitude of loss at the time of default. The Bank applies LGD based on Moody's benchmarks (recovery rates) covering a wide historical period.
- Collateral Haircut is based on the regulatory capital requirements (CRR) eligibility criteria and haircut.
- Credit Conversion Factor (CCF) is based on the CRR where CCF applies to all guarantees and lines of credit (off-balance exposures).

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

## 3.2. INCOME TAXES

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

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

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

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

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

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

Tax Authorities are required to review the calculation of the basis of assessment, made by the Bank, for a period of four years, except where any deduction or tax credit has been made, where the time-limit is the exercise of that right. Hence, there is a possibility that the basis of assessment will be corrected, mainly due to differences in the interpretation of the tax legislation (see note 32). However, it is the belief of the Bank's Board of Directors and its subsidiaries, that there will be no significant corrections to income taxes state on financial statements, with a material impact on its equity and results.

## 3.3. GOODWILL IMPAIRMENT

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

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

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

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

### 3.4. PENSIONS AND OTHER EMPLOYEE BENEFITS

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

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

### 3.5. FAIR VALUE OF FINANCIAL DERIVATIVES AND ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Fair values are based on listed market prices when available; otherwise fair value is determined with reference to similar recent arm's length transaction prices, or in accordance with valuation methodologies based on discounted future cash flows techniques, by taking into account the market conditions, temporal value, yield curve and volatility factors. Such methodologies further incorporate own credit risk as well as the counterparty's credit risk. Such methodologies may require the use of assumptions or judgements when estimating fair value.

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

### 3.6. CLASSIFICATION AND MEASUREMENT

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

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

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

## NOTE 4 – SEGMENT REPORTING

### 4.1. DESCRIPTION OF BUSINESS AREAS

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

#### Mergers and Acquisitions Division

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

#### Capital Markets Division

The Capital Markets Division comprises origination, structuring and execution of market-oriented debt and equity instruments. The Bank provides its services to corporates, financial institutions, public companies and state-related entities.

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

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

#### Fixed Income, Currency and Commodities Division

The purpose of the FICC Division is to provide a professional, differentiated and high-quality product and service to institutional and corporate clients, as well as provide Haitong Bank with a multi-client and international distribution platform.

With dedicated Trading, Syndication, Distribution and Derivatives teams, the FICC Division offers market-making services for corporate and sovereign debt securities, multi-product international distribution, Syndication capacity for different products and tailor-made (multi-asset and multi-currency) risk hedging instruments, for both corporate and institutional clients, offering a wide range of products with plain vanilla and structured payoffs.

#### Equities Division

Equities Division provides an advanced, superior, and global execution for European investors with a wide customized execution solutions available for our institutional clients. Following the collaboration agreement signed with Haitong International the distribution of our Polish and Asian product research have also been reinforced.

#### Structured Finance Division

The mission of the Structured Finance Division is to develop financing solutions to its Clients, namely under the form of acquisition / leverage finance, asset based and project finance loans, as well as the provision of financial advisory services in the deals structuring and public tenders involving bidding processes and / or the provision of arranging and agency services for financing operations.

### Corporate Solutions

The purpose of corporate solutions division is to establish relationships with clients in various sectors and to identify business opportunities and attract business to the bank’s product areas.

This unit will also monitor cross border opportunities with a view to ensure a business liaison between the group’s various geographies.

### Treasury Division

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

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

### Private Equity

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

### Corporate Centre

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

### Special Portfolio Management

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

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

### Global Markets

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

### Other

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

## 4.2. CRITERIA FOR THE ATTRIBUTION OF THE BUSINESS AND OF THE RESULTS TO THE SEGMENTS

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

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

### Measurement of profits or losses from the segments

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

### Haitong Bank's Structures dedicated to the Segment

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

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

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

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

### Interest income and expenses

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

## Net profit/(loss) from fee and commission

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

## Investments consolidated under the equity method

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

## Non-current assets

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

## Deferred tax assets

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

## Domestic and International Areas

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

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

(thousand euros)

| | Period of six months ended at 30.06.2020 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Structured Finance | Special Portfolio Management | Mergers and Acquisitions | Capital Markets | FICC | Equities | Global Markets | Private Equity | Treasury | Corporate Solutions | Corporate Centre | Other | Total |
| Net interest income | 3 091 | ( 1 516) | ( 4) | 2 267 | 261 | ( 34) | 8 740 | - | ( 2 269) | ( 2) | 120 | 1 428 | 12 082 |
| Net fees and comissions | 4 236 | 277 | 5 496 | 4 952 | 1 467 | 2 743 | ( 200) | 806 | ( 2 613) | 802 | ( 164) | 1 331 | 19 133 |
| **COMERCIAL OPERATING INCOME** | **7 327** | **( 1 239)** | **5 492** | **7 219** | **1 728** | **2 709** | **8 540** | **806** | **( 4 882)** | **800** | **( 44)** | **2 759** | **31 215** |
| Results on financial operation | ( 164) | 550 | ( 1) | ( 2) | ( 1 467) | ( 18) | ( 1 455) | 895 | ( 2 919) | ( 2) | 2 189 | ( 2) | ( 2 396) |
| Costs Deducting Banking Income | ( 133) | - | ( 48) | ( 8) | ( 120) | ( 22) | ( 373) | ( 6) | ( 152) | - | ( 3 487) | ( 66) | ( 4 415) |
| Intersegment Operating Income | ( 689) | 689 | - | - | ( 1 375) | - | 255 | - | 2 375 | - | ( 1 295) | 40 | - |
| **TOTAL OPERATING INCOME** | **6 341** | **-** | **5 443** | **7 209** | **( 1 234)** | **2 669** | **6 967** | **1 695** | **( 5 578)** | **798** | **( 2 637)** | **2 731** | **24 404** |
| **Operation expenses** | **1 020** | **635** | **2 730** | **1 499** | **2 874** | **966** | **656** | **388** | **861** | **917** | **17 505** | **944** | **30 995** |
| Staff costs | 848 | 385 | 1 770 | 1 143 | 1 510 | 424 | 169 | 288 | 431 | 760 | 10 650 | 667 | 19 045 |
| General administration expenses | 112 | 230 | 810 | 286 | 1 107 | 470 | 472 | 76 | 386 | 85 | 4 240 | 196 | 8 470 |
| Depreciations and Amortisations | 60 | 20 | 150 | 70 | 257 | 72 | 15 | 24 | 44 | 72 | 2 615 | 81 | 3 480 |
| **Gross income** | **5 321** | **( 635)** | **2 713** | **5 710** | **( 4 108)** | **1 703** | **6 311** | **1 307** | **( 6 439)** | **( 119)** | **( 20 142)** | **1 787** | **( 6 591)** |
| **Impairment and Provisions** | **( 3 391)** | **( 592)** | **( 360)** | **5** | **( 7)** | **( 22)** | **235** | **19** | **534** | **( 8)** | **( 415)** | **( 106)** | **( 4 108)** |
| Credit impairment | ( 1 998) | - | - | - | - | - | - | - | - | - | 100 | ( 95) | ( 1 993) |
| Securities impairment | ( 56) | - | - | 48 | 12 | - | 235 | - | 6 | - | - | - | 245 |
| Net provisions and other impairment | ( 1 337) | ( 592) | ( 360) | ( 43) | ( 19) | ( 22) | - | 19 | 528 | ( 8) | ( 515) | ( 11) | ( 2 360) |
| **Income before taxes** | **1 930** | **( 1 227)** | **2 353** | **5 715** | **( 4 115)** | **1 681** | **6 546** | **1 326** | **( 5 905)** | **( 127)** | **( 20 557)** | **1 681** | **( 10 699)** |

(thousand euros)

| | Period of six months ended at 30.06.2019 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Structured Finance | Special Portfolio Management | Mergers and Acquisitions | Capital Markets | FICC | Equities | Global Markets | Private Equity | Treasury | Corporate Centre | Other | Total |
| Net interest income | 3 803 | ( 459) | - | 2 620 | 375 | ( 33) | 6 500 | - | ( 570) | 11 | 2 999 | 15 246 |
| Net fees and comissions | 4 841 | 445 | 5 637 | 30 179 | 3 360 | 487 | ( 142) | 468 | ( 1 935) | ( 840) | 676 | 43 176 |
| **COMERCIAL OPERATING INCOME** | **8 644** | **( 14)** | **5 637** | **32 799** | **3 735** | **454** | **6 358** | **468** | **( 2 505)** | **( 829)** | **3 675** | **58 422** |
| Results on financial operation | ( 15) | 41 | 54 | - | 782 | ( 9) | 582 | 2 217 | ( 29) | ( 982) | 514 | 3 155 |
| Costs Deducting Banking Income | ( 168) | - | ( 69) | ( 2) | ( 151) | ( 13) | ( 365) | ( 10) | 125 | ( 3 735) | ( 155) | ( 4 543) |
| Intersegment Operating Income | 27 | ( 27) | - | - | ( 499) | - | ( 4) | - | 468 | ( 18) | 53 | - |
| **TOTAL OPERATING INCOME** | **8 488** | **-** | **5 622** | **32 797** | **3 867** | **432** | **6 571** | **2 675** | **( 1 941)** | **( 5 564)** | **4 087** | **57 034** |
| **Operation expenses** | **1 425** | **601** | **2 509** | **1 609** | **3 362** | **1 084** | **989** | **706** | **826** | **23 813** | **1 723** | **38 647** |
| Staff costs | 1 193 | 401 | 1 872 | 1 054 | 1 907 | 421 | 484 | 541 | 416 | 14 256 | 1 159 | 23 704 |
| General administration expenses | 202 | 190 | 555 | 530 | 1 178 | 629 | 413 | 163 | 355 | 6 028 | 519 | 10 762 |
| Depreciations and Amortisations | 30 | 10 | 82 | 25 | 277 | 34 | 92 | 2 | 55 | 3 529 | 45 | 4 181 |
| **Gross income** | **7 063** | **( 601)** | **3 113** | **31 188** | **505** | **( 652)** | **5 582** | **1 969** | **( 2 767)** | **( 29 377)** | **2 364** | **18 387** |
| **Impairment and Provisions** | **809** | **132** | **( 138)** | **( 113)** | **( 163)** | **( 1)** | **142** | **( 986)** | **( 1)** | **( 1 101)** | **99** | **( 1 321)** |
| Credit impairment | 484 | - | - | - | 8 | - | ( 2) | ( 785) | - | 35 | 99 | ( 161) |
| Securities impairment | 17 | - | - | ( 38) | ( 4) | - | 144 | - | - | - | - | 119 |
| Net provisions and other impairment | 308 | 132 | ( 138) | ( 75) | ( 167) | ( 1) | - | ( 201) | ( 1) | ( 1 136) | - | ( 1 279) |
| **Income before taxes** | **7 872** | **( 469)** | **2 975** | **31 075** | **342** | **( 653)** | **5 724** | **983** | **( 2 768)** | **( 30 478)** | **2 463** | **17 066** |

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

(thousand euros)

| | 30.06.2020 | | | |
|---|---|---|---|---|
| | Portugal | Rest of the Europe | America | Total |
| Net income | ( 15 560) | 3 470 | 352 | ( 11 738) |
| Net asset | 1 702 210 | 87 642 | 939 226 | 2 729 078 |
| Investments in associates | 29 | - | - | 29 |
| Investments in assets | | | | |
| tangible | 693 | 29 | 83 | 805 |
| intangible | 280 | 6 | 188 | 474 |

(thousand euros)

| | 31.12.2019 | | | |
|---|---|---|---|---|
| | Portugal | Rest of the Europe | America | Total |
| Net income | ( 13 381) | 20 317 | 572 | 7 508 |
| Net asset | 1 684 676 | 49 641 | 872 593 | 2 606 910 |
| Investments in associates | 15 | - | - | 15 |
| Investments in assets | | | | |
| tangible | 591 | 105 | 263 | 959 |
| intangible | 1 930 | 3 | 94 | 2 027 |

## NOTE 5 – FINANCIAL MARGIN

This heading's amount is composed of:

(thousand euros)

| | Period of six months ended at | | | | | |
|---|---|---|---|---|---|---|
| | 30.06.2020 | | | 30.06.2019 | | |
| | From assets/liabilities at amortised cost and at fair-value through other comprehensive income | From assets/liabilities at fair-value through profit and loss | Total | From assets/liabilities at amortised cost and at fair-value through other comprehensive income | From assets/liabilities at fair-value through profit and loss | Total |
| **Interest and similar income** | | | | | | |
| Interest from loans and advances to customers | 7 069 | - | 7 069 | 10 781 | - | 10 781 |
| Interest from deposits and investments in credit institutions | 1 633 | - | 1 633 | 4 577 | - | 4 577 |
| Interest from financial assets at fair value through other comprehensive income | 528 | - | 528 | 2 018 | - | 2 018 |
| Interest from financial assets at fair-value through profit and loss | - | 19 156 | 19 156 | - | 20 266 | 20 266 |
| Interest from debt securities at amortised cost | 2 759 | - | 2 759 | 2 193 | - | 2 193 |
| Other interest and similar income | 95 | - | 95 | 111 | - | 111 |
| | **12 084** | **19 156** | **31 240** | **19 680** | **20 266** | **39 946** |
| **Interest and similar expenses** | | | | | | |
| Interest from deposits from central banks and other credit institutions | 7 467 | - | 7 467 | 8 029 | - | 8 029 |
| Interest from debt securities issued | 3 179 | - | 3 179 | 7 563 | - | 7 563 |
| Interest from customers accounts | 7 951 | - | 7 951 | 8 529 | - | 8 529 |
| Interest from leasing | 105 | - | 105 | 163 | - | 163 |
| Other interest and similar expenses | 456 | - | 456 | 416 | - | 416 |
| | **19 158** | **-** | **19 158** | **24 700** | **-** | **24 700** |
| | **( 7 074)** | **19 156** | **12 082** | **( 5 020)** | **20 266** | **15 246** |

As at June 30th, 2020, interest and similar income includes an amount of 7 010 thousand euros and 781 thousand euros concerning contracts flagged as stage 2 and stage 3, respectively (30th June, 2019: 2,319 thousand euros and 1,048 thousand euros, respectively).

## NOTE 6 – NET FEES AND COMMISSIONS INCOME

This heading's amount is composed of:

(thousand euros)

| | Period of six months ended at | |
|---|---|---|
| | 30.06.2020 | 30.06.2019 |
| **Fees and commissions income** | | |
| From banking services | 16 317 | 14 257 |
| From guarantees provided | 804 | 1 719 |
| From transactions with securities | 5 484 | 29 488 |
| | **22 605** | **45 464** |
| **Fees and commissions expenses** | | |
| From banking services rendered by third parties | 1 273 | 655 |
| From transactions with securities | 824 | 662 |
| From guarantees received | 247 | 226 |
| Other fee and comission expenses | 1 218 | 834 |
| | **3 562** | **2 377** |
| | **19 043** | **43 087** |

As at June 30th, 2020, the income regarding fees and commission included 11,105 thousand euros (30th June, 2019: 10,052 thousand euros) concern Haitong Group related parties (Note 38).

As at June 30th, 2020, the amount of fees and commissions present the following distribution, by geographical segment:

(thousand euros)

| | 30.06.2020 |
|---|---|
| **Fees and commissions income** | |
| Virgin Islands | 5 734 |
| Hong Kong | 3 744 |
| China | 3 480 |
| Spain | 3 192 |
| Bermuda | 2 318 |
| Portugal | 2 354 |
| Luxembourg | 422 |
| Poland | 382 |
| Ireland | 230 |
| Others | 749 |
| | **22 605** |

## NOTE 7 – NET TRADING INCOME

This heading's amount is composed of:

| | Period of six months ended at | | | | | |
|---|---|---|---|---|---|---|
| | 30.06.2020 | | | 30.06.2019 | | |
| | Income | Expenses | 30.06.2020 | Income | Expenses | 30.06.2019 |
| **Trading assets and liabilities** | | | | | | |
| **Securities** | | | | | | |
| Bonds and other fixed-income securities | | | | | | |
| Issued by public entities | 45 844 | 43 515 | 2 329 | 113 036 | 107 902 | 5 134 |
| Of other entities | 5 107 | 3 193 | 1 914 | 1 370 | 884 | 486 |
| Shares | 1 242 | 16 | 1 226 | 862 | 160 | 702 |
| | **52 193** | **46 724** | **5 469** | **115 268** | **108 946** | **6 322** |
| **Financial derivatives** | | | | | | |
| Foreign-exchange contracts | 438 151 | 359 367 | 78 784 | 299 584 | 292 451 | 7 133 |
| Interest rates contracts | 353 920 | 448 424 | ( 94 504) | 181 407 | 191 089 | ( 9 682) |
| Equity/indexes contracts | 176 783 | 177 299 | ( 516) | 165 985 | 168 145 | ( 2 160) |
| Credit default contracts | ( 28) | ( 294) | 266 | 1 294 | 1 294 | - |
| Other | - | 3 009 | ( 3 009) | - | ( 691) | 691 |
| | **968 826** | **987 805** | **( 18 979)** | **648 270** | **652 288** | **( 4 018)** |
| | **1 021 019** | **1 034 529** | **( 13 510)** | **763 538** | **761 234** | **2 304** |

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

This heading's amount is composed of:

(thousand euros)

| | Period of six months ended at | | | | | |
|---|---|---|---|---|---|---|
| | 30.06.2020 | | | 30.06.2019 | | |
| | Income | Expenses | 30/06/2020 | Income | Expenses | 30.06.2019 |
| **Assets and liabilities at fair value through profit or loss** | | | | | | |
| **Securities** | | | | | | |
| Loans and advances to customers | - | 5 | ( 5) | - | - | - |
| Shares | ( 810) | 26 | ( 836) | 728 | 22 | 706 |
| Other variable-income securities | 947 | - | 947 | 2 553 | ( 418) | 2 971 |
| | **137** | **31** | **106** | **3 281** | **( 396)** | **3 677** |
| **Financial liabilities at fair value through profit or loss** | | | | | | |
| Debt securities issued | - | - | - | ( 233) | ( 235) | 2 |
| | **-** | **-** | **-** | **( 233)** | **( 235)** | **2** |
| | **137** | **31** | **106** | **3 048** | **( 631)** | **3 679** |

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

This heading's amount is composed of:

(thousand euros)

| | Period of six months ended at | | | | | |
|---|---|---|---|---|---|---|
| | 30.06.2020 | | | 30.06.2019 | | |
| | Income | Expenses | Total | Income | Expenses | Total |
| Bonds and other fixed-income securities | | | | | | |
| Issued by public entities | - | - | - | 1 756 | - | 1 756 |
| Of other entities | 15 | 71 | ( 56) | - | - | - |
| Shares | ( 4) | - | ( 4) | | | - |
| Other variable income securities | - | - | - | | | - |
| | **11** | **71** | **( 60)** | **1 756** | **-** | **1 756** |

# NOTE 10 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE DIFFERENCES

This heading's amount is composed of:

(thousand euros)

| | Period of six months ended at | |
|---|---|---|
| | 30.06.2020 | 30.06.2019 |
| Currency revaluation | 9 889 | ( 4 674) |
| | **9 889** | **( 4 674)** |

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

## NOTE 11 – NET GAIN/(LOSS) FROM DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

As at the 30th of June, 2020 and 2019, this heading's amount is composed of:

(thousand euros)

| | Period of six months ended at | |
|---|---|---|
| | 30.06.2020 | 30.06.2019 |
| Sale of loans and advances to customers | 864 | 62 |
| Loans recoveries | 864 | 62 |
| | **864** | **62** |

## NOTE 12 – OTHER OPERATING INCOME AND EXPENSES

This heading's amount is composed of:

(thousand euros)

| | Period of six months ended at | |
|---|---|---|
| | 30.06.2020 | 30.06.2019 |
| Other customer services | 90 | 89 |
| Direct and Indirect taxes | ( 2 372) | ( 2 522) |
| Other operating results | ( 1 939) | ( 1 723) |
| Non-financial assets | ( 23) | ( 51) |
| Sub-leasing | 182 | ( 161) |
| | **( 4 062)** | **( 4 368)** |

Direct and indirect taxes include 1,421 thousand euros concerning the cost associated with the Bank Levy (30 of June, 2019: 1,750 thousand euros), established pursuant to Law no. 55-A/2010, of the 31st of December.

As at the June 30, 2020, the balance Other operating income and expenses includes, among other costs, the followings:

I. 1,581 thousand euros related to Contributions to the Resolution Fund (1,596 thousand euros at 30 June 2019);

II. 93 thousand euros related to Contributions to the Loan Guarantee Fund applicable to the subsidiary Haitong Banco de Investimento do Brasil S.A. (67 thousand euros as at 30 June 2019);

## NOTE 13 – EMPLOYEE COSTS

This heading's amount is composed of:

(thousand euros)

| | Period of six months ended at | |
|---|---|---|
| | **30.06.2020** | **30.06.2019** |
| Wages and salaries | | |
| Remuneration | 14 149 | 17 645 |
| Career benefits (Note 14) | 6 | 65 |
| Changes from termination agreements (see Note 14) | ( 514) | - |
| Expenses with retirement pensions (Note 14) | 387 | 359 |
| Other mandatory social charges | 4 004 | 3 745 |
| Other expenses | 1 013 | 1 890 |
| | **19 045** | **23 704** |

The costs with remuneration and other benefits granted to key management employees of the Haitong Bank are distributed as follow:

(thousand euros)

| | Board of Directors | Other key management staff | Total |
|---|---|---|---|
| **June 2020** | | | |
| Remunerations and other short-term benefits | 777 | 5 802 | 6 579 |
| Variable remunerations | 527 | 1 727 | 2 254 |
| **Total** | **1 304** | **7 529** | **8 833** |
| **June 2019** | | | |
| Remunerations and other short-term benefits | 924 | 5 155 | 6 079 |
| Variable remunerations | 372 | 1 453 | 1 825 |
| **Total** | **1 296** | **6 608** | **7 904** |

The category "Other Key Employees" considers Managing Directors, Executive Directors, and other members of staff whose actions have a material impact on the Bank's risk profile ("Identified Staff").

On June 30th, 2020 and 2019, the Haitong Bank did not present any credit granted to its Management Bodies.

Per professional category, the average number of employees of the Haitong Bank can be analysed as follows:

| | **30.06.2020** | **30.06.2019** |
|---|---|---|
| Directors | 193 | 207 |
| Management | 3 | 3 |
| Specific roles | 141 | 134 |
| Administrative roles | 20 | 23 |
| Support roles | 12 | 12 |
| | **369** | **379** |

As at the 30th of June, 2020 and 2019, the Bank had a total of 369 and 379 employees, respectively.

## NOTE 14 – EMPLOYEES BENEFITS

### Retirement pensions and healthcare benefits

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

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

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

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

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

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

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

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

At the end of financial year 2011 and pursuant to the 3rd tripartite agreement, it was decided to transfer, definitively and irreversibly, to the General Social Security Regime all the banks’ liabilities with pensions in payment to retirees and pensioners that were in that condition as at 31 December 2011 at constant values (0% discount rate) for the component foreseen in the “Instrumento de Regulação Colectiva de Trabalho” (IRCT) applicable to banking employees, including the eventualities of death, disability and survival. The liabilities relating to the updating of pension amounts, pension benefits other than those to be borne by

Social Security, health-care contributions to SAMS, death allowances and deferred survivor's pensions will remain under the banks' responsibility, with the corresponding funding being met through the respective pension funds.

