HAITONG

2017 | Annual Report

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MANAGEMENT REPORT

JOINT MESSAGE FROM THE CHAIRMAN AND THE CEO

This is our first joint message as Chairman and as CEO of Haitong Bank. Since starting in our new role, we have been committed to delivering on our main priorities: turning around the business; improving China-related deal flow; continuously strengthening our governance and further developing our human capital.

The progress achieved so far makes us optimistic about the future of our organisation. Since our arrival in the fourth quarter of 2017, Haitong Bank has been consistently registering monthly operating profits. We have also received encouraging signs of the progress achieved so far, namely the upward revision of the Bank's credit rating outlook from negative to stable by S&P. Although we are fully conscious of the great challenges ahead, these signs show us that we are on the right track.

Haitong Bank is at a crucial point for its future development. After implementing an operating turnaround and strategic repositioning during 2017, Haitong Bank has a clear role inside Haitong Group as its Corporate and Investment Banking unit and offers a platform for Broad Asset Management.

Over the last year, we have been actively engaged in reshaping the Bank's strategy, adjusting the size of the organisation, the business culture and the cost base. The high restructuring costs and the impairments related to the deterioration of the legacy credit portfolio led the Bank to high losses that required additional capital support from our shareholder.

All of the effort that took place in 2017 was with a view to having a sustainable business model going forward. The monthly running cost base has been reduced by one third. The legacy loan portfolio credit quality has improved with the stock of credit at risk falling by 42%. The product offering has been adapted to the new competitive approach.

As China is growing in prominence as a global economic powerhouse, this raises tremendous opportunities for Haitong Bank. From a strategic perspective, the Bank is leveraging on the Sino-European and Sino-Latin American business flows, building from its established competitive presence in those markets.

Haitong Bank has established itself as a true multinational bank headquartered in Lisbon. Our team has a unique combination of European, Asian and Latin American heritage. This cultural diversity brings clear competitive advantages in the way we identify opportunities, understand our clients and analyse the various risk exposures. This diversity is also reflected at a Board level.

From a governance perspective, our new Board of Directors has been reinvigorated with the addition of several new members that will add further capabilities. We have been working closely with the Board of Directors and the Supervisory Board, which have contributed with useful ideas to continuously improve our governance and reinforce the culture of good conduct in the organisation.

We firmly believe that we have the right people and the necessary tools to succeed. We are also proud to have a shareholder that gives us its continuous support, not only in terms of capital, but also via cross-border business opportunities.

We enter 2018 in a much stronger position from which Haitong Bank can surely only grow and reach its full potential.

Wu Min *Chief Executive Officer*	*Lin Yong* *Chairman of the Board of Directors*

1. GOVERNANCE

CORPORATE BODIES

GENERAL MEETING BOARD

Chairman
Maria João Ricou

Secretary
Sara de Almeida Azevedo Begonha

BOARD OF DIRECTORS

Chairman
Lin Yong

Members
Wu Min
Alan do Amaral Fernandes
António Domingues [1]
Christian Georges Jacques Minzolini
Mo Yiu Poon
Pan Guangtao
Paulo José Lameiras Martins
Vincent Marie Camerlynck
Xinjun Zhang [1]

SUPERVISORY BOARD

Chairman
Mário Paulo Bettencourt de Oliveira

Members
Cristina Maria da Costa Pinto [1]
Maria do Rosário Mayoral Robles Machado Simões Ventura [1]

Alternate
Paulo Ribeiro da Silva

[1] Took office on 24 January 2018 following their approval by the Bank of Portugal

EXECUTIVE COMMITTEE

CEO
Wu Min

Members
Alan do Amaral Fernandes
Christian Georges Jacques Minzolini
Paulo José Lameiras Martins

Senior Managers with a Seat on the Executive Committee
António Carlos Gomes Pacheco
Nuno Miguel Sousa Figueiredo Carvalho
Pedro Alexandre Martins Costa
Vasco Câmara Pires Santos Martins

Secretary
Pedro Alexandre Martins Costa

STATUTORY AUDITORS

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

EXECUTIVE COMMITTEE RESPONSIBILITIES

Wu Min
Chief Executive Officer

Asset Management
Equities & Research [2]
FICC
Global Markets
Structured Finance
Compliance
Internal Audit [3]
Risk Management

CEO Office
Treasury
Administrative
Human Resources
Legal [4]
Middle Office
Operations
Branches (Spain, London, Warsaw)
Haitong Investment Ireland P.L.C.

Alan Fernandes
Executive Board Member

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

Christian Minzolini
Executive Board Member

Special Portfolio Management
Finance
IT

Paulo Martins
Executive Board Member

Mergers & Acquisitions
Capital Markets
Private Equity (Haitong Capital – SCR, S.A.)
Clients

[2] Under the responsibility of the Head of the CEO Office
[3] Functional and hierarchical report to the Internal Audit Committee
[4] Under the responsibility of the Head of Compliance

SENIOR MANAGERS RESPONSIBILITIES

António Gomes Pacheco

Head of Finance

Nuno Carvalho

Head of Compliance

Pedro Costa

Head of CEO Office

Vasco Câmara Martins

Head of Risk Management (CRO)

BRANCHES AND MAIN SUBSIDIARIES

BRANCHES

HAITONG BANK, S.A. - SPAIN BRANCH
José Miguel Rego
Luis Miguel Gil [5]

HAITONG BANK, S.A. - LONDON BRANCH
Paulo Araújo [5]
Pedro Costa [5]

HAITONG BANK, S.A. - WARSAW BRANCH
Krzysztof Rosa
Bartlomiej Dmitruk

HAITONG BANCO DE INVESTIMENTO DO BRASIL, S.A. - CAYMAN BRANCH
Frederico Alegria

SUBSIDIARIES

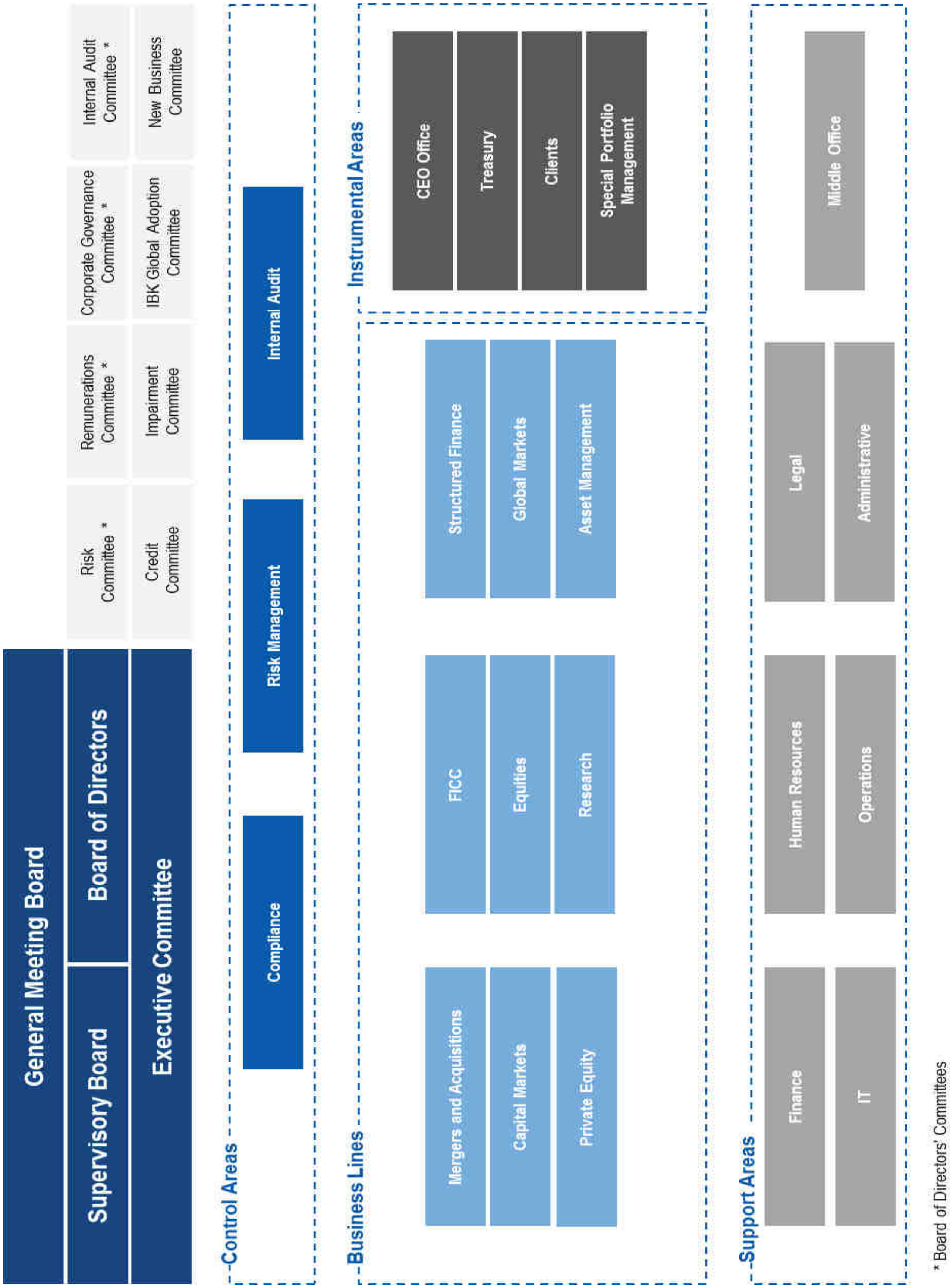
HAITONG BANCO DE INVESTIMENTO DO BRASIL, S.A. (BRAZIL)
Alan Fernandes

HAITONG CAPITAL - SOCIEDADE DE CAPITAL DE RISCO, S.A. (PORTUGAL)
Paulo Martins
Luís Valença Pinto

HAITONG INVESTMENT IRELAND P.L.C. (IRELAND)
Carlos Nogueira
Pedro Costa

[5] Waiting for approval by the Bank of Portugal.

ORGANISATIONAL CHART



2. EARNINGS DISTRIBUTION PROPOSAL

Given that Haitong Bank's individual income statement for the year ended on 31 December 2017 showed a net loss of EUR 140,540,947.19**,** the Board of Directors submits to the Annual General Meeting the following proposal for the distribution of the year's results:

- TO OTHER RESERVES AND RETAINED EARNINGS: EUR - 140,540,947.19 euros (net loss of one hundred and forty million, five hundred and forty thousand, nine hundred and forty seven euros and nineteen cents);
- TOTAL: EUR – 140,540,947.19 euros (net loss of one hundred and forty million, five hundred and forty thousand, nine hundred and forty seven euros and nineteen cents).

3. DECLARATION OF CONFORMITY

In accordance with Article 245, number 1, paragraph c, of the Portuguese Securities Code, the Members of the Board of Directors of Haitong Bank, S.A. hereby declare that, to the best of their knowledge:

a) The individual financial statements of Haitong Bank, S.A. for the year ended on 31 December 2017 were prepared in accordance with the legally applicable accounting standards and the Portuguese legislation, as set forth in Article 245, number 3, of the Portuguese Securities Code;

b) The consolidated financial statements of Haitong Bank, S.A. for the year ended on 31 December 2017 were prepared in accordance with the legally applicable accounting standards and with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of July 19th, as set forth in Article 245, number 3, of the Portuguese Securities Code;

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

d) The Management Report describes faithfully Haitong Bank, S.A. and consolidated companies' business evolution, performance and financial position for the year ended on 31 December 2017, and includes a description of the main risks and uncertainties that could affect the business.

Lisbon, 26 March 2018

Lin Yong (Chairman of the Board of Directors)	Wu Min (Chief Executive Officer)
Alan do Amaral Fernandes (Executive Board Member)	Christian Georges Jacques Minzolini (Executive Board Member)
Paulo José Lameiras Martins (Executive Board Member)	António Domingues (Non-Executive Board Member)
Mo Yiu Poon (Non-Executive Board Member)	Pan Guangtao (Non-Executive Board Member)
Vincent Marie Camerlynck (Non-Executive Board Member)	Xinjun Zhang (Non-Executive Board Member)

4. GLOBAL STRATEGY AND MAIN DEVELOPMENTS

GLOBAL STRATEGY

Haitong Bank's strategy is to leverage on the opportunities emerging from China's internationalisation, 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 increasing internationalisation of Chinese companies has fuelled demand for value-added services within overseas Advisory Services, Structured Finance and Capital Markets. This provides the Bank with an unrivalled competitive advantage in core investment banking services.

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

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

Haitong Bank now has a clear position within Haitong Group as its Corporate and Investment Banking arm and offers a platform for Broad Asset Management. The transfer of ownership of the UK and US Haitong Bank's subsidiaries to Haitong International ("HTI") will strengthen the Bank's role by decreasing the weight of Markets activities in favour of Corporate and Investment Banking and Broad Asset Management.

This new product mix with a China Angle is more global in nature and less dependent on Portugal and other local markets. Therefore, the opportunity Haitong Bank has is to leverage on its ability to provide these services in a broader range of Western markets as part of an international organisation with China-related expertise.

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

CORPORATE EVENTS

- In March 2017, Haitong Bank, S.A. fully subscribed to the capital increase of Haitong (UK) limited, an investment of GBP 5.9 million.
- In May 2017, Mr. David Hobley handed in his resignation of his position as non-executive member of the Board of Directors of Haitong Bank, S.A..
- In May 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, S.A. through the conversion into capital of a EUR 20 million shareholder loan.
- In May 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, S.A., an investment of EUR 40 million in cash.
- In June 2017, Haitong Bank, S.A. fully subscribed to the capital increase of Haitong (UK) Limited, an investment of GBP 4.1 million.
- In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, S.A., an investment of EUR 160 million in cash.
- In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, S. A. through the conversion into capital of a EUR 80 million shareholder loan.
- In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, S.A. through the conversion into capital of a EUR 80 million 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, S.A. through the conversion into capital of a EUR 38.5 million shareholder loan.
- In August 2017, Ms. Maria João Ricou was elected President of the Board of the General Meeting of Haitong Bank, S.A. for the 2017/2019 mandate, with Ms. Sara de Almeida Azevedo Begonha taking office as Secretary.
- In October 2017, the Bank of Portugal authorised Mr. Lin Yong and Mr. Wu Min to take office respectively as Chairman of the Board of Directors and member of the Board of Directors and Chief Executive Officer of Haitong Bank, S.A. for the 2017/2019 mandate.
- In November 2017, Haitong Bank, S.A. liquidated its subsidiary Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R..
- In December 2017, and subject to the terms and conditions of the Share Purchase and Sale Agreements, Haitong Bank, S.A. sold to Haitong International BVI shares representing 100% of the share capital of its subsidiaries in the UK and the US.

Occurred after the relevant period:

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

    - **Board of Directors**

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

    - **Supervisory Board**

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

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

MACROECONOMIC ENVIRONMENT

2017 saw an acceleration of business activity in the main economic areas, with global GDP growth picking up from 3.2% to 3.7%. For the first time since 2010, global activity growth benefited simultaneously from the advanced and emerging economies. While in the first group GDP growth expanded from 1.7% to 2.3%, supported by expansionary monetary and fiscal policies, in the second it rose from 4.4% to 4.7%, driven, among others, by the rise in commodities and the strengthening international trade flows. The price of (Brent) retreated in the first half of the year from USD 55.4/barrel to a low of close to USD 44/barrel, only to rise again in the second half and closing the year with a gain of 20.6%, at USD 66.8/barrel. This increase was underpinned by the strengthening of demand and the agreement between the OPEC and Russia to extend crude oil output cuts. This performance was mirrored by the non-energy commodities.

In the US, GDP grew by 2.3% in 2017, after growing by 1.5% in 2016. Following a relatively subdued start to the year, economic activity gained pace in the second half, shored up by the solid performance of private consumption and even more so by the acceleration in corporate investment. This rally of economic activity pushed down the rate of unemployment, which fell from 4.7% to 4.1% of the labour force. The Eurozone economy grew by 2.4% in 2017, outpacing initial expectations and accelerating from 1.8% in 2016. Private consumption and investment showed relatively stable growth during the year, of 1.9% and 4.4%, respectively. The European Commission's Economic Sentiment Indicator reached a ten-year high. The Eurozone exports' annual growth rate accelerated to 5% in 2017, up by 1.7 p.p. on 2016. In the United Kingdom, GDP growth slowed from 1.9% in 2016 to 1.8% in 2017. This slight slowdown in activity is mainly attributed to the deceleration of private consumption and the eroding effect of rising inflation (up from 0.7% to 3%) on purchasing power. In turn, this rise in inflation mainly reflects the lagged effects of the depreciation of the pound following the Brexit referendum in June 2016. In China, GDP climbed by 6.9% in 2017, outpacing expectations. This acceleration from the 6.7% growth rate observed in 2016 was the first rise since 2010 and occurred despite the adoption of certain restrictive policy measures that slowed down credit and consumption during the year. Net exports made their highest contribution to growth since 2008, driven by the accelerating pace of global economic activity.

Despite this backdrop of accelerating growth in 2017, inflationary pressures remained contained in the main economic areas. In the US YoY inched up from 1.8% to 2.1% between December 2016 and December 2017. In the Eurozone the rate of inflation advanced from 1.1% to 1.4% over the same period, remaining clearly below the ECB target for price stability (inflation close to 2%). As for core inflation, it fell from 2.2% to 1.8% in the US and remained unchanged in the Eurozone at 0.9%. In China inflation dropped from 2.5% to 1.8% in 2017. The United Kingdom was an exception to this, with YoY inflation climbing from 1.8% to 3%, mainly driven by the lagged effects of the depreciation of the pound.

In the US, the Federal Reserve lifted the key interest rate in three 25 bps movements (in March, June and December), leaving the fed funds target rate in the range of 1.25%-1.5%. In addition, the Fed gradually started cutting its balance sheet as from the fourth quarter and signalled its intent to pursue the steady unwinding of monetary stimuli in 2018. In the Eurozone the ECB maintained the main refinancing rate and the deposit facility rate unchanged, at 0% and -0.4%, respectively. However, in its communication with the markets it explicitly abandoned the monetary policy easing bias. Moreover, as from April the ECB reduced its asset purchase programme (quantitative easing) from EUR 80 billion to EUR 60 billion/month, announcing a further cut, to EUR 30 billion, for the start of 2018.

In this context, the yield on the 10-year *Bunds* rose from 0.208% to a high of nearly 0.6% in July, subsequently falling to 0.427% at the end of the year (+22 bps compared to the end of 2016). The *Bund* yield curve, measured by the spread between the 10- and 2-year bonds, registered a slight steepening in 2017 (from 96 to 105 bps). Market interest rates for longer maturities were sustained by the improvement of growth and inflation expectations. However, shorter-term rates remained anchored on the ECB's guidance, i.e., that the Eurozone monetary policy should maintain an expansionary stance for quite a long period of time. The 3-month Euribor fell marginally, from -0.319% to -0.329%.The US Treasuries' yield curve flattened, with the spread between the 10- and 2-year yields narrowing from 126 to 52 bps. The yield on the 10-year Treasuries slid from 2.445% to a low of close to 2% by the end of September, as expectations about the fiscal stimuli proposed by the Trump administration abated and the market showed some scepticism about the Fed's intentions concerning the normalisation of monetary policy. The 2-year Treasuries yield rose from 1.19% to 1.885% in the year.

In the foreign exchange market, the euro gained 14% against the dollar in 2017, closing the year at EUR/USD 1.2022. The appreciation of the euro was supported by the narrowing of the spread between the US and the Eurozone market interest rates, and also by the improved economic and political outlook in Europe, leading to a recovery of capital inflows into the euro area. Against the pound, the euro advanced by 3.9% in 2017, to EUR/GBP 0.8879. Despite some uncertainty surrounding the Brexit negotiations, sterling remained resilient during the year, gaining 9.6% against the dollar on the back of a better than expected economic activity performance and growing expectations of a "soft Brexit".

Spain's economy maintained a strong performance in 2017, with GDP expanding by 3%, and only a slight deceleration compared to 3.3% in 2016. This performance reflects a small decline in the growth of domestic demand, particularly visible in the second half of the year. Private consumption grew by 2.5% (vs. 2.9% in the previous year), as the effects of tax cuts, the drop in oil prices and the postponement of consumer expenditure during the financial crisis abated. Investment expanded by 4.7% (vs. 3.3% in 2016), driven by expenditure on both construction and capital goods. The uncertainty generated by the political crisis in Catalonia may have conditioned some consumption and investment decisions, but its impact has so far proved limited. The favourable external environment contributed to accelerate the growth of exports, which increased from 4.8% to 5.2% in the year. The continuation of strong economic activity growth led to a reduction in the rate of unemployment, from 19.6% to 17.1% of the labour force, while allowing the public deficit to decrease from 4.3% to 3.1% of GDP. Inflation reached 2% in 2017, resuming positive ground after three years of annual price declines. In the context of risk propensity in the financial markets, the good performance of the economy also underpinned a reduction in the Spanish 10-year sovereign bond yields from a peak of 1.9% in March to 1.57% at the end of the year, while their spread against the German *Bund* fell from a high of 152 bps in April to 114 bps in December, and continued to drop at the start of 2018.

In Portugal, economic activity grew by 2.6% in 2017, above expectations and accelerating from 1.5% in 2016. In contrast to the previous year, domestic demand increased its contribution to GDP, with private consumption growth remaining relatively stable, at around 2.2%, and investment accelerating sharply from 0.9% to 8.4%. Households' confidence reached a historically high level in 2017, supported by the drop in the unemployment rate, from 11.1% to 8.9% of the labour force, and the increase in disposable income through the reduction in direct taxes and the increase in wages. In turn, investment benefited from improved financing conditions, the upturn in public investment and, in the case of companies, the need to renew or expand their production capacity given a brighter outlook for domestic and external demand. Due to the increase in imports growth in 2017 (from 4.1% to 8.7%), the contribution of net external demand to GDP growth was slightly negative, despite the strong performance of exports, which climbed by 8.8%. The tourism industry continued its positive performance of the previous years, demonstrated by a double-digit YoY growth rate in exports of services in 2017 (10% in the third quarter).

The average rate of inflation (CPI) rose from 0.6% to 1.4%. House prices maintained the rising trend observed in 2016, growing by 10.4% YoY in the third quarter. The public deficit decreased from 2% to 1.2% of GDP while the public debt fell from 130.4% to 126% of GDP. This benign performance of the public accounts helped Portugal exit the Excessive Deficit Procedure in June. In September Portuguese sovereign debt regained investment grade status after the S&P rating agency upgraded the sovereign rating from BB+ to BBB-, with a stable outlook. In December the Fitch rating agency raised Portugal's rating to BBB, from BB+. In this context, and after reaching a 2-year high of 4.3% in March, the yield on the 10-year Treasury Bonds fell to 1.9% at the end of the year, while their spread against the German *Bund* shrank from a high of 387 bps in February to 152 bps in December.

FINANCIAL HIGHLIGHTS

(thousand euros)

Consolidated Income Statement	2017	2016 restated	Change
Consolidated Banking Income	**76,670**	**101,109**	**(24.2%)**
Fees and Commissions Income	56,317	34,131	65.0%
Net Interest Income	49,588	57,143	(13.2%)
Market Results	(29,235)	9,835	N/A
Total Operating Expenses	**(126,193)**	**(119,604)**	**5.5%**
Staff Costs	(78,201)	(69,039)	13.3%
General and Administrative Expenses	(41,369)	(44,775)	(7.6%)
Depreciation and Amortisation	(6,623)	(5,790)	14.4%
Operating Income	**(49,523)**	**(18,495)**	**167.8%**
Impairment and Provisions	(86,447)	(57,660)	49.9%
Profit before Income Tax	**(135,970)**	**(76,155)**	**78.5%**
Income Tax	19,341	9,771	97.9%
Income from continuing operations	**(116,629)**	**(66,384)**	**75.7%**
Income from Discontinued Operations	(19,552)	(28,408	(31.2%)
Non-controlling Interest	5,994	(1,389)	N/A
Consolidated Net Profit	**(130,187)**	**(96,181)**	**35.4%**

(thousand euros)

Consolidated Balance Sheet	2017	2016	Change
Financial assets held for trading	660,009	1,494,915	(55.8%)
- Securities	456,208	1,121,297	(59.3%)
Available for sale financial assets	491,947	790,346	(37.8%)
Loans and advances to banks	488,000	853,687	(42.8%)
Loans and advances to customers	629,907	841,095	(25.1%)
Other assets	1,006,042	774,704	29.9%
Total Assets	**3,275,905**	**4,754,747**	**(31.1%)**
Financial liabilities held for trading	606,097	1,042,681	(41.9%)
Deposits from other banks	1,119,511	1,974,169	(43.3%)
Customers' accounts	515,964	735,708	(29.9%)
Debt securities issued	242,786	341,567	(28.9%)
Other liabilities	257,781	310,099	(16.9%)
Total Liabilities	**2,742,139**	**4,404,224**	**(37.7%)**
Share capital	844,769	426,269	98.2%
Share premium and other equity instruments	12,527	92,527	(86.5%)
Reserves	(224,425)	(113,767)	97.3%
Net profit	(130,187)	(96,181)	35.4%
Non-controlling interest	31,082	41,675	(25.4%)
Total Equity	**533,766**	**350,523**	**52.3%**
Total Equity and Liabilities	**3,275,905**	**4,754,747**	**(31.1%)**

Source: Haitong Bank.

FINANCIAL OVERVIEW

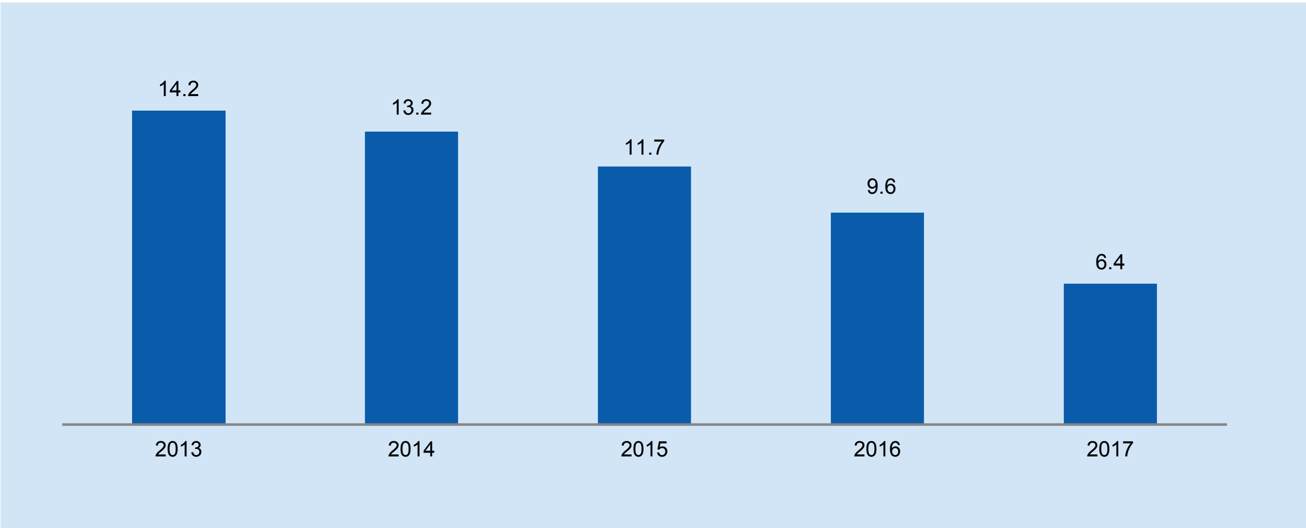
The transition process to a new business model has continued during the year of 2017, together with the reduction of operating costs and the balance sheet restructuring.

These initiatives, which are key for the future of Haitong Bank, have generated significant losses in the year, not only due to the one-off restructuring costs but also due to the negative impact on revenues resulting from the business repositioning. In 2017, total Banking Income reached EUR 77 million, 24.2% lower than in 2016. Nevertheless, Net Fees and Commissions showed an encouraging trend, increasing 65.0% from a year earlier, to EUR 56 million. The Bank has been focusing on implementing its strategic China Angle, through the development of China-related business, and this strategy has already started to bear fruit.

Operating Expenses increased by 5.5% in 2017 vs a year earlier, reaching EUR 126 million. This amount includes a non-recurring EUR 50 million cost related to the restructuring plan implemented in 2017. As a result, the running costs are now significantly lower than in the past, a crucial step to return to operating profitability.

Average Monthly Cost Base

(million euros)



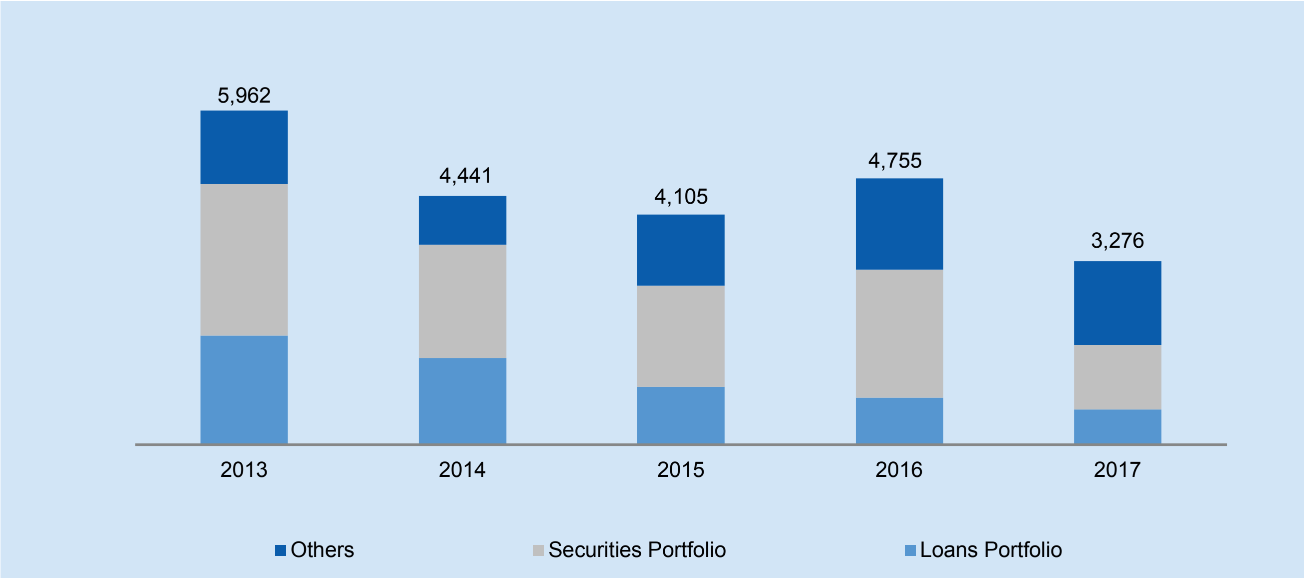
Note: figures are adjusted for restructuring costs

Source: Haitong Bank.

The Bank continues to deal with a legacy long-term credit portfolio. Net losses (EUR 130 million in 2017) were significantly affected by the deterioration of the credit portfolio, leading to EUR 86 million in additional impairment and provision costs. However, some improvements were already visible during the year, namely the 42% reduction in the stock of credit at risk.

Total Assets

(million euros)



Source: Haitong Bank.

Total Assets decreased 31% YoY to EUR 3,276 million. The Loan Portfolio decreased by 25%, reaching a net amount of EUR 630 million. Financial assets held for trading declined by 56% in 2017 due to capital constraints that led to the need to adopt a prudent balance sheet reduction. The lack of capital to invest in new assets partially explains the lower revenues level.

In order to maintain the capital base above regulatory limits, additional support from the shareholder was required. As a consequence, a EUR 419 million total capital increase took place during the year (EUR 200 million in fresh funds and EUR 219 million from the conversion of EUR 80 million AT1 instruments and EUR 139 million from shareholder loans). This allowed Haitong Bank to have a solid capital position.

Solvency Ratios

	Dec-17		Dec-16	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	21.2%	20.3%	7.1%	5.3%
Tier 1 ratio	21.2%	20.4%	9.6%	8.2%
Total capital ratio	21.3%	20.5%	9.7%	8.4%

Source: Haitong Bank.

RATING

On 16 January 2017, S&P revised the outlook on Haitong Bank, S.A.'s ratings from Positive to Stable due to system-wide issues in the Portuguese banking sector. At the time, S&P considered the trend in Portugal's industry risk to be stable rather than positive, mainly due to challenges in turning around profitability and dealing with a high stock of problematic assets. As a consequence, Haitong Banco de Investimento do Brasil, S.A.'s outlook was also revised to Stable from Positive.

On 2 August 2017, S&P revised the outlook on Haitong Bank, S.A. to negative from stable, and affirmed the 'BB-/B' long- and short-term counterparty credit ratings. The negative outlook reflected the rating agency's view that it could lower the currently assigned ratings if management fails to deliver tangible and sustainable results in turning around the Bank's business model and improving its financial profile.

On 5 December 2017, S&P affirmed the 'BB-/B' long- and short-term counterparty credit ratings and the negative outlook on Haitong Bank, S.A.

Regarding Haitong Banco de Investimento do Brasil, S.A., on 6 June 2017 S&P affirmed its 'BB-/B' global scale rating and confirmed its core subsidiary status given its significant revenue contribution, the group's ownership, strategic importance and the parent's long-term commitment. On 2 August 2017, the ratings' outlook was revised to negative following similar action on its parent.

On 8 February 2018, S&P revised Haitong Bank S.A.'s outlook to stable from negative, and maintained its long- and short-term ratings at BB- and B, respectively. S&P sees the potential for further creditworthiness deterioration as limited over the next 12 months. The stable outlook reflects S&P's expectation that the Bank's revised strategy could form the basis of a more durable operating model, and potentially improve its financial profile. The outlook improvement was also applicable to Haitong Banco de Investimento do Brasil, S.A..

Company	Rating by S&P
HAITONG BANK, S.A.	
Counterparty Credit Rating	BB- / Stable / B
Junior Subordinated	CCC
HAITONG INVESTMENT IRELAND PLC	
Senior Unsecured	BB-
HAITONG BANCO DE INVESTIMENTO DO BRASIL, S.A.	
Counterparty Credit Rating	
Global Scale	BB- / Stable / B
Brazil Nationale Scale	brA / Stable / brA-2

Source: Haitong Bank.

5. BUSINESS ACTIVITY

BUSINESS MODEL

During 2017, Haitong Bank provided investment banking and securities services primarily to corporate and institutional Clients focused on Europe and the Americas through its local franchises (Iberia, Poland and Brazil,) and its major distribution hubs in London and New York.

The Bank was focused on emerging markets and its close relationship with China. The Bank leveraged on a new competitive position as part of a leading Chinese investment banking group with an extensive footprint in Western markets.

Haitong Bank's business activity was organised under three core verticals:

- **Investment Banking**: M&A, Capital Markets (ECM/DCM) and Structured Finance (previously named Financing Solutions);
- **Markets**: Fixed Income, Currencies and Commodities (FICC) and Equities & Research;
- **Alternative Investments**: Global Markets; Asset Management and Private Equity.

The business model is Client driven with a high turnover balance sheet to support Clients' business and cross-selling.

5.1. INVESTMENT BANKING

MERGERS & ACQUISITIONS

MARKET BACKGROUND

In 2017, global Mergers & Acquisitions (M&A) activity decreased by 10.4% YoY in value of completed transactions, totalling USD 2,700 billion, according to Bloomberg. The number of completed transactions saw a slight decrease of 0.7% YoY. The Financial sector saw the highest number of transactions but the Technology sector was pointed out as the main deal driver for 2017 and the years to come. Cross-border transactions represented 35.9% of the total number of completed transactions at a global level.

The European M&A market business totalled USD 539.3 billion, having decreased by 1.6% YoY in the number of completed transactions and by 25.7% YoY in value. Cross-border transactions were the main catalyst for the European M&A market, accounting for 56.4% of the total number of completed transactions.

In Portugal, the number of completed transactions registered a contraction of 8.3% YoY. However, the value of completed transactions increased by 189.9% YoY, to USD 6.4 billion, which could reflect the country's successful economic recovery. Spanish M&A activity has also reported decreases in the period, 3.3% in the number and 37.6% in the value of completed transactions according to Bloomberg. Cross-border activity accounted for the most number of transactions in Iberia, representing 63.6% of deals in Portugal and 58.8% in Spain.

In the UK, the M&A business reported USD 167.3 billion in the period. This represents a 55.4% decrease in the value of completed transactions and a 0.8% decrease in deal numbers. Albeit reflective of the uncertainty regarding its future position in Europe, the present figures still uphold the UK's leadership position as the most active European M&A hub. 45.9% of completed deals were cross-border transactions.

M&A activity in Poland shrunk by 14.8% in terms of the number of completed transactions during 2017; with 109 deals totalling USD 10.1 billion (69.7% of the number of completed deals represented cross-border transactions). However, Poland's expanding PE activity, together with the growing interest of foreign investors in Eastern Europe, is expected to stimulate M&A activity in 2018.

Even after an uplifting first half of the year (+3% YoY in volumes), Brazilian M&A activity recorded a 16.2% decrease in the number of transactions in 2017. The value of completed deals increased by 52.8% YoY. According to Bloomberg, there were 284 completed transactions in Brazil, with the disclosed value of deals totalling USD 38.1 billion. Brazil remained the M&A market leader in LatAm in 2017.

In the United States, the total value of completed deals decreased by 12.0% YoY, to USD 1,300 billion, corresponding to 12,964 completed transactions. Cross-border activity accounted for 22.4% of the number of completed deals while PE activity accounted for 41.8%. In 2017, the US remained the global M&A market share leader. Given recent tax reforms and its highly developed technology industry, the US is likely to maintain its position.

In 2017, Mainland China saw an increase both in value (4.8% YoY) and in number of transactions (37.3% YoY). Notably, only 17.2% of completed transactions in Mainland China for 2017 were related to cross-border activity. This is partially explained by internal capital outflow restrictions and stricter regulatory regimes in the EU and the US.

HAITONG BANK ACTIVITY

According to Mergermarket, Haitong Bank maintained a top-tier position in the Portuguese market in 2017, ranking second by number of transactions and in the top 10 by value of transactions.

Throughout 2017, Haitong Bank advised on 12 transactions globally, of which 8 were in Portugal (3 were cross-border transactions with Spanish and Chinese investors and 5 were domestic transactions).

Noteworthy amongst these were the financial advisory services provided to Novo Banco S.A. on the sale of Novo Banco Asia, S.A., a Macau-based bank, to a group of investors led by Well Link Group Holdings Limited (a Hong Kong-based company with interests in insurance, securities and futures brokerage, and financial services) for a total amount of EUR 183 million, comprising the immediate sale of 75% of the share capital and a set of put and call options for the remaining 25% shareholding, exercisable in up to 5 years. The deal was announced in August 2016 and was completed in May 2017, following the approvals of the relevant regulatory authorities.

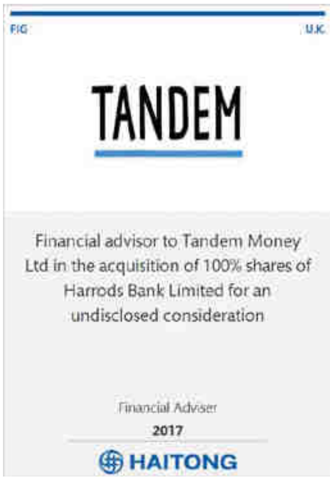
Haitong Bank's capabilities in the energy, construction and healthcare sectors also deserve a mention, with the completion of 6 transactions:

- Financial advisory services to REN – Redes Energéticas Nacionais on the acquisition of EDP Gás and its subsidiaries EDP Gás Distribuição and EDP Gás GPL from EDP, for EUR 532.4 million. The transaction was announced in April 2017 and is still pending legal and regulatory authorizations;
- Financial advisory services to Artá Capital, a Spanish private equity company, on the acquisition of Gascan, a leading piped LPG distributor in Portugal, from Explorer Investments. The transaction was completed in March 2017 for a total amount of EUR 70 million;
- Financial advisory services to Construcciones Sarrión, a Spanish construction company, on the acquisition of a 58.4% stake in Opway – SGPS, S.A., a leading construction company in Portugal. The transaction was completed in December 2017. Upon completion of the transaction, the Sarrión family reached a 85% stake in Construcciones Sarrión;
- Financial advisory services to Luz Saúde, S.A. on the acquisition of Sociedade Clínica Hospitalar Group, one of the major healthcare services providers located in the Madeira Autonomous Region. This transaction was signed in October 2016 and completed in March 2017;

- Financial advisory services to Capital Criativo Health Care Investments II, S.A. on the acquisition of Group Idealmed, a major regional healthcare services provider in Portugal (Coimbra region), from a private investor. This transaction was signed and completed in March 2017; and
- Financial advisory services to Capital Criativo Health Care Investments, S.A. on the acquisition of British Hospital Group, a medium-sized healthcare services provider located in Lisbon. This transaction was signed in December 2016 and completed in May 2017. Subsequently, Capital Criativo Health Care Investments signed a share purchase agreement with Luz Saúde, S.A. regarding the sale of this Group. The transaction was completed in July,, following no opposition from the Portuguese Competition Authority.

In addition, Haitong Bank advised Mr. Tomaz Metello on the acquisition from Pestana Group of its stake (61.75%) in the share capital of euroAtlantic Airways, thus becoming the only shareholder of this company, which operates in the global ACMI & charter airline market.

In the UK, the Bank advised Tandem, a UK Fintech Challenger Bank, on the acquisition of 100% shares of Harrods Bank, the banking arm of luxury department store Harrods owned by the Qatar Investment Authority (QIA). This transaction was signed in August 2017 and completed in January 2018. As part of the transaction, QIA became a shareholder of Tandem and has also strengthened its shareholding through the exercise of a subsequent capital raising, also advised on by Haitong Bank in the UK.



Additionally, the UK team was very active in advising some alternative asset managers on private fundraisings as well as leading several projects with Chinese clients and Chinese investors across the core sectors.

In Brazil, the Bank provided financial advisory services to China Gezhouba Group Co., Ltd ("CGGC") in its first acquisition in Brazil. CGGC acquired a 100% stake in SPSL, a water treatment system plant under construction, from two of the biggest construction companies in Brazil for up to USD 200 million. The transaction is pending regulatory approval.

The Bank also provided financial advisory services to Dakang in the acquisition of a 53.99% stake in Belagricola S.A. amounting to USD 253 million. The transaction aimed to expand Dakang's market share in the Brazilian grains markets after the acquisition of Fiagril last year.

In Poland, the Bank acted as financial adviser to Abris Capital Partners, one of the most active private equity managers in the CEE region, in the sale of a 100% stake in Mykogen, a leading manufacturer of top quality mushroom substrate in Europe. Mykogen was acquired by Greenyard of Belgium, a global market leader of fresh, frozen and prepared fruit & vegetables with more than 9,000 employees operating in 25 countries worldwide and a turnover of EUR 4.25 billion per annum. The transaction value reached EUR 93 million.

OUTLOOK

Sustained by a more stable global economy, improved market conditions and continued low capital costs, the global M&A outlook for 2018 appears encouraging. According to Mergermarket, dealmakers believe that both the value and volume of transactions will increase in 2018.

The hunt for new technology and cross-border activity are likely to further establish themselves as the key components and drivers in M&A for 2018, hence promoting an environment in which Haitong Bank's global coverage and specialized industry teams are well-positioned to thrive.

The cross-border deal flow with China has been affected by the relative slowdown in outbound investments by Chinese corporations in the past year. A tighter governmental grip on outbound investments deemed as “non-core”, capital outflow restrictions in China, combined with stricter regulation in Europe and the US has lowered Chinese M&A activity and driven remaining China outbound investment towards smaller-sized transactions.

The outlook for 2018 is positive as the Chinese government is expanding outbound investment incentives in key sectors, including specialized manufacture, hi-tech, healthcare and renewable energies. The “One Belt, One Road” initiative is also fuelling transactions in the infrastructure, construction and transportation sectors. As part of a leading Chinese investment banking group, Haitong Bank is uniquely positioned to take part in the above-mentioned opportunities by combining an extensive local footprint in many relevant Western markets with unrivalled access to Chinese corporate clients.

CAPITAL MARKETS

MARKET BACKGROUND

Once again, outstanding volumes were raised in the debt capital markets (DCM) in 2017 across currencies, with a record year for corporates and SSA issuers in particular. This outcome was driven by the same conducive environment that characterized 2016. The low interest rate environment and support from central banks were again major drivers of opportunistic issuance, pre-funding, and M&A financing. Maturity extension also stayed high on the agenda. Overall global debt capital markets activity totalled USD 7.2 trillion in 2017, a slight decline compared to 2016 and the second consecutive annual period to surpass USD 7 trillion on record.

The volume of global high yield corporate debt reached USD 432.8 billion in 2017, an increase of 40% YoY and the strongest annual period for global high yield issuance in three years.

Corporate debt from emerging markets issuers totalled USD 316.6 billion in 2017, up 20% YoY. Corporate debt issuers from India, Brazil, Mexico and Russia accounted for 47% of activity during the year.

Asian G3 (USD, EUR, YEN) bond issuance in 2017 recorded a 52.2% increase YoY, with overall market proceeds totalling USD 332.7 billion from 557 issues. USD-denominated issues accounted for 92.7%, totalling USD 313.7 billion from 551 issues, up 57% from the previous year. China-domiciled issuers accounted for 50.4% of the Asian G3 market, up 76.9% from 2016, with total proceeds of USD 167.5 billion from 234 deals. Asian local currency bond offerings in 2017 totalled USD 1.4 trillion from 10,248 transactions, marking a 25% decline from 2016.

Equity capital markets (ECM) activity totalled USD 783.7 billion in 2017, an 18% increase YoY and the strongest annual period for global equity capital markets issuance in two years. By number of issues, 5,735 ECM offerings were brought to market during the year, a 21% increase compared to a year ago and the strongest full year period for the number of new offerings since records began in 1980. Led by Financial issuance (20%), the overall volume of ECM activity remained highly concentrated among four main sectors including Industrials (12%), Technology (11%) and Energy & Power (10%).

Global follow-on offerings totalled USD 509.9 billion in 2017, an increase of 13% YoY and the strongest annual period for follow-on offerings since 2015. Global IPO activity during full year 2017 totalled USD 179.3 billion, a 35% increase compared to last year and the strongest annual period for global IPOs since 2014.

Asian equity and equity-related proceeds totalled USD 212.9 billion during full year 2017, a 2.1% decrease from full year 2016. Financials led all sectors, capturing 20.6% of the market. Industrials and High Technology followed, capturing 16.6% and 13.9% market shares, respectively.

Asian IPO activity in 2017 totalled USD 75.3 billion, a 20% increase YoY. China led the Asia IPO domicile nation rankings, capturing a 60.6% market share from 838 deals. The Shanghai Stock Exchange led issuance volume in Asia, with total proceeds of USD 17.9 billion from 195 issues.

HAITONG BANK ACTIVITY

During 2017, Haitong Bank was involved in 29 capital markets transactions, with a value in excess of EUR 4.2 billion across the Bank's main geographies.

In Portugal, the Bank acted as Joint Bookrunner on the bond issue of EDP Finance BV (USD 1 billion). The Bank was also the Joint Global Coordinator on Benfica SAD's EUR 60 million Public Bond Offer. In addition, the Bank acted as Sole Dealer Manager in several new commercial paper programmes.

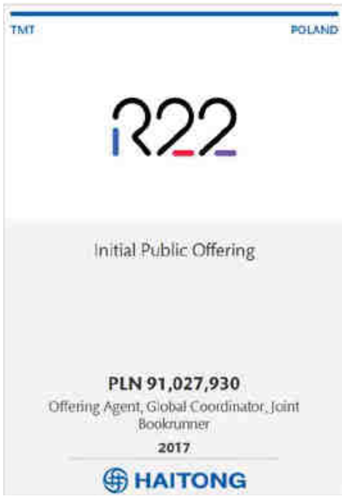
On the ECM front, the Bank acted as Global Coordinator to the Offeror in the mandatory tender offer launched by Lusosuan, SGPS, Unipessoal, Lda. for the total share capital of CIPAN Companhia Industrial Produtora de Antibióticos, S.A.. It also acted as collateral depositary bank and broker for the permanent acquisition order after the CMVM's approval of the loss of public company status of Cimpor – Cimentos de Portugal, SGPS, S.A., an example of a cross-border client relationship with Intercement (Cimpor's shareholder) / Camargo Correa Group in Brazil.

In Poland, 2017 brought the revival of the ECM market and IPO market which saw relatively few, but large transactions on the WSE, including the IPO of Play, the second-largest mobile operator in Poland, amounting to PLN 4.3 billion. At the same time, there was a growing number of Public Tender Offers with the aim of delisting companies from the WSE, with strong funds inflow to investors which should be quickly reinvested, thus increasing demand for equity offerings.

Haitong Bank has further proven its strong market position in local ECM through the execution of the following transactions:

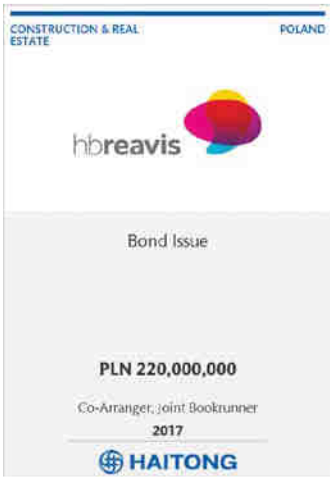
- IPO of GetBack, a leading Polish receivables management company which raised PLN 740 million including PLN 370 million raised by the Company and PLN 370 million sold by its sole shareholder, a syndicate of private equity funds led by Abris Capital Partners. Haitong Bank led a consortium of 8 banks, acting as Sole Global Coordinator, Offering Agent and Joint Bookrunner. The IPO of GetBack targeted a broad spectrum of local and European investors in CEE, Western Europe and the UK;

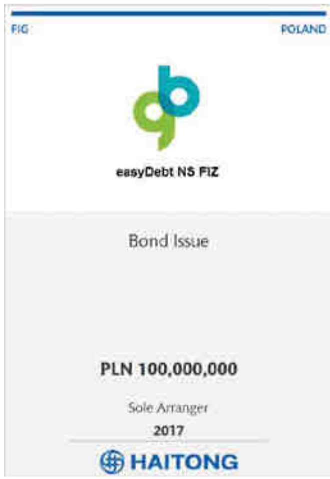
- Accelerated bookbuilding of PBKM S.A., a leading European cord blood bank, for the amount of PLN 96.4 million. Haitong Bank acted as Joint Bookrunner and Global Coordinator on this transaction, which was made on behalf of Enterprise Investors, a local private equity fund, following a successful IPO of the company in 2016 and enabling the Sponsor to fully exit its investment; and
- IPO of R22 (PLN 91 million), a leading Polish technology company with business operations concentrated on web hosting and omnichannel communication. Haitong Bank acted as Global Coordinator, Offering Agent and Joint Bookrunner in the transaction. Even though the market sentiment in the second half has been very challenging for the small caps segment, the Bank managed to successfully place all shares and help the company raise sufficient new equity to continue with its rapid development.



In DCM, Haitong Bank had a leading role in several different types of transactions, including:

- Public bond issue programme of up to PLN 300 million for GetBack S.A., the second-largest Polish NPL collection company. Within this public bond issue programme, Haitong Bank structured five bond issues (3 year and 3.5 year) for a total amount of PLN 245 million, acting as Global Coordinator of the programme;
- Public bond issue of HB Reavis Finance PL2 from HB Reavis Group, a leading CEE real estate company from Slovakia. Haitong Bank acted as Co-Arranger and Joint Bookrunner on a 4.5 year bond issue dedicated only to Polish institutional investors, for a total amount of PLN 220 million. This bond issue was the largest organized in Poland in 2017 by an issuer from the real estate sector; and
- Non-public bond issue of easyDebt NSFIZ, one of the largest closed-end securitization funds in Poland which invests in NPL portfolios from the CEE region. Haitong Bank acted as Sole Arranger on a 1-year bridge bond issue for the amount of PLN 100 million.



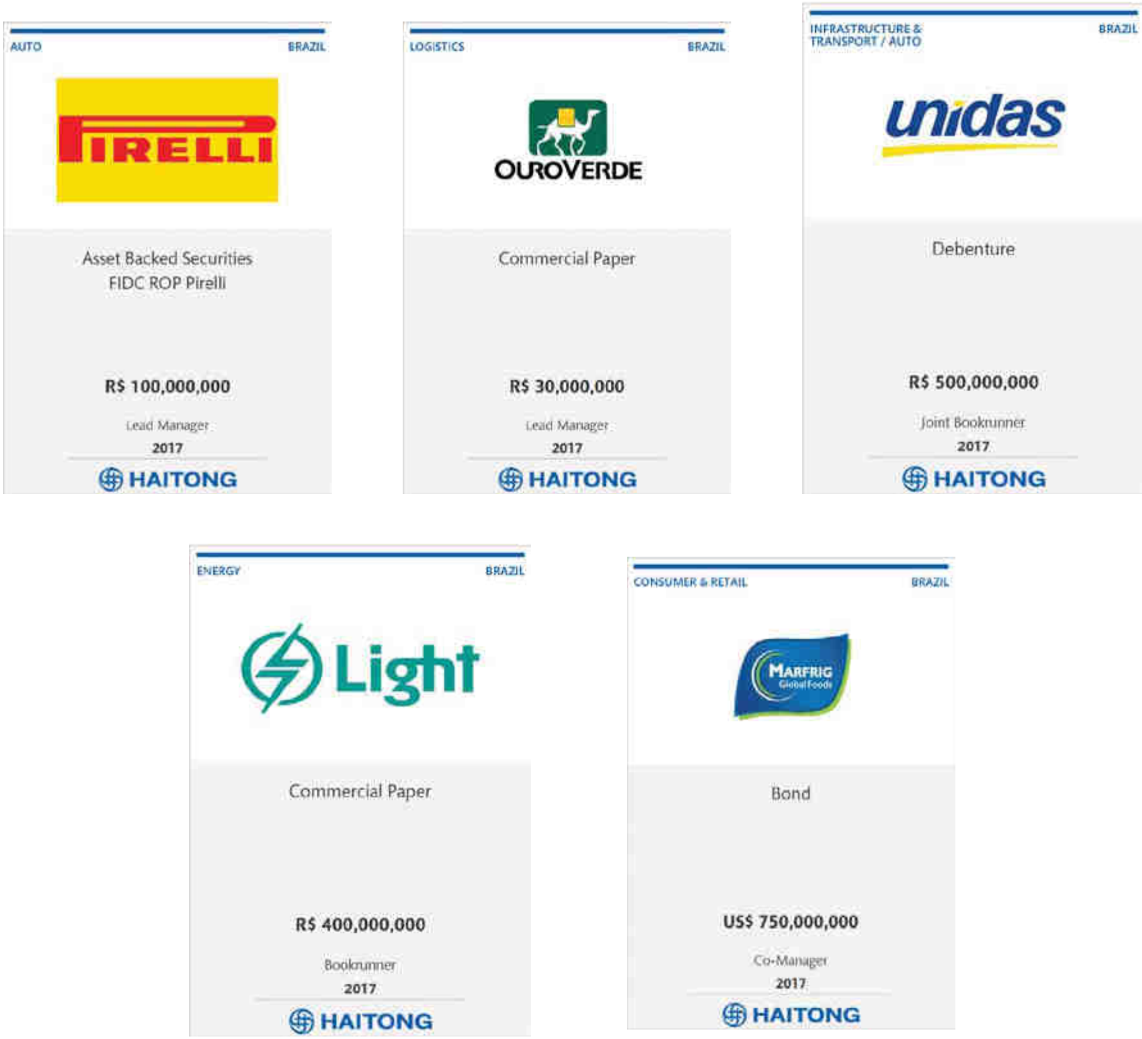


In other European countries, Haitong Bank participated in Unicredit's (Italy), EUR 13 billion rights issue as Co-Manager. This was the largest ECM deal of the year, both for the EMEA region and globally.

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

- Asset Back Securitization for Pirelli for the amount of BRL 100 million, allowing the company to increase its competitive advantage in sales and production chains. The Bank acted as Lead Manager in this transaction, which was well received by the local market, benefiting from Haitong Bank's cross-border experience and local expertise;
- Commercial paper issued by Ouro Verde, for the amount of BRL 30 million. The Bank acted as Lead Manager supporting the client during the structuring phase of this short-term transaction;
- Local debenture issued by rent-a-car/fleet operator Unidas (dual-tranche of 3 and 5 years), for the amount of BRL 500 million. The Bank acted as Joint Bookrunner in the transaction;
- Commercial paper issued by Light, for the amount of BRL 400 million. Haitong Bank acted as Bookrunner in the transaction; and

- International bond issued by Marfrig, for the amount of USD 750 million, in which the Bank acted as Co-Manager.



