HAITONG BANK, S.A.

Market Discipline

Annual Report: 2017

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

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1 Declaration of Responsibility

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

I. In the present document "Market Discipline", produced with reference to the end of 2017, all procedures deemed necessary for the public disclosure of information were developed and carried out. To the extent of its knowledge, all information disclosed in this document is true and reliable;

II. The quality of all information disclosed is adequate, including that concerning or originating from entities included in the economic group of which the institution is part of;

III. The Board of Directors of the Bank undertakes to disclose, in due time, any significant changes that occur in the course of the financial year following the year that this "Market Discipline" report refers to.

The information presented in this document, with reference to the end of the 2017 exercise, has suffered some changes during the subsequent exercise of 2018 influence related to the following events that can be considered as relevant facts:

- On February 8, 2018, Standard & Poor's ("S&P") rating agency reviewed the *Outlook* of Haitong Bank, S.A. from negative to stable, maintaining the Bank's long and short-term rating notes in BB- and B, respectively.

- On February 23, 2018, Haitong Bank, S.A. informed the market that the sale process of its subsidiaries in London and New York was concluded, confirming the sale of the entire share capital of Haitong (UK) Limited, Haitong Securities (UK) Limited and Haitong Securities USA LLC, to Haitong International (BVI) Limited. As of this date, these companies are no longer part of the consolidation perimeter of Haitong Bank.

- On March 27, 2018, Haitong Bank, S.A. issued perpetual instruments eligible as additional Tier 1 funds, in the amount of USD 130,000,000, designated "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments".

2 Identification and origins of the Banking Group

Haitong Bank, S.A. (the Bank or Haitong Bank) is an investment bank with a registered office in Portugal, at Rua Alexandre Herculano, n. 38, Lisbon. The Bank holds the necessary authorizations from the Portuguese authorities, Central Banks and other regulatory agencies to operate in Portugal and in the countries where its international branches are located.

It was established in February 1983 as a foreign investment firm in Portugal under the name FINC –Sociedade Portuguesa Promotora de Investimentos, S.A.R.L. In 1986, the company was integrated into the Espírito Santo Group under the name Espírito Santo – Sociedade de Investimentos, S.A..

In order to enlarge the scope of its business, the company obtained permission from the Portuguese authorities to operate as an investment bank, under the Decree order no. 366/92, of 23 November, which was published in the Diário da República Series II – no. 279, 3 December. The activity as an investment bank started under the name Banco ESSI, S.A., on 1 April, 1993.

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

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

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

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

Haitong Bank currently operates through its headquarters in Lisbon, its branches in London, Warsaw and Madrid, and its subsidiaries in Brazil and Ireland, after the sale of its subsidiaries in the UK and the USA, completed in February 2018. Haitong Bank's financial statements are consolidated by Haitong International Holdings Limited, with registered office at Po Chun Chambers, no. 89, Des Voeux Road Central, Hong Kong.

3 Scope and basis of consolidation for accounting and prudential purposes

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

Name of the entity	Incorporation Date	Acquisition Date	Headquarters	Activity	% Economic interest	Method of accounting consolidation
Haitong Bank, S.A.	1983	-	Portugal	Investment bank	100%	Full consolidation
Haitong Investment Ireland PLC	1996	1996	Ireland	Non-bank finance company	100%	Full consolidation
MCO2 - Sociedade gestora de Fundos de Investimento Mobiliário, S.A.	2008	2008	Portugal	Asset management - investment funds	25%	Equity method
Haitong Capital - SCR, S.A.	1988	1996	Portugal	Venture capital fund	100%	Full consolidation
SES Iberia	2004	2004	Spain	Asset management - investment funds	50%	Full consolidation
Fundo Espírito Santo IBERIA I	2004	2004	Portugal	Venture capital fund	46%	Equity method
WindPart, Lda	2013	2013	Portugal	Holding company	20%	Full consolidation (a)
Haitong Banco de Investimento do Brasil S.A.	2000	2000	Brazil	Investment bank	80%	Full consolidation
FI Multimercado Treasury	2005	2005	Brazil	Investment fund	80%	Full consolidation
Haitong do Brasil Participações Ltda	2004	2004	Brazil	Asset management	80%	Full consolidation
Haitong Negócios, SA	1996	1999	Brazil	Holding company	80%	Full consolidation
Haitong do Brasil DTVM, SA	2009	2010	Brazil	Asset management	80%	Full consolidation
Haitong Securities do Brasil S.A.	2000	2000	Brazil	Brokerage house	80%	Full consolidation

(a) Company included in the consolidated balance sheet by full consolidation since the group is in control of its activities

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Table 1 – Haitong Bank's scope of consolidation

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

The main changes made to the group structure in 2017 are set forth below.

Subsidiaries

- In March 2017, Haitong Bank, S.A. fully subscribed the capital increase of Haitong (UK) Limited, an investment of GBP 5,900 thousand.
- In April 2017, 123,131 units from FI Multimercado Treasury Fund were redeemed, in the amount of BRL 47,012 thousand.
- In June 2017, Haitong Bank, S.A. fully subscribed the capital increase of Haitong (UK) Limited, an investment of GBP 4,080 thousand.
- In November 2017, Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R. was dissolved.
- In December 2017, subject to the terms and conditions of the Share Purchase Agreements, Haitong Bank has conditionally agreed to sell to Haitong International BVI the shares representing 100% of the capital of its subsidiaries in London and New York. Consideration for the Haitong Securities USA LLC Membership Interests was USD 16,778 thousand. The considerations for the sale of Haitong (UK) Limited and Haitong Securities (UK) Limited shares was USD 12,536 thousand. Subsequently, these subsidiaries have been recorded as discontinued operations, in accordance with IFRS 5 standard – Non-current assets held for sale and discontinued operations. This sale was concluded on 23 February, 2018.
- In December 2017, 84,117 units from FI Multimercado Treasury Fund were redeemed, in the amount of BRL 32,000 thousand.

Associates

- In October 2017, MCO2 repaid EUR 425 thousand of accessory capital granted by Haitong Bank.
- In October 2017, Haitong Capital – SCR, S.A. sold the holding in Salgar Investments, having received EUR 6,368 thousand.
- In November 2017, a distribution of capital of Fundo Espírito Santo IBERIA I was carried out and EUR 519 thousand have been attributed to Haitong Capital – SCR, S.A..

Moreover, the following should also be highlighted:

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

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

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

4 Risk management objectives and policies

4.1 Statement on the adequacy of Risk Management Systems

The Board of Directors hereby declares and certifies that Haitong Bank has in place a risk management and control system to monitor and manage risks which is adequate for the nature and size of the Bank.

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

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

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

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

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

4.3 Capital and liquidity key ratios and figures

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

(Amounts in Thousands of Euros)

	Dec. 17	Dec. 16	Dec. 15
CRD IV/CRR phasing in	(c)	(b)	(a)
Common equity tier 1	461,011	202,639	319,634
Risk Exposure	2,173,840	2,873,988	3,240,375
Ratio Common equity tier 1	20.3%	7.1%	9.9%
Leverage Ratio	15%	6.1%	7.6%
Liquidity Coverage Ratio	610%	328%	147%

(a) According to CRD IV/CRR phasing in rules for 2015
(b) According to CRD IV/CRR phasing in rules for 2016
(c) According to CRD IV/CRR phasing in rules for 2017

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

4.4 Strategies, policies and procedures to manage risks

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

Credit Risk

Credit risk is the potential financial loss arising from the failure of an obligor or counterparty to honour its contractual obligation. As the major risk to which the Bank is exposed, credit risk management and control is supported by a process that permits the identification, assessment, quantification and reporting of this risk.

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

Limits setting

All transactions involving credit risk are approved by the Credit Committee, or by the Executive Committee, if the operation falls beyond the Credit Committee Decision Framework.

Internal Ratings

The internal credit rating assignment is a key element for supporting credit risk management. Haitong Bank's internal rating function was effectively internalized by retaining an experienced team of analysts and by keeping the rating tool sponsored by Standard and Poor's (S&P).

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

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

Monitoring

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

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

Monitoring of Clients with impairment triggers

The Impairment Committee analyses all clients identified with impairment triggers or in default status and decides on impairment amounts resulting from the individual assessment process.

Haitong Bank has reviewed its asset impairment assessment process in the context of the new accounting rules introduced by IFRS 9, in force from January 1, 2018.

Global risk analysis of credit portfolios

The risk of credit portfolios, specifically the credit exposure evolution and the monitoring of credit losses, is recurrently reported to the Executive Committee.

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

Regarding concentration risk – that is, the risk that arises from the possibility of exposure or group of exposures that share common or interrelated risk factors producing sufficiently large losses to undermine an institution's solvency –, Haitong Bank has established internal limits for the largest individual exposures.

Credit recovery process

Haitong Bank's Special Portfolio Management Division manages the Bank's non-performing exposures, negotiating and implementing the restructuring and / or credit recovery strategies, aiming to maximize the credit recovery.

Market Risk

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

Haitong Bank has in place policies, procedures, systems and limits framework 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 is made by a specific unit within the Risk Management Department, the Market Risk Area, which works in full independence from 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 Area unit is responsible for analysing the relevant factors for each type of market risk using statistical techniques; measuring market volatility, analysing depth and liquidity indicators, and simulating the transactions value under different market conditions to advise the management bodies when establishing suitable limits for each risk taking unit.

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

Trading Book

To limit the risk on its trading book, the Bank establishes limits both at the Group level, VaR and Stop Loss limits, and at the trading desks level, VaR, Stop Loss and other complementary metrics such as levels of concentration per issuer, rating, tenor, currency, market, etc.

Banking Book

Market risk in the banking book arises from adverse movements in interest rates, credit spreads and in the market value of equity securities and real estate exposures on the balance sheet.

Interest Rate Risk in the Banking Book

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

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

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

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

Interest rate risk measurement consists in determining the effect that changes on interest rates would have on equity and net interest income.

Credit Spread Risk

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

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

Foreign Exchange Risk

Haitong Bank centralizes the management of its foreign exchange risk in its Treasury Department under a limit framework, allowing the Bank to manage its foreign currency flows in the most efficient manner while maintaining exposure to foreign currency risk in line with the Bank's risk appetite. Exceptions to the rule stated above are trading desks that are allowed to trade foreign currency instruments and manage their risks independently from the Treasury Department under their own limit framework.

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 normal cost of the pension plan). 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 a governance structure in place that regularly monitors the pension scheme solvency evolution (liabilities growth vs. portfolio of assets).

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

Operational Risk

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

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

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 a structure within the organisation exclusively dedicated to its design, monitoring and maintenance. This structure works in close coordination with the elements indicated below, whose active participation is crucial:

- The departments, branches and subsidiaries integrated within the scope of operational risk management, who are responsible for the day-to-day management of operational risk, ensuring that the established procedures are implemented;
- The Compliance Department, which plays an important role in ensuring that the processes are well documented and in compliance with relevant laws and regulations;
- The Internal Audit Department, which tests the effectiveness of risk management and controls, identifies required steps for improvement and assesses their implementation;
- The Information Technology Department for its leading role in the business continuity plan.

The operational risk management function includes the following processes:

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

Liquidity Risk

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

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 under the responsibility of the Executive Committee, which assures the managing of the Bank's liquidity in an integrated way, with the treasuries of all Haitong Bank's entities.