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

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

(thousand euros)

| | 30.06.2020 | 30.06.2019 |
|---|---|---|
| Current service cost (see Note 13) | 387 | 359 |
| Interest Expenses / (Income) | 9 | 9 |
| **Expenses of the period** | **396** | **368** |

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

## Career bonuses

On the 30th of June, 2020, 31st of December, 2019 and 30th of June, 2019, the liabilities assumed by the Group and the costs recognised in the periods with the career bonus are the following:

(thousand euros)

| | 30.06.2020 | 31.12.2019 | 30.06.2019 |
|---|---|---|---|
| **Liabilities at the begining of the period** | **539** | **550** | **485** |
| Period expenses (See Note 13) | 6 | ( 11) | 65 |
| **Liabilities at the end of the period (see Note 33)** | **545** | **539** | **550** |

The actuarial assumptions used for calculation of liabilities are identical for calculation of retirement pensions (when applicable).

The liability regarding career bonuses is registered in other liabilities (see Note 33).

## NOTE 15 – ADMINISTRATIVE COSTS

This heading's amount is composed of:

(thousand euros)

| | Period of six months ended at | |
|---|---|---|
| | 30.06.2020 | 30.06.2019 |
| Communications and expedition | 2 320 | 2 413 |
| Rents and leases | 413 | 48 |
| Travels and representation costs | 183 | 583 |
| Maintenance and related services | 323 | 423 |
| Insurance | 85 | 120 |
| Advertising and publications | 73 | 40 |
| Legal and litigation | 20 | 130 |
| Specialised services | | |
| IT services | 1 908 | 1 971 |
| Temporary labour | 3 | 4 |
| Independent labour | 470 | 194 |
| Other specialised services | 1 717 | 2 931 |
| Other expenses | 955 | 1 905 |
| | **8 470** | **10 762** |

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

## NOTE 16 – EARNINGS PER SHARE

### Basic earnings per share

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

(thousand euros)

| | Period of six months ended at | |
|---|---|---|
| | 30.06.2020 | 30.06.2019 |
| Consolidated net income attributable to shareholders of the parent company[(1)] | ( 11 738) | 10 649 |
| **Weighted average number of ordinary shares outstanding (thousand)** | **168 954** | **168 954** |
| **Basic earnings per share attributable to shareholders of the parent company (euros)** | **-0,07** | **0,06** |

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

### Diluted earnings per share

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

On the 30th of June, 2020 and 2019, the Bank holds instruments issued without diluting effect, therefore diluted earnings per share equals basic earnings per share.

## NOTE 17 – CASH AND CASH EQUIVALENTS

As at the 30th of June, 2020 and 31st of December, 2019, this heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Cash | 22 | 8 |
| Demand deposit at central banks | | |
| Bank of Portugal | 527 675 | 611 915 |
| Other central banks | 105 | 93 |
| | **527 780** | **612 008** |
| Deposits at other credit institutions in Portugal | | |
| Demand deposits | 3 201 | 3 765 |
| | **3 201** | **3 765** |
| Deposits at other credit institutions abroad | | |
| Demand deposits | 19 727 | 22 048 |
| | **19 727** | **22 048** |
| | **550 730** | **637 829** |
| Impairment losses (Note 31) | ( 531) | - |
| | **550 199** | **637 829** |

The 'Demand deposits in central banks – Bank of Portugal' heading, includes deposits with a mandatory nature, intended to comply with the legal minimum cash deposits requirements. In accordance with Regulation (EU) no. 1358/2011 of the European Central Bank, of the 14th of December, 2011, the mandatory minimum deposits in demand deposits in the Bank of Portugal, are paid and represent 1% of the deposits and debt securities with maturity up to 2 years, whereof are excluded deposits and debt securities from entities subject to the minimum reserve requirement scheme of the European System of Central Banks. On the 30th of June, 2020, the average rate of return of such deposits was 0,00% (31st of December, 2019: 0.00%).

The compliance with mandatory minimum deposits, for a specific observation period, is effected by taking into account the medium amount of the balances of the deposits with the Bank of Portugal throughout the aforementioned period. The balance of the account with the Bank of Portugal as at the 30th of June, 2020, has been comprised in the maintenance period from the 10th of June, 2020, to the 21st of July, 2020, which corresponded a mandatory minimum reserve amounting to 2,088 thousand euros (31st of December, 2019: 5,953 thousand euros).

## NOTE 18 – FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING - SECURITIES

As at 30th of June 2020 and 31st of December 2019, the heading of trading financial assets and liabilities is as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Financial assets held-for-trading** | | |
| Bonds and other fixed-income securities | | |
| From public issuers | 514 537 | 412 057 |
| From other issuers | 11 673 | 25 495 |
| Shares | 139 | 20 |
| | **526 349** | **437 572** |
| **Financial liabilities held-for-trading** | | |
| Short selling | 126 398 | 132 758 |
| | **126 398** | **132 758** |

As at 30th of June 2020 and 31st of December 2019, the analysis of financial assets held-for-trading, by residual maturity period, is as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Up to three months | 668 | 3 830 |
| From three months to one year | 20 250 | 2 378 |
| From one to five years | 207 629 | 120 498 |
| More than five years | 297 663 | 310 846 |
| Undetermined period | 139 | 20 |
| | **526 349** | **437 572** |

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

As at 30th of June 2020 and 31st of December 2019, the heading of financial assets held-for-trading, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Bonds and other fixed-income securities | | | | | | |
| Issued by public entities | 19 334 | 495 203 | 514 537 | 4 141 | 407 916 | 412 057 |
| Issued by other entities | 5 918 | 5 755 | 11 673 | 14 144 | 11 351 | 25 495 |
| Shares | 139 | - | 139 | 20 | - | 20 |
| **Total book value** | **25 391** | **500 958** | **526 349** | **18 305** | **419 267** | **437 572** |

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

The short selling represents securities sold by the Group, which had been purchased under a reverse repurchase agreement. In accordance with the accounting policy described in Note 2.5, securities purchased under a repurchase agreement are not recognised in the statement of financial positions. If such securities are sold, the Group recognises a financial liability equivalent to the fair-value of the assets which shall be returned in pursuance of the repurchase agreement.

## NOTE 19 – DERIVATIVES

As at 30th of June 2020 and 31st of December 2019, financial derivatives heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Derivatives financial assets** | | |
| **Trading derivatives** | | |
| Foreign-exchange contracts | 13 043 | 4 183 |
| Interest-rate contracts | 114 525 | 126 077 |
| Other contracts | 103 633 | 18 463 |
| | **231 201** | **148 723** |
| **Derivatives financial liabilities** | | |
| **Trading derivatives** | | |
| Foreign-exchange contracts | 7 396 | 5 011 |
| Interest-rate contracts | 170 226 | 125 825 |
| Other contracts | 106 469 | 18 066 |
| | **284 091** | **148 902** |
| | **( 52 890)** | **( 179)** |
| **Hedging Derivatives** | | |
| **Derivatives financial liabilities** | | |
| Foreign-exchange contracts | **209** | **300** |
| | **209** | **300** |

As at 30th of June 2020 and 31st of December 2019, trading financial derivatives is analysed as follows:

(thousand euros)

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Notional | Fair value | | Notional | Fair value | |
| | | Positive | Negative | | Positive | Negative |
| **Foreign-exchange contracts** | | | | | | |
| Forward | - | 7 341 | 1 545 | - | 287 | 1 290 |
| - buy | 306 631 | | | 89 193 | | |
| - sell | 306 623 | | | 89 194 | | |
| Currency Swaps | | 805 | 713 | | 939 | 436 |
| - buy | 130 187 | | | 188 248 | | |
| - sell | 130 104 | | | 188 157 | | |
| Currency Futures | | - | - | | - | - |
| - buy | 247 676 | | | 402 911 | | |
| - sell | 218 397 | | | 146 962 | | |
| Currency Interest Rate Swaps | | 4 503 | 4 650 | - | 2 616 | 2 944 |
| - buy | 58 021 | | | 66 250 | | |
| - sell | 58 021 | | | 66 250 | | |
| Currency Options | | 394 | 488 | | 341 | 341 |
| - buy | 135 305 | | | 177 835 | | |
| - sell | 155 595 | | | 208 870 | | |
| | **1 746 560** | **13 043** | **7 396** | **1 623 870** | **4 183** | **5 011** |
| **Interest-rate contracts** | | | | | | |
| Interest Rate Swaps | | 112 984 | 168 680 | | 124 628 | 124 368 |
| - buy | 2 434 490 | | | 2 556 051 | | |
| - sell | 2 434 490 | | | 2 556 051 | | |
| Interest Rate Caps & Floors | | 1 541 | 1 546 | | 1 449 | 1 457 |
| - buy | 94 936 | | | 88 334 | | |
| - sell | 88 562 | | | 81 594 | | |
| Interest Rate Futures | | - | - | - | - | - |
| - buy | 1 047 104 | | | 1 290 223 | | |
| - sell | 878 588 | | | 1 188 496 | | |
| | **6 978 170** | **114 525** | **170 226** | **7 760 749** | **126 077** | **125 825** |
| **Contracts on shares/indexes** | | | | | | |
| Equity / Index Swaps | | 100 784 | 103 652 | | 15 285 | 14 934 |
| - buy | 203 987 | | | 159 800 | | |
| - sell | 203 935 | | | 159 734 | | |
| Equity / Index Futures | | - | - | | - | - |
| - buy | - | | | 7 061 | | |
| - sell | 2 836 | | | 3 095 | | |
| | **410 758** | **100 784** | **103 652** | **329 690** | **15 285** | **14 934** |
| **Credit agreements** | | | | | | |
| Credit Default Swaps | | 2 849 | 2 817 | - | 3 178 | 3 132 |
| - buy | 36 926 | | | 63 229 | | |
| - sell | 71 326 | | | 97 629 | | |
| | **108 252** | **2 849** | **2 817** | **160 858** | **3 178** | **3 132** |
| **Total** | **9 243 740** | **231 201** | **284 091** | **9 875 167** | **148 723** | **148 902** |

As at 30th of June 2020 and 31st of December 2019, the analysis of trading financial derivatives, by residual maturity period, is as follows:

(thousand euros)

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Notional | | Fair Value | Notional | | Fair Value |
| | Sale | Purchase | (net) | Sale | Purchase | (net) |
| Up to three months | 1 068 015 | 1 223 226 | ( 40 241) | 618 277 | 543 588 | 2 333 |
| From three months to one year | 750 025 | 849 932 | ( 12 568) | 1 306 987 | 1 930 294 | ( 2 034) |
| From one to five years | 1 428 930 | 1 235 364 | ( 2 727) | 1 631 228 | 1 581 418 | ( 1 672) |
| More than five years | 1 301 507 | 1 386 741 | 2 646 | 1 229 540 | 1 033 835 | 1 194 |
| | **4 548 477** | **4 695 263** | **( 52 890)** | **4 786 032** | **5 089 135** | **( 179)** |

a) Hedging Derivatives

As at 30th of June 2020 and 31st of December 2019, the analysis of Hedging Derivatives, by residual maturity period, is as follows:

(thousand euros)

| | 30.06.2020 | | |
|---|---|---|---|
| | Notional | | Fair Value |
| | Sell | Buy | |
| Up to three months | 77 517 | 77 132 | ( 209) |
| | **77 517** | **77 132** | **( 209)** |

(thousand euros)

| | 31.12.2019 | | |
|---|---|---|---|
| | Notional | | Fair Value |
| | Sell | Buy | |
| Up to three months | 105 048 | 104 444 | ( 300) |
| | **105 048** | **104 444** | **( 300)** |

As at 30th of June 2020 and 31st of December 2019, derivatives, both assets and liabilities, include operations collateralized by the constitution of collateral accounts in order to ensure the fair value hedge of the active and liability exposures contracted between the Bank and several financial institutions. The balances related to these collateral are recorded under "Other assets - collateral deposited under clearing agreements" (Note 27) and "Other liabilities - collateral deposited under clearing agreements" (Note 33).

As at 30th of June 2020, the hedge ineffectiveness recognised in income statement is 1 thousand euros.

As at 30th of June 2020, the hedge accounting relationships are analysed in Note 40.

# NOTE 20 – SECURITIES

As at 30th of June 2020 and 31st of December 2019, this heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Non-trading financial assets mandatorily at fair value through profit or loss** | | |
| Bonds and other fixed-income securities | | |
| From other issuers | 752 | 759 |
| Shares | 1 605 | 2 273 |
| Other variable income securities | 33 632 | 34 367 |
| | **35 989** | **37 399** |
| **Financial assets at fair value through other comprehensive income** | | |
| Bonds and other fixed-income securities | | |
| From public issuers | 40 860 | 88 991 |
| From other issuers | 58 874 | 88 196 |
| | **99 734** | **177 187** |
| **Financial assets measured at amortised cost** | | |
| **Securities** | | |
| Bonds and other fixed-income securities | | |
| From public issuers | 188 740 | 194 981 |
| From other issuers | 120 617 | 140 774 |
| | **309 357** | **335 755** |
| | **445 080** | **550 341** |

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

As at 30th of June 2020 and 31st of December 2019, the portfolio of Financial assets at fair value through other comprehensive income is analysed as follows:

(thousand euros)

| | Cost (1) | Fair value reserve | | Impairment (Note 31) | Book value |
|---|---|---|---|---|---|
| | | Positive | Negative | | |
| Bonds and other fixed-income securities | | | | | |
| Issued by public entities | 39 737 | 1 409 | ( 151) | ( 135) | 40 860 |
| Issued by other entities | 64 938 | 587 | ( 3 822) | ( 2 829) | 58 874 |
| **Balance as at 30 June 2020** | **104 675** | **1 996** | **( 3 973)** | **( 2 964)** | **99 734** |
| Bonds and other fixed-income securities | | | | | |
| Issued by public entities | 86 695 | 2 663 | - | ( 367) | 88 991 |
| Issued by other entities | 91 452 | 1 962 | ( 2 328) | ( 2 890) | 88 196 |
| **Balance as at 31 December 2019** | **178 147** | **4 625** | **( 2 328)** | **( 3 257)** | **177 187** |

(1) Amortised cost

As at 30th of June 2020 and 31st of December 2019, the portfolio of financial assets at amortized cost is analysed as follows:

(thousand euros)

| | Cost (1) | Impairment (Note 31) | Book value |
|---|---|---|---|
| Bonds and other fixed-income securities | | | |
| Issued by public entities | 188 882 | ( 142) | 188 740 |
| Issued by other entities | 129 174 | ( 8 557) | 120 617 |
| **Balance as at 30 June 2020** | **318 056** | **( 8 699)** | **309 357** |
| Bonds and other fixed-income securities | | | |
| Issued by public entities | 195 129 | ( 148) | 194 981 |
| Issued by other entities | 149 325 | ( 8 551) | 140 774 |
| **Balance as at 31st December 2019** | **344 454** | **( 8 699)** | **335 755** |

(1) Amortised cost

As at 30th of June 2020 and 31st of December 2019, the analysis of securities portfolios by maturity period, is presented as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Up to three months | 41 374 | 23 634 |
| From three months to one year | 65 405 | 108 994 |
| From one to five years | 284 091 | 361 140 |
| More than five years | 18 973 | 19 936 |
| Undetermined period | 35 237 | 36 637 |
| | **445 080** | **550 341** |

As at 30th of June 2020, the heading of Financial assets includes 203,591 thousand euros (31st December 2019: 209,853 thousand euros) in securities pledged as collateral by the Group (see Note 38).

As at 30th of June 2020 and 31st of December 2019, the heading of securities, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Quoted | Unquoted | Total | Quoted | Unquoted | Total |
| Securities | | | | | | |
| Bonds and other fixed-income securities | | | | | | |
| Issued by public entities | 207 404 | 22 196 | 229 600 | 210 214 | 73 758 | 283 972 |
| Issued by other entities | 4 399 | 175 844 | 180 243 | 26 017 | 203 712 | 229 729 |
| Shares | 10 | 1 595 | 1 605 | 13 | 2 260 | 2 273 |
| Other variable-income securities | - | 33 632 | 33 632 | - | 34 367 | 34 367 |
| **Total statement of financial position value** | **211 813** | **233 267** | **445 080** | **236 244** | **314 097** | **550 341** |

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

As at 30th of June 2020 and 31st of December 2019, the geographic exposure is presented in Note 40.

## NOTE 21 - LOANS AND ADVANCES TO BANKS

As at 30th of June 2020 and 31st of December 2019, this heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Loans and advances to banks in Portugal** | | |
| Deposits | 56 | 56 |
| Very short-term deposits | - | 6 231 |
| | **56** | **6 287** |
| **Loans and advances to banks abroad** | | |
| Reverse repos | 150 585 | 133 957 |
| Very short-term deposits | - | 2 255 |
| Other loans and advances | 15 077 | 18 586 |
| | **165 662** | **154 798** |
| | **165 718** | **161 085** |
| Impairment losses (Note 31) | ( 15 100) | ( 15 615) |
| | **150 618** | **145 470** |

As at 30th of June 2020 and 31st of December 2019, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Up to three months | 99 444 | 146 009 |
| From three months to one year | 51 197 | - |
| Undetermined period | 15 077 | 15 076 |
| | **165 718** | **161 085** |

## NOTE 22 – LOANS AND ADVANCES TO CUSTOMERS

As at 30th of June 2020 and 31st of December 2019, this heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **At fair value throught profit and loss** | | |
| **Overdue loans and interest** | | |
| For more than 90 days | 132 | 233 |
| | **132** | **233** |
| | **132** | **233** |
| Revaluation at fair value | ( 124) | ( 126) |
| | **8** | **107** |
| **At amortized cost** | | |
| **Domestic loans** | | |
| Corporate | | |
| Loans | 172 112 | 157 942 |
| Retail | | |
| Mortgage loans | 440 | 469 |
| | **172 552** | **158 411** |
| **Foreign loans** | | |
| Corporate | | |
| Loans | 156 643 | 163 334 |
| Reverse repos | 3 944 | 1 132 |
| Other loans | - | 1 613 |
| Retail | | |
| Mortgage loans | 11 | 20 |
| | **160 598** | **166 099** |
| **Overdue loans and interest** | | |
| For more than 90 days | 1 554 | 1 985 |
| | **1 554** | **1 985** |
| | **334 704** | **326 495** |
| Impairment losses (Note 31) | ( 12 081) | ( 11 881) |
| | **322 623** | **314 614** |
| | **322 631** | **314 721** |

As at 30th of June 2020 and 31st of December 2019, the analysis of loans and advances to costumers, by residual maturity period, is presented as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Up to three months | 450 | 1 621 |
| From three months to one year | - | 74 423 |
| From one to five years | 122 648 | 54 455 |
| More than five years | 210 051 | 194 013 |
| Undetermined period | 1 687 | 2 216 |
| | **334 836** | **326 728** |

## NOTE 23 - NON-CURRENT ASSETS HELD-FOR-SALE

As at 30th of June 2020 and 31st of December 2019, this heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Subsidiaries acquired exclusively for resale purposes | 2 187 | 2 244 |
| | **2 187** | **2 244** |

Non-current assets held-for-sale only includes the investment in Polish Hotel Company. The Group has implemented a plan for the immediate sale of this subsidiary. However, due to market conditions, it was not possible to carry out the divestiture within the period originally foreseen.

The Group is committed and developing the best efforts to conclude the sale of the company. The potential polish investor suspended the negotiations with Haitong Bank due to Covid-19 negative impact.

## NOTE 24 – OTHER TANGIBLE ASSETS

As at 30th of June 2020 and 31st of December 2019, this heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Real Estate** | | |
| For own use | 705 | 954 |
| Improvements in leasehold property | 7 403 | 8 056 |
| | **8 108** | **9 010** |
| **Equipment** | | |
| IT equipment | 11 275 | 11 227 |
| Indoor installations | 2 432 | 2 432 |
| Furniture | 2 463 | 2 520 |
| Machinery and tools | 1 007 | 1 032 |
| Motor vehicles | 319 | 408 |
| Security equipment | 262 | 288 |
| Others | 204 | 180 |
| | **17 962** | **18 087** |
| | **26 070** | **27 097** |
| **Work in progress** | | |
| Improvements in leasehold property | 447 | - |
| Equipment | 148 | - |
| | **595** | **-** |
| **Right-of-use** | | |
| IT equipment | 85 | 97 |
| Vehicles | 813 | 1 139 |
| Buildings | 9 580 | 10 110 |
| | **10 478** | **11 346** |
| | **37 143** | **38 443** |
| **Accumulated depreciations** | ( 26 849) | ( 25 666) |
| | **10 294** | **12 777** |

The movement in this heading was as follows:

(thousand euros)

| | Real estate | Equipment | Right-of-use Buildings | Right-of-use IT equipment | Right-of-use Vehicles | Work in progress | Total |
|---|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | | |
| **Balance as at 31 December 2018** | **10 023** | **18 290** | **-** | **-** | **-** | **23** | **28 336** |
| Acquisitions | 352 | 548 | - | - | - | 59 | 959 |
| Write-offs / sales | ( 1 367) | ( 753) | - | - | - | - | ( 2 120) |
| Transfers | 59 | 23 | - | - | - | ( 82) | - |
| Transfers from discontinued operations | - | - | 10 219 | 94 | 1 080 | - | 11 393 |
| Exchange differences and other movements | ( 57) | ( 21) | ( 109) | 3 | 59 | - | ( 125) |
| **Balance as at 31 December 2019** | **9 010** | **18 087** | **10 110** | **97** | **1 139** | **-** | **38 443** |
| Acquisitions | - | 210 | - | - | - | 595 | 805 |
| Write-offs / sales | - | ( 14) | - | - | - | - | ( 14) |
| Exchange differences and other movements | ( 902) | ( 321) | ( 530) | ( 12) | ( 326) | - | ( 2 091) |
| **Balance as at 30 June 2020** | **8 108** | **17 962** | **9 580** | **85** | **813** | **595** | **37 143** |
| **Depreciations** | | | | | | | |
| **Balance as at 31 December 2018** | **6 748** | **16 224** | **-** | **-** | **-** | **-** | **22 972** |
| Depreciations of period | 472 | 912 | 2 916 | 46 | 524 | - | 4 870 |
| Depreciation of discontinued operations | ( 1 362) | ( 720) | - | - | - | - | ( 2 082) |
| Exchange differences and other movements | ( 27) | ( 25) | ( 10) | - | ( 32) | - | ( 94) |
| **Balance as at 31 December 2019** | **5 831** | **16 391** | **2 906** | **46** | **492** | **-** | **25 666** |
| Depreciations of period | 276 | 399 | 1 377 | 19 | 121 | - | 2 192 |
| Write-offs / sales | - | ( 14) | - | - | - | - | ( 14) |
| Exchange differences and other movements | ( 401) | ( 155) | ( 196) | ( 12) | ( 231) | - | ( 995) |
| **Balance as at 30 June 2020** | **5 706** | **16 621** | **4 087** | **53** | **382** | **-** | **26 849** |
| **Net book value as at 30 June 2020** | **2 402** | **1 341** | **5 493** | **32** | **431** | **595** | **10 294** |
| **Net book value as at 31 December 2019** | **3 179** | **1 696** | **7 204** | **51** | **647** | **-** | **12 777** |

## NOTE 25 – INTANGIBLE ASSETS

As at 30th of June 2020 and 31st of December 2019, this heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Goodwill** | 9 859 | 9 859 |
| **Purchased from third parties** | | |
| Software | 34 160 | 34 594 |
| Others | 1 002 | 916 |
| | **35 162** | **35 510** |
| **Work in progress** | 838 | 626 |
| | **45 859** | **45 995** |
| **Accumulated amortisations** | (30 181) | (29 169) |
| **Impairment losses** | (9 859) | (9 859) |
| | **(40 040)** | **(39 028)** |
| | **5 819** | **6 967** |

The movement in this heading was as follows:

(thousand euros)

| | *Goodwill* | Software | Other fixed assets | Work in progress | Total |
|---|---|---|---|---|---|
| **Acquisition cost** | | | | | |
| **Balance as at 31st December 2018** | **9 859** | **32 932** | **916** | **572** | **44 279** |
| Acquisitions: | | | | | |
| Purchased from third parties | - | 1 879 | - | 148 | 2 027 |
| Write-offs / sales | - | ( 133) | - | ( 94) | ( 227) |
| Exchange differences and other movements | - | ( 84) | - | - | ( 84) |
| **Balance as at 31st December 2019** | **9 859** | **34 594** | **916** | **626** | **45 995** |
| Acquisitions: | | | | | |
| Purchased from third parties | - | 176 | 86 | 212 | 474 |
| Exchange differences and other movements | - | ( 610) | - | - | ( 610) |
| **Balance as at 30 June 2020** | **9 859** | **34 160** | **1 002** | **838** | **45 859** |
| **Amortizations** | | | | | |
| **Balance as at 31st December 2018** | - | **25 120** | **916** | - | **26 036** |
| Amortizations of the period | - | 3 281 | - | - | 3 281 |
| Write-offs / sales | - | ( 105) | - | - | ( 105) |
| Exchange differences and other movements | - | ( 43) | - | - | ( 43) |
| **Balance as at 31st December 2019** | - | **28 253** | **916** | - | **29 169** |
| Amortizations of the period | - | 1 284 | 4 | - | 1 288 |
| Exchange differences and other movements | - | ( 276) | - | - | ( 276) |
| **Balance as at 30 June 2020** | - | **29 261** | **920** | - | **30 181** |
| **Impairment** | - | - | - | - | - |
| **Balance as at 31st December 2019** | **9 859** | - | - | - | 9 859 |
| Impairment losses | - | - | - | - | - |
| **Balance as at 30 June 2020** | **9 859** | - | - | - | **9 859** |
| **Net balance as at 30 June 2020** | - | **4 899** | **82** | **838** | **5 819** |
| **Net balance as at 31st December 2019** | - | **6 341** | - | **626** | **6 967** |

## NOTE 26 – INVESTMENTS IN ASSOCIATED COMPANIES

Financial information regarding associated companies is presented in the following table:

(thousand euros)

| | Assets | | Liabilities | | Equity | | Income | | Net income | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 |
| Fundo Espírito Santo IBERIA I | 127 | 38 | 63 | 6 | 64 | 32 | - | 3 | 111 | ( 436) |

(thousand euros)

| | Aquisition cost | | % held | | Book Value | | Net income from the associated companies attributable to the Group | |
|---|---|---|---|---|---|---|---|---|
| | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 |
| Fundo Espírito Santo IBERIA I | 2 766 | 2 766 | 46% | 46% | 369 | 355 | 51 | ( 200) |
| | **2 766** | **2 766** | | | **369** | **355** | **51** | **( 200)** |
| **Impairment (See Note 31)** | | | | | **( 340)** | **( 340)** | | |
| | | | | | **29** | **15** | | |

The movement of this heading is as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 | 30.06.2019 |
|---|---|---|---|
| **Opening balance** | 15 | 435 | 487 |
| Net Income from associated companies | 51 | ( 148) | ( 52) |
| Other comprehensive income from associates | ( 37) | ( 272) | - |
| **Closing balance** | **29** | **15** | **435** |

## NOTE 27 – OTHER ASSETS

As at 30th of June 2020 and 31st of December 2019, the Other Assets heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Debtors and other assets** | | |
| Collateral deposited under collateral agreements (Note 19) | 242 742 | 99 598 |
| Supplies, supplementary capital instalments and subordinated assets | 21 | 21 |
| Public sector | 31 578 | 39 975 |
| Deposits placed under margin accounts (futures contracts) | 3 136 | 4 176 |
| Loans and derivatives receivables | 22 381 | 11 431 |
| Other sundry debtors | 10 868 | 11 240 |
| | 310 726 | 166 441 |
| Impairment losses for debtors and other investments (Note 31) | ( 8 756) | ( 8 012) |
| | **301 970** | **158 429** |
| **Other assets** | | |
| Gold, other precious metals, numismatic, medals and other liquid assets | 2 164 | 3 184 |
| Other assets | 5 383 | 5 474 |
| | **7 547** | **8 658** |
| **Income receivable** | **70** | **19** |
| **Prepayments and deferred costs** | **3 383** | **3 169** |
| **Other sundry assets** | | |
| Exchange transactions pending settlement | 550 | 1 484 |
| Market securities transactions pending settlement | 16 058 | 18 585 |
| Other transactions pending settlement | 10 786 | 3 205 |
| | **27 394** | **23 274** |
| | **340 364** | **193 549** |

As at 30th of June, 2020 includes an amount of 20,134 thousand euros (26,232 thousand euros as at 31 December 2019) related with a tax contingency (Note 37).

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

## NOTE 28 – RESOURCES OF CREDIT INSTITUTIONS

The resources of credit institutions heading is presented as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Resources of central banks** | | |
| Banco de Portugal | 110 600 | 22 000 |
| | **110 600** | **22 000** |
| **Resources of other credit institutions** | | |
| **Domestic** | | |
| Repurchase agreements | 20 | 397 |
| | **20** | **397** |
| **Foreign** | | |
| Deposits | 8 191 | - |
| Repurchase agreements | 326 498 | 236 223 |
| Other resources | 31 368 | 43 628 |
| | **366 057** | **279 851** |
| | **476 677** | **302 248** |

As at 30th of June 2020 and 31st of December 2019, the analysis of resources of credit institutions by residual maturity period is as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Up to three months | 326 519 | 221 336 |
| From three months to one year | 369 | - |
| From one to five years | 123 021 | 44 872 |
| More than five years | 26 768 | 36 040 |
| | **476 677** | **302 248** |

## NOTE 29 – RESOURCES OF CUSTOMERS

The balance of the resources of customers heading is composed, with regard to its nature, as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Repayable on demand** | | |
| Demand deposits | 15 127 | 48 640 |
| **Time deposits** | | |
| Fixed-term deposits | 1 007 460 | 978 393 |
| **Other resources** | | |
| Repurchase agreements | 8 084 | 13 824 |
| Other Deposits | 50 | 510 |
| Other | 8 | 7 |
| | **8 142** | **14 341** |
| | **1 030 729** | **1 041 374** |

As at 30th of June 2020 and 31st of December 2019, the analysis of due to customers by residual maturity period is as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Demand deposits** | 15 127 | 48 640 |
| **Fixed-term deposits** | | |
| Up to 3 months | 42 091 | 137 250 |
| 3 to 12 months | 161 116 | 142 368 |
| 1 to 5 years | 812 395 | 713 116 |
| | 1 015 602 | 992 734 |
| | **1 030 729** | **1 041 374** |

## NOTE 30 – DEBT SECURITIES ISSUED

The debt securities issued heading can be divided as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Debt securities issued** | | |
| Other Bonds | 99 814 | 197 112 |
| | **99 814** | **197 112** |

The fair-value of the portfolio regarding debt securities issued is presented in Note 39.

As at 30th of June 2020 and 31st of December 2019, the residual duration of the debt securities issued is as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| Up to three months | 47 517 | 4 055 |
| From three months to one year | 31 680 | 154 793 |
| From one to five years | 20 617 | 38 264 |
| | **99 814** | **197 112** |

During the first semester of 2020, Haitong Bank Group issued securities amounting to 11,299 thousand euros (31st of December 2019: 36,190 thousand euros), where 101,464 thousand euros were reimbursed (31st of December 2019: 12,132 thousand euros).

Considering the issued securities of the first six months of 2020, the main characteristics of the debit securities issued is as follows:

(thousand euros)

| | | | 30.06.2020 | | | |
|---|---|---|---|---|---|---|
| Issuer | Designation | Currency | Issue Date | Book Value | Maturity | Interest Rate |
| HT_BR | LF NOVA LF HAITONG BRINTLLFI5D1 | BRL | 2020 | 23 | 2022 | CDI 116% |
| HT_BR | LF NOVA LF HAITONG BRINTLLFI5E9 | BRL | 2020 | 365 | 2022 | CDI 116% |
| HT_BR | LFG LTEL HAITONG BRINTLLFI5F6 | BRL | 2020 | 10 812 | 2021 | 100% SELIC + 0,6% a.a. |
| HT_BR | LFG LTEL HAITONG BRINTLLFI5G4 | BRL | 2020 | 98 | 2021 | 100% SELIC + 0,6% a.a. |

## NOTE 31 – PROVISIONS AND IMPAIRMENT

As at 30th of June 2020 and 31st of December 2019, the Provisions heading presents the following movements:

(thousand euros)

| | Provisions for other risks and charges | Provisions for guarantees and other undertakings | TOTAL |
|---|---|---|---|
| **Balance as at 31st December 2018** | **13 377** | **1 825** | **15 202** |
| Net charge of the period | 1 291 | ( 431) | 860 |
| Write back | ( 364) | - | ( 364) |
| Foreign exchange differences and others | 630 | 19 | 649 |
| **Balance as at 30th June 2019** | **14 934** | **1 413** | **16 347** |
| Net charge of the period | 1 101 | ( 283) | 818 |
| Write back | ( 211) | - | ( 211) |
| Transfers | - | 14 199 | 14 199 |
| Foreign exchange differences and others | ( 9 829) | ( 15) | ( 9 844) |
| **Balance as at 31st December 2019** | **5 995** | **15 314** | **21 309** |
| Net charge of the period | 483 | 749 | 1 232 |
| Write back | ( 51) | ( 3 320) | ( 3 371) |
| Foreign exchange differences and others | ( 923) | ( 76) | ( 999) |
| **Balance as at 30th June 2020** | **5 504** | **12 667** | **18 171** |

These provisions are meant to cover possible contingencies related to the activity of the Group.

In 2020, the Group recognized provisions for other risks and charges in the amount of 51 thousand euros related to the Social Plan in progress on that date. (2019: 151 thousand euros).

The movements in impairment losses can be analyzed as follows:

(thousand euros)

| | 31.12.2019 | Net charge of the period | Write back | Stage 3 | Exchange differences and others | 30.06.2020 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents (Note 17) | - | 546 | - | - | ( 15) | 531 |
| Financial assets measured at fair value through OCI (Note 20) | 3 257 | ( 196) | - | 82 | ( 179) | 2 964 |
| Financial assets measured at amortized cost | | | | | | |
| Loan and advances to banks (Note 21) | 15 615 | ( 528) | - | - | 13 | 15 100 |
| Loan and advances to customers (Note 22) | 11 881 | 1 993 | ( 224) | 7 | ( 1 576) | 12 081 |
| Securities (Note 20) | 8 699 | ( 49) | - | 62 | ( 13) | 8 699 |
| Intagible assets (Note 25) | 9 859 | - | - | - | - | 9 859 |
| Investments in associated companies (Note 26) | 340 | - | - | - | - | 340 |
| Other assets (Note 27) | 8 012 | 1 110 | - | - | ( 366) | 8 756 |
| | **57 663** | **2 876** | **( 224)** | **151** | **( 2 136)** | **58 330** |

(thousand euros)

| | 30.06.2019 | Net charge of the period | Write back | Stage 3 | Exchange differences and others | 31.12.2019 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents (Note 17) | 1 | - | - | - | ( 1) | - |
| Financial assets measured at fair value through OCI (Note 20) | 1 212 | 1 244 | ( 152) | 16 | 937 | 3 257 |
| Financial assets measured at amortized cost | | | | | | |
| Loan and advances to banks (Note 21) | 15 588 | 22 | - | - | 5 | 15 615 |
| Loan and advances to customers (Note 22) | 18 235 | 1 831 | ( 8 220) | - | 35 | 11 881 |
| Securities (Note 20) | 779 | 7 978 | ( 58) | - | - | 8 699 |
| Intagible assets (Note 25) | - | 9 859 | - | - | - | 9 859 |
| Investments in associated companies (Note 26) | 340 | - | - | - | - | 340 |
| Other assets (Note 27) | 9 251 | 64 | ( 1 285) | - | ( 18) | 8 012 |
| | **45 406** | **20 998** | **( 9 715)** | **16** | **958** | **57 663** |

(thousand euros)

| | 31.12.2018 | Net charge of the period | Write back | Stage 3 | Exchange differences and others | 30.06.2019 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents (Note 17) | 1 | - | - | - | - | 1 |
| Financial assets measured at fair value through OCI (Note 20) | 1 842 | ( 451) | - | ( 205) | 26 | 1 212 |
| Financial assets measured at amortized cost | | | | | | |
| Loan and advances to banks (Note 21) | 15 584 | 1 | - | - | 3 | 15 588 |
| Loan and advances to customers (Note 22) | 21 585 | 163 | ( 3 662) | ( 28) | 177 | 18 235 |
| Securities (Note 20) | 448 | 331 | - | - | - | 779 |
| Investments in associated companies (Note 26) | 340 | - | - | - | - | 340 |
| Other assets (Note 27) | 8 781 | 417 | - | - | 53 | 9 251 |
| | **48 581** | **461** | **( 3 662)** | **( 233)** | **259** | **45 406** |

## NOTE 32 – INCOME TAXES

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

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

The current tax of June 2020 and 2019 were calculated based on a nominal corporate income tax rate and Municipal Surcharge of 22.5%, in accordance with Law no. 82-B/2014, of 31st of December, and Law no. 2/2007, of 15th of January. Additionally there is a State Surcharge which corresponds to an additional rate of 3% of the taxable profit between 1.5 and 7.5 millions of euros, 5% of the profit between 7.5 and 35 millions of euros, 9% of any profit which exceeds this amount (if applicable).

In order to determine the current tax for the period ending on the 30th of June 2020 and the year of 2019, the Decree-Law no. 127/2012 of December 31st, responsible for the normalisation of the transfer of liabilities linked to the burden with retirement and survivor's pensions to Social Security was taken into account together with article 183 of Law no. 64-B/2011 of December 30th (State Budget Law for 2012), establishing a special scheme for tax deduction of expenses and other asset variations from that transfer:

- The impact from the negative equity change associated to the change in the accounting policy relating to the recognition of previously deferred actuarial gains and losses will be fully deductible, in equal parts, for 10 years from the period beginning 1st of January 2012. This impact is booked in equity accounts.

- The impact resulting from liquidation (determined by the difference between liabilities as measured in accordance with the criteria of IAS 19 and the criteria defined in the agreement) will be fully deductible for the purposes of determining taxable income, in equal parts, based on the average number of years of life expectancy for pensioners whose liabilities have been transferred (17 years), from the period beginning 1st of January 2012. The impact is recorded in result items.
- Deferred tax assets resulting from the transfer of liabilities and from the change in the accounting policy relating to the recognition of non-recoverable actuarial gains/losses are recoverable within 17 and 10 years, respectively through equity and results.

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date. Thus, for the period of June 2020 deferred tax was calculated at the rate of 26,24%.

Regarding activity in Portugal, Law No. 98/2019 was published on 4 September 2019, which changed the tax regime applicable to the impairment of financial and credit institution. That law establishes in article 4 an adaptation period of 5 years beginning on or after 1 January 2019, pursuant to which the regime in force on the date of entry into force of this law remains applicable, unless there is communication addressed to the Director-General of the Tax and Customs Authority of the option for the definitive regime. Taking into account that this regime, in June 2020, was optional, the Bank has not yet joined (being able to opt to join this regime until october 2020). Therefore, the Bank considered, for the purpose of calculating taxable income and the recording and analysis of the recoverability of deferred tax assets with reference to June 30, 2020, that the amount of credit impairment and provisions for guarantees recorded, that is deductible for the purposes of CIT (Corporate Income Tax), corresponds to the amount of deductible impairments/provisions that would have been calculated if the reference to Banco de Portugal Notice 3/95 remained in force.

The Group's self-assessment declarations relating to the 2020 and previous financial years are subject to inspection and possible adjustment by the Tax Authorities for a period of four years, except where any deduction or tax credit has been made, where the term is the exercise of that right. As a result, additional tax assessments may be possible due to different interpretations of tax legislation. However, it is the Bank’s Boards of Directors belief that there will be no additional settlements of significant value in the context of the individual financial statements.

### Special Scheme Applicable to Deferred Tax Assets

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

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

As at 31st of December 2015, Haitong Bank determined a tax credit of 5,281 thousand euros, which corresponds to a special reserve of 5,809 thousand euros recorded during the year of 2016.

As at 31st of December 2016, Haitong Bank determined a tax credit of 20,529 thousand euros, which corresponds to a special reserve of 22,582 thousand euros recorded during the year of 2017.

As at 31st of December 2017, Haitong Bank determined a tax credit of 9,060 thousand euros, which corresponds to a special reserve of 9,966 thousand euros recorded during the year of 2018.

As at 31st of December 2018, Haitong Bank determined a tax credit of 0,232 thousand euros, which corresponds to a special reserve of 0,255 thousand euros recorded during the year of 2019.

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

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

Indeed, for each financial year it will be important to recalculate the reference value of the rights and if it is different from the nominal value of the shares, it will be necessary to adjust the value of the special reserve. If this were to occur in 2020, and taking into account the amounts of the financial statements as at 31 December 2019, as well as the amount of tax credits converted by reference to the years 2015, 2016 and 2017, 2018 estimated value of 24,085 thousand euros.

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

As Haitong Bank determined, in its individual accounts, a net profit for the year of 2019, there was no possibility of converting in tax credit part of the deferred taxes covered by this regime for the year 2020.

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

In July 2019 and January 2020, the Bank was notified of the final Reports of the Tax Authority’s inspection services, issued for 2015 and 2016, respectively. In these reports, certain procedures adopted by the Bank, namely in association with special regime for differed taxes (REAID) are being challenged.

In this sense, following the Bank disagreement with these corrections, in November 2019, an administrative complaint was submit regarding the 2015 Tax Inspection Report and it is intended, and in April 2020 an administrative complaint was submit regarding the 2016 Tax Inspection.

Finally, it is also noted that, within the scope of the tax inspection for the years 2015 and 2016, the tax authority made corrections to the tax credit of these two years in the amount of 13,646 thousand euros. It is estimated that the impact for the year of 2017 and 2018 related to the tax credit, arising to the future tax inspections, is 4,870 thousand euros. Thus, 18,516 thousand euros of the tax credit amount recorded on December 31, 2019 (total amount of 35,103 thousand euros) would be reclassified to the item of deferred tax assets.

The Bank’s management considers that the procedures adopted in those years are compliant with the legislation in force, and therefore estimates that it is not likely that the Tax Authority’s position will prevail.

Even so, this correction materializes in the recognition of deferred tax assets.Additionally, the Board of Directors believes that any other corrections regarding to the fiscal year 2016, if confirmed, will not have a material impact on the Bank's equity and net income as of 31 December 2019, to the extent that they mainly impact on reportable tax losses and tax credits that have yet to be used.

As of 1 January 2019, the Bank adopted the new interpretative standard (IFRIC 23 - 'Uncertainty over Income Tax Treatments') of IAS 12 - 'Income Taxes' and which comes to recommend the measurement requirements and recognition to be applied in the event of uncertainties regarding the acceptance of a given tax treatment by the Tax Administration concerning income tax and should reflect the entity's best estimate of the presumed outcome of the situation under discussion. This estimated value based on the expected value or the most probable value should be recorded by the entity as an asset or liability for income tax based on IAS 12 and not by IAS 37.

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

| Branch | Nominal income tax rate |
|---|---|
| London | 19% |
| Madrid | 30% |
| Warsaw | 19% |

The subsidiary located in Brazil, are subject to tax on their profits under the terms established in the tax rules in force in Brazil, thus in this country profits are subject to nominal rates situated between 34% and 45%.

As at 30th of June 2020 and 2019, current tax assets and liabilities can be analyzed as follows:

(thousand euros)

| | Asset | | Liabiity | |
|---|---|---|---|---|
| | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 |
| Corporate income tax | 5 471 | 5 261 | ( 6 666) | ( 7 044) |
| Tax Credit (Special Scheme for Deferred Taxes) | 35 103 | 35 103 | - | - |
| **Current tax asset / (liability)** | **40 574** | **40 364** | **( 6 666)** | **( 7 044)** |

Deferred tax assets and liabilities recognized in the statement of financial position as 30th of June 2020 and 2019 can be analyzed as follows:

(thousand euros)

| | Asset | | Liability | | Net | |
|---|---|---|---|---|---|---|
| | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 | 30.06.2020 | 31.12.2019 |
| Derivative financial instruments | 3 395 | ( 945) | - | - | 3 395 | ( 945) |
| Securities | 248 | ( 702) | ( 1 153) | ( 1 502) | ( 905) | ( 2 204) |
| Loans and advances to customers | 38 485 | 47 935 | - | 575 | 38 485 | 48 510 |
| Provisions | 315 | 1 362 | ( 8) | - | 307 | 1 362 |
| Pension Fund | 5 756 | 5 478 | - | - | 5 756 | 5 478 |
| Other | ( 96) | 1 | - | ( 17) | ( 96) | ( 16) |
| Tax losses carried forward | 55 630 | 63 208 | - | - | 55 630 | 63 208 |
| **Deferred tax asset/(liability)** | **103 733** | **116 337** | **( 1 161)** | **( 944)** | **102 572** | **115 393** |
| **Net deferred tax asset / (liability)** | **103 733** | **116 337** | **( 1 161)** | **( 944)** | **102 572** | **115 393** |

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

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

(thousand euros)

| | 30.06.2020 | 31.12.2019 | 30.06.2019 |
|---|---|---|---|
| **Opening balance** | 115 393 | 120 339 | 127 122 |
| Recognised in profit or loss | ( 7 632) | ( 1 537) | ( 6 499) |
| Recognised in fair value reserves | 1 382 | ( 36) | ( 928) |
| Recognised in other reserves | 2 | ( 125) | - |
| Foreign exchange variation and others | ( 6 573) | ( 3 248) | 644 |
| **Closing balance (Asset / (Liability))** | **102 572** | **115 393** | **120 339** |

Tax recognised in the income statement and reserves as at 30th of June 2020 and 30th of June 2019 had the following source:

(thousand euros)

| | 30.06.2020 | | 30.06.2019 | |
|---|---|---|---|---|
| | Recognised in profit or loss | Recognised in reserves | Recognised in profit or loss | Recognised in reserves |
| **Deferred Taxes** | | | | |
| Derivative financial instruments | - | - | 4 724 | - |
| Securities | 325 | ( 1 138) | - | 930 |
| Loans and advances to customers | 6 888 | - | ( 3 357) | - |
| Provisions | 723 | - | 5 751 | - |
| Pension Fund | ( 278) | ( 2) | - | ( 2) |
| Other | ( 74) | ( 244) | 175 | - |
| Tax losses carried forward | 48 | - | ( 794) | - |
| | 7 632 | ( 1 384) | 6 499 | 928 |
| **Current Taxes** | ( 6 806) | - | 1 971 | - |
| **Total recognised tax** | **826** | **( 1 384)** | **8 470** | **928** |

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

(thousand euros)

| | 30.06.2020 | | 30.06.2019 | |
|---|---|---|---|---|
| | % | Value | % | Value |
| **Profit or loss before tax and Non-controlling interests** | | **( 10 699)** | | **17 066** |
| Income tax rate of Haitong Bank | 26,2 | | 21,0 | |
| Tax determined based on the income tax rate of Haitong Bank | | ( 2 806) | | 3 583 |
| Difference in the tax rate of subsidiaries | (13,1) | 1 406 | 7,3 | 1 240 |
| Tax-exempt dividends | - | - | (0,8) | ( 142) |
| Tax benefits | - | - | (0,3) | ( 56) |
| Profits in units with most favorable tax regimes | - | - | 3,8 | 641 |
| Bank Levy | (3,5) | 373 | - | - |
| Tax losses used (but with no deferred tax asset recognised) | - | - | 22,0 | 3 747 |
| Branches' income tax | (7,2) | 767 | - | - |
| Differences arising from consolidation | 5,3 | ( 568) | 14,7 | 2 505 |
| Other movements according to the tax estimation | (17,4) | 1 861 | (1,8) | ( 311) |
| Autonomous taxation | (0,6) | 68 | - | - |
| Other | 2,6 | ( 275) | (16,0) | ( 2 737) |
| | **(7,7)** | **826** | **49,9** | **8 470** |

## NOTE 33 – OTHER LIABILITIES

As at 30th of June 2020 and 31st of December 2019, the Other liabilities heading is analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Creditors and other resources** | | |
| Public sector | 10 490 | 11 422 |
| Deposited collateral under collateral agreements (Note 20) | 27 080 | 33 773 |
| Sundry creditors | | |
| Leasing liabilities | 6 298 | 8 238 |
| Creditors from transactions with securities | 17 945 | 16 309 |
| Suppliers | 2 141 | 1 300 |
| Other sundry creditors | 3 972 | 7 384 |
| | **67 926** | **78 426** |
| **Accrued expenses** | | |
| Career bonuses (see Note 14) | 545 | 539 |
| Other accrued expenses | 7 678 | 8 444 |
| | **8 223** | **8 983** |
| **Deferred income** | **70** | **154** |
| **Other sundry liabilities** | | |
| Stock exchange transactions pending settlement | 14 596 | 23 009 |
| Foreign exchange transactions pending settlement | - | - |
| Other transactions pending settlement | 5 788 | 23 554 |
| | **20 384** | **46 563** |
| **Retirement pensions (see Note 14)** | **384** | **5 251** |
| | **96 987** | **139 377** |

As at 30th of June 2020 and 31st of December 2019, the headings regarding Stock exchange transactions pending settlement refer to transactions with securities pending settlement.