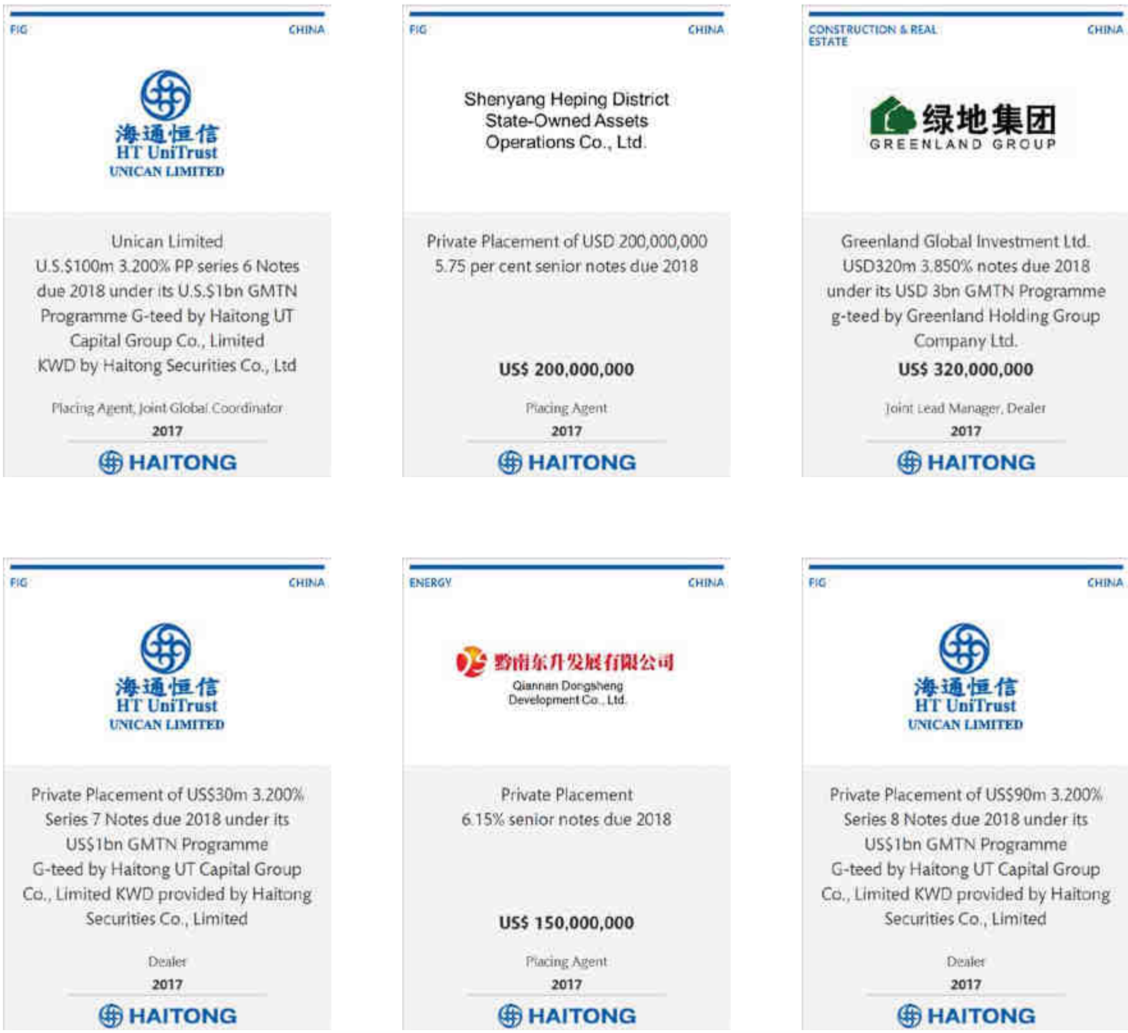
In China, 2017 was a very active year for Haitong Bank in cross-border DCM business. The Chinese onshore bond yield environment continued to deteriorate through 2017 and Chinese borrowers looked to alternative markets and opportunities for financing. Haitong Bank has successfully brought Chinese borrowers to the international debt capital markets, enabling them to tap new pools of global investor liquidity and expand their funding sources via USD and EUR denominated DCM transactions.

Multiple deals have been executed for Chinese borrowers across sectors including Financial Institutions, Metals & Mining, Industrials and Local Government Financing Vehicles ("LGFVs"). Haitong Bank tailored funding solutions and structured offerings for Chinese borrowers across DCM instruments depending on their needs: ranging from private placements to benchmark size public Eurobond offerings, subordinated capital securities and senior unsecured notes, repeat MTN drawdowns and inaugural issues.

The growing constraints from the People's Republic of China ("PRC") regulators in granting quotas to Chinese borrowers for raising offshore capital coupled with the higher benchmark yield environment and a mild liquidity crunch that had built up towards the end of 2016 in the onshore PRC bond markets contributed to a surge in short-end Eurobonds (less than a one year tenor) particularly at the beginning of 2017, predominantly from

LGFVs, Real Estate companies and Property Developers. Such short-dated offshore instruments present Chinese borrowers with an advantage as they do not require PRC companies to seek quota approval from the National Development and Reform Commission ("NDRC").

Haitong Bank has successfully executed various short-end Eurobond deals both in public and private placement formats for Chinese borrowers. Deals included both debut credits in the offshore markets (Qiannan Dongsheng Development Co., Ltd.) and repeat borrowers (Haitong UT Capital Group Company Limited, Greenland Global Investment Limited, Qinghai Provincial Investment Group Co., Ltd., Greenland Holding Group Co., Ltd).



Haitong Bank has also demonstrated an innovative approach in presenting Chinese borrowers with capital solutions via pioneering unique transactions such as a USD 400 million subordinated perpetual non-call 5 year bond for Far East Horizon Limited (issued by King Talent Management Limited) with a specific structure to qualify for equity credit from the rating agencies.

Haitong Bank has also successfully carried out benchmark size bond offerings that include:

- impressive 7.75% 4-year senior unsecured notes for the amount of USD 300 million for Xinyuan Real Estate Co., Ltd with a high quality order book of USD 3.2 billion in tickets from over 245 quality institutional accounts from Asia and Europe;
- a 4.85% 3-year MTN drawdown, for the amount of USD 500 million, for an important borrower in the offshore bond markets—Greenland Global Investment Ltd.—under its USD 3 billion GMTN Programme guaranteed by Greenland Holding Group Co., Ltd. with a solid order book of USD 1.25 billion;
- an inaugural 3-year offshore bond, for the amount of USD 250 million, for Yihua Enterprise (Group) Co., Ltd. 60% of the bonds were placed with leading fund and asset managers, demonstrating a solid result by the company in its efforts to diversify its investor base and funding sources.

OUTLOOK

Looking ahead, on the DCM front, 2018 is still surrounded by uncertainties. Market resilience to political headlines will again be put to the test with the upcoming Italian elections, while ECB tapering – to which markets have so far refused to react negatively – takes full effect. This combined with the US Federal Reserve's expected rate hikes will put additional pressure on European long-term rates. Overall, liquidity and risk appetite are expected to remain conducive and new issue volumes to be broadly in line with what has been seen over the last two years. In the US, prices are likely to be dampened not only by the expected key rate hikes but also by the smaller Fed balance sheet and China's smaller current account surpluses – both combined with fewer purchases of US government bonds. Although marked increases in capital market rates are not to be expected in the Eurozone, rising yields on German government bonds – the benchmark for Eurozone bonds – are expected (the 10-year Bund should yield around one percent at the end of 2018).

Regarding ECM, the positive momentum experienced in the second half of 2017 is expected to continue in 2018 according to investment bankers and investors who believe the tech sector will continue to lead the way. However, many market participants expect this year to show a reverse pattern to 2017. We believe a busy first half is likely to give way to a less certain second half as monetary policy tightening weighs on fairly heady valuations.

Besides the positive market outlook, the Bank already has a significant number of mandates in the various geographies in which it is present and which are expected to be completed during 2018. Therefore, we expect a busy year across all geographies.

In Portugal, the outlook for 2018 remains positive, especially on the DCM side but also on the ECM front with some corporates already lined up to debut on the Euronext Lisbon Stock Exchange. In the debt market, we will see benchmark deals especially in EUR, for frequent issuers, and private deals for sub-benchmark transactions with secured or unsecured structures.

In Spain, the pipeline for IPOs remains strong and Haitong Bank can benefit from this in sectors where the Bank has strategic advantages such as real estate. On the DCM front, the Bank has relaunched its local team and expects to obtain mandates for structured bonds (project bond or secured bonds) for medium and small corporates in sectors such as renewable energy, concessions and infrastructure.

In Poland, the outlook for the activity in 2018 remains positive, especially on the DCM front. We are seeing further inflows of funds to Polish institutional investors caused by a still low interest rate environment and reallocation of assets from equity linked funds. In such an environment we expect a growing number of corporates to come to the bond market to seek capital. Based on the DCM pipeline, Haitong Bank is expected to be able to carry out more bond transactions than in 2017.

In Brazil, the outlook is also promising. The team has identified a robust pipeline of opportunities, especially related to structured products (FIDCs) and infrastructure debentures as an important financing source to fund projects in Brazil. Most of these opportunities are expected to materialize in the first half of 2018 due to the upcoming presidential elections in the second half of 2018.

In China, Haitong Bank continues to build a strong pipeline into 2018. Many Chinese borrowers need to refinance maturing loans and as the NDRC relaxed and speeded up approvals after the October 2017 Communist Party Congress, Chinese offshore bond issuance activity is expected to be robust in 2018. The onshore PRC markets continue to be heavily affected by government policy and as onshore yields have been rising significantly recently, Haitong Bank has been very active in exploring opportunities for Chinese borrowers in the international capital markets so as to expand their funding channels and extend their flexibility.

STRUCTURED FINANCE

In 2017, the Structured Finance activity continued to be affected by low activity in its European core markets—where still prevailing Governmental budgetary constraints in Portugal kept preventing new infrastructure projects from being launched.

While entering into a new paradigm of a non-subsidized tariffs regime, the renewable energy sector continued to be one of the most active ones with a pipeline of business opportunities in Portugal and other European countries.

From an operational perspective, the Structured Finance business has maintained a positive performance. The transition process to the new shareholding structure led to substantial progress and improved business coordination within Haitong Group, namely with Haitong Securities in Shanghai and Haitong International in Hong Kong. With dedicated people based in China, a recurrent flow of Structured Finance business opportunities has been created, enabling an effective and systematic approach to China-related deals.

During the year of 2017, we have completed the mandate as structuring bank for the refinancing of a Real Estate asset in Portugal and closed, in coordination with Haitong International, one Acquisition Finance deal for the acquisition of a target company in Italy by a Chinese corporate.

In 2017, the Brazilian Government successfully held new auctions for infrastructure concessions, namely in the sectors of airports, highways, subway and energy in Transmission and Generation segments. In this context, Structured Finance activity was quite positive as Haitong Bank advised EDP in the 05/2016 transmission line auction held in April. EDP was the biggest winner, winning 4 lots in the tender process with CapEx investments of circa BRL 3.74 billion. In addition to advising EDP, the Structured Finance area validated the bids for lots 10 and 15, won by Indian Sterlite Grid with a total estimated investment amount of BRL 559 million.

Additionally, the Structured Finance area, in partnership with the Capital Markets area, participated in two bridge loan operations since repayments of such financing will be structured with capital market instruments. The operations were for ContourGlobal, related to a refinancing operation for wind farms of its portfolio through a combination of operations of FIDC—Investment Fund in Receivables and Debentures—and for Light, whose repayments will be via the creation of a FIDC.

In parallel, the Bank continues seeking to generate investor interest, focusing mainly on Asian, especially Chinese, and European groups interested in participating in the infrastructure sector, namely in the railroad, transmission, generation, sanitation, highways, subway and waste sectors.

OUTLOOK

The business prospects for Haitong Bank's Structured Finance activity remain positive based on its new strategic positioning and mainly focusing on an asset-light balance-sheet driven business model—structuring and arranging roles with potential for distribution and cross-selling with the DCM and M&A businesses— and on the great potential from China related cross-border deals.

Haitong Bank's presence and local execution capabilities in Europe, Americas and Asia in conjunction with increased and deeper coordination with Haitong Group entities, not only on the origination side of the business but also on the deals execution and post-closing related tasks, represent unique competitive advantages and key elements of this new strategic positioning.

The existing pipeline of actual and potential mandates in different geographies and the expected new cycle of infrastructure projects in Portugal, with particular emphasis on railways and ports, represent good prospects for the near future.

Structured Finance's current objectives and business plan for the near future comprise a significant performance increase and contribution to total banking income, based on the above-mentioned arguments and on Haitong Bank's sound expertise and track record in the infrastructure sector, project finance and acquisition finance activities.

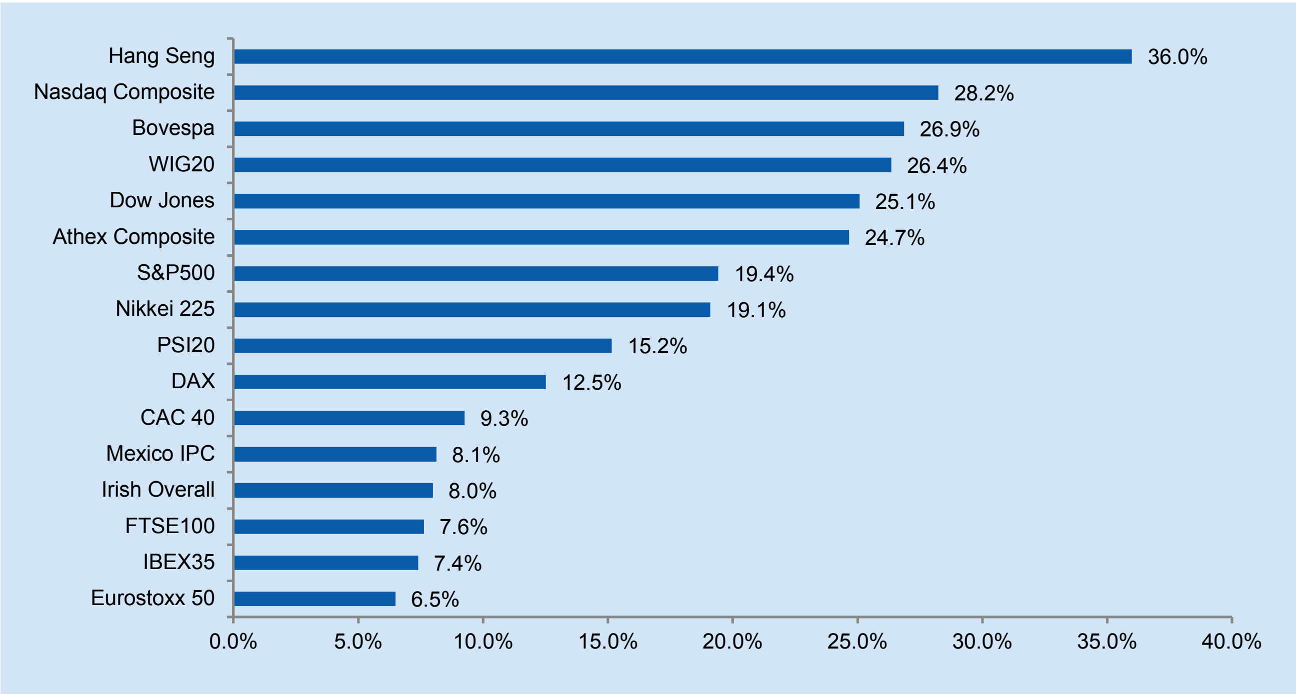
5.2. MARKETS

EQUITIES & RESEARCH

MARKET BACKGROUND

2017 was a strong year for equity markets, essentially driven by the improving economic indicators worldwide, but also helped by the positive sentiment from US markets and the continuation of supportive monetary policies in Europe. US markets performed strongly, supported by the expectation of the tax reform and favourable macro momentum. The emerging markets benefited from the improved risk appetite globally. European markets were also positive, helped by the improving macro data, favourable monetary policy and a general reduction in peripheral risk premium.

Leading Stock Market Performance (2017)



Source: Bloomberg (local currency).

HAITONG BANK ACTIVITY

At the beginning of the year, a far-reaching restructuring of the Bank's equity platforms was implemented with the aim of having a leaner structure that could pave the way for a sustainable and profitable equity business in the future. The trading set up was simplified and execution is now done through the Lisbon and Warsaw offices. On the research and sales front it was decided to rely only on the Bank's local product and expertise in Iberia and Poland. In December, Haitong Bank announced the sale of its London and New York subsidiaries to Haitong International. The revision of the Markets in Financial Instruments Directive (MiFID II) represented a fundamental change for the European financial markets. As a consequence, Haitong Bank had to prepare intensively during 2017 to comply with all the requirements on trading and product offering distribution.

In Iberia, the local research team ranked # 7 in Extel Awards in 2017 out of 41 brokers up from #9 in 2016. Small Mid Cap quarterly stock picking in the Iberia product delivered a total return of 18.6%, which highlights its stock picking capabilities (the IBEX35 gained 7.4% and the PSI20 appreciated 15.2% in the year). Iberian markets experienced a robust performance during the whole year helped by a material tailwind on the macro front with 2017 GDP projections for both Portugal / Spain being increased and with rating agencies revising their outlook upwards first and then also upgrading credit ratings in Portugal. New institutional account openings and resilient trading commissions in Iberia are the main highlights of the activity during the year.

In Poland, the Bank has continued the strategy of selling CEE equities research product to both local and international funds. In *Parkiet's* (local top financial newspaper) latest review of best research brokers, the Bank's analysts retained top positions in the Telecoms, Media, Real Estate Developers and IT sectors.

The robust economic backdrop in the region sparked a strong equity markets rebound. CE3 bourses visibly outperformed their emerging markets and developed markets peers. The WIG Index (Warsaw Stock Exchange main benchmark) increased by 23% in 2017 in local currency terms. On top of it, the PLN appreciated 20% vs the USD and 5% vs the EUR. It was a peculiar year in terms of mid and small cap underperformance: the mid and small cap index, sWIG80, gained only 2% in the year while the blue chip index, WIG20, increased by 26%. The rally was accompanied by strong volumes growth driven at first by international investors and then followed by local ones. The market turnover on the WSE increased by 29% YoY. This tailwind helped the Bank in Poland to increase its trading commissions from the local market by 30% YoY. However, foreign market trading commissions dropped by 12% YoY as local investors focused on domestic equities and lost some appetite for international risk taking. Haitong Bank maintained its market share in Poland at 1.3%.

In terms of corporate access, the Bank continued to take advantage of its local knowledge and corporate contacts in China, Iberia and Poland to provide differentiated events to its institutional clients:

- **6th ANNUAL IBERIAN CONFERENCE** held in January 2017 in the London office. Twenty four Iberian companies well represented by top management with 85 clients from 57 institutions attended 154 meetings. The conference provided once again a unique opportunity for investors to get a preview of expectations about the activity of the companies over the year and on the strong macro improvements in Portugal and Spain. At the same event, the Bank hosted a very insightful panel on the importance of Chinese Investment in European Markets with the presence of Fosun and the Bank's macro specialists;

- **IBERIAN CORPORATE ROADSHOWS** in Dublin, Madrid, Beijing, London and Edinburgh with Mota-Engil, Sonae, Galp, Gas Natural, REN, NOS, EDPR and EDP**;**

- **REVERSE ROADSHOWS** with institutional investors in Portugal meeting with Corporates and sector expert/ local agencies;

- **"EAST MEET WEST" CHINA SEMINAR** hosted in May 2017 at the London office, with the presence of China's #1 Ranking Economist Dr. Jiang Chao, leading China asset managers, Haitong Bank's leading QFII/CIBM local team, to discuss with Chinese institutional investors the opportunities resulting from the unprecedented opening up of China's capital market to foreign investors;

- **POLISH REAL ESTATE CONFERENCE** held in May in Warsaw, with 9 local Polish corporates attending.

FIXED INCOME, CURRENCIES AND COMMODITIES (FICC)

HAITONG BANK ACTIVITY

During 2017 the FICC team successfully continued its focus on expanding the Client base. Headcount has been streamlined and the cost base has been reduced, mainly in London and in Madrid.

The Bank continued to focus on creating a flow-driven business and generate higher profitability by intermediating flows with international Clients. Haitong Bank was able to increase its Client franchise and broaden its distribution with international Clients. Credit Trading managed to maintain the first half performance and growth in turnover and income.

2017 has been a challenging year for the Corporate Derivatives Solutions activity in Europe and Brazil where the teams had to adopt a new business model, reducing exposure to longer maturities and reducing counterparty risk through increased use of Credit Support Agreements (CSAs) as well as a more selective process to select counterparties. Nevertheless, the team had a positive performance by being very aggressive commercially and active in FX and commodities that offset the reduced activity in Interest rate products.

The Structured Products business had a strong performance during 2017, mostly through secondary trading and buybacks. Despite all the hurdles the team had to face during the year—such as the Bank's current BB- rating band, the need to focus the sales efforts away from long-standing investors in Portugal over to a new and more diversified international investor base—as a result of the continuous marketing and sales activity (through direct coverage or by using third parties distributors) and regular origination capacity of cross-asset products suitable for different market segments together with consistent aftersales service, the business managed to restart the new issuance activity which should improve the prospects for 2018. It is worth mentioning the increasing synergies with the Chinese market reflected in the increasing interactions with Haitong Securities' teams.

The FICC team were also involved in the MIFID II project, preparing all the various infrastructures for successful implementation.

Emerging Markets Fixed Income activity had to deal with significant headwinds in 2017. The lack of critical mass in Fixed Income and high infrastructure requirements significantly constrained this activity. By the end of the year, this activity was integrated into the FICC business line. With the transfer of the ownership of the UK and US broker-dealers, the scope of this activity was adjusted and narrowed.

OUTLOOK

For 2018, this business area will continue to focus on creating relationships with international investors to further strengthen the Bank's distribution platform. In addition, some initiatives to develop the infrastructure capabilities needed to provide clients with an efficient and qualified service for and to deal with the MIFiD II impacts will be implemented.

5.3. ALTERNATIVE INVESTMENTS

ASSET MANAGEMENT

MARKET BACKGROUND

In 2017, risk assets have done well with an emphasis on the strong performance of the US indexes in local currency (+19%), which led the S&P 500 to end the year very close to its historical maximum. When measured in euros, the main markets saw an increase of around 5% in the US and 6.5% in the Eurozone. Hence, during the year, we saw inflows to the stock markets mainly due to the macro backdrop improvement in several geographies widely reported by the leaders of the central banks. This improvement was also reflected in bond markets, as we saw global bond yields go higher. In this sense it is also worth highlighting the fall in political risk that was reflected in the narrowing of the debt spreads. The ECB kept its monetary policy unaltered throughout the year (even though the QE monthly securities purchase programme has moved in January to EUR 30 billion per month) while in the US, supported by the good shape of the US economy, the Fed carried out three hikes of 25 basis points each in the reference rate in the year, raising it to 1.25%-1.5%. Lastly, a special reference to the fact that the tax reform in US Congress was finally signed by President Trump on 22 December. Regarding risks, inflation continue to be the greatest potential risk for markets so it should be monitored closely.

HAITONG BANK ACTIVITY

In this context, both the Bank’s Flexible and Aggressive strategies performed positively (+4.9% and +10.2%, respectively) in 2017, benefiting from a heavily increased European equity allocation, the region that we believe is going to carry on offering the greatest value. In 2017, a new profile (Defensive, which completes the offer in terms of risk profiles) has been launched. It is worth saying that all the profiles exceeded the pre-defined KPI, confirming the value and return of an active management strategy when compared with the passive approach.

On the distribution side, it is worth mentioning that in October Novo Banco ended its partnership with Haitong Bank. This triggered a significant fall (about 40%), in Assets under Management, mainly due to the fact that the Bank lost the management of Novo Banco unit-linked structures, which brought a new challenge regarding distribution. Following this, the Bank is focused on recovering all clients lost (with positive results so far). Lastly, but also noteworthy, was the launch in December of the RAIF - Haitong High Income bond fund with USD 16 million in funds, a first initiative resulting from the partnership with Haitong Securities.

OUTLOOK

Looking ahead, we face 2018 with confidence, whilst aware that it will be a considerable challenge. During the first quarter and in partnership with Credit Suisse, the Bank expects to launch two replica UCITS funds of its two equity strategies that are managed by this team in individual mandates since 2002. Those funds are already available and are based in Luxembourg, in the Credit Suisse structure. The team also plans to develop institutional distribution, beginning at the Iberian level but with wider geographical ambitions in the future, as soon as we are able to create an experienced institutional sales team. We will also continue the approach we have with our current customer base with the clear objective of recovering many of those who were with us through the UL of NB Private. Finally, we will continue to increase cooperation with the Haitong Group by studying other and new joint product opportunities.

PRIVATE EQUITY

In 2017, the private equity activities were carried out through the fully held management company, Haitong Capital. Besides its own equity, the firm manages three private equity funds devoted to the infrastructure and buyout/capital development market segments across Europe. As of December 2017, Haitong Capital had assets under management of circa EUR 146 million.

Throughout the year, the company continued to work towards the setup of new investment vehicles focused on the East-West trade and the infrastructure sector.

In 2017, 16 investment opportunities were analysed, mainly in the development capital segment in Portugal, but also in other European companies. As a result of these global sourcing efforts, several NBOs were submitted which culminated in the completion of one new investment in the amount of EUR 2 million and three follow-on investments for a total equity amount of EUR 2.5 million. Additional investments in funds managed by third parties were also made totalling EUR 2.6 million.

Taking into account the maturity stage of the ES Iberia I Fund (liquidation phase), Haitong Infrastructure Fund (divestment phase) and also some own equity portfolios, the divestment operations assumed an important role. Several auction processes have been launched, which culminated in the signing of SPAs for the disposal of four companies representing equity of circa EUR 61.8 million. One SPA is still subject to completion, which is expected to occur during the first quarter of 2018.

Additionally, throughout the year, distributions of funds of the portfolio under management were made totalling EUR 24.7 million. These distributions were made by means of dividends, reimbursement of shareholder loans or interest paid and are mostly related to the deferred price of Cova da Serpe II, Globalwatt, NEF, PPP Italia, LogiC and LUFE.

INVESTMENT PORTFOLIO AND FINANCIAL HIGHLIGHTS (INDIVIDUAL BASIS)

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

In December, the fair market valuation of the investment portfolio was EUR 103 million. This compares with EUR 125.6 million calculated in December 2016, on a like-for-like basis. However, if we included shareholder cash inflows resulting from the very same group of securities, the amount would be close to EUR 104.3 million.

The private equity activity in 2017 posted a net profit for the period of approximately EUR 1.2 million and total equity amounted to EUR 46.7 million.

OUTLOOK

Haitong Capital expects to maintain its portfolio management activities during 2018 and to fulfil the investment mandates taken on by the management company. It will also continue to develop and implement the dedicated plans for the launch of the new funds targeting the infrastructure and the East-West trade worlds.

6. TREASURY

MARKET BACKGROUND

Confirming market expectations, the European Central Bank left rates unchanged in 2017, maintaining the extremely low interest rate environment. Concern over the end of QE based on higher growth and inflation expectations was the main driver of the price evolution in EU sovereign risk.

While the core Euro Zone sovereign debt traded in a range in the first semester, reflecting on the one hand monetary policy uncertainty related to the ECB's tapering of its QE policy and on the other, the political unrest due to a heavy electoral calendar in Europe, in the second half of the year the range was less visible. The typically ambiguous announcements of the ECB QE phase out and the overall performance of both EU and US and China economies nevertheless led to consolidation of the yield rise trend in the core EU government 10Y yields that ended the year at 0.43%, up from 0.18% in January.

Portugal and Greece sovereign spreads over Germany had a stellar performance, and the 10 Y benchmark yields fell from 3.8% to 1.9% and 7.0% to 4.1%, respectively. In Portugal the move was fuelled by better economic data, budget execution and rating actions. In Greece, it was a mix of better economic data, the agreement with official creditors on possible debt restructuring of some form and the debt exchange offer that created the foundation for Greece's possible return to the markets very shortly.

Despite a more benign perception of Portuguese sovereign risk by investors, access to unsecured issuance in the international debt markets remained closed for the Portuguese banking sector.

In the US, monetary policy is one step ahead of the EU. The US Federal Reserve raised the federal funds target rate three times, to 1.5%, closely monitoring inflation developments based on stronger labour market and economic activity.

While the Brazilian political environment remained complicated in 2H17 on the back of accusations against President Temer – which hindered the approval of important constitutional amendments – the economic backdrop continued to improve in the same period, especially as far as inflation dynamics are concerned. On the back of quite favourable moves of prices of perishable items and services, inflation indices registered very low readings in 2H17, which led the IPCA annual change to end last year below the floor of the tolerance band set by the National Monetary Council. Such a backdrop helped to anchor market participants' inflation expectations for the coming years and opened up room for the Brazilian Central Bank to bring the Selic target rate to a new historical low, which supported the fledgling recovery of activity indicators and improved labour market conditions.

HAITONG BANK ACTIVITY

During 2017, Haitong Bank successfully completed six capital increases for a total amount of EUR 419 million, which greatly improved the bank's capital ratios as well as its liquidity position and funding costs.

The partnership with an online platform to attract term German retail deposits performed above our expectations, and we ended the year with over EUR 100 million sourced from German retail clients. Going forward, we see this source as an important and quality funding source with relevance in the Bank's funding profile.

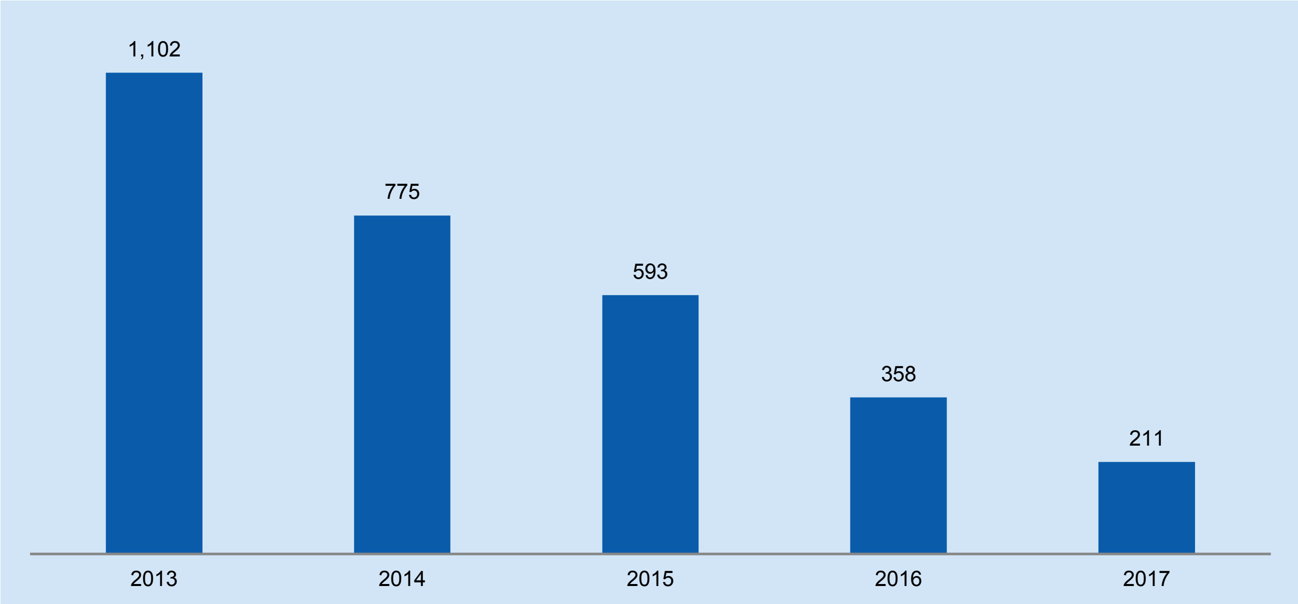
Outstanding debt issued under the Medium-Term Note Program (MTNs) totalled EUR 211 million at the end of 2017 vs EUR 358 million at the end of 2016.

In Brazil, the Bank focused its efforts on three main objectives: (i) maintenance of prudent liquidity levels; (ii) diversification of funding sources; and (iii) generation of recurrent revenues through structured deals.

Institutional Investors have been the target market for the funding strategy. The liabilities profile has improved as the Bank has been able to extend the duration and reduce costs. In addition, the reduction in the SELIC rate (Brazilian base interest rate) has contributed very positively to average funding costs.

EMTN Programme / Total Outstanding Amount

(million euros)



Note: Issue value outstanding deducted from buybacks

Source: Haitong Bank.

OUTLOOK

The Bank's main goal for 2018 is to continue to ensure liquidity and a stable and diversified funding structure, adjusted to the balance sheet and business model.

We expect to enlarge the geographic coverage of the online deposit channel to the Spanish market and resume the regular issuing of structured notes under the EMTN, adding Asia to our focus and providing investors with a tailored offer to meet their needs.

In Brazil, the pursuit of a better funding framework will continue in 2018. The team will focus on supporting the Bank's activities and growth of the business with a suitable funding structure.

7. HUMAN RESOURCES

Headcount	Dec-17	Dec-16	Change	% Change
Total Group	**462**	**663**	**-201**	**-30%**
PORTUGAL	**203**	**274**	**-71**	**-26%**
Haitong Bank, S.A.	195	264	-69	
Haitong Capital - SCR, S.A.	8	10	-2	
SPAIN	**34**	**88**	**-54**	**-61%**
Haitong Bank, S.A. - Spain Branch	34	88	-54	
UNITED KINGDOM	**36**	**85**	**-49**	**-58%**
Haitong Bank, S.A. - London Branch	1	1	0	
Haitong UK Limited	35	84	-49	
POLAND	**54**	**53**	**+1**	**+2%**
Haitong Bank, S.A - Warsaw Branch	54	53	+1	
IRELAND	**3**	**3**	**0**	**0.0%**
Haitong Investment Ireland Plc	3	3	0	
BRAZIL	**87**	**119**	**-32**	**-27%**
Haitong Banco de Investimento do Brasil S.A.	87	108	-21	
Haitong Securities do Brasil S.A.	0	11	-11	
USA	**41**	**37**	**+4**	**+11%**
Haitong Securities USA LLC	41	37	+4	
MEXICO	**4**	**4**	**0**	**0.0%**
Representative Office in Mexico City	4	4	0	

Note: Does not include temporary staff and trainees.   Source: Haitong Bank.

HEADCOUNT

Haitong Bank's business repositioning and the need to create a leaner organization led to a significant headcount reduction in several geographies where the Bank has a presence during the year of 2017.

Portugal, where the Bank is headquartered, recorded the largest headcount reduction by region. Even though the Bank has strengthened the teams of control areas such as Risk Management, Compliance and Middle-Office, the number of employees at the end of the year was 26% lower than in 2016.

The Spanish Branch and the UK subsidiary were also very affected as a result of the integration in Lisbon of some support areas and the business repositioning. This led to a significant reduction of headcount in these geographies – 54 in Spain and 49 in the UK.

In Brazil, the closing of Equities & Research activities greatly contributed to a 27% decrease (-32 employees) at the Brazilian Bank and Broker Dealer.

At the end of 2017, Haitong Bank announced the sale of Haitong (UK) Limited and Haitong Securities USA LLC to Haitong International. This initiative will lead to further decreases in headcount at the beginning of 2018.

TRAINING

Haitong Bank is providing English and Mandarin classes to its employees as a way to overcome the language barrier and to facilitate the integration with the culture of the new Shareholder. The first Mandarin module generated good results and we felt employees were keen to move on to the second module.

Compliance and Governance training is also being provided as planned and as duly requested by the authorities in different geographies, with the most important course being global e-learning on MIFID II.

TALENT MANAGEMENT

Haitong Bank intends to develop a Human Resources programme that focuses on the selection and retention of high potential staff through the development of protocols with the best universities in Portugal and abroad.

Mobility programmes will also be created to allow the rotation of recent graduates and technical staff between the various geographies of the Bank, including the Shanghai and Hong Kong units.

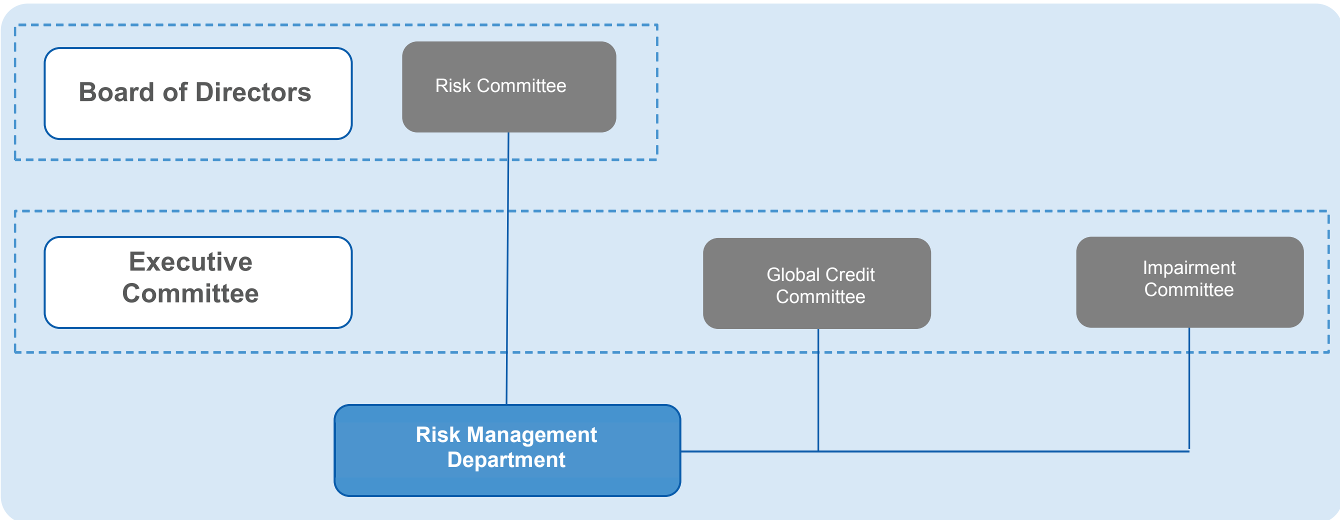
8. RISK MANAGEMENT

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

GOVERNANCE

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

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



Risk Committee

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

Risk Management Department

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

Capital, Assets and Liabilities Management Committee

The Capital, Assets and Liabilities Management Committee was responsible, as per the 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 to the Executive Committee any decisions and initiatives within the scope of the duties described hereinabove on a regular basis.

In November 2017, the Capital, Assets and Liabilities Management Committee was disbanded and its responsibilities were transferred to the Executive Committee.

Global Credit Committee

At Haitong Bank all risk approval processes and decisions are taken at the Global Credit Committee. This Committee shall assess and decide on the approval of:

- Operations proposed by each of the European geographies;
- Limits of the delegation of powers for the Brazil Credit Committee;
- Operations where respective amounts or specific characteristics exceed the pre-established limits of the delegation of powers approval for the Brazil Credit Committee;
- New products and services of all geographies of the Bank;
- Individual, regional and global limits of exposure and risk tolerance, taking into account the risk appetite and risk policies approved by the Board of Directors.

Since November 2017, new transactions require approval from the Executive Committee.

Any transaction that falls outside the Bank’s risk appetite policy is subject to approval at the Board of Directors level.

Impairment Committee

The Impairment Committee of Haitong Bank is responsible for analysing credit impairment and for submitting its findings to the Executive Committee for approval.

The Impairment Committee shall:

- Monitor and control the performance of the loan portfolio, both individually and on an overall basis;
- Analyse on impairment amounts to be assigned to credit clients;
- Decide on which credit strategy must be followed by the Special Portfolio Management division;
- Review and confirm all clients identified by impairment triggers, default situations or restructured loans due to financial problems.

Risk Appetite

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

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

Haitong Bank acknowledges that its risk management function is a key factor to achieving the Group's strategic objectives and provides an additional line of 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 whole, and all its subsidiaries individually, aims to maintain a solid short-term position and a sustainable medium long-term funding profile; and
- Earnings: The Group has a goal of generating recurrent earnings to guarantee its sustainability and a reasonable level of profitability for shareholders.

8.1. CREDIT RISK

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

MANAGEMENT PRACTICES

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

Limits Setting

All transactions involving credit or market risk, as well as the risk limits framework for each Haitong Bank business unit (in Portugal, Spain, Poland, Brazil and Ireland) are approved by the Executive Committee or by the Global Credit Committee, in accordance with its own operating rules. Any transaction that falls outside the Bank’s risk appetite policy is subject to approval at the Board of Directors level.

This ensures that the maximum exposure limits approved per counterparty, rating and industry are assigned taking into account the specific features of markets, products, currencies and maturities.

The approval of limits is preceded by an in-depth analysis of the markets; particularly regarding their liquidity to ensure that the Bank’s strategic objectives can be reached at both the individual and consolidated level. The use of internal and external ratings for the purposes of establishing portfolio ceilings that limit credit approvals by both product and rating levels have constrained credit approvals for the worst risk ratings.

Internal ratings

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

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

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

Monitoring

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

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

This function comprises the following main processes:

- Daily and weekly portfolio monitoring

  Haitong Bank teams in each business unit work closely with the risk management team in Portugal to ensure risk monitoring and control routines are properly implemented. This involves the following processes:

  - 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 and counterparty risk.

- Monitoring of Clients with impairment triggers

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

  The Impairment Committee uses credit risk model information in conjunction with the analysis, among others, of:

  - The Client's overall exposure and the existence of overdue loans;
  - The economic and financial viability of the Client's business and its capacity to generate sufficient resources to service its debt in the future;
  - The existence of privileged creditors;
  - The existence, nature and estimated value of collaterals;
  - The Client's exposure in the financial sector;
  - The amount and timing of expected recoveries.

  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

  Credit portfolio management is an ongoing process that requires interaction among the various teams responsible for the management of risk during the different stages of the credit process. The risk of credit portfolios, specifically the credit exposure evolution and the monitoring of credit losses, is 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 risks that arise 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 and for exposures by sector. The regular monitoring of these limits, together with that of regulatory limits, namely for Large Exposures, reinforces the Bank's monitoring and follow-up framework for credit risk concentration. The impact of concentration risk is incorporated into the economic capital model for credit risk.

Credit Recovery Process

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

ASSET QUALITY

LOAN PORTFOLIO

Portfolio breakdown

At the end of 2017, the gross loan portfolio totalled EUR 750 million, which represents a reduction of EUR 347 million during 2017, mainly seen in Acquisition Finance (EUR -292 million).

Loan Portfolio Product Lines and Geographic Breakdown

(thousand euros)

	Dec-17			Dec-16		
	Domestic	International	Total	Domestic	International	Total
Loan Portfolio[1]	**330,740**	**419,384**	**750,123**	**481,996**	**615,048**	**1,097,044**
Project Finance	261,337	336,483	597,820	279,851	372,868	652,719
Acquisition Finance	66,982	62,902	129,884	199,153	222,397	421,550
Other Credits	2,421	19,998	22,419	2,992	19,783	22,775

[1] Gross of provisions

Source: Haitong Bank.

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

Loan Portfolio Product Lines by Sector

	Dec-17				Dec-16			
	Project Finance	Acquisition Finance	Other Credits	Total	Project Finance	Acquisition Finance	Other Credits	Total
TOTAL	**80%**	**17%**	**3%**	**100%**	**59%**	**38%**	**2%**	**100%**
Financials	3%	4%	0%	**7%**	0%	16%	2%	**17%**
Construction and Public Works	12%	2%	0%	**13%**	9%	3%	0%	**12%**
Energy	28%	0%	0%	**28%**	22%	1%	0%	**23%**
Transport Infrastructure	19%	1%	0%	**20%**	15%	0%	0%	**15%**
Transports and Communications	1%	1%	0%	**2%**	1%	3%	0%	**4%**
Other Manufacturing Sectors	2%	3%	1%	**5%**	1%	5%	0%	**6%**
Real Estate and Rental Activity	0%	1%	0%	**1%**	0%	1%	0%	**1%**
Services	3%	6%	0%	**9%**	2%	7%	0%	**8%**
Wholesale and Retail	9%	0%	0%	**9%**	6%	0%	0%	**6%**
Other sectors	4%	0%	2%	**6%**	3%	4%	0%	**7%**

Source: Haitong Bank.

Internal Rating Profile

Haitong Bank uses internal rating models to support credit decisions and credit risk monitoring. In December 2017, the loan portfolio was distributed according to the following internal ratings:

Loan Portfolio Rating Profile

	Dec-17	Dec-16
[aaa; a-]	0%	0%
[bbb+; bbb-]	25%	5%
[bb+; bb-]	32%	50%
[b+; b-]	30%	31%
[ccc+; lccc]	13%	15%

As a percentage of non-default rated gross portfolio

Source: Haitong Bank.

Risk Indicators

At the end of 2017, Haitong Bank continued to pursue a conservative approach regarding loan portfolio impairments by achieving significant provisioning coverage.

Loan Portfolio Risk Indicators

(thousand euros)

	Dec-17	Dec-16
Loan Portfolio	750,123	1,097,044
Overdue > 90 days	76,392	203,504
Overdue > 90 days / Loan portfolio	*10.2%*	*18.6%*
Credit at Risk[1]	280,064	483,574
Credit at Risk / Loan portfolio	*37%*	*44%*
Credit Provisions	120,217	255,949
Credit Provisions / Overdue Loans > 90 days	*65%*	*126%*
Credit Provisions /Credit at Risk	*42%*	*53%*
Credit Provisions / Loan portfolio	*16%*	*23%*
Loan impairment net of reversals and recoveries of the year	49,203	49,269
Loan impairment net of reversals and recoveries of the year / Gross Loans	*6.6%*	*4.5%*

Source: Haitong Bank.

[1] According to Instruction 23/2011 of the Bank of Portugal, credit at risk includes: a) total value of credit with capital or interest past due by 90 days or more; b) other restructured credit, where the principal or interest payments were past due by more than 90 days and have been capitalized or refinanced without full coverage by collaterals or the interest fallen due has not yet been fully paid by the debtor; and c) credit of an insolvent or bankrupt debtor.

FIXED INCOME ASSETS

Portfolio breakdown

The fixed income portfolio ended 2017 with a net total of EUR 900 million, a decrease of EUR 968 million, as a result of Haitong Banco de Investimento do Brasil's activity, essentially made up of Brazilian Treasury Notes and Brazilian Central Bank Notes (issued and funded in local currency).

Fixed Income Portfolio by Sector

(thousand euros)

	Dec-17	Dec-16
Total	**900,332**	**1,868,554**
Sovereign	690,588	1,625,843
Financials	122,200	135,112
Construction and Public Works	3,909	4,899
Energy	17,665	5,279
Transport Infrastructure	0	0
Transports and Communications	2,817	6,307
Other Manufacturing Sectors	33,684	49,476
Real Estate and Rental Activity	2,239	4,013
Services	23,498	26,769
Wholesale and Retail	0	1,611
Other sectors	3,733	9,245

Source: Haitong Bank.

Internal Rating Profile

In December 2017 the risk profile of the Bank's fixed income portfolio was the following:

Fixed Income Portfolio Rating Profile

	Dec-17	Dec-16
[aaa; a-]	0.4%	0.6%
[bbb+; bbb-]	0.4%	1.3%
[bb+; bb-]	90.3%	86.6%
[b+; b-]	8.7%	11.1%
[ccc+; lccc]	0.2%	0.3%

As a percentage of non-default rated portfolio

Source: Haitong Bank.

DERIVATIVES PORTFOLIO

Portfolio Breakdown

The counterparty risk exposure in the Bank's portfolio of interest rate, exchange rate, and equity derivatives amounted to EUR 177 million, showing a reduction of EUR 98 million during 2017.

In terms of the breakdown by counterparty risk sector, 56% of the global exposure is related to transactions with both Transport Infrastructure and Financial sector counterparties.

Derivatives Portfolio by sector

(thousand euros)

	Dec-17	Dec-16
Total	**176,524**	**274,250**
Financials	34,508	71,783
Construction and Public Works	16,236	20,749
Energy	25,169	34,092
Transport Infrastructure	64,996	77,376
Transports and Communications	1,357	15,357
Other Manufacturing Sectors	1,835	2,611
Real Estate and Rental Activity	0	74
Services	20,985	29,682
Wholesale and Retail	3,425	4,581
Other sectors	8,013	17,946

Source: Haitong Bank.

Internal Rating Profile

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

Derivatives Portfolio Rating Profile

	Dec-17	Dec-16
[aaa; a-]	13%	12%
[bbb+; bbb-]	39%	3%
[bb+; bb-]	32%	63%
[b+; b-]	10%	21%
[ccc+; lccc]	6%	2%

As a percentage of non-default rated portfolio

Source: Haitong Bank.

8.2. 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 and systems for market risk management, enabling the assessment and control of all the market risk factors to which the Bank is exposed to.

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

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

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

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

TRADING BOOK RISK

Management Practices

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

The Value at Risk (VaR) on 31 December 2017 amounts to EUR 5 million, showing an increase of 6.1% vs 31 December 2016.

VaR - 99% at 10 Days

(million euros)

	Dec-17	Dec-16
Exchange Risk	2.2	2.5
Interest Risk	0.8	1.8
Shares and Commodities	1.3	0.7
Credit Spread	1.3	2.2
Covariance	-0.8	-2.6
Total	**5.0**	**4.7**

Source: Haitong Bank.

BANKING BOOK RISKS

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

Interest Rate Risk

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

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

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

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

Interest rate risk measurement consists in determining the effect that changes in interest rates would have on equity and net interest income. On 31 December 2017, Haitong Bank calculated a EUR 18.7 million positive impact on the Bank's shareholders' equity.

Credit Spread Risk

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

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

Real Estate Risk

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

PENSION FUND RISK

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

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

8.3. 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 systems and compliance risks.

MANAGEMENT PRACTICES

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

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

The operational risk management 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, guaranteeing that the established procedures are implemented;

- The Compliance Department, which plays an important role in guaranteeing 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 role in business continuity.

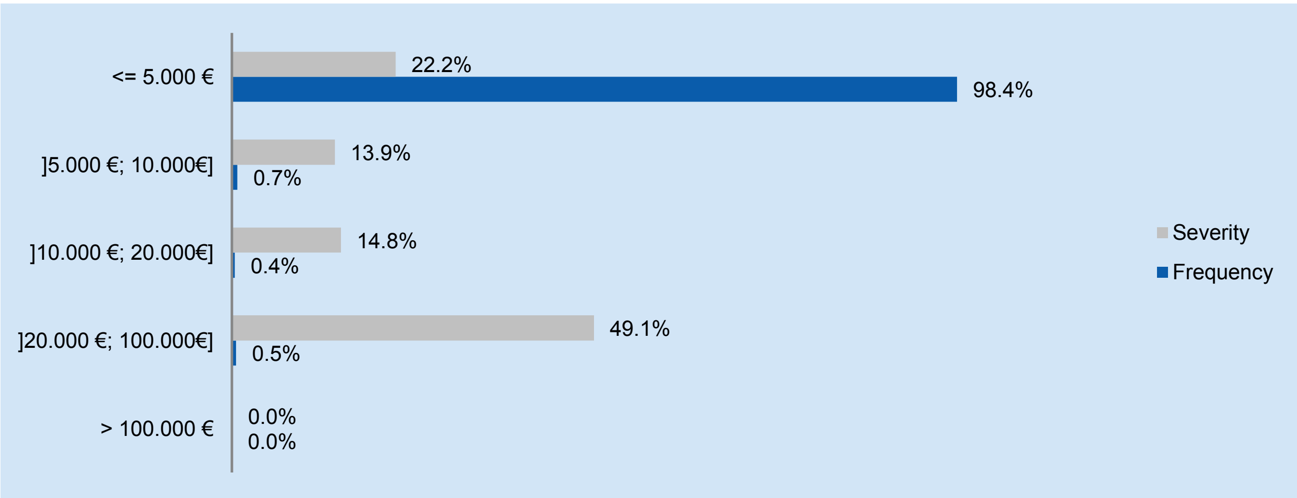
The operational risk management function includes the following processes:

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

OPERATIONAL RISK ANALYSIS

As shown below, in 2017 more than 98% of all reported events carried losses below EUR 5,000.

Distribution of frequency and severity of events by individual loss bucket

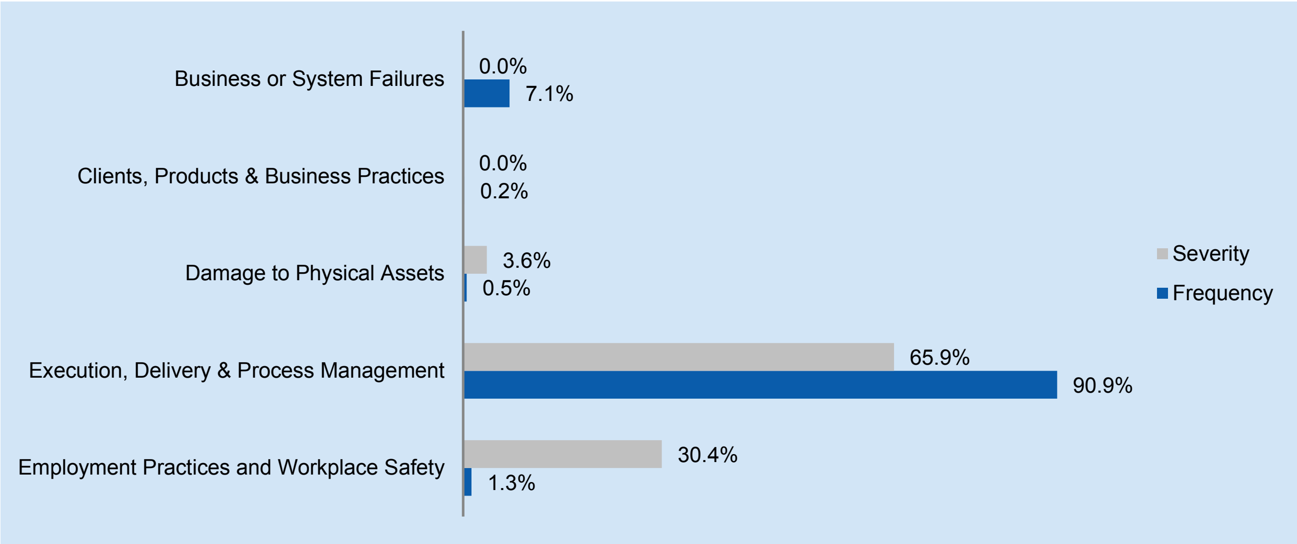


Source: Haitong Bank.

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

In 2017, Execution, Delivery & Process Management event type accounted for more than 90% of total reported events and also for almost two thirds of reported losses. Employment Practices and Workplace Safety was the only other event type with meaningful losses, accounting for over 30% of operational risk event losses.

Distribution of frequency and severity of events by event type



Source: Haitong Bank.

8.4. LIQUIDITY RISK

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

MANAGEMENT PRACTICES

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

Haitong Bank takes primary responsibility for its own liquidity risk management. Liquidity management and Haitong Bank's funding strategy is the responsibility of the Executive Committee which assumed, from November onwards, the responsibilities of Capital, Assets and Liabilities Management Committee.

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

- Ensure the ability to meet obligations as they come due in a timely manner and at a reasonable cost;
- Compliance with regulatory standards on liquidity in each geography the Bank operates in;
- Full alignment with liquidity risk appetite;
- Availability of a sufficient and immediate liquidity buffer to ensure ability to react to any event of stress that could restrict the market access 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, limitation, monitoring and mitigation of liquidity risk.

LIQUIDITY POSITION

Liquidity Coverage Ratio (30 days)

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

As of 31 December 2017, Haitong Bank had an LCR of 610%, which represents a surplus regarding both the December 2017 and the 2018 regulatory minimums, and demonstrates the Bank's resilience in short-term liquidity stress scenarios.

Liquidity Coverage Ratio

(thousand euros)

	Dec-17	Dec-16
High-Quality Liquid Assets	746,344	279,874
30 days Net Outflow	122,248	85,216
Liquidity Coverage Ratio (LCR)	610%	328%

Source: Haitong Bank.

8.5. CAPITAL MANAGEMENT

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

MANAGEMENT PRACTICES

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

- Constant monitoring of regulatory capital requirements;

- Annual revision of the risk appetite; and

- Business objectives according to the capital planning.

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

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

REGULATORY CAPITAL AND LEVERAGE RATIOS

Solvency

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

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

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

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

The regulation also provides a counter-cyclical capital buffer of up to 2.5% to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth in Portugal. As of December 29, 2017, 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 is subject to revision on a quarterly basis.

In addition to the above-mentioned capital buffers, as of July 1, 2017 Haitong Bank, is required to comply with a specific add-on, determined and annually revised under the Supervisory Review and Evaluation Process performed by the Bank of Portugal.

Our estimated capital ratios calculated under the Basel III Standard Approach on both a transitional and fully loaded basis are shown in the table below.

Solvency Ratios

	Dec-17		Dec-16	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	21.2%	20.3%	7.1%	5.3%
Tier 1 ratio	21.2%	20.4%	9.6%	8.2%
Total capital ratio	21.3%	20.5%	9.7%	8.4%

Source: Haitong Bank.

Haitong Bank's capital adequacy strengthened considerably during 2017. This is a result of the prudent and rigorous balance sheet management and the implementation of the following capital measures:

- 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 million shareholder loan.
- In May 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, an investment of EUR 40 million in cash.
- In June 2017, Haitong International Holdings Limited fully subscribed to the capital increase of Haitong Bank, an investment of EUR 160 million 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 million 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 million 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 38.5 million shareholder loan.

Leverage

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

Our estimated leverage ratios calculated under the Basel III Standard Approach on both a transitional and fully loaded basis are shown in the table below.

Leverage Ratios

	Dec-17	Dec-16
Phased-in	15.0%	6.1%
Fully-loaded	14.5%	5.2%

Source: Haitong Bank.

This estimate is based on our current understanding of the regulatory framework and may evolve as we discuss its interpretation and application with our Regulator.

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CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements are a free translation into English of the original Portuguese version.

In case of doubt or misinterpretation the Portuguese version will prevail.