To provide protection against unexpected fluctuations and based on a solid organizational and governance model, Haitong Bank'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;
- Compliance with regulatory standards on liquidity in each geography the Bank operates in;
- Full alignment with the Bank's liquidity risk appetite;
- Availability of sufficient and immediate liquidity buffer to ensure the ability to react to any event of stress that could restrict access to the market under both normal and stressed conditions;
- Development of a diversified investor base and maintaining access to a variety of alternative funding sources, while minimising the cost of funding;
- Promote the suitability between the funding structure and the necessary funds to finance the Bank's activity, namely in terms of maturities, counterparties and funding instruments diversification; and
- Continuous development of an appropriate internal framework for the identification, measurement, monitoring, reporting and mitigation of liquidity risk.

Other Risks

Concerning other risks, namely Business Strategic Risk and Reputational Risk, the Bank has in place monitoring procedures that are evaluated on a regular basis.

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

Business strategic risk is managed directly by the Executive Committee with the monthly follow-up of the Bank's activity with information provided by the Finance Department. The Risk Management Department monitors the limits established in the Risk Appetite Framework related with the Bank's economic performance.

Reputational risk is the probability of having negative impacts on earnings or capital arising from a negative perception of the public image of the Bank, substantiated or not, by customers, suppliers, financial analysts, employees, investors, media outlets or by public opinion in general.

Reputational Risk is a permanent concern of the Bank and reputational risk is addressed when approving new products or services, new distributors (for structured notes) and when approving new operations, even when the Bank does not take financial risks.

Capital Management

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

Accordingly, with the objective of maintaining capital that is suitable in quantity and quality, Haitong Bank has in place a capital management framework assisted by the following procedures: 1) Constant monitoring of regulatory capital requirements; 2) Annual revision of the risk appetite.

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

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

4.5 Structure and organization of the Risk Management Function

The Board of Directors is the ultimate corporate body responsible for Haitong Bank's Risk Management Framework. The Board of Directors is responsible for establishing the risk appetite policy and control systems framework that assure the Bank has the necessary skills and resources to meet its objectives. The current structure of the relevant committees for Haitong Bank's Risk Management function is summarized below.

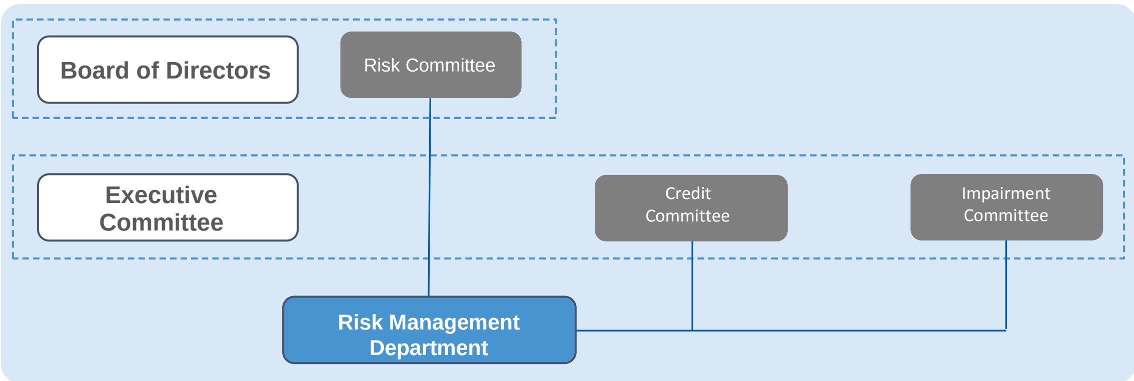

Figure 1 – Risk Management Framework

<u>Risk Committee</u>

The Risk Committee of the Bank is composed of three members of the Board of Directors who do not perform executive functions and who are chosen by the Board of Directors, taking into consideration their knowledge, expertise and experience to be able to fully understand and monitor the credit institution's risk strategy and risk appetite. The Risk Committee shall carry out the responsibilities with full independence and authority.

The Risk Committee is responsible for:

- Advising the Board of Directors on the risk appetite and risk strategy of the Bank, both current and future, taking into account all categories of risk, ensuring its alignment with the business strategy, objectives, corporate culture and values;
- Assisting the Board of Directors in supervising the execution of the risk strategy of the Bank and in the fulfilment of its respective limits;
- Periodically reviewing the risk profile, risk policies and strategies of the institution;
- Assessing the consistency between the business model, strategy, recovery plan, remuneration policies and the budget, as well as the efficiency and effectiveness of the structure, procedures and instruments associated with the implementation and execution of the strategies regarding risk;

- Issuing recommendations on adjustments to the risk strategy resulting from changes in the business model, market developments or business context where the Bank operates;
- Analysing and evaluating the methodology and its results to support the process of identification, evaluation and measurement of risks;
- Examining scenarios, including stress tests, in order to determine their impact on the risk profile of the Bank and to assess the resilience of the changes within the institution caused by idiosyncratic, systemic or mixed factors;
- Analysing whether the conditions of the products offered and services provided to clients take into consideration the transaction model and risk strategy of the Bank, and, if necessary, submitting a correction plan to the Board of Directors when, as a result of such analysis, it is established that those conditions do not appropriately reflect the risks;
- Establishing if the incentives set forth in the remuneration policy of the Bank take into consideration risk, capital, liquidity and the expectations regarding results, including revenue dates;
- Establishing the framework for reporting on risk to the Board of Directors;
- Ensuring the existence of effective procedures for monitoring risk, and monitoring internal control deficiencies related to the risk management framework;
- Specifying and reviewing the conditions of authority and independence to support the exercise of responsibilities for risk management, including the adoption of the work plan of the risk management function;
- Reviewing and periodically monitoring the scope and nature of the activities carried out by the Haitong Bank Group, related to risk management;
- Ensuring that the risk management function has adequate resources for the performance of its duties.

In 2017, the Risk Committee held three meetings. Going forward, the Risk Committee will have its ordinary meetings every two months and will meet on an extraordinary basis when necessary to ensure the good performance of its duties, upon a reasoned request submitted by any of the corporate bodies of the Bank or of any of the members of the Risk Committee.

Capital, Asset and Liabilities Management Committee

The Capital, Assets and Liabilities Management Committee is responsible, as per delegation of the Executive Committee, for:

- Submitting for the appraisal of the Executive Committee the policy and/or strategy set out by the Capital, Assets and Liabilities Management Committee to be included in the Risk Appetite Policy of the Bank;
- Preparing the Funding and Capital Plan, as well as the Liquidity Contingency Plan, taking into account the policy and/or capital, funding and liquidity management strategy approved by the Executive Committee;
- Ensuring the full effectiveness of the funding and liquidity management strategy of the Bank and the Group;
- Defining any mitigating measures to comply with the goals laid down in the liquidity management policy of the Bank and the Group;
- Collaborating closely with the Global Credit Committee and the Risk Committee in order to ensure strategic alignment concerning the liquidity management policy;
- Reporting any decisions and initiatives within the scope of the duties described hereinabove to the Executive Committee on a regular basis.

During 2017, the Capital, Assets and Liabilities Management Committee was incorporated into the Executive Committee.

Credit Committee

The Credit Committee, established by the Executive Committee, is responsible for:

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

in which case operations shall be submitted, respectively, to the Executive Committee or to the Board of Directors assessment.

The Credit Committee meets on a weekly basis and is composed of eight members with voting rights, and the Chief Risk Officer ("CRO"), a Credit Committee Moderator and a Secretary, without voting rights.

Impairment Committee

The Impairment Committee of Haitong Bank is responsible for analysing the individual impairment of financial instruments, accounted at amortized cost and/or Fair Value through Other Comprehensive Income and with impairment triggers (i.e. Under Performing and Non-Performing). The Impairment Committee has deliberative powers as part of its duties established by the Executive Committee. The duties of the Impairment Committee cover all entities of the Haitong Bank Group.

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

Risk Management Department

The Risk Management Department is the independent structure responsible for the implementation and monitoring of the Risk Appetite Framework, ensuring the development and implementation of a Risk Management Framework based on robust processes of identification, evaluation, monitoring and control of risks inherent to the Bank's activity.

The Risk Management department is also in charge of the technical execution of the Risk Appetite Framework, Risk Appetite Statement, Recovery Plan, ICAAP and ILAAP.

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

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

In Brazil, the local risk team has functions similar to the ones performed in Lisbon, reporting to the local CRO and to the Group's CRO.

The Head of the Risk Management Department is the Chief Risk Officer (CRO), who is exclusively dedicated to this function.

Haitong Bank reinforced the role of the CRO in the Credit Committee, giving it the faculty, even if the operations are approved by the members of the Credit Committee, to request that they be evaluated by the Executive Committee for final approval if the operations in question do not fit the Credit Committee's Decision Framework, or the Bank's Risk Appetite Framework (RAF), in which case they must be approved by the Board of Directors.

Although not an Executive Board Member, the CRO is present in the meetings of all risk governing bodies and committees, with no voting powers, namely in Board of Directors, Risk Committee, Executive Committee, Credit Committee and Impairment Committee.

The Risk Management Department has the following structure:

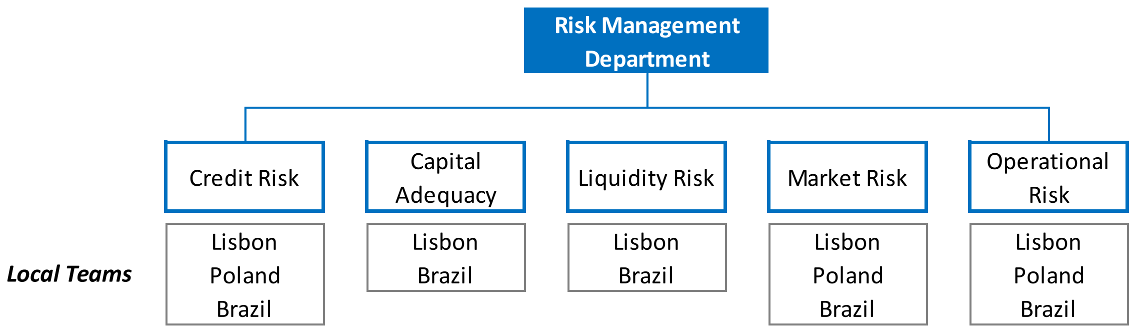

Figure 2 – Risk Management Department Structure

The Credit Risk Area is responsible for two main activities: credit rating assignment and credit risk portfolio monitoring and control activities.

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

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

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

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

4.6 Risk reporting and measurement systems

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

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

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

These reports are summarized as follows:

Credit Risk

- Daily collection, preparation, control and reporting to the different business areas of information on loans, securities portfolios, derivatives and other products' positions and usage level of approved limits;
- Weekly risk reporting on each category of risk, namely the risk appetite of the Bank's loan portfolio by type of instrument, the total exposure by instrument, country, rating, industry, maturity, margin, capital requirements, new/recent approvals by the Global Credit Committee, limits exceeded, impairment signs, among others;
- Preparation of support material for external and internal reporting on credit.

Market Risk

- Daily collection, preparation, control and reporting to the different trading desks and to the treasury department information on positions, results, exposure and level of limits utilization based on the different risk metrics defined by the Bank such as VaR, Stop Loss, sensitivity exposure to the different risk factors and other complementary concentration metrics;
- Weekly risk reporting with an overview of the Bank's market risk and limits utilization;
- Monthly report of the Bank's Global VaR and Stop Loss exposures *vis-à-vis* the approved limits;
- Quarterly report of the Bank's interest rate risk of the banking book which is included in the Risk Appetite Monitoring report.

Operational Risk

- Operational risk report to the management bodies is included in the Risk Appetite Monitoring report and includes the evolution of operational risk events and losses and the structure of the type of events occurred in Haitong Bank Group. The report highlights the major operational risk losses and includes an analysis of the operational risk indicators.