## NOTE 34 – DISCONTINUED OPERATIONS

On September 30th, 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.. Having at that date the transaction pending to previous standard conditions as well as to the non-opposition of the relevant stakeholders. The sale was completed on December 19, 2019. The sale price was € 12,000 thousand euros.

As a consequence of this decision, in December 31st, 2018, the Irish subsidiary's assets and liabilities were reclassified to "Assets and liabilities of discontinuing units". Also in accordance with the requirements of IFRS 5 - "Non-current assets held for sale and discontinued operations", the results generated by this entity is presented in a single line of the Income Statements ("Net profit of discontinued operations").

The Group, until the closing date of the operation, based on the provisions of IFRS 5 has measured these discontinued assets at the lower of two amounts: book value or fair value less costs to sell. As such, and as shown below, the result of discontinuing operations is decomposed as follows:

(thousand euros)

| | 31.12.2019 | 30.06.2019 |
|---|---|---|
| Sell price | 12 000 | - |
| Investment Ireland PLC Equity as of December 19, 2019 | 10 033 | - |
| **Consolidated Gain** | 1 967 | - |
| (+) Haitong Investment Ireland PLC Net Losses of the period | 3 713 | 2 465 |
| (+) Consolidation Adjustments | 611 | 108 |
| **Haitong Investment Ireland PLC Net Profit of discontinuing operations** | **6 291** | **2 573** |
| **Net Profit of discontinuing operations** | **6 291** | **2 573** |

For consolidation purposes of the discontinued operations assets and liabilities, the intragroup transactions with impact in the statement of financial position are eliminated.

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

### Ordinary shares

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

On the 3rd of August 2014, the Bank of Portugal applied a resolution action to Banco Espírito Santo, S.A., shareholder of 100% of the capital of the Bank, and established Novo Banco, S.A., with the share capital of 4.9 billion euros, which incorporated assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal. In this regard, the Bank, its branches and subsidiaries were transferred to Novo Banco, S.A.

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

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

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

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

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

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

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

As at 30th of June 2020, the share capital of Haitong Bank amounts to 844,769 thousand euros and is represented by 168,953,800 shares with the nominal value of 5 euros each, fully held by Haitong International Holdings Limited.

### Share premiums

As at 30th June 2020 and 31st December 2019, share premiums are represented by 8,796 thousand euros, corresponding to the amount paid by shareholders in the increase of capital of previous years.

### Other equity instruments

During October 2010 the Group issued perpetual subordinated bonds with conditioned interest in the overall amount of 50 million euros. These bonds have a noncumulative conditioned interest, payable only if and when declared by the Board of Directors.

This conditioned interest, corresponding to the applicable annual rate of 8.5% on nominal value, is paid biannually. These securities may be fully, but not partially, reimbursed after the 15th of September 2015, relying solely on the choice of Haitong Bank, upon approval of the Bank of Portugal. These bonds are considered a capital instrument in accordance with the accounting policy described in Note 2.6 due to their characteristics.

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

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

As at 30th of June 2020 and 31st of December 2019, 3,731 thousand euros regarding these bonds are in circulation. During the first six months of 2020 and 2019 the Group haven't paid interest.

In May 2016, the Bank issued perpetual instruments eligible as additional own funds of level 1 (“Additional Tier 1”), in the overall amount of 80,000 thousand euros identified as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments”. Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.6.

In June 2017, the perpetual instruments referred as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments” were converted into Capital.

In March 2018, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of USD 130,000 thousand, corresponding to 105,042 thousand euros, identified as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments”. Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.6.

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

### Legal reserve, fair-value reserves and other reserves

Legal reserves can only be used to cover accumulated loss carryover or to increase capital. Under Portuguese legislation applicable to the banking sector (Article 97 of RGICSF [Legal Framework of Credit Institutions and Financial Companies]), the Bank is required to set-up annually a legal reserve equal to a minimum of 10% of annual profits until the reserve equals the share capital.

Fair-value reserves represent the possible capital gains and losses in relation to the financial assets trough other comprehensive income portfolio, net of impairment recognised in the income statement of the year and/or previous years. The value of this reserve is presented net of deferred tax. The movements of these headings were the following:

(thousand euros)

| | Fair Value reserves | | | Other reserves and retained earnings | | | | |
|---|---|---|---|---|---|---|---|---|
| | Revaluation reserves | Income tax reserves | Total fair value reserve | Legal Reserve | Actuarial gains/losses (net of taxes) | Exchange differences | Other reserves and retained earnings | Total Other reserves and retained earnings |
| **Balance as at 31 December 2018** | **( 132)** | **( 41)** | **( 173)** | **39 878** | **( 28 280)** | **( 164 723)** | **( 220 722)** | **( 373 847)** |
| Actuarial gains/losses (net of taxes) | - | - | - | - | ( 8 123) | - | - | ( 8 123) |
| Own credit risk change | - | - | - | - | - | - | 356 | 356 |
| Changes in fair value (net of taxes) | 2 539 | ( 928) | 1 611 | - | - | - | - | - |
| Foreign exchange differences | - | - | - | - | - | ( 1 956) | - | ( 1 956) |
| Transfer of Comprehensive income from discontinuing operations | - | - | - | - | - | - | ( 42) | ( 42) |
| Transfer to reserves | - | - | - | - | - | - | 1 159 | 1 159 |
| **Balance as at 30 June 2020** | **2 407** | **( 969)** | **1 438** | **39 878** | **( 36 403)** | **( 166 679)** | **( 219 249)** | **( 382 453)** |
| Actuarial gains/losses (net of taxes) | - | - | - | - | 4 667 | - | - | 4 667 |
| Own credit risk change | - | - | - | - | - | - | ( 298) | ( 298) |
| Changes in fair value (net of taxes) | ( 934) | ( 36) | ( 970) | - | - | - | - | - |
| Foreign exchange differences | - | - | - | - | - | ( 2 513) | - | ( 2 513) |
| Foreign exchange reserve recycle from discontinued operations | - | - | - | - | - | - | ( 45) | ( 45) |
| Other comprehensive income of associates | - | - | - | - | - | - | ( 272) | ( 272) |
| **Balance as at 31 December 2019** | **1 473** | **( 1 005)** | **468** | **39 878** | **( 31 736)** | **( 169 192)** | **( 219 864)** | **( 380 914)** |
| Actuarial gains/losses (net of taxes) | - | - | - | - | 1 341 | - | - | 1 341 |
| Changes in fair value (net of taxes) | ( 3 739) | 1 382 | ( 2 357) | - | - | - | - | - |
| Foreign exchange differences | - | - | - | - | - | ( 7 762) | - | ( 7 762) |
| Other comprehensive income of associates | - | - | - | - | - | - | ( 37) | ( 37) |
| Transfer to reserves | - | - | - | - | - | - | 7 508 | 7 508 |
| **Balance as at 30 June 2020** | **( 2 266)** | **377** | **( 1 889)** | **39 878** | **( 30 395)** | **( 176 954)** | **( 212 393)** | **( 379 864)** |

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

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Opening balance** | **468** | **( 173)** |
| Fair value changes | ( 3 602) | 3 334 |
| Disposals of the period | 60 | ( 2 523) |
| Impairment recognised in the period | ( 197) | 794 |
| Deferred taxes recognised in reserves during the period | 1 382 | ( 964) |
| **Closing balance** | **( 1 889)** | **468** |

## Non-controlling interests

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

(thousand euros)

| | 30.06.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | Statement of Financial Position | Income statement | Statement of Financial Position | Income statement |
| Haitong Banco de Investimento do Brasil S.A. | 9 170 | 834 | 11 720 | 109 |
| Haitong Securities do Brasil S.A. | 3 150 | ( 30) | 4 300 | 66 |
| Haitong Negócios S.A. | 5 422 | 57 | 4 276 | 134 |
| Haitong do Brasil Participações Ltda | ( 674) | ( 765) | 2 998 | 74 |
| FI Multimercado Treasury | 832 | 110 | 970 | 57 |
| Others | 1 428 | 7 | 1 878 | ( 69) |
| | **19 328** | **213** | **26 142** | **371** |

The movement of Non-controlling interests of the periods ended on the 30th of June 2020 and 31st of December 2019, can be analysed as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 | 30.06.2019 |
|---|---|---|---|
| **Opening balance** | **26 142** | **27 367** | **26 029** |
| Dividends paid | - | ( 206) | - |
| Changes in fair value reserve | ( 294) | 85 | 276 |
| Exchange difference and other | ( 6 733) | ( 955) | 542 |
| Net income for the period | 213 | ( 149) | 520 |
| **Closing balance** | **19 328** | **26 142** | **27 367** |

## NOTE 37 – CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

As at 30th of June 2020 and 31st of December 2019, off-balance elements are as follows:

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Contingent liabilities** | | |
| Guarantees and stand by letters of credit | 111 658 | 130 227 |
| Assets pledged as collateral | 1 102 569 | 649 545 |
| | **1 214 227** | **779 772** |
| **Commitments** | | |
| Irrevocable commitments | 25 244 | 12 082 |
| | **25 244** | **12 082** |

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

As at 30th of June 2020 and 31st of December 2019, the heading of financial assets pledged as collateral includes:

- Securities pledged as collateral to the Bank of Portugal (i) within the scope of the Large-Value Payment System, amounting to 10,000 thousand euros as at the 30th of June, 2020 (31st of December, 2019: 10,000 thousand euros), (ii) within the scope of target long-term refinancing operations, amounting to 110,600 thousand euros (31st of December, 2019: 22,000 thousand euros) and (iii) 70,619 thousand euros of collaterals not discounted, being the total of securities eligible for rediscount with the Bank of Portugal amounted to 203,591 thousand euros as at the 30th of June, 2020 (31st of December, 2019: 209,853 thousand euros);

- Securities pledged as collaterals to Fundo de Garantia de Depósitos [Deposit Guarantee Fund] in the amount of 100 thousand euros (31st of December 2019: 100 thousand euros).

- Securities pledged as collateral within the scope of transactions with repurchase agreements: 344,634 thousand euros (31st of December 2019: 392,516 thousand euros).

- Securities pledged as collateral within the scope of derivatives compensation contracts 565,617 thousand euros (31st of December 2019: 62,447 thousand euros).

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

(thousand euros)

| | 30.06.2020 | 31.12.2019 |
|---|---|---|
| **Liabilities related to services provided** | | |
| Commercial paper programmes agency | 165 450 | 155 700 |
| Other responsabilities related with services provided | 533 782 | 475 990 |
| | **699 232** | **631 690** |

Banco Espírito Santo (BES), Novo Banco and Haitong Bank (and, in some cases, supervisory authorities, auditors and former directors from BES) have been sued in civil proceedings associated with facts of the former Grupo Espírito Santo (GES).

Within this framework, Haitong Bank is a defendant in a proceeding associated with the capital increase of BES, which took place in June 2014. In fact, there were 2 proceedings associated with the capital increase of BES, however, the Court has ruled not to prosecute due to "abandonment" in both of the aforesaid proceedings. The prosecution have appealed both deliberations to higher courts instances and in one of these proceedings the Supreme Court of Justice says that there is a double standard in relation to the decision of the lower court and the Lisbon Court of Appeal [Tribunal da Relação de Lisboa].

However, in this legal proceeding the claimant (DECO) filed an extraordinary appeal for determination of jurisprudence, having been admitted such appeal and the proceedings continued. As the case returned to the judge of the trial court (1st instance) in charge of the case, a sentence was handed down in which it was judged by the "rejection" of the initial petition due to the lack of legitimacy conditions of the Claimant. An appeal was filed against this sentence, pending the judgment by the Lisbon Court of Appeal.

As regards the other legal proceeding (case brought by several Funds), after the decision of the trial court to declare that the case had been "abandonment", the Lisbon Court of Appeal revoked that decision and ordered the continuation of the proceeding. Two of the Defendants in this proceeding appealed to the Supreme Court of Justice that confirmed the decision of the Court of Appeal. Extraordinary Review Appeals were filed to the Constitutional Court, all of them maintaining the previously decided by the Lisbon Court of Appeal. The legal procedure return to the trial court (1st instance) lawsuit for the continuation of its terms, awaiting the appointment of a prior hearing.

Haitong Bank is also a defendant in 19 proceedings, nearly all of which are associated with issues of commercial paper of GES's entities (1 of which concern credit linked notes issued by Haitong Bank's subsidiary based in Ireland (HIIP)  whose remuneration and reimbursement were dependent on facts associated with the issuer of the underlying asset, OI, (including insolvency)

In note 38, in what concerns the 2019 yearly accounts, it is stated that, in the opinion of Haitong Bank's Legal Department and of the external lawyers to whom the proceedings have been entrusted, such proceedings do not have legal sustainability, wherefore it is considered unlikely that any judgment will be made against Haitong Bank in relation thereto. Such opinion is hereby reasserted.

Such opinion has been supported by several judicial decisions.

In fact, of the 78 cases filed against the Bank regarding the issue of commercial paper by GES' entities, 38 cases have already been res judicata with the total acquittal of Haitong Bank and 21 cases having been withdrawn by the claimants.

On the 16th July 2019, Haitong Bank has been notified of a new legal action brought against itself and several former board members of BES, regarding commercial paper issued by Espírito Santo International and Rioforte in 2013.

Such legal action has been submitted by a credit recovery fund (Fundo de Recuperação de Créditos "FRC – INQ – Papel Comercial ESI e Rio Forte") to which have been assigned the claims submitted by certain holders of ESI and Rioforte commercial papel and amounts to € 517.500.099,71 million Euro. Haitong Bank presented its written defense on the 25th June 2020.

In the opinion of the external lawyers to whom this proceeding, brought by FCR, has been entrusted, such proceeding does not have a solid legal sustainability and therefore it is considered unlikely that any judgment will be made against Haitong Bank.

Following the above stated, Haitong Bank did not establish any provision related to such legal proceedings.

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

In Brazil, there is a judicial discussion around the constitutionality of the law applicable to the contributions of PIS ("Programa de Integração Social") and COFINS ("Financiamento da Seguridade Social) taxes which falls over other income that is not originated from sale of goods or from services rendered. Based on a court decision, all Brazilian group entities are monthly depositing to the court the amount under discussion and only are assessing to Tax Authorities the amount of tax related to services rendered, which are not under such discussion. The amounts subject to judicial deposit are recorded on Balance Sheet, in other assets. It's the understanding of the Group, based on external legal opinions, that the chances to obtain an unfavourable judicial decision against the Bank are below 50%, which supports the Group decision to not record any provision for this contingency. At 30 June 2020, the accumulated amount of the mentioned non-assessed contributions, but judicially deposited by the group was 20,134 thousand euros.

Following the above stated, Haitong Bank did not establish any provision related to such legal proceedings.

## Resolution Fund

### Resolution measures applied to Banco Espírito Santo, S.A. and BANIF – Banco Internacional do Funchal, S.A.

The Board of Directors of the Bank of Portugal decided, on 3rd of August 2014, to apply a resolution measure to Banco Espírito Santo, S.A. ("BES"), having the generality of the activity and net worth of BES been transferred to Novo Banco, S.A. In line with EU regulations, the capitalisation of Novo Banco was secured by the Resolution Fund, established by Decree-Law No. 31-A/2012 of 10 February. As provided for in said Decree-Law, the Resolution Fund's resources come from contributions paid by the institutions participating in the Fund and from the banking sector contribution. Moreover, legislation provides that whenever these resources prove insufficient to fulfil obligations, other means of financing can be use, including: (i) special contributions from credit institutions; and (ii) from loans taken out.

Following the resolution measure, the capital needs of Novo Banco were calculated at 4,900 million euros, having the capital subscription held by the Resolution Fund been funded by the Portuguese State (3,900 million euros) and by eight financial institutions participants of the Fund (700 million euros), in which the Bank is not included(not including the Bank).Subsequently, in view of the resolution process of Banco Espírito Santo, S.A., Bank of Portugal resolved, as announced on 29th of December 2015, the transfer of responsibility to Resolution Fund of "…possible negative outcomes of future decisions, arising from the resolution process [of Banco Espírito Santo, S.A.], with responsibilities or contingencies as a result.".

On July 2016, the Resolution Fund stated that it would analyse and assess the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES as at 3rd of August 2014. Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors, whose credits have not been transferred to Novo Banco suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its winding-up process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

Following BES resolution, there is a relevant set of legal actions in progress against the Resolution Fund. According to Note 23 of the 2018 Resolution Fund Annual Report, "Lawsuits related to the application of resolution measures do not have legal precedents, which makes it impossible to use jurisprudence in their assessment, as well as a reliable estimate of any associated contingent financial effect. However, on March 12, 2019, a judgment was handed down by the Administrative Court of Círculo de Lisboa, unanimously by its twenty judges, which confirmed the constitutionality of the resolution's legal regime and the full legality of the resolution measure applied to BES on August 3 2014. Also by judgment of the Supreme Administrative Court, of March 13, 2019, a decision on the merits was rendered entirely in favour of the Resolution Fund related to the impugnation of the Novo Banco sale process. The Steering Committee, supported by the opinion of the lawyers who ensure the sponsorship of these actions and in view of the legal and procedural information available so far, considers that there is no evidence to support its belief that the probability of success is greater than the probability of failure".

On October 18, 2017, the Resolution Fund announced the conclusion of the sale process of 75% of Novo Banco, SA's share capital to Lone Star, whose selection had been communicated by Banco de Portugal on March 31, 2017. The Agreed conditions include the existence of a contingent capitalization mechanism, under which the Resolution Fund undertakes to carry out capital injections up to the maximum total amount of 3,890,000 thousand euros in the event of certain cumulative conditions materializing.

In a statement dated June 17, 2019, the Resolution Fund released a set of clarifications related to the payment due in 2019 under the contingent capitalization agreement entered into with Novo Banco, namely:

- In order for payments to be made by the Resolution Fund (limited to a maximum of 3,890 million euros during the entire life of the mechanism), it is necessary for losses on the assets covered by the contingent mechanism to occur and for Novo Banco's capital ratios to be level below the agreed reference thresholds;
- The payment to be made by the Resolution Fund corresponds to the lowest amount between the accumulated losses on the covered assets and the amount necessary to restore the capital ratios above the minimum reference threshold;
- The reference capital ratios are, in the years 2017, 2018 and 2019, anchored to the regulatory requirements applicable to Novo Banco (ratio of 11.25% and 12.75%, respectively, for CET1 and Tier I), but , as of 2020, the reference ratio corresponds to a CET1 ratio of 12%;
- The initial reference value of the portfolio that integrates the contingent capitalization mechanism was 7,838 million euros at 30 June 2016 (book value of the respective assets, net of impairments), and the

value of the portfolio at 31 December in 2018, it amounted to approximately 3,920 million euros (book value of the respective assets net of impairments);

- The accumulated losses for the assets covered and the respective management, between 30 June 2016 (the reference date of the mechanism) and 31 December 2018, correspond to 2,661 million euros. Of this amount, the Resolution Fund paid in 2018, in accordance with the terms and conditions of the contingent capitalization mechanism, approximately 792 million euros, so the amount of losses not supported by the Fund was, at the end of 2018, approximately 1,869 million euros;
- The amount required for Novo Banco's capital ratios to remain at the agreed levels in 2018 is 1,149 million euros. The amount payable by the Resolution Fund results from the comparison between the amount of 1,869 million euros (accumulated loss on covered assets not supported by the Fund) and the amount of 1,149 million euros and corresponds to the lowest of these values, i.e., Euros 1,149 million euros.

On May 24, 2018, the Resolution Fund announced that on the same date the payment to Novo Banco, SA of the amount of approximately 791,695 thousand euros, resulting from the application of the aforementioned contingent capitalization mechanism relating to the results disclosed for 2017, having used own resources for this purpose, complemented by an additional State loan in the amount of 430,000 thousand euros, under the framework agreement signed between the Portuguese State and the Resolution Fund in October 2017.

On May 6, 2019, the Resolution Fund made a payment to Novo Banco of the amount calculated for the financial year of 2018 in the amount of 1,149 million Euros, using its own resources for this purpose and using a loan from the State of 850 million euros euros which corresponds to the maximum financing limit agreed. Thus, the amount paid by the Resolution Fund to Novo Banco in two years was 1,941 million euros.

According to the 2018 Resolution Fund Report and Accounts, “With regard to future periods, it is considered that there is significant uncertainty as to the relevant parameters for determining any future liabilities, whether for their increase or reduction , under the terms of the contingent capitalization mechanism agreement with Novo Banco ”.

### Resolution measures applied to Banif - Banco Internacional do Funchal, S.A.

Additionally, Bank of Portugal established, on 19th and 20th of December 2015, a resolution measure that was applied over on BANIF – Banco Internacional do Funchal, S.A (“BANIF”). The operation involved State support, including 489 million euros taken over by the Resolution Fund, funded through a loan agreement granted by the Portuguese State. Moreover, the Resolution Fund provided a guarantee relative to bonds issued by the vehicle constituted in the scope of BANIF’s resolution, in the amount of 746 million euros, counter-guaranteed by the Portuguese State.

### General features

To repay the loans received and other liabilities it may be required to assume relative to the above mentioned resolution measures, the Resolution Fund is financed through the periodic and special contributions of the participating institutions (including the Bank) and from the contribution on the banking sector. Under article 153-I of Decree-Law No. 345/98, of 9 November, if the resources of the Resolution Fund are insufficient to meet its obligations, participating institutions may be called upon, via a separate statute, to make special contributions. The amounts, instalments, deadlines and other terms of those contributions shall also be defined by said statute.

As part of the application of these measures, the Resolution Fund borrowed and assumed other contingent liabilities and responsibilities, in particular:

- The loans obtained from the State recorded on December 31, 2018 the amounts made available (i) in 2014 to finance the resolution measure applied to BES (3,900 million euros); (ii) to finance Banif's loss absorption (353 million euros); (iii) under the framework agreement signed with the State in October 2017, for the financing of measures under the contingent capital mechanism (430 million euros, to which are added 850 million euros of additional funding requested in 2019, as previously described);
- Other financing granted by institutions participating in the Resolution Fund in the amount of 700 million euros, in which the Bank does not participate, within the scope of the application of BES's resolution measure;
- Underwriting by the Resolution Fund of Tier 2 issuance to be carried out by Novo Banco, up to the amount of 400 million euros (this underwriting did not materialize, because the issue was placed with third parties as announced by Novo Banco on 29 July 2018);
- The effects of applying the principle that no credit institution of the credit institution under resolution can assume a greater loss than it would have if it had gone into liquidation;
- The negative effects of the resolution process resulting in additional responsibilities or contingencies for Novo Banco that have to be neutralized by the Resolution Fund;

### Legal proceedings against the Resolution Fund;

- Guarantee provided to the bonds issued by Oitante S.A. This guarantee is counter-guaranteed by the Portuguese State;
- Contingent capital mechanism, in which Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning with the assets belonging to that portfolio, up to a maximum amount of 3,890 million euros, subordinated the fulfillment of the conditions described above, including a reduction in the CET1 capital ratio to less than 8% -13%;
- The Portuguese State may inject capital into Novo Banco, under some conditions and via different instruments, in the event that the total capital ratio reaches values below the capital requirements defined under the SREP, as referred to in the respective European Commission Decision.