1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for the financial years ended on the 31st December 2017 and 2016

(thousand euros)

	Notes	31.12.2017	31.12.2016 Restatement
Interest and similar income	5	186 903	271 185
Interest and similar expense	5	137 315	214 042
Financial margin		**49 588**	**57 143**
Fees and commissions income	6	70 121	40 676
Fees and commissions expenses	6	(13 804)	(6 545)
Net gains/(losses) from assets and liabilities at fair value through profit or loss	7	(19 595)	(27 491)
Net gains/(losses) from available-for-sale financial assets	8	4 556	995
Net gains/(losses) from foreign exchange revaluation	9	(5 069)	26 296
Net gains/(losses) arising from the disposal of other assets	10	3 303	10 747
Other operating results	11	(12 737)	(878)
Operating Income		**76 363**	**100 943**
Employee costs	12	78 201	69 039
Administrative costs	14	41 369	44 775
Depreciation and amortisation	24 and 25	6 623	5 790
Provisions net of reversals	32	10 241	2 380
Loan impairment net of reversals and recoveries	21	49 203	49 269
Impairment on other financial assets net of reversal and recoveries	19 and 20	24 339	4 780
Impairment on other assets net of reversals and recoveries	25, 26 and 27	2 664	1 231
Operating expenses		**212 640**	**177 264**
Share of profit in associates	26	307	166
Profit / (Loss) before Income Tax		**(135 970)**	**(76 155)**
Income tax			
Current tax	33	3 762	(7 109)
Deferred tax	33	(23 103)	(2 662)
		(19 341)	**(9 771)**
Net profit of continued operations		**(116 629)**	**(66 384)**
Net profit of discontinued operations	35	(19 552)	(28 408)
Net Profit / (Loss) for the year		**(136 181)**	**(94 792)**
Attributable to shareholders of the parent company		**(130 187)**	**(96 181)**
Attributable to non-controlling interests	37	**(5 994)**	**1 389**
		(136 181)	**(94 792)**
Basic Income per Share (in euros)	15	-1,01	-1,13
Diluted Income per Share (in euros)	15	-1,01	-1,13

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

The Director of the Accounting Department

The Board of Directors

Consolidated Statement of Comprehensive Income for the financial years ended on the 31st December 2017 and 2016

(thousand euros)

	31.12.2017	31.12.2016
Net income of the year		
Attributable to shareholders of the parent company	(130 187)	(96 181)
Attributable to non-controlling interests	(5 994)	1 389
	(136 181)	**(94 792)**
Other comprehensive income for the year		
Items that will not be reclassified to profit and loss		
Actuarial gains/(losses), net of taxes	(177)	(2 626)
	(177)	**(2 626)**
Items that may be reclassified to profit and loss		
Exchange differences net of taxes	(22 110)	7 451
Own credit risk effect on liabilities valuation	(3 380)	-
Other comprehensive income from associates	(522)	(721)
	(26 012)	**6 730**
Available-for-sale financial assets		
Gains/(Losses) during the year	(9 345)	14 903
Gains/(losses) realised to income statement of the year	19 772	3 774
Deferred taxes	(2 997)	(7 058)
	7 430	**11 619**
Total comprehensive income/(loss) of the year	**(154 940)**	**(79 069)**
Attributable to shareholders of the parent company	**(144 347)**	**(90 923)**
Attributable to non-controlling interests	**(10 593)**	**11 854**
	(154 940)	**(79 069)**

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

Consolidated Statement of Financial Position as at the 31st December 2017 and 2016

(thousand euros)

	Notes	31.12.2017	31.12.2016
Assets			
Cash and deposits at central banks	16	441 637	37 550
Deposits at other credit institutions	17	31 636	104 254
Financial assets held-for-trading	18	660 009	1 494 915
Available-for-sale financial assets	19	491 947	790 346
Loans and advances to banks	20	488 000	853 687
Loans and advances to customers	21	629 907	841 095
Risk management derivatives	22	11 266	18 273
Non-current assets held-for-sale	23	2 533	3 600
Assets from discontinued units	35	20 359	-
Other tangible assets	24	7 639	11 853
Intangible assets	25	21 327	26 013
Investments in associated companies	26	2 849	6 591
Current income tax assets	33	34 070	11 286
Deferred income tax assets	33	139 027	145 618
Other assets	27	293 699	409 666
Total Assets		**3 275 905**	**4 754 747**
Liabilities			
Resources of central banks	28	60 000	60 000
Financial liabilities held-for-trading	18	606 097	1 042 681
Resources of other credit institutions	29	1 119 511	1 974 169
Resources of customers	30	515 964	735 708
Debt securities issued	31	242 786	341 567
Risk management derivatives	22	14 857	32 907
Liabilities of discontinuing units	35	5 920	-
Provisions	32	13 659	8 815
Current income tax liabilities	33	3 231	4 111
Deferred income tax liabilities	33	3 074	1 628
Other liabilities	34	157 040	202 638
Total Liabilities		**2 742 139**	**4 404 224**
Equity			
Share capital	36	844 769	426 269
Share premium	36	8 796	8 796
Other equity instruments	36	3 731	83 731
Fair-value reserves	37	4 787	(2 312)
Other reserves and retained income	37	(229 212)	(111 455)
Net profit/(loss) of the year attributable shareholders of the parent company		(130 187)	(96 181)
Total equity attributable to the shareholders of the parent company		**502 684**	**308 848**
Non-controlling interests	37	31 082	41 675
Total Equity		**533 766**	**350 523**
Total Equity and Liabilities		**3 275 905**	**4 754 747**

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

The Director of the Accounting Department   The Board of Directors

Consolidated Statement of Changes in Equity for the financial years ended on the 31st December 2017 and 2016

(thousand euros)

	Share Capital	Share Premium	Other equity instruments	Fair-value reserves	Other Reserves, Retained Income and Other Comprehensive Income	Net profit/(loss) of the year attributable shareholders of the parent company	Equity attributable to shareholders of the parent company	Non-controlling interests	Total Equity
Balance as at 31st of December 2015 (Restatement)	**426 269**	**8 796**	**3 731**	**(11 919)**	**(5 453)**	**(98 328)**	**323 096**	**37 681**	**360 777**
Other movements recorded directly in equity (see Note 36):									
Changes in fair value, net of taxes	-	-	-	9 607	-	-	9 607	2 012	11 619
Actuarial gains/ (losses), net of taxes	-	-	-	-	(2 626)	-	(2 626)	-	(2 626)
Other comprehensive income of associates	-	-	-	-	(721)	-	(721)	-	(721)
Exchange differences	-	-	-	-	(1 002)	-	(1 002)	8 453	7 451
Net profit / (loss) of the year	-	-	-	-	-	(96 181)	(96 181)	1 389	(94 792)
Total comprehensive income of the year	**-**	**-**	**-**	**9 607**	**(4 349)**	**(96 181)**	**(90 923)**	**11 854**	**(79 069)**
Share capital increase (see Note 36)	-	-	80 000	-	-	-	80 000	-	80 000
Reserve establishment	-	-	-	-	(98 328)	98 328	-	-	-
Interest in other equity instruments (see Note 36)	-	-	-	-	(231)	-	(231)	-	(231)
Transactions with non-controlling interests (see Note 37)	-	-	-	-	(3 094)	-	(3 094)	(7 860)	(10 954)
Balance as at 31st of December 2016	**426 269**	**8 796**	**83 731**	**(2 312)**	**(111 455)**	**(96 181)**	**308 848**	**41 675**	**350 523**
Other movements recorded directly in equity (see Note 36):									
Changes in fair value, net of taxes	-	-	-	7 099	-	-	7 099	331	7 430
Actuarial gains/ (losses), net of taxes	-	-	-	-	(177)	-	(177)	-	(177)
Other comprehensive income of associates	-	-	-	-	(522)	-	(522)	-	(522)
Exchange differences	-	-	-	-	(17 180)	-	(17 180)	(4 930)	(22 110)
Own credit risk effect on liabilities valuation	-	-	-	-	(3 380)	-	(3 380)	-	(3 380)
Net profit / (loss) of the year	-	-	-	-	-	(130 187)	(130 187)	(5 994)	(136 181)
Total comprehensive income of the year	**-**	**-**	**-**	**7 099**	**(21 259)**	**(130 187)**	**(144 347)**	**(10 593)**	**(154 940)**
Share capital increase (see Note 36)	418 500	-	(80 000)	-	-	-	338 500	-	338 500
Reserve establishment	-	-	-	-	(96 181)	96 181	-	-	-
Interest of other capital instruments (see Note 36)	-	-	-	-	(317)	-	(317)	-	(317)
Balance as at 31st of December 2017	**844 769**	**8 796**	**3 731**	**4 787**	**(229 212)**	**(130 187)**	**502 684**	**31 082**	**533 766**

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

Consolidated Cash Flow Statement for the financial years ended on the 31st December 2017 and 2016

(thousand euros)

	Notes	31.12.2017	31.12.2016
Cash flows from operating activities			
Interest and similar income received		217 216	179 126
Interest and similar expense paid		(162 020)	(206 603)
Fees and commission received		86 740	52 761
Fees and commission paid		(10 599)	(7 784)
Cash payments to employees and suppliers		(144 091)	(147 184)
		(12 754)	**(129 684)**
Changes in operating assets and liabilities:			
Resources at central banks		(10 791)	(1 426)
Resources of central banks		-	(1 139)
Financial assets and liabilities held-for-trading		377 718	377 617
Loans and advances to banks		347 662	(575 370)
Resources of other credit institutions		(716 210)	348 542
Loans and advances to customers		162 430	147 429
Resources of costumers		(196 994)	161 863
Risk management derivatives		133	(127 397)
Other operating assets and liabilities		24 417	144 739
Net cash flow from operating activities before income tax		**(24 389)**	**345 174**
Income taxes paid		(20 450)	(17 809)
		(44 839)	**327 365**
Net cash flows from investment activities			
Acquisition of shares in subsidiaries and associated companies		-	(3 301)
Sale of investments in subsidiaries and associates		7 289	12 681
Purchase of financial assets available-for-sale		(675 253)	(736 592)
Sale of financial assets available-for-sale		960 728	485 559
Purchase of fixed assets		(2 756)	(6 985)
Sale of tangible and intangible assets		273	2 859
		290 281	**(245 779)**
Cash flows from financing activities			
Increase in share capital		200 000	-
Debt securities issued	31	16 035	31 141
Reimbursement of debt securities issued	31	(131 583)	(200 893)
Reimbursement of subordinated liabilities		-	(215)
Issuance of other equity instruments	36	-	80 000
Interest received/(paid) from/to other equity instruments		(317)	(231)
Dividends paid on ordinary shares from subsidiaries		-	(7 653)
Net cash flow from financing activities		**84 135**	**(97 851)**
Net changes in cash and equivalents		**329 577**	**(16 265)**
Cash and equivalents at the beginning of the year		139 879	156 144
Cash and equivalents at the end of the year		469 456	139 879
		329 577	**(16 265)**
Cash and equivalents includes:			
Cash	16	437 820	35 625
Deposits at other credit institutions	17	31 636	104 254
Total		**469 456**	**139 879**

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

2. EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Haitong Bank, S.A.

NOTE 1 – ACTIVITY AND GROUP STRUCTURE

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

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

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

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

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

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

Haitong Bank currently operates through its headquarters in Lisbon, as well as through branches in London, Warsaw and Madrid, and subsidiaries in Brazil, Ireland, United Kingdom, Mexico and United States of America. Resulting from the sale process, the subsidiaries from UK and US are being discontinued (See Note 35).

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

Group companies where the Bank has a direct or indirect holding greater or equal to 20%, on over which the Bank exercises control or has significant influence, and that were included in the consolidated financial statements, is as follows:

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

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

In 2013, Haitong Bank started a simplification plan for its group. Several measures were taken within the scope of such process, including the disposal and merger of several holdings, with no significant impact on the accounts. The simplification process continued throughout 2016, and the main changes made to the group's structure 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 5,900,000.
- 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 4,080,000.
- In November 2017, Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R. was dissolved.
- In December 2017, subject to the terms and conditions of the Share Purchase Agreements, Haitong Bank has conditionally agreed to sell to Haitong International BVI the shares representing 100% of the capital of its subsidiaries in London and New York. Consideration for the Haitong Securities USA LLC Membership Interests was USD 16,778 thousand. The Consideration for the Haitong (UK) Ltd and Haitong Securities (UK) Ltd sale shares was USD 12,536 thousand. Subsequently, these subsidiaries have been recorded as discontinued operations, in accordance with IFRS 5 standard – Non-current assets held for sale and discontinued operations (see Note 35). This sale was concluded on February 23, 2018 (see Note 42).
- In December 2017, 84 117 units from FI Multimercado Treasury fund were redeemed, in the amount of BRL 32,000 thousand.

Associates (see note 26)

- In October 2017, MCO2 repaid EUR 425 thousand of accessory capital borrowed 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..

During the 2017 and 2016 financial years, the movements concerning acquisitions, sales and other investments and reimbursements in subsidiaries and associates are as follows:

(thousand euros)

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

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

(thousand euros)

	31.12.2016						
	Acquisitions			Disposals			
	Acquisition cost	Other Investments (a)	Total	Sale amount	Other Reimbursements (b)	Total	Gains/ (losses) in sales/disposals
Subsidiaries							
Haitong Securities USA	275	11 925	12 200	-	-	-	-
Haitong Securities India Private Limited	3 301	4 570	7 871	10 853	-	10 853	7 706
WindPart, Lda	-	-	-	-	813	813	-
	3 576	**16 495**	**20 071**	**10 853**	**813**	**11 666**	**7 706**
Associates							
Coporgest, SA	-	-	-	1 993	-	1 993	933
Fundo Espírito Santo IBERIA I	-	-	-	-	1 746	1 746	-
Total	**3 576**	**16 495**	**20 071**	**12 846**	**2 559**	**15 405**	**8 639**

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

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. BASES OF PREPARATION

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

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

Haitong Bank's consolidated financial statements set forth herein refer to the financial year ended on the 31st of December, 2017, which have been prepared in accordance with the IFRS in force, as adopted in the European Union until the 31st of December, 2017.

The accounting policies used by the Group when preparing its consolidated financial statements of the 31st of December, 2017, are consistent with those used when preparing the annual consolidated financial statements referring to the 31st of December, 2016, excepting the recognition in other comprehensive income of fair value changes for financial liabilities resulting of changes in own credit risk after January 1, 2017, in accordance with IFRS 9 – Financial instruments.

However, and as provided for in Note 43, when preparing the consolidated financial statements as at the 31st of December, 2017, the Group adopted the accounting standards issued by the IASB, as well as the interpretations of the IFRIC, whose implementation became mandatory from the 1st of January, 2015. The accounting policies described herein and used by the Group when preparing the consolidated financial statements have been adopted accordingly. The adoption of such new standards and interpretations in 2017 did not have a material effect on the Group's accounts.

In addition, the accounting standards and interpretations which have recently been issued but have not yet entered into force, and which the Group has not yet implemented in the preparation of its financial statements, may also be analysed in Note 43.

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

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

The consolidated financial statements herein have been approved in the Board of Directors meeting held on the March 26th 2018.

2.2. BASIS OF CONSOLIDATION

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

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

Subsidiaries

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

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

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

Associates

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

Transactions with non-controlling interests

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

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

Translation of financial statements in foreign currency

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

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

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

Balances and transactions eliminated on consolidation

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

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

2.3. FOREIGN CURRENCY TRANSACTIONS

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

Non-monetary assets and liabilities accounted for at historical cost, denominated in foreign currency, are converted at the exchange rate as at the transaction date. Non-monetary assets and liabilities denominated in foreign currency accounted for at fair value are converted at the exchange rate in force as at the date of determination of the fair value. The exchange rate differences resulting thereof are recognised in profit and loss, except for the differences concerning shares classified as available-for-sale financial assets, which shall be accounted for in other comprehensive income.

2.4. FINANCIAL DERIVATIVES

Classification

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

Recognition and measurement

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

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

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

The Group contracts derivatives with the purpose of hedging its net investments in subsidiaries whose financial statements are denominated in foreign currency. Under IAS 39, gains and losses on hedging instruments are recorded in comprehensive income, in foreign exchange revaluation reserves, given that the hedging is effective in accordance with the rules set under IAS 39. The amount of the reserve will be classified for net profit of the year with the derecognition of the investments from the Group's balance sheet.

2.5. LOANS AND ADVANCES TO CUSTOMERS

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

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

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

Impairment

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

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

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

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

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

If an impairment loss is determined on individual terms, the amount of the loss to be recognised shall correspond to the difference between the loan's carrying amount and the net present value of future estimated cash flows (considering the recovery period), discounted at the effective interest rate of the contract. The carrying amount of loans and advances to costumers is presented net of impairment in the statement of financial position. For a variable interest rate loan, the discount rate to be used for determining the corresponding impairment loss is the current effective interest rate, which is established based on the rules of each contract.

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

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

2.6. OTHER FINANCIAL ASSETS

Classification

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

- Financial assets at fair value through profit or loss

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

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

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

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

- Available-for-sale financial assets.

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

Initial recognition and measurement, and derecognition

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

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

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

Subsequent measurement

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

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

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

Impairment

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

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

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

2.7. ASSETS SOLD WITH REPURCHASE AGREEMENT AND SECURITIES LENDING

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

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

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

2.8. FINANCIAL LIABILITIES

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

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

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

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

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

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

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

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

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

2.9. FINANCIAL GUARANTEES

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

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

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

2.10. EQUITY INSTRUMENTS

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

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

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

2.11. OFFSETTING FINANCIAL INSTRUMENTS

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

2.12. NON-CURRENT ASSETS HELD-FOR-SALE

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

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

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

2.13. OTHER TANGIBLE ASSETS

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

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

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

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

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

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

2.14. INTANGIBLE ASSETS

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

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

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

2.15. LEASES

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

Operating leases

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

Financial leases

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

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

- As a lessor

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

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

2.16. EMPLOYEE BENEFITS

Pensions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Health-care benefits

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

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

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

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

Long-term service bonuses

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

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

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

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

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

New Collective Labour Agreement

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

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

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

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

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

Variable remuneration paid to employees

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

2.17. INCOME TAXES

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

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

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

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

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

2.18. PROVISIONS

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

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

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

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

2.19. RECOGNITION OF INTEREST INCOME AND EXPENSE

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

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

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

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

2.20. RECOGNITION OF FEE AND COMMISSION INCOME

Income from services and commissions are recognised as follows:

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

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

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

2.21. RECOGNITION OF DIVIDEND INCOME

Income from equity instruments (dividends) are recognised once the right to receive its payment is established.

2.22. SEGMENT REPORTING

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

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

2.23. EARNINGS PER SHARE

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

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

2.24. CASH AND CASH EQUIVALENTS

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

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

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

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

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

3.1. IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO COSTUMERS

From time to time, the Group reviews its loan portfolio to assess impairment, as laid down in Note 2.5.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments, including the existence of impairment triggers, recovery estimates and collaterals valuation.

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

3.2. INCOME TAXES

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

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

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

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

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

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

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

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

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

3.3. GOODWILL IMPAIRMENT

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

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

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

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

3.4. PENSIONS AND OTHER EMPLOYEE BENEFITS

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

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

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

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

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

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

3.6. IMPAIRMENT AND VALORIZATION OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group considers that their available-for-sale assets are impaired when there is a significant or prolonged decline in their fair value or when it foresees an impact on the assets' future cash flows. The latter consideration requires judgement, in which the Group collects and assesses all relevant information for the formulation of the decision, such as the normal volatility of financial instruments' prices. For the purpose and as a result of the high volatility in markets, the following parameters were considered as triggers of impairment:

I. Equity instruments: significant or prolonged decline in their market value, below the acquisition cost;

II. Debt securities: when there is objective evidence of events that impact on the recoverable amount of future cash flows of these assets;

III. Devaluation of 30% or consecutive devaluation during one year.

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

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

NOTE 4 – SEGMENT REPORTING

4.1. DESCRIPTION OF OPERATING SEGMENTS

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

Mergers and Acquisitions

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

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

Capital Markets Division

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

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

Fixed Income Currency and Commodities (FICC)

The purpose of the Fixed Income, Currency and Commodities Division is to provide a professional and differentiated order execution service focused on the offer of securities of Iberian issuers and emerging markets, including China, denominated in USD, EUR and RMB, always in compliance with the applicable legislation.

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

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

Global Markets

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

Equities

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

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

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

Treasury

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

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

Private Equity

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

Structured Finance (DSF)

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

Special Portfolio Management

The purpose of the Special Portfolio Management Division is to manage all credit operations in which the Bank is involved as finance provider, which under the IFRS9 criteria are categorized as underperforming or nonperforming (operations with impairment triggers or objective evidence of impairment, as per 3.3 and 3.4 of the IFRS9 – financial instruments impairment core principles manual)

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

Corporate centre

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

Other

Includes all remaining segments of the Group's Management Information model, which, in accordance with the provisions laid down in IFRS 8, is not subject to mandatory individualisation (Financial Consulting to Medium Companies, Asset Management, Private Customers, Wealth Management, Credit Syndication and other revenue centres).

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

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

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

Measurement of profits or losses from the segments

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

Haitong Bank's structures dedicated to the segment

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

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

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

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

Interest income and expenses

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

Investments consolidated under the equity method

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

Non-current assets

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

Deferred tax assets

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

Domestic and International Areas

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

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

(thousand euros)

	31.12.2017											
	Structured Finance	Special Portfolio Management	Mergers and Acquisitions	Capital Markets	FICC	Equities	Global Markets	Private Equity	Treasury	Corporate centre	Other	Total
Net interest income	11 746	(2 106)	-	525	444	(291)	25 843	-	3 654	-	9 773	49 588
Service to clients	10 422	398	25 501	18 249	5 740	7 703	1 020	3 426	(2 553)	-	(12 653)	57 253
COMERCIAL OPERATING INCOME	**22 168**	**(1 708)**	**25 501**	**18 774**	**6 184**	**7 412**	**26 863**	**3 426**	**1 101**	**-**	**(2 880)**	**106 841**
Results on financial operation	(960)	700	(103)	(89)	9 391	(161)	(23 387)	3 521	(8 786)	-	(10 297)	(30 171)
Intersegment Operating Income	306	-	1 333	(296)	(803)	(894)	38	(28)	4 296	-	(3 952)	-
TOTAL OPERATING INCOME	**21 514**	**(1 008)**	**26 731**	**18 389**	**14 772**	**6 357**	**3 514**	**6 919**	**(3 389)**	**-**	**(17 129)**	**76 670**
Operation expenses	3 004	884	9 205	4 078	14 601	4 894	4 063	2 399	1 542	110 252	(28 729)	126 193
Staff costs	1 857	511	5 953	2 488	8 889	1 714	1 639	1 392	737	71 366	(18 345)	78 201
General administration expenses	1 054	352	2 956	1 485	5 022	3 022	1 943	993	610	33 776	(9 844)	41 369
Depreciations and Amortisations	93	21	296	105	690	158	481	14	195	5 110	(540)	6 623
Gross income	**18 510**	**(1 892)**	**17 526**	**14 311**	**171**	**1 463**	**(549)**	**4 520**	**(4 931)**	**(110 252)**	**11 600**	**(49 523)**
Impairment and Provisions	(69 543)	(2 765)	(724)	(138)	(1 988)	(456)	(165)	(1 012)	(912)	(8 689)	(55)	(86 447)
Credit impairment	(42 446)	(7 371)	(2)	-	(9)	(10)	-	-	-	635	-	(49 203)
Securities impairment	(20 980)	-	(923)	-	-	-	(174)	(1 330)	(901)	33	(54)	(24 329)
Net provisions and other impairment	(6 117)	4 606	201	(138)	(1 979)	(446)	9	318	(11)	(9 357)	(1)	(12 915)
Income before taxes	**(51 033)**	**(4 657)**	**16 802**	**14 173**	**(1 817)**	**1 007**	**(714)**	**3 508**	**(5 843)**	**(118 941)**	**11 545**	**(135 970)**
Net Assets	543 863	167 708	7 490	15 284	344 055	56 180	1 012 545	31 091	758 507	318 824	20 358	3 275 905
Liabilities	-	-	-	-	-	-	-	-	2 559 216	177 003	5 920	2 742 139
Investments in associates	-	-	-	-	-	-	-	-	-	-	2 849	2 849
Investments in assets												
Tangible	-	-	-	-	-	-	-	-	-	-	1 281	1 281
Intangible	-	-	-	-	-	-	-	-	-	-	1 181	1 181

(thousand euros)

	31.12.2016											
	Structured Finance	Special Portfolio Management	Mergers and Acquisitions	Capital Markets	FICC	Equities	Global Markets	Private Equity	Treasury	Corporate centre	Other	Total
Net interest income	12 843	(2 388)	-	243	(11 382)	(30)	36 219	124	5 364	-	16 150	57 143
Service to clients	12 444	19	11 374	10 635	2 055	10 016	1 720	1 470	(650)	-	(14 502)	34 581
COMERCIAL OPERATING INCOME	**25 287**	**(2 369)**	**11 374**	**10 878**	**(9 327)**	**9 986**	**37 939**	**1 594**	**4 714**	**-**	**1 648**	**91 724**
Results on financial operation	4 190	165	(218)	(46)	12 672	(230)	(22 306)	1 221	(24 094)	-	38 031	9 385
Intersegment Operating Income	-	143	(277)	-	(1 113)	(108)	(1 998)	-	19 841	-	(16 488)	-
TOTAL OPERATING INCOME	**29 477**	**(2 061)**	**10 879**	**10 832**	**2 232**	**9 648**	**13 635**	**2 815**	**461**	**-**	**23 191**	**101 109**
Operation expenses	5 841	816	12 854	4 958	8 384	20 405	4 209	2 187	1 539	80 471	(22 060)	119 604
Staff costs	3 288	445	8 711	3 453	4 933	11 830	1 669	1 178	722	46 704	(13 894)	69 039
General administration expenses	2 361	359	3 694	1 356	3 014	8 017	2 158	1 005	756	29 932	(7 877)	44 775
Depreciations and Amortisations	192	12	449	149	437	558	382	4	61	3 835	(289)	5 790
Gross income	**23 636**	**(2 877)**	**(1 975)**	**5 874**	**(6 152)**	**(10 757)**	**9 426**	**628**	**(1 078)**	**(80 471)**	**45 251**	**(18 495)**
Impairment and Provisions	(4 931)	(47 631)	457	(6)	(162)	164	(1 056)	(989)	(905)	(1 495)	(1 106)	(57 660)
Credit impairment	(8 501)	(40 939)	-	-	-	-	-	(498)	-	670	(1)	(49 269)
Securities impairment	(1 544)	-	-	-	-	-	(1 601)	(537)	(1 059)	-	(39)	(4 780)
Net provisions and other impairment	5 114	(6 692)	457	(6)	(162)	164	545	46	154	(2 165)	(1 066)	(3 611)
Income before taxes	**18 705**	**(50 508)**	**(1 518)**	**5 868**	**(6 314)**	**(10 593)**	**8 370**	**(361)**	**(1 983)**	**(81 966)**	**44 145**	**(76 155)**
Net Assets	824 163	68 428	-	50	190 342	42 433	2 363 303	2 117	833 977	429 934	-	4 754 747
Liabilities	-	-	-	-	-	-	-	-	4 187 032	217 191	1	4 404 224
Investments in associates	-	-	-	-	-	-	-	-	-	-	6 591	6 591
Investments in assets												
Tangible	-	-	-	-	-	-	-	-	-	-	4 366	4 366
Intangible	-	-	-	-	-	-	-	-	-	-	2 619	2 619

As at December 31, 2017 and 2016, "Other" balances include the reclassification of the results of the discontinuing operations.

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

(thousand euros)

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

(thousand euros)

	31.12.2016				
	Portugal	Rest of Europe	America	Asia	Total
Net income	(90 452)	(8 751)	2 896	126	(96 181)
Net asset	1 601 511	612 788	2 540 448	-	4 754 747
Investments in associates	6 591	-	-	-	6 591
Investments in assets	-	-	-	-	-
tangible	999	1 094	2 273	-	4 366
intangible	1 667	399	553	-	2 619

NOTE 5 – NET INTEREST INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2017			31.12.2016		
	From assets/liabilities at amortised cost and available-for-sale financial assets	From assets/liabilities at fair-value through profit and loss	Total	From assets/liabilities at amortised cost and available-for-sale financial assets	From assets/liabilities at fair-value through profit and loss	Total
Interest and similar income						
Interest from loans and advances to customers	32 426	-	32 426	41 787	-	41 787
Interest from deposits and investments in credit institutions	51 362	-	51 362	73 638	-	73 638
Interest from risk management derivatives	-	10 285	10 285	-	12 463	12 463
Interest from available-for-sale financial assets	3 119	-	3 119	17 983	-	17 983
Interest from financial assets at fair-value through profit and loss	-	89 701	89 701	-	125 238	125 238
Other interest and similar income	10	-	10	76	-	76
	86 917	**99 986**	**186 903**	**133 484**	**137 701**	**271 185**
Interest and similar expenses						
Interest from deposits from central banks and other credit institutions	73 591	-	73 591	115 555	-	115 555
Interest from risk management derivatives	-	9 974	9 974	-	10 841	10 841
Interest from debt securities issued	3 314	7 888	11 202	6 073	16 153	22 226
Interest from customers accounts	41 768	-	41 768	63 923	-	63 923
Interest from subordinated liabilities	-	-	-	125	-	125
Other interest and similar expenses	780	-	780	1 372	-	1 372
	119 453	**17 862**	**137 315**	**187 048**	**26 994**	**214 042**
	(32 536)	**82 124**	**49 588**	**(53 564)**	**110 707**	**57 143**

Interest from loans and advances to costumers includes an amount of 22,092 thousand euros (31st of December, 2016: 13,317 thousand euros), concerning interest of impaired loan agreements.

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

NOTE 6 – NET FEES AND COMMISSIONS INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Fees and commissions income		
From banking services	47 820	13 559
From guarantees provided	3 016	3 182
From transactions with securities	19 285	23 935
	70 121	**40 676**
Fees and commissions expenses		
From banking services rendered by third parties	1 120	1 619
From transactions with securities	3 124	3 079
From guarantees received	569	675
Other fee and comission expenses	8 991	1 172
	13 804	**6 545**
	56 317	**34 131**

NOTE 7 – NET GAINS/(LOSSES) FROM ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading's amount is composed of:

(thousand euros)

	31.12.2017			31.12.2016		
	Income	Expenses	Total	Income	Expenses	Total
Securities held-for-trading						
Bonds and other fixed-income securities						
Issued by public entities	110 617	175 670	(65 053)	218 614	318 146	(99 532)
Of other entities	14 129	14 061	68	9 598	6 284	3 314
Shares	3 468	2 431	1 037	6 055	4 020	2 035
	128 214	**192 162**	**(63 948)**	**234 267**	**328 450**	**(94 183)**
Financial derivatives held-for-trading						
Foreign-exchange contracts	1 090 778	1 098 660	(7 882)	2 052 291	2 160 507	(108 216)
Interest rates contracts	626 420	571 948	54 472	853 076	667 008	186 068
Equity/indexes contracts	198 893	200 463	(1 570)	27 610	31 925	(4 315)
Credit default contracts	-	2 230	(2 230)	-	1 561	(1 561)
Other	1 804	-	1 804	4 039	-	4 039
	1 917 895	**1 873 301**	**44 594**	**2 937 016**	**2 861 001**	**76 015**
Financial derivatives for risk management						
Foreign-exchange contracts	-	789	(789)	-	8 934	(8 934)
Interest rates contracts	508	-	508	1 372	-	1 372
Equity/indexes contracts	6 263	-	6 263	8 220	-	8 220
Credit default contracts	5 194	-	5 194	1 074	42 602	(41 528)
	11 965	**789**	**11 176**	**10 666**	**51 536**	**(40 870)**
	2 058 074	**2 066 252**	**(8 178)**	**3 181 949**	**3 240 987**	**(59 038)**
Financial liabilities at fair-value through profit and loss						
Debt securities issued	2 398	13 815	(11 417)	39 172	7 625	31 547
	2 398	**13 815**	**(11 417)**	**39 172**	**7 625**	**31 547**
	2 060 472	**2 080 067**	**(19 595)**	**3 221 121**	**3 248 612**	**(27 491)**

NOTE 8 – NET GAINS / (LOSSES) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading's amount is composed of:

(thousand euros)

	31.12.2017			31.12.2016		
	Income	Expenses	Total	Income	Expenses	Total
Bonds and other fixed income securities						
Issued by public entities	10	-	10	-	7	(7)
Of other entities	4 519	16	4 503	16	94	(78)
Shares	43	-	43	1 080	-	1 080
	4 572	**16**	**4 556**	**1 096**	**101**	**995**

NOTE 9 – NET GAINS / (LOSSES) FROM FOREIGN EXCHANGE REVALUATION

This heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Currency revaluation	(5 069)	26 296
	(5 069)	**26 296**

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

NOTE 10 – NET GAINS / (LOSSES) ARISING FROM THE DISPOSAL OF OTHER ASSETS

As at the 31st of December, 2017, and the 31st of December, 2016, this heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Non-financial assets	(177)	41
Sale of loans and advances to customers	116	1 854
Investment in branches, associates and joint ventures	3 597	8 639
Others	(233)	213
	3 303	**10 747**

NOTE 11 – OTHER OPERATING RESULTS

This heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Other customer services	937	879
Direct and Indirect taxes	(4 671)	(4 795)
Other operating results	(9 003)	3 038
	(12 737)	**(878)**

Direct and indirect taxes include 1,751thousand euros concerning the cost associated with the Bank Levy (31st of December, 2016: 1,593 thousand euros), established pursuant to Law no. 55-A/2010, of the 31st of December (see Note 33).

As at the December 31, 2017, the balance Other operating income and expenses includes, among other costs, the following contributions:

I. 110 thousand euros relating to the Deposit Guarantee Fund Contributions (80 thousand euros at 31 December 2016);

II. 1,811 thousand euros related to Contributions to the Resolution Fund (1,293 thousand euros at 31 December 2016); and

III. 1,624 thousand euros relating to Contributions to the Loan Guarantee Fund applicable to the subsidiary Haitong Banco de Investimento do Brasil S.A. (2,263 thousand euros as at 31 December 2016).

NOTE 12 – EMPLOYEE COSTS

This heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Wages and salaries		
Remuneration	43 608	50 665
Long-term service benefits (see Note 13)	-	(891)
Career benefits (see Note 13)	(85)	583
Changes in SAMS regulation (see Note 13)	-	(1 454)
Changes from termination agreements (see Nota 13)	2 316	-
Changes from Maximum Salary Cap implementation (see Nota 13)	(4 097)	-
Expenses with retirement pensions (see Note 13)	1 233	1 724
Other mandatory social charges	10 338	9 952
Other expenses	24 888	8 460
	78 201	**69 039**

The Group recognized in the year 2017, staff costs of 37,427 thousand euros related to the Voluntary Termination Plan called Social Plan.. This amount includes an amount of 1,342 thousand euros recognized in other risks and charges (see Note 32), which is intended to cover costs incurred in the first half of 2018.

Expenses with remunerations and other benefits granted to the key management personnel of the Haitong Bank Group as at 31st December, 2017 and 2016 are as follows:

(thousand euros)

	Board of Directors	Other key management staff	Total
2017			
Remunerations and other short-term benefits	1 697	13 434	15 131
Variable remunerations	-	580	580
Total	**1 697**	**14 014**	**15 711**
2016			
Remunerations and other short-term benefits	3 020	29 022	32 042
Long-term service benefits	161	776	937
Variable remunerations	456	8 376	8 832
Total	**3 637**	**38 174**	**41 811**

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

As at the 31st of December, 2017 and 2016, the Haitong Bank Group does not have any loans granted to Administration Bodies.

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

	2017	2016
Directors	322	442
Management	3	4
Specific roles	160	212
Administrative roles	34	45
Support roles	16	21
	535	**724**

As at the 31st of December, 2017 and 2016, the Group had a total of 466 and 672 employees.

NOTE 13 – EMPLOYEES BENEFITS

Retirement pensions and healthcare benefits

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

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

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

The contribution rate is 26.6%, out of which 23.6% is to be borne by the employer and 3% by the employees, thereby replacing the Caixa de Abono de Família dos Empregados Bancários (CAFEB) [Family Allowance Fund of Bank Employees], which was dissolved under the aforementioned Decree-Law. As a result of such change, the entitlement of active employees to the pension is now covered under the conditions laid down in the Social

Security's General Scheme, by taking into account the period of service provided from the 1st of January, 2011, until the retirement age, and now the banks shall bear the necessary differential for the pension, guaranteed under the Collective Labour Agreement.

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

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

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

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

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

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

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

New Collective Labour Agreement

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

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

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

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

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

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

	Assumptions	
	31.12.2017	31.12.2016
Financial Assumptions		
Expected return rates	2.17%	2.10%
Discount rate	2.17%	2.10%
Pension growth rates	0.50%	0.50%
Salary growth rates	1.00%	1.00%
Demographic Assumptions and Assessment Methods		
Mortality table		
Men	TV 88/90	TV 73/77 - 2 anos
Women	TV 88/90 -3 years	TV 88/90 - 3 anos
Actuarial valuation method	Project Unit Credit Method	

Disability decrements are not included in the calculation of responsibilities. The discount rate used as reference to the 31st of December, 2017, was based on: (i) the development sustained by the main indices concerning high quality corporate bonds and (ii) the duration of the responsibilities (22.5 years).

Recipients of the pensions plan are disaggregated as follows:

	31.12.2017	31.12.2016
Active workers	120	183
Former employees with vested rights	55	-
Retired	32	26
Survivors	7	7
TOTAL	**214**	**216**

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

The IAS 19 application implies the following liabilities and coverage levels, which shall be reported on the 31st of December 2017 and 2016:

(thousand euros)

	31.12.2017	31.12.2016
Net Assets / (Liabilities) recognised in the statement of financial position		
Liabilities as at 31st of December		
Pensioners	35 137	7 460
Active workers	36 933	63 275
	72 070	**70 735**
Balance of funds as at 31st of December	**72 552**	**67 349**
Excess of coverage / Contributions to the fund	482	(3 386)
Assets / (Liabilities) in the statement of financial position (see Note 27 and 34)	**482**	**(3 386)**
Acummulated actuarial gains / losses recognised in other comprehensive income	31 792	31 641

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

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

(thousand euros)

	31.12.2017	31.12.2016
Liabilities at the beginning of the period	**70 735**	**70 744**
Current service cost (see Note 12)	1 233	1 724
Interest expenses	1 474	1 763
Participants contributions	113	129
Actuarial (gains)/losses	1 327	(1 718)
-Changes in assumptions	1 470	5 937
- Experience (Gains)/losses	(143)	(7 655)
Pensions paid by the fund	(1 031)	(453)
Changes in SAMS regulation (see Note 12)	-	(1 454)
Changes from termination agreements (see Note 12)	2 316	-
Changes from Maximum Salary Cap implementation (see Note 12)	(4 097)	-
Liabilities at the end of the period	**72 070**	**70 735**

Considering the situation on the 31st of December 2017, the analysis to the sensibility and alterations of the actuarial assumptions revealed the following impacts:

- An increase in the discount rate of 25 base points would have represented a reduction in liabilities of approximately 3,821 thousand euros. A discount rate decrease of the same proportion would have represented an increase in liabilities of approximately 4,033 thousand euros;
- An increase of 25 base points in the growth of salaries and pensions would have represented an increase in liabilities of approximately 3,769 thousand euros. A decrease in the growth of salaries of the same proportion would have represented a decrease in liabilities of approximately 3,583 thousand euros.

The evolution of value regarding the pension funds on the financial years ending on the 31st of December 2017 and 2016, may be analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Pension Funds at the beginning of the period	**67 349**	**70 744**
Real income of the fund	2 621	(4 250)
Group contributions	3 500	1 179
Participants contributions	113	129
Benefits paid	(1 031)	(453)
Pension Funds at the end of the period	**72 552**	**67 349**

In early 2018, the Group made an extraordinary contribution for the fund in the amount of 1,225 thousand euros, therefore, the fund is now in the amount of 73,777 thousand euros, thereby representing a liability financing level of 102,4%.

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

	% Portfolio	
	2017	2016
Bonds	57.70%	15.00%
Shares	30.30%	5.80%
Alternative investment	8.70%	0.00%
Mixed Fund	0.00%	0.00%
Real estate	0.00%	0.90%
Liquidity	3.30%	78.30%
Total	100.00%	100.00%

On the 31st of December 2017 and 2016 the funds did not contain securities issued by entities of the Group.

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

(thousand euros)

	31.12.2017	31.12.2016
Deferred actuarial gains / (losses) as at 1st January	**31 641**	**27 346**
- Actuarial assumptions changes	1 470	5 937
- (Gains)/losses in experience	(1 319)	(1 642)
Deferred actuarial deviations as at 31st of December	**31 792**	**31 641**

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

(thousand euros)

	31.12.2017	31.12.2016
Current service cost (see Note 12)	1 233	1 724
Interest Expenses / (Income)	29	-
Expenses of the period	**1 262**	**1 724**

As of the 1st of January 2014, following the alteration of IAS 19 - Employee Benefits, the costs / earnings of the interest are now recognized according to the net value of the similar line of interest (earnings or costs).

The evolution of the net assets / (liabilities) on the balance regarding the financial years ending on the 31st of December 2017 and 2016 may be analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	**(3 386)**	**-**
Year expenses	(1 262)	(1 724)
Actuarial gains / (losses) recognised in other comprehensive income	(151)	(4 295)
Group contributions	3 500	1 179
Changes in SAMS regulation	-	1 454
Changes in termination agreements	(2 316)	-
Changes in Maximum Salary Cap implementation	4 097	-
Final Balance	**482**	**(3 386)**

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

(thousand euros)

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Liabilities	(72 070)	(70 735)	(70 744)	(63 867)	(57 179)
Funds balances	72 552	67 349	70 744	63 002	54 455
(Under) / over funded liabilities	**482**	**(3 386)**	**-**	**(865)**	**(2 724)**
Experience (gains) / losses from liabilities	(143)	(7 655)	177	(7 097)	2 931
Experience (gains) / losses from plan assets	(1 176)	6 013	6 707	(834)	(1 441)

Long-term service benefits

On the 31st of December 2016, the liabilities assumed by the Group and the costs recognized in the periods with the seniority bonus are the following:

(thousand euros)

	31.12.2016
Liabilities at the begining of the period	**2 171**
Year expenses (See Note 12)	(891)
Bonuses paid	(1 280)
Liabilities at the end of the period	**-**

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

As described above, the long-term service bonus has been eliminated in 2016 following the entry into force of the new CLA agreement of the banking sector.

Career bonuses

On the 31st of December, 2017 and 2016, the liabilities assumed by the Group and the costs recognised in the periods with the career bonus are the following:

(thousand euros)

	31.12.2017	31.12.2016
Liabilities at the begining of the period	583	-
Year expenses (See Note 12)	(85)	583
Liabilities at the end of the period (see Note 34)	**498**	**583**

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

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

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

NOTE 14 – ADMINISTRATIVE COSTS

The amounts of this item are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Lease and rental	12 027	8 183
Marketing and advertisement	359	773
Press releases and expedition	6 320	7 808
Travelling and representation	3 366	4 915
Maintenance and related services	1 175	1 440
Insurances	473	716
Legal and litigation	236	492
Specialised services		
IT services	5 335	5 349
Temporary labour	36	203
Independent work	1 977	2 993
Other specialised services	6 664	8 129
Other expenses	3 401	3 774
	41 369	**44 775**

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

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

(thousand euros)

	31.12.2017	31.12.2016
Up to one year	1 241	730
One to five years	1 477	1 960
	2 718	**2 690**

Services agreed during the financial years of 2017 and 2016 with the Company of Statutory Auditors and by the auditors, according to the provisions of article 508-F of the Commercial Companies Code, are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Statutory audit of annual accounts (Haitong Bank)	283	218
Statutory audit of annual accounts (subsidiaries)	241	360
Other reliability assurance services	341	280
Other non-statutory audit services	-	40
Total value of agreed services	**865**	**898**

Values shown are before taxes. The fees related to the statutory audit of annual accounts correspond to those agreed for the year 2017. The fees presented for the remaining services relate to amounts billed during the 2017 financial year.

NOTE 15 – EARNINGS PER SHARE

Basic earnings per share

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

(thousand euros)

	31.12.2017	31.12.2016
Consolidated net income attributable to shareholders of the parent company(1)	(130 504)	(96 412)
Weighted average number of ordinary shares outstanding (thousand)	**129 351**	**85 254**
Basic earnings per share attributable to shareholders of the parent company (euros)	**-1.01**	**-1.13**

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

Diluted earnings per share

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

On the 31st of December 2017 and 2016, the Bank holds instruments issued without diluting effect, and therefore the result according to a diluted share equals the result according to a basic share.

NOTE 16 – CASH AND DEPOSITS AT CENTRAL BANKS

As at the 31st of December, 2017 and 2016, this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Cash	11	9
Demand deposit at central banks		
Bank of Portugal	438 668	37 489
Other central banks	2 958	52
	441 626	**37 541**
	441 637	**37 550**

The 'Demand deposits in central banks – Bank of Portugal' heading, includes deposits of mandatory nature, in the amount of 439 millions euros (31st of December, 2016: 37 millions euros) intended to comply with the legal minimum cash deposits requirements. In accordance with Regulation (EU) no. 1358/2011 of the European Central Bank, of the 14th of December, 2011, the mandatory minimum deposits in demand deposits in the Bank of Portugal, are paid and represent 1% of the deposits and debt securities with maturity up to 2 years, whereof are excluded deposits and debt securities from entities subject to the minimum reserve requirement scheme of the European System of Central Banks. On the 31st of December, 2017, the average rate of return of such deposits was 0,00% (31st of December, 2016: 0.00%).

The compliance with mandatory minimum deposits, for a specific observation period, is effected by taking into account the medium amount of the balances of the deposits with the Bank of Portugal throughout the aforementioned period. The balance of the account with the Bank of Portugal as at the 31st of December, 2017, has been comprised in the maintenance period from the 20th of December, 2017, to the 30th of January, 2018, to which corresponded a mandatory minimum reserve amounting to 3,817 thousand euros (31st of December, 2016: 1,925 thousand euros).

NOTE 17 – DEPOSITS AT OTHER CREDIT INSTITUTIONS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Cash	11	9
Demand deposit at central banks		
Bank of Portugal	438 668	37 489
Other central banks	2 958	52
	441 626	**37 541**
	441 637	**37 550**

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

As at 31st of December 2017 and 2016, the heading of held-for-trading financial assets and liabilities is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Financial Assets held-for-trade		
Securities		
Bonds and other fixed-income securities		
From public issuers	364 291	1 018 507
From other issuers	75 987	93 124
Shares	15 930	9 666
	456 208	1 121 297
Derivatives	203 801	373 618
	660 009	**1 494 915**
Financial liabilities held-for-trade		
Securities		
Short selling	395 877	782 215
Derivatives	210 220	260 466
	606 097	**1 042 681**

At December 31, 2017 and 2016, derivatives, both assets and liabilities, include operations collateralized by the constitution of collateral accounts in order to ensure the fair value hedge of the active and liability exposures contracted between the Group and several financial institutions. The balances related to these collateral are recorded under "Other assets - collateral deposited under clearing agreements" (Note 27) and "Other liabilities - collateral deposited under clearing agreements" (Note 34).

At 31 December 2017 and 2016, the analysis of the securities held-for-trading, by residual maturity period, is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	29 587	1 370
From three months to one year	70 604	34 005
From one to five years	328 032	392 842
More than five years	12 055	683 414
Undetermined period	15 930	9 666
	456 208	**1 121 297**

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

As at 31st of December 2017 and 2016, the heading of financial assets held-for-trading, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2017			31.12.2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed-income securities						
Issued by public entities	3 637	360 654	364 291	12 959	1 005 548	1 018 507
Issued by other entities	29 014	46 973	75 987	57 592	35 532	93 124
Shares	15 818	112	15 930	9 666	-	9 666
Total book value	**48 469**	**407 739**	**456 208**	**80 217**	**1 041 080**	**1 121 297**

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

As at 31st of December 2017 and 2016, the exposure to the public debt of "peripheral" countries within the Euro Area is analysed in Note 41.

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

As at 31st of December 2017 and 2016, the financial derivatives heading is analysed as follows:

(thousand euros)

	31.12.2017			31.12.2016		
	Notional	Fair value		Notional	Fair value	
		Positive	Negative		Positive	Negative
Foreign-exchange contracts						
Forward		1 970	898		1 090	15 137
- buy	186 246			466 614		
- sell	185 803			471 113		
Currency Swaps		1 329	126		1 731	62
- buy	217 468			189 013		
- sell	216 428			187 066		
Currency Futures		-	-		-	-
- buy	526 088			1 167 325		
- sell	482 571			1 043 862		
Currency Interest Rate Swaps		11 933	12 359		1 555	1 555
- buy	38 143			38 194		
- sell	38 143			38 194		
Currency Options		1 436	1 751		697	698
- buy	103 942			59 952		
- sell	116 288			66 442		
	2 111 120	**16 668**	**15 134**	**3 727 775**	**5 073**	**17 452**
Interest-rate contracts						
Interest Rate Swaps		171 120	179 167		346 822	224 823
- buy	3 948 886			5 023 952		
- sell	3 948 886			5 023 952		
Interest Rate Caps & Floors		7 698	7 721		9 793	9 819
- buy	261 620			449 525		
- sell	261 620			459 525		
Interest Rate Futures		-	-		-	-
- buy	1 485 832			1 950 667		
- sell	1 451 084			1 637 584		
Interest Rate Options		-	-		2 679	2 679
- buy	-			2 292 523		
- sell	-			2 291 503		
	11 357 928	**178 818**	**186 888**	**19 129 231**	**359 294**	**237 321**
Contracts on shares/indexes						
Equity / Index Swaps		4 755	4 647		2 754	2 702
- buy	28 895			7 364		
- sell	28 887			7 364		
Equity / Index Options		3 548	3 539		2 918	2 838
- buy	14 450			19 634		
- sell	14 012			15 470		
Equity / Index Futures		-	-		-	-
- buy	-			12 988		
- sell	-			20 567		
	86 244	**8 303**	**8 186**	**83 387**	**5 672**	**5 540**
Credit agreements						
Credit Default Swaps		12	12		3 579	153
- buy	5 000			89 407		
- sell	5 000			23 000		
	10 000	**12**	**12**	**112 407**	**3 579**	**153**
Total	**13 565 292**	**203 801**	**210 220**	**23 052 800**	**373 618**	**260 466**

At 31 December 2017 and 2016, the analysis of derivative financial instruments held-for-trading, by residual maturity period, is as follows:

(thousand euros)

	31.12.2017			31.12.2016		
	Notional			Notional		
	Sale	Purchase	Fair Value (net)	Sale	Purchase	Fair Value (net)
Up to three months	1 266 148	837 421	2 467	3 685 889	3 173 422	2 710
From three months to one year	1 377 861	932 621	10 142	1 647 980	1 404 936	(9 110)
From one to five years	2 335 787	3 054 254	(23 309)	3 727 950	4 704 848	117 466
More than five years	1 768 928	1 992 272	4 281	2 223 823	2 483 952	2 086
	6 748 724	**6 816 568**	**(6 419)**	**11 285 642**	**11 767 158**	**113 152**

NOTE 19 - AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	Cost (1)	Fair value reserve		Impairment	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	323 544	2 909	(156)	-	326 297
Issued by other entities	155 921	4 160	(454)	(25 869)	133 758
Shares	13 136	4	-	(8 751)	4 389
Other variable-income securities	32 675	3 208	(1 546)	(6 834)	27 503
Balance as at 31st December 2017	**525 276**	**10 281**	**(2 156)**	**(41 454)**	**491 947**
Bonds and other fixed-income securities					
Issued by public entities	514 765	1 042	(1 034)	-	514 773
Issued by other entities	277 178	2 868	(5 960)	(31 936)	242 150
Shares	14 643	108	-	(8 158)	6 593
Other variable-income securities	33 183	1 949	(1 535)	(6 767)	26 830
Balance as at 31st December 2016	**839 769**	**5 967**	**(8 529)**	**(46 861)**	**790 346**

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

In accordance with the accounting policy described in Note 2.6, the Group regularly assesses whether there is objective evidence of impairment in the portfolio of available-for-sale financial assets, following the judgement criteria described in Note 3.6.

The movements associated with impairment losses of financial assets available-for-sale are presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	46 861	37 541
Allocation for the period	24 354	4 769
Utilisation during the period	(23 681)	(385)
Write-back for the period	(26)	-
Exchange differences and others	(6 054)	4 936
Closing balance	**41 454**	**46 861**

The heading of financial assets available-for-sale includes 251,629 thousand euros in securities pledged as collateral by the Group (335,964 thousand euros as at 31st of December 2016), see note 38.

As at 31 December 2017 and 2016, the analysis of available-for-sale financial assets by maturity period, is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	228	539 921
From three months to one year	2 500	522
From one to five years	431 544	154 784
More than five years	25 783	61 695
Undetermined period	31 892	33 424
	491 947	**790 346**

As at 31st of December 2017 and 2016, the heading of financial assets held-for-trading, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2017			31.12.2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed-income securities						
Issued by public entities	251 988	74 309	326 297	289 742	225 031	514 773
Issued by other entities	41 531	92 227	133 758	50 394	191 756	242 150
Shares	-	4 389	4 389	59	6 534	6 593
Other variable-income securities	-	27 503	27 503	2 547	24 283	26 830
Total statement of financial position value	**293 519**	**198 428**	**491 947**	**342 742**	**447 604**	**790 346**

As at 31st of December 2017 and 2016, the exposure to the public debt of "peripheral" countries within the Euro Area is presented in Note 41.

NOTE 20 - LOANS AND ADVANCES TO BANKS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Loans and advances to banks in Portugal		
Deposits	55	-
Other loans and advances	-	4
	55	**4**
Loans and advances to banks abroad		
Sales with repurchase agreements	394 807	732 875
Very short-term deposits	21 163	48 234
Other loans and advances	87 363	87 993
	503 333	**869 102**
	503 388	**869 106**
Impairment losses	(15 388)	(15 419)
	488 000	**853 687**

At 31st December 2017 and 2016, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	279 969	505 119
From three months to one year	223 419	363 987
	503 388	**869 106**

The movements associated with the financial year as impairment losses of investments in credit institutions are presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	15 419	15 397
Allocation for the period	1 310	965
Write-back for the period	(1 299)	(954)
Transferências	-	-
Exchange differences and others	(42)	11
Closing balance	**15 388**	**15 419**

NOTE 21 – LOANS AND ADVANCES TO CUSTOMERS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Domestic loans		
Corporate		
Commercial lines of credit	234	83
Loans	298 412	354 599
Other credits	1 307	1 953
Retail		
Mortgage loans	252	320
	300 205	**356 955**
Foreign loans		
Corporate		
Loans	371 131	507 762
Operations with reverse repo	-	19 780
Other loans	1 445	3 246
Retail		
Other loans	1	1
	372 577	**530 789**
Overdue loans and interest		
Up to 90 days	950	5 796
For more than 90 days	76 392	203 504
	77 342	**209 300**
	750 124	**1 097 044**
Impairment losses	(120 217)	(255 949)
	629 907	**841 095**

As at 31st of December 2017 and 2016, the analysis of loans and advances to costumers, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	39 799	69 862
From three months to one year	61 064	89 779
From one to five years	97 088	184 722
More than five years	474 830	543 381
Undetermined period	77 343	209 300
	750 124	**1 097 044**

The movements in impairment losses in loans and advances to customers are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	255 949	334 849
Allocation for the period	83 042	116 687
Utilisation during the period	(179 438)	(135 623)
Write-back for the period	(33 839)	(67 418)
Transfers	-	3 226
Exchange differences and others	(5 497)	4 228
Closing balance	**120 217**	**255 949**

As at 31st of December 2017 and 2016, impairment information is as follows:

(thousand euros)

	31.12.2017						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loan value	Impairment	Loan value	Impairment	Loan value	Impairment	Loans (Net of impairment)
Corporate loans	313 857	118 033	435 974	2 183	749 831	120 216	629 615
Mortgage loans	-	-	252	1	252	1	251
Consumers loans - other	-	-	41	-	41	-	41
Total	**313 857**	**118 033**	**436 267**	**2 184**	**750 124**	**120 217**	**629 907**

(thousand euros)

	31.12.2016						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loan value	Impairment	Loan value	Impairment	Loan value	Impairment	Loans (Net of impairment)
Corporate loans	510 554	246 410	586 123	9 534	1 096 677	255 944	840 733
Mortgage loans	-	-	320	5	320	5	315
Consumers loans - other	-	-	47	-	47	-	47
Total	**510 554**	**246 410**	**586 490**	**9 539**	**1 097 044**	**255 949**	**841 095**

As at 31st of December 2017, the gross loan includes an amount of 389,571 thousand euros of renegotiated loan (605,479 thousand euros as at 31st of December 2016). As at 31st of December 2017, the impairment losses recognised in relation to the renegotiated loan in the balance-sheet amount to 109,607 thousand euros (245,982 thousand euros as at 31st December 2016). The interest recognised in the income statement amounts to 17,098 thousand euros (21,532 thousand euros as at 31st of December 2016).

Loan operations are collateralised in order to mitigate credit risk, namely mortgages or pledges. The fair-value of these collaterals is determined when lending credits, and is regularly revaluated.