Liquidity Risk

- Liquidity risk reporting is included in the Risk Appetite Monitoring report and includes analysis on the evolution of liquidity prudential ratios and of the composition of the HQLA (High Quality Liquid Assets) portfolio.

In addition, the Risk Management Department prepares and submits to the management bodies, on a regular basis, the Risk Appetite Monitoring report which includes an assessment of the overall risk profile of the Bank, monitors the evolution of the metrics and limits defined in the Bank's Risk Appetite Framework and highlights specific cases that require the management body's immediate attention.

4.7 Policies for hedging and mitigating risk

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

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

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

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

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

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

Haitong Bank's Operational risk is mitigated by the active management of operational risk which includes procedures for the regular identification and assessment of operational risk across the institution, performing annual risk and control self-assessment exercises and collecting and analysing the operational risk events, taking corrective actions when appropriate.

Haitong Bank's liquidity risk mitigation techniques include:

- a process for monitoring and reporting a set of liquidity risk metrics whose limits are established within the Risk Appetite Framework, including prudential liquidity ratios for which a buffer above regulatory limits is established;
- proactive management of liquidity and funding with quarterly cash flow and liquid assets position forecast;
- stress test exercises within the scope of the ILAAP and the Recovery Plan;
- close monitoring of liquidity position by the Executive Committee.

5 Management body disclosures

The following table shows the number of directorship position held by each member of the Board of Directors:

Board of Directors	Number of directorship positions
Chairman	
Lin Yong	7
Members	
Wu Min	1
Alan do Amaral Fernandes	3
António Domingues	4
Christian Georges J. Minzolini	5
Mo Yiu Poon	2
Nuno Miguel S. Figueiredo Carvalho	1
Pan Guangtao	4
Paulo José Lameiras Martins	3
Vincent Marie L. Camerlynck	3
Xinjun Zhang	3

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

<u>Recruitment policy and diversification policy for the selection of members of the management body</u>

Haitong Bank has in force a Policy on the selection and assessment of members of the management and supervisory bodies and key function holders of Haitong Bank (the "Selection and Assessment Policy") aiming at complying with provisions in Article 30-A/2 of the Legal Framework of Credit Institutions and Financial Companies (hereinafter "RGICSF") and at ensuring that Haitong Bank adopts the highest national and international standards of governance of credit institutions.

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

The Selection and Assessment Policy establishes the following:

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

6 Own Funds

Pillar 3 Own funds disclosures requirements are prepared under the CRR (Regulation (EU) no. 575/2013) and CRD IV (Directive 2013/36/EU), while the 2017 Annual Report is prepared in accordance with IFRSs.

The purpose of the below audited balance sheet as of December 31, 2017, is to provide a full reconciliation of Own funds, filters and deductions applied.

(Amounts in Thousands of Euros)

	IFRS Audited Consolidated Balance Sheet 31 Dec 2017	(*)	Balance amounts used for Own funds Prudencial calculations 31 Dec 2017
Assets			
Cash and deposits at central banks	441,637		
Deposits at other credit institutions	31,636		
Financial assets held-for-trading	660,009	(k)	660,009
Available-for-sale financial assets	491,947	(k)	491,947
Loans and advances to banks	488,000		
Loans and advances to customers	629,907		
Risk management derivatives	11,266	(k)	11,266
Non-current assets held-for-sale	2,533		
Other tangible assets	7,639		
Intangible assets	21,327	(i)	21,327
Investments in associated companies	2,849		
Current income tax assets	34,070		
Deferred income tax assets	139,027	(o)	48,061
Other assets	293,699		
Total Assets	**3,275,905**		
Liabilities			
Resources of central banks	60,000		
Financial liabilities held-for-trading	606,097	(l)	606,097
Resources of other credit institutions	1,119,511		
Resources of customers	515,964		
Debt securities issued	242,786		
Risk management derivatives	14,857	(l)	14,857
Liabilities of discontinuing units	5,920		
Provisions	13,659		
Current income tax liabilities	3,231		
Deferred income tax liabilities	3,074		
Other liabilities	157,040		
Total Liabilities	**2,742,139**		
Equity			
Share capital	844,769	(a)	844,769
Share premium	8,796	(a)	8,796
Other equity instruments	3,731	(d)	3,731
Fair-value reserves	4,787	(h)	4,787
Other reserves and retained income	-229,212	∑(b)	-229,212
Net profit/(loss) of the year attributable shareholders of the parent company	-130,187	(c)	-130,187
Total equity attributable to the shareholders of the parent company	**502,684**		
Non-controlling interests	31,082	(e)	8,154
Total Equity	**533,766**		
Total Equity and Liabilities	**3,275,905**		

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

Table 4 – Reconciliation of own funds, filters and deductions

A description of the main components of own funds as of December 31, 2017, is given below.

<u>Share Capital</u>

- Until August 3, 2014, the Bank was part of the Banco Espírito Santo, S.A. Group.
- On August 3, 2014, the Bank of Portugal decided to apply a resolution measure to Banco Espírito Santo, S.A., the sole shareholder of the Bank, and resolved on the incorporation of Novo Banco, S.A., with a share capital of EUR 4.9 billion, into which the assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal were

incorporated. In this context, the Bank and its branches and subsidiaries were transferred to Novo Banco, S.A..

- In September 2015, the Bank's entire share capital was purchased by Haitong International Holdings Limited.
- In December 2015, the Bank made a EUR 100 million capital increase through the issuance of 20,000,000 shares with nominal value of EUR 5 each, which was subscribed and paid up by Haitong International Holdings Limited.
- In May 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank through the conversion into capital of a EUR 20,000,000 shareholder loan.
- In May 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, an investment of EUR 40,000,000 in cash.
- In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, an investment of EUR 160,000,000 in cash.
- In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank through the conversion into capital of a EUR 80,000,000 shareholder loan.
- In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank through the conversion into capital of a EUR 80,000,000 Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instrument.
- In August 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank through the conversion into capital of a EUR 38,500,000 shareholder loan.

Share premium

The share premiums of EUR 8,796 thousand at 31 December 2017 relates to the premium paid by the shareholders in the capital increase occurred in previous years.

Other equity instruments

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

This conditioned interest corresponds to the application of an annual rate of 8.5% over nominal value, payable semi-annually. The reimbursement of these securities may be made in full, but not partially, after September 15, 2015, at Haitong Bank's option and subject to the prior approval of the Bank of Portugal.

Given their characteristics, these bonds are considered equity instruments in accordance with the accounting policy described in Note 2.10 of the 2016 Annual Report.

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

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

As of December 31, 2017, the amount outstanding of these bonds was EUR 3,731 thousand. In 2017, the Group paid EUR 317 thousand in interest, booked as a deduction to reserves.

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

On December 31, 2017, Haitong Bank's Regulatory Own Funds and deductions were as follows:

(Amounts in Thousands of Euros)

		31 Dec 2017	
	(*)	Fulled Loaded	Phased-in
Common equity tier 1 (CET1) capital: instruments and reserves			
Capital instruments and the related share premium accounts	∑(a)	853 565	853 565
Retained earnings	(b)	-200 941	-200 941
Accumulated other comprehensive income (and other reserves)	(b)	-28 272	-28 272
Minority interests (amount allowed in consolidated CET1)	(f)	8 154	12 689
Independently reviewed interim net profits net of any foreseeable charge or dividend	(c)	-130 187	-130 187
Common equity tier 1 capital before regulatory adjustments		502 321	506 855
Common equity tier 1 capital: regulatory adjustments			
Gains or losses on assets and liabilities held for sale	(h)	4 798	3 839
Additional value adjustments	(l)	-1 614	-1 614
Intangible assets	(i)	-21 667	-17 333
Deferred tax assets that rely on future profitability excluding those arising from temporary differences	(n)	-40 273	-31 318
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		5 956	5 956
Deferred tax assets arising from temporary differences (amount above 10% threshold)	(n)	-7 788	-4 608
Qualifying AT1 deductions that exceed the AT1 capital of the institution		0	-766
Total regulatory adjustments to Common Equity Tier 1 (CET1)		-60 586	-45 844
Common equity tier 1 capital		**441 734**	**461 011**
Additional Tier 1 (AT1) capital: instruments			
Capital instruments and the related share premium accounts	(d)	0	3 731
Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties	(g)	2 127	1 702
Additional tier 1 capital before regulatory adjustments		2 127	5 433
Additional tier 1 (AT1) capital: regulatory adjustments			
Regulatory adjustments applied to Additional Tier 1 capital in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out		0	-1 866
Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period		0	766
Amounts to be deducted from added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR		0	-4 333
Total regulatory adjustments to additional tier 1 capital		0	-5 433
Additional tier 1 capital		2 127	0
Tier 1 capital (T1 = CET1 + AT1)		**443 862**	**461 011**
Tier 2 capital: instruments and provisions			
Capital instruments and the related share premium accounts		0	0
Qualifying own funds instruments included in consolidated T2 capital issued by subsidiaries and held by third party	(m)	2 836	2 269
Tier 2 capital before regulatory adjustments		2 836	2 269
Tier 2 capital: regulatory adjustments			
Other AT2 adjustments		-25	-5
Total regulatory adjustments to Tier 2 (T2) capital		-25	-5
Tier 2 (T2) capital		**2 811**	**2 264**
Total capital (TC = T1 + T2)		**446 673**	**463 275**

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

Table 5 – Own Funds

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

Minority interest means the amount of Common Equity Tier 1 capital of a subsidiary of an institution that is attributable to natural or legal persons other than those included in the prudential scope of consolidation of the institution. On December 31, 2017, the Minority Interest adjustments to own funds were as detailed below:

(Amounts in Thousands of Euros)

	(*)	31 Dec 2017	%
Haitong Banco de Investimento do Brasil S.A.		30 825	20%
SES Iberia		256	50%
WindPart, Lda		1	80%
Non-Controlling Interest	**(e)**	**31 082**	

		31 Dec 2017	
	(*)	Fulled Loaded	Phased-in
Minority interests (amount allowed in consolidated CET1)	(f)	8 154	12 689
Instruments issued by subsidiaries that are given recognition in AT1 Capital (minority Interests)	(g)	2 127	1 702
Instruments issued by subsidiaries that are given recognition in T2 Capital	(m)	2 836	2 269

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

Table 6 – Minority Interests' own funds regulatory adjustments

For prudential purposes, Deferred Tax Assets (DTA) has the same meaning as in the applicable accounting framework. On December 31, 2017, the DTA regulatory adjustment was as detailed below:

(Amounts in Thousands of Euros)

	31 Dec 2017	Deducted to Own Funds	Not Deducted to Own Funds
Deferred Tax Assets that rely on future profitability	**93 013**		
Not resulting from temporary differences	40 273	40 273	-
Resulting from temporary differences	52 740	7 788	44 952
Deferred Tax Assets that do not rely on future profitability	**46 014**	**-**	46 014
Total Deferred Tax Assets	**139 027**	**48 061**	**90 966**

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

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

When calculating the amount of their regulatory capital, CRR requires Banks to apply prudent valuation standards to all positions that are measured at fair value. The difference between the values obtained when applying a prudent valuation and the fair value recognized in accounting is known as additional valuation adjustment (AVA), which is directly deducted from the Common Equity Tier 1 (CET1). On December 31, 2017, Haitong Bank's AVA adjustment was as detailed below:

(Amounts in Thousands of Euros)

	(*)	31 Dec 2017
Assets	(k)	1,163,222
Assets Matched Positions		-85,659
Liabilities	(l)	620,954
Liabilities Matched Positions		-84,785
Total	**(j)**	**1,613,733**

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

Table 8 – AVA CET1 Regulatory Adjustment

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

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

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

The regulation also provides a counter-cyclical capital buffer of up to 2.5%, to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth in Portugal. As of January 1, 2018, the Bank of Portugal decided not to impose any additional counter-cyclical capital buffer, by setting a 0% of total risk exposure amount. This decision applies to the first quarter of 2017 and will be subject to a quarterly revision.