According to Note 24 of the 2018 Resolution Fund Annual Report, the Resolution Fund considers that, at the date, there are no elements that allow a reliable estimate of the potential financial effect of these potential liabilities.

On September 28, 2016, the Resolution Fund issued a statement stating that the maturity of the loan due on December 31, 2017 would be adjusted to ensure the Fund's ability to fully meet its obligations based on the his regular income, regardless of the contingencies to which he is exposed, nor the need to collect extraordinary contributions.

According to the FR statement of March 21, 2017:

- "The conditions for loans obtained by the Fund to finance the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed." These loans amount to 4,953 million euros, of which 4,253 million euros granted by the State and 700 million euros granted by a banking syndicate.
- Those loans now mature in December 2046, without prejudice to the possibility of early repayment based on the use of the Resolution Fund's revenues. The maturity will be adjusted in terms that guarantee the Resolution Fund's ability to fully meet its obligations based on regular revenues and without the need for recourse to special contributions or any other type of extraordinary contributions.
- The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector.
- The new conditions allow the full payment of the Resolution Fund's liabilities to be ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector ".

On the other hand, and in the context of the sale process of Novo Banco, SA, on October 2, 2017, the Council of Ministers approved a resolution in which it authorized the conclusion, by the Portuguese State, as the final guarantor of financial stability, of an agreement with the Resolution Fund, with a view to making financial resources available to the Resolution Fund, if and when deemed necessary, for the satisfaction of contractual obligations that may eventually arise from the sale of the 75% stake in Novo Banco, SA. It is also mentioned that the respective reimbursement will bear in mind that one of the objectives of this agreement is to ensure the stability of the contributory effort that falls on the banking sector, that is, without the need to be charged, to the participants of the Resolution Fund, contributions special or any other type of extraordinary contributions.

The Resolution Fund's own resources had a negative balance of 6,114 million euros, according to the latest accounts published with the 2018 Resolution Fund Report and Accounts.

In order to meet its responsibilities, the Resolution Fund has revenues from contributions, initial and periodic, from participating institutions (including Haitong Bank) and the contribution on the banking sector established by Law No. 55-A / 2010. It is also foreseen the possibility for the Government to determine, by ordinance, that special contributions be made in the situations provided for by law, specifically in the event that the Resolution Fund does not have its own resources to fulfil its obligations.

In accordance with Decree-Law No. 24/2013 that determines the operation of the Resolution Fund, the Bank has provided mandatory contributions since 2013 pursuant to the aforementioned Decree.

On 3rd of November 2015, Bank of Portugal issued a Circular-Letter according to which the periodical contribution for the Resolution Fund must be recognised as cost at the time of the event that originates mandatory contribution payments, which is in the last day of April of each year, pursuant to article no. 9 of Decree-Law No. 24/2013 of 19 February, ensuring that the Bank recognises the contribution as an expense in the year it is due. In 2019, the Bank made periodic contributions to the Resolution Fund and banking sector contributions in the amounts of 590 thousand euros and 1,782 thousand euros, respectively.On 15th of November 2015, the Resolution Fund issued a press release stating: "it is further explained that it is unlikely that the Resolution Fund shall propose the establishment of a special contribution for the financing of the resolution measure applied to BES. Therefore, the chance of a possible charge of a special contribution is far-flung."

The regime provided for in Decree-Law No. 24/2013 establishes that Banco de Portugal sets, by instruction, the rate to be applied each year on the basis of the objective levy of periodic contributions. Banco de Portugal Instruction No. 32/2018, published on December 19, 2018, set the base rate to be in force in 2019 for the determination of periodic contributions to the FR at 0.057% compared to the rate of 0.0459% that was in force in 2018.

As of 2015, the Bank also started to make contributions within the scope of the establishment of the European Resolution Fund, with contributions made in 2019 amounting to 1,221 thousand euros. The European Resolution Fund does not cover the situations in progress, at 31 December 2015, with the National Resolution Fund.

In 2019, the Bank made periodic contributions to the Resolution Fund and the banking sector in the amounts of 590 thousand euros and 1,752 thousand euros, respectively, which are recognized as costs under the terms set out in IFRIC 21 - Fees.

In this context, as at 31 December 2019, there is no estimate of the total amount of losses resulting from the process of divestiture of the Novo Banco, of the said litigations and other contingencies associated with the resolution process of Banco Espírito Santo and of any losses to be incurred by the Resolution Fund following the resolution of BANIF.

Notwithstanding the possibility provided for in the applicable legislation for the collection of special contributions, given the renegotiation of the terms of the loans granted to the Resolution Fund by the State and by a banking syndicate, and to the public announcements made by the Resolution Fund and the Office of the Minister of Finance, which refer that this possibility will not be used, the financial statements as of December 31, 2019 reflect the Bank's Board of Directors' expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif or any other contingent liability or liability assumed by the Resolution Fund.

## NOTE 38 – RELATED PARTIES TRANSACTIONS

The Group's related parties transactions as at 30th of June 2020 and 31st of December 2019, as well as the respective expenses and income recognized in the year, are summarized as follows:

(thousand euros)

| | 30.06.2020 | | | | | |
|---|---|---|---|---|---|---|
| | Assets | | | | | |
| | Others | Total | Guarantees | Liabilities | Income | Expenses |
| **Subsidiaries and associates of shareholders** | | | | | | |
| HAITONG INTERNATIONAL STRATEGIC INVESTMENT | 4 950 | 4 950 | - | - | 5 000 | - |
| HAITONG SECURITIES | 990 | 990 | - | - | 1 000 | - |
| HAITONG INTERNATIONAL SECURITIES GROUP LIMITED | - | - | - | - | 2 318 | - |
| HAITONG INTERNATIONAL SECURITIES USA INC | 1 | 1 | - | - | 1 | - |
| HAITONG INTERNATIONAL SECURITIES CO LTD | 2 530 | 2 530 | - | - | 2 564 | - |
| HAITONG INTERNATIONAL (UK) LIMITED | - | - | - | - | - | 267 |
| HAITONG INT FINANCE HOLDINGS 2015 LTD | - | - | - | - | 221 | - |
| HAITONG INVESTMENT IRELAND PLC | 23 136 | 23 136 | 16 410 | 673 200 | 470 | 8 040 |
| **TOTAL** | **31 607** | **31 607** | **16 410** | **673 200** | **11 574** | **8 307** |

(thousand euros)

| | 31.12.2019 | | | | | |
|---|---|---|---|---|---|---|
| | Assets | | | | | |
| | Others | Total | Guarantees | Liabilities | Income | Expenses |
| **Shareholders** | | | | | | |
| HAITONG INTERNATIONAL HOLDINGS LIMITED | - | - | - | - | 1 968 | - |
| **Subsidiaries and associates of shareholders** | | | | | | |
| HAITONG INTERNATIONAL STRATEGIC INVESTMENT | - | - | - | - | 5 000 | - |
| HAITONG SECURITIES | 7 | 7 | - | - | 13 408 | - |
| HAITONG INTERNATIONAL SECURITIES CO LTD | 1 789 | 1 789 | - | - | 5 491 | - |
| HAITONG INNOVATION SECURITIES INVESTMENT CO LTD | - | - | - | - | 1 500 | - |
| HAITONG INTERNATIONAL SECURITIES GROUP LIMITED | - | - | - | - | 2 534 | - |
| HAITONG INTERNATIONAL SECURITIES USA INC | - | - | - | - | 9 | - |
| UNICAM LIMITED | - | - | - | - | 3 000 | - |
| HAITONG INTERNATIONAL (UK) LIMITED | - | - | - | 145 | 16 | 413 |
| HAITONG INVESTMENT IRELAND PLC | 24 762 | 24 762 | 21 458 | 703 142 | - | - |
| **TOTAL** | **26 558** | **26 558** | **21 458** | **703 287** | **32 926** | **413** |

As at 30th June 2020, the income heading includes 11,105 thousand euros concerning fee and commission income heading from banking services (31st of December 2019: 30,942 thousand euros).

## NOTE 39 – FAIR-VALUE OF FINANCIAL ASSETS AND LIABILITIES

### Fair-value of financial assets and liabilities

Haitong Bank estimates the fair value of its instruments based on prices quoted in active markets or, when such prices are not available, based on valuation techniques following standard valuation models such as discounted cash flows and option pricing models. The valuation models' parameter inputs are based on observable data, when available, derived from prices of financial instruments actively traded or based on indicative broker quotes.

The Group performs valuation adjustments to reflect counterparty credit risk (CVA) for uncollateralized derivatives assets considering the current exposure, loss given default and the probability of default. This probability of default is based on the Group's credit risk assessment model or market information where applicable.

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

(thousand euros)

| | Amortised cost | Valued at Fair Value | | | Total book value | Fair Value |
|---|---|---|---|---|---|---|
| | | Level 1 | Level 2 | Level 3 | | |
| **Balance as at 30 June 2020** | | | | | | |
| Cash and cash equivalents | 550 199 | - | - | - | 550 199 | 550 199 |
| Financial assets at fair value through profit or loss | | - | | | | |
| Financial assets held for trading | | - | | | | |
| Securities | - | 25 391 | 500 958 | - | 526 349 | 526 349 |
| Derivative financial assets | - | - | 225 962 | 5 239 | 231 201 | 231 201 |
| Non-trading financial assets mandatorily at fair value through profit or loss | | - | | | | |
| Securities | - | 762 | 6 535 | 28 691 | 35 988 | 35 988 |
| Loans and advances to customers | - | - | - | 8 | 8 | 8 |
| Financial assets at fair value through other comprehensive income | - | 22 312 | 22 196 | 55 226 | 99 734 | 99 734 |
| Financial assets measured at amortised cost | | - | | | | |
| Securities | 309 358 | - | - | - | 309 358 | 293 330 |
| Loans and advances to banks | 150 618 | - | - | - | 150 618 | 150 618 |
| Loans and advances to customers | 322 623 | - | - | - | 322 623 | 318 754 |
| **Financial Assets** | **1 332 798** | **48 465** | **755 651** | **89 164** | **2 226 078** | **2 206 181** |
| Financial liabilities held for trading | | | | | | |
| Securities | - | 3 005 | 123 393 | - | 126 398 | 126 398 |
| Derivative financial liabilities | - | 94 | 278 758 | 5 239 | 284 091 | 284 091 |
| Financial liabilities measured at amortised cost | | | | | | |
| Resources of credit institutions | 476 677 | - | - | - | 476 677 | 476 677 |
| Resources of customers | 1 030 729 | - | - | - | 1 030 729 | 1 030 729 |
| Debt securities issued | 99 814 | - | - | - | 99 814 | 99 814 |
| Hedging derivatives | - | - | 209 | - | 209 | 209 |
| **Financial Liabilities** | **1 607 220** | **3 099** | **402 360** | **5 239** | **2 017 918** | **2 017 918** |
| **Balance as at 31st December 2019** | | | | | | |
| Cash and cash equivalents | 637 829 | - | - | - | 637 829 | 637 829 |
| Financial assets at fair value through profit or loss | | | | | | |
| Financial assets held for trading | | | | | | |
| Securities | - | 18 305 | 419 267 | - | 437 572 | 437 572 |
| Derivative financial assets | - | - | 137 870 | 10 853 | 148 723 | 148 723 |
| Non-trading financial assets mandatorily at fair value through profit or loss | | | | | | |
| Securities | - | 776 | 6 749 | 29 874 | 37 399 | 37 399 |
| Loans and advances to customers | - | - | - | 107 | 107 | 107 |
| Financial assets at fair value through other comprehensive income | - | 40 487 | 81 432 | 55 268 | 177 187 | 177 187 |
| Financial assets measured at amortised cost | | | | | | |
| Securities | 335 755 | - | - | - | 335 755 | 323 003 |
| Loans and advances to banks | 145 470 | - | - | - | 145 470 | 145 470 |
| Loans and advances to customers | 314 614 | - | - | - | 314 614 | 310 154 |
| **Financial Assets** | **1 433 668** | **59 568** | **645 318** | **96 102** | **2 234 656** | **2 217 444** |
| Financial liabilities held for trading | | | | | | |
| Securities | - | 1 995 | 130 763 | - | 132 758 | 132 758 |
| Derivative financial liabilities | - | - | 140 649 | 8 253 | 148 902 | 148 902 |
| Financial liabilities measured at amortised cost | | | | | | |
| Resources of credit institutions | 302 248 | - | - | - | 302 248 | 302 248 |
| Resources of customers | 1 041 374 | - | - | - | 1 041 374 | 1 041 374 |
| Debt securities issued | 197 112 | - | - | - | 197 112 | 197 112 |
| Hedging derivatives | - | - | 300 | - | 300 | 300 |
| **Financial Liabilities** | **1 540 734** | **1 995** | **271 712** | **8 253** | **1 822 694** | **1 822 694** |

## Fair-value Hierarchy

Assets and Liabilities at fair-value of the Haitong Bank Group are valued according to the following hierarchy:

The Bank's financial instruments are classified under the three levels defined in IFRS 13 according to the following:

Level 1 – Instruments valued using quoted prices observed in active and liquid markets. These include government bonds, credit bonds and exchange traded equities and derivatives.

Level 2 – Instruments valued using valuation techniques based on observable market inputs, quotes prices for similar instruments in active markets or for identical instruments in markets that are neither active nor liquid. These include bonds, plain vanilla OTC derivatives, less liquid equities and funds value at Net Asset Values (NAV) published daily by the fund manager and with possibility of daily redemption. The OTC derivatives includes financial instruments traded in OTC (over-the-counter), in which the counterparty has signed agreements of collateral (ISDA with CSA – Credit Support Annex), with Minimum Transfer Amount (MTS) very low, which allows to mitigate the counterparty's Credit Risk and the CVA (Credit Value Adjustment) does not have to be significant. Additionally, there also included financial derivatives traded in OTC, which do not have CSA signed, but the percentage of information not observable in market (Eg.: Internal Rating , Probability of Default determined by internal models, etc) in CSA valuation is no expressive in value of derivate as an whole. It is consider as significant when the value of CSA bigger than 5%.

Level 3 – Instruments valued using valuation techniques based on non-observable market inputs and that do not comply with the requirements to be classified under Level 1 nor Level 2. These include non-plain vanilla OTC derivatives valued based on non-observable market inputs or on indicative prices published by third parties, distressed and highly illiquid bonds, funds valued at Net Asset Values (NAV) published by the fund manager without possibility of daily redemption and private equity placements. In the Level 3 are included financial instruments traded in OTC market with counterparties which HB doesn't have CSA signed and the percentage of unobservable data incorporated in CVA valuating is considered in the total value of the derivative (value of CVA is 5% bigger than the NPV).

For financial instruments recorded in the balance sheet at fair value, the movement occurred between December 31st , 2019 and June 30th, 2020 in assets and liabilities classified in level 3 is as follows:

(thousand euros)

| | Financial assets held for trading | | Financial assets mandatory at fair value through profit or loss | | Financial assets at fair value through other comprehensive income | Total |
|---|---|---|---|---|---|---|
| | Securities | Derivative financial assets | Securities | Loans and advances | | |
| **Balance as at 31st December 2019** | **-** | **2 600** | **29 874** | **107** | **55 268** | **87 849** |
| Results recognized in Net Interest Margin | - | - | - | - | 1 903 | **1 903** |
| Net trading income and from other financial instruments at fair value through profit or loss | - | ( 2 127) | 796 | 2 | - | **( 1 329)** |
| Net gains/(losses) derecognition of financial assets measured at fair value through other comprehensive income | - | - | - | - | 10 | **10** |
| Impairment on other financial assets net of reversal and recoveries | - | - | ( 485) | - | ( 41) | **( 526)** |
| Other fair value changes | - | - | ( 1 266) | - | ( 7 435) | **( 8 701)** |
| Fair value reserve changes | - | - | - | - | 171 | **171** |
| Acquisitions | - | - | - | - | 9 762 | **9 762** |
| Sales | - | - | ( 205) | - | - | **( 205)** |
| Reimbursements | - | - | ( 23) | ( 101) | ( 10 485) | **( 10 609)** |
| Derivatives financial flows | - | 1 268 | - | - | - | **1 268** |
| Transfers from other levels | - | - | - | - | 6 073 | **6 073** |
| Transfers to other levels | - | ( 1 741) | - | - | - | **( 1 741)** |
| **Balance as at 30 June 2020** | **-** | **-** | **28 691** | **8** | **55 226** | **83 925** |

(thousand euros)

| | Financial assets held for trading | | Financial assets mandatory at fair value through profit or loss | | Financial assets at fair value through other comprehensive income | Total |
|---|---|---|---|---|---|---|
| | Securities | Derivative financial assets | Securities | Loans and advances to costumers | | |
| **Balance as at 31st December 2018** | **17 528** | **( 7 497)** | **28 913** | **5 783** | **94 894** | **139 621** |
| Results recognized in Net Interest Margin | 366 | - | - | - | 2 247 | **2 613** |
| Net trading income and from other financial instruments at fair value through profit or loss | 7 | 5 707 | 6 296 | ( 125) | - | **11 885** |
| Net gains/(losses) derecognition of financial assets measured at fair value through other comprehensive income | - | - | - | - | 1 220 | **1 220** |
| Impairment on other financial assets net of reversal and recoveries | - | - | - | - | 441 | **441** |
| Other fair value changes | 16 | ( 2 027) | ( 81) | - | ( 258) | **( 2 350)** |
| Fair value reserve changes | - | - | - | ( 52) | 560 | **508** |
| Acquisitions | - | - | - | - | 17 109 | **17 109** |
| Sales | ( 17 917) | - | - | - | - | **( 17 917)** |
| Reimbursements | - | - | ( 5 254) | ( 5 499) | ( 53 029) | **( 63 782)** |
| Derivatives financial flows | - | 999 | - | - | - | **999** |
| Transfers from discontinuing activities | - | 3 497 | - | - | - | **3 497** |
| Transfers from other levels | - | 1 977 | - | - | - | **1 977** |
| Transfers to other levels | - | ( 56) | - | - | ( 7 916) | **( 7 972)** |
| **Balance as at 31st December 2019** | **-** | **2 600** | **29 874** | **107** | **55 268** | **87 849** |

In 2020 accordingly with the Liquidity Assessment, 4 610 thousands euros of securities were transferred from Level 2 to Level 1, 288 thousands from Level 1 to Level 2 and 6 073 thousands from Level 2 to Level 3.

As for the Derivatives Instruments 1 741 thousands euros were transferred from Level 3 to Level 2. From those 1 741 thousands euros, 517 thousands were transferred due to the use of an Internal Valuation Methodology developed within the Bank. The other 1 224 thousands were transferred to Level 2 due to the CVA as it is below 5%.

## Yield curves

The short-term rates set out below reflect indicative values of deposit interest rates and/or futures. Swap rates are used for the long-term:

(%)

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | EUR | USD | GBP | EUR | USD | GBP |
| *Overnight* | -0,51 | 0,08 | 0,05 | -0,48 | 1,56 | 0,68 |
| 1 month | -0,50 | 0,16 | 0,09 | -0,48 | 1,77 | 0,70 |
| 3 months | -0,49 | 0,30 | 0,14 | -0,43 | 1,92 | 0,79 |
| 6 months | -0,37 | 0,27 | 0,29 | -0,36 | 1,77 | 0,88 |
| 1 year | -0,38 | 0,23 | 0,24 | -0,34 | 1,72 | 0,82 |
| 3 years | -0,39 | 0,20 | 0,19 | -0,24 | 1,64 | 0,82 |
| 5 years | -0,35 | 0,32 | 0,24 | -0,12 | 1,72 | 0,88 |
| 7 years | -0,29 | 0,47 | 0,29 | 0,02 | 1,78 | 0,94 |
| 10 years | -0,17 | 0,64 | 0,37 | 0,21 | 1,88 | 1,02 |
| 15 years | 0,01 | 0,81 | 0,44 | 0,47 | 2,01 | 1,10 |
| 20 years | 0,07 | 0,89 | 0,45 | 0,61 | 2,08 | 1,13 |
| 25 years | 0,07 | 0,92 | 0,45 | 0,65 | 2,11 | 1,12 |
| 30 years | 0,03 | 0,93 | 0,43 | 0,64 | 2,10 | 1,11 |

## Credit spreads

Credit spreads curves and recovery rates used by the Group are sourced on a daily basis from Markit. The table below reflects the evolution of the main CDS indices:

(basis points)

| Index | Series | 3 years | 5 years | 7 years | 10 years |
|---|---|---|---|---|---|
| **Year 2020H1** | | | | | |
| CDX USD Main | **31** | 65,24 | 75,88 | 93,53 | 111,96 |
| iTraxx Eur Main | **30** | 42,36 | 66,56 | 86,46 | 106,21 |
| iTraxx Eur Senior Financial | **30** | - | 79,56 | - | - |
| **Year 2019** | | | | | |
| CDX USD Main | **31** | 22,99 | 45,27 | 67,44 | 89,91 |
| iTraxx Eur Main | **30** | 55,63 | 87,37 | 111,31 | 131,15 |
| iTraxx Eur Senior Financial | **30** | - | 108,52 | - | - |

## Interest rate volatilities

The following figures reflect at-the-money implied volatilities:

(%)

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | EUR | USD | GBP | EUR | USD | GBP |
| 1 year | 49,22 | 67,01 | 59,75 | 58,64 | 58,64 | 46,03 |
| 3 years | 54,52 | 67,06 | 60,56 | 59,17 | 59,17 | 50,00 |
| 5 years | 56,63 | 67,61 | 59,62 | 59,66 | 59,66 | 53,48 |
| 7 years | 57,84 | 67,61 | 59,50 | 59,60 | 59,60 | 55,77 |
| 10 years | 58,65 | 67,70 | 59,00 | 59,83 | 59,83 | 57,41 |
| 15 years | 57,65 | 66,17 | 58,66 | 59,15 | 59,15 | 56,56 |

## Foreign exchange rate and volatilities

The table below reflects ECB's (European Central Bank) foreign exchange rates fixings and at-the-money implied volatilities:

| | Exchange Rate | | Volatiliy (%) | | | | |
|---|---|---|---|---|---|---|---|
| | 30.06.2020 | 31.12.2019 | 1 month | 3 months | 6 months | 9 months | 1 year |
| EUR/USD | 1,1198 | 1,1234 | 7,14 | 7,19 | 7,47 | 7,37 | 7,38 |
| EUR/GBP | 0,9124 | 0,8508 | 7,52 | 7,82 | 8,36 | 8,47 | 8,56 |
| EUR/CHF | 1,0651 | 1,0854 | 5,12 | 5,30 | 5,50 | 5,60 | 5,66 |
| EUR/PLN | 4,4560 | 4,2568 | 6,28 | 6,05 | 5,97 | 5,91 | 5,88 |
| EUR/CNY | 7,9219 | 7,8205 | 6,13 | 6,24 | 6,38 | 6,43 | 6,46 |
| USD/BRL a) | 5,4579 | 4,0197 | 27,13 | 22,71 | 20,38 | 19,08 | 18,28 |

a) Determined based on EUR/USD and EUR/BRL

## Equity Indexes

The evolution of the main equity indices and the corresponding volatilities are summarised in the following table:

| | Quotation | | | Historical volatility (%) | | Implied volatility (%) |
|---|---|---|---|---|---|---|
| | 30.06.2020 | 31.12.2019 | Range % | 1 month | 3 months | |
| DJ Euro Stoxx 50 | 3 234 | 3 745 | (13,65) | 29,98 | 48,46 | 27,53 |
| PSI 20 | 4 390 | 5 214 | (15,80) | 20,77 | 39,81 | - |
| IBEX 35 | 7 231 | 9 549 | (24,27) | 32,49 | 50,46 | - |
| DAX | 12 311 | 13 249 | (7,08) | 31,91 | 31,91 | 29,93 |
| S&P 500 | 2 766 | 3 231 | (14,38) | 27,31 | 55,23 | 24,35 |
| BOVESPA | 95 056 | 115 645 | (17,80) | 27,71 | 71,39 | 35,93 |

The main methods and assumptions used in the abovementioned valuation of the fair-value of financial assets and liabilities are analyzed as follows:

Cash and cash equivalents and Loans and advances to banks

The statement of financial position value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

### Loans and advances to customers

The fair-value of loans and advances to customers is estimated based on the update of expected cash flows and interest, by taking into account market spreads for similar transactions (if they were entered into in the current moment) considering that the instalments are paid in compliance with the deadlines contractually agreed upon.