The loan value and associated collaterals are as follows:

(thousand euros)

	31.12.2017		31.12.2016	
	Credit value	Fair value of the collateral	Credit value	Fair value of the collateral
Mortgage loans				
Mortgages	252	1 219	320	1 219
	252	**1 219**	**320**	**1 219**
Consumer loans				
Uncollateralised	-	-	47	-
	-	**-**	**47**	**-**
Corporate loans				
Mortgages	43 633	44 246	106 809	54 772
Pledge	3 800	3 069	11 428	9 830
Uncollateralised	702 439	-	978 440	-
	749 872	**47 315**	**1 096 677**	**64 602**
Total	**750 124**	**48 534**	**1 097 044**	**65 821**

Uncollateralized contracts refer essentially to Project Finance operations.

Loans and advances to customers by interest rate type are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Fixed rate	73 743	274 281
Variable rate	676 381	822 763
	750 124	**1 097 044**

As at 31st of December 2017 and 2016, the exposure and established impairment detail is as follows:

(thousand euros)

	Exposure as at 31.12.2017						Impairment as at 31.12.2017		
Segment	Total exposure	Performing credit	Of which cured	Of which restructured	Non-performing credit	Of which restructured	Total Impairment	Performing credit	Non-performing credit
Project Finance	597 820	485 053	-	155 221	112 767	104 260	(60 888)	(14 751)	(46 137)
Aquisition Finance	149 883	126 935	-	105 015	22 948	22 947	(59 317)	(44 043)	(15 274)
Others	2 421	2 421	-	2 127	-	-	(12)	(12)	-
Total	**750 124**	**614 409**	**-**	**262 363**	**135 715**	**127 207**	**(120 217)**	**(58 806)**	**(61 411)**

(thousand euros)

	Exposure as at 31.12.2016						Impairment as at 31.12.2016		
Segment	Total exposure	Performing credit	Of which cured	Of which restructured	Non-performing credit	Of which restructured	Total Impairment	Performing credit	Non-performing credit
Project Finance	652 719	517 613	-	122 683	135 106	135 106	(22 888)	(4 747)	(18 141)
Aquisition Finance	421 550	276 311	-	202 450	145 239	145 240	(232 452)	(114 132)	(118 320)
Others	22 775	22 775	-	-	-	-	(609)	(609)	-
Total	**1 097 044**	**816 699**	**-**	**325 133**	**280 345**	**280 346**	**(255 949)**	**(119 488)**	**(136 461)**

As at 31st of December 2017 and 2016, the exposure and established impairment by effective date of overdue payments is as follows:

(thousand euros)

Of the total exposure as at 31.12.2017						
		Performing credit			Non-performing credit	
		Overdue days <30				
Segment	Total Exposure	Without evidence	With evidence (1)	Sub-total	Overdue days <=90 (2)	Overdue days >90
Project Finance	597 820	247 443	237 610	485 053	-	112 767
Aquisition Finance	149 883	12 513	114 422	126 935	8 934	14 014
Others	2 421	294	2 127	2 421	-	-
Total	**750 124**	**260 250**	**354 159**	**614 409**	**8 934**	**126 781**

(thousand euros)

Of the total impairment 31.12.2017					
		Performing credit		Non-performing credit	
Segment	Total Impairment	Overdue days <30	Overdue days Between 30 - 90	Overdue days <=90 (2)	Overdue days >90
Project Finance	(60 888)	(1 237)	(13 514)	-	(46 137)
Aquisition Finance	(59 317)	(63)	(43 980)	(3 574)	(11 700)
Others	(12)	(1)	(11)	-	-
Total	**(120 217)**	**(1 301)**	**(57 505)**	**(3 574)**	**(57 837)**

(1) The Traces correspond to Impairment Triggers. The Group has the following listed Triggers:
Trigger 0 - Default Customers/Contracts
Trigger 1 - Customers with overdue credit
Trigger 2 - Customers under litigation in the Commercial Registry Office
Trigger 3 - Restructured Credit due to Financial Difficulties
Trigger 4 - Renegotiated performing credit
Trigger 5 - Customers of high risk rating/scoring
Trigger 6 - Customers followed by Corporate Structure Adcvisory Department
Trigger 7 - Customers with written-off credit in the Banking System
Trigger 8 - Customers with impairment triggers in the previous financial year
Trigger 9 - Ad-Hoc

(2) Credit with instalments of capital or interest due for less than 90 days, but on which there is evidence justifying its classification as credit at risk, including bankruptcy, liquidation of the debtor, among others.

(thousand euros)

Of the total exposure as at 31.12.2016						
		Performing credit			Non-performing credit	
		Overdue days <30				
Segment	Total Exposure	Without evidence	With evidence (1)	Sub-total	Overdue days <=90 (2)	Overdue days >90
Project Finance	652 719	319 750	197 863	517 613	5 362	129 744
Aquisition Finance	421 550	60 386	215 925	276 311	6 273	138 966
Outros	22 775	22 277	498	22 775	-	-
Total	**1 097 044**	**402 413**	**414 286**	**816 699**	**11 635**	**268 710**

(thousand euros)

Segment	Total Impairment	Of the total impairment 31.12.2016			
		Performing credit		Non-performing credit	
		Overdue days <30	Overdue days Between 30 - 90	Overdue days <=90 (2)	Overdue days >90
Project Finance	(22 888)	(1 599)	(3 148)	(536)	(17 605)
Aquisition Finance	(232 452)	(302)	(113 830)	(2 740)	(115 580)
Others	(609)	(111)	(498)	-	-
Total	**(255 949)**	**(2 012)**	**(117 476)**	**(3 276)**	**(133 185)**

(1) The Traces correspond to Impairment Triggers. The Group has the following listed Triggers:
Trigger 0 - Default Customers/Contracts
Trigger 1 - Customers with overdue credit
Trigger 2 - Customers under litigation in the Commercial Registry Office
Trigger 3 - Restructured Credit due to Financial Difficulties
Trigger 4 - Renegotiated performing credit
Trigger 5 - Customers of high risk rating/scoring
Trigger 6 - Customers followed by Corporate Structure Adcvisory Department
Trigger 7 - Customers with written-off credit in the Banking System
Trigger 8 - Customers with impairment triggers in the previous financial year
Trigger 9 - Ad-Hoc

(2) Credit with instalments of capital or interest due for less than 90 days, but on which there is evidence justifying its classification as credit at risk, including bankruptcy, liquidation of the debtor, among others.

As at 31st of December 2017 and 2016, loan portfolios by segment and production year are as follows:

(thousand euros)

Production Year	31.12.2017 Project Finance Number of operations	Amount	Established Impairment	Aquisition Finance Number of operations	Amount	Established Impairment	Others Number of operations	Amount	Established Impairment
2006 and previous years	29	251 597	(21 216)	6	7 812	(3 670)	2	294	(1)
2007	5	44 931	(568)	-	-	-	-	-	-
2008	4	17 823	(89)	-	-	-	-	-	-
2009	8	18 077	(90)	1	15 603	(78)	-	-	-
2010	11	54 756	(274)	4	12	-	1	2 127	(11)
2011	9	17 585	(88)	6	8 777	(2 902)	-	-	-
2012	-	-	-	3	13 969	(4 009)	-	-	-
2013	34	18 948	(95)	3	14 313	(8 534)	-	-	-
2014	14	8 462	(393)	6	9 819	(3 431)	-	-	-
2015	18	117 013	(28 423)	12	49 623	(28 021)	-	-	-
2016	6	24 921	(1 070)	15	19 640	(8 620)	1	-	-
2017	7	23 707	(8 582)	9	10 315	(52)	-	-	-
Total	**145**	**597 820**	**(60 888)**	**65**	**149 883**	**(59 317)**	**4**	**2 421**	**(12)**

(thousand euros)

Production Year	31.12.2016 Project Finance Number of operations	Amount	Established Impairment	Aquisition Finance Number of operations	Amount	Established Impairment	Others Number of operations	Amount	Established Impairment
2005 and previous years	13	192 435	(13 115)	4	2 377	(10)	2	370	(1)
2006	12	76 549	(641)	5	11 099	(4 547)	-	-	-
2007	5	47 776	(630)	3	50 991	(50 914)	-	-	-
2008	4	19 083	(95)	5	33 016	(31 826)	-	-	-
2009	8	21 512	(108)	1	16 411	(82)	1	498	(498)
2010	12	64 021	(320)	4	3 857	(3 271)	1	2 127	(11)
2011	9	20 404	(102)	14	46 360	(35 755)	-	-	-
2012	-	-	-	8	33 514	(19 651)	-	-	-
2013	41	30 558	(768)	9	49 229	(20 507)	-	-	-
2014	16	13 687	(621)	14	21 216	(4 815)	-	-	-
2015	21	141 011	(6 354)	22	78 941	(47 286)	-	-	-
2016	6	25 683	(134)	30	74 539	(13 788)	6	19 780	(99)
Total	**147**	**652 719**	**(22 888)**	**119**	**421 550**	**(232 452)**	**10**	**22 775**	**(609)**

As at 31st December 2017 and 2016, the gross credit exposure and impairment by segment, sector and geography are as follows:

a) By segment

(thousand euros)

	31.12.2017							
	Project Finance		Aquisition Finance		Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment								
Individual	201 643	(58 907)	111 734	(59 127)	-	-	313 377	(118 034)
Collective	396 177	(1 981)	38 149	(190)	2 421	(12)	436 747	(2 183)
Total	**597 820**	**(60 888)**	**149 883**	**(59 317)**	**2 421**	**(12)**	**750 124**	**(120 217)**

(thousand euros)

	31.12.2016							
	Project Finance		Aquisition Finance		Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment								
Individual	181 862	(20 534)	334 559	(232 017)	498	(498)	516 919	(253 049)
Collective	470 857	(2 354)	86 991	(435)	22 277	(111)	580 125	(2 900)
Total	**652 719**	**(22 888)**	**421 550**	**(232 452)**	**22 775**	**(609)**	**1 097 044**	**(255 949)**

b) By sector

(thousand euros)

	31.12.2017				31.12.2016			
	Assessment				Assessment			
	Individual		Collective		Individual		Collective	
Business Sector	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Financial activities	19 172	(16 508)	31 100	(155)	114 767	(107 936)	75 965	(380)
Construction and Public Works	81 077	(33 654)	19 865	(99)	102 952	(24 615)	25 686	(128)
Energy	53 686	(7 362)	152 930	(765)	75 333	(12 958)	174 850	(874)
Transport Infrastructures	12 677	(6 210)	136 484	(682)	13 785	(6 570)	155 775	(779)
Transport and Communications	9 377	(8 484)	7 173	(36)	30 486	(8 552)	11 817	(59)
Other Industrial Sectors	22 851	(9 480)	16 223	(81)	47 192	(24 536)	23 619	(118)
Real Estate Development	7 000	(2 827)	-	-	9 366	(3 607)	588	(3)
Services	51 608	(28 980)	13 528	(68)	82 922	(47 628)	8 874	(44)
Commerce	37 826	(1 891)	30 490	(152)	-	-	69 910	(350)
Other Sectors	18 103	(2 638)	28 954	(145)	40 116	(16 647)	33 041	(165)
Total	**313 377**	**(118 034)**	**436 747**	**(2 183)**	**516 919**	**(253 049)**	**580 125**	**(2 900)**

c) By geography

(thousand euros)

Business Sector	31.12.2017				31.12.2016			
	Assessment				Assessment			
	Individual		Collective		Individual		Collective	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Brazil	89 691	(22 092)	25 042	(124)	114 890	(11 385)	41 038	(205)
Chile	-	-	8 414	(42)	-	-	10 457	(52)
China	-	-	15 201	(76)	-	-	37 844	(189)
Colombia	-	-	363	(2)	-	-	555	(3)
Spain	108 806	(38 430)	100 146	(501)	161 564	(114 577)	153 234	(766)
Luxembourg	4 137	(4 135)	-	-	27 228	(25 073)	-	-
Mexico	49 689	(22 281)	-	-	56 866	(4 829)	-	-
Malta	3 770	(429)	-	-	8 216	(3 462)	-	-
Peru	-	-	30 458	(152)	-	-	31 293	(156)
Poland	2 326	(1 505)	5 218	(26)	6 365	(5 304)	25 804	(129)
Portugal	54 958	(29 162)	251 905	(1 260)	141 790	(88 419)	279 900	(1 400)
Total	**313 377**	**(118 034)**	**436 747**	**(2 183)**	**516 919**	**(253 049)**	**580 125**	**(2 900)**

As at 31st of December 2017 and 2016, the inflows and outflows of the restructured loan portfolio was as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance of the portfolio of the restructured (impairment gross)	605 479	759 535
Restructured Credits in the period	49 870	49 563
Accrued interest of the restructured portfolio	(323)	3 368
Write offs	(179 438)	(135 623)
Restructured credit liquidation (partial or total)	(4 763)	(15 879)
Credit sales	(81 282)	(75 650)
Others	27	20 165
Final balance of the restructured portfolio (gross of impairment)	**389 570**	**605 479**

Haitong Bank uses internal rating systems in order to assist the monitoring of the credit risk. The average credit risk profile remained similar to the previous year.

	December 2017	December 2016
[aaa; a-]	0%	0%
[bbb+; bbb-]	25%	5%
[bb+; bb-]	32%	50%
[b+; b-]	30%	31%
[ccc+; lccc]	13%	15%

Note: as a percentage of the portfolio not default with credit ratings.

NOTE 22 – RISK MANAGEMENT DERIVATIVES

As at 31st of December 2017 and 2016, the hedging derivatives in the statement of financial position are analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Derivatives for risk management purposes (assets)		
Interest-rate contracts	5 337	13 329
Equity / Index contracts	1 484	384
Other contracts	4 445	4 560
	11 266	**18 273**
Derivatives for risk management purposes (liabilities)		
Interest-rate contracts	5 412	12 760
Equity / Index contracts	9 281	14 122
Other contracts	164	6 025
	14 857	**32 907**
	(3 591)	**(14 634)**

Risk Management Derivatives heading comprises the derivatives acquired for economic hedge of specific financial assets and liabilities designated at fair-value through profit and loss (and which were not designated as hedging derivatives).

a) Other risk management derivatives.

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

As at 31st of December 2017 and 2016, the hedging operations can be analysed as follows:

(thousand euros)

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

(thousand euros)

31.12.2016									
Hedged item	Derivative Instrument	Derivative				Associated liability			
		Notional		Fair Value	Fair value changes in the period	Fair Value	Fair value changes in the period	Book value	Reimbursement amount at the maturity
		Sell	Buy						
Debt securities issued	Credit Default Swap	206 071	-	(1 605)	(41 528)	(18 775)	38 245	214 574	201 942
Debt securities issued	Equity Swap	97 808	97 808	(13 738)	8 977	9 868	(6 753)	79 825	96 605
Debt securities issued	Interest Rate Swap	171 576	172 693	569	(7 744)	(661)	(1 657)	18 343	19 521
Debt securities issued	Equity Option	-	1 433	140	(757)	(166)	966	1 473	1 452
		475 455	**271 934**	**(14 634)**	**(41 052)**	**(9 734)**	**30 801**	**314 215**	**319 520**

The fair-value component of financial liabilities recognised at fair-value through profit and loss referable to the Group´s own credit risk is positive and the corresponding accumulated value as at 31st of December 2017 amounts to 5,956 thousand euros (31st of December 2016: positive in 2,110 thousand euros).

The operations with risk management derivatives as at 31st of December 2017 and 2016 can be analysed by maturity as follows:

(thousand euros)

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

(thousand euros)

31.12.2016			
	Other derivatives for risk management		
	Notional		Fair Value
	Sell	Buy	
Up to three months	21 807	21 807	(774)
From three months to one year	22 498	23 931	(3 600)
From one to five years	427 725	222 771	(11 317
More than five years	3 425	3 425	1 057
	475 455	**271 934**	**(14 634)**

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

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Subsidiaries acquired exclusively for resale purposes	2 533	3 600
	2 533	**3 600**

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

Following on from efforts to divest the company, Haitong Bank assigned a sales mandate to JLL in May 2017 and, under this agreement, on November 6, 2017, the Bank signed a letter of intent to sell the Polish Hotel Company with a potential investor. The book value at December 31, 2017 of this investment corresponds to its recoverable amount based on the letter of intent received.

Due diligence is estimated to be completed until the end of the first half of 2018.

NOTE 24 – OTHER TANGIBLE ASSETS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Real Estate		
For own use	1 084	1 256
Improvements in leasehold property	9 230	13 412
	10 314	**14 668**
Equipment		
IT equipment	12 000	14 830
Indoor installations	3 382	3 835
Furniture	3 400	4 060
Machinery and tools	1 507	1 964
Motor vehicles	551	766
Security equipment	292	402
Others	170	166
	21 302	**26 023**
Work in progress		
Improvements in leasehold property	-	46
Equipment	-	242
	-	**288**
	31 616	**40 979**
Accumulated depreciation	(23 977)	(29 126)
	7 639	**11 853**

The movement in this heading was as follows:

(thousand euros)

	Real estate	Equipment	Fixed asset in progress	Total
Acquisition cost				
Balance as at 31st December 2015	**13 412**	**24 820**	**724**	**38 956**
Acquisitions	1 408	2 230	728	4 366
Write-offs / sales	(642)	(1 309)	(177)	(2 128)
Transfers	64	452	(486)	30
Exchange variation and other movements	426	(170)	(501)	(245)
Balance as at 31st December 2016	**14 668**	**26 023**	**288**	**40 979**
Acquisitions	293	400	588	1 281
Write-offs / sales	(657)	(1 244)	-	(1 901)
Transfers from discontinued operations	(3 109)	(3 256)	(628)	(6 993)
Exchange variation and other movements	(881)	(621)	(248)	(1 750)
Balance as at 31st December 2017	**10 314**	**21 302**	**-**	**31 616**
Depreciations				
Balance as at 31st December 2015	**7 100**	**19 692**	**-**	**26 792**
Depreciations of the financial year	1 087	1 931	-	3 018
Depreciation of discontinued operations	-	512	-	512
Write-offs / sales	(264)	(1 002)	-	(1 266)
Exchange variation and other movements	75	(5)	-	70
Balance as at 31st December 2016	**7 998**	**21 128**	**-**	**29 126**
Depreciations of the financial year	899	1 473	-	2 372
Write-offs / sales	(627)	(1 126)	-	(1 753)
Transfers from discontinued operations	(2 088)	(2 880)	-	(4 968)
Exchange variation and other movements	(384)	(416)	-	(800)
Balance as at 31st December 2017	**5 798**	**18 179**	**-**	**23 977**
Net book value as at 31st December 2017	**4 516**	**3 123**	**-**	**7 639**
Net book value as at 31st December 2016	**6 670**	**4 895**	**288**	**11 853**

NOTE 25 – INTANGIBLE ASSETS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Goodwill	9 859	9 859
Purchased from third parties		
Software	32 954	35 950
Others	916	916
	33 870	**36 866**
Work in progress	466	1 343
	44 195	**48 068**
Accumulated amortisation	(22 868)	(22 055)
	(22 868)	**(22 055)**
	21 327	**26 013**

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

(thousand euros)

	31.12.2017	31.12.2016
Subsidiaries		
Haitong Capital - Sociedade de Capital de Risco, S.A.	9 859	9 859
	9 859	**9 859**

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

The recoverable amount of Haitong Capital – Sociedade de Capital de Risco, S.A. was determined based on the discounted cash-flows method based on (i) the business plan of the company for the next 5 years and (ii) a discount rate of 13.6%. Based on these assumptions, the Board of Directors determined that the recognition of impairment regarding the Goodwill of this company as at 31st of December 2017 shall not be included.

Nonetheless, the undertaken analysis based on the described assumptions, the recoverable amount of the investment in Haitong (UK) Limited, depends on the company and the Group's ability to carry out measures deemed necessary in order to achieve the business plan. The Group carried out an analysis in order to determine the level of implementation of the business plan that would imply that the estimated recoverable amount of Haitong Capital would be equivalent to the corresponding balance-sheet value. It was concluded \that this shall be the case if the business plan is only achieved by 73%.

The movement in this heading was as follows:

(thousand euros)

	Goodwill	Software	Other fixed assets	Fixed assets in progress	Total
Acquisition cost					
Balance as at 31st December 2015	**11 063**	**30 286**	**916**	**4 458**	**46 723**
Acquisitions:					
Purchased from third parties	-	1 360	-	1 259	2 619
Write-offs / sales	-	(64)	-	(96)	(160)
Charge off	(1 514)	-	-	-	(1 514)
Transfers	-	4 750	-	(4 780)	(30)
Exchange rate variation and other movements	310	(382)	-	502	430
Balance as at 31st December 2016	**9 859**	**35 950**	**916**	**1 343**	**48 068**
Acquisitions:					
Purchased from third parties	-	183	-	998	1 181
Write-offs / sales	-	(724)	-	(94)	(818)
Transfers	-	(1 710)	-	(1 569)	(3 279)
Exchange rate variation and other movements	-	(745)	-	(212)	(957)
Balance as at 31st December 2017	**9 859**	**32 954**	**916**	**466**	**44 195**
Amortizations					
Balance as at 31st December 2015	**-**	**18 806**	**916**	**-**	**19 722**
Amortizations of the period	-	2 772	-	-	2 772
Depreciation of discontinued operations	-	113	-	-	113
Write-offs / sales	-	(64)	-	-	(64)
Exchange rate variation and other movements	-	(488)	-	-	(488)
Balance as at 31st December 2016	**-**	**21 139**	**916**	**-**	**22 055**
	-				
Amortizations of the period	-	4 251	-	-	4 251
Write-offs / sales	-	(691)	-	-	(691)
Discontinued Activity Transfers	-	(2 670)	-	-	(2 670)
Exchange rate variation and other movements	-	(77)	-	-	(77)
Balance as at 31st December 2017	**-**	**21 952**	**916**	**-**	**22 868**
Balance as at 31st December 2015	**722**	**-**	**-**	**-**	**722**
Impairment losses	539	-	-	-	539
Charge off	(1 514)	-	-	-	(1 514)
Exchange rate variation and other movements	253	-	-	-	253
Balance as at 31st December 2016	**-**	**-**	**-**	**-**	**-**
Impairment losses	-	-	-	-	-
Charge off	-	-	-	-	-
Exchange rate variation and other movements	-	-	-	-	-
Balance as at 31st December 2017	**-**	**-**	**-**	**-**	**-**
Net balance as at 31st December 2017	**9 859**	**11 002**	**-**	**466**	**21 327**
Net balance as at 31st December 2016	**9 859**	**14 811**	**-**	**1 343**	**26 013**

NOTE 26 – INVESTMENTS IN ASSOCIATED COMPANIES

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

(thousand euros)

	Assets		Liabilities		Equity		Income		Net income	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Fundo Espírito Santo IBERIA I	6 103	7 703	21	116	6 082	7 587	1 163	1 719	763	487

(thousand euros)

	Aquisition cost		% held		Book Value		Net income from the associated companies attributable to the Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Fundo Espírito Santo IBERIA I	4 579	5 098	46%	46%	3 133	3 824	350	224
Salgar Investments	-	8 173	0%	25%	-	8 173	-	-
Other	738	738	-	-	56	524	(43)	(58)
	5 317	**14 009**			**3 189**	**12 521**	**307**	**166**
Impairment					**(340)**	**(5 930)**		
					2 849	**6 591**		

The movement of this heading is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	**6 591**	**10 343**
Disposals and other reimbursements	(3 692)	(2 806)
Net Income from associated companies	307	166
Other comprehensive income from associates	(522)	(721)
Impairment of the financial year	165	(126)
Change of the consolidation perimeter	-	(265)
Closing balance	**2 849**	**6 591**

In 2017, the Group sold the investment in Salgar Investments, with a gain of 3,597 thousand euros (Note 1).

NOTE 27 – OTHER ASSETS

As at 31st of December 2017 and 2016 the Other Assets heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Debtors and other assets		
Collateral deposited under collateral agreements (Note 18)	151 316	173 537
Supplies, supplementary capital instalments and subordinated assets	21	226
Public sector	39 186	44 331
Deposits placed under margin accounts (futures contracts)	4 653	11 844
Other sundry debtors	18 951	23 677
	214 127	253 615
Impairment losses for debtors and other investments	(12 675)	(13 808)
	201 452	**239 807**
Other assets		
Gold, other precious metals, numismatic, medals and other liquid assets	2 246	23 690
Other assets	5 574	14 744
	7 820	**38 434**
Prepayments and deferred costs	**2 103**	**6 293**
Other sundry assets		
Exchange transactions pending settlement	-	2 531
Market securities transactions pending settlement	67 794	47 357
Retirement pensions (Note 13)	482	-
Other transactions pending settlement	14 048	75 244
	82 324	**125 132**
	293 699	**409 666**

Stock exchange transactions pending settlement refer to transactions with securities recorded at the trade date pending settlement, in accordance with the accounting policy described in Note 2.6.

At 31 December 2017, the balance of other operations to be settled includes the amount of 510 thousand euros related to receivables from sales of credit operations. (31st of December 2016: 30,372 thousand euros)

The movements associated with impairment losses in Other Assets are presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	13 808	13 107
Charge for the period	6 649	6 750
Charge off	(3 550)	(1 127)
Reversals	(3 820)	(6 184)
Transfers	-	971
Exchange differences and others	(412)	291
Closing balance	**12 675**	**13 808**

NOTE 28 – RESOURCES OF CENTRAL BANKS

This heading includes a transaction of Interbank Money Market with the Bank of Portugal in the amount of 60,000 thousand euros (31st of December 2016: 60,000 thousand euros) and without accrued interest to date (without accrued interest at 31st of December 2016), with maturity in September 2018.

NOTE 29 – RESOURCES OF OTHER CREDIT INSTITUTIONS

The deposits from other credit institutions heading is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Domestic		
Interbank money market	9 000	51 497
Very-short term resources	-	12 809
Deposits	388	1 884
Medium and long term loans	11 313	-
Repurchase agreements	-	13 757
Other resources	-	7
	20 701	**79 954**
Abroad		
Deposits	38 038	-
Loans	750 000	948 500
Repurchase agreements	254 418	874 296
Other resources	56 354	71 419
	1 098 810	**1 894 215**
	1 119 511	**1 974 169**

As at 31st December 2017 and 2016, the analysis of deposits from other credit institutions by residual maturity period is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	277 849	1 055 579
From three months to one year	36 435	39
From one to five years	754 249	861 317
More than five years	50 978	57 234
	1 119 511	**1 974 169**

NOTE 30 – RESOURCES OF CUSTOMERS

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

(thousand euros)

	31.12.2017	31.12.2016
Repayable on demand		
Demand deposits	59 904	19 469
Time deposits		
Fixed-term deposits	447 344	682 366
Other resources		
Repurchase agreements	7 659	32 285
Other Deposits	1 019	1 580
Other	38	8
	8 716	**33 873**
	515 964	**735 708**

As at 31st December 2017 and 2016, the analysis of due to customers by residual maturity period is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Demand deposits	59 942	19 477
Fixed-term deposits		
Up to 3 months	128 989	215 607
3 to 12 months	265 311	346 326
1 to 5 years	61 722	151 280
More than 5 years	-	3 018
	456 022	716 231
	515 964	**735 708**

NOTE 31 – DEBT SECURITIES ISSUED

The debt securities issued heading can be divided as follows:

(thousand euros)

	31.12.2017	31.12.2016
Euro Medium Term Notes	214 493	316 369
Other Bonds	28 293	25 198
	242 786	**341 567**

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

This heading includes 214,493 thousand euros (31st of December 2016: 314,215 thousand euros) of liabilities accounted for in the statement of financial position at fair-value through profit and loss (see Note 22).

During the 2017 financial year, the Haitong Bank Group issued securities amounting to 16,035 thousand euros (31st of December 2016: 31,141 thousand euros), where 131,583 thousand euros were reimbursed (31st of December 2016: 200,893 thousand euros). Additionally, the profit produced by the revaluation of liabilities amounted to 11,417 thousand euros (see Note 7). Additionally, in 2017, the negative revaluation attributable to the Group's own credit risk, amounting to 3,380 thousand euros, was recognized in reserves (see Note 37).

As at 31st of December 2017 and 2016, the residual duration of the debt securities issued is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	10 419	20 731
From three months to one year	66 495	23 907
From one to five years	165 872	295 872
More than five years	-	1 057
	242 786	**341 567**

The reconciliation of the flows from this financing activity between December 31st, 2016 and December 31st, 2017 i ass follows:

(thousand euros)

	Debt Securities Issued
Balance as at December 31, 2016	**341 567**
Cash Flows	(115 548)
Fair value adjustments	14 797
Other	1,970
Balance as at December 31, 2017	**242 786**

The main characteristics of the outstanding debt securities issued are as follows:

(thousand euros)

					31.12.2017		
Issuer	Designation		Currency	Issue Date	Book Value	Maturity	Interest Rate
HT_BR	LF LETRA FINANCEIRA IPCA LF IPCA BRINTLLFI138		BRL	2013	2 173	2018	IPCA 100% + 6,00%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1A6		BRL	2014	386	2018	CDI 118%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1B4		BRL	2014	662	2018	IPCA 100%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1C2		BRL	2014	107	2018	IPCA 100% + 8,25%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1D0		BRL	2014	171	2018	CDI 118%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1L3		BRL	2015	132	2018	CDI 111,5%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI1O7		BRL	2016	310	2018	CDI 114%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI1P4		BRL	2016	111	2018	CDI 114%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1Q2		BRL	2016	607	2018	CDI 113%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1R0		BRL	2016	755	2018	CDI 113%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1S8		BRL	2016	2 961	2018	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI1T6		BRL	2016	59	2018	CDI 100% + 2,10%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI1U4		BRL	2016	295	2018	CDI 113%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1V2		BRL	2016	1 292	2018	CDI 113%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1W0		BRL	2016	201	2018	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI1X8		BRL	2016	85	2018	CDI 112%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI1Y6		BRL	2016	562	2018	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI1Z3		BRL	2016	4 213	2018	CDI 112,5%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI203		BRL	2016	1 122	2018	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI211		BRL	2017	279	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA BES INVESTIMENTO BRINTLLFI229		BRL	2017	277	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI237		BRL	2017	545	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI245		BRL	2017	545	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI252		BRL	2017	938	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI260		BRL	2017	214	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI278		BRL	2017	347	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI286		BRL	2017	266	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI294		BRL	2017	597	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2A4		BRL	2017	840	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2B2		BRL	2017	785	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2C0		BRL	2017	2 076	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2D8		BRL	2017	1 359	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2E6		BRL	2017	1 032	2019	CDI 112%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2F3		BRL	2017	1 032	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2G1		BRL	2017	335	2020	CDI 113%
HT_BR	LF LETRA FINANCEIRA HAITONG BRINTLLFI2H9		BRL	2017	407	2020	CDI 113%
HT_BR	COE BRINTLOE00F8		BRL	2017	215	2018	PRÉ 7,518299%
HTIIP PLC	ESIP FIXED AMOUNT + AMORT NOV22	a)	EUR	2009	678	2022	Fixed Amounts
HTIIP PLC	ESIP UTILIT FINANCIALS SHS DEC18	a)	EUR	2011	881	2018	b)
HTIIP PLC	ESIP UTILITIES SHS DEC2018	a)	EUR	2011	364	2018	c)
HTIIP PLC	ESIP PORTUGUESE REP CLN DEC2021	a)	EUR	2011	573	2021	6% + Republica Portuguesa CLN
HTIIP PLC	ESIP APR2019 RECOV BASKET LINKED	a)	EUR	2012	102	2019	d)
HTIIP PLC	ESIP APR2020 BES PROTECCAO LKD	a)	EUR	2012	668	2020	Inflation Linked
HTIIP PLC	ESIP BASKET OCT2019 EQL2	a)	EUR	2012	1 969	2019	REP e BSCH Linked
HTIIP PLC	ESIP AUTOCALL JAN20 EQL	a)	EUR	2013	662	2020	e)
HTIIP PLC	ESIP TURKISH LIRA FXL MAR2018	a)	EUR	2013	691	2018	EUR/TRY Linked
HTIIP PLC	ESIP CLN GALP MAR2018	a)	EUR	2013	3 787	2018	EUR GALP CLN Linked
HTIIP PLC	ESIP USD CLN GALP MAR2018	a)	USD	2013	4 615	2018	USD GALP CLN Linked
HTIIP PLC	ESIP MAY18 BULLISH ES AFRICA LKD	a)	EUR	2013	1 255	2018	Espirito Santo Africa Linked
HTIIP PLC	ESIP USD TARN USDTRY JUL2018	a)	USD	2013	235	2018	f)
HTIIP PLC	ESIP CLN TELECOM ITALIA SEP2018 (MTN-S-743)	a)	EUR	2013	11 219	2018	5.90% + Telecom Italia CLN
HTIIP PLC	ESIP CLN THYSSENKRUPP SEP2018 (MTN-S-747)	a)	EUR	2013	9 303	2018	5.50% + THYSSENKRUPP CLN
HTIIP PLC	ESIP CLN THYSSENKRUPP DEC18	a)	EUR	2013	3 526	2018	5.5% + Thyssenkrupp CLN
HTIIP PLC	ESIP CLN BRITISH AIRWAYS DEC18	a)	EUR	2013	6 077	2018	6% + British Airways CLN
HTIIP PLC	ESIP CLN COMPORTA OCT2020	a)	EUR	2013	-	2020	h)
HTIIP PLC	ESIP EUR 6Y CLN EDP DEC19 (MTN-S-763)	a)	EUR	2013	501	2019	6.25% + EDP CLN
HTIIP PLC	ESIP CLN BRITISH AIR DEC18	a)	EUR	2013	1 744	2018	5.35% + British Airways CLN
HTIIP PLC	ESIP EUR 6Y CLN BKT 0 REC DEC19	a)	EUR	2013	405	2019	7.15% + i)
HTIIP PLC	ESIP 5Y AIR FRANCE CLN MAR2019	a)	EUR	2014	1 051	2019	6.25% + Air France CLN
HTIIP PLC	ESIP EUR 6Y CLN BKT 0 RECO DEC19	a)	EUR	2014	882	2019	6.1% + k)
HTIIP PLC	ESIP 5Y FTD EUROPE MAR2019	a)	EUR	2014	6 578	2019	6% + j)
HTIIP PLC	ESIP 5Y CLN BRISA MAR2019	a)	EUR	2014	6 909	2019	5.65% + Brisa CLN
HTIIP PLC	ESIP 6Y CLN BASKET 0 REC MAR20	a)	EUR	2014	108	2020	5.5% + j)
HTIIP PLC	ESIP APR2019 PT EDP GALP LINKED	a)	EUR	2014	4 174	2019	n)
HTIIP PLC	ESIP 7Y SAN GDF SANOFI LKD APR21	a)	EUR	2014	639	2021	r)
HTIIP PLC	ESIP 7Y SAN GDF LINKED APR21 2	a)	EUR	2014	593	2021	5.5% + l)
HTIIP PLC	ESIP 5Y CLN BASKET JUN2019 4 (MTN-S-821)	a)	EUR	2014	2 125	2019	6% + p)
HTIIP PLC	ESIP 5Y CLN PETROBRAS JUN2019 7	a)	EUR	2014	5 647	2019	4.75% + Petrobras CLN
HTIIP PLC	ESIP APR2019 PT EDP GALP LINKED6	a)	EUR	2014	4 461	2019	n)
HTIIP PLC	ESIP APR2019 PT EDP GALP LINKED7	a)	EUR	2014	3 894	2019	n)
HTIIP PLC	ESIP MAY2019 PT EDP GALP LINKED	a)	EUR	2014	4 205	2019	m)
HTIIP PLC	ESIP 5Y CLN BASKET JUN2020 5	a)	EUR	2014	110	2020	6.75% + q)
HTIIP PLC	ESIP MAY19 BASKET LKD	a)	EUR	2014	4 880	2019	s)
HTIIP PLC	ESIP MAY19 PSI IBEX FTSEMIB LKD	a)	EUR	2014	4 798	2019	t)
HTIIP PLC	ESIP 5Y CLN PETROBRAS USD JUN19	a)	USD	2014	858	2019	5.15% + Petrobras CLN

(thousand euros)

					31.12.2017		
Issuer	Designation		Currency	Issue Date	Book Value	Maturity	Interest Rate
HTIIP PLC	ESIP 5Y CLN THYSSEN EUR JUN19 10	a)	EUR	2014	4 368	2019	4.35% + ThyssenKrupp AG CLN
HTIIP PLC	ESIP 5Y CLN BASKET EUR JUN19 11	a)	EUR	2014	3 487	2019	5.9% + l)
HTIIP PLC	ESIP 5Y CLN BASKET EUR JUN19 13 (MTN-S-853)	a)	EUR	2014	3 171	2019	6% + o)
HTIIP PLC	ESIP 4Y SAN & TEF MAY2018	a)	EUR	2014	5 237	2018	g)
HTIIP PLC	ESIP 5Y CLN PEUGEOT JUN19 15 (MTN-S-862)	a)	EUR	2014	1 597	2019	4.15% + Peugeot CLN
HTIIP PLC	ESIP 5Y CLN BASKET JUN19 16	a)	EUR	2014	1 862	2019	5% + u)
HTIIP PLC	ESIP 5Y CLN GALP JUN20	a)	EUR	2015	2 532	2020	4.15% + GALP CLN
HTIIP PLC	ESIP 5Y CLN ARC MIIT JUN20 (MTN-S-871)	a)	EUR	2015	13 916	2020	4.4% + ARCELORMITTAL CLN
HTIIP PLC	ESIP 3Y CLN ALTICE JUN2018 (MTN-S-872)	a)	EUR	2015	1 153	2018	4% + ALTICE CLN
HTIIP PLC	ESIP 5Y CLN ARCELORMITT 4 JUN20 (MTN-S-874)	a)	EUR	2015	7 708	2020	4.4% + ARCELORMITTAL CLN
HTIIP PLC	ESIP 5Y CLN ALTICE JUN20 (MTN-S-873)	a)	EUR	2015	4 444	2020	5.35% + ALTICE CLN
HTIIP PLC	ESIP 3Y SX5E JUN2018 (MTN-S-875)	a)	EUR	2015	886	2018	SX5E Linked
HTIIP PLC	ESIP JUL2018 FIX TO FLOAT	a)	EUR	2015	3 928	2018	2.5% e Euribor6m + 1%
HTIIP PLC	ESIP BASKET CLN JUL2020	a)	EUR	2015	4 210	2020	3% e v)
HTIIP PLC	ESIP BASKET CLN SEP2020 USD II	a)	USD	2015	439	2020	5.6% + y)
HTIIP PLC	ESIP BASKET CLN SEP2020 EUR IV	a)	EUR	2015	1 783	2020	3% e 4.65% x)
HTIIP PLC	ESIP BASKET CLN SEP2020 EUR III	a)	EUR	2015	1 071	2020	5.25% + w)
HTIIP PLC	HIIP DUAL CLN BASKET SEP2020 EUR III	a)	EUR	2015	2 221	2020	3% e 5.4% x)
HTIIP PLC	HIIP BASKET CLN SEP2020 EUR (MTN-S-882)	a)	EUR	2015	9 789	2020	5.8% + z)
HTIIP PLC	HIIP CLN FIAT DEC2020 (MTN-S-884)	a)	EUR	2015	1 208	2020	4.55% + Fiat CLN
HTIIP PLC	HIIP CLN BASKET DEC2020 (MTN-S-885)	a)	EUR	2015	4 479	2020	5% + aa)
HTIIP PLC	HIIP CLN BASKET DEC2020 (MTN-S-886)	a)	EUR	2015	3 979	2020	5% + ab)
HTIIP PLC	HIIP CLN BASKET DEC2020 (MTN-S-888)	a)	EUR	2015	6 034	2020	4.5% + ab)
HTIIP PLC	HIIP ENERGY METALS DEC18 (MTN-S-889)	a)	EUR	2015	935	2018	ad)
HTIIP PLC	HIIP CLN BASKET DEC2020 (MTN-S-890)	a)	EUR	2015	5 646	2020	4.5% + ac)
HTIIP PLC	HIIP CLN BRASIL DEC2018 (MTN-S-891)	a)	EUR	2016	4 659	2018	4.5% + CLN Republic Brazil
HT BANK	HTB FLOATING RATE DEC18 (HTB-S-892)		EUR	2015	-	2018	Euribor3m + 3.95%
HTIIP PLC	HIIP CRUDE OIL FEB2019 (MTN-S-893)	a)	EUR	2016	3 734	2019	Crude Oil
HTIIP PLC	HIIP CLN MITTAL DEC2020 (MTN-S-895)	a)	EUR	2016	766	2020	9.70% + CLN ArcelorMittal
HTIIP PLC	HIIP CRUDE OIL USD MAR2019 (MTN-S-896)	a)	USD	2016	910	2019	Crude Oil
HTIIP PLC	HIIP CRUDE OIL MAR2019 (MTN-S-894)	a)	EUR	2016	1 513	2019	Crude Oil
HTIIP PLC	HIIP CLN BASKET JUN2019 (MTN-S-897)	a)	USD	2016	1 715	2019	ae)
HTIIP PLC	HIIP EQL BASKET OCT2020 (MTN-S-898)	a)	EUR	2017	1 145	2020	af)
HTIIP PLC	HIIP EUR INDEX DEC2022 (MTN-S-899)	a)	EUR	2017	1 419	2022	ag)
HTIIP PLC	HIIP EUR INDEX 12-2022 (MTN-S-900)	a)	EUR	2017	1 382	2022	ag)
					242 786		

a) liabilities designated at fair value through profit or loss or w ith embedded derivative
b) Indexed to Basket of Shares Telefonica, Santander, Deutsche Bank and Deutsche Telecom
c) Indexed to Basket of Shares Telefonica, Iberdrola, ENI spa and Deutsche Telecom.
d) Indexed to Basket of Shares Telefonica, BNP Paribas, Vodafone Group PLC and E.ON
e) Indexed to Basket of Shares Repsol, BSCH, Nestle.
f) 8.5% + USD/TRY FX Linked
g) Indexed to Basket of Shares Santander and Telefonica.
h) 7% + Indexed to bond of Comporta
i) Indexed to Credit on Telecom Italia, PT, Peugeot, EDP and ThyssenKrupp.
j) Indexed to Credit on EDP, Telefonica, ThyssenKrupp, British Airw ays and Peugeot.
k) Indexed to Credit on EDP, PT, Telecom Italia, Fiat Spa and British Airw ays.
l) Indexed to Credit on ThyssenKruppAG, Peugeot, Arcelor and AirFrance
m) Indexed to Basket of EDP and GALP
n) Indexed to Basket of Shares PT, EDP, GALP
o) Indexed to Credit on Peugeot, Arcelor, Brisa and PetroleoBrasileiro
p) Indexaed to Credit on AirFrance, Brisa, TelecomItalia and Arcelor
q) Indexed to Credit on AirFrance, Brisa, Arcelor, TelecomItalia and ThyssenKruppAG
r) Indexed to Basket of Shares Santander, GDF Suez and Sanofi
s) Indexed to Basket of Shares ProcterGamble, Vodafone, McDonald's, Pfizer
t) Indexed to Basket of Indexes IBEX, PSI20 and FTSEMIB
u) Indexed to Credit on Melia Hotels International, Peugeot and ArcelorMittal
v) 5.25% indexed to Credit on Bombardier, Peugeot, Galp, ArcelorMittal
w) Indexed to Credit on ArcelorMittal, Stena, Galp, Peugeot
x) Indexed to Credit on Stena, Peugeot, Galp, ArcelorMittal
y) Indexed to Credit on ArcelorMittal, Open Joint Stock Company, New mont Mining Corporation, Royal Caribbean Cruises
z) Indexed to Credit on Stena, Jaguar Land Rover, Rallye, ArcelorMittal
aa) Indexed to Credit on Fiat Chrysler, Jaguar Land Rover, Peugeot, ThyssenKrupp
ab) Indexed to Credit on Dell, Tesco, Virgin Media Finance, Galp
ac) Indexed to Credit on Dell, Tesco, Virgin Media Finance, ThyssenKrupp
ad) Indexed to Basket composed of the indexes S&P GSCI Industrial Metals, S&P GSCI Energy
ae) Indexed to Credit on Air France, EDP, Galp, Fiat Chrysler
af) Indexed to Basket of Shares Total SA, Iberdrola SA and RWE AG
ag) Indexed to performance of EURO STOXX Select Dividend 30 Price EUR Index®

NOTE 32 – PROVISIONS

As at 31st of December 2017 and 2016, the Provisions heading presents the following movements:

(thousand euros)

	Provisions for other risks and charges	Provisions for guarantees and other undertakings	TOTAL
Balance as at 31st December 2015	**5 809**	**5 001**	**10 810**
Net charge of the period	1 829	551	2 380
Transfers	-	(4 197)	(4 197)
Foreign exchange differences and others	(470)	292	(178)
Balance as at 31st December 2016	**7 168**	**1 647**	**8 815**
Net charge of the period	9 919	322	10 241
Charge off	(5 438)	-	(5 438)
Foreign exchange differences and others	156	(115)	41
Balance as at 31st December 2017	**11 805**	**1 854**	**13 659**

These provisions are meant to cover possible contingencies related to the activity of the Group, including contingencies associated with ongoing fiscal processes. In 2017, The Group recorded 1,342 thousand euros recognized in other risks and charges, which is intended to cover costs related with the Social Plan in progress.

NOTE 33 – INCOME TAXES

The Bank and its subsidiaries with headquarters in Portugal, are subject to taxation in accordance with the Corporate Income Tax (IRC) and its corresponding surcharges.

The income tax (current or deferred) is reflected in the income statement of the year, except when the corresponding transactions have been reflected in other headings of equity. In these situations the associated tax is equally reflected against equity, without influencing the income statement of the year.

The current tax assessment for the years 2016 and 2017 was determined based on a nominal rate of Corporate Income Tax and Municipal Surtax of 22.5% in accordance with Law no. 82-B/2014, of December 31st, and Law no. 2/2007 of January 15th, plus an additional rate of 2.5% of an average rate associated with the application of the State surcharges levels provided in Law no. 2/2004, of January 10th.

In order to determine the current tax for the year ending on the 31st of December 2017 and 2016, the Decree-Law no. 127/2012 of December 31st, responsible for the normalisation of the transfer of liabilities linked to the burden with retirement and survivor's pensions to Social Security was taken into account together with article 183 of Law no. 64-B/2011 of December 30th (State Budget Law for 2012), establishing a special scheme for tax deduction of expenses and other asset variations from that transfer:

- The impact of negative asset variations associated with the amendments of the accounting policy regarding the recognition of actuarial gains and losses previously deferred will be fully deductible in equal parts for 10 years, from the year starting on the 1st of January 2012 onwards;
- The impact of the settlement (determined by the difference between the liability measured in accordance with the criteria established by IAS 19 and by the criteria established by the agreement) will be fully deductible in order to determine taxable profit, in equal parts, according to the average life expectancy of

pensioners whose liabilities were transferred (17 years), from the year starting on the 1st of January 2012 onwards.

Deferred tax assets of the transfer of liabilities and amendment of the accounting policy regarding the recognition of actuarial discrepancies can be recovered for periods between 10 and 17 years.

Deferred taxes are determined based on tax rates which are expected to be in force at the time of the reversing timing differences, which correspond to the enacted rates or significantly enacted rates at the balance-sheet date. Consequently, for the year of 2017, the deferred tax was determined using rates of 27.5%.

If there are any tax losses, the reverse-charge statement, of the Bank and subsidiaries with headquarters in Portugal referring to 2017 and previous years, these will be subject to inspection and possible adjustment by the Tax Authorities for a period of four or six years. Thus, additional charges regarding taxes may take place mainly due to different interpretations of the tax law. However, the Management of the Bank and its subsidiaries with headquarters in Portugal believe there will be no additional charges of any significant amount concerning the consolidated financial statements.

Special Scheme Applicable to Deferred Tax Assets

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

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

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

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

As at 31st of December 2017, Haitong Bank determined a net loss within its individual financial statements, for which it shall, and upon approval of the statements, convert the deferred taxes covered by this scheme into tax credits proportionally, between net profit and loss and equity, as well as establish a special reserve and conversion of debt into equity rights in 2018, attributable to the Portuguese Government.

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

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

Indeed, in that year it will be necessary to recalculate the reference value of the rights and if it is different from the nominal value of the shares, it will be necessary to adjust the value of the special reserve. If this were to occur in 2018, and taking into account the amounts of the financial statements as at 31 December 2017, as well as the amount of tax credits converted by reference to the years 2015 and 2016, estimated value of 12,060 thousand euros.

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

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

The activity developed by branches of the Bank in foreign countries is comprised in the statements of the headquarters in order to determine the basis of assessment subject to Income Tax. Furthermore, the profit and loss of said branches is also subject to local taxes of the countries where they are located. Local taxes are deductible from the Income Tax of the headquarters, in accordance with article 91 of the Corporate Income Tax Code, when applicable. The profit and loss from branches are subject to local taxation of nominal rates indicated below:

Branch	Nominal income tax rate
London	20%
Madrid	25%
Warsaw	19%

The subsidiaries in foreign countries, specifically the ones in Brazil, Ireland and United States of America, are subject to tax on their profits in accordance with the tax regulations in force within those countries. In Ireland, the profit is subject to a nominal rate of 12.5%, and the profit of the companies in Brazil is subject to nominal rates between 34% and 45%. In United States of America, profit is subject to a nominal tax rate of 35%.

Current tax assets and liabilities recognized in the statement of financial position in 2017 and 2016 may be analyzed as follows:

(thousand euros)

	Asset		Liability	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Corporate income tax	5 345	5 417	(3 231)	(4 111)
Tax Credit (Special Scheme for Deferred Taxes)	28 725	5 869	-	-
Current tax asset / (liability)	**34 070**	**11 286**	**(3 231)**	**(4 111)**

Deferred tax assets and liabilities recognised in the statement of financial position of 2017 and 2016 can be analysed as follows:

(thousand euros)

	Asset		Liability		Net	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Derivative financial instruments	1 614	448	(2 257)	(5 804)	(643)	(5 356)
Available-for-sale financial assets	112	5 906	(2 960)	(1 513)	(2 848)	4 393
Loans and advances to customers	63 368	86 746	-	-	63 368	86 746
Provisions	32 278	7 998	-	-	32 278	7 998
Pension Fund	3 623	9 227	(2)	(3)	3 621	9 224
Other	435	508	(531)	(1 676)	(96)	(1 168)
Tax losses carried forward	40 273	42 153	-	-	40 273	42 153
Deferred tax asset/(liability)	**141 703**	**152 986**	**(5 750)**	**(8 996)**	**135 953**	**143 990**
Assets / liabilities compensation for deferred taxes	(2 676)	(7 368)	2 676	7 368	-	-
Net deferred tax asset / (liability)	**139 027**	**145 618**	**(3 074)**	**(1 628)**	**135 953**	**143 990**

The Group assessed the recoverability of its deferred taxes in the statement of financial position based on the estimated future taxable profits (see Note 3.2). The Group only recognizes deferred tax assets in relation to reportable tax losses when it considers that they are expected to be recovered in a foreseeable future.

As at 31st December, 2017, the amounts of tax losses of 98,933 thousand euros were not subject to the deferred tax assets.

The Group does not recognise deferred tax assets regarding tax losses carried forward by certain subsidiaries since recovery cannot be expected within a near future.

Movements within the deferred tax in the statement of financial position heading obtained the following compensation:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	143 990	134 319
Recognised in profit or loss	23 103	9 220
Recognised in fair value reserves	(2 996)	(2 162)
Recognised in other reserves	66	121
Foreign exchange variation and others	(28 210)	2 492
Closing balance (Asset / (Liability))	**135 953**	**143 990**

The amount reported as "foreign exchange variation and others" includes, as at December 31, 2017, the recognition of the tax credit under the special regime applicable to deferred tax assets of 22,856 thousand euros (5,869 thousand euros 31 and December 2016).

Tax recognised in the income statement and reserves during the 2017 and 2016 financial years had the following sources:

(thousand euros)

	31.12.2017		31.12.2016	
	Recognised in profit or loss	Recognised in reserves	Recognised in profit or loss	Recognised in reserves
Deferred Taxes				
Derivative financial instruments	(4 713)	-	16 247	-
Available-for-sale financial assets	3 983	2 997	975	7 058
Loans and advances to customers	29 470	-	4 573	-
Provisions	(23 034)	-	(4 101)	-
Pension Fund	10	(67)	(533)	(121)
Other	(30 017)	-	3 641	-
Tax credits resulting from double taxation	-	-	412	-
Tax losses carried forward	1 198	-	(23 876)	-
	(23 103)	2 930	(2 662)	6 937
Current Taxes	3 762	-	(7 109)	(1 153)
Total recognised tax	**(19 341)**	**2 930**	**(9 771)**	**5 784**

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

(thousand euros)

	31.12.2017		31.12.2016	
	%	Value	%	Value
Profit or loss before tax and Non-controlling interests		(135 970)		(104 563)
Income tax rate of Haitong Bank	21.0		21.0	
Tax determined based on the income tax rate of Haitong Bank		(28 554)		(21 958)
Difference in the tax rate of subsidiaries	9.3	(12 615)	0.1	(77)
Tax-exempt dividends	0.0	-	0.3	(359)
Profits in units with most favorable tax regimes	0.2	(288)	0.0	29
Non-taxable capital gains	3.5	(4 748)	(1.2)	1 257
No taxable gains	0.0	-	(0.4)	399
Branches' income tax	0.0	-	0.3	(364)
Deferred tax asset not recognised on tax losses generated in the financial year	(16.8)	22 829	(5.9)	6 182
Tax benefits	0.5	(646)	0.1	(74)
Non-deductible costs	(1.0)	1 346	(2.1)	2 247
Other	(2.5)	3 335	(2.8)	2 947
	14.2	**(19 341)**	**9.4**	**(9 771)**

A Bank levy was established in pursuance of Law no. 55-A/2010 of December 31st, which is not eligible as tax cost, and which scheme was regularly extended by Law no. 83-C/2013 of December 31st and Law no. 82-B/2014 of December 31st. As at 31st of December 2017, the Group recognised the amount of 1,751 thousand euros as cost for the financial year (31st of December 2016: 1,593 thousand euros), included in Other operating income – Direct and indirect taxes (see Note 11).

NOTE 34 – OTHER LIABILITIES

As at 31st of December 2017 and 2016, the other liabilities heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Creditors and other resources		
Public sector	10 055	4 981
Deposited collateral under collateral agreements (see note 18)	11 928	83 587
Sundry creditors		
Creditors from transactions with securities	21 114	41 572
Suppliers	2 420	1 685
Other sundry creditors	3 939	2 131
	49 456	**133 956**
Accrued expenses		
Career bonuses (see Note 13)	498	583
Other accrued expenses	12 873	14 384
	13 371	**14 967**
Deferred income	**3 958**	**284**
Other sundry liabilities		
Stock exchange transactions pending settlement	85 158	28 504
Foreign exchange transactions pending settlement	2 028	-
Other transactions pending settlement	3 069	21 541
	90 255	**50 045**
Retirement pensions (see Note 13)	**-**	**3 386**
	157 040	**202 638**

As at 31st of December 2017 and 2016, the headings regarding Stock exchange transactions pending settlement refer to transactions with securities pending settlement.

NOTE 35 – DISCONTINUED OPERATIONS

In December 15, 2017, Haitong Bank entered into a purchase and sale agreement for the entire capital of the subsidiaries Haitong (UK) Limited, Haitong Securities (UK) Ltd and Haitong Securities USA LLC with Haitong International BVI.

In accordance with IFRS 5 - Non-current assets held for sale and discontinued operations, these subsidiaries are no longer consolidated using the full consolidation method and are presented in the financial statements as a discontinued operations. This operation did not generate any gains or losses in the Group's results for the 2017 financial year, based on the subsidiaries' financial statements as at 31 December 2017 and their respective target prices. The price for the sale of Haitong Securities USA LLC will be 16,778 thousand dollars. The indicative price for the sale of Haitong (UK) Limited and Haitong Securities (UK) Limited will be 12,536 thousand dollars.

The completion of the transaction occurred as at February 23rd, 2018, after the necessary approvals have been granted, namely from the supervisory authorities on these international Haitong Bank units (see Note 42).

The Group, until the financial closing date of the operation, based on the provisions of IFRS 5 and measure these discontinued assets at the lower of two amounts: book value or fair value less costs to sell. As such, and as shown below, the result of discontinuing operations is decomposed as follows:

(thousand euros)

		31.12.2017
	Sell price *	10 453
	Haitong UK Equity as of December 31, 2017	7 789
	Consolidated Loss **	-
(+)	Haitong (UK) Limited 2017 Net Losses	(9 638)
	Haitong (UK) Limited Net Profit of discontinued operations	**(9 638)**
	Sell price *	13 990
	Haitong Securities USA LLC Equity as of December 31, 2017	3 066
	Consolidated Loss **	-
(+)	Haitong Securities USA LLC 2017 Net Losses	(9 914)
	Haitong Securities USA LLC Net Profit of discontinued operations	**(9 914)**
	Net Profit of discontinued operations	**(19 552)**

* Amounts in dollars considering November 30, 2017 exchange rates

** The measurement of these discontinued assets is the lower of two amounts: book value or fair value less costs to sell. Given that the indicative price value higher, there was no recognition gain or loss

For consolidation purposes of assets and liabilities of discontinued operations, the corresponding balance sheet related parties operations are eliminated, and the value is as follows:

(thousand euros)

	31.12.2017
Haitong (UK) Limited Total Assets as of December 31, 2017	13 016
Related Parties Operations	(2 546)
	10 470
Haitong Securities USA LLC Total Assets as of December 31, 2017	9 889
Related Parties Operations	-
	9 889
Assets of discontinued operations	**20 359**
Haitong (UK) Limited Total Liabilities as of December 31, 2017	5 227
Related Parties Operations	-
	5 227
Haitong Securities USA LLC Total Liabilities as of December 31, 2017	6 822
Related Parties Operations	(6 129)
	693
Liabilities of discontinued operations	**5 920**

The data relating to Haitong (UK) Limited and Haitong Securities USA LLC presented above, as well as the preliminary financial statements as of December 31, 2017, were those considered for Haitong Bank Group consolidation purposes.