On December 31, 2017, Capital ratios were as detailed below:

(Amounts in Thousands of Euros)

	31 Dec 2017	
	Fully Loaded	Phased-in
Risk Exposure	2,173,840	2,173,840
Common equity tier 1	20.3%	21.2%
Tier 1	20.4%	21.2%
Total capital	20.5%	21.3%

Table 9 – Capital Ratios

7 Internal capital adequacy (ICAAP)

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

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

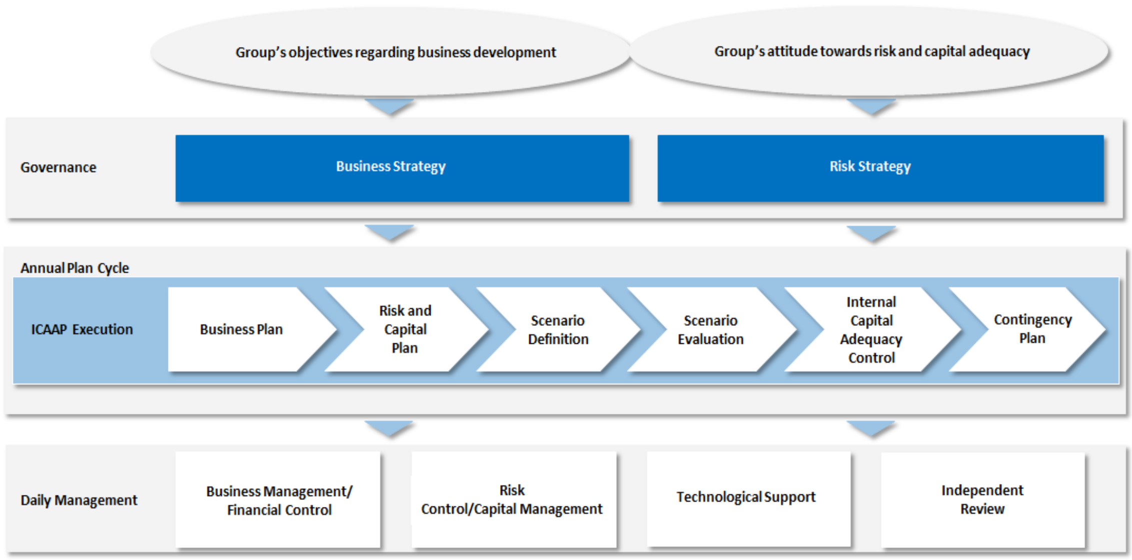

Figure 3 – Integration of the ICAAP in the Bank's management and decision-making process

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

For the purpose of the last ICAAP exercise, the Board of Directors identified the following risk categories, which include all Pillar 1 risks and other Pillar 2 risks considered as material:

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

Figure 4 – Haitong Bank's ICAAP Risks

8 Risk Weighted Assets (RWAs)

On December 31, 2017, and December 31, 2016, Haitong Bank's risk weighted assets (RWAs) and minimum capital requirements under Part Three, Title I, Chapter 1 of the CRR were as follows:

(Amounts in Thousands of Euros)

			RWAs		Minimum capital requirements	
			31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
	1	**Credit risk (excluding CCR)**	**1 211 373**	**1 735 897**	**96 910**	**138 872**
Article 438(c)(d)	2	Of which the standardised approach	1 211 373	1 735 897	96 910	138 872
Article 438(c)(d)	3	Of which the foundation IRB (FIRB) approach	-	-	-	-
Article 438(c)(d)	4	Of which the advanced IRB (AIRB) approach	-	-	-	-
Article 438(d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-	-
Article 107,Article 438(c)(d)	6	**CCR**	**309 185**	**350 161**	**24 735**	**28 013**
Article 438(c)(d)	7	Of which mark to market	-	-	-	-
Article 438(c)(d)	8	Of which original exposure	-	-	-	-
	9	Of which the standardised approach	233 876	222 743	18 710	17 819
	10	Of which internal model method (IMM)	-	-	-	-
Article 438(c)(d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	-	-	-	-
Article 438(c)(d)	12	Of which CVA	75 309	127 418	6 025	10 193
Article 438(e)	13	**Settlement risk**	**1**	**0**	**0**	**0**
Article 449(o)(i)	14	**Securitisation exposures in the banking book (after the cap)**	**0**	**723**	**0**	**58**
	15	Of which IRB approach	-	-	-	-
	16	Of which IRB supervisory formula approach (SFA)	-	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-	-
	18	Of which standardised approach	-	723	-	58
Article 438 (e)	19	**Market risk**	**406 225**	**475 182**	**32 498**	**38 015**
	20	Of which the standardised approach	406 225	475 182	32 498	38 015
	21	Of which IMA	-	-	-	-
Article 438(e)	22	Large exposures	-	-	-	-
Article 438(f)	23	**Operational risk**	**247 055**	**312 753**	**19 764**	**25 020**
	24	Of which basic indicator approach	-	-	-	-
	25	Of which standardised approach	247 055	312 753	19 764	25 020
	26	Of which advanced measurement approach	-	-	-	-
Article 437(2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	48 132	27 532	3 851	2 203
Article 500	28	Floor adjustment	-	-	-	-
	29	**Total**	**2 173 840**	**2 873 988**	**173 907**	**229 919**

Table 10 – RWAs

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

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

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

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

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

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

On December 31, 2017, and December 31, 2016, Haitong Bank’s minimum capital requirements (8% of RWAs) composition was as follows:

(Amounts in Thousands of Euros)

	Dec. 2017	Dec. 2016
1. Capital requirements (=Sum(1.1 to 1.7))	**173,907**	**229,919**
1.1. For credit, counterparty credit and dilution risks and free deliveries (=1.1.1+1.1.2)	**115,620**	**156,691**
1.1.1. Standardised approach (=1.1.1.1+1.1.1.2)	115,620	156,691
1.1.1.1. Standardised Approach exposure classes, excluding securitisation positions	115,620	156,634
1.1.1.1.1. Claims or contingent claims on central governments or central banks	-	-
1.1.1.1.2. Claims or contingent claims on regional governments or local authorities	456	479
1.1.1.1.3. Claims or contingent claims on Public Sector Entities	32	-
1.1.1.1.4. Claims or contingent claims on multilateral development banks	-	-
1.1.1.1.5. Claims or contingent claims on international organisations	-	-
1.1.1.1.6. Claims or contingent claims on institutions	11,856	27,054
1.1.1.1.7. Claims or contingent claims on corporates	62,501	81,461
1.1.1.1.8. Retail claims or contingent retail claims	-	-
1.1.1.1.9. Claims or contingent claims secured on real estate property	-	-
1.1.1.1.10. Past due items	15,625	27,030
1.1.1.1.11. Items belonging to regulatory high-risk categories	1,508	1,670
1.1.1.1.12. Claims on covered bonds	-	-
1.1.1.1.13. Claims on collective investments undertakings (CIU)	2,582	2,629
1.1.1.1.14. Other items	20,678	15,480
1.1.1.1.15. Equity positions	383	831
1.1.1.2. Securitisation positions under the Standardised Approach	-	58
1.1.2. IRB approach	-	-
1.2. Settlement risk	**-**	**-**
1.3. Capital requirements for position, foreign-exchange and commodities risks (=1.3.1+1.3.2)	**32,498**	**38,015**
1.3.1. Standardised approach (=∑(1.3.1.1 to 1.3.1.4))	32,498	38,015
1.3.1.1. Traded debt instruments	21,050	30,287
1.3.1.2. Equity	2,815	2,432
1.3.1.3. Foreign exchange risks	8,592	5,296
1.3.1.4. Commodities risks	41	-
1.3.2. Internal models approach	-	-
1.4. Capital requirements for operational risk	**19,764**	**25,020**
1.4.1. Basic indicator approach	-	-
1.4.2. Standard method	19,764	25,020
1.4.3. Advanced measurement approach	-	-
1.5. Capital requirements - Fixed overhead	**-**	**-**
1.6. Capital requirements on unilateral adjustm ent of credit evaluation	**-**	**-**
1.7. Capital requirements for Credit Valuation Adjustment (CVA)	**6,025**	**10,193**

Table 11 – Capital Adequacy – Own Funds Requirements

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

On December 31, 2017, and December 31, 2016, Haitong Bank's Operational Risk minimum capital (8% of RWAs) composition was EUR 19,764 thousand and EUR 25,020 thousand, respectively.

9 Counterparty credit risk

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

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

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

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

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

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

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

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

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

The master agreements governing derivatives, repo and securities lending transactions outstanding on December 31, 2017, do not include provisions requiring the posting of additional collateral in a scenario of downgrading of Haitong Bank’s credit rating.

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

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

The template below provides an overview of the impact of netting and collateral held for transactions where the exposure value is measured as per Part Three, Title II, Chapter 6 of the CRR, including exposures arising from transactions cleared through a CCP, as of December 31, 2017.

(Amounts in Thousands of Euros)

Exposure classes	Gross positive fair value or net carrying amount	Netting benefits	Netted current credit exposure	Collateral held	Net credit exposure
Central governments or central banks	399,108	0	399,108	341,978	57,130
Public sector entities	792	0	792	0	792
Institutions	328,364	86,730	241,634	161,860	79,775
Corporates	209,683	0	209,683	51,085	158,598
Total	937,947	86,730	851,217	554,922	296,295

Table 12 – Impact of netting and collateral held on exposure

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

On December 31, 2017, Haitong Bank's breakdown of CCR exposures calculated in accordance with Part Three, Title II, Chapter 6 of the CRR and risk-weights according to Chapter 3 of the same title by risk weight (risk weight assigned according to the standardised approach) was as follows:

(Amounts in Thousands of Euros)

Exposure classes	10%	20%	50%	70%	75%	100%	150%	Others	Total
Central governments or central banks	-	-	-	-	-	-	-	-	-
Regional governments or local authorities	-	-	-	-	-	-	-	-	-
Public sector entities	-	-	396	-	-	-	-	-	396
Multilateral Development Banks	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-
Institutions	-	13 745	36 411	-	-	24 958	-	-	75 114
Corporates	-	-	-	-	742	157 625	-	-	158 366
Retail	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-
Total	**-**	**13 745**	**36 807**	**-**	**742**	**182 582**	**-**	**-**	**233 876**

Table 13– CCR exposures by exposure class and risk weight

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

The comprehensive view of Haitong Bank's methods used to calculate CCR regulatory requirements and its respective main parameters on December 31, 2017, was as follows:

(Amounts in Thousands of Euros)

CCR approach	Notional	Replacement cost/current market value	Potential future credit exposure	EAD post CRM	RWAs
Mark to market		200,922	739,483	296,295	233,876

Table 14 – CCR exposure by approach

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

On December 31, 2017, OTC derivatives cleared through a qualified central counterparty (QCCP) were immaterial, totalizing EUR 29 million in nominal amount.