### Resources of other credit institutions

The balance-sheet value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

### Resources of customers

The fair-value of these financial instruments is determined based on the update of expected cash flows in capital and interest, considering that the payments are in compliance with the deadlines agreed upon contract. Considering that the applicable interest rates are of variable nature and the maturity period of the deposits is substantially inferior to one year, there are no measurable differences in fair-value.

### Debt securities issued and Subordinated Liabilities

The fair-value of these instruments is based in market prices, when available. When unavailable, the fair-value it is estimated based on the update of expected cash flows in capital and interest regarding these instruments in the future.

## NOTE 40 – RISK MANAGEMENT

In terms of risk management, the following qualitative information of the Haitong Bank Group is presented.

Control and risk management, for the role they have played in active management support, are one of the main strategic axes supporting their balanced and sustained development.

The Risk Department has maintained the following main objectives:

- Identification, quantification and control of the different types of risk assumed, progressively adopting uniform principles and methodologies;
- Continuous contribution to the improvement of tools to support the structuring of operations and the development of internal techniques for evaluating performance and optimizing the capital base;
- Proactive management of situations of significant delay and non-compliance with contractual obligations.

### Credit Risk

The Credit Risk results from the possibility of financial losses arising from the default of the customer or counterparty in relation to the contractual financial obligations established with the Group in the scope of its credit activity. Credit risk is mainly present in traditional banking products - loans, guarantees and other contingent liabilities - and in trading products - swaps, forwards and options (counterparty risk).

The Group's credit portfolios are permanently monitored, with interaction between the business teams and risk management throughout the sequential stages of the credit cycle.

The monitoring of the Group's credit risk profile is regularly monitored, namely, in what concerns the evolution of credit exposure, delinquency ratios and provisioning, and concentration metrics.

The Group also controls the approved credit limits and assures the proper functioning of mechanisms related with the credit approval process.

### Calculation of ECL

The IFRS 9 standard outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition. According to Haitong Bank model, Expected Credit Loss (ECL) is determined as per the detailed information included in chapter 2.4.1., Impairment of Financial Assets and Financial Model:

- **Stage 1 – Performing:** Impairment assessment is carried out based 12-month expected credit loss (ECL). ECL is determined as the exposure as of the reference date multiplied by the 12-month probability of default and the loss given default;
- **Stage 2 – Under Performing:** Impairment assessment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- **Stage 3 – Non Performing:** Impairment assessment will reflect the ECL over the expected residual life of the instrument.

## Inputs in the measurement of ECL

As a result of the characteristics of the Bank's portfolio (reduced number of transactions and high heterogeneity), the calculation of the ECL has as the main vector of measurement the individual analysis assessment. 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).

## Forward-Looking Information

The Group uses forward-looking information based on a simplified approach, grounded on the proportionality and characteristics of the Bank. As such, a single central scenario centered upon external information was implemented, which provides sufficient granularity to meet audit and regulatory requirements in what concerns the forecasting capabilities of the Bank's collective model.

This prospective exercise was defined exclusively for standard IFRS 9, given the specificity of the exercise and the available information.

The forward-looking exercise is applicable to Stage 1 exposures. All the portfolio exposures/obligors are subject to the same forward-looking information assuring all the assets are compliant with standard IFRS 9 guidelines.

The financial instruments subject to standard IFRS 9 impairment requirements are presented below, detailed by stage, as of June 30th, 2020 and December 31st, 2019.

(thousand euros)

| Asset Type | 30.06.2020 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | | | | Total Stage 1 | Stage 2 | | | Total Stage 2 | Stage 3 | Total Stage 3 |
| | Low to Fair risk [aaa+;a-] | Monitoring [bbb+;b-] | Substandard [ccc+;ccc] | Doubtful [lccc] | Not rated | | Monitoring [bbb+;b-] | Substandard [ccc+;ccc] | Doubtful [lccc] | | Impaired [d] | |
| Loans and advances to customers | - | 176 845 | - | - | 7 295 | 184 140 | 132 908 | 10 077 | - | 142 985 | 7 711 | 7 711 |
| Guarantees | - | 77 929 | - | - | 450 | 78 379 | - | - | 13 551 | 13 551 | 19 728 | 19 728 |
| Debt Securities | - | 369 973 | - | - | 11 364 | 381 337 | - | - | - | - | 41 394 | 41 394 |
| Loans and advances to banks | - | 150 641 | - | - | - | 150 641 | - | - | - | - | 15 077 | 15 077 |
| Cash and cash equivalents | 541 740 | 5 370 | - | - | 64 | 547 174 | - | 3 534 | - | 3 534 | - | - |
| Debtors and other assets | - | 1 824 | 1 238 | 24 | 19 282 | 22 368 | - | - | - | - | 10 881 | 10 881 |
| **Total** | **541 740** | **782 582** | **1 238** | **24** | **38 455** | **1 364 039** | **132 908** | **13 611** | **13 551** | **160 070** | **94 791** | **94 791** |

(thousand euros)

| Asset Type | 31.12.2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | | | Total Stage 1 | Stage 2 | | Total Stage 2 | Stage 3 | Total Stage 3 |
| | Low to Fair risk [aaa+;a-] | Monitoring [bbb+;b-] | Substandard [ccc+;ccc] | Not rated | | Monitoring [bbb+;b-] | Substandard [ccc+;ccc] | | Impaired [d] | |
| Loans and advances to customers | - | 219 778 | - | 18 705 | 238 483 | 76 362 | - | 76 362 | 11 883 | 11 883 |
| Guarantees | - | 104 359 | - | 450 | 104 809 | 1 940 | - | 1 940 | 23 478 | 23 478 |
| Debt Securities | - | 469 331 | - | 9 857 | 479 188 | - | - | - | 43 413 | 43 413 |
| Loans and advances to banks | 2 255 | 140 244 | - | - | 142 499 | - | 3 509 | 3 509 | 15 077 | 15 077 |
| Cash and cash equivalents | 632 188 | 5 633 | - | - | 637 821 | - | - | - | - | - |
| Debtors and other assets | 1 | 2 130 | 285 | 8 992 | 11 408 | - | - | - | 11 263 | 11 263 |
| **Total** | **634 444** | **941 475** | **285** | **38 004** | **1 614 208** | **78 302** | **3 509** | **81 811** | **105 114** | **105 114** |

As of June 30, 2020, the maximum exposure to credit risk of financial assets not subject to impairment requirements amounts to 528 million euros, corresponding to exposures to central banks.

The table below compiles all financial instruments at amortized cost by industry, stage and days of delay as of June 30, 2020 and December 31, 2019.

(thousand euros)

| Amortised Costs financial instruments (including Financial Guarantees) by past due status | 30.06.2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | | | Stage 2 | | Stage 3 | | | |
| | No overdue | | More than 181 days | | No overdue | | No overdue | | More than 181 days | |
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| Agribusiness & Commodity Foods | - | - | - | - | 5 455 | 331 | 198 | 187 | - | - |
| Banks | 733 260 | 294 | 1 585 | 1 585 | 3 534 | 531 | - | - | 15 077 | 15 077 |
| Broker Dealers | - | - | - | - | - | - | - | - | - | - |
| Building Materials | 7 936 | 40 | 192 | 192 | - | - | 12 | 12 | - | - |
| Capital Goods | 3 958 | 2 | 40 | 40 | - | - | - | - | - | - |
| Chemicals | 601 | 601 | - | - | - | - | - | - | - | - |
| Commercial & Professional Services | 7 043 | 208 | 88 | 88 | - | - | 3 478 | 937 | - | - |
| Construction & Engineering | 54 367 | 173 | 407 | 407 | 10 077 | 724 | 1 344 | 358 | 1 554 | 1 554 |
| Food, Beverage & Tobacco | 573 | 59 | - | - | - | - | - | - | - | - |
| Governments | 191 211 | 142 | 214 | 214 | - | - | - | - | - | - |
| Health Care | 3 | - | - | - | - | - | - | - | - | - |
| Hotels & Gaming | 50 | - | - | - | - | - | 2 127 | 1 086 | - | - |
| Household & Personal Products | 19 | 2 | - | - | - | - | - | - | - | - |
| Media & Entertainment | 7 | 3 | 94 | 94 | - | - | - | - | - | - |
| Metals & Mining | 6 670 | 15 | - | - | 67 626 | 2 605 | - | - | - | - |
| Non Bank Financial Institutions | 1 470 | 10 | - | - | - | - | 16 410 | 10 806 | - | - |
| Paper & Forest Products | 24 571 | 210 | 60 | 60 | - | - | - | - | - | - |
| Power | 50 927 | 353 | 57 | 57 | 26 411 | 2 645 | - | - | - | - |
| Real Estate | 60 287 | 328 | 166 | 166 | 3 751 | 287 | - | - | - | - |
| Software | 20 | 10 | - | - | - | - | - | - | - | - |
| Technology Hardware & Equipment | - | - | - | - | - | - | 27 267 | 8 180 | - | - |
| Telecoms | 28 063 | 139 | - | - | 13 551 | 286 | - | - | - | - |
| Transportation | 7 | - | - | - | 1 613 | 37 | 195 | ( 8) | - | - |
| Transportation Infrastructure | 79 289 | 304 | - | - | 28 052 | 391 | 12 870 | 1 496 | - | - |
| Water Utilities | 1 549 | 8 | - | - | - | - | - | - | - | - |
| Others | 15 516 | 938 | 3 191 | 3 191 | - | - | - | - | - | - |
| **Total** | **1 267 397** | **3 839** | **6 094** | **6 094** | **160 070** | **7 837** | **63 901** | **23 054** | **16 631** | **16 631** |

(thousand euros)

| Amortised Costs financial instruments (including Financial Guarantees) by past due status | 31.12.2019 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 | | | | | | Stage 2 | | Stage 3 | | | |
| | No overdue | | 1 - 29 days | | More than 181 days | | No overdue | | No overdue | | More than 181 days | |
| | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance | Gross carrying amount | Loss allowance |
| Agribusiness & Commodity Foods | - | - | - | - | - | - | 5 469 | 326 | 268 | 217 | - | - |
| Banks | 812 514 | 259 | - | - | 1 650 | 1 650 | 3 509 | 524 | 21 469 | 14 199 | 15 077 | 15 077 |
| Broker Dealers | 1 132 | - | - | - | - | - | - | - | - | - | - | - |
| Building Materials | 8 805 | 86 | - | - | 192 | 192 | - | - | 13 | 13 | - | - |
| Capital Goods | 6 358 | 4 | - | - | 40 | 40 | - | - | 1 060 | 222 | - | - |
| Chemicals | 813 | 813 | - | - | - | - | - | - | - | - | - | - |
| Commercial & Professional Services | 10 657 | 229 | - | - | 105 | 105 | - | - | 4 778 | 1 168 | - | - |
| Construction & Engineering | 69 610 | 172 | - | - | 407 | 407 | 1 940 | 49 | 46 | 46 | 1 985 | 1 626 |
| Food, Beverage & Tobacco | 772 | 79 | - | - | - | - | - | - | - | - | - | - |
| Governments | 195 129 | 148 | 2 574 | 1 | 214 | 214 | - | - | - | - | - | - |
| Health Care | 15 | - | - | - | - | - | - | - | - | - | - | - |
| Hotels & Gaming | 50 | - | - | - | - | - | - | - | 2 127 | 1 086 | - | - |
| Household & Personal Products | 6 | 1 | - | - | - | - | - | - | - | - | - | - |
| Media & Entertainment | 7 | 2 | - | - | 94 | 94 | - | - | - | - | - | - |
| Metals & Mining | 80 635 | 1 308 | - | - | - | - | - | - | - | - | - | - |
| Non Bank Financial Institutions | 2 143 | - | - | - | - | - | - | - | - | - | - | - |
| Paper & Forest Products | 17 920 | 175 | - | - | 60 | 60 | - | - | - | - | - | - |
| Power | 52 390 | 444 | - | - | 57 | 57 | 34 927 | 3 638 | - | - | - | - |
| Real Estate | 76 045 | 233 | - | - | 166 | 166 | 4 143 | 280 | - | - | - | - |
| Software | 393 | 5 | - | - | - | - | - | - | | - | - | - |
| Technology Hardware & Equipment | - | - | - | - | - | - | - | - | 27 060 | 8 118 | - | - |
| Telecoms | 19 941 | 178 | - | - | - | - | - | - | - | - | - | - |
| Transportation | 8 | - | - | - | - | - | 1 930 | 68 | 635 | - | - | - |
| Transportation Infrastructure | 84 063 | 425 | - | - | - | - | 29 893 | 491 | 14 010 | 1 123 | - | - |
| Water Utilities | 514 | 3 | - | - | - | - | - | - | - | - | - | - |
| Others | 3 739 | 448 | - | - | 3 196 | 3 252 | - | - | - | - | - | - |
| **Total** | **1 443 659** | **5 012** | **2 574** | **1** | **6 181** | **6 237** | **81 811** | **5 376** | **71 466** | **26 192** | **17 062** | **16 703** |

In the following section we present the gross exposure by asset type, impairment stage and internal rating bucket.

## Loans and advances to costumers

The table below presents a summary of the portfolio of loans and advances to costumers of Haitong Bank S.A. Group, as of 30th of June 2020 and 31st of December 2019:

(thousand euros)

| Loans and advances to customers | | 30.06.2020 Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|
| ***Amortized cost*** | | | | | | |
| Monitoring | [bbb+;b-] | 176 845 | 132 908 | - | - | **309 753** |
| Substandard | [ccc+;ccc] | - | 10 077 | - | - | **10 077** |
| Impaired | [d] | - | - | 7 385 | 194 | **7 579** |
| Not rated | | 7 295 | - | - | - | **7295** |
| **Gross carrying amount** | | **184 140** | **142 985** | **7 385** | **194** | **334 704** |
| Loss allowance (Note 31) | | 1 153 | 7 020 | 3 918 | ( 10) | **12 081** |
| **Carrying amount** | | **182 987** | **135 965** | **3 467** | **204** | **322 623** |
| ***Fair Value Trough Profit and Loss*** | | | | | | |
| Impaired | [d] | - | - | 132 | - | **132** |
| **Gross carrying amount** | | **-** | **-** | **132** | **-** | **132** |
| Revaluation | | - | - | ( 124) | - | **( 124)** |
| **Carrying amount** | | **-** | **-** | **8** | **-** | **8** |
| **Total gross carrying amount** | | **184 140** | **142 985** | **7 517** | **194** | **334 836** |
| Loss allowance | | 1 153 | 7 020 | 3 918 | **( 10)** | 12 081 |
| Revaluation | | - | - | ( 124) | - | ( 124) |
| **Total Carrying amount** | | **182 987** | **135 965** | **3 475** | **204** | **322 631** |

(thousand euros)

| Loans and advances to customers | | 31.12.2019 Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|
| ***Amortized cost*** | | | | | | |
| Monitoring | [bbb+;b-] | 219 778 | 76 362 | - | - | **296 140** |
| Impaired | [d] | - | - | 11 013 | 637 | **11 650** |
| Not rated | | 18 705 | - | - | - | **18 705** |
| **Gross carrying amount** | | **238 483** | **76 362** | **11 013** | **637** | **326 495** |
| Loss allowance (Note 31) | | 2 374 | 4 803 | 4 703 | 1 | **11 881** |
| **Carrying amount** | | **236 109** | **71 559** | **6 310** | **636** | **314 614** |
| ***Fair Value Trough Profit and Loss*** | | | | | | |
| Impaired | [d] | - | - | 233 | - | **233** |
| **Gross carrying amount** | | **-** | **-** | **233** | **-** | **233** |
| Revaluation | | - | - | ( 126) | - | **( 126)** |
| **Carrying amount** | | **-** | **-** | **107** | **-** | **107** |
| **Total gross carrying amount** | | **238 483** | **76 362** | **11 246** | **637** | **326 728** |
| Loss allowance | | 2 374 | 4 803 | 4 703 | **1** | 11 881 |
| Revaluation | | - | - | ( 126) | - | ( 126) |
| **Total Carrying amount** | | **236 109** | **71 559** | **6 417** | **636** | **314 721** |

## Guarantees

The table below presents a summary of the portfolio of guarantees granted to clients of Haitong Bank S.A. Group, as of 30th of June 2020 and 31st of December 2019:

(thousand euros)

| Guarantees | | 30.06.2020 Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|
| Monitoring | [bbb+;b-] | 77 929 | - | - | - | **77 929** |
| Doubtful | [lccc] | - | 13 551 | - | - | **13 551** |
| Impaired | [d] | - | - | 19 728 | - | **19 728** |
| Not rated | | 450 | - | - | - | **450** |
| **Total gross carrying amount** | | **78 379** | **13 551** | **19 728** | **-** | **111 658** |
| Loss allowance (Note 31) | | 362 | 286 | 11 640 | - | **12 288** |
| **Total Carrying amount** | | **78 017** | **13 265** | **8 088** | **-** | **99 370** |

(thousand euros)

| Guarantees | | 31.12.2019 Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|
| Monitoring | [bbb+;b-] | 104 359 | 1 940 | - | - | **106 299** |
| Impaired | [d] | - | - | 23 478 | - | **23 478** |
| Not rated | | 450 | - | - | - | **450** |
| **Total gross carrying amount** | | **104 809** | **1 940** | **23 478** | **-** | **130 227** |
| Loss allowance (Note 31) | | 545 | 49 | 14 720 | - | **15 314** |
| **Total Carrying amount** | | **104 264** | **1 891** | **8 758** | **-** | **114 913** |

## Debt securities

The table below presents a summary of the portfolio of debt securities at amortised cost and at fair value through other comprehensive income of Haitong Bank, S.A. Group, as of June 30, 2020 and December 31, 2019:

(thousand euros)

| FVOCI and Amortised cost debt Securities | | 30.06.2020 Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|
| ***Amortized cost*** | | | | | | |
| Monitoring | [bbb+;b-] | 290 789 | - | - | - | **290 789** |
| Impaired | [d] | - | - | 27 267 | - | **27 267** |
| **Gross carrying amount** | | **290 789** | **-** | **27 267** | **-** | **318 056** |
| Loss allowance (Note 31) | | 518 | - | 8 181 | - | **8 699** |
| **Carrying amount** | | **290 271** | **-** | **19 086** | **-** | **309 357** |
| ***Fair Value through Other Comprehensive Income*** | | | | | | |
| Monitoring | [bbb+;b-] | 79 184 | - | - | - | **79 184** |
| Impaired | [d] | - | - | 7 978 | 6 149 | **14 127** |
| Not rated | | 11 364 | - | - | - | **11 364** |
| **Gross carrying amount** | | **90 548** | **-** | **7 978** | **6 149** | **104 675** |
| Loss allowance (Note 31) | | 411 | - | 2 394 | 159 | **2 964** |
| Revaluation | | 1 782 | - | ( 3 759) | - | **( 1 977)** |
| **Carrying amount** | | **91 919** | **-** | **1 825** | **5 990** | **99 734** |
| **Total gross carrying amount** | | **381 337** | **-** | **35 245** | **6 149** | **422 731** |
| Loss allowance | | 929 | - | 10 575 | 159 | 11 663 |
| Revaluation | | 1 782 | - | ( 3 759) | - | ( 1 977) |
| **Total Carrying amount** | | **382 190** | **-** | **20 911** | **5 990** | **409 091** |

(thousand euros)

| FVOCI and Amortised cost debt Securities | | 31.12.2019 Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|
| ***Amortized cost*** | | | | | | |
| Monitoring | [bbb+;b-] | 317 394 | - | - | - | **317 394** |
| Impaired | [d] | - | - | 27 060 | - | **27 060** |
| **Gross carrying amount** | | **317 394** | **-** | **27 060** | **-** | **344 454** |
| Loss allowance (Note 31) | | 581 | - | 8 118 | - | **8 699** |
| **Carrying amount** | | **316 813** | **-** | **18 942** | **-** | **335 755** |
| ***Fair Value through Other Comprehensive Income*** | | | | | | |
| Monitoring | [bbb+;b-] | 151 938 | - | - | - | **151 938** |
| Impaired | [d] | - | - | 7 918 | 8 435 | **16 353** |
| Not rated | | 9 856 | - | - | - | **9 856** |
| **Gross carrying amount** | | **161 794** | **-** | **7 918** | **8 435** | **178 147** |
| Loss allowance (Note 31) | | 739 | - | 2 375 | 143 | **3 257** |
| Revaluation | | 4 493 | - | ( 2 196) | - | **2 297** |
| **Carrying amount** | | **165 548** | **-** | **3 347** | **8 292** | **177 187** |
| **Total gross carrying amount** | | **479 188** | **-** | **34 978** | **8 435** | **522 601** |
| Loss allowance | | 1 320 | - | 10 493 | 143 | 11 956 |
| Revaluation | | 4 493 | - | ( 2 196) | - | 2 297 |
| **Total Carrying amount** | | **482 361** | **-** | **22 289** | **8 292** | **512 942** |

## Cash and cash equivalents

The table below presents a summary of the cash and cash equivalents portfolio of Haitong Bank, S.A. Group, as of as of 30th June 2020 and 31st of December 2019:

(thousand euros)

| Cash and cash equivalents | | 30.06.2020 Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|
| *Amortized cost* | | | | | | |
| Low to fair risk | [aaa+;a-] | 541 740 | - | - | - | **541 740** |
| Monitoring | [bbb+;b-] | 5 370 | - | - | - | **5 370** |
| Substandard | [ccc+;ccc] | - | 3 534 | - | - | **3 534** |
| Not rated | | 64 | - | - | - | **64** |
| **Total gross carrying amount** | | **547 174** | **3 534** | **-** | **-** | **550 708** |
| Loss allowance (Note 31) | | - | 531 | - | - | **531** |
| **Total Carrying amount** | | **547 174** | **3 003** | **-** | **-** | **550 177** |

(thousand euros)

| Cash and cash equivalents | | 31.12.2019 Stage 1 | Stage 2 | Stage 3 | POCI | Total |
|---|---|---|---|---|---|---|
| *Amortized cost* | | | | | | |
| Low to fair risk | [aaa+;a-] | 632 188 | - | - | - | **632 188** |
| Monitoring | [bbb+;b-] | 5 633 | - | - | - | **5 633** |
| **Total gross carrying amount** | | **637 821** | **-** | **-** | **-** | **637 821** |
| **Total Carrying amount** | | **637 821** | **-** | **-** | **-** | **637 821** |

## Loans and advances to banks

The table below presents a summary of the portfolio of loans and advances to banks of Haitong Bank, S.A. Group, as of 30th June 2020 and 31st of December 2019:

(thousand euros)

| Loans and advances to Banks | | 30.06.2020 | | | | |
|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| *Amortized cost* | | | | | | |
| Monitoring | [bbb+;b-] | 150 641 | - | - | - | **150 641** |
| Impaired | [d] | - | - | 15 077 | - | **15 077** |
| **Total gross carrying amount** | | **150 641** | **-** | **15 077** | **-** | **165 718** |
| Loss allowance (Note 31) | | 23 | - | 15 077 | - | **15 100** |
| **Total Carrying amount** | | **150 618** | **-** | **-** | **-** | **150 618** |

(thousand euros)

| Loans and advances to Banks | | 31.12.2019 | | | | |
|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| *Amortized cost* | | | | | | |
| Low to fair risk | [aaa+;a-] | 2 255 | - | - | - | **2 255** |
| Monitoring | [bbb+;b-] | 140 244 | - | - | - | **140 244** |
| Substandard | [ccc+;ccc] | - | 3 509 | - | - | **3 509** |
| Impaired | [d] | - | - | 15 077 | - | **15 077** |
| **Total gross carrying amount** | | **142 499** | **3 509** | **15 077** | **-** | **161 085** |
| Loss allowance (Note 31) | | 14 | 524 | 15 077 | - | **15 615** |
| **Total Carrying amount** | | **142 485** | **2 985** | **-** | **-** | **145 470** |

## Debtors and other assets

The table below presents a summary of the portfolio of debtors and other assets portfolio of Haitong Bank, S.A. Group, as of 30th June 2020 and 31st of December 2019:

(thousand euros)

| Debtors and other assets | | 30.06.2020 | | | | |
|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| *Amortized cost* | | | | | | |
| Monitoring | [bbb+;b-] | 1 824 | - | - | - | **1 824** |
| Substandard | [ccc+;ccc] | 1 238 | - | - | - | **1 238** |
| Doubtful | [lccc] | 24 | - | - | - | **24** |
| Impaired | [d] | - | - | 256 | 10 625 | **10 881** |
| Not rated | | 19 282 | - | - | - | **19 282** |
| **Total gross carrying amount** | | **22 368** | **-** | **256** | **10 625** | **33 249** |
| Loss allowance (Note 31) | | 7 877 | - | 245 | 634 | **8 756** |
| **Total Carrying amount** | | **14 491** | **-** | **11** | **9 991** | **24 493** |

(thousand euros)

| Debtors and other assets | | 31.12.2019 | | | | |
|---|---|---|---|---|---|---|
| | | Stage 1 | Stage 2 | Stage 3 | POCI | Total |
| *Amortized cost* | | | | | | |
| Low to fair risk | [aaa+;a-] | 1 | - | - | - | **1** |
| Monitoring | [bbb+;b-] | 2 130 | - | - | - | **2 130** |
| Substandard | [ccc+;ccc] | 285 | - | - | - | **285** |
| Impaired | [d] | - | - | 337 | 10 926 | **11 263** |
| Not rated | | 8 992 | - | - | - | **8 992** |
| **Total gross carrying amount** | | **11 408** | **-** | **337** | **10 926** | **22 671** |
| Loss allowance (Note 31) | | 7 736 | - | 276 | - | **8 012** |
| **Total Carrying amount** | | **3 672** | **-** | **61** | **10 926** | **14 659** |

Throughout 2020, there were no modified financial assets since initial recognition for which the expected credit losses have gone from lifetime expected credit losses to 12 month expected credit losses.