Haitong UK Limited Group

Consolidated Statement of Financial Position as at the 31st December 2017 and 2016 (Unaudited)

(thousand euros)

	31.12.2017	31.12.2016
Assets		
Cash and deposits at central banks	1	-
Deposits at other credit institutions	2 840	4 891
Available-for-sale financial assets	264	273
Other tangible assets	994	1 302
Intangible assets	-	18
Other assets	8 917	7 109
Total Assets	**13 016**	**13 593**
Liabilities		
Other liabilities	5 227	7 308
Total Liabilities	**5 227**	**7 308**
Equity		
Share capital	19 771	18 156
Share premium	128 533	123 869
Fair-value reserves	61	63
Other reserves and retained income	(130 938)	(106 366)
Net profit/(loss) of the year attributable shareholders of the parent company	(9 638)	(29 437)
Total equity attributable to the shareholders of the parent company	**7 789**	**6 285**
Total Equity and Liabilities	**13 016**	**13 593**

Haitong UK Limited Group
Consolidated Income Statement for the financial years ended on the 31st December 2017 and 2016
(Unaudited)

	31.12.2017	31.12.2016
Interest and similar income	-	45
Interest and similar expense	25	13
Financial margin	**(25)**	**32**
Fees and commissions income	8 126	6 549
Fees and commissions expenses	(536)	(976)
Net gains/(losses) from assets and liabilities at fair value through profit or loss	(13)	(90)
Net gains/(losses) from foreign exchange revaluation	32	69
Net gains/(losses) arising from the disposal of other assets	(2)	5
Other operating results	(1 917)	(3 090)
Operating Income	**5 665**	**2 499**
Employee costs	9 846	21 261
Administrative costs	5 202	10 165
Depreciation and amortisation	255	510
Operating expenses	**15 303**	**31 936**
Profit / (Loss) before Income Tax	**(9 638)**	**(29 437)**
Income tax		
Current tax	-	-
Deferred tax	-	-
	-	**-**
Net Profit / (Loss) for the year	**(9 638)**	**(29 437)**
Attributable to shareholders of the parent company	**(9 638)**	**(29 437)**
Attributable to non-controlling interests	**-**	**-**
	(9 638)	**(29 437)**

Haitong UK Limited Group
Consolidated Cash Flow Statement for the financial years ended on the 31st December 2017 and 2016
(Unaudited)

(thousand euros)

	31.12.2017	31.12.2016
Cash flows from operating activities		
Interest and similar income received	-	45
Interest and similar expense paid	(25)	(13)
Fees and commission received	8 126	6 549
Fees and commission paid	(536)	(976)
Cash payments to employees and suppliers	(15 048)	(31 426)
	(7 483)	**(25 821)**
Changes in operating assets and liabilities:		
Other operating assets and liabilities	(5 839)	(5 688)
Net cash flow from operating activities before income tax	**(13 322)**	**(31 509)**
Income taxes paid	-	-
	(13 322)	**(31 509)**
Net cash flows from investment activities		
Purchase of fixed assets	-	(149)
Sale of tangible and intangible assets	24	-
	24	**(149)**
Cash flows from financing activities		
Increase in share capital	11 248	-
Net cash flow from financing activities	**11 248**	**-**
Net changes in cash and equivalents	**(2 050)**	**(31 658)**
Cash and equivalents at the beginning of the year	4 891	36 549
Cash and equivalents at the end of the year	2 841	4 891
	(2 050)	**(31 658)**
Cash and equivalents includes:		
Cash	1	-
Deposits at other credit institutions	2 840	4 891
Total	**2 841**	**4 891**

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

Haitong Securities USA LLC

Individual Statement of Financial Position as at the 31st December 2017 and 2016

(Unaudited)

(thousand euros)

	31.12.2017	31.12.2016
Assets		
Deposits at other credit institutions	6 060	11 640
Other tangible assets	504	867
Intangible assets	610	832
Other assets	2 714	7 904
Total Assets	**9 888**	**21 243**
Liabilities		
Resources of other credit institutions	6 129	6 715
Other liabilities	693	414
Total Liabilities	**6 822**	**7 129**
Equity		
Share capital	11 455	13 033
Other reserves and retained income	1 525	52
Net profit/(loss) of the year attributable shareholders of the parent company	(9 914)	1 029
Total equity attributable to the shareholders of the parent company	**3 066**	**14 114**
Total Equity and Liabilities	**9 888**	**21 243**

Haitong Securities USA LLC
Individual Income Statement for the financial years ended on the 31st December 2017 and 2016
(Unaudited)

	31.12.2017	31.12.2016
Interest and similar expense	241	70
Financial margin	**(241)**	**(70)**
Fees and commissions income	8 509	5 735
Fees and commissions expenses	(449)	-
Other operating results	(74)	(40)
Operating Income	**7 745**	**5 625**
Employee costs	11 257	2 655
Administrative costs	5 984	1 826
Depreciation and amortisation	417	115
Operating expenses	**17 658**	**4 596**
Profit / (Loss) before Income Tax	**(9 913)**	**1 029**
Income tax		
Current tax	1	-
Deferred tax	-	-
	1	**-**
Net Profit / (Loss) for the year	**(9 914)**	**1 029**
Attributable to shareholders of the parent company	**(9 914)**	**1 029**
Attributable to non-controlling interests	**-**	**-**
	(9 914)	**1 029**

Haitong Securities USA LLC
Consolidated Cash Flow Statement for the financial years ended on the 31st December 2017 and 2016
(Unaudited)

(thousand euros)

	31.12.2017	31.12.2016
Cash flows from operating activities		
Interest and similar expense paid	(14)	4
Fees and commission received	8 509	5 735
Fees and commission paid	(449)	-
Cash payments to employees and suppliers	(17 559)	(3 980)
	(9 513)	**1 759**
Changes in operating assets and liabilities:		
Other operating assets and liabilities	3 948	(6 009)
Net cash flow from operating activities before income tax	**(5 565)**	**(4 250)**
Income taxes paid	(1)	-
	(5 566)	**(4 250)**
Net cash flows from investment activities		
Purchase of fixed assets	(14)	-
	(14)	**-**
Cash flows from financing activities		
Increase in share capital	-	-
Net cash flow from financing activities	**-**	**-**
Net changes in cash and equivalents	**(5 580)**	**(4 250)**
Cash and equivalents at the beginning of the year	11 640	15 890
Cash and equivalents at the end of the year	6 060	11 640
	(5 580)	**(4 250)**
Cash and equivalents includes:		
Deposits at other credit institutions	6 060	11 640
Total	**6 060**	**11 640**

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

NOTE 36 – CAPITAL, SHARE PREMIUM AND OTHER CAPITAL INSTRUMENTS

Ordinary shares

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

On the 3rd of August 2014, the Bank of Portugal applied a resolution action to Banco Espírito Santo, S.A., shareholder of 100% of the capital of the Bank, and established Novo Banco, S.A., with the share capital of 4.9 billion euros, which incorporated assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal. In this regard, the Bank, its branches and subsidiaries were transferred to Novo Banco, S.A.

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

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

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

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

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

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

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

As at 31st of December 2016, the share capital of Haitong Bank amounts to 844,769 thousand euros and is represented by 168,953,800 shares with the nominal value of 5 euros each, fully held by Haitong International Holdings Limited.

Share premiums

As at 31st of December 2017 and 2016, share premiums are represented by 8,796 thousand euros, corresponding to the amount paid by shareholders in the increase of capital of previous years.

Other equity instruments

During October 2010 the Group issued perpetual subordinated bonds with conditioned interest in the overall amount of 50 million euros. These bonds have a noncumulative conditioned interest, payable only if and when declared by the Board of Directors.

This conditioned interest, corresponding to the applicable annual rate of 8.5% on nominal value, is paid biannually. These securities may be fully, but not partially, reimbursed after the 15th of September 2015, relying solely on the choice of Haitong Bank, upon approval of the Bank of Portugal. These bonds are considered a capital instrument in accordance with the accounting policy described in Note 2.10 due to their characteristics.

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

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

In May 2016, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of 80,000 thousand euros identified as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments”. Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.10.

In June 2017, the perpetual instruments referred as “Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments” where converted into Capital.

As at 31st of December 2017, 3,731 thousand euros regarding these bonds are in circulation. In the year of 2017 the Group paid interest in the amount of 317 thousand euros, recorded as a deduction in reserves (as at 31st of December 2016: 231 thousand euros).

NOTE 37 – FAIR-VALUE RESERVES, OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

Legal reserve, fair-value reserves and other reserves

Legal reserves can only be used to cover accumulated loss carryover or to increase capital. Under Portuguese legislation applicable to the banking sector (Article 97 of RGICSF [Legal Framework of Credit Institutions and Financial Companies]), the Bank is required to set-up annually a legal reserve equal to a minimum of 10% of annual profits until the reserve equals the share capital.

Fair-value reserves represent the possible capital gains and losses in relation to the available-for-sale financial assets portfolio, net of impairment recognised in the income statement of the year and/or previous years. The value of this reserve is presented net of deferred tax.

During the years of 2017 and 2016, the movements of these headings were the following:

(thousand euros)

	Fair Value reserves			Other reserves and retained earnings				
	Available-for-sale Financial Assets	Income tax reserves	Total fair value reserve	Legal Reserve	Actuarial deviations (net of taxes)	Exchange differences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31st December 2015 (Restatement)	**(19 446)**	**7 527**	**(11 919)**	**39 878**	**(23 373)**	**(132 537)**	**110 579**	**(5 453)**
Actuarial deviations net of taxes	-	-	-	-	(2 626)	-	-	(2 626)
Interest of other equity instruments	-	-	-	-	-	-	(231)	(231)
Fair value changes	16 665	(7 058)	9 607	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	(1 002)	-	(1 002)
Transfer to reserves	-	-	-	-	-	-	(98 328)	(98 328)
Other comprehensive income from associates	-	-	-	-	-	-	(721)	(721)
Transactions with non-controlling interests	-	-	-	-	-	-	(3 094)	(3 094)
Balance as at 31st December 2016	**(2 781)**	**469**	**(2 312)**	**39 878**	**(25 999)**	**(133 539)**	**8 205**	**(111 455)**
Actuarial deviations net of taxes	-	-	-	-	(177)	-	-	(177)
Own credit risk effect on liabilities valuation	-	-	-	-	-	-	(3 380)	(3 380)
Interest of other equity instruments	-	-	-	-	-	-	(317)	(317)
Fair value changes	10 095	(2 996)	7 099	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	(17 180)	-	(17 180)
Transfer to reserves	-	-	-	-	-	-	(96 181)	(96 181)
Other comprehensive income from associates	-	-	-	-	-	-	(522)	(522)
Balance as at 31st December 2017	**7 314**	**(2 527)**	**4 787**	**39 878**	**(26 176)**	**(150 719)**	**(92 195)**	**(229 212)**

Following the accession to the special scheme applicable to deferred tax assets (REAID), and considering the verification of a negative net result on the 31st of December, 2016 and 2015, and as referred to in Note 33, a special reserve was established in 2017 and in 2016, amounting to 25,141 thousand euros and 6,456 thousand euros respectively , against free reserve.

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

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	**(2 312)**	**(11 919)**
Fair value changes	(9 678)	12 891
Disposals of the financial year	(4 556)	(995)
Impairment recognised in the financial year	24 329	4 769
Deferred taxes recognised in reserves during the financial year	(2 996)	(7 058)
Closing balance	**4 787**	**(2 312)**

Non-controlling interests

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

(thousand euros)

	31.12.2017		31.12.2016	
	Statement of Financial Position	Income statement	Statement of Financial Position	Income statement
Haitong Banco de Investimento do Brasil S.A.	21 692	(6 765)	27 225	188
Haitong Securities do Brasil S.A.	4 653	62	5 320	(231)
FI Multimercado Treasury	441	802	4 456	1 617
WindPart, Lda	1	-	1	(4)
Outras	4 295	(93)	4 673	(181)
	31 082	**(5 994)**	**41 675**	**1 389**

The movement of Non-controlling interests of the years ended on the 31st of December 2017 and 2016 can be analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Non-controlling interests as at 1st January	**41 675**	**37 681**
Changes in the consolidation perimeter	-	(207)
Dividends paid	-	(7 653)
Changes in fair value reserve	331	2 012
Exchange difference and other	(4 930)	8 453
Net income for the period	(5 994)	1 389
Non-controlling interests as at 31st December	**31 082**	**41 675**

NOTE 38 – OFF-BALANCE SHEET ITEMS

As at 31st of December 2017 and 2016, off-balance elements are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Contingent liabilities		
Guarantees and stand by letters of credit	174 416	220 021
Assets pledged as collateral	277 996	321 940
	452 412	**541 961**
Commitments		
Irrevocable commitments	13 939	15 880
	13 939	**15 880**

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

As at 31st of December 2017, the heading of financial assets pledged as collateral includes:

- Securities pledged as collateral to the Bank of Portugal (i) within the scope of the Large-Value Payment System, amounting to 120,000 thousand euros as at the 31st of December, 2017 (31st of December, 2016: 60,000 thousand euros) and (ii) within the scope of the opening of credit with guarantee for liquidity-providing transactions, amounting to 113,777 thousand euros (31st of December, 2016: 237,965 thousand euros), and the total of securities eligible for rediscount with the Bank of Portugal amounted to 233,777 thousand euros as at the 31st of December, 2017 (31st of December, 2016: 297,965 thousand euros).
- Securities pledged as collateral to the Portuguese Securities Market Commission within the Investor Compensation Scheme in the amount of 110 thousand euros (31st of December 2016: 155 thousand euros).
- Securities pledged as collaterals to Fundo de Garantia de Depósitos [Deposit Guarantee Funds] in the amount of 100 thousand euros (31st of December 2016: 100 thousand euros).
- Securities pledged as collateral within the scope of transactions with repurchase agreement: 44,009 thousand euros (31st of December 2016: 23,720 thousand euros).

Irrevocable commitments represent contractual agreements for credit-granting with customers of the Group (for instance, undrawn credit facilities) which, generally, are contracted for fixed-term periods or with other expiration requirements and, usually, require a fee. All commitments regarding credit-granting in force significantly require that customers have certain requirements verified when entering into contract.

Notwithstanding the details of these contingent liabilities and commitments, the assessment of these transactions is governed by the same basic principles as any other commercial transaction, namely regarding the solvency of the underlying customer and business, given that the Group requires that these transactions are duly collateralised when necessary. Since it is expected that the majority expires without having been used, the indicated amounts do not necessarily represent future cash needs.

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

(thousand euros)

	31.12.2017	31.12.2016
Liabilities related to services provided		
Commercial paper agency	493 160	552 660
Other responsabilities related with services provided	1 643 105	2 184 969
	2 136 265	**2 737 629**

As at 31st of December 2017, the value of off-balance elements for services provided include 1,585,564 thousand euros associated with syndicated loans under management (2,027,532 thousand euros as at 31st of December 2016) and 57,541 thousand euros associated with discretionary management (157,437 thousand euros as at 31st of December 2016).

Banco Espírito Santo (BES), Novo Banco and Haitong Bank (and, in some cases, supervisory authorities, auditors and former directors from BES) have been sued in civil proceedings associated with facts of the former Grupo Espírito Santo (GES).

Within this framework, Haitong Bank is a defendant in a proceeding associated with the capital increase of BES, which took place in June 2014. In fact, there were 2 proceedings associated with the capital increase of BES, however, the Court has ruled not to prosecute due to “abandonment” in both of the aforesaid proceedings. The prosecution have appealed both deliberations to higher courts instances and in one of these proceedings the

Supreme Court of Justice says that there is a double standard in relation to the decision of the lower court and the Lisbon Court of Appeal [Tribunal da Relação de Lisboa]. The confirmation of the deliberation of the first instance is awaited, regarding this proceeding. As regards the other proceeding, a higher court instance decision is awaited and it is expected that, as in the abovementioned proceeding, a favourable deliberation will be reached.

Haitong Bank is also a defendant in 83 proceedings, nearly all of which are associated with issues of commercial paper of GES's entities (Rioforte and ESI – Espirito Santo International) (3 of which concern issues of notes by Haitong Bank's subsidiary based in Ireland (HIIP) whose underlying asset were bonds issued by Espírito Santo Financial Portugal (ESFP)) and OI, and which were brought before the courts in 2015, 2016 and 2017.

In note 38, in what concerns the 2016 accounts, it is stated that, in the opinion of Haitong Bank's Legal Department and of the external lawyers to whom the proceedings have been entrusted, such proceedings do not have legal sustainability, wherefore it is considered unlikely that any judgment will be made against Haitong Bank in relation thereto. Such opinion is hereby reasserted, based on the following grounds.

Concerning the shares associated with issues of commercial paper of GES, it is true that Haitong Bank (then BESI – Banco Espírito Santo de Investimento) acted as administrative agent in several issuances, having dealt with their integration in the Central Securities Depository, and as paying agent, being responsible for paying interest and principal to the holders of such securities (evidently, in the assumption of having received the necessary funds from the issuer for such purpose). However, such issues were subject to private offering, and BESI did not take part in their listing, nor did it liaise with investors. Their corresponding information notes are unambiguous, by stating that their respective issuers are exclusively responsible for information contained therein. With regard to the aforementioned 3 cases related to HIIC issues, these correspond to i) credit linked notes, whose remuneration and reimbursement were dependent on facts (namely insolvency) associated with the issuer of the underlying asset, in the case of the ESFP which, as known , was declared bankrupt in which case investors should receive the underlying asset itself or the proceeds from its sale and ii) credit linked notes whose remuneration and reimbursement were dependent on facts (including insolvency) associated with the issuer of the underlying asset , OI, which was declared insolvent. The author subscribed CLN's issued by HIIP. The conditions of these issues are clearly set out in its information documents, in addition to which, at that time, BESI did not proceed to the placement of these issues with the investors.

Such opinion has since been supported by several judicial decisions.

Thus, 15 cases were passed with the total acquittal of Haitong Bank concerning the commercial paper of GES. Haitong Bank is expected to receive the confirmation of the final and unappealable decision (final decision without recourse) from other judgments.

In Brazil, there is a judicial discussion around the constitutionality of the law applicable to the contributions of PIS ("Programa de Integração Social") and COFINS ("Financiamento da Seguridade Social) taxes which falls over other income that is not originated from sale of goods or from services rendered. Based on a court decision, all Brazilian group entities are monthly depositing to the court the amount under discussion and only are assessing to Tax Authorities the amount of tax related to services rendered, which are not under such discussion. The amounts subject to judicial deposit are recorded on Balance Sheet, in other assets, and are reported to Brazilian Tax Authorities in the corresponding returns. It's the understanding of the Group, based on external legal opinions, that is not probable that the court decision should be unfavorable, which supports the Group decision to not record any provision for this contingency. At 31 December 2017, the accumulated amount of the mentioned non-assessed contributions, but judicially deposited by the group was 27,776 million euros.

Following the above stated, Haitong Bank did not establish any provision related to such legal proceedings.

Resolution Fund

Resolution measures applied to Banco Espírito Santo, S.A. and BANIF – Banco Internacional do Funchal, S.A.

The Board of Directors of the Bank of Portugal decided, on 3 August 2014, to apply a resolution measure to Banco Espírito Santo, S.A. ("BES"), having the generality of the activity and net worth of BES been transferred to Novo Banco, S.A. In line with EU regulations, the capitalisation of Novo Banco was secured by the Resolution Fund, established by Decree-Law No. 31-A/2012 of 10 February. As provided for in said Decree-Law, the Resolution Fund's resources come from contributions paid by the institutions participating in the Fund and from the banking sector contribution. Moreover, legislation provides that whenever these resources prove insufficient to fulfil obligations, other means of financing can be use, including: (i) special contributions from credit institutions; and (ii) from loans taken out.

Following the resolution measure, the capital needs of Novo Banco were calculated at 4,900 million euros, having the capital subscription held by the Resolution Fund been funded by the Portuguese State and by eight financial institutions participants of the Fund (not including the Bank).

Subsequently, in view of the resolution process of Banco Espírito Santo, S.A., Bank of Portugal resolved, as announced on 29 December 2015, the transfer of responsibility to Resolution Fund of "…possible negative outcomes of future decisions, arising from the resolution process [of Banco Espírito Santo, S.A.], with responsibilities or contingencies as a result.".

On July 2016, the Resolution Fund stated that it would analyse and assess the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES as at 3 August 2014. Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors, whose credits have not been transferred to Novo Banco suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its winding-up process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

In accordance with the available public information, the volume of litigations associated with this proceeding is significant.

On 31 March 2017, Bank of Portugal issued a press release referring that Lone Star had been selected to conclude the sale process of Novo Banco. The mentioned press release states the following:

"Under the terms of the agreement, Lone Star will inject a total of 1,000 million euros in Novo Banco, of which 750 million euros at completion and 250 million euros within a period of up to three years. Through the capital injection, Lone Star will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital. The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in case certain cumulative conditions are to be met related to: (i) the performance of a specific portfolio of assets; and (ii) the capital levels of the bank going forward. Any capital injections to be carried out pursuant to this contingent mechanism benefit from a capital buffer resulting from the injection to be made under the terms of the agreement and are subject to an absolute cap."

On 18 October 2017, Bank of Portugal and the Resolution Fund announced the conclusion of the sale process of Novo Banco to Lone Star.

Additionally, Bank of Portugal established, on 19 and 20 December 2015, a resolution measure over BANIF – Banco Internacional do Funchal, S.A ("BANIF"). The operation involved State support, including 489 million euros taken over by the Resolution Fund, funded through a loan agreement granted by the Portuguese State. Moreover, the Resolution Fund provided a guarantee relative to bonds issued by the vehicle constituted in the scope of BANIF's resolution, in the amount of 746 million euros, counter-guaranteed by the Portuguese State.

General features

To repay the loans received and other liabilities it may be required to assume relative to the above mentioned resolution measures, the Resolution Fund is financed through the periodic and special contributions of the participating institutions (including the Bank) and from the contribution on the banking sector. Under article 153-I of Decree-Law No. 345/98, of 9 November, if the resources of the Resolution Fund are insufficient to meet its obligations, participating institutions may be called upon, via a separate statute, to make special contributions. The amounts, instalments, deadlines and other terms of those contributions shall also be defined by said statute.

In accordance with Decree-Law No. 24/2013 that determines the operation of the Resolution Fund, the Bank has provided mandatory contributions since 2013 pursuant to the aforementioned Decree.

On 3 November 2015, Bank of Portugal issued a Circular-Letter according to which the periodical contribution for the Resolution Fund must be recognized as cost at the time of the event that originates mandatory contribution payments, which is in the last day of April of each year, pursuant to article no. 9 of Decree-Law No. 24/2013 of 19 February, ensuring that the Bank recognizes the contribution as an expense in the year it is due. In 2017, the Bank made periodic contributions to the Resolution Fund and banking sector contributions in the amounts of 590 thousand euros and 1,751 thousand euros, respectively. These contributions were recognized as expenses in the current period, in accordance with IFRIC nº 21 – Charges.

From 2015 on, the Bank also started to pay contributions regarding the constitution of the European Resolution Fund, having this contributions amounted to 1,221 thousand euros in 2017. The European Resolution Fund does not cover the existing situations, as at 31 December 2015, with the Portuguese Resolution Fund.

On 15 November 2015, the Resolution Fund issued a press release stating: “it is further explained that it is unlikely that the Resolution Fund shall propose the establishment of a special contribution for the financing of the resolution measure applied to BES. Therefore, the chance of a possible charge of a special contribution is far-flung.”

On 28 September 2016, the Resolution Fund issued a statement in which it is stated that the maturity of the loan that was set to mature on 31 December 2017 would be adjusted to ensure the Fund's ability to fully meet its obligations based on its regular revenues, and regardless of the contingencies to which it is exposed, without the need of extraordinary contributions.

According to the communication of the Resolution Fund of 21 March 2017:

- “The conditions of the loans obtained by the Fund for the financing of the resolution measures applied to Banco Espírito Santo, S.A. and BANIF - Banco Internacional do Funchal, S.A. have been changed.” These loans amount to 4,953 million euros, of which 4,253 million euros were granted by the Portuguese State and 700 million euros were granted by a bank syndicate.
- Those loans are now due in December 2046, without prejudice to the possibility of being repaid early based on the use of the Resolution Fund’s revenues. The due date will be adjusted so that it enables the Resolution Fund to fully meet its obligations based on regular revenues and without the need for special contributions or any other type of extraordinary contributions.
- The review of the loans’ conditions aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable cost for the banking sector.
- The new conditions enable the full payment of the Resolution Fund’s liabilities, as well as the respective remuneration, without the need to ask the banking sector for special contributions or any other type of extraordinary contributions.

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

Accordingly, as at 31 December 2017, there are no expectations regarding the value of possible losses connected to the divesture process of Novo Banco, of the mentioned litigations associated with the resolution process of Banco Espírito Santo or of the potential losses of the Resolution Fund following the resolution of BANIF.

Despite the possibility foreseen in the applicable legislation concerning the payment of special contributions, taking into consideration the recent developments in the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by the bank syndicate, and the public notices made by the Resolution Fund and by the Office of the Portuguese Ministry of Finance mentioning that such a possibility will not be used, the financial statements as at 31 December 2017 translate the Bank's Board of Directors expectation that no special contributions or other type of extraordinary contributions will be required of the institutions part of the Resolution Fund to finance the resolution measures applied to BES and to BANIF.

NOTE 39 – RELATED PARTIES TRANSACTIONS

The Group's related parties transactions at 31st December 2017 and 2016, as well as the respective expenses and income recognized in the year, regarding operations carried out with entities related to the Haitong Group are summarized as follows:

(thousand euros)

	31.12.2017							
	Assets					Liabilities	Income	Expenses
	Loans	Credit	Securities	Other	Total			
Shareholders								
HAITONG SECURITIES	-	-	-	50	50	-	18 254	3
Subsidiaries and associates								
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	-	-	-	5 408	-
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	-	-	-	-	3 458	-
HAITONG UNITRUST FINANCIAL & LEASING	-	-	-	-	-	-	491	-
HAITONG INTERNATIONAL SECURITIES CO LTD	-	-	-	48	48	-	-	-
HAITONG UNITRUST INTERNATIONAL LEASING C	-	-	-	-	-	-	551	-
HAITONG UNITRUST CAPITAL GROUP CO LIMITED	-	-	-	-	-	-	546	-
HAITONG INTERNATIONAL CREDIT COMPANY LTD	-	-	-	-	-	-	3 100	-
HAITONG UNITRUST HOLDING LIMITED	-	-	-	-	-	-	1 000	-
HAITONG UNITRUST LEASING HK LIMITED	-	-	-	-	-	-	1 000	-
HAITONG INTERNATIONAL FINANCIAL PRODUCTS	-	-	-	250	250	-	250	-
HAITONG INNOVATION SECURITIES INVESTMENT CO LTD	-	-	-	-	-	-	4 011	-
TOTAL		-	-	348	348	-	38 069	3

(thousand euros)

	31.12.2016							
	Assets					Liabilities	Income	Expenses
	Loans	Credit	Securities	Other	Total			
Shareholders								
HAITONG SECURITIES	-	-	-	996	996	-	2 317	-
Subsidiaries and associates								
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	12 278	949	13 227	-	1 810	-
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	-	-	-	140 622	-	1 434
HAITONG UNITRUST FINANCIAL & LEASING	-	16 834	-	-	16 834	-	436	-
HAITONG INTERNATIONAL INVESTMENT (SINGAPORE) PTE, LTD	-	-	-	-	-	-	7 706	-
HAITONG UNITRUST INTERNATIONAL LEASING C	-	21 010	-	-	21 010	-	27	-
TOTAL		37 844	12 278	1 945	52 067	140 622	12 296	1 434

The balance shown regarding the related entity, Haitong International Investment (Singapore) PTE, Ltd, in 2016, is associated with the sale of the subsidiary Haitong Securities India Private Limited.

NOTE 40 – FAIR-VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair-value of financial assets and liabilities

Haitong Bank estimates the fair value of its instruments based on prices quoted in active markets or, when such prices are not available, based on valuation techniques following standard valuation models such as discounted cash flows and option pricing models. The valuation models' parameter inputs are based on observable data, when available, derived from prices of financial instruments actively traded or based on indicative broker quotes.

The Group performs valuation adjustments to reflect counterparty credit risk (CVA) for uncollateralized derivatives assets considering the current exposure, loss given default and the probability of default. This probability of default is based on the Group's credit risk assessment model or market information where applicable.

The fair value of the Group's financial liabilities in the form of structured notes incorporates Haitong Bank's own credit risk adjustment in the form of Debt Valuation Adjustment (DVA). This adjustment is performed by discounting cash flows considering a risk free yield curve and a credit spread. As Haitong Bank does not havea credit default swap level observable in the market, the credit spread is estimated based on proxies.

The fair-value of financial assets and liabilities for the Group is analysed as follows:

(thousand euros)

		Valued at Fair Value				
	Amortised cost	Level 1	Level 2	Level 3	Total book value	Fair Value
Balance as at 31st December 2017						
Cash and deposits at central banks	441 637	-	-	-	441 637	441 637
Deposits at other credit institutions	31 636	-	-	-	31 636	31 636
Financial assets held-for-trade	-	48 469	534 564	76 976	660 009	660 009
Available-for-sale financial assets	2 408	293 519	75 073	120 947	491 947	491 947
Loans and advances to banks	488 000	-	-	-	488 000	488 000
Loans and advances to customers	629 907	-	-	-	629 907	621 810
Risk management derivatives	-	-	7 599	3 667	11 266	11 266
Financial Assets	**1 593 588**	**341 988**	**617 236**	**201 590**	**2 754 402**	**2 746 305**
Deposits from central banks	60 000	-	-	-	60 000	60 000
Financial liabilities held-for-trading	-	-	575 256	30 841	606 097	606 097
Deposits from other credit institutions	1 119 511	-	-	-	1 119 511	1 119 511
Customer accounts	515 964	-	-	-	515 964	515 964
Debt securities issued	28 293	-	214 493	-	242 786	242 786
Risk management derivatives	-	-	5 716	9 141	14 857	14 857
Financial Liabilities	**1 723 768**	**-**	**795 465**	**39 982**	**2 559 215**	**2 559 215**
Balance as at 31st December 2016						
Cash and deposits at central banks	37 550	-	-	-	37 550	37 550
Deposits at other credit institutions	104 254	-	-	-	104 254	104 254
Financial assets held-for-trade	-	83 230	1 382 966	28 719	1 494 915	1 494 915
Available-for-sale financial assets	2 922	342 742	353 597	91 085	790 346	790 346
Loans and advances to banks	853 687	-	-	-	853 687	853 687
Loans and advances to customers	841 095	-	-	-	841 095	801 420
Risk management derivatives	-	-	18 273	-	18 273	18 273
Financial Assets	**1 839 508**	**425 972**	**1 754 836**	**119 804**	**4 140 120**	**4 100 445**
Deposits from central banks	60 000	-	-	-	60 000	60 000
Financial liabilities held-for-trading	-	32 443	1 010 238	-	1 042 681	1 042 681
Deposits from other credit institutions	1 974 169	-	-	-	1 974 169	1 974 169
Customer accounts	735 708	-	-	-	735 708	735 708
Debt securities issued	27 352	-	314 215	-	341 567	341 709
Risk management derivatives	-	-	32 907	-	32 907	32 907
Subordinated liabilities	-	-	-	-	-	-
Financial Liabilities	**2 797 229**	**32 443**	**1 357 360**	**-**	**4 187 032**	**4 187 174**

Fair Value Hierarchy

Assets and Liabilities at fair-value of the Haitong Bank Group are valued according to the following hierarchy:

The Group's financial instruments are classified under the three levels defined in IFRS 13 according to the following:

Level 1 – Instruments valued using quoted prices observed in active and liquid markets. These include government bonds, credit bonds and exchange traded equities and derivatives.

Level 2 – Instruments valued using valuation techniques based on observable market inputs, quotes prices for similar instruments in active markets or for identical instruments in markets that are neither active nor liquid. These include bonds, plain vanilla OTC derivatives and less liquid equities.

Level 3 – Instruments valued using valuation techniques based on non-observable market inputs and that do not comply with the requirements to be classified under Level 1 nor Level 2. These include non-plain vanilla OTC derivatives valued based on non-observable market inputs or on indicative prices published by third parties, distressed and highly illiquid bonds, funds valued at Net Asset Values (NAV) published by the fund manager and private equity placements.

In 2017, there were 1.4 million euros in securities transferred from Level 1 to Level 2 based on their liquidity assessment.

For financial instruments recorded in the balance sheet at fair value, the movement occurred between December 31st , 2016 and December 31st , 2017 in assets and liabilities classified in level 3 is as follows:

(thousand euros)

	Available-for-sale financial assets	Financial assets held-for-trade		Risk management derivatives (Net)	Total
		Securities	Derivatives (Net)		
Opening Balance	**91 085**	**28 719**	**-**	**-**	**119 804**
Results recognized in Net Interest Margin	8 086	1 855	-	2 104	**12 045**
Net gains/(losses) from assets and liabilities at fair value through profit or loss	-	44	401	4 119	**4 564**
Net gains/(losses) from available-for-sale financial assets	1 905	-	-	-	**1 905**
Impairment on other financial assets net of reversal and recoveries	(24 081)	-	-	-	**(24 081)**
Other fair value changes	(6 062)	(670)	273	(4 446)	**(10 905)**
Fair value reserve changes	2 457	-	-	-	**2 457**
Acquisitions	39 016	38 941	-	-	**77 957**
Sales	(4 454)	(4 153)	-	-	**(8 607)**
Reimbursements	(15 785)	(25 238)	-	-	**(41 023)**
Derivatives finantial flows	-	-	(1 090)	(2 163)	**(3 253)**
Transfers from other levels	29 257	3 733	3 320	(5 088)	**31 222**
Transfers to other levels	(477)	-	-	-	**(477)**
Closing Balance	**120 947**	**43 231**	**2 904**	**(5 474)**	**161 608**

In what regards Level 3 classification, in 2017 there were 32.9 million euros of securities that were transferred to Level 3 as a result of its liquidity and market inputs, used in the valuation, observability. Additionally to the securities, -1.8 million euros net book value of OTC derivatives were transferred to Level 3 as a result of various improvements in the fair value hierarchy classification process.

The main parameters used during 2017 in what concerns valuation models were the following:

Yield curves

The short-term rates set out below reflect indicative values of deposit interest rates and/or futures. Swap rates are used for the long-term:

(%)

	31.12.2017			31.12.2016		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.42	1.45	0.47	-0.41	0.70	0.22
1 month	-0.43	1.57	0.50	-0.42	0.77	0.25
3 months	-0.34	1.70	0.52	-0.36	1.00	0.36
6 months	-0.33	1.73	0.58	-0.38	0.97	0.53
1 year	-0.28	1.87	0.65	-0.28	1.14	0.55
3 years	0.01	2.05	0.88	-0.10	1.66	0.69
5 years	0.31	2.25	1.03	0.08	1.97	0.87
7 years	0.57	2.31	1.15	0.33	2.16	1.04
10 years	0.91	2.40	1.28	0.67	2.35	1.24
15 years	1.28	2.50	1.42	1.06	2.52	1.43
20 years	1.46	2.55	1.47	1.21	2.59	1.48
25 years	1.54	2.55	1.45	1.25	2.61	1.46
30 years	1.54	2.54	1.43	1.27	2.61	1.44

Credit Spreads

Credit spreads curves and recovery rates used by the Group are sourced on a daily basis from Markit. The table below reflects the evolution of the main CDS indices:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
Year 2016						
CDX USD Main	**27**	**-**	34.23	67.47	95.14	113.58
iTraxx Eur Main	**26**	**-**	43.70	72.32	94.63	111.62
iTraxx Eur Senior Financial	**26**	**-**	-	93.44	-	-
Year 2017						
CDX USD Main	**29**	**-**	24.93	49.02	72.45	90.48
iTraxx Eur Main	**28**	**-**	22.08	44.83	64.93	83.44
iTraxx Eur Senior Financial	**28**	**-**	-	43.86	-	-

Interest rate volatilities

The following figures reflect at-the-money implied volatilities:

(%)

	31.12.2017			31.12.2016		
	EUR	USD	GBP	EUR	USD	GBP
1 year	--	15.31	52.35	--	24.82	80.81
3 years	103.44	22.10	--	--	37.27	--
5 years	69.95	28.62	58.67	164.92	40.83	97.10
7 years	57.70	30.07	63.27	94.34	40.85	90.36
10 years	50.27	28.18	--	71.96	38.35	--
15 years	44.11	--	--	62.39	35.58	--

Foreign exchange rate and volatilities

The table below reflects ECB's (European Central Bank) foreign exchange rates fixings and at-the-money implied volatilities:

			Volatiliy (%)				
Exchange	31.12.2017	31.12.2016	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1993	1.0541	6.33	7.31	7.27	7.36	7.45
EUR/GBP	0.8872	0.8562	6.27	7.39	7.58	7.78	7.94
EUR/CHF	1.1702	1.0739	5.59	6.17	6.16	6.22	6.21
EUR/PLN	4.1770	4.4103	4.27	4.97	5.52	5.93	6.17
EUR/CNY	7.8044	7.3202	-	-	-	-	-
USD/BRL a)	3.3127	3.2544	11.96	12.66	13.44	14.24	14.95

a) Determined based on EUR/USD and EUR/BRL

Equity Indexes

The evolution of the main equity indices and the corresponding volatilities are summarised in the following table:

	Quotation			Historical volatility (%)		
	31.12.2017	31.12.2016	Range %	1 month	3 months	Implied volatility (%)
DJ Euro Stoxx 50	3 504	3 291	6.49	10.17	8.49	11.43
PSI 20	5 388	4 679	15.15	7.32	8.45	12.06
IBEX 35	10 044	9 352	7.40	10.63	13.51	-
DAX	12 918	11 481	12.51	11.33	9.75	12.70
S&P 500	2 674	2 239	19.42	6.27	5.55	7.72
BOVESPA	76 402	60 227	26.86	16.46	17.02	17.25

The main methods and assumptions used in the abovementioned valuation of the fair-value of financial assets and liabilities are analysed as follows:

Cash and Deposits in central banks, Deposits at other credit institutions and Loans and advances to banks

The statement of financial position value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Loans and advances to customers

The fair-value of loans and advances to customers is estimated based on the update of expected cash flows and interest, by taking into account market spreads for similar transactions (if they were entered into in the current moment) considering that the instalments are paid in compliance with the deadlines contractually agreed upon.

Resources of other credit institutions

The balance-sheet value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Resources of customers

The fair-value of these financial instruments is determined based on the update of expected cash flows in capital and interest, considering that the payments are in compliance with the deadlines agreed upon contract.

Considering that the applicable interest rates are of variable nature and the maturity period of the deposits is substantially inferior to one year, there are no measurable differences in fair-value.

Debt securities issued and Subordinated Liabilities

The fair-value of these instruments is based in market prices, when available. When unavailable, the fair-value it is estimated based on the update of expected cash flows in capital and interest regarding these instruments in the future.

NOTE 41 – RISK MANAGEMENT

For risk management policy, the following qualitative information of the Haitong Bank Group is presented.

Control and risk management, for the role they have played in active management support, are one of the main strategic axes supporting their balanced and sustained development.

The Risk Department has maintained the following main objectives:

- Identification, quantification and control of the different types of risk assumed, progressively adopting uniform principles and methodologies;
- Continuous contribution to the improvement of tools to support the structuring of operations and the development of internal techniques for evaluating performance and optimizing the capital base;
- Proactive management of situations of significant delay and non-compliance with contractual obligations.

Credit Risk

Credit Risk results from the possibility of financial losses arising from the default of the customer or counterparty in relation to the contractual obligations established with the Group in the scope of its credit activity. Credit risk is mainly present in traditional banking products - loans, guarantees and other contingent liabilities - and in trading products - swaps, forwards and options (counterparty risk).

Permanent management of credit portfolios is carried out, favoring the interaction between the various teams involved in risk management throughout the successive stages of the credit process. This approach is complemented by the introduction of continuous improvements in risk assessment and control methodologies and tools.

The monitoring of the Group's credit risk profile, in particular with regard to the evolution of credit exposures and monitoring of credit losses, is carried out regularly. On a daily basis, the compliance with the approved credit limits and the proper functioning of the mechanisms associated with the approval of credit lines within the scope of the current activity of the business areas are also analysed.

Information regarding the exposure of Haitong Bank Group to credit risk is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Deposits with banks	961 262	995 482
Financial assets held for trading	644 079	1 485 249
Available-for-sale financial assets	460 055	756 923
Loans and advances to customers	629 907	841 095
Derivatives for risk management purposes	11 266	18 273
Other assets	142 383	236 129
Guarantees granted	174 416	220 021
Irrevocable commitments	13 939	15 880
Total	**3 037 307**	**4 569 052**

Concentration risk

The distribution of loan and advances to customers and securities by sectors for the years ending on the 31st of December 2017 and 2016 is presented as follows:

(thousand euros)

	31.12.2017						
	Loans and advances to customers				Financial assets held-for-trading	Available-for-sale financial assets	
	Gross amount		Impairment				
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans		Gross amount	Impairment
Agriculture	7 229	-	62	-	665	3	3
Food, beverage and tobaco	7 914	-	664	-	12 061	-	-
Paper industry	-	-	-	-	10 787	-	-
Chemicals and rubber	6 942	-	5 829	-	709	2 085	-
Non-metallic minerals	4 796	-	24	-	258	-	-
Metallic products	4 781	-	24	-	-	19 095	5 728
Production of machinery, equipment and electric devices	13 621	-	111	-	7 696	-	-
Production of transport material	-	-	-	-	82	-	-
Electricity, gas and water	199 832	6 784	1 342	6 784	23 336	17 631	-
Collection, purification and distribution water, sanitation, waste management and cleaning	18 475	-	4 128	-	179	-	-
Construction	54 959	45 984	10 558	23 196	30 959	3 642	-
Real estate activities	-	2 004	-	1 403	-	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	65 988	2 328	1 927	116	3 155	-	-
Transports and storage	152 778	10 489	6 086	9 313	63 251	2 500	-
Printing and publishing	7 984	950	3 194	380	-	150	150
Communication activities	2 445	-	12	-	191	880	563
Monetary intermediation	-	-	-	-	53 956	2 802	-
Holding companies	25 866	8 803	7 782	8 803	28 682	93 864	23 136
Other financial and insurance activities	15 603	-	78	-	33 727	39 009	11 274
Real estate activities	4 995	-	1 424	-	2 239	244	-
Services provided to companies	12 844	-	474	-	20 032	23 929	600
Renting activities	38 486	-	26 366	-	-	1 221	-
Public services	-	-	-	-	363 790	326 297	-
Local public services	3 679	-	18	-	502	(1)	-
Human health activities and social support	18 818	-	94	-	3 752	-	-
Arts, entretainment, sports and recreation activities	-	-	-	-	-	50	-
Other service activities	4 453	-	24	-	-	-	-
Consumer loans	294	-	1	-	-	-	-
TOTAL	**672 782**	**77 342**	**70 222**	**49 995**	**660 009**	**533 401**	**41 454**

(thousand euros)

	31.12.2016						
	Loans and advances to customers				Financial assets held-for-trading	Available-for-sale financial assets	
	Gross amount		Impairment			Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstandin g loans	Overdue loans			
Agriculture	12 267	-	90	-	906	3	3
Mining	-	-	-	-	3 686	-	-
Food, beverage and tobaco	9 828	-	408	-	2 329	-	-
Shoes	-	197	-	98	-	-	-
Manufacturing - Paper and Graphic Industries	-	-	-	-	14 186	-	-
Refining and oil	-	-	-	-	2 168	-	-
Chemicals and rubber	9 155	16 907	5 809	16 062	422	4 045	-
Non-metallic minerals	9 571	-	77	-	691	-	-
Metallic products	10 341	118	52	-	1 065	18 884	103
Production of machinery, equipment and electric devices	14 781	-	120	-	8 927	-	-
Production of transport material	-	-	-	-	521	-	-
Electricity, gas and water	243 531	6 652	7 374	6 458	34 423	4 019	-
Collection, purification and distribution of water, sanitation, waste manage	21 790	5 362	1 420	536	1 356	-	-
Construction	41 314	87 324	4 143	20 600	20 863	3 938	-
Real estate activities	2 846	-	1 584	-	68	-	-
Wholesale and retail; repair of motor vehicles and motorcycles	67 937	1 974	350	-	5 807	-	-
Transports and storage	180 804	26 983	8 572	7 368	88 371	5 980	-
Printing and publishing	9 741	-	2 435	-	-	150	-
Communication activities	4 077	-	20	-	3 843	826	499
IT Consulting	-	-	-	-	-	22 370	22 370
Monetary intermediation	-	-	-	-	176 644	96 068	-
Holding companies	68 553	47 098	59 805	47 095	20 492	93 190	9 493
Financial activities	74 288	793	623	793	40 864	45 701	13 718
Real estate activities	7 108	-	2 026	-	4 013	477	-
Services provided to companies	7 841	56	798	56	26 628	25 303	600
Administrative activities and suporting services	5 905	-	4 010	-	-	-	-
Travelling activities	-	15 520	-	15 520	-	-	-
Renting activities	38 488	-	25 790	-	4 975	1 327	-
Public services	-	-	-	-	1 018 641	514 773	-
Local public services	4 044	-	20	-	57	(1)	-
Human health activities and social suport	19 764	-	99	-	12 969	-	-
Arts, entretainment, sports and recreation activities	18 809	316	15 576	138	-	154	75
Other service activities	4 591	-	24	-	-	-	-
Mortgage loans	370	-	-	-	-	-	-
TOTAL	**887 744**	**209 300**	**141 225**	**114 724**	**1 494 915**	**837 207**	**46 861**

Market risk

Market risk is the possibility of losses resulting from adverse movements in market prices, such as equity, interest rates or foreign exchange rates and credit spreads. The Group's market risk stems mostly from investments in equities, debt securities and derivatives.

To measure its market risk for the trading book and overall commodity and foreign currency positions, Haitong Bank uses the historical Value at Risk (VaR) methodology, calculated considering a 99% confidence level, an investment period of 10 business days and 1 year of historical observation,

(million euros)

	31.12.2017				31.12.2016			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Foreign exchange risk	2.23	2.79	4.74	0.83	2.54	3.82	10.82	2.54
Interest rate risk	0.84	1.72	3.12	0.53	1.85	1.69	2.78	1.85
Shares	1.34	0.78	0.63	0.91	0.73	1.02	0.47	0.73
Credit spread	1.33	1.58	2.27	1.22	2.16	4.04	4.30	2.16
Covariance	-0.76	-1.05	-0.38	-0.87	-2.59	-2.01	-3.39	-2.59
Total	**4.97**	**5.82**	**10.38**	**2.62**	**4.69**	**8.55**	**14.98**	**4.69**

On 31 December 2017 the Group's VaR was calculated at 4.97 million euros, a 6% increase when compared to the previous year.

Additionally, the Group measures its exposure to interest rate risk in the banking book following the recommendations of Basel II (Pillar 2) and Instruction no. 19/2005 of Banco de Portugal, based on the methodology of the Bank of International Settlement (BIS), which classifies all asset, liability and off-balance-sheet headings, which do not belong to the trading book, by repricing tenor.

(million euros)

	31.12.2017						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash	442	-	442	-	-	-	-
Loans and advances to banks	119	30	89	-	-	-	-
Loans and advances to customers	630	28	243	214	129	4	12
Securities	492	38	111	21	-	321	1
Collaterals deposited under compensation contracts	151	6	145	-	-	-	-
Off-balance	207	-	13	7	8	176	3
Total	**2 041**	**102**	**1 043**	**242**	**137**	**501**	**16**
Central banks deposits	60	-	-	-	-	60	-
Other financial institutions deposits	866	10	83	21	1	751	-
Deposits	508	26	352	63	57	10	-
Repo´s with customers	-	-	-	-	-	-	-
Securities issued	243	4	36	8	34	158	3
Other equity instruments	4	4	-	-	-	-	-
Collaterals deposited under compensation contracts	12	-	12	-	-	-	-
Off-balance	207	-	36	98	7	66	-
Total	**1 900**	**44**	**519**	**190**	**99**	**1 045**	**3**
GAP (Assets - Liabilities)	**141**	**58**	**524**	**52**	**38**	**(544)**	**13**

(million euros)

	31.12.2016						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash	38	-	38	-	-	-	-
Loans and advances to banks	225	25	198	-	1	-	1
Loans and advances to customers	1 097	245	261	339	197	28	27
Securities	790	37	599	22	1	110	21
Collaterals deposited under compensation contracts	174	174	-	-	-	-	-
Off-balance	268	-	30	6	18	214	-
Total	**2 592**	**481**	**1 126**	**367**	**217**	**352**	**49**
Central banks deposits	60	-	-	-	-	60	-
Other financial institutions deposits	1 100	5	189	-	13	893	-
Deposits	703	47	507	21	106	22	-
Repo´s with customers	-	-	-	-	-	-	-
Securities issued	342	5	38	5	18	241	35
Other equity instruments	84	84	-	-	-	-	-
Collaterals deposited under compensation contracts	84	84	-	-	-	-	-
Off-balance	263	-	73	114	-	76	-
Total	**2 636**	**225**	**807**	**140**	**137**	**1 292**	**35**
GAP (Assets - Liabilities)	**(44)**	**256**	**319**	**227**	**80**	**(940)**	**14**

As of 31 December 2017, an increase/decrease in interest rates of 100 bps would represent a positive/negative impact of 9.4 million Euros on the Bank's shareholders' equity, which represents a reduction of 50% when comparing with 31 December 2016.

(million euros)

	31.12.2017		31.12.2016	
	Parallel increase of 100 bp	Parallel increase of 100 bp	Parallel increase of 100 bp	Parallel increase of 100 bp
As at 31 December	9.4	(9.4)	19.0	(19.0)
Average of the period	12.8	12.8	14.6	(14.6)
Maximum for the period	23.0	(9.2)	21.7	(1.6)
Minimum for the period	9.2	(23.0)	1.6	(21.7)

The following table presents the average interest rates as well as the average balances and interest for the period, relating to the Group's major financial asset and liability categories, for the periods ended at December 31st, 2017 and 2016, as well as the respective average balances and interest of the period:

(thousand euros)

	31.12.2017			31.12.2016		
	Average balance of the period	Interest of the period	Average interest rate	Average balance of the period	Interest of the period	Average interest rate
Monetary assets	814 715	51 362	6.30%	779 813	73 588	9.44%
Loans and advances to customers	656 849	32 426	4.94%	995 259	41 787	4.20%
Investment in securities	1 645 876	92 820	5.64%	1 447 088	143 221	9.90%
Collateral accounts	157 870	10	0.01%	268 896	76	0.03%
Financial assets	**3 275 310**	**176 618**	**5.39%**	**3 491 056**	**258 672**	**7.41%**
Monetary resources	1 503 129	73 591	4.90%	1 646 190	115 538	7.02%
Deposits from customers	664 185	41 768	6.29%	714 661	63 923	8.94%
Liabilities represented by securities	294 789	10 891	3.69%	417 218	20 729	4.97%
Other resources	789 154	780	0.10%	852 274	1 372	0.16%
Financial liabilities	**3 251 257**	**127 030**	**3.91%**	**3 630 343**	**201 562**	**5.55%**
Financial Result		**49 588**	**1.49%**		**57 110**	**1.86%**

The Group's foreign exchange risk arises mainly from its investments in foreign subsidiaries, and respective hedges done at the local level, which, when translated to the Group functional currency, represent an exposure in a foreign currency.

As of 31 December 2017 and 2016, the exposure of assets and liabilities by currency in regards to the foreign exchange risk was as follows:

(thousand euros)

		31.12.2017			31.12.2016		
		Spot Position	Forward Position	Net Position	Spot Position	Forward Position	Net Position
USD	US DOLAR	199 251	(312 573)	(113 321)	128 858	(254 423)	(125 565)
GBP	POUND STERLING	3 081	-	3 081	3 822	(58 399)	(54 576)
BRL	BRAZILIAN REAL	58 634	(52 211)	6 423	76 433	(60 814)	15 619
DKK	COROA DINAMARQUESA	19	-	19	214	-	214
JPY	YEN	255	-	255	407	-	407
CHF	SWISS FRANC	544	-	544	320	-	320
PLN	POLISH ZLOTY	(22 163)	48 233	26 070	(37 307)	54 590	17 283
NOK	NORWEGIAN KRONE	18	-	18	11	-	11
CAD	CANADIAN DOLAR	3 835	(4 522)	(687)	4 313	(4 793)	(480)
ZAR	RAND	5	-	5	4	-	4
AUD	AUSTRALIAN DOLAR	14	-	14	6	-	6
AOA	KWANZA	-	-	-	-	-	-
CZK	CZECH KORUNA	28	-	28	20	-	20
INR	INDIAN RUPEE	-	-	-	-	-	-
CNY	YUAN RENMINBI	16 833	-	16 833	37 743	-	37 743
	OTHER	(589)	-	(589)	169	-	169
		259 766	**(321 072)**	**(61 306)**	**215 014**	**(323 839)**	**(108 825)**

Note: asset / (liability)

As at 31st of December 2017 and 2016 the exposure of the Group to the public debt of "peripheral" countries within the Euro Area is as follows:

(thousand euros)

	31.12.2017		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Portugal	-	251 988	251 988
Spain	502	-	502
	502	**251 988**	**252 490**

(thousand euros)

	31.12.2016		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Portugal	282	272 786	273 068
Spain	110	-	110
Greece	-	16 957	16 957
	392	**289 743**	**290 135**

As at 31st of December 2016, in addition to the abovementioned exposure, the Group also has bought protection in the Credit Default Swaps over Portuguese public debt in the amount of 70,000 thousand dollars. As at 31st of December 2017 the Group does not have protection bought for that purpose.

With the exception of loans and advances to customers and held-to-maturity investments, all presented exposures are recorded in the statement of financial position of the Group at fair-value based on quoted market values or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities registered as available-for-sale financial assets, as financial assets held-for-trading and as financial assets at fair value through profit or loss, is as follows:

(thousand euros)

31.12.2017	Nominal	Market value	Accrued Interest	Book Value	Fair value reserves
Available-for-sale financial assets					
Portugal	**220 200**	**246 225**	**5 763**	**251 988**	**2 862**
Maturity over 1 year	220 200	246 225	5 763	251 988	2 862
	220 200	**246 225**	**5 763**	**251 988**	**2 862**
Financial assets at fair value through profit or loss					
Spain	440	486	17	502	-
	440	**486**	**17**	**502**	**-**

(thousand euros)

31.12.2016	Nominal	Market value	Accrued Interest	Book Value	Fair value reserves
Available-for-sale financial assets					
Portugal	**272 700**	**272 775**	**11**	**272 786**	**36**
Maturity up to 1 year	272 500	272 582	5	272 587	44
Maturity over 1 year	200	193	6	199	(8)
Greece	**24 000**	**16 345**	**612**	**16 957**	**(985)**
Maturity over 1 year	24 000	16 345	612	16 957	(985)
	296 700	**289 120**	**623**	**289 743**	**(949)**
Financial assets at fair value through profit or loss					
Portugal	268	279	3	282	-
Spain	95	107	3	110	-
	363	**386**	**6**	**392**	**-**

Liquidity risk

Liquidity risk is caused by the possible inability of financing the asset and complying with the required responsibilities in time, and by the existence of possible difficulties in the liquidation of positions in portfolio without significant losses.

Liquidity management is centralized at the Financial Department . This management aims to maintain adequate liquidity levels to meet short, medium and long term financing needs. In order to assess the aggregate exposure to this type of risk, there are reports that not only allow the identification of negative mismatch, but also facilitate their dynamic hedging.

Furthermore, the Group also monitors liquidity ratios from a prudential point of view, determined according to the rules established by the Bank of Portugal and provided in the CRD IV (Directive 2013/36/UE).