On December 31, 2017, the CVA Risk own funds were as follows:

(Amounts in Thousands of Euros)

	Exposure value	RWAs
Total portfolios subject to the advanced method	-	-
(i) VaR component (including the 3× multiplier)	-	-
(ii) SVaR component (including the 3× multiplier)	-	-
All portfolios subject to the standardised method	79 775	75 309
Based on the original exposure method	-	-
Total subject to the CVA capital charge	**79 775**	**75 309**

Table 15 – CVA capital charge

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

On December 31, 2017, Haitong Bank's credit derivatives transactions were solely related with intermediation activities. The breakdown of nominal amounts by protection side, bought or sold, within each product group were as follows:

(Amounts in Thousands of Euros)

Credit derivatives transactions	Long positions	Short positions
Credit default swaps	5,000	150,978
Credit linked notes	160,260	-

Table 16 – Credit derivatives transactions

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

On December 31, 2017, the geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer were as follows:

(Amounts in Thousands of Euros)

Country	General credit exposures	Trading book exposures	Own funds requirements			Own funds requirement weights	Countercyclical capital buffer rate
	Exposures value for SA	Sum of long and short positions of trading book exposures for SA	Of which: General credit exposures	Of which: Trading book exposures	Total		
Portugal	1,536,716	8,962	58,776	7,280	66,056	46%	0.00%
Brazil	1,002,954	35,213	23,169	1	23,171	31%	0.00%
Spain	260,183	502	12,275	0	12,275	8%	0.00%
Poland	132,582	53,363	3,418	4,018	7,436	6%	0.00%
United Kingdom	76,087	0	1,885	0	1,885	2%	0.00%
Netherlands	33,250	1,062	2,660	85	2,745	1%	0.00%
Peru	30,306	0	3,637	0	3,637	1%	0.00%
France	28,663	5,000	1,127	400	1,527	1%	0.00%
Mexico	27,651	256	2,202	21	2,223	1%	0.00%
China	20,118	15,034	1,609	1,203	2,812	1%	0.00%
United States	17,597	0	370	0	370	1%	0.00%
Canada	16,236	0	1,299	0	1,299	0%	0.00%
Luxembourg	15,394	0	934	0	934	0%	0.00%
Germany	8,924	117	274	4	278	0%	0.00%
Chile	8,836	0	707	0	707	0%	0.00%
Belgium	8,128	0	130	0	130	0%	0.00%
Italy	5,299	0	353	0	353	0%	0.00%
Malta	3,400	0	272	0	272	0%	0.00%
Angola	3,127	0	250	0	250	0%	0.00%
Cayman Islands	2,215	0	177	0	177	0%	0.00%
Colombia	720	0	58	0	58	0%	0.00%
Andorra	500	5,000	8	400	408	0%	0.00%
Switzerland	330	0	13	0	13	0%	0.00%
Japan	208	0	8	0	8	0%	0.00%
Ireland	173	0	7	0	7	0%	0.00%
Hong Kong	0	514	0	41	41	0%	1.25%
Total	**3,239,595**	**125,025**	**115,620**	**13,452**	**129,072**	**100%**	

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

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

Haitong Bank's specific countercyclical buffer amount is presented below as of December 31, 2017:

(Amounts in Thousands of Euros)

	010
Total risk exposure amount	3,364,619
Institution specific countercyclical buffer rate	0.0002%
Institution specific countercyclical buffer requirement	6

Table 18 – Amount of specific countercyclical capital buffer

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

11 Exposure to credit risk and dilution risk

Definitions of Past Due and Impaired exposures

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

Credit-impaired exposure includes all exposures classified as non-performing exposures ("NPE") in accordance with the European Banking Authority's requirements on the application of the definition of default under Article 178 of Regulation (EU) no. 575/2013, which includes the days past due criteria (over 90-days) and an indication of the conditions for the unlikeliness to pay.

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

The Bank follows the predicates of IFRS 9, which replaced the IAS 39 incurred loss model by and an expected credit loss ("ECL") model.

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

- Stage 1 - Performing: without significant increase in credit risk from the moment of initial recognition. In this case, the impairment will reflect ECL resulting from default events that may occur in the next 12 months after the reporting date.
- Stage 2 - Under Performing: instruments where a significant increase in credit risk has occurred since the initial recognition but for which there is no objective evidence of impairment. In this case, impairment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument.
- Stage 3 - Non Performing: instruments for which there is objective evidence of impairment due to events that resulted in losses. In this case, the impairment amount will reflect the ECL over the expected residual life of the instrument.

Default Definition

Under IFRS9, the Bank will consider its financial assets to be in default by applying the same definition that is applied for prudential purposes. Thus, default is defined internally in Haitong Bank by incorporating the following components: (i) material exposures which are more than 90 days past due; or (ii) the debtor is assessed as unlikely to reimburse credit obligations in full, without collateral claim, irrespective of the existence of any overdue instalment or number of days in arrears.

In what regards the unlikeliness-to-pay criteria, the Bank addresses the following situations: (a) distressed restructurings; b) clients with loans written-off of interest or capital; c) all clients that have an impairment loss rate of more than 20%, resulting from an individual assessment; d) the Bank sells the credit obligation at a material credit-related economic loss; e) the obligor has been placed (or is likely to be placed) in a bankruptcy and/or insolvency proceeding; f) forborne non-performing exposures; and g) where interest related to credit obligations is no longer recognized in the income statement of the Bank (non-accrued status).

Significant increase in credit risk

Under IFRS 9, in order to determine whether there has been a significant increase in credit risk (i.e. default risk) since the initial recognition of the financial instrument, the Group considers all relevant information available at no cost and/or excessive effort.

The Group identifies the occurrence of a significant increase in credit risk exposure through two approaches: (i) comparison between the current Probability of Default (PD) and PD at the time of contract recognition and (ii) use of a backstop. As a backstop, the Group considers that there is an increase in credit risk whenever a warning-signal occurs.

Inputs in the measurement of ECL

As a result of the characteristics of the portfolio (reduced number of operations and high heterogeneity), the calculation of the ECL has as the main vector of measurement the individual analysis assessment. In order to complement this analysis, an internal model for calculating collective impairment was developed, based on the following parameters:

- Probability of Default (PD);
- Loss Given Default (LGD);
- Exposure at Default (EAD); and
- Credit conversion factor (CCF).

Given the particularities of the loan portfolio and the impossibility of obtaining relevant historical information, these parameters are obtained through market reference values.

On December 31, 2017 and December 31, 2016, Haitong Bank's total and the average amount of net exposures over the period by exposure class were as follows:

(Amounts in Thousands of Euros)

Exposure classes	Original Exposure Factors [1]					Net Exposure Value [2]				
	On balance sheet exposures	Off balance sheet exposures	Exposures subject to counterparty credit risk	Total exposures subject to credit risk 31 Dec 2017	2017 Average	On balance sheet exposures	Off balance sheet exposures	Exposures subject to counterparty credit risk	Total exposures subject to credit risk 31 Dec 2017	2017 Average
Central governments or central banks	780,627	-	399,108	1,179,735	1,100,915	779,654	-	399,108	1,178,761	1,099,900
Regional governments or local authorities	3,893	-	-	3,893	4,014	3,664	-	-	3,664	3,785
Public sector entities	0	-	792	792	2,504	-	-	792	792	2,464
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-	-
Institutions	124,069	55,722	328,365	508,157	848,672	108,623	55,556	328,364	492,543	840,771
Corporates	572,945	162,467	212,139	947,550	1,095,480	566,864	161,725	209,683	938,273	1,084,626
Retail	-	-	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-
Exposures in default	324,778	26,625	-	351,403	514,117	180,711	25,677	-	206,388	280,299
Items associated with particular high risk	13,525	56	-	13,581	13,568	12,566	56	-	12,622	12,849
Covered bonds	-	-	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Collective investments undertakings (CIU)	36,589	-	-	36,589	37,545	32,272	-	-	32,272	33,239
Equity exposure	15,252	-	-	15,252	21,300	4,788	-	-	4,788	9,453
Other exposures	369,491	-	-	369,491	368,511	369,491	-	-	369,491	368,511
Total standardised approach	**2,241,169**	**244,871**	**940,405**	**3,426,445**	**4,006,626**	**2,058,632**	**243,015**	**937,947**	**3,239,595**	**3,735,898**

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

Table 19 – Total and average net amount of exposures

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

On December 31, 2017, Haitong Bank's geographic distribution of the exposures by exposure classes was:

(Amounts in Thousands of Euros)

Exposure classes	Europe	Portugal	Spain	Poland	United Kingdom	South America Brazil	Other geographical areas	Total
Central governments or central banks	705,396	691,009	-	14,387	-	473,365	-	1,178,761
Regional governments or local authorities	3,664	4	3,661	-	-	-	-	3,664
Public sector entities	792	792	-	-	-	-	-	792
Multilateral Development Banks	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-
Institutions	185,427	51,595	57,544	407	75,881	242,352	64,764	492,543
Corporates	616,732	375,219	126,446	114,861	206	224,276	97,265	938,273
Retail	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-
Exposures in default	89,694	14,236	72,531	2,926	-	58,976	57,718	206,388
Items associated with particular high risk	12,622	12,622	-	-	-	-	-	12,622
Covered bonds	-	-	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	11,323	11,323
Collective investments undertakings	19,079	19,079	-	-	-	1,871	4	20,954
Equity exposures	2,669	2,669	0	-	0	2,114	-	4,783
Other exposures	369,491	369,491	-	-	-	-	-	369,491
Total standardised approach	**2,005,567**	**1,536,716**	**260,183**	**132,582**	**76,087**	**1,002,954**	**231,074**	**3,239,595**

Table 20 – Geographical breakdown of exposures

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

On December 31, 2017, Haitong Bank’s distribution of the exposures by Industry broken down by exposure classes was as follows:

(Amounts in Thousands of Euros)

Exposure classes	Agriculture, forestry and fishing	Mining and quarrying	Manufacturing	Manufacture of wood and paper products, and printing	Electricity, gas, steam and air conditioning supply	Water supply	Construction	Wholesale and retail trade	Transport and storage	Accommodation and food service activities	Information and communication	Financial service activities, except insurance and pension funding	Insurance, reinsurance and pension funding, except compulsory social security	K66 - Activities auxiliary to financial services and insurance activities	Real estate activities	Professional, scientific and technical activities	Administrative and support service activities	Public administration and defence, compulsory social security	Human health and social work activities	Arts, entertainment and recreation	Other service	Total
Central governments or central banks	-	-	-	-	-	-	-	-	353	-	-	852,111	-	-	-	-	-	326,297	-	-	-	1,178,761
Regional governments or local authorities	-	-	-	-	-	-	0	-	-	-	-	-	-	-	-	-	-	3,664	-	-	-	3,664
Public sector entities	-	-	-	-	-	-	-	-	792	-	-	-	-	-	-	-	-	-	-	-	-	792
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
International Organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Institutions	-	-	-	-	-	-	-	-	-	-	-	477,727	774	14 042	-	-	-	-	-	-	-	492,543
Corporates	8,204	6,150	37,129	473	214,108	5,573	120,130	48,279	203,087	0	15 976	106,935	5,062	86,995	0	52,536	14,068	-	9,135	3	4,431	938,273
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Secured by mortgages on immovable pro|	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Exposures in default	-	-	22,370	-	-	9,772	50,379	66,408	7,231	3 572	27,771	1,009	-	4,215	0	-	13,662	-	-	-	0	206,388
Items associated with particular high risk	-	-	-	-	-	-	-	-	-	-	-	12,622	-	-	-	-	-	-	-	-	-	12,622
Covered bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Collective investments undertakings (CIU)	-	-	-	-	-	-	-	-	-	-	-	27,855	4,418	0	-	-	-	-	-	-	-	32,272
Equity	-	-	85	-	0	-	40	13	7	498	0	4	-	1,977	0	2 114	-	-	-	50	0	4,788
Other items	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	369,491	369,491
Total standardised approach	**8,204**	**6,150**	**59,584**	**473**	**214,108**	**15,345**	**170,548**	**114,700**	**211,470**	**4,070**	**43,747**	**1,478,263**	**10,254**	**107,228**	**0**	**54,650**	**27,731**	**329,962**	**9,135**	**53**	**373,922**	**3,239,595**