As at 31st of December 2019, the modified financial assets that did not result in derecognition are analysed as follows:

(thousand euros)

| Financial assets modified during the year | 31.12.2019 |
|---|---|
| **Amortised cost before changes** | **994** |
| Impairment losses befores changes | ( 152) |
| **Net amortised cost before changes** | **842** |
| Net gain / (loss) | ( 41) |
| Others | 1 |
| **Amortized cost after changes** | **802** |
| Impairment losses after changes | - |
| **Net amortized cost after changes** | **802** |

The use of credit protection is a key element of the risk policy and credit decision process, influencing the acceptance criteria, the decision levels, and the pricing.

The main risk mitigation techniques used by the Bank are financial pledges (funded credit protection – financial collateral in the form of securities and cash) and personal guarantees (unfunded credit protection with substitution effect).

Other types of guarantees are also used, which, while not eligible as risk mitigating for purposes of calculating regulatory capital requirements, effectively reduce the credit risk to which the Bank is subject. In this respect, we highlight the personal guarantees provided by company's partners ("shareholders") in certain financing operations.

Haitong Bank follows the prescription of CRR in what concerns collateral haircuts for impairment calculation. Thus, instead of using the collateral value, the Bank considers the collateral value after haircut application.

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

The pledge of bank accounts valuation takes place on a quarterly basis according to information provided by the depositary bank.

Regarding pledges over non listed equity securities, pledges over equipment and mortgages valuation, it is done at least on an annual basis and it is based on financial information of the borrower or on valuation reports of external entities (e.g.: real estate).

The maximum exposure to credit risk at the end of the period and without taking into account any risk mitigating techniques was already been presented on the previous pages. As of June 30 2020, the amount of financial instruments with no losses identified, due to credit risk's mitigation techniques, was 537 thousand euros, accounted under loans and advances to customers and guarantees.

The table below disaggregates the financial instrument and financial guarantees' gross exposure, and exposure at default (EAD) separately for each stage and POCI, as at 30th of June 2020 and 31st of December 2019.

(thousand euros)

| 30.06.2020 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Rating bucket | | Stage 1 | | Stage 2 | | Stage 3 | | POCI | |
| | | Gross Exposure | EAD | Gross Exposure | EAD | Gross Exposure | EAD | Gross Exposure | EAD |
| Low to fair risk | [aaa+;a-] | 541 740 | 541 740 | - | - | - | - | - | - |
| Monitoring | [bbb+;b-] | 782 582 | 581 017 | 132 908 | 130 167 | - | - | - | - |
| Substandard | [ccc+;ccc] | 1 238 | 1 238 | 13 611 | 13 610 | - | - | - | - |
| Doubtful | [lccc] | 24 | 24 | 13 551 | 6 776 | - | - | - | - |
| Impaired | [d] | - | - | - | - | 77 823 | 73 899 | 16 968 | 16 967 |
| Not rated | | 38 455 | 34 088 | - | - | - | - | - | - |
| **Total** | | **1 364 039** | **1 158 107** | **160 070** | **150 553** | **77 823** | **73 899** | **16 968** | **16 967** |

(thousand euros)

| 31.12.2019 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Rating bucket | | Stage 1 | | Stage 2 | | Stage 3 | | POCI | |
| | | Gross Exposure | EAD | Gross Exposure | EAD | Gross Exposure | EAD | Gross Exposure | EAD |
| Low to fair risk | [aaa+;a-] | 634 444 | 634 444 | - | - | - | - | - | - |
| Monitoring | [bbb+;b-] | 941 476 | 747 202 | 78 302 | 74 204 | - | - | - | - |
| Substandard | [ccc+;ccc] | 285 | 285 | 3 509 | 3 509 | - | - | - | - |
| Impaired | [d] | - | - | - | - | 85 116 | 81 367 | 19 998 | 19 998 |
| Not rated | | 38 003 | 36 252 | - | - | - | - | - | - |
| **Total** | | **1 614 208** | **1 418 183** | **81 811** | **77 713** | **85 116** | **81 367** | **19 998** | **19 998** |

## Breakdown of Non-Performing and Forborne Exposures

In accordance with the definitions set out in Annex V to Commission Implementing Regulation (EU) 2018/1627 of 8 October 2018, amending Implementing Regulation (EU) No 680/2014 as regards prudent valuation for supervisory reporting, the Bank discloses the non-performing exposures and the forborne exposures.

The definition of non-performing exposures are provided under section 2.4.1.

Forborne exposures shall be debt contracts in respect of which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing, or about to experience, difficulties in meeting its financial commitments ("financial difficulties). Exposures shall not be treated as forborne where the debtor is not in financial difficulties.

In this sense, as at June 30, 2020 and December 31, 2019, the breakdown of performing and non-performing exposures was as follows:

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Impairment, Negative revaluation s and Provisions | Coverage | Gross amount | Impairment, Negative revaluations and Provisions | Coverage |
| **Performing exposures** | **1 556 981** | **10 318** | **0,7%** | **1 713 179** | **9 637** | **0,6%** |
| **Non-Performing exposures (NPE)** | **81 453** | **41 853** | **51,4%** | **91 658** | **45 264** | **49,4%** |
| Banking Book Debt Securities | 37 636 | 10 734 | 28,5% | 41 217 | 10 636 | 25,8% |
| Loans and advances to customers | 7 711 | 4 032 | 52,3% | 11 883 | 4 830 | 40,6% |
| Loans and advances to Banks | 15 077 | 15 077 | 100,0% | 15 077 | 15 077 | 100,0% |
| Guarantees | 19 728 | 11 640 | 59,0% | 23 478 | 14 720 | 62,7% |
| Loan commitments | 1 301 | 370 | 28,4% | 3 | 1 | 33,3% |
| **Total** | **1 638 434** | **52 171** | **3,2%** | **1 804 837** | **54 901** | **3,0%** |
| **NPE ratio** | **5,0%** | | | **5,1%** | | |
| **NPL ratio** | **2,3%** | | | **3,6%** | | |

As at June 30, 2020 and December 31, 2019, the breakdown of performing and non-performing forborne exposures was as follows:

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Gross amount | Impairment, Negative revaluations and Provisions | Coverage | Gross amount | Impairment, Negative revaluations and Provisions | Coverage |
| **Performing exposures** | **1 453 737** | **4 450** | **0,3%** | **1 668 640** | **5 392** | **0,3%** |
| **Performing Forborne exposures** | **103 244** | **5 868** | **5,7%** | **44 539** | **4 245** | **9,5%** |
| Loans and advances to customers | 103 244 | 5 868 | 5,7% | 44 539 | 4 245 | 9,5% |
| **Non-Performing Forborne exposures** | **15 161** | **4 562** | **30,1%** | **20 321** | **4 974** | **24,5%** |
| Banking Book Debt Securities | 6 149 | 160 | 2,6% | 8 435 | 143 | 1,7% |
| Loans and advances to customers | 7 711 | 4 032 | 52,3% | 11 883 | 4 830 | 40,6% |
| Loan commitments | 1 301 | 370 | 28,4% | 3 | 1 | 33,3% |
| **Non-Performing exposures** | **66 292** | **37 291** | **56,3%** | **71 337** | **40 290** | **56,5%** |
| **Total** | **1 638 434** | **52 171** | **3,2%** | **1 804 837** | **54 901** | **3,0%** |

## Concentration risk

Concerning the concentration risk - that is, the risk arising from the possibility of exposure or from a group of exposures sharing common or interrelated risk factors that produce losses large enough to affect the Bank's solvency - Haitong Bank has internal limits established for the largest solo exhibitions. Regular monitoring of these limits, together with regulatory limits, strengthens the bank's monitoring framework for the concentration of credit risk.

The breakdown of loans and advances to costumers, financial assets held for trading and securities, by sector of activity, for the years ended 30th June 2020 and 31st December 2019, is as follows:

(thousand euros)

| | 30.06.2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Loans and advances to customers | | | | | Financial assets held-for-trading | | Securities | |
| | Gross amount | | Impairment | | Revaluation | | | | |
| | Outstanding loans | Overdue loans | Outstanding loans | Overdue loans | Overdue loans | Securities | Derivative financial assets | Gross amount | Impairment |
| Agribusiness & Commodity Foods | 5 456 | - | 331 | - | - | - | 5 228 | - | - |
| Automobiles & Components | - | - | - | - | - | - | 594 | 1 466 | 14 |
| Banks | - | - | - | - | - | - | 52 328 | 3 058 | 17 |
| Broker Dealers | - | - | - | - | - | - | 2 265 | - | - |
| Building Materials | - | - | - | - | - | - | - | 7 936 | 40 |
| Capital Goods | - | - | - | - | - | - | - | 6 149 | 159 |
| Commercial & Professional Services | 1 828 | - | 422 | - | - | - | - | 5 468 | 23 |
| Construction & Engineering | 10 077 | 1 686 | 724 | 1 554 | 124 | 2 222 | - | 43 350 | 217 |
| Food, Beverage & Tobacco | 573 | - | 59 | - | - | - | 5 269 | - | - |
| Funds & Asset Managers | - | - | - | - | - | - | 2 | 9 834 | - |
| Governments | 2 329 | - | 1 | - | - | 514 537 | - | 229 877 | 276 |
| Health Care | - | - | - | - | - | 60 | - | - | - |
| Hotels & Gaming | 2 127 | - | 1 086 | - | - | - | - | - | - |
| Metals & Mining | 67 626 | - | 2 605 | - | - | - | - | 3 256 | 16 |
| Non Bank Financial Institutions | - | - | - | - | - | - | 10 | - | - |
| Oil & Gas | - | - | - | - | - | 1 710 | 888 | - | - |
| Paper & Forest Products | 24 542 | - | 210 | - | - | 5 203 | 430 | - | - |
| Power | 60 212 | - | 2 903 | - | - | 963 | 5 420 | 25 512 | 95 |
| Real Estate | 13 078 | - | 454 | - | - | 203 | - | 62 402 | 201 |
| Software | - | - | - | - | - | - | - | 10 | - |
| Technology Hardware & Equipment | - | - | - | - | - | - | - | 31 487 | 10 574 |
| Telecoms | 28 039 | - | 139 | - | - | 952 | 67 | - | - |
| Transportation | 1 806 | - | 27 | - | - | 499 | 98 329 | 2 981 | 27 |
| Transportation Infrastructure | 109 586 | - | 1 557 | - | - | - | 60 371 | 825 | 4 |
| Others | 5 871 | - | 9 | - | - | - | - | 23 132 | - |
| TOTAL | **333 150** | **1 686** | **10 527** | **1 554** | **124** | **526 349** | **231 201** | **456 743** | **11 663** |

(thousand euros)

| | 31.12.2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Loans and advances to customers | | | | | Financial assets held-for-trading | | Securities | |
| | Gross amount | | Impairment | | Revaluation | Securities | Derivative financial assets | Gross amount | Impairment |
| | Outstanding loans | Overdue loans | Outstanding loans | Overdue loans | Overdue loans | | | | |
| Agribusiness & Commodity Foods | 5 469 | - | 325 | - | - | - | 2 249 | - | - |
| Automobiles & Components | - | - | - | - | - | 227 | 7 | - | - |
| Banks | - | - | - | - | - | 1 643 | 68 615 | 3 107 | 17 |
| Broker Dealers | 1 132 | - | - | - | - | - | 8 852 | - | - |
| Building Materials | - | - | - | - | - | - | - | 8 805 | 86 |
| Capital Goods | 1 060 | - | 222 | - | - | 3 604 | - | 8 435 | 143 |
| Commercial & Professional Services | 3 532 | - | 658 | - | - | - | - | 6 913 | 30 |
| Construction & Engineering | 13 739 | 2 218 | 40 | 1 626 | 126 | 6 580 | - | 50 067 | 215 |
| Containers & Packaging | - | - | - | - | - | 373 | - | - | - |
| Food, Beverage & Tobacco | 772 | - | 79 | - | - | - | 2 797 | - | - |
| Funds & Asset Managers | - | - | - | - | - | 620 | - | 11 165 | - |
| Governments | 2 573 | - | 1 | - | - | 411 696 | - | 284 486 | 514 |
| Health Care | - | - | - | - | - | 1 074 | - | - | - |
| Hotels & Gaming | 2 127 | - | 1 086 | - | - | - | - | - | - |
| Investment Holdings | - | - | - | - | - | 362 | - | - | - |
| Media & Entertainment | - | - | - | - | - | 34 | - | - | - |
| Metals & Mining | 72 295 | - | 1 291 | - | - | 223 | - | 3 532 | 17 |
| Non Bank Financial Institutions | - | - | - | - | - | - | 14 | - | - |
| Oil & Gas | - | - | - | - | - | 1 051 | 125 | 21 678 | 101 |
| Paper & Forest Products | 17 882 | - | 175 | - | - | 6 253 | 469 | - | - |
| Power | 79 272 | - | 3 984 | - | - | 868 | 5 554 | 20 000 | 64 |
| Real Estate | 4 143 | - | 280 | - | - | 216 | - | 88 366 | 276 |
| Retailing | - | - | - | - | - | 573 | - | - | - |
| Software | - | - | - | - | - | - | - | 13 | - |
| Technology Hardware & Equipment | - | - | - | - | - | - | - | 32 782 | 10 493 |
| Telecoms | - | - | - | - | - | 120 | - | - | - |
| Transportation | 2 567 | - | 69 | - | - | 1 367 | 222 | - | - |
| Transportation Infrastructure | 116 945 | - | 2 038 | - | - | 688 | 59 819 | - | - |
| Water Utilities | 514 | - | 3 | - | - | - | - | - | - |
| Others | 488 | - | 4 | - | - | - | - | 22 948 | - |
| TOTAL | **324 510** | **2 218** | **10 255** | **1 626** | **126** | **437 572** | **148 723** | **562 297** | **11 956** |

The breakdown of loans and advances to costumers, financial assets held for trading and securities, by country risk, for the years ended 30th June 2020 and 31st December 2019, is as follows:

(thousand euros)

| Country | 30.06.2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Loans and advances to customers | | | | | Financial assets held-for-trading | | Securities | |
| | Gross amount | | Impairment | | Revaluation | Securities | Derivative financial assets | Gross amount | Impairment |
| | Outstanding loans | Overdue loans | Outstanding loans | Overdue loans | Overdue loans | | | | |
| Andorra | - | - | - | - | - | - | 416 | - | - |
| Brazil | 77 054 | - | 5 072 | - | - | 513 446 | 7 241 | 64 311 | 467 |
| China | - | - | - | - | - | - | - | 100 841 | 10 747 |
| France | - | - | - | - | - | - | 4 882 | - | - |
| Germany | 67 626 | - | 2 605 | - | - | - | 3 265 | - | - |
| Italy | - | - | - | - | - | 416 | - | 94 642 | 70 |
| Luxembourg | - | - | - | - | - | - | - | 18 473 | - |
| Netherlands | - | - | - | - | - | - | - | 5 001 | 15 |
| Poland | 15 270 | 1 686 | 56 | 1 554 | 124 | 6 636 | 352 | 14 969 | 74 |
| Portugal | 141 447 | - | 2 120 | - | - | 4 939 | 194 101 | 154 186 | 266 |
| Spain | 31 303 | - | 673 | - | - | - | 10 637 | - | - |
| Sweden | - | - | - | - | - | 536 | - | - | - |
| United Kingdom | - | - | - | - | - | - | 10 307 | - | - |
| Others | 450 | - | 1 | - | - | 376 | - | 4 320 | 24 |
| **TOTAL** | **333 150** | **1 686** | **10 527** | **1 554** | **124** | **526 349** | **231 201** | **456 743** | **11 663** |

(thousand euros)

| Industry | 31.12.2019 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Loans and advances to customers | | | | | Financial assets held-for-trading | | Securities | |
| | Gross amount | | Impairment | | Revaluation | | | | |
| | Outstanding loans | Overdue loans | Outstanding loans | Overdue loans | Overdue loans | Securities | Derivative financial assets | Gross amount | Impairment |
| Andorra | - | - | - | - | - | - | 68 | - | - |
| Belgium | - | - | - | - | - | - | 165 | - | - |
| Brazil | 88 307 | - | 5 754 | - | - | 407 916 | 12 356 | 132 143 | 757 |
| China | - | - | - | - | - | - | - | 131 288 | 10 751 |
| France | - | - | - | - | - | 300 | 4 840 | 1 | - |
| Germany | 72 295 | - | 1 291 | - | - | - | 8 834 | - | - |
| Italy | - | - | - | - | - | 109 | - | 96 053 | 72 |
| Luxembourg | - | - | - | - | - | - | - | 4 702 | - |
| Poland | - | 2 217 | - | 1 626 | 126 | 14 428 | 264 | 16 168 | 79 |
| Portugal | 155 896 | 1 | 2 338 | - | - | 10 784 | 94 365 | 165 099 | 297 |
| Spain | 6 391 | - | 869 | - | - | 2 747 | 8 748 | - | - |
| Sweden | - | - | - | - | - | 11 | - | - | - |
| United Kingdom | 1 132 | - | - | - | - | - | 19 083 | - | - |
| Others | 489 | - | 3 | - | - | 1 277 | - | 2 052 | - |
| **TOTAL** | **324 510** | **2 218** | **10 255** | **1 626** | **126** | **437 572** | **148 723** | **547 506** | **11 956** |

## Market risk

Market risk is the possibility of losses resulting from adverse movements in market prices, such as equity, interest rates or foreign exchange rates and credit spreads

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

(million euros)

| | 30.06.2020 | | | | 31.12.2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | June | Average | Maximum | Minimum | December | Average | Maximum | Minimum |
| Foreign Exchange Risk | 3,96 | 3,03 | 3,96 | 1,68 | 1,72 | 2,34 | 2,43 | 1,81 |
| Interest Rate Risk | 0,77 | 0,91 | 1,83 | 0,33 | 0,95 | 0,67 | 1,01 | 0,56 |
| Shares | 0,00 | 0,10 | 1,90 | 0,00 | 0,53 | 0,44 | 0,34 | 0,41 |
| Credit spread | 1,60 | 2,50 | 4,89 | 1,60 | 1,19 | 1,25 | 2,19 | 1,07 |
| Covariance | -0,06 | -0,15 | -4,99 | 0,44 | -0,55 | -0,31 | -0,29 | -0,31 |
| **Total** | **6,27** | **6,39** | **7,59** | **4,05** | **3,84** | **4,39** | **5,68** | **3,54** |

The following table presents the average interest rates as well as the average balances and interest for the period, relating to the Group's major financial asset and liability categories, for the periods ended at June 30th 2020 and 30th June 2019, as well as the respective average balances and interest of the period:

(thousand euros)

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Average balance of the period | Interest of the period | Average interest rate | Average balance of the period | Interest of the period | Average interest rate |
| Monetary assets | 646 493 | 1 633 | 0,51% | 618 767 | 10 219 | 1,65% |
| Loans and advances to customers | 320 841 | 7 069 | 4,42% | 421 837 | 21 339 | 5,06% |
| Investment in securities | 697 862 | 22 443 | 6,45% | 967 467 | 48 883 | 5,05% |
| Collateral accounts | 244 381 | 95 | 0,08% | 123 061 | 237 | 0.19% |
| **Financial assets** | **1 909 577** | **31 240** | **3,28%** | **2 131 132** | **80 678** | **3,79%** |
| Monetary resources | 463 051 | 7 467 | 3,23% | 818 314 | 17 985 | 2,20% |
| Resources of customers | 1 014 142 | 7 951 | 1,57% | 411 962 | 14 682 | 3,56% |
| Liabilities represented by securities | 135 324 | 3 179 | 4,71% | 166 538 | 14 868 | 8,93% |
| Other resources | 100 175 | 561 | 1,12% | 119 140 | 1 060 | 0,89% |
| **Financial liabilities** | **1 712 692** | **19 158** | **2,24%** | **1 515 954** | **48 595** | **3,21%** |
| **Financial Result** | | **12 082** | | | **32 083** | |

As of 30th June 2020 and 31st December 2019, the exposure of assets and liabilities by currency in regards to the foreign exchange risk was as follows:

(thousand euros)

| | 30.06.2020 | | | 31.12.2019 | | |
|---|---|---|---|---|---|---|
| | Spot | Forward | Net Exposure | Spot | Forward | Net Exposure |
| AUD | 14 | - | 14 | 14 | - | 14 |
| BRL | 51 146 | ( 19 752) | 31 394 | 80 825 | ( 54 470) | 26 355 |
| CAD | 58 | - | 58 | ( 7) | - | ( 7) |
| CHF | 339 | - | 339 | 184 | - | 184 |
| CNY | ( 278) | - | ( 278) | ( 266) | - | ( 266) |
| CZK | 24 | - | 24 | 25 | - | 25 |
| DKK | 209 | - | 209 | 208 | - | 208 |
| GBP | ( 1 617) | - | ( 1 617) | ( 1 188) | - | ( 1 188) |
| HKD | 597 | - | 597 | 398 | - | 398 |
| HUF | 16 | - | 16 | 17 | - | 17 |
| JPY | 97 | - | 97 | 97 | - | 97 |
| MOP | ( 11) | - | ( 11) | - | - | - |
| MXN | 108 | - | 108 | 134 | - | 134 |
| NOK | 21 | - | 21 | 23 | - | 23 |
| PLN | 35 287 | ( 13 689) | 21 598 | 22 368 | - | 22 368 |
| SEK | 68 | - | 68 | 81 | - | 81 |
| SGD | - | - | - | 1 | - | 1 |
| TRY | 14 | - | 14 | 16 | - | 16 |
| USD | 52 441 | ( 64 712) | ( 12 271) | 125 347 | ( 140 880) | ( 15 533) |
| | **138 533** | **( 98 153)** | **40 380** | **228 277** | **( 195 350)** | **32 927** |

Note: asset (liability) Source: Haitong Bank

The main source of risk of Haitong Bank's foreign subsidiary Haitong Banco de Investimento do Brasil S.A. is its value fluctuation resulting from the EUR/BRL exchange rate. This risk represents a long spot position in BRL. To hedge this risk, Haitong Bank enters into short-term derivatives transactions with a third party buying EUR and selling BRL forward (e.g. EUR/BRL NDF), thus creating a short forward position in BRL. The main risk factor of this BRL forward position is the EUR/BRL exchange rate, being the remaining risk factors the EUR and BRL interest rates. As such, there is a clear and observable relation between the hedged item and the hedging instrument.