As at 31 December 2017, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	31.12.2017						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and deposits at central banks	453 356	-	-	-	-	-	453 356
Deposits at other credit institutions	30 466	-	-	-	-	-	30 466
Financial assets held-for-trading (Securities)	1 618	29 721	73 332	346 215	12 184	-	463 071
Available-for-sale financial assets	-	313	16 255	459 609	14 652	-	490 828
Loans and advances to banks	470 369	-	-	-	-	-	470 369
.	850	7 925	81 980	132 255	268 038	138 860	629 907
Derivatives Instruments	330 862	246 676	247 259	580 955	82 552	-	1 488 305
	1 287 522	284 636	418 827	1 519 033	377 425	138 860	4 026 303
Liabilities							
Resources of central banks	-	-	-	60 000	-	-	60 000
Resources of other credit institutions	271 214	12 119	24 972	761 165	49 279	-	1 118 748
Resources of customers	85 411	122 766	216 525	59 942	-	-	484 643
Debt securities issued	1 015	16 632	64 979	175 070	-	-	257 695
Financial liabilities held-for-trading (Securities)	512 058	-	-	-	-	-	512 058
Derivatives Instruments	189 771	244 977	236 791	596 924	77 373	-	1 345 836
Provisions	11 802	-	-	-	-	-	11 802
	1 071 271	396 493	543 266	1 653 100	126 652	-	3 790 781

As at 31 December 2016, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	31.12.2016						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and deposits at central banks	37 541	-	-	-	-	-	37 541
Deposits at other credit institutions	105 496	-	-	-	-	-	105 496
Financial assets held-for-trading (Securities)	1 019 154	2 215	28 195	68 929	30 112	-	1 148 605
Available-for-sale financial assets	365 115	365 947	4 159	39 488	51 088	-	825 797
Loans and advances to banks	162 235	447 683	209 152	9 952	796	-	829 818
Loans and advances to customers	20 164	32 279	26 159	121 419	447 267	193 808	841 095
Derivatives Instruments	394 291	362 216	290 526	885 299	123 669	-	2 056 002
	2 103 996	1 210 340	558 191	1 125 088	652 931	193 808	5 844 353
Liabilities							
Resources of central banks	-	-	-	60 000	-	-	60 000
Resources of other credit institutions	771 535	203 402	39	940 163	57 234	-	1 972 373
Resources of customers	110 760	115 597	315 877	141 259	2 915	-	686 408
Debt securities issued	25 433	24 303	37 595	314 039	3 770	-	405 140
Financial liabilities held-for-trading (Securities)	782 215	-	-	-	-	-	782 215
Derivatives Instruments	303 401	358 787	288 887	770 763	118 354	-	1 840 192
Provisions	4 937	-	-	-	-	-	4 937
	1 998 282	702 090	642 399	2 226 224	182 272	-	5 751 266

Consolidated Liquidity Indicators

As at 31st of December 2017, the Haitong Bank achieved a liquidity hedging rate of 610 %, being above the legal minimum rate for both December 2017 and December 2018.

Operational risk

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

A management system was developed and implemented, seeking to ensure the standardisation, systematisation and repetition of activities regarding identification, monitoring, control and mitigation of operating risk.

Capital Management and Solvency Ratio

The main purposes of capital management in the Group are (i) to promote sustainable growth of activity by creating enough capital to withstand the increase of assets, (ii) meet the minimum requirements established by the supervising entities in relation to capital adequacy and (iii) ensure the achievement of the strategic goals set by Group in relation to capital adequacy.

In prudential terms, the Group is subject to inspection by the Bank of Portugal who, in accordance with the EU Directive on capital adequacy, establishes the necessary regulations in this regard that must be fulfilled by the different institutions under their inspection. These regulations establish a minimum rate for the own funds total in relation to the requirements associated with the undertaken risks, which the institutions must comply with.

At the moment and for reporting purposes related to prudential effects before the supervising authorities, the Group uses the Standard method for handling credit risk and operating risk ("The Standardized Approach" - TSA method).

The following table summarises the capital adequacy of the Haitong Bank S.A. Group as at 31st of December 2017 and 31st of December 2016:

	31.12.2017		31.12.2016		31.12.2015 - Restatement	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	21.2%	20.3%	7.1%	5.3%	9.9%	8.2%
Tier 1 ratio	21.2%	20.4%	9.6%	8.2%	9.9%	8.3%
Total Capital ratio	21.3%	20.5%	9.7%	8.4%	10.0%	8.5%

The assumptions used in determining capital adequacy are described in “8.5 Capital Management – Solvency” of the Management Report.

NOTE 42 – SUBSEQUENT EVENTS

Following the public announcement of December 15, 2017, added on December 22, 2017 and January 10, 2018, Haitong Bank completed the sale transaction of the entire capital of Haitong (UK) Limited, Haitong Securities (UK) Ltd and Haitong Securities USA LLC to Haitong International BVI, on February 23, 2018.

The price for the sale of Haitong Securities USA LLC was 16,778 thousand dollars (considering February 23, 2018 exchange rate, corresponds to approximately 13,642 thousand euros), which represents an accounting gain of 10,330 thousand euros that includes a cost of 308 thousand euros subsequent the transfer of the accumulated foreign exchange reserve of this subsidiary to results.

The price for the sale of Haitong (UK) Limited and Haitong Securities (UK) Limited was 12,536 thousand dollars (considering February 23, 2018 exchange rate, corresponds to approximately 10,193 thousand euros), which represents an accounting gain of 2,902 thousand euros that includes a revenue of 593 thousand euros subsequent the transfer of the accumulated foreign exchange reserve of this subsidiary to results.

From that date, these companies are no longer part of the consolidation perimeter of Haitong Bank.

NOTE 43 – ACCOUNTING STANDARDS AND RECENT INTERPRETATIONS ADOPTED BY THE GROUP

Standards and interpretations recently issued and adopted by the Group

The following were the standards and interpretations (either new or revised) applicable to the activity of the Haitong Bank Group, reflected in the financial statements as at the 31st of December 2017:

- Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses: This amendment clarifies the conditions for the recognition and measurement of tax assets resulting from unrealized losses.
- Amendment to IAS 7 – Disclosures: This amendment introduces additional disclosures related to the cash flows from financing activities.

There were no significant effects on the financial statements of the Haitong Bank Group in the year ended 31 December 2017, as a result of the adoption of the standards, interpretations, amendments and revisions referred to above.

Standards, amendments and interpretations issued but not yet effective for the Group

The following standards, interpretations, amendments and revisions, of mandatory application in future financial years, have been endorsed by the European Union up to the date of approval of the financial statements herein:

IFRS 9 – Financial instruments – This standard is part of the project of revision of IAS 39 and lays down the new requirements regarding the classification and measurement of financial assets and liabilities, the impairment calculation methodology and the application of hedge accounting rules.

I - Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI (Fair Value through Other Comprehensive Income) and FVTPL (Fair Value through Profit or Loss). It eliminates the existing IAS 39 categories of “Held to Maturity”, “Loans and Receivables” and “Available for Sale”.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See (V) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

I - Classification – Financial assets

Business Model Assessment

The Group will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading and or those booked in portfolios that have management strategies not corresponding to HTC or HTC and Sell will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

I - Classification – Financial assets (continuing)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

I - Classification – Financial assets (continuing)

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 will, under IFRS 9, be measured at FVOCI or FVTPL, depending on the particular circumstances.
- The equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9.

The Group don't anticipate material impacts on the adoption of IFRS 9.

II - Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the IAS 39 incurred loss model by an expected credit losses (ECL)'s forward-looking model, which considers expected losses over the lifetime of financial instruments. Thus, in determining ECL, macroeconomic factors are taken into account, as well as other forward looking information, whose changes impact expected losses.

The instruments subject to impairment 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 as a result of events that resulted in losses. In this case, the impairment amount will reflect the ECL over the expected residual life of the instrument.

Calculation of ECL

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

- Financial assets with no signs of impairment at the reporting date (Stage 1): Exposure amounts at the reference date multiplied by the probability of default within one year and loss given default;
- Financial assets with impairment at the reporting date (Stages 2 and 3): the difference between the gross accounting value and the net present value of the estimated cash flows;
- Non-used credit commitments: The amount of non-used credit commitments at the reference date multiplied by the credit conversion factor, probability of default and loss given default;

IFRS 9 defines financial assets with impaired signs similarly to impaired financial assets in accordance with IAS 39 (see Note 21).

Default Definition

Under IFRS 9, the Group 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, incorporating the following components: (i) "non-performing" exposures that meet one or both criteria: 1) material exposures overdue for more than 90 days; 2) it is considered that the debtor is unlikely to reimburse credit obligations in full, without collateral claim, irrespective of the existence of any overdue installment or number of days in arrears.

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 will consider all relevant information available at no cost and/or excessive effort.

The Group will identify the occurrence of a significant increase in credit risk exposure through two approaches: (i) comparison between the current PD and PD at the time of contract recognition and (ii) use of backstop. As a backstop, the Group will consider that an increase in credit risk whenever an impairment trigger occurs. Through regular assessments, the Group will monitor the effectiveness of the criteria used to identify the significant increase in credit risk.

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); and
- Exposure at Default (EAD).

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

Forward-Looking Information

Under IFRS 9, the Group incorporates forward-looking information both in its assessment of the significant risk increase and in the measurement of the ECL. The Group will develop a future perspective of the relevant macroeconomic variables based on external data.

Impact Assessment

The Group does not expect material impacts subsequent these changes.

III – Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses.

IV – Impact on capital Planning

In order to reduce the impact of its introduction on the institution's own funds, as covered by Regulation (EU) No. 575/2013 (CRR), Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December has made it possible for the institutions to adopt a transitional regime. Pursuant to Article 473a (9) of the CRR, as introduced by the aforementioned end-2017 regulation, institutions may choose between the following three scenarios:

- **Option 1**: Do not apply the transitional regime;
- **Option 2:** Apply the transitional regime for the "static" and "dynamic" components, i.e. (i) the provisioning differential recorded in the first application of IFRS 9 on January 1, 2018 and (ii) the differential registered in assets that are not credit impaired (stages 1 and 2) after the first application of IFRS 9;
- **Option 3:** Apply the transitional regime only for the "static" component, i.e. the provisioning differential recorded in the first application of IFRS 9 on January 1, 2018.

Haitong Bank Group has decided to adopt Option 2: apply the transitional regime to the "static" and "dynamic" components.

V – Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt investment security has low credit risk at 1 January 2018, then the Group will determine that the credit risk on the asset has not increased significantly since initial recognition.

- IFRS 15 – Revenue from contracts with customers – Applicable in the EU in the financial years beginning on or after the 1st of January, 2018. This standard introduces a structure for revenue recognition based on principles and on a model to be applied to all contracts entered into with customers, thereby replacing standards IAS 18 - Revenue, IAS 11 - Construction contracts; IFRIC 13 – Customer loyalty programmes; IFRIC 15 – Agreements for the construction of real estate; IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue – Barter transactions involving advertising services.
- IFRS 16 – Leases: This standard introduces the principles of recognition and measurement of leases, thereby replacing IAS 17 – Leases. Such standard defines a single model of accounting for lease contracts which results in the recognition by the lessee of assets and liabilities for all lease contracts, except for leases of a duration of less than 12 months or for leases involving low value assets. Lessors shall continue to classify leases as operating or financial, wherefore IFRS 16 will not imply substantial changes for such entities in respect of the stipulations of IAS 17.
- Clarifications on IFRS 15 - Customer Contract Revenue - These amendments introduce a number of clarifications to the standard in order to eliminate the possibility of divergent interpretations of various topics.
- Amendments to IFRS 4 – Insurance contracts: Such amendments provide guidelines on the implementation of IFRS 4 together with IFRS 9. IFRS 4 will be replaced with the implementation of IFRS 17.

These standards, although endorsed by the European Union, were not adopted by the Group in 2017, as their application is not yet mandatory.

With the exception of IFRS 9 implementation, whose impact was described previously, the Group don't anticipate material impacts on its financial statements.

Standards, interpretations, amendments and revisions not yet endorsed by the European Union

The following standards, interpretations, amendments and revisions, of mandatory application in future financial years, have not been endorsed by the European Union up to the date of approval of the financial statements herein:

- IFRS 17 - Insurance Contracts: This standard establishes, for insurance contracts within its scope, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 - Insurance Contracts.
- Amendments to IFRS 2 – Share-based payment: Such amendments introduce several clarifications in the standard concerning: (i) the recording of cash-settled share-based payment transactions; (ii) the recording of changes in share-based payment transactions (from cash-settled to equity-settled); (iii) the classification of transactions having characteristics of an offset settlement.
- Amendments to IAS 40: Transfers of investment property - This amendment clarifies that a change in classification from or to investment property should only be made when there is evidence of a change in the use of the asset.
- Improvements to the international financial reporting standards – 2014-2016 Cycle – Such improvements involve the clarification of certain aspects related to: (i) IFRS 1 – First-time adoption of international financial reporting standards: eliminates certain short-term exemptions; (ii) IFRS 12 – Disclosure of interests in other entities: clarifies the standard's scope concerning the application thereof to interests classified as held for sale or held for distribution under IFRS 5; (iii) IAS 28 – Investments in associates and joint ventures: introduces clarifications on the fair value measurement by investment results, such investments having been made in associates or joint ventures, held by venture capital companies or investment funds.

- Improvements to the international financial reporting standards – 2015-2017 Cycle – These improvements involve the clarification of some aspects related to: IFRS 3 - Concentration of business activities: it requires re-measurement of interests previously held when an entity obtains control over a subsidiary that previously had joint control; IFRS 11 - Joint ventures: clarifies that there should be no re-measurement of interests previously held when an entity obtains joint control over a joint transaction; IAS 12 - Income Tax: clarifies that all tax consequences of dividends should be recorded in profit or loss, regardless of how the tax arises; IAS 23 - Borrowing costs: clarifies that the part of the loan directly related to the acquisition / construction of an asset, owed after the corresponding asset has been ready for the intended use, is, for the purpose of determining the capitalization rate, considered an integral part of the entity's general financing.
- Amendments to IFRS 9 : prepayment features with negative compensation - This amendment allows financial assets with contractual conditions that anticipate, in their early amortization, the payment of a considerable amount by the creditor, can be measured at amortized cost or at fair value for reserves (depending on the business model), provided that: (i) on the date of the initial recognition of the asset, the fair value of the early amortization component is insignificant; and (ii) the possibility of negative compensation in the early amortization is the only reason for the asset in question not to be considered as an instrument that only includes payments of principal and interest.
- Amendments to IAS 28 – Long-term investments in associates and joint arrangements: This amendment clarifies that IFRS 9 should be applied (including related impairment requirements) to investments in associates and joint arrangements when the equity method is not applied to their measurement.
- IFRIC 22: Foreign currency transactions and advance consideration. Such interpretations sets out the date of the initial recognition of the advance consideration or of the deferred income as the transaction date for the purpose of determining the exchange rate of the revenue recognition.
- IFRIC 23 – Uncertainties in the treatment of income tax - This interpretation provides guidance on the determination of taxable income, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding treatment in seat of income tax.
- The above standards have not yet been endorsed by the European Union and, as such, have not been implemented by the Haitong Bank Group in the financial year ended as at the 31st of December, 2017.

The above standards have not yet been endorsed by the European Union and, as such, have not been implemented by the Group in the financial year ended as at the 31st of December, 2017. The Group does not expect that the implementation of such standards will have relevant impact on its financial statements.

Report and Opinion of the Supervisory Board

Haitong Bank, S.A.
for financial year
2017

(Free translation of a report originally issued in Portuguese language: in case of doubt the Portuguese version will always prevail)

To the Shareholder of Haitong Bank, S.A.,

In accordance with the applicable legislation, we hereby present our report on the audit performed by the Supervisory Board to the Management Report, the individual and the consolidated financial statements and the proposal for the distribution of the year's results presented by the Board of Directors of Haitong Bank (hereinafter Haitong) for the year ended 31 December 2017.

The members of the Supervisory Board appointed for the 2017-2019 three-year period took office on 24 January 2018 after notifying Banco de Portugal that the legal requirements set forth in Article 30b (3) of the General Law on Credit Institutions and Financial Companies ("*Regime Geral das Instituições de Crédito e Sociedades Financeiras*") approved by Decree-Law no. 298/92 of 31 December had been met.

During the financial year of 2017 Haitong's Supervisory Board, as part of its designated functions, monitored, in accordance with the law and the company's articles of association, the development of Haitong's management and business activities, namely:

(i) assessed the adequacy and effectiveness of the risk management, internal control and internal audit systems;

(ii) attended Board of Directors meetings whenever invited;

(iii) reviewed management information documents submitted to the Supervisory Board by the Board of Directors;

(iv) monitored the verification of the accounting records and underlying support documents;

(v) assessed the accounting policies and valuation criteria adopted by Haitong; and

(vi) held meetings with the Statutory Auditor, whenever necessary, on the assessment of the accounting policies and valuation criteria adopted by Haitong, which always provided the information required.

In accordance with the applicable legislation, the Supervisory Board also assessed the Auditor's Report and Statutory Audit Certification ("*Certificação Legal de Contas*") prepared by the Statutory Auditor (Deloitte & Associados, SROC, S.A.) on the individual and consolidated financial statements for financial year 2017 and took note of the Additional Report on said financial statements submitted by the Statutory Auditor to the Supervisory Board, with which the Supervisory Board agrees.

The Supervisory Board also analysed the Management Report submitted by the Board of Directors and considers that the report complies with the applicable legal and statutory requirements and elucidates the main aspects of Haitong's activities in 2017, both in individual and in consolidated terms.

The Supervisory Board highlights the following:

- Haitong´s solvency was reinforced through the €418.5 million capital increase subscribed by the shareholder, as disclosed in the Management Report;

- After balance sheet date, the sale of the equity holdings in the subsidiaries Haitong Securities USA LLC, Haitong (UK) Limited and Haitong Securities (UK) Limited to Haitong International (BVI) Limited was concluded in February 2018 for a total amount of €23.835 million, generating a gain for the Bank of €13.231 million; and

- The relevant audit issues and other issues at both individual and consolidated level that are reported in the Statutory Audit Certification and Audit Report.

In light of the above, it is the opinion of the Supervisory Board that the following should be approved:

- The Management Report and remaining individual and consolidated reporting documents relative to the financial year ended on 31 December 2017;
- The proposal submitted by the Board of Directors on the allocation of the net loss for financial year 2017, in the amount of €140,540,947.19.

Lisbon, 27 March 2018

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

Declaration of Conformity with the Financial Information Reported

The present declaration is submitted under the terms of Article 245 (1-c)) of the Portuguese Securities Code.

The Supervisory Board hereby declares that, to the best of its knowledge:

- The information referred to in Article 245 (1-a)) of the Portuguese Securities Code as at 31 December 2017 was prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of Haitong and the companies included within its consolidated scope; and

- The management report faithfully details the evolution of the business and the performance and position of Haitong and the companies included within its consolidation scope, and contains a description of the main risks and uncertainties faced within the framework of ongoing activities.

Lisbon, 27 March 2018

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

STATUTORY AUDITOR'S REPORT AND AUDIT REPORT
(Amounts stated in thousands of euros – t.euros)

(Free translation of a report originally issued in Portuguese language: in case of doubt the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Haitong Bank, S.A. (the "Bank") and of its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2017 (that presents a total of 3,275,905 t.euros and total equity of 533,766 t.euros, including a net loss attributable to the shareholders of the Bank of 130,187 t.euros), the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated financial position of Haitong Bank, S.A. as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section. We are independent from the entities that constitute the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on those matters.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the most significant assessed risks of material misstatement
Impairment for loans to costumers (Notes 2.5, 3.1, 21 and 41)	
As of December 31, 2017, the balance of "Loans and advances to customers" amounts to 629,907 t.euros, net of impairment of 120,217 t.euros. The Group determines the impairment losses for loans granted in accordance with the methodologies described in Note 2.5. to the consolidated financial statements. Given the characteristics of the Group's loan portfolio, a very significant portion of the clients are subject to individual impairment analysis. Since the determination of impairment through individual analysis involves the realization by the Group of estimates that incorporate a significant level of judgment, namely in the identification of impairment triggers and in estimating the recoverable amount, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Group in the process of determining impairment losses for its loan portfolio through individual analysis. For a sample of clients, we analysed the reasonableness of the estimated impairment losses recorded in the financial statements based on the review of the Group's judgments on the economic and financial situation of clients, valuation of existing collaterals and perspectives on the evolution of their activity and on the future management of those loans by the Group. We reviewed the disclosures related to impairment for loans to customers, considering the applicable accounting framework.
Legal contingencies (Notes 2.18 and 38)	
As disclosed in Note 38 to the consolidated financial statements, as of 31 December 2017 there are several lawsuits against the Group, including some related to commercial paper issued by entities of the Espírito Santo Group and bonds issued by Banco Espírito Santo, S.A. Taking into account the relevance of the amounts involved, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of quantifying provisions for legal contingencies. We obtained information from external lawyers accompanying the lawsuits, including the description of disputes and the quantification of liabilities. We discussed with the Bank's Legal Department the current state of lawsuits and expectations regarding their outcome. We reviewed the disclosures related to legal contingencies.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the most significant assessed risks of material misstatement
Recoverability of deferred tax assets (Notes 2.16, 3.2 and 33)	
As of 31 December 2017, the Group has recorded deferred tax assets in the amount of 139,027 t.euros, essentially related to: (i) temporary differences arising from impairment for loans to customers (63,368 t.euros), provisions (32,278 t.euros) and employee benefits (3,623 t.euros); (ii) tax losses carried forward (40,273 t.euros), of which 31,437 t.euros arising from the non consolidated activity of the Bank, essentially originated in 2015 and 2016, that can be used within a period of 12 years, not exceeding 70% of the taxable profit in each of those years. In accordance with IAS 12 - Income Taxes, deferred tax assets can only be recorded up to the extent that it is probable that future taxable profit will be available against which they can be utilised. The Bank prepared a forecast of its taxable profit to assess the recoverability of deferred tax assets. This estimate is judgmental by nature and depends on the assumptions made by Management to estimate the evolution of pre-tax profit and its interpretation of the tax legislation. To this extent, the recoverability of deferred tax assets is dependent on the Bank's ability to generate the estimated results. Any deviations from the assumptions used in the estimation of future results or changes in the interpretation of the tax legislation may have a material impact on the recoverability of deferred tax assets. Given the materiality of deferred tax assets in the Bank's consolidated financial statements and the need to use estimates to determine their recoverability, this area was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of assessing the recoverability of deferred tax assets. We analysed the main assumptions considered by the Bank to estimate the evolution of pre-tax profits in the period covered by its analysis. We reviewed the reasonableness of the interpretation of the relevant tax legislation considered by the Bank in the estimation of future taxable profits. For this purpose, we involved our internal specialists in this area. We analysed the reasonableness of the assessment of the recoverability of deferred tax assets prepared by the Bank, taking into account the understanding of the assumptions and the review of the interpretation of the tax legislation described above. We reviewed the disclosures related to deferred taxes, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's responses to the most significant assessed risks of material misstatement**
Resolution Fund (Note 38)	
Following the resolution measures applied to Banco Espírito Santo, S.A. (BES) and Banif – Banco Internacional do Funchal, S.A. (Banif), the Resolution Fund became holder of the entire share capital of Novo Banco, S.A. and Oitante, S.A.. In this context it obtained loans from the Portuguese State and from a banking syndicate (in which the Bank does not participate) and assumed other responsibilities and contingent liabilities, including those related to the litigation associated with these processes. In order to reimburse these loans and to meet other responsibilities it may assume, the proceeds of the Resolution Fund are essentially the periodic contributions from participating institutions (including the Bank) and the contribution over the banking sector. The member of the Portuguese Government responsible for the finance area may also determine by ministerial order that the participating institutions make special contributions in the situations provided for in the applicable legislation, particularly in the event that the Resolution Fund does not have sufficient own resources for the fulfilment of its obligations. The annual contributions to the Fund are recognized as losses on an annual basis, as set out in IFRIC 21 – Levies. According to a public notice from the Resolution Fund dated 21 March 2017, the conditions of the loans that the Resolution Fund obtained to finance the resolution measures applied to BES and Banif, namely the 3,900,000 t.euros loan granted by the State and the 700,000 t.euros loan granted by a bank syndicate, were renegotiated in the first quarter of 2017, including the extension of the maturity date to 31 December 2046 and the possibility to adjust that date, with the purpose of guaranteeing the capacity of the Resolution Fund to fully meet its obligations based on regular revenues and without the need to resort to special contributions or any other type of extraordinary contributions from the banking sector.	We analysed the public communications from the Resolution Fund and from the Office of the Portuguese Minister of Finance of 28 September 2016 and the public communication from the Resolution Fund of 21 March 2017, related to the new terms of the loans granted to the Resolution Fund and the corresponding impact on its sustainability and financial stability. We analysed the public announcement and the content of the resolution approved by the Council of Ministers on 2 October 2017, which authorized the formalization by the Portuguese State, as ultimate grantor of financial stability, of a framework agreement with the Resolution Fund, in order to make available financial sources to the Resolution Fund, if and when necessary, to fulfil the contractual obligations that may arise from the sale operation of 75% of the share capital of Novo Banco, S.A.. We analysed the framework agreement formalized between the Portuguese State and the Resolution Fund. We analysed the public announcement from the Resolution Fund of 18 October 2017, regarding the conclusion of the sale of Novo Banco, S.A. to Lone Star. We read the last Report and Accounts of the Resolution Fund that refers to the year 2016. We reviewed the accounting framework of the contributions to the Resolution Fund. We obtained from the Bank's Management the representation regarding their expectation that the liabilities and contingent liabilities assumed by the Resolution Fund, as well as the responsibilities arising from the transactions it performed, will not imply the payment from the Bank of any special contributions or any other type of extraordinary contributions to the Resolution Fund. We reviewed the disclosures included in the financial statements related to this matter, presented in Note 38.

Description of the most significant risks of material misstatement identified	Summary of the auditor's responses to the most significant assessed risks of material misstatement
As at 31 March 2017 the Bank of Portugal announced the selection of Lone Star to complete the sale operation of Novo Banco, whose conclusion was announced by the Resolution Fund on 18 October 2017. The agreed conditions include a contingent capitalization mechanism, according to which the Resolution Fund commits to make capital injections up to the maximum total amount of 3,890,000 t.euros in case certain cumulative conditions are met. After the conclusion of this operation, Lone Star became holder of 75% of the share capital of Novo Banco, and the Resolution Fund maintained a 25% share of capital. On 2 October 2017, the Council of Ministers approved a resolution which authorized the formalization by the Portuguese State, as ultimate grantor of financial stability, of a framework agreement with the Resolution Fund, in order to make available financial sources to the Resolution Fund, if and when necessary, to fulfil the contractual obligations that may arise from the sale operation of 75% of the share capital of Novo Banco, S.A. The framework agreement was signed on that same date and sets out that the funds that may be required to ensure the fulfilment of the responsibilities arising from the contract of the Novo Banco, S.A. sale will be made available, with an annual limit of 850,000 t.euros. It is also defined that the respective reimbursement will consider that one of the objectives of this framework agreement is to ensure the stability of the contributory effort that lies on the banking sector, meaning, without the need to charge special contributions or any other extraordinary contributions to the Resolution Fund participants. The consolidated financial statements as at 31 December 2017 reflect Management's expectation that no special contributions or any other extraordinary contributions will be required from the Bank in order to finance the resolution measures applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund. Considering the Resolution Fund responsibilities and the assumptions of the Management as described above, this area was considered a key audit matter.	

Responsibilities of management and supervisory body for the consolidated financial statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and cash flows in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRS);
- the preparation of the management report, including the corporate governance report, in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;

- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter;
- provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements and the verification of the requirements as provided in numbers 4 and 5 of article 451.º of the Portuguese Companies' Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

Pursuant to article 451.º, n.º 3, al. e) of the Portuguese Companies' Code ("Código das Sociedades Comerciais"), it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and the information contained therein is consistent with the audited consolidated financial statements and, having regard to our knowledge of the Group, we have not identified any material misstatements.

On the corporate governance report

Pursuant to article 451.º, number 4, of the Portuguese Company's Code ("Código das Sociedades Comerciais"), we conclude that the corporate governance report includes the elements required to the Group under the terms of article 245.º-A of the Portuguese Securities Code ("Código dos Valores Mobiliários"), and we have not identified any material misstatements on the information disclosed therein, which, accordingly, complies with the requirements of items c), d), f), h), i) and m) of that article

On the consolidated non financial information defined in article 508.º-G of the Portuguese Company's Code

Pursuant to article 451.º, number 6, of the Portuguese Company's Code ("Código das Sociedades Comerciais"), we inform that the Bank prepared a specific report on consolidated non financial information, as required under article 508.º-G of the Portuguese Company's Code, which is presented together with the management report.

On the additional matters provided in article 10 of Regulation (UE) 537/2014

Pursuant to article 10 of Regulation (UE) 537/2014 of the European Parliament and of the Council of 16 April 2014, in addition to the key audit matters mentioned above, we also report on the following:

- We were appointed auditors of the Bank in the shareholders' general assembly held on 16 November 2016, to conclude the ongoing mandate until the end of 2016. We were reappointed as auditors of the Bank in the shareholder's general meeting held on 17 August 2017 for a mandate from 2017 to 2019.

- Management has confirmed to us that they are not aware of any fraud or suspicion of fraud having occurred that has a material effect on the financial statements. In planning and executing our audit in accordance with ISAs, we maintained professional skepticism and we designed audit procedures to respond to the risk of material misstatements in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material misstatement on the consolidated financial statements due to fraud.

- We confirm that the audit opinion issued is consistent with the additional report that we prepared and delivered to the Group's supervisory body as at 26 March 2018.

- We declare that we have not provided any prohibited services as described in article 77, number 8, of the Ordem dos Revisores Oficiais de Contas statutes (Legal Regime of the Portuguese Statutory Auditors) and we have remained independent from the Group in conducting the audit.

Lisbon, 26 March 2018

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

EXPLANATION ADDED FOR TRANSLATION
(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC S.A. internal procedures, the report is not to be signed. In the event of discrepancies, the Portuguese language version prevails.)

INDIVIDUAL FINANCIAL STATEMENTS AND NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

These individual financial statements are a free translation to English from the original Portuguese version.

In case of doubt or misinterpretation, the Portuguese version will prevail.

1. INDIVIDUAL FINANCIAL STATEMENTS

Individual Income Statement for the financial years ended on the 31st December 2017 and 2016

(thousand euros)

	Notes	31.12.2017	31.12.2016
Interest and similar income	4	19 667	20 539
Interest and similar expense	4	18 010	31 226
Financial margin		**1 657**	**(10 687)**
Dividend income	5	-	3 537
Fees and commissions income	6	65 950	34 566
Fees and commissions expenses	6	(13 277)	(3 961)
Net gains/(losses) from assets and liabilities at fair value through profit or loss	7	199	(15 180)
Net gains/(losses) from available-for-sale financial assets	8	2 577	1 079
Net gains/(losses) from foreign exchange revaluation	9	(220)	(21 915)
Net gains/(losses) arising from the disposal of other assets	10	(55)	(5 836)
Other operating results	11	(8 738)	2 001
Operating Income		**48 093**	**(16 396)**
Employee costs	12	56 744	44 567
Administrative costs	14	32 541	32 623
Depreciation and amortisation	23 and 24	5 295	4 775
Provisions net of reversals	31	9 223	9 310
Loan impairment net of reversals and recoveries	21	19 230	32 779
Impairment on other financial assets net of reversal and recoveries	19 and 20	101	38
Impairment on other assets net of reversals and recoveries	25 and 26	58 683	32 434
Operating expenses		**181 817**	**156 526**
Profit / (Loss) before Income Tax		**(133 724)**	**(172 922)**
Income tax			
Current tax	32	1 795	(3 615)
Deferred tax	32	5 022	(18 026)
		6 817	**(21 641)**
Net Profit / (Loss) for the year		**(140 541)**	**(151 281)**
Basic Income per Share (in euros)	15	-1.09	-2.18
Diluted Income per Share (in euros)	15	-1.09	-2.18

The following notes form an integral part of these financial statements

The Director of the Accounting Department

The Board of Directors

Individual Statement of Comprehensive Income for the financial years ended on the 31st December 2017 and 2016

(thousand euros)

	31.12.2017	31.12.2016
Net income of the year	**(140 541)**	**(151 281)**
Other comprehensive income for the year		
Items that will not be reclassified to profit and loss		
Actuarial gains / (losses) net of taxes	(177)	(2 626)
	(177)	**(2 626)**
Items that may be reclassified to profit and loss		
Available-for-sale financial assets		
Gains/(Losses) during the year	9 508	1 664
Gains/(losses) realised to income statement of the year	(2 487)	(1 052)
Deferred taxes	(1 893)	(60)
	5 128	**552**
Total comprehensive income/(loss) of the year	**(135 590)**	**(153 355)**

The following notes form an integral part of these financial statements

Individual Statement of Financial Position as at 31st December 2017 and 2016

(thousand euros)

	Notes	31.12.2017	31.12.2016
Assets			
Cash and deposits at central banks	16	441 333	37 529
Deposits at other credit institutions	17	28 350	88 759
Financial assets held-for-trading	18	306 984	393 967
Available-for-sale financial assets	19	280 920	426 782
Loans and advances to banks	20	164 527	34 804
Loans and advances to customers	21	300 583	398 312
Non-current assets held-for-sale	22	25 185	3 600
Other tangible assets	23	3 953	5 308
Intangible assets	24	9 224	12 204
Investments in associated companies	25	166 785	236 581
Current income tax assets	32	29 434	6 174
Deferred income tax assets	32	100 180	129 337
Other assets	26	369 252	412 114
Total Assets		**2 226 710**	**2 185 471**
Liabilities			
Resources of central banks	27	60 000	60 000
Financial liabilities held-for-trading	18	200 883	295 683
Resources of other credit institutions	28	824 688	901 262
Resources of customers	29	290 616	279 765
Debt securities issued	30	143 127	103 092
Provisions	31	62 775	88 225
Current income tax liabilities	32	3 020	2 615
Deferred income tax liabilities	32	746	-
Other liabilities	33	138 391	154 920
Total Liabilities		**1 724 246**	**1 885 562**
Equity			
Share capital	34	844 769	426 269
Share premium	34	8 796	8 796
Other equity instruments	34	3 731	83 731
Fair-value reserves	35	1 967	(3 161)
Other reserves and retained income	35	(216 258)	(64 445)
Net profit/(loss) of the year attributable shareholders of the parent company		(140 541)	(151 281)
Total equity attributable to the shareholders of the parent company		**502 464**	**299 909**
Total Equity and Liabilities		**2 226 710**	**2 185 471**

The following notes form an integral part of these financial statements

The Director of the Accounting Department

The Board of Directors

Individual Statement of changes in Equity for the financial years ended on the 31st December 2017 and 2016

(thousand euros)

	Share Capital	Share premium	Other equity instruments	Fair value reserve	Other Reserves, Retained Income and Other Comprehensive Income	Total	Net profit / (loss) for the year	Total equity
Balance as at 31st of December 2015 (Restatement)	**426 269**	**8 796**	**3 731**	**(3 713)**	**119 004**	**115 291**	**(180 605)**	**373 482**
Other movements directly recorded in equity: (see Note 34)								
Changes in fair value, net of taxes	-	-	-	552	-	552	-	552
Actuarial gains/ (losses), net of taxes	-	-	-	-	(2 626)	(2 626)	-	(2 626)
Net profit / (loss) for the period	-	-	-	-	-	-	(151 281)	(151 281)
Total comprehensive income of the year	**-**	**-**	**-**	**552**	**(2 626)**	**(2 074)**	**(151 281)**	**(153 355)**
Share capital increase (see Note 34)	-	-	80 000	-	-	-	-	80 000
Reserve establishment	-	-	-	-	(180 605)	(180 605)	180 605	-
Interests on other equity instruments (see Note 34)	-	-	-	-	(231)	(231)	-	(231)
Other movements	-	-	-	-	13	13	-	13
Balance as at 31st of December 2016	**426 269**	**8 796**	**83 731**	**(3 161)**	**(64 445)**	**(67 606)**	**(151 281)**	**299 909**
Other movements directly recorded in equity:								
Changes in fair value, net of taxes	-	-	-	5 128	-	5 128	-	5 128
Actuarial gains / (losses) from defined benefit obligation, net of taxes	-	-	-	-	(177)	(177)	-	(177)
Net profit / (loss) for the period	-	-	-	-	-	-	(140 541)	(140 541)
Total of comprehensive income for the period	**-**	**-**	**-**	**5 128**	**(177)**	**4 951**	**(140 541)**	**(135 590)**
Share capital increase (see Note 34)	418 500	-	(80 000)	-	-	-	-	338 500
Reserve establishment	-	-	-	-	(151 281)	(151 281)	151 281	-
Interests on other equity instruments (see Note 34)	-	-	-	-	(317)	(317)	-	(317)
Other movements	-	-	-	-	(38)	(38)	-	(38)
Balance as at 31st of December 2017	**844 769**	**8 796**	**3 731**	**1 967**	**(216 258)**	**(214 291)**	**(140 541)**	**502 464**

The following notes form an integral part of these financial statements

Individual Cash Flow Statement for the financial years ended on the 31st December 2017 and 2016

(thousand euros)

	Notes	31.12.2017	31.12.2016
Cash flows from operating activities			
Interest and similar income received		24 018	(77 883)
Interest and similar expense paid		(17 147)	(33 046)
Fees and commission received		66 250	35 912
Fees and commission paid		(10 362)	(4 701)
Cash payments to employees and suppliers		(80 083)	(73 056)
		(17 324)	**(152 774)**
Changes in operating assets and liabilities:			
Resources at central banks		(1 891)	(1 425)
Financial assets and liabilities held-for-trading		(8 084)	(38 038)
Resources of central banks		9 499	104 570
Loans and advances to banks		-	(1 139)
Resources of other credit institutions		(77 035)	87 773
Loans and advances to customers		78 713	17 499
Resources of costumers		9 552	140 229
Risk management derivatives		-	1
Other operating assets and liabilities		(28 209)	36 089
Net cash flow from operating activities before income tax		**(34 779)**	**192 785**
Income taxes paid		(1 662)	3 219
		(36 441)	**196 004**
Net cash flows from investment activities			
Acquisition of shares in subsidiaries and associated companies		-	(3 301)
Sale of investments in subsidiaries and associates		-	10 853
Subsidiaries share capital increase	25	(11 536)	(16 770)
Dividends received		-	3 537
Purchase of financial assets available-for-sale		(547 385)	(316 612)
Sale of financial assets available-for-sale		698 697	145 215
Purchase of fixed assets		(1 696)	(4 073)
Sale of tangible and intangible assets		181	2 163
		138 261	**(178 988)**
Cash flows from financing activities			
Increase in share capital		200 000	-
Issuance of other equity instruments	34	-	80 000
Debt securities issued	30	40 391	103 092
Reimbursement of debt securities issued	30	(391)	(211 773)
Reimbursement of subordinated liabilities		-	(215)
Interest received/(paid) from/to other equity instruments		(317)	(231)
Net cash flow from financing activities		**239 683**	**(29 127)**
Net changes in cash and equivalents		**341 503**	**(12 111)**
Cash and equivalents at the beginning of the year		124 363	136 474
Cash and equivalents at the end of the year		465 866	124 363
		341 503	**(12 111)**
Cash and equivalents includes:			
Cash	16	437 516	35 604
Deposits at other credit institutions	17	28 350	88 759
Total		**465 866**	**124 363**

The following notes form an integral part of these financial statements

2. NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

Haitong Bank, S.A.

NOTE 1 - ACTIVITY

Haitong Bank, S.A. (the Bank or Haitong Bank) is an investment bank headquartered in Portugal, Rua Alexandre Herculano, no. 38, in Lisbon. The Bank is authorized by the Portuguese authorities, central banks and other regulatory authorities to operate in Portugal and in the countries where its international branches are located.

The company was established in February 1983 as a foreign investment in Portugal under the name FINC - Sociedade Portuguesa Promotora de Investimentos, S.A.R.L.. During 1986, the company was integrated into the Espírito Santo Group under the designation 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. This involved the publication of Order-in-Council no. 366/92, of 23 November, published in the Diário da República – Series II – no. 279, of 3 December. The activity as an investment bank started under the name Banco ESSI, S.A., on 1 April 1993.

During 2000, Banco Espírito Santo, S.A. (BES) acquired all of the share capital of BES Investimento in order to reflect in its consolidated financial statements all the existing synergies between both institutions.

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

In September 2015, Haitong International Holdings Limited acquired the entire share capital of BES Investimento. The bank's corporate name was changed to Haitong Bank, S.A..

Haitong Bank currently operates through its headquarters in Lisbon, branches in London, Warsaw and Madrid, as well as through its subsidiaries in Brazil, Ireland, United Kingdom, USA and Mexico. The subsidiaries of United Kingdom and USA are in Non-current assets held for sale (see Note 22).

Haitong Bank's financial statements are consolidated by Haitong International Holdings Limited, headquartered at Li Po Chun Chambers, no. 189, Des Voeux Road Central, in Hong Kong.

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. BASIS OF PREPARATION

In accordance with Regulation (EC) no. 1606/2002 of 19 July 2002 from the European Council and Parliament, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February 2005, and Regulation no. 5/2015, of 7 December 2015 from the Bank of Portugal, Haitong Bank, S.A. is required to prepare its financial statements in accordance with the International Financial Reporting Standards (IFRS), as established by the European Union.

The accounting policies described herein and used by the Group when preparing the consolidated financial statements have been adopted accordingly. However, and as provided for in Note 41, when preparing the consolidated financial statements as at the 31st of December, 2017, the Group adopted the accounting standards issued by the IASB, as well as the interpretations of the IFRIC, whose implementation became mandatory from the 1st of January, 2015. The adoption of such new standards and interpretations in 2017 did not have a material effect on the Bank's accounts.

In addition, the accounting standards and interpretations which have recently been issued but have not yet entered into force, and which the Group has not yet implemented in the preparation of its financial statements, may also be analysed in Note 41.

IFRS comprise 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 body.

Haitong Bank's individual financial statements set forth herein refer to the financial year ended on the 31st of December, 2017, which have been prepared in accordance with the IFRS in force, as adopted in the European Union until the 31st of December, 2017.

These individual financial statements are expressed in thousands of euro, rounded to the nearest thousand, and have been prepared under the historical cost convention, except for the liabilities accounted for at fair value, namely, derivative contracts, financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the application of judgment and the use of estimates and assumptions by management that affects the process of applying the Bank's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The individual financial statements herein have been approved in the Board of Directors meeting held on the March 26th 2018.

2.2. FOREIGN CURRENCY TRANSACTIONS

Foreign currency transactions are translated into the functional currency using the exchange rates in force at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates in force at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined. The resulting exchange differences are accounted for in the income statement, except if related to equity instruments classified as available-for-sale, which are accounted for in equity, within the fair value reserve.

2.3. DERIVATIVE FINANCIAL INSTRUMENTS

Classification

Derivatives for risk management purposes includes derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss that were not classified as hedging derivatives. All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement.

Fair values are obtained from quoted market prices in active markets, if available, or are determined using valuation techniques, including discounted cash flow models and option pricing models, as appropriate.

Derivatives traded in organised markets, namely futures and some options, are recognised as trading derivatives, being marked to market on a daily basis while the resulting gains or losses are recognised directly in the income statement. Since the fair value changes on these derivatives are settled daily through the margin accounts held by the Group, these derivatives do not present any fair value on the balance sheet. The margin accounts are included under the caption Other assets (see Note 26) and comprise the minimum collateral mandatory for open positions.

2.4. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers include loans and advances originated by the Bank, which are not intended to be sold in the short term. Loans and advances to customers are recognised when cash is advanced to borrowers.

Loans and advances to customers are derecognised from the balance sheet when (i) the contractual rights to receive their cash flows have expired, (ii) the Bank has substantially transferred all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Bank has transferred the control over the assets.

Loans and advances to customers are initially recorded at fair value plus transaction costs and are subsequently measured at amortised cost, using the effective interest rate method, less impairment losses.

Impairment

The Bank assesses, on a regular basis, whether there is objective evidence of impairment within its loan portfolio. Impairment losses identified are recognised in the income statement, and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition and (ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, which can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for each loan. In this assessment the Bank takes into consideration from others, the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the viability of the customer's business model and its capability to successfully trade and generate sufficient cash flow to service their debt obligations;
- the extent of other creditors' commitments ranking ahead of the Bank;
- the existence, nature and estimated realisable value of collaterals;
- the exposure of the customer within the financial sector;
- the amount and timing of expected recoveries.

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognised is calculated as the difference between the book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate. The carrying amount of impaired loans is reduced through the use of an allowance account. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract rules.

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

2.5. OTHER FINANCIAL ASSETS

Classification

The Bank classifies other financial assets at initial recognition in the following categories:

- Financial assets at fair value through profit or loss

This category includes: (i) financial assets held-for-trading, which are those acquired principally for the purpose of selling in the short term or that are owned as part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking and (ii) financial assets that are designated at fair value through profit or loss at inception.

The Bank classifies, at inception, certain financial assets at fair value through profit or loss when:

- Such financial assets are managed, measured and their performance evaluated on a fair value basis;

- Such financial assets are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

The structured products acquired by the Bank that correspond to financial instruments containing one or more embedded derivatives meet the abovementioned conditions, and, in accordance, are classified under the fair value through profit or loss category.

- Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time, (ii) designated as available-for-sale at initial recognition or (iii) that are not classified in any of the above categories.

Initial recognition, initial measurement and derecognition

Purchases and sales of: (i) financial assets at fair value through profit or loss and (ii) available-for-sale financial assets, are recognised on trade-date – the date on which the Bank commits to the purchase or sale of the asset.

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

Financial assets are derecognised when (i) the contractual rights to receive their cash flows expire, (ii) the Bank has substantially transferred all risks and rewards of ownership or, (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Bank has transferred control over the assets.

Subsequent measurement

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available-for-sale financial assets are also subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investments are recognised in the income statement. Interest, calculated using the effective interest rate method and dividends are recognised in the income statement.

The fair values of quoted investments in active markets are based on current bid prices. For unlisted securities the Bank establishes fair value by using (i) valuation techniques, including the use of recent arm's length transactions, discounted cash flow analysis and option pricing models and (ii) valuation assumptions based on market information. These methodologies also incorporate credit risk and counterparty risk. These methodologies may require the use of assumptions or judgments in the estimate of fair value.

Impairment

In accordance with IFRS, the Bank periodically assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment, the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for equity securities, a significant or prolonged decline in the fair value of the security below its cost, (ii) for debt securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets, that can be reliably estimated, and (iii) devaluation of 30% or consecutive devaluation during one year.

If there is objective evidence that an impairment loss on available-for-sale financial assets has been incurred, the cumulative loss recognised in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity instruments, in which case the reversal is recognised in equity.

2.6. SALE AND REPURCHASE AGREEMENTS

Securities sold subject to repurchase agreements (repos) at a fixed price or at the sales price plus a lender's return are not derecognized. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities purchased under agreements to resell (reverse repos) at a fixed price or at the purchase price plus a lender's return are not recognised, while the purchase price paid is recorded as loans and advances to banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest rate method.

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.5. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

2.7. FINANCIAL LIABILITIES

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Non-derivatives financial liabilities include deposits from banks and due to customers, loans, debt securities, subordinated debt and short sales.

The financial liabilities are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest rate method, except for short sales and financial liabilities designated at fair value through profit or loss, which are measured at fair value.

The Bank designates, at inception, certain financial liabilities as at fair value through profit or loss when:

- Such financial liabilities are being hedged (on an economical basis), in order to eliminate an accounting mismatch; or
- Such financial liabilities contain embedded derivatives.

The structured products issued by the Bank meet the above mentioned conditions and, in accordance, are classified under the fair value through profit or loss category.

The fair value of quoted financial liabilities is based on the current price. In the absence of a quoted price, the Bank establishes the fair value by using valuation techniques based on market information, including in determining the own credit risk of the issuer.

If the Bank repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

2.8. FINANCIAL GUARANTEES

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument, namely the payment of principal and/or interests.

Financial guarantees are initially recognised in the financial statements at fair value on the date that the guarantee is issued. Subsequently financial guarantees are measured at the higher of (i) the fair value recognised on initial recognition or (ii) any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement.

The financial guarantee contracts issued by the Bank normally have a stated maturity date and a periodic fee. This fee varies depending on the counterparty risk, the amount and the time period of the contract. Therefore, the fair value of the financial guarantee contracts issued by the Bank, at the inception date, equal the initial fee received, which is recognised in the income statement over the period to which it relates. The subsequent periodic fees are recognised in the income statement in period to which they relate.

2.9. EQUITY INSTRUMENTS

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognised under equity as a deduction from the proceeds. Amounts paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs.

Distributions to holders of an equity instrument are debited directly to equity as dividends, when declared.

2.10. OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.11. NON-CURRENT ASSETS HELD-FOR-SALE

Non-current assets or disposal groups (groups of assets to be disposed of together and related liabilities that include at least a non-current asset) are classified as held for sale when their carrying amounts will be recovered principally through sale (including those acquired exclusively with a view to its subsequent disposal), the assets or disposal groups are available for immediate sale and is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is brought up to date in accordance with the applicable IFRS. Subsequently, these assets or disposal group are remeasured at the lower of their carrying amount or fair value less costs to sell.

In 2017, as a result of the agreements for the sale of Haitong Securities USA LLC and Haitong UK Limited, as described in Note 25, the investment held by the Bank in these entities were reclassified to " Non-current assets held-for-sale".

2.12. PROPERTY AND EQUIPMENT

Property and equipment are measured at cost less accumulated depreciation and impairment losses. The value includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the

Bank. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

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

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount be estimated and an impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

2.13. INTANGIBLE ASSETS

The costs incurred with the acquisition, production and development of software are capitalised, as well as the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis during their expected useful lives, which is usually between three to eight years.

Costs that are directly associated with the development of identifiable specific software applications and that will probably generate economic benefits beyond one year, are recognised as intangible assets. These costs include employee costs from the Bank companies specialised in IT directly associated with the development of the referred software.

All remaining costs associated with IT services are recognised as an expense as incurred.

2.14. LEASES

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

Operating leases

Payments made under operating leases are charged to the income statement in the period to which they relate.

Financial leases

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

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

- **As a lessor**

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

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

2.15. EMPLOYEE BENEFITS

Pensions

After signing the Collective labour agreement (“Acordo Colectivo de Trabalho” - ACT), the Bank set up pension funds and other mechanisms to cover the liabilities with pensions on retirement and disability, widows’ pension and health-care benefits.

Since 1 January 2011, the Bank’s employees were included in the Social Security System, which ensures their protection in motherhood, fatherhood, adoption and old age, while the banks remain responsible for insurance related to illness, disability, survival and death (Decree-Law no. 1-A/2011, of 3 January).

The contribution rate is 26.6%, of which 23.6% belongs to the employer and 3% to employees, replacing the “CAFEB - Caixa de Abono de Família dos Empregados Bancários”, extinguished by the same Decree-Law. As a result, the pension rights of active employees started to be covered by the terms defined by the Social Security System, considering the period of service rendered since 1 January 2011 until the retirement age. The difference to the minimum pension guaranteed is supported by the banks, in accordance with the terms defined in the Collective labour agreement (“Acordo Colectivo de Trabalho” - ACT).

Following the Government’s approval of the Decree-Law no. 127/2011, which was published in 31 December, a Three Party Agreement between the Government, the Portuguese Bank Association and the Union of Bank employees was established, regarding the transfer to the Social Security domain of the liabilities with pensions under payment to retired employees and pensioners, as at 31 December 2011.

This decree-law established that the liabilities to be transferred were the liabilities with pensions under payment at 31 December 2011 to retired employees and pensioners, at permanent values (discount rate 0%) in the terms set forth in Collective Labour Regulation Instrument (IRCT). The liabilities regarding the update of pensions, benefit plans, contributions to Social-Medical Assistance Services over retirement and survival pensions, death subsidy and deferred survival pension are still under the responsibility of the Institutions.

The hedging of these responsibilities is ensured through pension funds managed by GNB – Sociedade Gestora de Fundos de Pensões, S.A..

The pension plans of the Bank are classified as defined benefit plans, since the criteria to determine the pension benefit to be received by employees on retirement are predefined and usually depend on factors such as age, years of service and level of salary.

In 2011, the Bank retrospectively changed the accounting policy related to actuarial gains and losses recognition, adjusting the opening balance sheet and comparative values, starting to recognise, as allowed under paragraph 93A of IAS 19 “Employee Benefits”, the actuarial deviations under other comprehensive income.

The liability with pensions is calculated annually by the Bank, as at 31 December each year for each plan individually, using the projected unit credit method, and is reviewed annually by qualified independent actuaries.

The discount rate used in this calculation was determined with reference to market rates associated with high-quality corporate bonds issues, denominated in the currency in which benefits will be paid and with a maturity similar to the expiry date of the plan obligations.

The interest gain/(loss) with the pension plan is calculated by the Bank, through the multiplication of the net asset/liability with retirement pensions (liabilities deducted from the fair value of the fund assets) by the discount rate used to estimate the liabilities with the retirement pensions referred above. The net interest gain/(loss) includes the related costs with the interest associated to the liabilities with retirement pensions and the expected income from the funds assets, both measured based in the discount rate used in the liabilities calculations.

Actuarial gains and losses determined annually and resulting from (i) the differences between financial and actuarial assumptions used and real values obtained and (ii) the changes in actuarial assumptions, are recognised under equity in the balance other comprehensive income.

At each period, the Bank recognises as a cost in the income statement a net total amount that comprises (i) the service cost, (ii) the interest cost, (iii) the expected return on plan assets, (iv) effect of early retirement, and (v) effect of settlement or curtailment occurred during the period. Early retirement costs correspond to an increase on the liabilities due to the fact the employee retires before reaching 65 years of age.

The Bank makes payments to the funds in order to maintain its solvency and to comply with the following minimum levels establish by the national central bank: (i) the liability with pensioners shall be totally funded at the end of each year, and (ii) the liability related to past services cost with employees in service shall be funded at a minimum level of 95%.

Annually, the Bank assesses for each plan separately, the recoverability of any recognised asset in relation to the defined benefit pension plans, based on the expectation of reductions in future contributions to the funds.

Health care benefits

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

SAMS provides to its beneficiaries services and/or contributions on medical assistance expenses, diagnostics, medicines, hospital confinement and surgical operations, in accordance with its financing availability and internal regulations.

The annual contribution of the Bank to SAMS amounts to 6.5% of the total annual remuneration of employees, including, among others, the holiday and Christmas subsidy.

The measurement and recognition of the Bank's liability with post-retirement healthcare benefits is similar to the measurement and recognition of the pension liability described above. These benefits are covered by the Pension Fund which at present covers all responsibilities with pensions and health care benefits.

Long-term service benefits

In accordance with the Collective labour agreement for the banking sector, the Bank has assumed the commitment to pay to current employees that achieve 15, 25 and 30 years of service within the Bank, long-term service premiums corresponding, respectively, to 1, 2 and 3 months of their effective monthly remuneration earned at the date the premiums are paid.

At the date of early retirement or disability, employees have the right to a premium proportional to what they would earn if they remained in service until the next payment date.

These long-term service benefits are accounted for by the Bank in accordance with IAS 19 as other long-term employee benefits.

The liability with long-term service benefits is calculated annually, at the balance sheet date, by the Bank using the projected unit credit method. The actuarial assumptions used are based on the expectations about future salary increases and mortality tables. The discount rate used in this calculation was determined based on the same methodology described for pensions.

In each period the increase in the liability for long-term service premiums, including actuarial gains and losses and past service costs is charged to the income statement.

Employee Benefits - New Collective Labour Agreement

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

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

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

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

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

Bonus to employees and to the Board of Directors

In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Board of Directors is recognised in the income statement in the period to which they relate.

2.16. INCOME TAX

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

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

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

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

2.17. PROVISIONS

Provisions are recognised when: (i) the Bank has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable costs of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net costs of continuing with the contract.

2.18. INTEREST INCOME AND EXPENSES

Interest income and expense are recognised in the income statement under interest and similar income and interest expense and similar charges for all non-derivative financial instruments measured at amortised cost and for the available-for-sale financial assets, using the effective interest rate method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions paid or received that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. In the case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

For derivative financial instruments, except for derivatives for risk management purposes (see Note 2.3), the interest component of the changes in their fair value is not separated out and is classified under net gains/(losses) from financial assets and financial liabilities at fair value through profit or loss. The interest component of the changes in the fair value of derivatives for risk management purposes is recognised under interest and similar income or interest expense and similar charges.

2.19. RECOGNITION OF FEES AND COMMISSION INCOME

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;
- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided;
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest rate method.

2.20. RECOGNITION OF DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

2.21. SEGMENTAL REPORTING

According to paragraph 4 of IFRS 8 – Operating Segments, the Bank is exempt from submitting a report on an individual basis by segment, since the individual financial statements are presented together with the consolidated financial statements.

2.22. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

2.23. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the inception date, including cash, deposits with banks and deposits at central banks.

Cash and cash equivalents exclude restricted balances with Central Banks.

2.24. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATED COMPANIES

These assets are recorded at acquisition cost, being subject to periodic analyses of impairment.

Dividends are recorded as an income in the year in which its distribution is decided by the subsidiaries and associated companies.

NOTE 3 – CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

IFRS set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Bank's reported results and related disclosure.

A broader description of the accounting policies employed by the Bank is shown in Note 2 to the Financial Statements.

Whereas in many cases there are other alternatives to the accounting treatment chosen by management, the Bank's reported results would differ if a different treatment were chosen. Management believes that the choices made by it are appropriate and that the financial statements present the Bank's financial position and results fairly in all material respects.

3.1. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Bank reviews its loan portfolios to assess impairment on a regular basis, as described in Note 2.4.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments, including the existence of impairment triggers, recovery estimates and collaterals valuation.

Alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the income statement of the Bank.

3.2. INCOME TAXES

The Bank is subject to income taxes in numerous jurisdictions. Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognised in the period.

On the other hand, the Bank accounts for deferred taxes in accordance with the policy set forth in Note 2.16, whereby deferred tax assets are accounted for only insofar as it is expected that there will be taxable profit in the future, which are able to absorb tax losses carried forward and deductible temporary differences.

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

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

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

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

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

The Tax Authorities are entitled to review the Bank' determination of annual taxable earnings, for a period of four years or six years in case tax losses are brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Bank's Board of Directors is confident that there will be no material tax assessments within the context of the financial statements.