Table 21 – Concentration of exposures by industry

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

On December 31, 2017, Haitong Bank's residual maturity breakdown by exposure classes was as follows:

(Amounts in Thousands of Euros)

Exposure classes	On demand	<= 1 year	> 1 year <= 5 years	> 5 years	No stated maturity	Total
Central governments or central banks	302	410,839	-	-	767,621	1,178,761
Regional governments or local authorities	-	-	-	3,661	4	3,664
Public sector entities	-	792	-	-	-	792
Multilateral Development Banks	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-
Institutions	8,245	288,458	122,249	44,640	28,949	492,543
Corporates	-	288,565	83,572	440,049	126,087	938,273
Retail	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-
Exposures in default	1,449	72,645	31,242	62,544	38,508	206,388
Items associated with particular high risk	-	-	-	-	12,622	12,622
Covered bonds	-	-	-	-	-	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-
Collective investments undertakings (CIU)	-	15,525	-	-	16,747	32,272
Equity	-	-	-	-	4,788	4,788
Other items	-	-	-	-	369,491	369,491
Total standardised approach	**9,996**	**1,076,825**	**237,063**	**550,894**	**1,364,817**	**3,239,595**

Table 22 – Maturity of exposures

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

On December 31, 2017, Haitong Bank's credit quality of exposures by exposure class and instrument was as follows:

(Amounts in Thousands of Euros)

Exposure classes	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Central governments or central banks	-	1 179 735	974	-	-	(120)	1 178 761
Regional governments or local authorities	-	3 893	210	18	-	(2)	3 664
Public sector entities	-	792	0	-	-	-	792
Multilateral Development Banks	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-
Institutions	-	508 157	15 448	166	-	15,150	492 543
Corporates	-	947 550	6 995	2 283	(498)	-5,422	938 273
Retail	-	-	-	-	-	0	-
Secured by mortgages on immovable property	-	-	-	-	-	0	-
Exposures in default	351,403	0	144,749	267	-199,217	-149,827	206,388
Items associated with particular high risk	-	13 581	959	-	-	619	12 622
Covered bonds	-	-	-	-	-	0	-
Securitisation position	-	-	-	-	(2 677)	-2,846	-
Claims on institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-
Collective investments undertakings (CIU)	-	36 589	4 239	78	-	(384)	32 272
Equity exposures	1,718	13,534	10,464	0	-727	660	4,788
Other exposures	-	369 491	-	-	-	75	369 491
Total standardised approach	**353,122**	**3,073,323**	**184,037**	**2,813**	**-203,119**	**-142,096**	**3,239,595**
Of which: loans to customers	280 064	470 649	118 033	2 184	(175 285)	(131 671)	630 497
Of which: debt instruments	43 336	464 481	25 869	-	(22 954)	(6 068)	481 948
Of which: off-balance	26 626	218 246	1 226	630	(4 154)	(3 798)	243 016

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

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

On December 31, 2017, Haitong Bank's credit quality of exposures by industry or counterparty types was as follows:

(Amounts in Thousands of Euros)

Industry	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net Values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Agriculture, forestry and fishing	-	8,328	114	11	-	(29)	8,204
Mining and quarrying	-	6,181	15	16	-	31	6,150
Manufacturing	34 637	39,427	14,368	113	(48 261)	(41 160)	59,584
Manufacture of wood and paper products, and printin	-	479	6	-	-	-	473
Electricity, gas, steam and air conditioning supply	6 784	215,924	7,949	651	(12 524)	(5 577)	214,108
Water supply	13 876	5,602	4,116	17	-	2 069	15,345
Construction	85 733	121,355	36,280	260	(8 504)	8 575	170,548
Wholesale and retail trade	68 452	48,956	2,356	352	-	1 713	114,700
Transport and storage	21 923	205,363	15,138	678	(1 722)	(535)	211,470
Accommodation and food service activities	5 493	112	1,535	0	-	(602)	4,070
Information and communication	32 472	16,619	5,257	87	(19 316)	(20 453)	43,747
Financial service activities, except insurance and	1 261	1,499,196	21,814	380	(2 678)	(2 611)	1,478,263
Insurance, reinsurance and pension funding, except	-	10,701	447	0	-	-	10,254
activities auxiliary to Financial services and ins	37 932	110,810	41,436	77	(73 222)	(47 952)	107,228
Real estate activities	-	153	153	-	-	0	-
Professional, scientific and technical activities	-	55,481	781	50	(242)	(382)	54 650
Administrative and support service activities	40 117	14,135	26,487	34	(20 873)	(18 865)	27,731
Public administration and defence, compulsory social	-	331,164	1,184	18	-	(117)	329,962
Human health and social work activities	-	9,181	0	45	-	(5)	9,135
Arts, entertainment and recreation	-	207	154	-	(15 777)	(16 196)	53
Other service activities	4 440	373,950	4,446	22	-	(1)	373,922
Total	**353,122**	**3,073,323**	**184,037**	**2,813**	**-203,119**	**-142,096**	**3,239,595**

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

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

On December 31, 2017, Haitong Bank's credit quality of exposures by geography was as follows:

(Amounts in Thousands of Euros)

Country	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net Values
	Defaulted exposures	Non-defaulted exposures					(a+b-c-d)
Europe	160 512	1 566 663	88 916	2 183	(149 382)	(151 010)	1 636 076
Portugal	44 734	1 171 425	47 621	1 313	(64 036)	(59 224)	1 167 225
Spain	111 126	189 295	39 565	673	(81 043)	(87 931)	260 183
Poland	4 652	129 857	1 730	197	(4 303)	(3 854)	132 582
United Kingdom	-	76 087	0	-	-	-	76 087
South America	102 793	945 977	45 459	357	(24 912)	(7 417)	1 002 954
Brazil	102 793	945 977	45 459	357	(24 912)	(7 417)	1 002 954
Other geographical areas	89 817	560 683	49 662	272	(28 825)	16 332	600 565
Total	**353 122**	**3 073 323**	**184 037**	**2 813**	**(203 119)**	**(142 096)**	**3 239 595**

Table 25 –Credit quality of exposures by geography

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

On December 31, 2017, Haitong Bank's past due exposures were as follows:

(Amounts in Thousands of Euros)

	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans and advances to customers	0	0	950	297	18,642	57,453
Debt securities	0	0	0	0	0	11,684
Total exposures	**0**	**0**	**950**	**297**	**18,642**	**69,137**

Table 26 – Ageing of past-due exposures

Table 26 is aligned with EBA Template 14: EU CR1-D – Ageing of past-due exposures.

On December 31, 2017, Haitong Bank's non-performing and forborne exposures to debt securities, loans and advances to customers and off-balance sheet exposures were as follows:

(Amounts in Thousands of Euros)

	Gross carrying amount of performing and non-performing exposures					Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		Of which performing but past due >30 days and <=90 days	Of which performing forborne	Of which non-performing		On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures
					Of which forborne		Of which forborne		Of which forborne		
Debt Securities	507 817	0	4 301	43 336	43 336	0	0	25 869	25 869	0	0
Loans and advances to customers	750 714	0	96 166	280 064	280 064	2 184	483	117 159	117 159	43 026	43 026
Off-balance sheet exposures	244 872	0	0	26 626	26 626	630	113	836	836	0	0

Table 27 – Non-performing and forborne exposures

Table 27 is aligned with EBA Template 15: EU CR1-E – Non-performing and forborne exposures.

On December 31, 2017, Haitong Bank's credit risk adjustments annual movement was as follows:

(Amounts in Thousands of Euros)

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**330 785**	**2 901**
Increases due to amounts set aside for estimated loan losses during the period	115 706	(28)
Decreases due to amounts reversed for estimated loan losses during the period	(3 846)	-
Decreases due to amounts taken against accumulated credit risk adjustments	(38 688)	-
Transfers between credit risk adjustments	-	-
Impact of exchange rate differences	(12 062)	(59)
Business combinations, including acquisitions and disposals of subsidiaries	-	-
Other adjustments	(203 119)	-
Closing balance	**188 776**	**2 814**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-	-
Specific credit risk adjustments directly recorded to the statement of profit or loss	-	-

Table 28 – Changes in the stock of general and specific credit risk adjustments

Table 28 is aligned with EBA Template 16: EU CR2-A – Changes in the stock of general and specific credit risk adjustments.

On December 31, 2017, changes in Haitong Bank's stock of defaulted loans and debt securities were as follows:

(Amounts in Thousands of Euros)

	Gross carrying value defaulted exposures
Opening balance	**544 372**
Loans and debt securities that have defaulted or impaired since the last reporting period	20 235
Returned to non-defaulted status	296
Amounts written off	-198 239
Other changes	-42 931
Closing Balance	**323 733**

Table 29 –Changes in the stock of defaulted and impaired loans and debt securities

Table 29 is aligned with EBA Template 17: EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities.

On December 31, 2017, the amount of the impaired exposures and past due exposures broken down by exposure class, country and significant geographical areas were as follows:

(Amounts in Thousands of Euros)

	Impaired Exposures	Past due exposures	Impairment
Central governments or central banks	0	0	0
Regional governments or local authorities	0	0	0
Public sector entities	0	0	0
Multilateral Development Banks	0	0	0
International Organisations	0	0	0
Institutions	0	0	0
Corporates	0	0	0
Retail	0	0	0
Secured by mortgages on immovable property	0	0	0
Exposures in default	351,403	90,069	145,016
Items associated with particular high risk	0	0	0
Covered bonds	0	0	0
Securitisation position	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0
Collective investments undertakings (CIU)	0	0	0
Equity	1,718	0	1,190
Other items	0	0	0
Total by Risk Classes	**353,122**	**90,069**	**146,206**
Portugal	44,734	11,467	29,970
Brazil	102,793	28,291	43,817
Spain	111,126	20,640	38,595
Poland	4,652	2,451	1,726
United Kingdom	0	0	0
Others	89,817	27,219	32,098
Total by Country	**353,122**	**90,069**	**146,206**
Agriculture, forestry and fishing	0	0	0
Mining and quarrying	0	0	0
Manufacturing	34,637	0	12,268
Manufacture of wood and paper products, and printing	0	0	0
Electricity, gas, steam and air conditioning supply	6,784	6,784	6,784
Water supply	13,876	0	4,105
Construction	85,733	47,988	35,354
Wholesale and retail trade	68,452	2,328	2,044
Transport and storage	21,923	10,489	14,693
Accommodation and food service activities	5,493	0	1,424
Information and communication	32,472	1,022	4,701
Financial service activities, except insurance and pension funding	1,261	9	253
Insurance, reinsurance and pension funding, except compulsory social security	0	0	0
Activities auxiliary to financial services and insurance activities	37,932	20,763	33,687
Real estate activities	0	0	0
Professional, scientific and technical activities	0	0	0
Administrative and support service activities	40,117	0	26,455
Public administration and defence, compulsory social security	0	0	0
Human health and social work activities	0	0	0
Arts, entertainment and recreation	0	0	0
Other service activities	4,440	685	4,440
Total by industry or counterparty types	**353,122**	**90,069**	**146,206**