Haitong Bank establishes the hedge ratio between the asset value and the BRL amount sold in the derivatives transactions, aiming to keep an hedge ratio of 1:1.

As 30th June 2020, the information of net investments, considered by the Group in total or partial hedging strategies on subsidiaries and on hedging instruments used, is as follows:

(thousand)

| | | 30.06.2020 | | | |
|---|---|---|---|---|---|
| | Currency | Net investment Currency | Hedging instruments Currency | Net investment Euros | Hedging instruments Euros |
| **Company** | | | | | |
| Haitong Banco de Investimento do Brasil S.A | BRL | 473 766 | 473 766 | 77 517 | 77 517 |

The information on the gains and losses in exchange rates on the derivatives to cover the investments in foreign institutions, accounted for as exchange differences, is presented in the statement of changes in equity. These hedging relationships were considered effective during the first semester of 2020, as referred in the accounting policy 2.4.2.

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

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

As of 30th June 2020 and 31st December 2019, the Bank maintain similar interest-rate risk sensitive assets and liabilities in the banking book. The repricing profile can be seen bellow:

(thousand euros)

| | 30 June 2020 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | More than 5 years |
| Assets | 1 026 | 282 | 128 | 311 | 16 |
| Liabilities | ( 1 046) | ( 60) | ( 142) | ( 428) | ( 1) |
| **Gap** | **( 20)** | **222** | **( 14)** | **( 117)** | **15** |

(thousand euros)

| | 31 December 2019 | | | | |
|---|---|---|---|---|---|
| | Up to 3 months | 3 to 6 months | 6 to 12 months | 1 to 5 years | More than 5 years |
| Assets | 1 045 | 144 | 182 | 399 | 11 |
| Liabilities | ( 1 087) | ( 44) | ( 77) | ( 360) | ( 1) |
| **Gap** | **( 42)** | **100** | **105** | **39** | **10** |

The impact on the banking book portfolio economic value, under a scenario of +/-200 bps movement in interest rates was as follows:

(million euros)

| IR Parallel Shift | 30 June 2020 | 31 December 2019 |
|---|---|---|
| +200 bps | (0,5) | 10,4 |
| -200 bps | 4,9 | (5,8) |

Source: Haitong Bank

## Hedge accounting

As at 30th of June 2020 and 31st of December 2019, the table below includes the detail of the hedging and hedged instruments used in the Group's hedging strategies and accounted at the Balance sheet item - Hedging derivatives:

(thousand euros)

| | 30.06.2020 | | | | |
|---|---|---|---|---|---|
| | Notional | Book value | | Change in fair value (A) | Currency translation reserve |
| | | Assets | Liabilities | | |
| **Hedging of net investments in foreign entities** | | | | | |
| **Hedging instruments** | | | | | |
| Foreign exchange risk | | | | | |
| Forward | 77 517 | - | 209 | 25 714 | 25 713 |
| **Hedged Itens** | | | | | |
| Haitong Banco de Investimento do Brasil S.A | n.a | n.a | n.a | ( 26 728) | ( 26 728) |
| **Total** | **77 517** | **-** | **209** | **( 1 014)** | **( 1 015)** |

**(A) Changes in fair value used to calculate the ineffectiveness of the hedge**

(thousand euros)

| | 31.12.2019 | | | | |
|---|---|---|---|---|---|
| | Notional | Book value | | Change in fair value (A) | Currency translation reserve |
| | | Assets | Liabilities | | |
| **Hedging of net investments in foreign entities** | | | | | |
| **Hedging instruments** | | | | | |
| Foreign exchange risk | | | | | |
| Forward | 105 048 | - | 300 | ( 4 523) | ( 4 495) |
| **Hedged Itens** | | | | | |
| Haitong Banco de Investimento do Brasil S.A | n.a | n.a | n.a | ( 917) | ( 917) |
| **Total** | **105 048** | **-** | **300** | **( 5 440)** | **( 5 412)** |

**(A) Changes in fair value used to calculate the ineffectiveness of the hedge**

The table below includes information on the effectiveness of hedging relationships, as well as impacts on results and other comprehensive income, with reference to 30th of June 2020 and 2019:

(thousand euros)

| | 30.06.2020 | |
|---|---|---|
| | Gains / (Losses) realised in Other comprehensive income | Ineffectiveness recognised in Income statement (A) |
| **Hedging of net investments in foreign entities** | | |
| **Hedging instruments** | | |
| Foreign exchange risk | | |
| Forward | 25 713 | 1 |

**(A) Net gains/(losses) from hedge accounting**

(thousand euros)

| | 30.06.2019 | |
|---|---|---|
| | Gains / (Losses) realised in Other comprehensive income | Ineffectiveness recognised in Income statement (A) |
| **Hedging of net investments in foreign entities** | | |
| **Hedging instruments** | | |
| Foreign exchange risk | | |
| Forward | ( 5 569) | ( 6) |

**(A) Net gains/(losses) from hedge accounting**

## Liquidity risk

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

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 liquidity position and sustainable medium and long-term funding profile.

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

Haitong Bank's liquidity and funding management is under the direct responsibility of the Executive Committee. The Global Coordinator of Liquidity and Funding Management is in charge of the operational management of liquidity, with local teams ensuring liquidity daily management in each of the Bank's treasury hubs (Lisbon, São Paulo and Warsaw).

The Bank manages its liquidity by establishing a liquidity risk policy, monitoring a set liquidity risk metrics, including prudential liquidity ratios, stress testing and liquidity contingency plans, and by setting limits consistent with the Bank's liquidity risk appetite and regulatory requirements.

As of 30 June 2020, the Bank held 726 million Euros of High Quality Liquid Assets (886 million Euros in 31 December 2019), of which 525 million were available demand deposits in the Bank of Portugal (606 million Euros in 31 December 2019). The remainder of the High Quality Liquid Assets (HQLA) was mainly composed by sovereign debt of European Union countries (mainly Portuguese and Italian) and by Brazilian Government bonds denominated in Brazilian Reais owned by Haitong Bank subsidiary in Brazil.

In 30 June 2020, Haitong Bank held a surplus of 483 million Euros of its 30 days stressed net outflows, which corresponded to a LCR of 299% (537% on 31 December 2019) comfortably above both regulatory and internal limits.

| Liquidity Coverage Ratio | June 2020 | December 2019 |
|---|---|---|
| High Quality Liquid Assets | 726 | 886 |
| Surplus over stressed net outflows | 483 | 721 |
| **Liquidity Coverage Ratio** | **299%** | **537%** |

Haitong Bank funding from the Bank of Portugal amounts to 111 million Euros on 30 June 2020 (22 million Euros at the end of 2019) obtained through the Targeted Longer-Term Refinancing Operations facility, maturing in 2022 and 2023.

In the first half of 2020, Haitong Bank's main sources of funding were wholesale facilities provided by a Haitong Securities Group company, debt securities issued by the Brazilian subsidiary, sales with repurchase agreements (repos) and deposits from clients (households and corporate clients).

Haitong Bank enters into derivative transactions with corporate clients and financial institutions, most of which under master netting agreements (e.g. ISDA) and margin agreements (e.g. Credit Support Annex). In market stress situations where the value of derivatives is significantly impacted, additional collateral amounts may be required from Haitong Bank. Derivatives positions and collateral received and posted are detailed in notes 19 and 27, respectively.

As of 30th of June 2020, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

| | 30.06.2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | Up to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Undetermined | Total |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 550 199 | - | - | - | - | - | 550 199 |
| Financial assets held-for-trading (Securities) | - | 51 810 | 40 208 | 304 953 | 287 315 | - | 684 286 |
| Non-trading financial assets mandatorily at fair value through profit or loss | - | - | 37 | 824 | - | 35 953 | 36 814 |
| Financial assets at fair value through other comprehensive income | - | 5 775 | 17 090 | 85 105 | 30 089 | - | 138 059 |
| Financial assets at amortised cost | - | 37 881 | 61 412 | 221 726 | - | - | 321 019 |
| Loans and advances to banks | - | 100 306 | 51 197 | - | - | - | 151 503 |
| Loans and advances to customers | - | 15 769 | 98 180 | 132 464 | 118 061 | - | 364 474 |
| Derivatives Instruments | - | 769 288 | 161 177 | 198 900 | 239 471 | 242 742 | 1 611 578 |
| | 550 199 | 980 829 | 429 301 | 943 972 | 674 936 | 278 695 | 3 857 932 |
| **Liabilities** | | | | | | | |
| Resources from credit institutions | - | 328 490 | 1 503 | 126 027 | 24 653 | - | 480 673 |
| Resources from customers | 15 124 | 43 745 | 168 912 | 871 358 | - | - | 1 099 139 |
| Debt securities issued | - | 50 462 | 27 848 | 25 100 | - | - | 103 410 |
| Financial liabilities held-for-trading (Securities) | 3 005 | 123 393 | - | - | - | - | 126 398 |
| Derivatives Instruments | - | 805 351 | 166 746 | 188 165 | 250 912 | 27 080 | 1 438 254 |
| | 18 129 | 1 351 441 | 365 009 | 1 210 650 | 275 565 | 27 080 | 3 247 874 |

As of 31st December 2019, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

| | 31.12.2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | On demand | Up to 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | Undetermined | Total |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 637 829 | - | - | - | - | - | 637 829 |
| Financial assets held-for-trading (Securities) | - | 16 253 | 15 388 | 239 554 | 329 565 | - | 600 760 |
| Non-trading financial assets mandatorily at fair value through profit or loss | - | - | 37 | 806 | - | 36 644 | 37 487 |
| Financial assets at fair value through other comprehensive income | - | 8 348 | 26 679 | 165 710 | 17 654 | - | 218 391 |
| Financial assets at amortised cost | - | 22 927 | 95 070 | 223 825 | - | - | 341 822 |
| Loans and advances to banks | - | 148 552 | - | - | - | - | 148 552 |
| Loans and advances to customers | - | 5 016 | 102 072 | 129 117 | 205 218 | - | 441 423 |
| Derivatives Instruments | - | 528 331 | 756 284 | 205 224 | 85 201 | 99 598 | 1 674 638 |
| | 637 829 | 729 427 | 995 530 | 964 236 | 637 638 | 136 242 | 4 100 902 |
| **Liabilities** | | | | | | | |
| Resources of other credit institutions | 1 384 | 221 891 | 2 592 | 68 115 | 102 488 | - | 396 470 |
| Resources of customers | 49 057 | 138 957 | 145 144 | 724 176 | - | - | 1 057 334 |
| Debt securities issued | - | 4 073 | 158 892 | 42 165 | - | - | 205 130 |
| Financial liabilities held-for-trading (Securities) | 828 | 134 005 | - | - | - | - | 134 833 |
| Derivatives Instruments | - | 528 664 | 758 163 | 204 896 | 85 090 | 30 940 | 1 607 753 |
| | 51 269 | 1 027 590 | 1 064 791 | 1 039 352 | 187 578 | 30 940 | 3 401 520 |

## Operational risk

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

The Bank has in place a framework to ensure the standardization and systematization of the regular activities regarding the identification, assessment, response/ mitigation, monitoring, and control and report of operational risk. A team within the Risk Management Department is exclusively dedicated to the management of this framework.

## Capital Management and Solvency Ratio

The main purposes of capital management in the Group are (i) to promote sustainable growth of activity by creating enough capital to withstand the increase of assets, (ii) meet the minimum requirements established by the supervising entities in relation to capital adequacy and (iii) ensure the achievement of the strategic goals set by Group in relation to capital adequacy.

In prudential terms, the Group is subject to inspection by the Bank of Portugal who, in accordance with the EU Directive on capital adequacy, establishes the necessary regulations in this regard that must be fulfilled by the different institutions under their inspection. These regulations establish a minimum rate for the own funds total in relation to the requirements associated with the undertaken risks, which the institutions must comply with.

At the moment and for reporting purposes related to prudential effects before the supervising authorities, the Group uses the Standard method for handling credit risk and operational risk ("The Standardized Approach" - TSA method).

The following table summarises the capital adequacy of the Haitong Bank S.A. Group as at 30th of June 2020 and 31st of December 2019:

| | 30.06.2020 | | 31.12.2019 | |
|---|---|---|---|---|
| | Phased-in | Fully-loaded | Phased-in | Fully-loaded |
| CET1 ratio | 26.6% | 26.5% | 28.4% | 28.2% |
| Tier 1 ratio | 33.7% | 33.5% | 35.7% | 35.4% |
| Total Capital ratio | 33.8% | 33.6% | 35.9% | 35.5% |

The assumptions used in the capital adequacy calculations are described in chapter Risk Management | Solvency in the Management Report.

# Statement of the Auditing of the Accounts

Under no. 3 of article 8 of the Securities Code, we declare that the financial information for the first half of 2020 relating to Haitong Bank, S.A. and the companies included in its consolidation perimeter have not been audited.

Lisbon, 15 September 2020

Lin Yong
*(Chairman of the Board of Directors)*

Wu Min
*(Chief Executive Officer)*

Alan do Amaral Fernandes
*(Executive Board Member)*

José Miguel Aleixo Nunes Guiomar
*(Executive Board Member)*

Nuno Miguel Sousa Figueiredo Carvalho
*(Executive Board Member)*

Vasco Câmara Pires dos Santos Martins
*(Executive Board Member)*

António Domingues
*(Non-Executive Board Member)*

*Ana Martina Garcia Raoul-Jourde*
*(Non-Executive Board Member)*

Pan Guangtao
*(Non-Executive Board Member)*

Paulo José Lameiras Martins
*(Non-Executive Board Member)*

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

Xinjun Zhang
*(Non-Executive Board Member)*

# ANNEXES

# Shares and Bonds held by Members of the Board of Directors and Supervisory Bodies

(Annex referred to in paragraph 5 of Article 447 of the Portuguese Commercial Companies Code)

| Board of Directors | Securities | Securities held as of 31/12/2019 | Transactions in 1H2020 | | | Securities held as of 30/06/2020 |
|---|---|---|---|---|---|---|
| | | | Date | Acquisitions | Disposals | |
| Wu Min | - | - | - | - | - | - |
| Lin Yong | Haitong International Securities Group Limited - Ordinary shares | 5,978,183 | 19/03/2020 | 132,536 (1) | | |
| | | | 23/03/2020 | 249,918 (2) | | |
| | | | 13/05/2020 | 177,729 (3) | | |
| | | | 02/06/2020 | 144,189 (4) | | 6,682,555 |
| | Haitong International Securities Group Limited - Share Options | 4,311,260 | 02/06/2020 | 7,719 (5)) | | |
| | | | 25/06/2020 | 900,000 (6) | | 5,218,979 |
| | Haitong International Securities Group Limited - Awarded Shares (unvested) | 1,237,749 | 19/03/2020 | | 132,536 (1) | |
| | | | 23/03/2020 | | 249,918 ( 2) | |
| | | | 24/04/2020 | 1,194,029 (7) | | |
| | | | 13/05/2020 | | 177,729 (3) | 1,871,595 |
| Alan do Amaral Fernandes | - | - | - | - | - | - |
| António Domingues | - | - | - | - | - | - |
| Poon Mo Yiu | Haitong International Securities Group Limited - Ordinary shares | 2,416,444 | 19/03/2020 | 11,976 (8) | | |
| | | | 23/03/2020 | 74,975 (9) | | 2,503,395 |
| | Haitong International Securities Group Limited - Share Options | 2,057,075 | 02/06/2020 | 3,682 (10) | | |
| | | | 25/06/2020 | 350,000 (11) | | 2,410,757 |
| | Haitong International Securities Group Limited - Awarded Shares (unvested) | 236,902 | 19/03/2020 | | 11,976 (8) | |
| | | | 23/03/2020 | | 74,975 (9) | |
| | | | 24/04/2020 | 470,149 (12) | | 620,100 |
| Nuno Miguel Sousa Figueiredo Carvalho | | - | - | - | - | - |
| Pan Guangtao | - | - | - | - | - | - |
| Paulo José Lameiras Martins | - | - | - | - | - | - |
| Vasco Câmara Pires dos Santos Martins | | - | - | - | - | - |
| Vincent Marie L. Camerlynck | - | - | - | - | - | - |
| Zhang Xinjun | Haitong International Securities Group Limited - Ordinary shares | 680,720 | 19/03/2020 | 37,345 (13) | | |
| | | | 13/05/2020 | 67,650 (14) | | |
| | | | 02/06/2020 | 16,418 (15) | | 802,133 |
| | Haitong International Securities Group Limited - Share Options | 2,306,842 | 02/06/2020 | 4,130 (16) | | |
| | | | 25/06/2020 | 200,000 (17) | | 2,510,972 |
| | Haitong International Securities Group Limited - Awarded Shares (unvested) | 172,646 | 19/03/2020 | | 37,345 (13) | |
| | | | 13/03/2020 | | 67,650 (14) | 67,651 |

| Supervisory Board | Securities | Securities held as of 31/12/2019 | Transactions in 1H2020 | | | Securities held as of 30/06/2020 |
|---|---|---|---|---|---|---|
| | | | Date | Acquisitions | Disposals | |
| Mário Paulo Bettencourt de Oliveira | - | - | - | - | - | - |
| Cristina Maria da Costa Pinto | - | - | - | - | - | - |
| Maria do Rosário Mayoral Robles Machado Simões Ventura | - | - | - | - | - | - |
| Paulo Ribeiro da Silva | - | - | - | - | - | - |
| Deloitte & Associados, SROC, S,A, | - | - | - | - | - | - |

**Notes:**
(1) 132,534 unvested awarded shares were vested on 19/3/2020
(2) 249,918 unvested awarded shares were vested on 23/3/2020
(3) 177,729 unvested awarded shares were vested on 13/5/2020
(4) Scrip Dividend
(5) Share option adjustment as a result of the allotment of ordinary shares under the second interim dividend for the year ended 31 December 2019 in the form of scrip dividend.
(6) Grant of share options
(7) Grant of awarded shares
(8) 11,976 unvested awarded shares were vested on 19/3/2020
(9) 74,975 unvested awarded shares were vested on 23/3/2020
(10) Share option adjustment as a result of the allotment of ordinary shares under the second interim dividend for the year ended 31 December 2019 in the form of scrip dividend.
(11) Grant of share options
(12) Grant of awarded shares
(13) 37,345 unvested awarded shares were vested on 19/3/2020
(14) 67,650 unvested awarded shares were vested on 13/5/2020
(15) Scrip Dividend
(16) Share option adjustment as a result of the allotment of ordinary shares under the second interim dividend for the year ended 31 December 2019 in the form of scrip dividend.
(17) Grant of share options

# Corporate Bodies and Committees

As of 31 August 2020

## General Meeting Board

*President*
Maria João Ricou

*Secretary*
David Ramalhete

## Supervisory Board

*Chairman*
Maria do Rosário Mayoral Robles Machado Simões Ventura

*Members*
Mário Paulo Bettencourt de Oliveira
Cristina Maria da Costa Pinto

*Alternate*
Paulo Ribeiro da Silva

## Statutory Auditor

*Member in office*
Deloitte & Associados, SROC, S.A.[1]

## Board of Directors

*Chairman*
Lin Yong

*Members*
Wu Min
Alan do Amaral Fernandes
Ana Martina García
António Domingues
José Miguel Guiomar
Nuno Miguel F. Carvalho
Pan Guangtao
Paulo José Lameiras Martins
Vasco Câmara Martins
Vincent Marie L. Camerlynck
Zhang Xinjun

*Secretary*
Pedro Alexandre Martins Costa

### Remuneration Committee

*Chairman*
Vincent Camerlynck

*Members*
António Domingues
Lin Yong

### Risk Committee

*Chairman*
Vincent Camerlynck

*Members*
António Domingues
Martina Garcia
Pan Guangtao

### Internal Audit Committee

*Chairman*
António Domingues

*Members*
Paulo Martins
Vincent Camerlynck
Zhang Xinjun

### Corporate Governance Committee

*Chairman*
António Domingues

*Members*
Lin Yong
Vincent Camerlynck

## Executive Committee

*CEO*
Wu Min

*Members*
Alan do Amaral Fernandes
José Miguel Guiomar
Nuno Miguel Sousa F. Carvalho
Vasco Câmara Martins

*Senior Managers with a Seat on the Executive Committee*
António Carlos Gomes Pacheco
Pedro Alexandre Martins Costa

*Secretary*
Pedro Alexandre Martins Costa

### Credit Committee

### Impairment Committee

### IBK Global Adoption Committee

### New Business Committee

[1] Deloitte & Associados, SROC, S.A. nominated João Carlos Henriques Gomes Ferreira

# Declaration of Conformity

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

a) The consolidated financial statements of Haitong Bank, S.A. for the six months ended on 30 June 2020 were prepared in accordance with the legally applicable accounting standards and with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of July 19th, as set forth in Article 246 (3) of the Portuguese Securities Code;

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

c) The Management Report describes faithfully Haitong Bank, S.A. and consolidated companies' business evolution, performance and financial position for the first six months of 2020, and includes a description of the main risks and uncertainties that could affect the business.

Lisbon, 15 September 2020

Lin Yong
*(Chairman of the Board of Directors)*

Wu Min
*(Chief Executive Officer)*

Alan do Amaral Fernandes
*(Executive Board Member)*

José Miguel Aleixo Nunes Guiomar
*(Executive Board Member)*

Nuno Miguel Sousa Figueiredo Carvalho
*(Executive Board Member)*

Vasco Câmara Pires dos Santos Martins
*(Executive Board Member)*

António Domingues
*(Non-Executive Board Member)*

*Ana Martina Garcia Raoul-Jourde*
*(Non-Executive Board Member)*

Pan Guangtao
*(Non-Executive Board Member)*

Paulo José Lameiras Martins
*(Non-Executive Board Member)*

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

Xinjun Zhang
*(Non-Executive Board Member)*

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