3.3 IMPAIRMENT LOSSES IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in subsidiaries and associated companies are analysed periodically for the purpose of identifying signs of impairment. If any, the impairment is determined in accordance with the rules set forth in IAS 36. In the absence of an available market value, the recoverable amount is normally determined based on fair value measurement techniques and discounted values using a discount that considers the risk associated with the unit being tested. The determination of the fair value of financial investments involves judgment. Changes in the inputs used to determine fair value could give rise to conclusions different from those that formed the basis of the preparation of these financial statements.

3.4. PENSIONS AND OTHER EMPLOYEE BENEFITS

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, responsabilities discount rate, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

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

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

Consequently, the use of a different model or different assumptions or judgements in applying a particular model may have produced different financial results from the ones reported.

3.6. IMPAIRMENT AND VALORIZATION OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Bank determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility of the markets, the Bank has considered the following parameters when assessing the existence of impairment losses:

I. Equity instruments: significant decline in market value in relation to the acquisition cost or market value below the acquisition cost for a prolonged period;
II. Debt instruments: objective evidence of events that have an impact on the estimated future cash flows of these assets;
III. Devaluation of 30% or consecutive devaluation during one year.

In addition, valuations are generally obtained through market quotation (mark to market) or valuation models (mark to model) that may require assumptions or judgement in making estimates of fair value.

Alternative methodologies and the use of different assumptions and estimates could result in a higher level of impairment losses recognised with a consequent impact in the income statement of the Bank.

NOTE 4 – NET INTEREST INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2017			31.12.2016		
	Assets/Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets / Liabilities at Fair Value Through Profit or Loss	Total	Assets/Liabilities at Amortised Cost and Available-for-Sale Financial Assets	Assets/Liabilities at Fair Value Through Profit or Loss	Total
Interest and similar income						
Interest from loans and advances to customers	9 563	-	9 563	12 550	-	12 550
Interest from financial assets at fair-value through profit and loss	-	4 269	4 269	-	3 301	3 301
Interest from deposits and investments in credit institutions	2 904	-	2 904	948	-	948
Interest from available-for-sale financial assets	2 870	-	2 870	3 622	-	3 622
Interest from risk management derivatives	-	57	57	-	42	42
Other interest and similar income	4	-	4	76	-	76
	15 341	**4 326**	**19 667**	**17 196**	**3 343**	**20 539**
Interest and similar expenses						
Interest from debt securities issued	4 169	-	4 169	8 511	-	8 511
Interest from customers accounts	3 982	-	3 982	2 085	-	2 085
Interest from deposits from central banks and other credit institutions	9 097	-	9 097	19 191	-	19 191
Interest from risk management derivatives	-	57	57	-	33	33
Interest from subordinated liabilities	-	-	-	125	-	125
Other interest and similar expenses	705	-	705	1 281	-	1 281
	17 953	**57**	**18 010**	**31 193**	**33**	**31 226**
	(2 612)	**4 269**	**1 657**	**(13 997)**	**3 310**	**(10 687)**

Interest from derivatives for risk management purposes includes, in accordance with the accounting policy described in Notes 2.3 and 2.18, interests from derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss in accordance with the accounting policies described in Notes 2.5 and 2.7.

NOTE 5 – DIVIDEND INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Dividend Income		
HAITONG BANCO DE INVESTIMENTO DO BRASIL S.A.	-	3 537
	-	**3 537**

NOTE 6 – NET FEES AND COMMISSIONS INCOME

This heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Fees and commissions income		
From banking services	44 712	14 979
From guarantees provided	2 253	3 465
From transactions with securities	18 985	16 122
	65 950	**34 566**
Fees and commissions expenses		
From banking services rendered by third parties	1 125	1 620
From transactions with securities	2 612	1 419
From guarantees received	569	671
Other fee and comission expenses	8 971	251
	13 277	**3 961**
	52 673	**30 605**

NOTE 7 – NET GAINS/ (LOSSES) FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

This heading's amount is composed of:

(thousand euros)

	31.12.2017			31.12.2016		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities held for trading						
Bonds and other fixed income securities						
Issued by public entities	1 742	1 704	38	4 850	4 207	643
Of other entities	2 792	1 302	1 490	5 198	2 511	2 687
Shares	3 139	2 429	710	4 185	3 926	259
	7 673	**5 435**	**2 238**	**14 233**	**10 644**	**3 589**
Trading Derivatives financial instruments						
Foreign-exchange contracts	16 702	16 521	181	4 927	15 021	(10 094)
Interest rates contracts	21 756	21 419	337	39 715	40 881	(1 166)
Equity/indexes contracts	196 128	197 735	(1 607)	25 591	29 684	(4 093)
Credit default contracts	-	1 980	(1 980)	-	3 459	(3 459)
Other	1 030	-	1 030	-	-	-
	235 616	**237 655**	**(2 039)**	**70 233**	**89 045**	**(18 812)**
Risk Management Derivatives financial instruments						
Foreign-exchange contracts	1 159	-	1 159	86	-	86
Interest rates contracts	-	1 159	(1 159)	-	85	(85)
Credit default contracts	-	-	-	43 676	43 651	25
	1 159	**1 159**	**-**	**43 762**	**43 736**	**26**
	244 448	**244 249**	**199**	**128 228**	**143 425**	**(15 197)**
Financial liabilities at fair-value through profit and loss (1)						
Debt securities issued	-	-	-	128	111	17
	-	**-**	**-**	**128**	**111**	**17**
	244 448	**244 249**	**199**	**128 356**	**143 536**	**(15 180)**

(1) It includes the change in fair value or at fair value option of liabilities hedged

NOTE 8 – NET GAINS/ (LOSSES) FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

This heading's amount is composed of:

(thousand euros)

	31.12.2017			31.12.2016		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities						
Issued by public entities	10	-	10	-	7	(7)
Of other entities	2 567	-	2 567	6	-	6
Shares	-	-	-	1 080	-	1 080
	2 577	**-**	**2 577**	**1 086**	**7**	**1 079**

NOTE 9 – NET GAINS/ (LOSSES) FROM FOREIGN EXCHANGE REVALUATION

This heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Currency revaluation	(220)	(21 915)
	(220)	**(21 915)**

This balance includes the exchange differences arising on translating monetary assets and liabilities at the exchange rates ruling at the balance sheet date in accordance with the accounting policy described in Note 2.2..

NOTE 10 – NET GAINS / (LOSSES) ARISING FROM THE DISPOSAL OF OTHER ASSETS

As at the 31st of December, 2017, and the 31st of December, 2016, this heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Net gains / (losses) from the sale of other assets		
Non-financial assets	(177)	41
Sale of loans and advances to customers	122	-
Investments in subsidiaries, associates and jointly ventures (Note 25)	-	(5 877)
	(55)	**(5 836)**

NOTE 11 – OTHER OPERATING RESULTS

This heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Other customer services	791	128
Direct and Indirect taxes	(2 906)	(4 223)
Other operating results	(6 623)	6 096
	(8 738)	**2 001**

Direct and indirect taxes include 1,751 thousand euros concerning the cost associated with the Bank Levy (31st of December, 2016: 1,593 thousand euros), established pursuant to Law no. 55-A/2010, of the 31st of December (see Note 32).

As at the 31st of December, 2017 Other operating results includes 110 thousand euros relating to Deposit Guarantee Funds' Contributions (80 thousand euros at the 31st of December, 2016), and 1,811 thousand euros associated with the Contributions for the Resolution Fund (1,293 thousand euros as at the 31st of December, 2016).

NOTE 12 – EMPLOYEE COSTS

This heading's amount is composed of:

(thousand euros)

	31.12.2017	31.12.2016
Wages and salaries		
Remuneration	26 831	30 781
Long-term service benefits (see Note 13)	-	(891)
Career benefits (see Note 13)	(85)	583
Changes in SAMS regulation (see Note 13)	-	(1 454)
Changes from termination agreements (see Note 13)	2 316	-
Changes from Maximum Salary Cap implementation (see Note 13)	(4 097)	-
Expenses with retirement pensions (see Note 13)	1 233	1 724
Other mandatory social charges	8 601	8 542
Other expenses	21 945	5 282
	56 744	**44 567**

The Bank recognized in 2017, in employee costs, an amount of 30,038 thousand euros under the Voluntary Termination Program called Social Plan. This amount includes an amount of 1,342 thousand euros recognized in other risks and charges (see Note 31), which is intended to cover costs to be incurred in the first half of 2018.

Expenses with remunerations and other benefits granted to the key management personnel of the Haitong Bank Group as at 31st December, 2017 and 2016 are as follows:

(thousand euros)

	Board of Directors	Other Key Management staff	Total
2017			
Remuneration and other short-term benefits	1 357	8 296	9 653
Variable remuneration	-	542	542
Total	**1 357**	**8 838**	**10 195**
2016			
Remunerations and other short-term benefits	2 444	14 451	16 895
Long-term service benefits	161	733	894
Variable remunerations	295	3 925	4 220
Total	**2 900**	**19 109**	**22 009**

Other key management personnel includes Executive Directors and Managing Directors.

As at the 31st of December, 2017 and 2016, the Haitong Bank does not have any loans granted to Administration Bodies.

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

	2017	2016
Directors	208	243
Management	3	4
Specific roles	117	141
Administrative roles	24	30
Support roles	13	15
	365	**433**

NOTE 13 – EMPLOYEE BENEFITS

Pension and health care benefits

In compliance with the Collective labour agreement (CLA) for the banking sector established with the unions, the Bank undertook the commitment to grant its employees, or their families, pension on retirement and disability, and widows' pension. Pension payments consist of a rising percentage based on years of service, applicable to each year's negotiated salary table for the active work force. Only employees hired before 31 March 2008 are covered by this benefit. Employees hired after that date are covered by the Portuguese Social Security Scheme.

In accordance with the second Three-Party Agreement celebrated between the Government, the Portuguese Bank Associations and Union of Bank employees, after 1 January 2011 the bank employees were integrated in the Social Security Regime, which assumed the protection of banking sector employees in the contingencies of maternity, paternity and adoption and even old age, remaining under the responsibility of the banks the protection in sickness, disability, survivor and death (Decree-Law n.1-A / 2011 of 3 January).

This agreement establishes that the retirement pension value of bank employees under Social Security scheme will not be reduced when compared to the value set forth in the collective conventions. Retirement pensions of bank employees integrated in the Social Security scheme continue to be calculated in accordance with the provisions of ACT and other conventions. However, bank employees are entitled to receive a pension under the general regime, which amount takes into account the number of years of discounts for that scheme. Banks are responsible for the difference between the pension determined in accordance with the provisions of ACT and the one that the bank employees are entitled to receive from Social Security. In this basis, the exposure to the actuarial and financial risk associated to retirement benefits is the same.

The contribution rate to the Social Security Regime is 26.6%, 23.6% paid by the employer and 3% paid by the employees, instead of Caixa de Abono de Família dos Empregados Bancários (CAFEB), abolished by the same law. In consequence of this change, the pension rights of active employers is to be covered under the terms defined by the General Social Security Regime, taking into account the length of service from 1 January 2011 until retirement. The differential required to support the guaranteed pension in terms of the ACT is paid by the Banks.

Notwithstanding, the integration leads to an effective decrease in the present value of total benefits reported to the normal retirement age (VABT) to be borne by the pension fund. Since there was no reduction in benefits from the perspective of the beneficiary on the date of integration into the second Three Party agreement, the past service liability remained unchanged.

At the end of 2011 following the third three party agreement, it was decided to transfer to the Social Security Regime the banks liabilities with pension in payment as at 31 December 2011.

The three party agreement established, provides for the transfer to the Social Security sphere of the liabilities with pensions in payment as of 31 December 2012 at constant values (0% discount rate) in the terms set forth in Collective Labour Regulation Instrument (IRCT). The responsibilities relating to updates of pensions value, other pension benefits in addition to those to be borne by the Social Security, health-care benefits, death allowance and deferred survivor pensions, will remain in the sphere of responsibility of the banks with the correspondent funding being provided through the respective pension funds.

The bank's pension funds assets, specifically allocated to the cover of the transferred liabilities, were also transferred to the Government.

As the transfer of the liabilities with pensions in payment (even if only on a portion of the benefit) is a definitive and irreversible transfer, the conditions set out in IAS 19 'Employee benefits' underlying the concept of settlement are met, since the obligation with pensions in payment was extinguished at the transfer date.

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

In accordance with the policy defined in Note 2.15. Employee Benefits, the Group calculates the liabilities related with pensions and actuarial gains and losses on an annual basis.

Employee Benefits – New Collective Labour Agreement

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

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

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

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

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

The main actuarial assumptions used to calculate pension liabilities are as follows:

	Assumptions	
	31.12.2017	31.12.2016
Financial Assumptions		
Expected return rates	2.17%	2.10%
Discount rate	2.17%	2.10%
Pension growth rates	0.50%	0.50%
Salary growth rates	1.00%	1.00%
Demographic Assumptions and Assessment Methods		
Mortality table		
Men	TV 88/90	TV 73/77 - 2 years
Women	TV 88/90 - 3 years	TV 88/90 - 3 years
Actuarial valuation method	Project Unit Credit Method	

Disability decrements are not included in the calculation of responsibilities. The discount rate used as reference to the 31st of December, 2017, was based on: (i) the development sustained by the main indices concerning high quality corporate bonds and (ii) the duration of the responsibilities (22.5 years).

The participants in the pension plan are categorized as follows:

	31.12.2017	31.12.2016
Active workers	120	183
Former employees with vested rights	55	-
Retired	32	26
Survivors	7	7
TOTAL	**214**	**216**

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

The IAS 19 application implies the following liabilities and coverage levels, which shall be reported on the 31st of December 2017 and 2016:

(thousand euros)

	31.12.2017	31.12.2016
Net Assets / (Liabilities) recognised in the statement of financial position		
Liabilities as at 31st of December		
Pensioners and former employees with vested rights	35 137	7 460
Active workers	36 933	63 275
	72 070	**70 735**
Balance of the Funds at 31 December	**72 552**	**67 349**
Excess of coverage / (Contributions to the fund)	482	(3 386)
Assets / (Liabilities) in the statement of financial position (see Notes 26 and 33)	**482**	**(3 386)**
Acummulated actuarial gains / losses recognised in other comprehensive income	31 792	31 641

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

(thousand euros)

	31.12.2017	31.12.2016
Liabilities at the beginning of the period	**70 735**	**70 744**
Current service cost (see Note 12)	1 233	1 724
Interest expenses	1 474	1 763
Participants contributions	113	129
Actuarial (gains)/losses	1 327	(1 718)
-Changes in assumptions	1 470	5 937
- Experience (Gains)/losses	(143)	(7 655)
Pensions paid by the fund	(1 031)	(453)
Changes in SAMS regulation (see Note 12)	-	(1 454)
Changes from termination agreements (see Note 12)	2 316	-
Changes from Maximum Salary Cap implementation (see Note 12)	(4 097)	-
Liabilities at the end of the period	**72 070**	**70 735**

Considering the situation on the 31st of December 2017, the analysis to the sensibility and alterations of the actuarial assumptions revealed the following impacts:

- An increase in the discount rate of 25 base points would have represented a reduction in liabilities of approximately 3,821 thousand euros; a decrease of equal range would have represented an increase in liabilities of approximately 4,033 thousand euros;
- An increase of 25 base points in the growth of salaries and pensions would have represented an increase in liabilities of approximately 3,769 thousand euros; a decrease of equal range would have represented a decrease in liabilities of approximately 3,583 thousand euros.

The evolution of value regarding the pension funds on the financial years ending on the 31st of December 2017 and 2016, may be analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Pension Funds at the beginning of the period	**67 349**	**70 744**
Real income of the fund	2 621	(4 250)
Bank contributions	3 500	1 179
Participants contributions	113	129
Benefits paid	(1 031)	(453)
Pension Funds at the end of the period	**72 552**	**67 349**

In early 2018, the Bank made an extraordinary contribution for the fund in the amount of 1,225 thousand euros, therefore, the fund is now in the amount of 73,777 thousand euros, thereby representing a liability financing level of 102.4%.

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

	% Portfolio	
	2017	2016
Bonds	57.70%	15.00%
Shares	30.30%	5.80%
Alternative investment	8.70%	0.00%
Mixed Fund	0.00%	0.00%
Real estate	0.00%	0.90%
Liquidity	3.30%	78.30%
Total	100.00%	100.00%

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

(thousand euros)

	31.12.2017	31.12.2016
Accumulated actuarial gains / (losses) as at 1st January	**31 641**	**27 346**
- Actuarial assumptions changes	1 470	5 937
- (Gains)/losses in experience	(1 319)	(1 642)
Accumulated actuarial deviations as at 31st of December	**31 792**	**31 641**

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

(thousand euros)

	31.12.2017	31.12.2016
Current service cost	1 233	1 724
Interest Expenses / (Income)	29	-
Expenses of the period	**1 262**	**1 724**

As of the 1st of January 2014, following the alteration of IAS 19 - Employee Benefits, the costs / earnings of the interest are now recognized according to the net value of the similar line of interest (earnings or costs).

The evolution of the net assets / (liabilities) on the balance regarding the financial years ending on the 31st of December 2017 and 2016 may be analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	**(3 386)**	**-**
Year expenses	(1 262)	(1 724)
Actuarial gains / (losses) recognised in other comprehensive income	(151)	(4 295)
Bank contributions	3 500	1 179
Changes in SAMS regulation	-	1 454
Changes in termination agreements	(2 316)	-
Changes in Maximum Salary Cap implementation	4 097	-
Closing balance	**482**	**(3 386)**

The evolution in liabilities and balance of funds, as well as experience gains and losses over the past 5 years can be analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016	31.12.2015	31.12.2014	31.12.2013
Liabilities	(72 070)	(70 735)	(70 744)	(63 867)	(57 179)
Funds balances	72 552	67 349	70 744	63 002	54 455
(Under) / over funded liabilities	**482**	**(3 386)**	**-**	**(865)**	**(2 724)**
Experience (gains) / losses from liabilities	(143)	(7 655)	177	(7 097)	2 931
Experience (gains) / losses from plan assets	(1 176)	6 013	6 707	(834)	(1 441)

Long-term service benefits

As at 31st December 2017 and 2016, the liabilities recognised by the Group and costs incurred related to long-term service benefits can be analysed as follows:

(thousand euros)

	31.12.2016
Liabilities at the begining of the period	**2 171**
Year expenses (See Note 12)	(891)
Bonuses paid	(1 280)
Liabilities at the end of the period	**-**

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

As described above, the long-term service bonus has been eliminated in 2016 following the entry into force of the new CLA agreement of the banking sector.

Career bonuses

On the 31st of December, 2017 and 2016, the liabilities assumed by the Group and the costs recognised in the periods with the career bonus are the following:

(thousand euros)

	31.12.2017	31.12.2016
Liabilities at the begining of the period	**583**	**-**
Year expenses (See Note 12)	(85)	583
Liabilities at the end of the period (see Note 33)	**498**	**583**

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

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

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

NOTE 14 – ADMINISTRATIVE COSTS

The amounts of this item are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Lease and rental	9 726	6 127
Marketing and advertisement	288	701
Press releases and expedition	5 112	5 782
Travelling and representation	2 966	3 840
Maintenance and related services	1 023	1 202
Insurances	385	635
Legal and litigation	120	187
Specialised services		
IT services	3 991	3 849
Temporary labour	32	135
Independent w ork	1 930	2 856
Other specialised services	4 799	5 259
Other expenses	2 169	2 050
	32 541	**32 623**

The 'Other Specialised Services' heading includes, among others, costs with external auditors and tax consultants.

The maturity date for rents due in relation with non-cancelable operating leases are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to one year	1 217	698
One to five years	1 447	1 930
	2 664	**2 628**

Services agreed during the periods 2017 and 2016 with the Statutory Auditors Society (Sociedade de Revisores Oficiais de Contas) and by external auditors, in accordance with the provisions of art. No. 508-F of the Commercial Companies Code (Código das Sociedades Comerciais), are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Statutory audit of annual accounts	283	218
Other reliability assurance services	253	153
Other non-statutory audit services	-	40
Total amount of agreed services	**536**	**411**

Values shown are before taxes. The fees related to the statutory audit of annual accounts correspond to those agreed for the year 2017. The fees presented for the remaining services relate to amounts billed during the 2017 financial year.

NOTE 15 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(thousand euros)

	31.12.2017	31.12.2016
Net Profit / (Loss) attributable to equity holders of the Bank [1]	(140 858)	(185 504)
Weighted average number of ordinary shares outstanding (thousands)	**129 351**	**85 254**
Basic earnings per share attributable to equity holders of the Bank (in euro)	**-1.09**	**-2.18**

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

Diluted earnings per share

Diluted earnings per share are calculated considering the profit attributable to the equity holders of the Bank and the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

On the 31st of December 2017 and 2016, the Bank holds instruments issued without diluting effect, and therefore the result according to a diluted share equals the result according to a basic share.

NOTE 16 – CASH AND DEPOSITS AT CENTRAL BANKS

As at the 31st of December, 2017 and 2016, this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Cash	9	7
Demand deposit at central banks		
Bank of Portugal	438 668	37 489
Other central banks	2 656	33
	441 324	**37 522**
	441 333	**37 529**

The 'Demand deposits in central banks – Bank of Portugal' heading, includes deposits of mandatory nature, intended to comply with the legal minimum cash deposits requirements. In accordance with Regulation (EU) no. 1358/2011 of the European Central Bank, of the 14th of December, 2011, the mandatory minimum deposits in demand deposits in the Bank of Portugal, are paid and represent 1% of the deposits and debt securities with maturity up to 2 years, whereof are excluded deposits and debt securities from entities subject to the minimum reserve requirement scheme of the European System of Central Banks. On the 31st of December, 2017, the average rate of return of such deposits was 0,00% (31st of December, 2016: 0.00%).

The compliance with mandatory minimum deposits, for a specific observation period, is effected by taking into account the medium amount of the balances of the deposits with the Bank of Portugal throughout the aforementioned period. The balance of the account with the Bank of Portugal as at the 31st of December, 2017, has been comprised in the maintenance period from the 20th of December, 2017, to the 30th of January, 2018, to which corresponded a mandatory minimum reserve amounting to 3,817 thousand euros (31st of December, 2016: 1,925 thousand euros).

NOTE 17 – DEPOSITS AT OTHER CREDIT INSTITUTIONS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Deposits at other credit institutions in Portugal		
Demand deposits	13 932	69 203
	13 932	**69 203**
Deposits at other credit institutions abroad		
Demand deposits	14 418	19 556
	14 418	**19 556**
	28 350	**88 759**

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

As at 31st of December 2017 and 2016, the heading of held-for-trading financial assets and liabilities is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Financial assets held-for-trading		
Securities		
Bonds and other fixed-income securities		
From public issuers	3 637	8 008
From other issuers	78 889	66 086
Shares	15 930	9 666
	98 456	83 760
Derivatives	208 528	310 207
	306 984	**393 967**
Financial liabilities held-for-trading		
Securities		
Bonds and other fixed-income securities		
Short-selling	-	12 674
Derivatives	200 883	283 009
	200 883	**295 683**

At December 31, 2017 and 2016, derivatives, both assets and liabilities, include operations collateralized by the constitution of collateral accounts in order to ensure the fair value hedge of the active and liability exposures contracted between the Bank and several financial institutions. The balances related to these collateral are recorded under "Other assets - collateral deposited under clearing agreements" (Note 26) and "Other liabilities - collateral deposited under clearing agreements" (Note 33).

At 31 December 2017 and 2016, the analysis of the securities held-for-trading, by residual maturity period, is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	15 922	1 041
From three months to one year	29 609	24 709
From one to five years	35 844	40 995
More than five years	1 151	7 349
Undetermined period	15 930	9 666
	98 456	**83 760**

In accordance with the accounting policy described in Note 2.5., securities held-for-trading are those which are bought to be traded in the short-term, regardless of their maturity.

The short selling represents securities sold by the Group, which had been purchased under a reverse repurchase agreement. In accordance with the accounting policy described in Note 2.6, securities purchased under a repurchase agreement are not recognised in the statement of financial positions. If those securities are sold, the Group recognises a financial liability equivalent to the fair-value of the assets which shall be returned in pursuance of the repurchase agreement.

As at 31st of December 2017 and 2016, the heading of financial assets held-for-trading, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2017			31.12.2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed income securities						
Issued by public entities	3 637	-	3 637	8 008	-	8 008
Issued by other entities	24 427	54 462	78 889	34 589	31 497	66 086
Shares	15 818	112	15 930	9 666	-	9 666
Total book value	**43 882**	**54 574**	**98 456**	**52 263**	**31 497**	**83 760**

As at 31 December 2017 and 2016, the exposure to public debt from peripheral Eurozone countries is analysed in Note 39.

As at 31st of December 2017 and 2016, the financial derivatives heading is analysed as follows:

(thousand euros)

	31.12.2017			31.12.2016		
	Notional	Fair value		Notional	Fair value	
		Positive	Negative		Positive	Negative
Foreign-exchange contracts						
Forward		1 970	849		1 091	4 190
- buy	174 736			206 689		
- sell	174 293			211 215		
Currency Swaps		1 329	126		1 731	62
- buy	217 468			189 013		
- sell	216 428			187 066		
Currency Interest Rate Swaps		17 279	17 279		12 772	12 772
- buy	47 519			48 912		
- sell	47 519			48 912		
Currency Options		1 257	1 320		293	294
- buy	103 942			22 465		
- sell	111 509			27 536		
	1 093 414	**21 835**	**19 574**	**941 808**	**15 887**	**17 318**
Interest rate contracts						
Interest Rate Swaps		156 185	150 908		251 663	226 511
- buy	3 659 482			5 000 534		
- sell	3 659 482			5 000 534		
Interest Rate Caps & Floors		6 881	6 882		8 861	8 862
- buy	261 620			449 525		
- sell	261 620			459 525		
Interest Rate Futures		-	-		-	-
- buy	-			6 010		
- sell	4 752			84 170		
	7 846 956	**163 066**	**157 790**	**11 000 298**	**260 524**	**235 373**
Equity / index contracts						
Equity / Index Swaps		15 491	15 383		17 096	17 044
- buy	135 587			192 773		
- sell	135 585			192 773		
Equity / Index Options		3 539	3 539		2 800	2 800
- buy	14 012			15 470		
- sell	14 012			15 470		
Equity / Index Futures		-	-		-	-
- buy	-			12 988		
- sell	-			20 567		
	299 196	**19 030**	**18 922**	**450 041**	**19 896**	**19 844**
Credit default contracts						
Credit Default Swaps		4 597	4 597		13 900	10 474
- buy	150 978			295 479		
- sell	150 978			229 071		
	301 956	**4 597**	**4 597**	**524 550**	**13 900**	**10 474**
Total	**9 541 522**	**208 528**	**200 883**	**12 916 697**	**310 207**	**283 009**

At 31 December 2017 and 2016, the analysis of derivative financial instruments held-for-trading, by residual maturity period, is as follows:

(thousand euros)

	31.12.2017			31.12.2016		
	Notional		Fair Value (net)	Notional		Fair Value (net)
	Sale	Purchase		Sale	Purchase	
Up to three months	622 943	684 070	2 430	610 599	522 246	(1 341)
From three months to one year	471 557	465 508	901	572 613	562 630	(365)
From one to five years	2 062 311	1 996 401	(326)	3 289 165	3 350 519	25 461
More than five years	1 619 367	1 619 365	4 640	2 004 462	2 004 463	3 443
	4 776 178	**4 765 344**	**7 645**	**6 476 839**	**6 439 858**	**27 198**

NOTE 19 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	Cost (1)	Fair value reserve		Impairment	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	249 126	2 862	-	-	251 988
Issued by other entities	26 356	6	(156)	-	26 206
Shares	1 870	-	-	(1 790)	80
Other variable-income securities	6 886	-	-	(4 240)	2 646
Balance as at 31st December 2017	**284 238**	**2 868**	**(156)**	**(6 030)**	**280 920**
Bonds and other fixed-income securities					
Issued by public entities	290 692	44	(993)	-	289 743
Issued by other entities	137 650	-	(3 437)	-	134 213
Shares	1 870	8	-	(1 768)	110
Other variable-income securities	6 883	5	-	(4 172)	2 716
Balance as at 31st December 2016	**437 095**	**57**	**(4 430)**	**(5 940)**	**426 782**

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

In accordance with the accounting policy described in Note 2.5., the Bank periodically assesses whether there is objective evidence of impairment on the available-for-sale financial assets, following the judgment criteria described in Note 3.6.

The movements associated with impairment losses of financial assets available-for-sale are presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	5 940	6 298
Allocation for the period	90	27
Utilisation during the period	-	(385)
Closing balance	**6 030**	**5 940**

The heading of financial assets available-for-sale includes 251,629 thousand euros in securities pledged as collateral by the Bank (335,964 thousand euros as at 31st of December 2016).

As at 31st December 2017 and 2016, the analysis of available-for-sale financial assets by maturity period, is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	-	365 108
From three months to one year	-	522
From one to five years	256 736	17 924
More than five years	21 458	40 401
Undetermined period	2 726	2 827
	280 920	**426 782**

As at 31st of December 2017 and 2016, the heading of financial assets held-for-trading, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	31.12.2017			31.12.2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed-income securities						
Issued by public entities	251 988	-	251 988	289 743	-	289 743
Issued by other entities	4 992	21 214	26 206	5 646	128 567	134 213
Shares	-	80	80	60	50	110
Other variable-income securities	-	2 646	2 646	-	2 716	2 716
Total book value	**256 980**	**23 940**	**280 920**	**295 449**	**131 333**	**426 782**

As at 31st of December 2017 and 2016, the exposure to the public debt of “peripheral” countries within the Euro Area is presented in Note 39.

NOTE 20 – LOANS AND ADVANCES TO BANKS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Loans and advances to banks in Portugal		
Deposits	56	-
Other loans and advances	6 145	6 718
	6 201	**6 718**
Loans and advances to banks abroad		
Loans	139 671	-
Very short-term deposits	15 067	24 182
Other loans and advances	18 976	19 323
	173 714	**43 505**
	179 915	**50 223**
Impairment losses	(15 388)	(15 419)
	164 527	**34 804**

At 31st December 2017 and 2016, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	34 043	42 720
From three months to one year	56	796
From one to five years	139 671	-
More than five years	6 145	6 707
	179 915	**50 223**

The movements associated with the financial year as impairment losses of investments in credit institutions are presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	15 419	15 397
Allocation for the period	1 310	965
Write-back for the period	(1 299)	(954)
Exchange differences and others	(42)	11
Closing balance	**15 388**	**15 419**

NOTE 21 – LOANS AND ADVANCES TO CUSTOMERS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Domestic loans		
Corporate		
Commercial lines of credit	234	83
Loans	289 625	344 399
Other loans	1 307	1 953
Retail		
Mortgage loans	252	320
	291 418	**346 755**
Foreign loans		
Corporate		
Loans	35 296	48 430
Other loans	-	19 780
Retail	2 102	3 246
	37 398	**71 456**
Overdue loans and interest		
Up to 90 days	2 917	54
For more than 90 days	107 807	144 094
	110 724	**144 148**
	439 540	**562 359**
Impairment losses	(138 957)	(164 047)
	300 583	**398 312**

As at 31st of December 2017 and 2016, the analysis of loans and advances to costumers, by residual maturity period, is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	7 232	26 315
From three months to one year	36 276	18 607
From one to five years	58 028	104 776
More than five years	227 280	268 513
Undetermined period	110 724	144 148
	439 540	**562 359**

The movements in impairment losses of loans and advances to customers are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	164 047	230 362
Allocation for the period	49 212	81 622
Utilisation during the period	(41 836)	(41 318)
Write-back for the period	(29 982)	(48 843)
Transfers	-	(59 240)
Exchange differences and others	(2 484)	1 464
Closing balance	**138 957**	**164 047**

As at 31st December 2017, gross loans and advances (loans and advances to customers excluding overdue loans and interest) include an amount of 89,163 thousand euros of restructured loans (31 December 2016: 123,871 thousand euros). As at 31st December 2017, recognised impairment losses referring to restructured loans amounted to 137,428 thousand euros (31 December 2016: 159,818 thousand euros). The interest recognised in the income statement amounts to 5,549 thousand euros (31 December 2016: 7,697 thousand euros).

Loans and advances to customers by interest rate type are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Fixed rate	96 120	141 364
Variable rate	343 420	420 995
	439 540	**562 359**

NOTE 22 – NON-CURRENT ASSETS HELD-FOR-SALE

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
HAITONG (UK) LIMITED	10 453	-
HAITONG SECURITIES USA	12 199	-
POLISH HOTEL COMPANY	2 533	3 600
Subsidiaries in selling process	**25 185**	**3 600**

On 15th December 2017, Haitong Bank entered into a purchase and sale agreement for the entire capital of the subsidiaries Haitong UK Limited and Haitong Securities USA LLC with Haitong International BVI. These investments have been recorded as non-current assets held for sale, in accordance with IFRS 5 (see Note 25).

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

Following on from efforts to divest the company, Haitong Bank assigned a sales mandate to JLL in May 2017 and, under this agreement, on November 6, 2017, the Bank signed a letter of intent to sell the Polish Hotel Company with a potential investor. The book value at December 31, 2017 of this investment corresponds to its recoverable amount based on the letter of intent received.

Due diligence is estimated to be completed until the end of the first half of 2018.

The movements occured in Non-current assets held for sale are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	3 600	3 600
Sell price of HAITONG (UK) LIMITED	10 453	-
Investment transfer in HAITONG SECURITIES USA	12 199	-
Value reduction of POLISH HOTEL COMPANY	2 533	-
Closing balance	**28 785**	**3 600**

NOTE 23 – OTHER TANGIBLE ASSETS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Real Estate		
Improvements in leasehold property	6 317	6 141
	6 317	**6 141**
Equipment		
IT equipment	11 676	12 050
Indoor installations	3 361	3 361
Furniture	3 051	3 064
Machinery and tools	1 031	1 020
Motor vehicles	68	68
Security equipment	286	286
Others	168	167
	19 641	**20 016**
	25 958	**26 157**
Work in progress		
Equipment	-	242
	-	**242**
	25 958	**26 399**
Accumulated depreciation	(22 005)	(21 091)
	3 953	**5 308**

The movement in this heading was as follows:

(thousand euros)

	Property	Equipment	Work in progress	Total
Acquisiton cost				
Balance as at 31st December 2015	**8 260**	**20 140**	**724**	**29 124**
Acquisitions	58	1 219	728	2 005
Write-offs / sales	(2 177)	(1 829)	(213)	(4 219)
Transfers	-	486	(486)	-
Exchange differences and other movements	-	-	(511)	(511)
Balance as at 31st December 2016	**6 141**	**20 016**	**242**	**26 399**
Acquisitions	293	167	-	460
Write-offs / sales	(117)	(542)	-	(659)
Exchange variation and other movements	-	-	(242)	(242)
Balance as at 31st December 2017	**6 317**	**19 641**	**-**	**25 958**
Depreciation				
Balance as at 31st December 2015	**5 221**	**16 558**	**-**	**21 779**
Depreciations of the financial year	515	1 674	-	2 189
Write-offs / sales	(1 316)	(1 561)	-	(2 877)
Balance as at 31st December 2016	**4 420**	**16 671**	**-**	**21 091**
Depreciations of the financial year	378	1 143	-	1 521
Write-offs / sales	(86)	(521)	-	(607)
Balance as at 31st December 2017	**4 712**	**17 293**	**-**	**22 005**
Net book value as at 31st December 2017	**1 605**	**2 348**	**-**	**3 953**
Net book value as at 31st December 2016	**1 721**	**3 345**	**242**	**5 308**

NOTE 24 – INTANGIBLE ASSETS

As at 31st December 2017 and 2016 this heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Purchased from third parties		
Software	30 242	29 087
Others	916	916
	31 158	**30 003**
Work in progress	466	1 302
	31 624	**31 305**
Depreciation	(22 400)	(19 101)
	(22 400)	**(19 101)**
	9 224	**12 204**

The movement in this heading was as follows:

(thousand euros)

	Software	Other	Work in progress	Total
Acquisition cost				
Balance as at 31st December 2015	**27 056**	**916**	**2 460**	**30 432**
Acquisitions:				
Purchased from third parties	1 354	-	714	2 068
Write-offs / sales	(1 014)	-	(115)	(1 129)
Transfers	1 691	-	(1 691)	-
Exchange rate variation and other movements	-	-	(66)	(66)
Balance as at 31st December 2016	**29 087**	**916**	**1 302**	**31 305**
Acquisitions:				
Purchased from third parties	183	-	998	1 181
Write-offs / sales	(510)	-	(94)	(604)
Transfers	1 482	-	(1 482)	-
Exchange rate variation and other movements	-	-	(258)	(258)
Balance as at 31st December 2017	**30 242**	**916**	**466**	**31 624**
Depreciations				
Balance as at 31st December 2015	**15 931**	**916**	**-**	**16 847**
Deprciations of the financial year	2 586	-	-	2 586
Write-offs / sales	(349)	-	-	(349)
Exchange rate variation and other movements	17	-	-	17
Balance as at 31st December 2016	**18 185**	**916**	**-**	**19 101**
Deprciations of the financial year	3 774	-	-	3 774
Write-offs / sales	(475)	-	-	(475)
Balance as at 31st December 2017	**21 484**	**916**	**-**	**22 400**
Net book value as at 31st December 2017	**8 758**	**-**	**466**	**9 224**
Net book value as at 31st December 2016	**10 902**	**-**	**1 302**	**12 204**

NOTE 25 – INVESTMENTS IN ASSOCIATED COMPANIES

The financial information regarding subsidiaries and associates is presented in the following table:

(thousand euros)

	31.12.2017				31.12.2016			
	Number of shares	% held by the bank	Par Value (Euro)	Acquisition Cost	Number of shares	% held by the bank	Par Value (Euro)	Acquisition Cost
Associates								
MCO2 - SOC. GESTORA DE FUNDOS DE INV MOBILIARIO, S.A.	31 250	25.00%	1.00	738	7 375	25.0%	100.00	738
Subsidiaries								
HAITONG (UK) LIMITED	-	-	-	-	164 031 379	100.0%	1.17	171 520
HAITONG BANCO DE INVESTIMENTO DO BRASIL S.A.	101 870 930	80.00%	0.52	174 496	101 870 930	80.0%	0.58	174 496
HAITONG CAPITAL - SCR, S.A.	5 000 000	100.00%	5.00	42 660	5 000 000	100.0%	5.00	42 660
HAITONG INVESTMENT IRELAND PUBLIC LIMITED COMPANY	164 994	100.00%	5.00	825	164 994	100.0%	5.00	825
LUSITANIA CAPITAL SAPI DE CV SOFOM ENR	-	-	-	-	1 000 000	100.0%	0.05	59
HAITONG SECURITIES USA	-	-	-	-	1 000 000	100.0%	948.68	12 200
				218 719				**402 498**
Impairment losses				(51 934)				(165 917)
				166 785				**236 581**

During the period 2017, the balance Investments in subsidiaries and associates presented the following changes:

- In March 2017 Haitong Bank, S.A. fully subscribed the capital increase of Haitong (UK) limited, an investment of GBP 5,900,000.
- In June 2017 Haitong Bank, S.A. fully subscribed the capital increase of Haitong (UK) Limited, an investment of GBP 4,080,000.
- In November 2017, Lusitania Capital, S.A.P.I. de C.V., SOFOM, E.N.R. was dissolved.
- In December 2017, subject to the terms and conditions of the Share Purchase Agreements, Haitong Bank has conditionally agreed to sell to Haitong International BVI the shares representing 100% of the capital of its subsidiaries in London and New York. Consideration for the Haitong Securities USA LLC Membership Interests was USD 16,778 thousand. The Consideration for the Haitong (UK) Ltd and Haitong Securities (UK) Ltd sale shares was USD 12,536 thousand. Subsequently, these subsidiaries have been recorded as Non-current assets held for sale, with an impairment charge for Haitong Haitong UK Limited investment of 7,220 thousand euros (31st December, 2016: 165,383 thousand euros). This sale was concluded on February 23, 2018 (see Note 40).

During the period 2016, the balance Investments in subsidiaries and associates presented the following changes:

- Although it has been incorporated on the 30th of September, 2015, in January 2016, Haitong Securities USA LLC has been added to the consolidation perimeter of consolidated companies in Haitong Bank, S.A., which fully subscribed the initial paying-up capital of that company, amounting to 300,000 dollars.
- In March 2016, Haitong Bank, S.A. fully subscribed the capital increase of Haitong Securities USA LLC, corresponding to an investment of 10,000 thousand dollars.
- In March 2016, Haitong Bank, S.A. fully subscribed the capital increase of Haitong Securities India Private Limited, corresponding to an investment of 344,748 thousand Indian rupees. Haitong Bank, S.A. subscribed 13,725,289 shares, thereby holding 19,635,252 shares of the company.
- In March 2016, Haitong Bank, S.A. has completed the winding up of its New York branch, having returned the corresponding license to the New York Department of Financial Services, and having started its business through the representative office.
- In May 2016, Haitong Bank, S.A. completed the acquisition of 1,477,491 shares held by the minority shareholder of Haitong Securities India Private Limited, for the aggregate amount of INR 245,795,160.
- In July 2016, Haitong & Company (UK) Limited was dissolved.
- In September 2016, Haitong Bank, S.A. has been granted authorisation to engage in brokerage activities through its subsidiary, Haitong Securities USA LLC, having thereby closed its representative office in New York.
- In October 2016, Haitong Bank, S.A. fully subscribed the capital increase of Haitong Securities USA LLC, corresponding to an investment of 3,438 thousand dollars.
- In October 2016, the company name of Espirito Santo Investimentos, S.A. was changed to Haitong Negócios, S.A..
- In December 2016, Haitong Bank, S.A. sold the holding in Haitong Securities India Private Limited, of 19,635,252 shares, having received 11,365 thousand dollars.

The evolution of impairment losses of Investments in subsidiaries and associates is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	165 917	131 926
Charge for the period	58 679	33 991
Charge off	(172 662)	-
Closing balance	**51 934**	**165 917**

Annually, the Bank analyses the investment impairment following the disposals on IAS 36 – Assets Impairment.

The recoverable amount of investment held in Haitong Capital - Sociedade de Capital de Risco, S.A was determined using cash flow/dividends predictions based on (i) the financial budget approved by management covering a 5 years period and (ii) a discount rate of 13.6%. Based on these assumptions, Haitong Bank Management made the assessment that the recoverable amount of the investment in Haitong Capital exceeds its carrying amount at December 31st 2017.

Notwithstanding the analysis performed based on the described assumptions, the recoverable amount of the investment in Haitong Capital is dependent on the ability of the Bank of putting in place the necessary measures to allow the accomplishment of the business plan. The Bank conducted an analysis to determine the level of implementation of the business plan which would imply that Haitong Capital's estimated recoverable value would be equal to its book value and concluded that this is the case if the company is only capable of performing the mentioned business plan by approximately 73%.

In 2017, the Bank recognized an impairment of 51,196 thousand euros for the investment in Haitong Banco de Investimento do Brasil S.A ..

NOTE 26 – OTHER ASSETS

As at 31st of December 2017 and 2016 the Other Assets heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Debtors and other assets		
Collateral deposited under collateral agreements	111 605	129 851
Supplies, supplementary capital instalments and subordinated assets	150 125	150 711
Public sector	4 059	3 870
Deposits placed under margin accounts (futures contracts)	4 653	11 844
Other sundry debtors	24 488	22 379
	294 930	318 655
Impairment losses for debtors and other investments	(6 589)	(7 525)
	288 341	**311 130**
Other assets		
Gold, other precious metals, numismatic, medals and other liquid assets	2 246	23 215
Other assets	6 264	8 306
	8 510	**31 521**
Income receivable	**422**	**799**
Prepayments and deferred costs	**1 895**	**4 810**
Other sundry assets		
Exchange transactions pending settlement	1 476	2 579
Market securities transactions pending settlement	63 467	35 735
Other transactions pending settlement	4 659	25 540
	69 602	**63 854**
Retirement Benefits (Note 13)	482	-
	369 252	**412 114**

The Stock exchange transactions pending settlement refer to transactions with securities recorded on trade date and pending settlement, in accordance with the accounting policy described in Note 2.5..

The movements associated with impairment losses in Other Assets are presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	7 525	8 408
Charge for the period	3 824	4 449
Charge off	(769)	(339)
Reversals	(3 820)	(6 006)
Transfers	-	971
Exchange differences and others	(171)	42
Closing balance	**6 589**	**7 525**

NOTE 27 – RESOURCES OF CENTRAL BANKS

This heading includes a transaction of Interbank Money Market with the Bank of Portugal in the amount of 60,000 thousand euros (31st of December 2016: 60,000 thousand euros) and without accrued interest to date (31st of December 2016: 0 thousand euros), with maturity in September 2018.

NOTE 28 – RESOURCES OF OTHER CREDIT INSTITUTIONS

The deposits from other credit institutions heading is presented as follows:

(thousand euros)

	31.12.2017	31.12.2016
Domestic		
Interbank money market	9 000	51 497
Very-short term resources	-	12 809
Deposits	388	1 884
Emprestimos médio e longo prazo	11 319	-
Repurchase agreements	-	12 380
Other resources	-	7
	20 707	**78 577**
Abroad		
Deposits	53 981	12 580
Loans	750 000	810 000
Other resources	-	105
	803 981	**822 685**
	824 688	**901 262**

As at 31st December 2017 and 2016, the analysis of deposits from other credit institutions by residual maturity period is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Up to three months	54 369	138 886
From three months to one year	20 713	-
From one to five years	749 606	762 376
	824 688	**901 262**

NOTE 29 – RESOURCES OF CUSTOMERS

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

(thousand euros)

	31.12.2017	31.12.2016
Repayable on demand		
Demand deposits	62 397	20 649
Time deposits		
Fixed-term deposits	227 163	243 717
Other resources		
Repurchase agreements	-	13 810
Other Deposits	1 019	1 580
Other	37	9
	1 056	**15 399**
	290 616	**279 765**

As at 31st December 2017 and 2016, the analysis of due to customers by residual maturity period is as follows:

(thousand euros)

	31.12.2017	31.12.2016
Demand deposits	62 434	20 658
Fixed-term deposits		
Up to 3 months	92 723	152 893
3 to 12 months	125 470	104 269
1 to 5 years	9 989	1 945
	228 182	259 107
	290 616	**279 765**

NOTE 30 – DEBT SECURITIES ISSUED

The Debt securities issued heading can be divided as follows:

(thousand euros)

	31.12.2017	31.12.2016
Debt securities issued		
Euro Medium Term Notes	143 127	103 092
	143 127	**103 092**

The fair value of the portfolio of Debt securities issued is presented on Note 38.

During the 2017 financial year, the Bank issued securities amounting to 40,391 thousand euros (there weren't securities issued on 2016 financial year). There were no reimbursements in 2017 (31 st of December 2016: 108,695 thousand euros).

As at 31st of December 2017 and 2016, the residual duration of the debt securities issued is as follows:

(thousand euros)

	31.12.2017	31.12.2016
From three months to one year	143 127	-
From one to five years	-	103 092
	143 127	**103 092**

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

(thousand euros)

	Debt Securities Issued
Balance as at December 31, 2016	**103 092**
Cash Flows	40 000
Other	35
Balance as at December 31, 2017	**143 127**

The main characteristics of these Debt securities issued are as follows:

(thousand euros)

Issuer	Designation	Currency	Issue Date	31.12.2017 Book Value	Maturity	Interest Rate
HT BANK	HTB FLOATING RATE DEC18 (HTB-S-892)	EUR	2015	143 127	2018	Euribor3m + 3.95%
				143 127		

(thousand euros)

Issuer	Designation	Currency	Issue Date	31.12.2016 Book	Maturity	Interest Rate
HT BANK	HTB FLOATING RATE DEC18 (HTB-S-892)	EUR	2015	103 092	2018	Euribor3m + 3.95%
				103 092		

a) Liabilities at fair value through profit or loss or with embedded derivatives.

NOTE 31 – PROVISIONS

As at 31st of December 2017 and 2016, the Provisions heading presents the following movements:

(thousand euros)

	Provisions for other risks and charges	Provisions for guarantees and other undertakings	TOTAL
Balance as at 31st December 2015	**4 455**	**102 283**	**106 738**
Net charge of the period	2 512	6 798	9 310
Reversals	-	(86 730)	(86 730)
Transfers	-	58 269	58 269
Foreign exchange differences and others	126	512	638
Balance as at 31st December 2016	**7 093**	**81 132**	**88 225**
Net charge of the period	3 349	5 874	9 223
Reversals	-	(33 276)	(33 276)
Foreign exchange differences and others	(67)	(1 330)	(1 397)
Balance as at 31st December 2017	**10 375**	**52 400**	**62 775**

Provisions for other risks and charges are intended to cover the probability of occurrence of certain contingencies related to the Bank's activity, including contingencies associated with ongoing tax proceedings. The Bank recognized in the year 2017, in provisions for other risks and charges, an amount of 1,342 thousand euros related to the Social Plan in progress.

NOTE 32 – INCOME TAXES

The Bank and its subsidiaries with headquarters in Portugal, are subject to taxation in accordance with the Corporate Income Tax (IRC) and its corresponding surcharges.

The income tax (current or deferred) is reflected in the income statement of the year, except when the corresponding transactions have been reflected in other headings of equity. In these situations the associated tax is equally reflected against equity, without influencing the income statement of the year.

The current tax assessment for the years 2016 and 2017 was determined based on a nominal rate of Corporate Income Tax and Municipal Surtax of 22.5% in accordance with Law no. 82-B/2014, of December 31st, and Law no. 2/2007 of January 15th, plus an additional rate of 2.5% of an average rate associated with the application of the State surcharges levels provided in Law no. 2/2004, of January 10th.

In order to determine the current tax for the year ending on the 31st of December 2017 and 2016, the Decree-Law no. 127/2012 of December 31st, responsible for the normalisation of the transfer of liabilities linked to the burden with retirement and survivor’s pensions to Social Security was taken into account together with article 183 of Law no. 64-B/2011 of December 30th (State Budget Law for 2012), establishing a special scheme for tax deduction of expenses and other asset variations from that transfer:

- The impact of negative asset variations associated with the amendments of the accounting policy regarding the recognition of actuarial gains and losses previously deferred will be fully deductible in equal parts for 10 years, from the year starting on the 1st of January 2012 onwards. This impact is accountable in equity accounts;

- The impact of the settlement (determined by the difference between the liability measured in accordance with the criteria established by IAS 19 and by the criteria established by the agreement) will be fully deductible in order to determine taxable profit, in equal parts, according to the average life expectancy of pensioners whose liabilities were transferred (17 years), from the year starting on the 1st of January 2012 onwards.

Deferred tax assets of the transfer of liabilities and amendment of the accounting policy regarding the recognition of actuarial discrepancies can be recovered for periods between 10 and 17 years.

Deferred taxes are determined based on tax rates which are expected to be in force at the time of the reversing timing differences, which correspond to the enacted rates or significantly enacted rates at the balance-sheet date. Consequently, for the year of 2017, the deferred tax was determined using rates of 27.5%.

If there are any tax losses, the reverse-charge statement, of the Bank and subsidiaries with headquarters in Portugal referring to 2017 and previous years, these will be subject to inspection and possible adjustment by the Tax Authorities for a period of four or six years. Thus, additional charges regarding taxes may take place mainly due to different interpretations of the tax law. However, the Management of the Bank and its subsidiaries with headquarters in Portugal believe there will be no additional charges of any significant amount concerning the consolidated financial statements.

Special Scheme Applicable to Deferred Tax Assets

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

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

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

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

As at 31st of December 2017, Haitong Bank determined a net loss within its individual financial statements, for which it shall, and upon approval of the statements, convert the deferred taxes covered by this scheme into tax credits proportionally, between net profit and loss and equity, as well as establish a special reserve and conversion of debt into equity rights in 2018, attributable to the Portuguese Government.

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

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

Indeed, in that year it will be necessary to recalculate the reference value of the rights and if it is different from the nominal value of the shares, it will be necessary to adjust the value of the special reserve. If this were to occur in 2018, and taking into account the amounts of the financial statements as at 31 December 2017, as well as the amount of tax credits converted by reference to the years 2015 and 2016, estimated value of 12,060 thousand euros.

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

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

The activity developed by branches of the Bank in foreign countries is comprised in the statements of the headquarters in order to determine the basis of assessment subject to Income Tax. Furthermore, the profit and loss of said branches is also subject to local taxes of the countries where they are located. Local taxes are deductible from the Income Tax of the headquarters, in accordance with article 91 of the Corporate Income Tax Code, when applicable. The profit and loss from branches are subject to local taxation of nominal rates indicated below:

Branch	Nominal income tax rate
London	20%
Madrid	25%
Warsaw	19%

Current tax assets and liabilities recognized in the statement of financial position in 2017 and 2016 may be analyzed as follows:

(thousand euros)

	Asset		Liability	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Corporate income tax	709	305	(3 020)	(2 615)
Tax Credit (Special Scheme for Deferred Taxes)	28 725	5 869	-	-
Current tax asset / (liability)	**29 434**	**6 174**	**(3 020)**	**(2 615)**

Deferred tax assets and liabilities recognised in the statement of financial position of 2017 and 2016 can be analysed as follows:

(thousand euros)

	Asset		Passivo		Net	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Available-for-sale financial assets	-	1 213	(746)	-	(746)	1 213
Loans and advances to customers	63 368	86 746	-	-	63 368	86 746
Provisions	1 752	714	-	-	1 752	714
Pension Fund	3 623	9 227	-	-	3 623	9 227
Other	-	5	-	-	-	5
Tax losses carried forward	31 437	31 432	-	-	31 437	31 432
Net deferred tax asset / (liability)	**100 180**	**129 337**	**(746)**	**-**	**99 434**	**129 337**

The Bank assessed the recoverability of its deferred taxes in the statement of financial position based on the estimated future taxable profits (see Note 3.2). The Bank only recognizes deferred tax assets in relation to reportable tax losses when it considers that they are expected to be recovered in a foreseeable future.

The amount of tax losses presented as at 31st December, 2017 of 98,933 thousand euros were not subject to deferred tax asset computation.

Movements within the deferred tax in the statement of financial position heading obtained the following compensation:

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	129 337	111 367
Recognised in profit or loss	(5 022)	18 026
Recognised in fair value reserves	(1 959)	(210)
Recognised in other reserves	66	150
Foreign exchange variation and others	(22 988)	4
Closing balance (Asset / (Liability))	**99 434**	**129 337**

The amount reported as "foreign exchange variation and others" includes the recognition, as at 31st December, 2017, of the tax credit under the special regime applicable to deferred tax assets of 22,856 thousand euros (31st December 2016: 5,869 thousand euros).

Tax recognised in the income statement and reserves during the 2017 and 2016 financial years had the following sources:

(thousand euros)

	31.12.2017		31.12.2016	
	Recognised in profit or loss	Recognised in reserves	Recognised in profit or loss	Recognised in reserves
Deferred Taxes				
Available-for-sale financial assets	-	1 959	-	210
Loans and advances to customers	29 470	-	4 573	-
Provisions	208	-	(715)	-
Pension Fund	10	(66)	(533)	(150)
Outros	(24 666)	-	(4)	-
Tax credit resulting from double taxation	-	-	412	-
Tax loss carried forward	-	-	(21 759)	-
	5 022	**1 893**	**(18 026)**	**60**
Current Taxes	1 795	-	(3 615)	-
Total recognised taxes	**6 817**	**1 893**	**(21 641)**	**60**

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

(thousand euros)

	31.12.2017		31.12.2016	
	%	Value	%	Value
Profit or loss before taxes		**(133 724)**		**(172 922)**
Income tax rate of Haitong Bank	21.0		21.0	
Tax determined based on the income tax rate of Haitong Bank		(28 082)		(36 314)
Difference in the tax rate of subsidiaries	(1.2)	1 625	0.0	-
Non-taxable capital gains	0.0	-	(0.7)	1 269
Branches' income tax	0.0	-	0.2	(364)
Flat taxation	(0.9)	1 260	(0.7)	1 136
Deferred tax asset not recognised on tax losses generated in the year	(15.5)	20 776	0.0	-
Non-deductible costs	(8.4)	11 238	(5.2)	8 933
Tax reduction impact	0.0	-	(1.3)	2 241
Other	0.0	-	(0.8)	1 458
	(5.0)	**6 817**	**12.5**	**(21 641)**

A Bank levy was established in pursuance of Law no. 55-A/2010 of December 31st, which is not eligible as tax cost, and which scheme was regularly extended by Law no. 83-C/2013 of December 31st and Law no. 82-B/2014 of December 31st. As at 31st of December 2017, the Bank recognised the amount of 1,751 thousand euros as cost for the financial year (31st of December 2016: 1,593 thousand euros), included in Other operating income – Direct and indirect taxes (see Note 11).

NOTE 33 – OTHER LIABILITIES

As at 31st of December 2017 and 2016, the Other liabilities heading is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Creditors and other resources		
Public sector	3 461	3 256
Deposited collateral under collateral agreements (see Note 18)	5 428	3 100
Sundry creditors		
Creditors from transactions with securities	21 114	39 932
Suppliers	9 483	1 568
Other sundry creditors	2 835	6 388
	42 321	**54 244**
Accrued expenses		
Career bonuses (see Note 13)	498	583
Other accrued expenses	11 567	8 261
	12 065	**8 844**
Deferred income	**3 758**	**82**
Other sundry liabilities		
Stock exchange transactions pending settlement	75 688	21 355
Foreign exchange transactions pending settlement	1 483	383
Other transactions pending settlement	3 076	66 626
	80 247	**88 364**
Retirement pensions (see Note 13)	**-**	**3 386**
	138 391	**154 920**

As at 31st of December 2017 and 2016, the headings regarding Stock exchange transactions pending settlement refer to transactions with securities pending settlement.