Table 30 – Additional disclosure related to the credit quality of assets

12 Encumbered and unencumbered assets

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

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

On December 31, 2017, encumbered and unencumbered assets were:

(Amounts in Thousands of Euros)

Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**747,692**	**-**	**2,528,213**	**-**
Equity instruments	-	-	47,822	47,822
Debt securities	594,283	594,283	306,050	306,050
of which: issued by general governments	565,860	565,860	124,727	124,727
of which: issued by financial corporations	28,423	28,423	93,748	93,748
of which: issued by non-financial corporations	-	-	87,574	87,574
Other Assets	153,409	-	2,174,341	-
of which: Loans on demand	3,917		469,345	
of which: Loans and advances other than loans on demand	0		1,117,908	
of which: Other assets	149,492		587,088	

Table 31 – Asset encumbrance - Template A-Assets

On December 31, 2017, the fair value of the collateral was:

(Amounts in Thousands of Euros)

Collateral received	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**-**	**397 760**
Equity instruments	-	-
Debt securities	-	397 760
of which: covered bonds	-	-
of which: asset-backed securities	-	-
of which: issued by general governments	-	397 760
of which: issued by financial corporations	-	-
of which: issued by non-financial corporations	-	-
Loans on demand	-	-
Loans and advances other than loans on demand	-	-
Other collateral received	-	-
Own debt securities issued other than own covered bonds or ABSs	**-**	**8 756**

Table 32 – Asset encumbrance - Template B-Collateral

On December 31, 2017, the liabilities related to encumbered assets and collaterals received were:

(Amounts in Thousands of Euros)

Encumbered assets, encumbered collateral received and matching liabilities	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**485,956**	**743,776**

Table 33 – Asset encumbrance - Template C-Sources of encumbrance

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

- The European Central Bank (ECB) and Brazil Central Bank. ECB funding operations are regulated by Instruction 3/2015 and 1/2016 from Bank of Portugal;
- Repurchase Agreements' transactions where there are Global Master Repurchase Agreements signed between Haitong Bank and each one of its counterparties;
- Initial and variation margins for derivatives where collateral is transferred in line with the Credit Support Annex ('CSA') signed between Haitong Bank and its counterparties;
- Fundo de Garantia de Depósitos (Deposit Guarantee Funds) regulated by the Decree law 176/94, of December 13, 1994, and Bank of Portugal Notice 11/94, December 21, 1994.

13 Use of ECAIs

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

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

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

On December 31, 2017, the exposure values and the exposure values after credit risk mitigation associated with each credit quality step prescribed in Part Three, Title II, Chapter 2, as well as those deducted from own funds, were as follows:

(Amounts in Thousands of Euros)

Exposure classes	Risk Weight 0%	20%	35%	50%	70%	75%	100%	150%	250%	Total
Central governments or central banks	1 178 762	-	-	-	-	-	973	-	-	1 179 735
Regional governments or local authorities	-	3 893	-	-	-	-	-	-	-	3 893
Public sector entities	-	-	-	792	-	-	-	-	-	792
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-	-
Institutions	-	273 834	-	131 654	-	-	102 669	-	-	508 157
Corporates	-	-	-	-	-	-	947 550	-	-	947 550
Retail	-	-	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	237 268	114 136	-	351 403
Items associated with particular high risk	-	-	-	-	-	-	-	13 581	-	13 581
Covered bonds	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	36 589	-	-	36 589
Equity	-	-	-	-	-	-	15 252	-	-	15 252
Other items	183 216	-	-	-	-	-	138 143	-	48 132	369 491

Exposure values after credit risk mitigation	Risk Weight 0%	20%	35%	50%	70%	75%	100%	150%	250%	Total
Central governments or central banks	879 464	-	-	-	-	-	-	-	-	879 464
Regional governments or local authorities	-	28 498	-	-	-	-	-	-	-	28 498
Public sector entities	-	-	-	792	-	-	-	-	-	792
Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
International Organisations	-	-	-	-	-	-	-	-	-	-
Institutions	-	97 722	-	131 654	-	-	62 831	-	-	292 207
Corporates	-	-	-	-	-	-	782 585	-	-	782 585
Retail	-	-	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-	-	-
Exposures in default	-	-	-	-	-	-	95 823	66 322	-	162 145
Items associated with particular high risk	-	-	-	-	-	-	-	12 566	-	12 566
Covered bonds	-	-	-	-	-	-	-	-	-	-
Institutions and corporates with a short-term credit assessment	-	-	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	32 272	-	-	32 272
Equity	-	-	-	-	-	-	4 788	-	-	4 788
Other items	183 216	-	-	-	-	-	138 143	-	48 132	369 491

Table 34 – Risk Weight by Standardised approach

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

Haitong Bank complies with the standard association published by EBA and CRR Part III, Title II, Chapter 2, Section 4.

14 Market Risk

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

On December 31, 2017, and December 31, 2016, Haitong Bank's Market Risk minimum capital (8% of RWAs) composition was as follows:

(Amounts in Thousands of Euros)

	Market Risk	Dec. 2017	Dec. 2016
	Capital requirements = Σ(1 to 4)	**32 498**	**38 015**
1. Position risk		**23 865**	**32 719**
	1.1. Standardised approach for trading book =(1.1.1.+1.1.2.)		
	1.1.1. Debt Instruments	**21 050**	**30 287**
	1.1.1.1. Specific Risk	6 281	7 499
	1.1.1.2. General risk	14 755	22 788
	1.1.1.3. Additional requirements for Options - Non-Delta risk	13	0
	1.1.2. Equity	**2 815**	**2 432**
	1.1.2.1. Specific Risk	1 408	1 634
	1.1.2.2. General risk	1 408	798
	1.1.2.3. Additional requirements for Options - Non-Delta risk	0	0
2. Foreign exchange risk		**8 592**	**5 296**
3. Commodity risk		**41**	**0**
4. Settlement Risk		**0**	**0**

Table 35 – Market Risk own funds requirements

(Amounts in Thousands of Euros)

	RWAs	Capital requirements
Outright products		
Interest rate risk (general and specific)	262 958	21 037
Equity risk (general and specific)	35 190	2 815
Foreign exchange risk	105 937	8 475
Commodity risk	513	41
Options		
Simplified approach	-	-
Delta-plus method	163	13
Scenario approach	1 464	117
Securitisation (specific risk)	-	-
Total	406 225	32 498

Table 36 –Market risk under standardised approach as of December 31, 2017

Table 36 is aligned with EBA Template 34- EU MR1: Market risk under standardised approach as of December 31, 2017.

15 Operational Risk

Operational Risk own funds requirements determined for prudential reporting purposes as of December 31, 2017, were calculated in accordance with the Standardized Approach (Part III, Title III, Chapter 3 of the CRR). In the standardized approach, own fund requirements are computed as the three-year average of the sum of annual own fund requirements for all segments indicated in figure 5.

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

Figure 5 – Standardized Approach – Business Segments

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

Calculation of the relevant indicator

In accordance with Regulation (EC) no. 1606/2002 of the European Council and Parliament of July 16, 2002, as transposed into Portuguese law through Decree-Law no. 35/2005 of February 17 and the Bank of Portugal's Notice no. 1/2005, the Bank prepares its separate financial statements in accordance with the International Financial Reporting Standards (IFRS).

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

The relevant indicator is calculated according to Article 316 of Regulation (EU) no. 575/2013 of the European Parliament and Council, based on the accounting concepts defined in the Bank of Portugal's Instruction no. 23/2007, considering the following accounting items:

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

Table 37 – Relevant indicator accounting items

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

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

(Amounts in thousand Euros)

Operational Risk Relevant Indicator	2015	2016	2017
Standardized Approach	**147 518**	**109 960**	**97 130**
Corporate Finance	26 112	20 747	45 922
Trading and Sales	65 505	47 469	11 243
Retail Brokerage	1 245	730	119
Commercial Banking	50 128	38 988	34 893
Retail Banking	39		
Payment and Settlement			
Agency Services			
Asset Management	4 489	2 027	4 952

Table 38 – Operational Risk relevant indicator

Operational Risk own funds requirements determined for prudential reporting purposes, according to information in Table 38, amounted to EUR 19,764 thousand as of December 31, 2017, a decrease when compared to the EUR 25,020 thousand of December 31, 2016.

16 Exposures in equities not included in the trading book

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

The Bank's banking book exposure in equities is accounted in the assets available for sale portfolio, with changes in value recognized under equity as a separate item - "Fair Value Reserves" – until they are sold or subject to impairment losses.

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

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

(Amounts in Thousands of Euros)

	Quoted shares		Unquoted shares				Other equity instruments		Total	
			Private Equity		Others					
	Dec. 2017	Dec. 2016	Dec. 2017	Dec. 2016	Dec. 2017	Dec. 2016	Dec. 2017	Dec. 2016	Dec. 2017	Dec. 2016
Acquisition cost/Notional amount	1,220	1,220	9,152	10,115	2,764	3,309	32,674	33,183	45,810	47,827
Fair Value	30	60	2,196	3,762	2,164	2,772	27,502	26,830	31,892	33,424
Market Value	30	60								
Gains or losses arising from sales and liquidations in the period [1]									43	1,080
Total unrealized gains or losses [2]									1,666	522
Total latent revaluation gains or losses [3]									-13,919	-14,403

[1] Results in the period, before taxes.

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

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

Table 39 – Exposures in equities in the banking book

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

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

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

All financial products which do not have an associated interest return are considered as non-interest rate sensitive (cash, equities, other assets, including real estate, and other liabilities). Non-maturity deposits are considered in the maturity tenor up to one month.

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

(Amounts in Thousands of Euros)

Interest rate risk (Banking Book)			Dec. 2017	Dec. 2016
% Own funds		+200 bps	4.05%	13.63%
		-200 bps	-4.05%	-13.63%
Value	**Total**	+200 bps	18,745	37,918
		-200 bps	-18,745	-37,918
	EUR	+200 bps	23,465	46,367
		-200 bps	-23,465	-46,367
	USD	+200 bps	-3,616	-6,417
		-200 bps	3,616	6,417
	BRL	+200 bps	-1,424	-2,095
		-200 bps	1,424	2,095
	Other currencies	+200 bps	319	63
		-200 bps	-319	-63

Table 40 – Interest rate risk (banking book)

18 Exposure to securitisation positions

As of December 31, 2017, Haitong Bank did not have asset securitization operations originated by the Group.

19 Leverage

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

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

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

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

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

(Amounts in Thousands of Euros)

	CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)	
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	2 506 474
(Asset amounts deducted in determining Tier 1 capital)	-53 754
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	2 452 719
Derivative exposures	
Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	210 960
Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	62 332
Exposure determined under Original Exposure Method	-
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-10 038
(Exempted CCP leg of client-cleared trade exposures)	-
Adjusted effective notional amount of written credit derivatives	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
Total derivatives exposures (sum of lines 4 to 10)	263 254
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	674 694
(Netted amounts of cash payables and cash receivables of gross SFT assets	-674 694
Counterparty credit risk exposure for SFT asset	119 771
Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	-
Agent transaction exposures	-
(Exempted CCP leg of client-cleared SFT exposure)	-
Total securities financing transaction exposures (sum of lines 12 to 15a)	119 771
Other off-balance sheet exposures	
Off-balance sheet exposures at gross notional amount	244 871
(Adjustments for conversion to credit equivalent amounts)	-2 642
Other off-balance sheet exposures (sum of lines 17 and 18)	242 229
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	
(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)	-
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
Capital and total exposures	
Tier 1 capital	461 011
Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	3 077 973
Leverage ratio	
Leverage ratio	14,98%
Choice on transitional arrangements and amount of derecognised fiduciary items	
Choice on transitional arrangements for the definition of the capital measure	Phased-in
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	-

Table 41 – Leverage ratio

(Amounts in Thousands of Euros)

		Applicable ammounts
1	Total assets as per published financial statements	3,275,905
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
4	Adjustments for derivative financial instruments	
5	Adjustments for securities financing transactions "SFTs"	119,771
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	242,229
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	-559,932
8	**Total leverage ratio exposure**	**3,077,973**

Table 42 – Summary reconciliation of accounting assets and leverage ratio exposures

The leverage tables 41 and 42 are in line with the Commission 134.Implementing Regulation (EU) No 2016/200 of February 15, 2016.

Haitong Bank does not face the risk of excessive leverage, considering the 14.98% ratio on December 31, 2017, compared with the minimum prudential percentage of 3%. Leverage ratio is monitored on a monthly basis, which allows the identification of proper mitigation actions in the case of excessive leverage.

20 Credit risk mitigation techniques

The use of credit protection is a key element of the risk policy and credit decision process, influencing the acceptance criteria, the decision levels, and the pricing.

The main risk mitigation techniques used by the Bank are financial pledges (funded credit protection – financial collateral in the form of securities and cash) and personal guarantees (unfunded credit protection with substitution effect).

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

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

Haitong Bank follows the prescription of CRR in what concerns collateral haircuts for impairment calculation. Thus, instead of using the collateral value, the Bank considers the collateral value after haircut application.

As of December 31, 2017, Haitong Bank did not have credit derivatives transactions as unfunded credit protection.

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

The pledge of bank accounts valuation is done on a quarterly basis according to information provided by the depositary bank.

Regarding pledges over non listed equity securities, pledges over equipment and mortgages valuation, 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).

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

On December 31, 2017, in accordance with Part Three, Title II, Chapter 4 of the CRR, including the financial collateral simple method and the financial collateral comprehensive method in the application of Article 222 and Article 223, 224 of the same regulation on standardised approach capital requirements' calculations and RWA density, Haitong Bank's Credit Risk Mitigation (CRM) techniques applied was as follows:

(Amounts in Thousands of Euros)

		CREDIT RISK MITIGATION (CRM) TECHNIQUES WITH SUBSTITUTION EFFECTS ON THE EXPOSURE						Credit risk mitigation techniques affecting the amount of the exposure: funded credit protection. Financial collateral comprehensive method		
		Unfunded credit protection: adjusted values		Funded credit protection		Substitution of the exposure due to CRM				
Exposure Class	Exposure net of value adjustments and provisions	(-) Guarantees	(-) Credit derivatives	(-) Financial collateral: simple method	(-) Other funded credit protection	(-) Total Outflows	Total Inflows (+)	Volatility adjustment to the exposure	(-) Financial collateral: adjusted value (Cvam)	Exposure value
Central governments or central banks	1,178,761	0	0	0	0	0	42,680	0	-341,978	879,464
Regional governments or local authorities	3,664	0	0	0	0	0	24,834	0	0	28,498
Public sector entities	792	0	0	0	0	0	0	0	0	792
Multilateral Development Banks	0	0	0	0	0	0	0	0	0	0
International Organisations	0	0	0	0	0	0	0	0	0	0
Institutions	492,543	0	0	0	0	0	0	33,693	-195,553	330,683
Corporates	938,273	-24,834	0	0	0	-24,834	0	6,696	-57,781	862,354
Retail	0	0	0	0	0	0	0	0	0	0
Secured by mortgages on immovable property	0	0	0	0	0	0	0	0	0	0
Exposures in default	206,388	-42,680	0	0	0	-42,680	0	0	0	163,708
Items associated with particular high risk	12,622	0	0	0	0	0	0	0	0	12,622
Covered bonds	0	0	0	0	0	0	0	0	0	0
Securitisation position	0	0	0	0	0	0	0	0	0	0
Claims on institutions and corporates with a short-term credit assessment	0	0	0	0	0	0	0	0	0	0
Collective investments undertakings (CIU)	32,272	0	0	0	0	0	0	0	0	32,272
Equity	4,788	0	0	0	0	0	0	0	0	4,788
Other items	369,491	0	0	0	0	0	0	0	0	369,491
Total	**3,239,595**	**-67,514**	**0**	**0**	**0**	**-67,514**	**67,514**	**40,389**	**-595,311**	**2,684,672**

Table 43 – Credit risk mitigation techniques

(Amounts in Thousands of Euros)

Industry	Unfunded Credit Protection		Funded Credit Protection
	Guarantees	Credit derivatives	
Agriculture, forestry and fishing	0	0	0
Mining and quarrying	0	0	0
Manufacturing	11,442	0	1,048
Manufacture of wood and paper products, and printir	0	0	0
Electricity, gas, steam and air conditioning supply	0	0	2,084
Water supply	0	0	0
Construction	6,924	0	0
Wholesale and retail trade	36,103	0	0
Transport and storage	0	0	0
Accommodation and food service activities	0	0	0
Information and communication	0	0	0
Financial service activities, except insurance and pen	0	0	588,066
Insurance, reinsurance and pension funding, except c	0	0	0
Activities auxiliary to financial services and insurance	0	0	0
Real estate activities	0	0	0
Professional, scientific and technical activities	0	0	0
Administrative and support service activities	0	0	4,113
Public administration and defence, compulsory socia	0	0	0
Human health and social work activities	9,018	0	0
Arts, entertainment and recreation	0	0	0
Other service activities	4,453	0	0
Total	**67,940**	**0**	**595,311**

Table 44 – Credit Protection Concentration

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

(Amounts in Thousands of Euros)

Exposure classes	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance-sheet amount	Off-balance-sheet amount	On-balance-sheet amount	Off-balance-sheet amount	RWAs	RWA density
Central governments or central banks	779,654	0	822,334	-	-	-
Regional governments or local authorities	3,664	-	28,498	-	733	0.03%
Public sector entities	0	-	0	-	0	0.00%
Multilateral Development Banks	0	-	0	-	-	0.00%
International Organisations	0	-	0	-	-	0.00%
Institutions	108,623	55,556	108,623	17,080	73,089	3.35%
Corporates	566,864	161,725	542,030	81,957	627,863	28.78%
Retail	0	-	0	-	-	0.00%
Secured by mortgages on immovable property	0	-	0	-	-	0.00%
Exposures in default	180,711	25,677	138,031	24,115	195,306	8.95%
Exposures associated with particularly high risk	12,566	56	12,566	0	18,849	0.86%
Covered bonds	0	-	0	-	-	0.00%
Claims on institutions and corporates with a short-term credit assessment	0	-	0	-	-	0.00%
Collective investments undertakings (CIU)	32,272	-	32,272	-	32,272	1.48%
Equity	4,788	-	4,788	-	4,788	0.22%
Other items	369,491	-	369,491	-	258,473	11.85%
Total	**2,058,632**	**243,015**	**2,058,632**	**123,152**	**1,211,373**	**55.5%**

Table 45 – Standardised approach – Credit risk exposure and CRM effects

Table 45 is aligned with EBA Template 19: EU CR4 – Standardised approach – Credit risk exposure and CRM effects.

The tables 45 in this chapter do not consider derivatives instruments, repos and reverse repos transactions with margins.

21 Liquidity Risk

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

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

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

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

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

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

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

Haitong Bank's liquidity and funding management are under the direct responsibility of the Executive Committee, which has incorporated the former Capital Asset Liabilities Management Committee (CALM) duties.

The Group's liquidity management is coordinated at Group level, under the ultimate responsibility of the Chief Executive Officer (CEO) and operational coordination by the Global Coordinator of Treasury.

Haitong Bank has two main treasury hubs: Lisbon and São Paulo. Additionally, Poland also has a treasury department located in Warsaw, dealing with the specifications of the local market, local currency and the Polish regulatory/supervising authority. While Lisbon and São Paulo deal with the bulk of the Bank's funding and liquidity needs, Warsaw volumes and activity are far less material and have a small weight in the overall business of the Bank. Although representing a sizeable part of the Bank's balance sheet, the Irish subsidiary is managed on a consolidated basis from Lisbon.

Funding from the parent company to the Brazilian subsidiary is at this point non-existent and, although we cannot rule out some sort of assistance when or if needed, it is not considered a "regular" source of funding. Thus, the Brazilian subsidiary manages its activity in order to ensure that the funding needs are sourced locally in local currency. As a result, the flows between Portugal and Brazil are extremely rare. Local market idiosyncrasies and the lack of full convertibility of the BRL are the main reasons for this historical segregation.

In 2017, Haitong Bank's major sources of funding were wholesale facilities provided by financial institutions, deposits from clients and equity. At the end of 2017, the major funding provider accounted for 10% of the total funding. Deposits from clients include both retail deposits and other deposits from corporate clients and financial institutions.

Equity is an important source of funding and during 2017 Haitong Bank completed capital increases in the total amount of EUR 419 million.

High quality liquid assets of Haitong Bank consist mainly of deposits in central banks (Bank of Portugal) and sovereign debt.

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

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

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

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

Haitong Bank Liquidity Coverage Ratio (LCR)

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

Haitong Bank's LCR average quarterly figures for 2017 are presented in the table below:

(Amounts in Thousands of Euros)

LCR Consolidated		Total weighted value (average)			
Quarter ending on		31/03/2017	30/06/2017	30/09/2017	31/12/2017
Number of data points used in the		12	12	12	12
21	LIQUIDITY BUFFER	423 171	469 485	534 202	576 628
22	TOTAL NET CASH OUTFLOWS	215 225	185 755	152 500	123 820
23	**LIQUIDITY COVERAGE RATIO (%)**	**216%**	**299%**	**429%**	**550%**

Table 46 – LCR disclosure table

As shown by Table 46, Haitong Bank has maintained in 2017 a very solid short-term liquidity position, with its unencumbered high quality liquid assets covering the net cash outflows, and with the ratio sitting comfortably above the regulatory minimum requirements of 100%.

22 Remuneration Policy

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

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

Remuneration Policy of the Board of Directors and Supervisory Board – **Part III**
Employee Remuneration Policy – Senior Staff – **Part I**
The Remuneration Committee held two meetings in 2017.

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

Remuneration Policy of the Board of Directors and Supervisory Board – **Part VI, VI.II, h)**
Employee Remuneration Policy – Senior Staff – **Part II, 2.2 and 2.3**

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

Remuneration Policy of the Board of Directors and Supervisory Board – **Part V and Part VI**
Employee Remuneration Policy – Senior Staff – **Part II and Part IV**

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

Remuneration Policy of the Board of Directors and Supervisory Board – **Part VI, VI.2, b) and c)**
Employee Remuneration Policy – Senior Staff – **Part III, 3.1**

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

Remuneration Policy of the Board of Directors and Supervisory Board – **Part VI, VI.II, h)**
Employee Remuneration Policy – Senior Staff – **Part II, 2.2 and 2.3**

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

Remuneration Policy of the Board of Directors and Supervisory Board - **Part VI.II**
Employee Remuneration Policy – Senior Staff - **Part II, 2.2 and 2.3**

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

Business Area	Remunerations
Investment Banking	8 846
Markets	10 964
Asset Management	1 698
Instrumental Areas	4 298
Control Areas	3 039
Support Areas	13 979
Total	**42 824**

Table 47 – Aggregate quantitative remuneration by business area

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

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

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

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

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

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

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

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

No individual was remunerated EUR 1 million or above in 2017 financial year.

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

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