The headings regarding Other transactions pending settlement include amounts to be settled resulting from the exercise of guarantees provided to the subsidiary in Ireland (see Note 36).

NOTE 34 – CAPITAL, SHARE PREMIUM AND OTHER CAPITAL INSTRUMENTS

Ordinary shares

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

On 3 August 2014, the Bank of Portugal decided to apply a resolution measure to Banco Espírito Santo, S.A., holder of 100% of the Bank's share capital, resulting in the establishment of Novo Banco, S.A., with a share capital of euro 4.9 thousand million, into which some assets of Banco Espírito Santo, S.A. were incorporated, as selected by the Bank of Portugal. In this context, the Bank and its branches and subsidiaries were transferred to Novo Banco, S.A..

On 7th September 2015, the Bank's share capital was fully acquired by Haitong International Holdings Limited.

On 17th December 2015, the Bank performed a capital increase of euro 100 000 thousand, through the issuance of 20,000,000 shares at the nominal value of 5 euros each, which was fully subscribed by Haitong International Holdings Limited.

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

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

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

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

On the 31st of August 2017, the Bank increased its capital in 38,500 thousand euros, through the issuance of 7,700,000 shares with the nominal value of 5 euros each, resulted from a in the conversion of a shareholder loan granted by Haitong International Holdings.

On the 31st December 2017, Haitong Bank's share capital amounts to euro 844,769 thousand and is represented by 168,953,800 shares at the nominal value of 5 euros each. Haitong Holdings Limited holds 100% of the Bank's share capital.

Share Premium

As at 31 December 2017 and 2016, the share premium in the amount of euro 8,796 thousand refers to the capital increase that took place in previous years.

Other equity instruments

During October 2010, the Bank issued perpetual subordinated bonds with conditioned interest in the total amount of 50 million euros. These bonds have a conditioned, non-cumulative interest, payable only when and if the Board of Directors decides to do so.

This conditioned interest corresponds to the application of an annual rate of 8.5% over the nominal value, payable semi-annually. The reimbursement of these securities may be made in full, but not partially, after 15 September 2015, depending only on Haitong Bank's option and the prior approval of the Bank of Portugal. Given their characteristics, these obligations are considered equity instruments in accordance with the accounting policy described in Note 2.9.

During the period 2011, a reimbursement of Other equity instruments in the amount of 46,269 thousand euros took place through the purchase of the Bank's own share capital.

These bonds are subordinated in respect of any of Haitong Bank's liabilities and pari passu in respect of any subordinated bonds with identical characteristics that may be issued by the Bank.

In May 2016, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of 80,000 thousand euros identified as "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments". Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.9.

In June 2017, the perpetual instruments called "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments" were converted into equity.

As at 31st of December 2017, 3,731 thousand euros regarding these bonds are in circulation. In 2017, the Bank paid interest of 317 thousand euros, recorded as a deduction in reserves (231 thousand euros at 31 December 2016).

NOTE 35 – FAIR-VALUE RESERVES, OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

Legal reserve, fair value reserve and other reserves

The legal reserve can only be used to absorb accumulated losses or to increase the amount of the share capital. Portuguese legislation applicable to the banking sector (Article 97 of RGICSF) requires that 10% of the profit for the year must be transferred to the legal reserve until it is equal to the share capital.

The fair value reserve represents the amount of the unrealised gains and losses arising from securities classified as available-for-sale, net of impairment losses recognised in the income statement in the year/previous years. The amount of this reserve is presented as net of deferred taxes.

During the years of 2017 and 2016, the movements of these headings were as follows:

(thousand euros)

	Fair value reserves			Other reserves and retained earnings			
	Available for-sale financial assets	Income tax reserves	Total fair value reserve	Legal reserve	Actuarial deviations (net of taxes)	Other reserves and retained earnings	Total Other reserves and retained earnings
(Restatement)	**(5 136)**	**1 423**	**(3 713)**	**39 878**	**(23 372)**	**102 498**	**119 004**
Actuarial deviations net of taxes	-	-	-	-	(2 626)	-	(2 626)
Interest of other equity instruments	-	-	-	-	-	(231)	(231)
Fair value changes	761	(209)	552	-	-	-	-
Transfer to reserves	-	-	-	-	-	(180 605)	(180 605)
Other movements	-	-	-	-	-	13	13
Balance as at 31st December 2016	**(4 375)**	**1 214**	**(3 161)**	**39 878**	**(25 998)**	**(78 325)**	**(64 445)**
Actuarial deviations net of taxes	-	-	-	-	(177)	-	(177)
Interest of other equity instruments	-	-	-	-	-	(317)	(317)
Fair value changes	7 087	(1 959)	5 128	-	-	-	-
Transfer to reserves	-	-	-	-	-	(151 281)	(151 281)
Other movements	-	-	-	-	-	(38)	(38)
Balance as at 31st December 2017	**2 712**	**(745)**	**1 967**	**39 878**	**(26 175)**	**(229 961)**	**(216 258)**

Following the accession to the special scheme applicable to deferred tax assets (REAID), and considering the verification of a negative net result on the 31st of December, 2015, and as referred to in Note 32, a special reserve was established in 2016, amounting to 6,456 thousand euros, against free reserve.

In a similar way, in consequence of the verification of a negative net result on the 31st of December, 2016, a special reserve was established in 2017, amounting to 25,141 thousand euros, against free reserve.

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

(thousand euros)

	31.12.2017	31.12.2016
Opening balance	**(3 161)**	**(3 714)**
Fair value changes	9 574	1 814
Disposals of the financial year	(2 577)	(1 079)
Impairment recognised in the financial year	90	27
Deferred taxes recognised in reserves during the financial year	(1 959)	(209)
Closing balance	**1 967**	**(3 161)**

NOTE 36 – OFF-BALANCE SHEET ITEMS

As at 31st of December 2017 and 2016, off-balance elements are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Contingent liabilities		
Guarantees and stand by letters of credit	451 208	631 842
Assets pleged as collateral	277 997	321 940
	729 205	**953 782**
Commitments		
Irrevocable commitments	5 572	4 921
	5 572	**4 921**

Guarantees and standby letters of credits are banking operations that do not imply any out-flow by the Bank.

As at 31 December 2017, the balance Assets pledged as collateral includes:

- Securities pledged as collateral to the Bank of Portugal (i) within the scope of the Large-Value Payment System, amounting to 60,000 thousand euros as at the 31st of December, 2017 (31st of December, 2016: 60,000 thousand euros) and (ii) within the scope of the opening of credit with guarantee for liquidity-providing transactions, amounting to 113,177 thousand euros (31st of December, 2016: 237,965 thousand euros), and the total of securities eligible for rediscount with the Bank of Portugal amounted to 233,777 thousand euros as at the 31st of December, 2017 (31st of December, 2016: 297,965 thousand euros).
- Securities pledged as collateral to the Portuguese Securities Market Commission within the Investor Compensation Scheme in the amount of 110 thousand euros (31st of December 2016: 155 thousand euros).
- Securities pledged as collaterals to Fundo de Garantia de Depósitos [Deposit Guarantee Funds] in the amount of 100 thousand euros (31st of December 2016: 100 thousand euros).
- Securities pledged as collateral within the scope of transactions with repurchase agreement: 44,009 thousand euros (31st of December 2016: 23,720 thousand euros).

Irrevocable commitments represent contractual agreements to extend credit to the Bank's customers (e.g. unused credit lines). These agreements are generally contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission.

Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, and the Bank requires these operations to be adequately covered by collaterals when needed. It is expected that the majority of these contingent liabilities and commitments will expire without having been used, and so the indicated amounts do not necessarily represent future cash-flows needs.

Additionally, the liabilities accounted for in the off-balance sheet and related to banking services provided are as follows:

(thousand euros)

	31.12.2017	31.12.2016
Liabilities related to services provided		
Securities and other items held for safekeeping on behalf of customers	493 160	552 660
Other responsabilities related with services provided	1 215 555	1 608 690
	1 708 715	**2 161 350**

As at 31st of December 2017, the value of off-balance elements for services provided include 1,158,013 thousand euros associated with syndicated loans under management (2,027,532 thousand euros as at 31st of December 2016) and 57,141 thousand euros associated with discretionary management (157,437 thousand euros as at 31st of December 2016).

Banco Espírito Santo (BES), Novo Banco and Haitong Bank (and, in some cases, supervisory authorities, auditors and former directors from BES) have been sued in civil proceedings associated with facts of the former Grupo Espírito Santo (GES).

Within this framework, Haitong Bank is a defendant in a proceeding associated with the capital increase of BES, which took place in June 2014. In fact, there were 2 proceedings associated with the capital increase of BES, however, the Court has ruled not to prosecute due to "abandonment" in both of the aforesaid proceedings. The prosecution have appealed both deliberations to higher courts instances and in one of these proceedings the Supreme Court of Justice says that there is a double standard in relation to the decision of the lower court and the Lisbon Court of Appeal [Tribunal da Relação de Lisboa]. The confirmation of the deliberation of the first instance is awaited, regarding this proceeding. As regards the other proceeding, a higher court instance decision is awaited and it is expected that, as in the abovementioned proceeding, a favourable deliberation will be reached.

Haitong Bank is also a defendant in 83 proceedings, nearly all of which are associated with issues of commercial paper of GES's entities (Rioforte and ESI – Espirito Santo International) (3 of which concern issues of notes by Haitong Bank's subsidiary based in Ireland (HIIP) whose underlying asset were bonds issued by Espírito Santo Financial Portugal (ESFP)) and OI, and which were brought before the courts in 2015, 2016 and 2017.

In note 38, in what concerns the 2016 accounts, it is stated that, in the opinion of Haitong Bank's Legal Department and of the external lawyers to whom the proceedings have been entrusted, such proceedings do not have legal sustainability, wherefore it is considered unlikely that any judgment will be made against Haitong Bank in relation thereto. Such opinion is hereby reasserted, based on the following grounds.

Concerning the shares associated with issues of commercial paper of GES, it is true that Haitong Bank (then BESI – Banco Espírito Santo de Investimento) acted as administrative agent in several issuances, having dealt with their integration in the Central Securities Depository, and as paying agent, being responsible for paying interest and principal to the holders of such securities (evidently, in the assumption of having received the necessary funds from the issuer for such purpose). However, such issues were subject to private offering, and BESI did not take part in their listing, nor did it liaise with investors. Their corresponding information notes are unambiguous, by stating that their respective issuers are exclusively responsible for information contained therein. With regard to the aforementioned 3 cases related to HIIC issues, these correspond to i) credit linked notes, whose remuneration and reimbursement were dependent on facts (namely insolvency) associated with the issuer of the underlying asset, in the case of the ESFP which, as known , was declared bankrupt in which case investors should receive the underlying asset itself or the proceeds from its sale and ii) credit linked notes whose remuneration and reimbursement were dependent on facts (including insolvency) associated with the issuer of the underlying asset , OI, which was declared insolvent. The author subscribed CLN's issued by HIIP. The conditions of these issues are clearly set out in its information documents, in addition to which, at that time, BESI did not proceed to the placement of these issues with the investors.

Such opinion has since been supported by several judicial decisions.

Thus, 15 cases were passed with the total acquittal of Haitong Bank concerning the commercial paper of GES. Haitong Bank is expected to receive the confirmation of the final and unappealable decision (final decision without recourse) from other judgments.

Resolution Fund

Resolution measures applied to Banco Espírito Santo, S.A. and BANIF – Banco Internacional do Funchal, S.A.

The Board of Directors of the Bank of Portugal decided, on 3 August 2014, to apply a resolution measure to Banco Espírito Santo, S.A. ("BES"), having the generality of the activity and net worth of BES been transferred to Novo Banco, S.A. In line with EU regulations, the capitalisation of Novo Banco was secured by the Resolution Fund, established by Decree-Law No. 31-A/2012 of 10 February. As provided for in said Decree-Law, the Resolution Fund's resources come from contributions paid by the institutions participating in the Fund and from the banking sector contribution. Moreover, legislation provides that whenever these resources prove insufficient to fulfil obligations, other means of financing can be use, including: (i) special contributions from credit institutions; and (ii) from loans taken out.

Following the resolution measure, the capital needs of Novo Banco were calculated at 4,900 million euros, having the capital subscription held by the Resolution Fund been funded by the Portuguese State and by eight financial institutions participants of the Fund (not including the Bank).

Subsequently, in view of the resolution process of Banco Espírito Santo, S.A., Bank of Portugal resolved, as announced on 29 December 2015, the transfer of responsibility to Resolution Fund of "…possible negative outcomes of future decisions, arising from the resolution process [of Banco Espírito Santo, S.A.], with responsibilities or contingencies as a result.".

On July 2016, the Resolution Fund stated that it would analyse and assess the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES as at 3 August 2014. Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors, whose credits have not been transferred to Novo Banco suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its winding-up process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

In accordance with the available public information, the volume of litigations associated with this proceeding is significant.

On 31 March 2017, Bank of Portugal issued a press release referring that Lone Star had been selected to conclude the sale process of Novo Banco. The mentioned press release states the following:

"Under the terms of the agreement, Lone Star will inject a total of 1,000 million euros in Novo Banco, of which 750 million euros at completion and 250 million euros within a period of up to three years. Through the capital injection, Lone Star will hold 75% of the share capital of Novo Banco and the Resolution Fund will maintain 25% of the share capital. The terms agreed also include a contingent capital mechanism, under which the Resolution Fund, as a shareholder, undertakes to make capital injections in case certain cumulative conditions are to be met related to: (i) the performance of a specific portfolio of assets; and (ii) the capital levels of the bank going forward. Any capital injections to be carried out pursuant to this contingent mechanism benefit from a capital buffer resulting from the injection to be made under the terms of the agreement and are subject to an absolute cap."

On 18 October 2017, Bank of Portugal and the Resolution Fund announced the conclusion of the sale process of Novo Banco to Lone Star.

Additionally, Bank of Portugal established, on 19 and 20 December 2015, a resolution measure over BANIF – Banco Internacional do Funchal, S.A ("BANIF"). The operation involved State support, including 489 million euros taken over by the Resolution Fund, funded through a loan agreement granted by the Portuguese State. Moreover, the Resolution Fund provided a guarantee relative to bonds issued by the vehicle constituted in the scope of BANIF's resolution, in the amount of 746 million euros, counter-guaranteed by the Portuguese State.

General features

To repay the loans received and other liabilities it may be required to assume relative to the above mentioned resolution measures, the Resolution Fund is financed through the periodic and special contributions of the participating institutions (including the Bank) and from the contribution on the banking sector. Under article 153-I of Decree-Law No. 345/98, of 9 November, if the resources of the Resolution Fund are insufficient to meet its obligations, participating institutions may be called upon, via a separate statute, to make special contributions. The amounts, instalments, deadlines and other terms of those contributions shall also be defined by said statute.

In accordance with Decree-Law No. 24/2013 that determines the operation of the Resolution Fund, the Bank has provided mandatory contributions since 2013 pursuant to the aforementioned Decree.

On 3 November 2015, Bank of Portugal issued a Circular-Letter according to which the periodical contribution for the Resolution Fund must be recognized as cost at the time of the event that originates mandatory contribution payments, which is in the last day of April of each year, pursuant to article no. 9 of Decree-Law No. 24/2013 of 19 February, ensuring that the Bank recognizes the contribution as an expense in the year it is due. In 2017, the Bank made periodic contributions to the Resolution Fund and banking sector contributions in the amounts of 590 thousand euros and 1,751 thousand euros, respectively. These contributions were recognized as expenses in the current period, in accordance with IFRIC nº 21 – Charges.

From 2015 on, the Bank also started to pay contributions regarding the constitution of the European Resolution Fund, having this contributions amounted to 1,221 thousand euros in 2017. The European Resolution Fund does not cover the existing situations, as at 31 December 2015, with the Portuguese Resolution Fund.

On 15 November 2015, the Resolution Fund issued a press release stating: "it is further explained that it is unlikely that the Resolution Fund shall propose the establishment of a special contribution for the financing of the resolution measure applied to BES. Therefore, the chance of a possible charge of a special contribution is far-flung."

On 28 September 2016, the Resolution Fund issued a statement in which it is stated that the maturity of the loan that was set to mature on 31 December 2017 would be adjusted to ensure the Fund's ability to fully meet its obligations based on its regular revenues, and regardless of the contingencies to which it is exposed, without the need of extraordinary contributions.

According to the communication of the Resolution Fund of 21 March 2017:

- "The conditions of the loans obtained by the Fund for the financing of the resolution measures applied to Banco Espírito Santo, S.A. and BANIF - Banco Internacional do Funchal, S.A. have been changed." These loans amount to 4,953 million euros, of which 4,253 million euros were granted by the Portuguese State and 700 million euros were granted by a bank syndicate.
- Those loans are now due in December 2046, without prejudice to the possibility of being repaid early based on the use of the Resolution Fund's revenues. The due date will be adjusted so that it enables the Resolution Fund to fully meet its obligations based on regular revenues and without the need for special contributions or any other type of extraordinary contributions.
- The review of the loans' conditions aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable cost for the banking sector.
- The new conditions enable the full payment of the Resolution Fund's liabilities, as well as the respective remuneration, without the need to ask the banking sector for special contributions or any other type of extraordinary contributions.

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

Accordingly, as at 31 December 2017, there are no expectations regarding the value of possible losses connected to the divesture process of Novo Banco, of the mentioned litigations associated with the resolution process of Banco Espírito Santo or of the potential losses of the Resolution Fund following the resolution of BANIF.

Despite the possibility foreseen in the applicable legislation concerning the payment of special contributions, taking into consideration the recent developments in the renegotiation of the conditions of the loans granted to the Resolution Fund by the Portuguese State and by the bank syndicate, and the public notices made by the Resolution Fund and by the Office of the Portuguese Ministry of Finance mentioning that such a possibility will not be used, the financial statements as at 31 December 2017 translate the Bank's Board of Directors expectation that no special contributions or other type of extraordinary contributions will be required of the institutions part of the Resolution Fund to finance the resolution measures applied to BES and to BANIF.

NOTE 37 – RELATED PARTIES TRANSACTIONS

As at 31st of December 2017 and 2016, the total amount of assets and liabilities of Haitong Bank referring to operations carried out with Haitong Bank's subsidiaries are as follows:

(thousand euros)

	31.12.2017							
	Assets							
	Loans and advances to banks	Securities	Others (A)	Total	Guarantees	Liabilities	Income	Expenses
Subsidiaries								
HAITONG BANCO DE INVESTIMENTO DO BRASIL S.A.	-	-	123 300	123 300	-	-	-	-
HAITONG CAPITAL - SCR, S.A.	-	-	42 627	42 627	656	18 727	3	28
HAITONG INVESTMENT IRELAND PUBLIC LIMITED COMPANY	-	7 756	229 986	237 742	337 876	835 030	(42 558)	(28 196)
HAITONG SECURITIES (UK) LIMITED	-	-	4 476	4 476	-	7 080	-	3 801
HAITONG SECURITIES USA LLC □	6 145	-	-	6 145	-	-	68	6 440
TOTAL	**6 145**	**7 756**	**400 389**	**414 290**	**338 532**	**860 837**	**(42 487)**	**(17 927)**

(A) Includes acquisition cost of subsidiaries.

(thousand euros)

	31.12.2016							
	Assets							
	Loans and advances to banks	Securities	Others (A)	Total	Guarantees	Liabilities	Income	Expenses
Subsidiaries								
HAITONG BANCO DE INVESTIMENTO DO BRASIL S.A.	-	-	174 497	174 497	714	-	-	-
HAITONG CAPITAL - SCR, S.A.	-	-	42 686	42 686	656	10 166	3	33
HAITONG (UK) LIMITED	-	-	168 773	168 773	-	-	-	-
HAITONG INVESTMENT IRELAND PUBLIC LIMITED COMPANY	102	7 641	260 205	267 948	503 553	862 555	63 642	43 066
HAITONG SECURITIES (UK) LIMITED	-	-	2 274	2 274	-	3 134	(31)	374
LUSITANIA CAPITAL, S.A.P.I. DE C.V., SOFOM, E.N.R.	-	-	220	220	-	4	-	-
HAITONG SECURITIES USA LLC □	6 715	-	12 199	18 914	-	-	72	-
TOTAL	**6 817**	**7 641**	**660 854**	**675 312**	**504 923**	**875 859**	**63 686**	**43 473**

(A) Includes acquisition cost of subsidiaries.

As described in Note 25, in December 2017 the Bank sold the holdings held in Haitong Securities (UK) Limited and Haitong Securities USA LLC to a Haitong Group entity.

NOTE 38 – FAIR-VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair-value of financial assets and liabilities

Haitong Bank estimates the fair value of its instruments based on prices quoted in active markets or, when such prices are not available, based on valuation techniques following standard valuation models such as discounted cash flows and option pricing models. The valuation models' parameter inputs are based on observable data, when available, derived from prices of financial instruments actively traded or based on indicative broker quotes.

The Bank performs valuation adjustments to reflect counterparty credit risk (CVA) for uncollateralized derivatives assets considering the current exposure, loss given default and the probability of default. This probability of default is based on the Bank's credit risk assessment model or market information where applicable.

The fair value of the Bank's financial liabilities in the form of structured notes incorporates Haitong Bank's own credit risk adjustment in the form of Debt Valuation Adjustment (DVA). This adjustment is performed by discounting cash flows considering a risk free yield curve and a credit spread. As Haitong Bank does not have a credit default swap level observable in the market, the credit spread is estimated based on proxies.

The fair-value of financial assets and liabilities, for the Bank, is analysed as follows:

(thousand euros)

	Amortised cost	At fair value			Total book value	Fair value
		Level 1	Level 2	Level 3		
Balance as at 31st December 2017						
Cash and deposits at central banks	441 333	-	-	-	441 333	441 333
Deposits at other credit institutions	28 350	-	-	-	28 350	28 350
Financial assets held-for-trade	-	43 882	178 400	84 702	306 984	306 984
Available-for-sale financial assets	50	256 980	31	23 859	280 920	280 920
Loans and advances to banks	164 527	-	-	-	164 527	164 527
Loans and advances to customers	300 583	-	-	-	300 583	299 376
Financial assets	**934 843**	**300 862**	**178 431**	**108 561**	**1 522 697**	**1 521 490**
Deposits from central banks	60 000	-	-	-	60 000	60 000
Financial liabilities held-for-trading	-	-	159 534	41 349	200 883	200 883
Deposits from other credit institutions	824 688	-	-	-	824 688	824 688
Customer accounts	290 616	-	-	-	290 616	290 616
Debt securities issued	143 127	-	-	-	143 127	143 127
Financial liabilities	**1 318 431**	**-**	**159 534**	**41 349**	**1 519 314**	**1 519 314**
Balance as at 31st December 2016						
Cash and deposits at central banks	37 529	-	-	-	37 529	37 529
Deposits at other credit institutions	88 759	-	-	-	88 759	88 759
Financial assets held-for-trade	-	52 263	317 847	23 857	393 967	393 967
Available-for-sale financial assets	50	295 449	128 566	2 717	426 782	426 782
Loans and advances to banks	34 804	-	-	-	34 804	34 804
Loans and advances to customers	398 312	-	-	-	398 312	384 669
Financial assets	**559 454**	**347 712**	**446 413**	**26 574**	**1 380 153**	**1 366 510**
Deposits from central banks	60 000	-	-	-	60 000	60 000
Financial liabilities held-for-trading	-	-	295 683	-	295 683	295 683
Deposits from other credit institutions	901 262	-	-	-	901 262	901 262
Customer accounts	279 765	-	-	-	279 765	279 765
Debt securities issued	103 092	-	-	-	103 092	103 120
Financial liabilities	**1 344 119**	**-**	**295 683**	**-**	**1 639 802**	**1 639 830**

Fair Value Hierarchy

The Bank's financial instruments are classified under the three levels defined in IFRS 13 according to the following:

LEVEL 1 – Instruments valued using quoted prices observed in active and liquid markets. These include government bonds, credit bonds and exchange traded equities and derivatives.

LEVEL 2 – Instruments valued using valuation techniques based on observable market inputs, quotes prices for similar instruments in active markets or for identical instruments in markets that are neither active nor liquid. These include bonds, plain vanilla OTC derivatives and less liquid equities.

LEVEL 3 – Instruments valued using valuation techniques based on non-observable market inputs and that do not comply with the requirements to be classified under Level 1 nor Level 2. These include non-plain vanilla OTC derivatives valued based on non-observable market inputs or on indicative prices published by third parties, distressed and highly illiquid bonds, funds valued at Net Asset Values (NAV) published by the fund manager and private equity placements.

In 2017, there were 96 thousand euros in securities transferred from Level 1 to Level 2 based on their liquidity assessment.

For financial instruments recorded in the balance sheet at fair value, the movement occurred between December 31st , 2016 and December 31st , 2017 in assets and liabilities classified in level 3 is as follows:

(thousand euros)

	Available-for-sale financial assets	Financial assets held-for-trade		Total
		Securities	Derivatives	
Opening Balance	**2 717**	**23 857**	**-**	**26 574**
Results recognized in Net Interest Margin	-	1 329	229	1 558
Net gains/(losses) from assets and liabilities at fair value through profit or loss	-	-	(215)	(215)
Impairment on other financial assets net of reversal and recoveries	(29)	-	-	(29)
Other fair value changes	-	1 082	402	1 484
Fair value reserve changes	(43)	-	-	(43)
Acquisitions	-	38 941	-	38 941
Reimbursements	-	(25 967)	-	(25 967)
Derivatives finantial flows	-	-	(469)	(469)
Transfers from other levels	21 214	3 733	431	25 378
Closing Balance	**23 859**	**42 975**	**378**	**67 212**

In what regards Level 3 classification, in 2017 there were 24.9 million euros of securities that were transferred to Level 3 as a result of its liquidity and market inputs, used in the valuation, observability. Additionally to the securities, OTC derivatives with a net book value of 431 thousand euros were transferred into Level 3 as a result of various improvements in the fair value hierarchy classification process.

The main parameters used during 2017 in what concerns valuation models were the following:

Yield curves

The short-term rates presented reflect benchmark values for the money market. For long-term rates, swap curves are used:

(%)

	31.12.2017			31.12.2016		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.42	1.45	0.47	-0.41	0.70	0.22
1 month	-0.43	1.57	0.50	-0.42	0.77	0.25
3 months	-0.34	1.70	0.52	-0.36	1.00	0.36
6 months	-0.33	1.73	0.58	-0.38	0.97	0.53
1 year	-0.28	1.87	0.65	-0.28	1.14	0.55
3 years	0.01	2.05	0.88	-0.10	1.66	0.69
5 years	0.31	2.25	1.03	0.08	1.97	0.87
7 years	0.57	2.31	1.15	0.33	2.16	1.04
10 years	0.91	2.40	1.28	0.67	2.35	1.24
15 years	1.28	2.50	1.42	1.06	2.52	1.43
20 years	1.46	2.55	1.47	1.21	2.59	1.48
25 years	1.54	2.55	1.45	1.25	2.61	1.46
30 years	1.54	2.54	1.43	1.27	2.61	1.44

Credit spreads

Credit spreads used by the Bank when assessing credit derivatives are captured on a daily basis by Markit at the end of the day, and the values of the reference entities are used for such purpose. The development of the main credit indexes is set out below, representing the behaviour of credit spreads in the market throughout the year:

(basis points)

Index	Series	1 year	3 years	5 years	7 years	10 years
Year 2016						
CDX USD Main	**27**	-	34.23	67.47	95.14	113.58
iTraxx Eur Main	**26**	-	43.70	72.32	94.63	111.62
iTraxx Eur Senior Financial	**26**	-	-	93.44	-	-
Year 2017						
CDX USD Main	**29**	-	24.93	49.02	72.45	90.48
iTraxx Eur Main	**28**	-	22.08	44.83	64.93	83.44
iTraxx Eur Senior Financial	**28**	-	-	43.86	-	-

Interest rate volatility

The values presented below refer to the implied volatilities (at-themoney):

(%)

	31.12.2017			31.12.2016		
	EUR	USD	GBP	EUR	USD	GBP
1 year	--	15.31	52.35	--	24.82	80.81
3 years	103.44	22.10	--	--	37.27	--
5 years	69.95	28.62	58.67	164.92	40.83	97.10
7 years	57.70	30.07	63.27	94.34	40.85	90.36
10 years	50.27	28.18	--	71.96	38.35	--
15 years	44.11	--	--	62.39	35.58	--

Foreign exchange rate and volatilities

Presented below are the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currency pairs used for the valuation of derivatives:

			Volatility (%)				
Exchange	31.12.2017	31.12.2016	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1993	1.0541	6.33	7.31	7.27	7.36	7.45
EUR/GBP	0.8872	0.8562	6.27	7.39	7.58	7.78	7.94
EUR/CHF	1.1702	1.0739	5.59	6.17	6.16	6.22	6.21
EUR/PLN	4.1770	4.4103	4.27	4.97	5.52	5.93	6.17
EUR/CNY	7.8044	7.3202	-	-	-	-	-
USD/BRL a)	3.3127	3.2544	11.96	12.66	13.44	14.24	14.95

a) Determined based on EUR/USD and EUR/BRL

Equity indexes

The following table summarizes the evolution of the main equity indexes and their corresponding volatility:

	Quotation			Historical volatility (%)		Implied volatility (%)
	31.12.2017	31.12.2016	Range %	1 month	3 months	
DJ Euro Stoxx 50	3 504	3 291	6.49	10.17	8.49	11.43
PSI 20	5 388	4 679	15.15	7.32	8.45	12.06
IBEX 35	10 044	9 352	7.40	10.63	13.51	-
DAX	12 918	11 481	12.51	11.33	9.75	12.70
S&P 500	2 674	2 239	19.42	6.27	5.55	7.72
BOVESPA	76 402	60 227	26.86	16.46	17.02	17.25

The main methods and assumptions used in estimating the fair values of the aforementioned financial assets and liabilities are presented as follows:

Cash and deposits at central banks, Deposits at other credit institutions and Loans and advances to banks

Considering the short term nature of these financial instruments, carrying value is a reasonable estimate of its fair value.

Loans and advances to customers

The fair-value of loans and advances to customers is estimated based on the update of expected cash flows and interest, by taking into account market spreads for similar transactions (if they were entered into in the current moment) considering that the instalments are paid in compliance with the deadlines contractually agreed upon.

Resources of other credit institutions

The balance-sheet value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Resources of customers

The fair value of these financial instruments is determined based on the update of expected cash flows in capital and interest, considering that the payments are in compliance with the deadlines agreed upon contract. Considering that the applicable interest rates are of variable nature and the maturity period of the deposits is substantially inferior to one year, there are no measurable differences in fair-value.

Debt securities issued and Subordinated liabilities

The fair value of these instruments is based in market prices, when available. When unavailable, the fair-value it is estimated based on the update of expected cash flows in capital and interest regarding these instruments in the future.

NOTE 39 – RISK MANAGEMENT

Qualitative information of the Haitong Bank regarding the management of risks policy is presented as follows:

The risk control and management is considered one of the main strategic axes of active support in the balanced and sustainable development of management.

The Bank's risk management has the following objectives:

- Identification, quantification and control of different types of assumed risks, gradually implementing consistent principles and methodologies;
- Continuous contribution to the improvement of supporting tools regarding the organisation of operations and the development of internal evaluation techniques of performance and optimisation of the capital base;
- Pro-active management of tardiness situations and violation of contract obligations.

Credit Risk

Credit Risk is based on possible financial losses due to failure by the customer or counterpart in relation to the obligations established with the Group upon contract within their credit activity. Credit risk is essentially present in traditional banking products – loans, guarantees and other contingent liabilities - and in negotiation products – swaps, forwards and options (counterpart risk).

Permanent management of loan portfolio is undertaken, which favours the interaction between several teams engaged in risk management throughout the continuous stages of the credit process. This approach is complemented by the implementation of continuous upgrades to the methodologies and tools of risk evaluation and control.

There are regular follow-ups of the Group's credit risk profile , namely in what concerns the evolution of credit exposures and monitoring of credit losses. Also subject to analysis is the compliance with the approved credit limits and the correct operation of mechanisms associated with the approval of credit lines within the business area's ongoing activity.

Haitong Bank's credit risk exposure is analysed as follows:

(thousand euros)

	31.12.2017	31.12.2016
Deposits with banks	634 201	161 085
Financial assets held for trading	291 054	384 301
Available-for-sale financial assets	278 194	423 956
Loans and advances to customers	300 583	398 312
Other assets	257 647	282 263
Guarantees granted	451 208	631 842
Irrevocable commitments	5 572	4 921
Total	**2 218 459**	**2 286 680**

Risk concentration

The distribution of loan and advances to customers and securities by sectors for the years ending on the 31st of December 2017 and 2016 is presented as follows:

(thousand euros)

	31.12.2017						
	Loans and advances to customers				Financial assets held-for-trading	Available-to-sale financial assets	
	Gross amount		Impairment			Gross amount	Impairment
	Outstanding Loan	Overdue Loan	Outstanding Loan	Overdue Loan			
Food, beverage and tobaco	-	-	-	-	102	-	-
Paper industry	-	-	-	-	10 787	-	-
Chemicals and rubber	4 216	-	3 618	-	709	-	-
Non-metallic minerals	-	-	-	-	258	-	-
Metallic products	4 781	-	24	-	-	-	-
Production of machinery, equipment and electric devices	-	-	-	-	7 696	-	-
Production of transport material	-	-	-	-	82	-	-
Electricity, gas and water	105 404	8 099	5 272	8 099	8 741	-	-
Construction	10 151	32 785	1 874	20 022	15 250	-	-
Transports and storage	143 153	10 489	5 687	9 313	59 480	-	-
Printing and publishing	7 984	950	3 194	380	-	-	-
Communication activities	2 445	-	12	-	191	-	-
Monetary intermediation	-	-	-	-	145 162	-	-
Holding companies	24 226	51 427	21 269	51 425	22 436	6 212	1 190
Other financial and insurance activities	15 729	920	205	920	25 399	6 884	4 240
Real estate activities	4 995	-	1 424	-	2 239	-	-
Consulting, scientific, technique and similar activities	1 759	104	146	104	1 062	21 814	600
Travelling activities	-	5 950	-	5 950	-	-	-
Public services	-	-	-	-	3 135	251 990	-
Local public services	3 679	-	18	-	502	-	-
Human health activities and social support	-	-	-	-	3 753	-	-
Arts, entretainment, sports and recreation activities	-	-	-	-	-	50	-
Mortgage loans	294	-	1	-	-	-	-
TOTAL	**328 816**	**110 724**	**42 744**	**96 213**	**306 984**	**286 950**	**6 030**

(thousand euros)

	31.12.2016						
	Loans and advances to customers				Financial assets held for trading	Available-to-sale financial assets	
	Gross amount		Impairment			Gross amount	Impairment
	Outstanding Loan	Overdue Loan	Outstanding Loan	Overdue Loan			
Mining	-	-	-	-	1	-	-
Food, beverage and tobaco	-	-	-	-	62	-	-
Paper industry	-	-	-	-	11 884	-	-
Chemicals and rubber	5 411	16 907	3 860	16 062	8	-	-
Non-metallic minerals	-	-	-	-	637	-	-
Metallic products	10 116	-	51	-	-	-	-
Production of machinery, equipment and electric devices	-	-	-	-	8 927	-	-
Electricity, gas and water	118 123	6 652	6 708	6 458	14 246	-	-
Construction	9 771	39 655	1 644	12 429	-	-	-
Real estate activities	-	-	-	-	68	-	-
Wholesale and retail; repair of motor vehicles and motorcy	-	-	-	-	14	-	-
Transports and storage	159 886	26 983	6 391	7 368	83 107	-	-
Printing and publishing	9 741	-	2 435	-	-	-	-
Communication activities	4 077	-	20	-	3 843	-	-
Monetary intermediation	-	-	-	-	210 617	93 044	-
Holding companies	31 681	47 098	27 041	47 095	2 002	19 152	1 168
Other financial and insurance activities	36 444	793	434	793	29 912	7 879	4 172
Real estate activities	7 108	-	2 026	-	4 013	-	-
Consulting, scientific, technique and similar activities	2 564	56	198	56	3 648	22 855	600
Administrative activities and suporting services	5 905	-	4 010	-	-	-	-
Travelling activities	-	5 950	-	5 950	-	-	-
Public services	-	-	-	-	8 008	289 742	-
Local public services	4 044	-	20	-	-	-	-
Human health activities and social support	-	-	-	-	12 970	-	-
Arts, entretainment, sports and recreation activities	12 970	54	12 973	23	-	50	-
Mortgage loans	370	-	2	-	-	-	-
TOTAL	**418 211**	**144 148**	**67 813**	**96 234**	**393 967**	**432 722**	**5 940**

Market Risk

Market risk broadly represents the possible loss arising from an adverse change in the value of a financial instrument as consequence of interest rate changes, exchange rates and stock prices.

In what concerns Market risk, the main risk measurement element consists of the calculation of possible losses under adverse market conditions, in which the Value at Risk (VaR) methodology is used. The Haitong Bank Group uses a VaR connected to Historical Simulation, with a confidence interval of 99% and an investment duration of 10 days. Volatilities and correlations are historical, based on an observational period of one year.

(million euros)

	31.12.2017				31.12.2016			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Exchange rate	4.42	3.85	8.28	1.18	1.43	2.76	8.19	0.86
Interest rate risk	0.04	0.23	0.62	0.16	0.57	0.35	0.56	0.20
Shares	1.51	0.78	0.62	0.59	0.73	0.75	0.47	0.42
Credit spread	0.05	0.42	0.40	0.34	1.81	1.85	1.96	2.16
Covariance	-1.41	-0.97	-1.41	-0.84	-0.73	-1.11	-0.98	-0.76
Total	**4.61**	**4.31**	**8.51**	**1.43**	**3.81**	**4.59**	**10.22**	**2.88**

The Haitong Bank closed the year with a VaR of 4.61 million euros for its trading positions, registering an increase of about 21% compared to the previous year.

According to the recommendations of Basel II (Pillar 2) and the Bank of Portugal's Instruction no. 19/2005, Haitong Bank Group calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlements (BIS), classifying all balance sheets relating to assets and liabilities and all off-balance sheet items, which do not belong on the trading portfolio, by repricing intervals.

(million euros)

	31.12.2017						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash	441	-	441	-	-	-	-
Loans and advances to banks	193	30	24	-	-	139	-
Loans and advances to customers	301	14	61	174	51	1	-
Securities	281	9	-	21	-	251	-
Collaterals deposited under compensation contracts	112	5	107	-	-	-	-
Off-balance	397	-	40	98	3	38	218
Total	**1 725**	**58**	**673**	**293**	**54**	**429**	**218**
Resources of central banks	60	-	-	-	-	60	-
Resources of other credit institutions	825	-	54	21	-	750	-
Deposits	291	2	155	63	61	10	-
Securities issued	143	-	143	-	-	-	-
Other equity instruments	4	4	-	-	-	-	-
Collaterals deposited under compensation contracts	5	-	5	-	-	-	-
Off-balance	397	-	41	97	3	38	218
Total	**1 725**	**6**	**398**	**181**	**64**	**858**	**218**
GAP (Assets - Liabilities)	**-**	**52**	**275**	**112**	**(10)**	**(429)**	**-**

(million euros)

	31.12.2016						
	Eligible amounts	Non sensitive	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Cash	38	38	-	-	-	-	-
Loans and advances to banks	139	112	4	-	23	-	-
Loans and advances to customers	562	169	82	300	11	-	-
Securities	433	9	366	22	1	18	17
Collaterals deposited under compensation contracts	130	-	130	-	-	-	-
Off-balance	527	1	85	151	16	233	41
Total	**1 829**	**329**	**667**	**473**	**51**	**251**	**58**
Resources of central banks	60	-	-	-	-	60	-
Resources of other credit institutions	901	27	124	-	-	750	-
Deposits and other resources from customers	266	21	142	21	79	3	-
Deposits	14	1	-	-	-	13	-
Repo´s with customers	103	-	103	-	-	-	-
Securities issued	84	-	-	-	-	-	84
Other equity instruments	3	-	3	-	-	-	-
Collaterals deposited under compensation contracts	527	-	85	150	16	233	43
Total	**1 958**	**49**	**457**	**171**	**95**	**1 059**	**127**
GAP (Assets - Liabilities)	**(129)**	**280**	**210**	**302**	**(44)**	**(808)**	**(69)**

* the amounts in risk are at nominal value

As at 31 December 2017, an increase / decrease in interest rates by 100 basis points would represent a positive / negative impact of EUR 8.1 million on the Bank's net position, a decrease of 63% December 2016.

The model used to monitor the sensitivity of Haitong Bank to interest rate risk is based on the duration model and considers parallel scenarios.

(million euros)

	31.12.2017		31.12.2016	
	Parallel increase of 100 bp	Parallel decrease of 100 bp	Parallel increase of 100 bp	Parallel decrease of 100 bp
As at 31 December	8.1	(8.1)	21.7	(21.7)
Average of the year	11.9	(11.9)	19.5	(19.5)
Maximum for the year	19.9	(8.1)	22.2	(13.6)
Minimum for the year	8.1	(19.9)	13.6	(22.2)

The following table presents the average balances, interests and interest rates in relation to the Bank's major assets and liabilities categories, for the periods ended 31st December 2017 and 2016, as well as the average balances and the interests of the period:

(thousand euros)

	31.12.2017			31.12.2016		
	Average balance of the period	Interest of the period	Average interest rate	Average balance of the period	Interest of the period	Average interest rate
Monetary assets	416 736	2 904	0.70%	247 803	948	0.38%
Loans and advances to customers	413 396	9 563	2.31%	458 267	12 550	2.74%
Investment in securities	513 597	7 139	1.39%	336 310	6 923	2.06%
Collateral accounts	124 695	5	0.00%	216 995	76	0.04%
Financial assets	**1 468 424**	**19 611**	**1.34%**	**1 259 375**	**20 497**	**1.63%**
Monetary resources	1 004 027	9 097	0.91%	898 523	19 191	2.14%
Deposits from customers	296 881	3 982	1.34%	238 949	2 085	0.87%
Liabilities represented by securities	106 767	4 160	3.90%	202 507	8 627	4.26%
Other resources	217 730	715	0.33%	324 229	1 281	0.40%
Financial liabilities	**1 625 405**	**17 954**	**1.10%**	**1 664 208**	**31 184**	**1.87%**
Financial result		**1 657**	**0.23%**		**(10 687)**	**-0.25%**

The Bank's foreign exchange risk arises mainly from its investments in foreign subsidiaries, and from its respective hedges made locally, which, when converted into the Group's functional currency, represent an exposure in foreign currency.

Concerning the foreign exchange risk, the distribution of assets and liabilities by currency as at 31st of December of 2017 and 2016, is analysed as follows:

(thousand euros)

		31.12.2017			31.12.2016		
		Spot Position	Forward Position	Net Position	Spot Position	Forward Position	Net Position
USD	U.S. DOLLAR	98 613	(154 257)	(55 644)	18 974	(62 439)	(43 465)
GBP	STERLING POUNG	2 873	-	2 873	(1 563)	(58 399)	(59 962)
BRL	BRAZILIAN REAL	2 054	(129 582)	(127 528)	(12 434)	(164 844)	(177 278)
DKK	COROA DINAMARQUESA	19	-	19	214	-	214
JPY	YEN	194	-	194	361	-	361
CHF	SWISS FRANC	541	-	541	315	-	315
PLN	POLISH ZLOTY	(22 159)	48 233	26 074	(35 632)	54 590	18 958
NOK	NORWEGIAN KRONE	18	-	18	11	-	11
CAD	CANADIAN DOLLAR	2 943	(4 522)	(1 579)	3 577	(4 793)	(1 216)
ZAR	RAND	5	-	5	4	-	4
AUD	AUSTRALIAN DOLLAR	7	-	7	(1)	-	(1)
CZK	CZECH KORUNA	28	-	28	20	-	20
CNY	YUAN RENMINBI	16 261	-	16 261	37 434	-	37 434
	OTHERS	213	-	213	261	-	261
		101 610	**(240 128)**	**(138 518)**	**11 541**	**(235 885)**	**(224 344)**

As at 31st of December 2017 and 2016 the exposure of the Group to the public debt of "peripheral" countries within the Euro Area is as follows:

(thousand euros)

	31.12.2017		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Portugal	-	251 988	251 988
	-	**251 988**	**251 988**

(1) Net values: receivable/(payable)

(thousand euros)

	31.12.2016		
	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Total
Portugal	-	272 786	272 786
Spain	53	-	53
Greece	-	16 957	16 957
	53	**289 743**	**289 796**

(1) Net values: receivable/(payable)

As at 31st of December 2016, in addition to the above mentioned exposure, the Group also has bought protection in the Credit Default Swaps over Portuguese public debt in the amount of 70 000 thousand dollars. As at 31st of December 2017 the Bank oes not have protection bought for that purpose.

All presented exposures are recorded in the statement of financial position of the Group at fair-value based on quoted market values or, in relation to derivatives, based on valuation techniques using observable market parameters / prices.

The details of the exposure regarding the securities registered as available-for-sale financial assets, as financial assets held-for-trading and as financial assets at fair value through profit or loss, is as follows:

(thousand euros)

31.12.2017	Nominal	Market value	Accrued interest	Book value	Fair value reserve
Available-for-sale financial assets					
Portugal	**220 200**	**246 225**	**5 763**	**251 988**	**2 862**
Maturity over 1 year	220 200	246 225	5 763	251 988	2 862
	220 200	**246 225**	**5 763**	**251 988**	**2 862**
Financial assets at fair value through profit or loss					
Spain	-	-	-	-	-
	-	**-**	**-**	**-**	**-**

(thousand euros)

31.12.2016	Nominal	Market value	Accrued interest	Book value	Fair value reserve
Available-for-sale financial assets					
Portugal	**272 700**	**272 775**	**11**	**272 786**	**36**
Maturity up to 1 year	272 500	272 582	5	272 587	44
Maturity over 1 year	200	193	6	199	(8)
Greece	**24 000**	**16 345**	**612**	**16 957**	**(985)**
Maturity over 1 year	24 000	16 345	612	16 957	(985)
	296 700	**289 120**	**623**	**289 743**	**(949)**
Financial assets at fair value through profit or loss					
Spain	45	51	2	53	-
	45	**51**	**2**	**53**	**-**

Liquidity risk

Liquidity risk is caused by the possible inability of financing the asset and complying with the required responsibilities in time, and by the existence of possible difficulties in the liquidation of positions in portfolio without significant losses.

Liquidity management is centralized at the Treasury Department. This management aims to maintain adequate liquidity levels to meet short, medium and long term financing needs. In order to assess the aggregate exposure to this type of risk, there are reports that not only allow the identification of negative mismatch, but also facilitate their dynamic hedging.

Furthermore, the Bank also monitors liquidity ratios from a prudential point of view, determined according to the rules established by the Bank of Portugal and provided in the CRD IV (Directive 2013/36/UE).

As at 31 December 2017, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	31.12.2017						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and deposits at central banks	453 054	-	-	-	-	-	453 054
Deposits at other credit institutions	27 178	-	-	-	-	-	27 178
Financial assets held-for-trading (Securities)	15 930	17 644	33 160	36 962	1 117	-	104 813
Available-for-sale financial assets	2 725	-	13 673	258 698	8 755	-	283 851
Loans and advances to banks	10 245	3 108	-	138 500	-	-	151 853
Loans and advances to customers	-	4 809	35 248	29 742	211 038	19 747	300 584
Derivatives Instruments	288 054	123 379	54 164	96 243	48 108	-	609 948
	797 186	148 940	136 245	560 145	269 018	19 747	1 931 281
Liabilities							
Resources of central banks	-	-	-	60 000	-	-	60 000
Resources of other credit institutions	54 377	-	20 700	750 000	-	-	825 077
Resources of customers	78 637	75 833	124 402	9 905	-	-	288 777
Debt securities issued	-	2 469	257 598	-	-	-	260 067
Financial liabilities held-for-trading (Securities)	23 713	-	-	-	-	-	23 713
Derivatives Instruments	176 970	122 763	53 245	94 295	43 679	-	490 952
Provisions	10 375	-	-	-	-	-	10 375
	344 072	201 065	455 945	914 200	43 679	-	1 958 961

As at 31 December 2016, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	31.12.2016						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and deposits at central banks	37 522	-	-	-	-	-	37 522
Deposits at other credit institutions	90 006	-	-	-	-	-	90 006
Financial assets held-for-trading (Securities)	9 743	2 012	27 415	50 895	4 138	-	94 203
Available-for-sale financial assets	2 827	365 861	4 080	34 736	51 088	-	458 591
Loans and advances to banks	30 889	3 421	-	-	796	-	35 106
Loans and advances to customers	19 776	4 555	18 816	66 428	246 641	42 095	398 312
Derivatives Instruments	443 849	171 594	72 836	147 751	65 290	-	901 321
	634 612	547 444	123 147	299 810	367 952	42 095	2 015 061
Liabilities							
Resources of central banks	-	-	-	60 000	-	-	60 000
Resources of other credit institutions	27 158	111 500	-	762 756	-	-	901 414
Resources of customers	121 413	54 951	99 296	3 159	-	-	278 819
Debt securities issued	-	2 469	7 543	260 132	-	-	270 144
Financial liabilities held-for-trading (Securities)	12 674	-	-	-	-	-	12 674
Derivatives Instruments	314 523	167 613	66 761	135 176	60 093	-	744 166
Provisions	3 876	-	-	-	-	-	3 876
	479 644	336 532	173 601	1 221 223	60 093	-	2 271 093

Individual Liquidity Indicators

As at 31st of December 2016, the Haitong Bank achieved a liquidity coverage ratio of 529%, being above the legal minimum rate for both December 2016 and December 2018.

Operational Risk

Operational Risk refers to possible losses resulting from inadequate internal procedures or their negligent application, inadequacy or failure in information systems, personnel behavior or external events. Legal risks are included in this definition. Operational risk is therefore considered as the set of operational risks, information systems and compliance.

For operational risk management, a system was developed and implemented to ensure the standardization, systematization and recurrence of the activities of identification, monitoring, control and mitigation of this risk.

Capital management and solvency ratio

The main objectives of capital management in the Bank are (i) to meet the minimum requirements defined by supervisory entities in terms of capital adequacy, (ii) to enable sustained growth of the activity by generating sufficient capital to support the evolution of assets and (iii) ensure compliance with the Group's strategic objectives for capital adequacy.

In prudential terms, the Bank is subject to inspection by the Bank of Portugal who, in accordance with the EU Directive on capital adequacy, establishes the necessary regulations in this regard that must be fulfilled by the different institutions under their inspection. These regulations establish a minimum rate for the own funds total in relation to the requirements associated with the undertaken risks, which the institutions must comply with.

At the moment and for reporting purposes related to prudential effects before the supervising authorities, the Group uses the Standard method for handling credit risk and operating risk ("The Standardized Approach" - TSA method).

The following table summarises the capital adequacy of the Haitong Bank S.A. as at 31st of December 2017 and 31st of December 2016:

	31.12.2017		31.12.2016	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	23.4%	23.0%	7.6%	6.7%
Tier 1 ratio	23.4%	23.0%	10.7%	9.9%
Total Capital ratio	23.4%	23.0%	10.7%	9.9%

The assumptions used in the capital adequacy calculations are described in note 8.5.Capital Management - Solvency in the Management Report.

NOTE 40 – SUBSEQUENT EVENTS

Following the public announcement of December 15, 2017, added on December 22, 2017 and January 10, 2018, Haitong Bank completed the sale transaction of the entire capital of Haitong (UK) Limited, Haitong Securities (UK) Ltd and Haitong Securities USA LLC to Haitong International BVI, on February 23, 2018.

The price for the sale of Haitong Securities USA LLC was 16,778 thousand dollars (considering February 23, 2018 exchange rate, corresponds to approximately 13,642 thousand euros) , which represents an accounting gain of 1,443 thousand euros

The price for the sale of Haitong (UK) Limited and Haitong Securities (UK) Limited was 12,536 thousand dollars (considering February 23, 2018 exchange rate, corresponds to approximately 10,193 thousand euros), which represents no accounting gain or loss.

From that date, these companies are no longer part of the consolidation perimeter of Haitong Bank.

NOTE 41 - RECENTLY ISSUED PRONOUNCEMENTS ACCOUNTING STANDARDS AND RECENT INTERPRETATIONS ADOPTED BY THE BANK

The following were the standards and interpretations (either new or revised) applicable to the activity of the Haitong Bank Bank, reflected in the financial statements as at the 31st of December 2017:

- Amendment to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses: This amendment clarifies the conditions for the recognition and measurement of tax assets resulting from unrealized losses.
- Amendment to IAS 7 – Disclosures: This amendment introduces additional disclosures related to the cash flows from financing activities.

The adoption of the abovementioned standards, interpretations, amendments and revisions has not produced significant effects in the financial statements of Haitong Bank in the financial year ended as at the 31st of December, 2017.

Standards, amendments and interpretations issued but not yet effective for the Bank

The following standards, interpretations, amendments and revisions, of mandatory application in future financial years, have been endorsed by the European Union up to the date of approval of the financial statements herein:

IFRS 9 – Financial instruments – This standard is part of the project of revision of IAS 39 and lays down the new requirements regarding the classification and measurement of financial assets and liabilities, the impairment calculation methodology and the application of hedge accounting rules.

I - Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their contractual cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: measured at amortised cost, FVOCI (Fair Value through Other Comprehensive Income) and FVTPL (Fair Value through Profit or Loss).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset is classified into one of these categories on initial recognition. See (V) for the transition requirements relating to classification of financial assets.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

I - Classification – Financial assets (continued)

Business Model Assessment

The bank will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information that will be considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice, including whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or those booked in portfolios that have management strategies not corresponding to HTC or HTC and Sell will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

I - Classification – Financial assets (continued)

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank will consider the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank will consider:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets – e.g. non-recourse asset arrangements; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

I - Classification – Financial assets (continued)

Impact assessment

The standard will affect the classification and measurement of financial assets held as at 1 January 2018 as follows:

- Trading assets and derivative assets held for risk management, which are classified as held-for-trading and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9.
- Loans and advances to banks and to customers that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.
- Debt investment securities that are classified as available-for-sale under IAS 39 will, under IFRS 9, be measured at FVOCI or FVTPL, depending on the particular circumstances.
- The equity investment securities that are classified as available-for-sale under IAS 39 will be measured at FVTPL under IFRS 9.

The Bank don't anticipate material impacts on the adoption of IFRS 9.

II- Impairment – Financial assets, loan commitments and financial guarantee contracts

IFRS 9 replaces the IAS 39 incurred loss model by an expected credit losses (ECL)'s forward-looking model, which considers expected losses over the lifetime of financial instruments. Thus, in determining ECL, macroeconomic factors are taken into account, as well as other forward looking information, whose changes impact expected losses.

The instruments subject to impairment 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 as a result of events that resulted in losses. In this case, the impairment amount will reflect the ECL over the expected residual life of the instrument.

Calculation of ECL

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

- Financial assets with no signs of impairment at the reporting date (Stage 1): Exposure amounts at the reference date multiplied by the probability of default within one year and loss given default;
- Financial assets with impairment at the reporting date (Stages 2 and 3): the difference between the gross accounting value and the net present value of the estimated cash flows;
- Non-used credit commitments: The amount of non-used credit commitments at the reference date multiplied by the credit conversion factor, probability of default and loss given default;

IFRS 9 defines financial assets with impaired signs similarly to impaired financial assets in accordance with IAS 39 (see Note 21).

Default Definition

Under IFRS 9, 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, incorporating the following components: (i) "non-performing" exposures that meet one or both criteria: 1) material exposures overdue for more than 90 days; 2) it is considered that the debtor is unlikely to reimburse credit obligations in full, without collateral claim, irrespective of the existence of any overdue installment or number of days in arrears.

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 Bank will consider all relevant information available at no cost and/or excessive effort.

The Bank will identify the occurrence of a significant increase in credit risk exposure through two approaches: (i) comparison between the current PD and PD at the time of contract recognition and (ii) use of backstop. As a backstop, the Bank will consider that an increase in credit risk whenever an impairment trigger occurs. Through regular assessments, the Bank will monitor the effectiveness of the criteria used to identify the significant increase in credit risk.

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); and
- Exposure at Default (EAD).

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

Forward-Looking Information

Under IFRS 9, the Bank incorporates forward-looking information both in its assessment of the significant risk increase and in the measurement of the ECL. The Bank will develop a future perspective of the relevant macroeconomic variables based on external data.

Impact Assessment

The Bank does not expect material impacts subsequent these changes.

III – Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses.

IV – Impact on capital Planning

In order to reduce the impact of its introduction on the institution’s own funds, as covered by Regulation (EU) No. 575/2013 (CRR), Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December has made it possible for the institutions to adopt a transitional regime. Pursuant to Article 473a (9) of the CRR, as introduced by the aforementioned end-2017 regulation, institutions may choose between the following three scenarios:

- **Option 1:** Do not apply the transitional regime;
- **Option 2:** Apply the transitional regime for the "static" and "dynamic" components, i.e. (i) the provisioning differential recorded in the first application of IFRS 9 on January 1, 2018 and (ii) the differential registered in assets that are not credit impaired (stages 1 and 2) after the first application of IFRS 9;
- **Option 3:** Apply the transitional regime only for the "static" component, i.e. the provisioning differential recorded in the first application of IFRS 9 on January 1, 2018.

Haitong Bank has decided to adopt Option 2: apply the transitional regime to the "static" and "dynamic" components.

V – Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.
- If a debt investment security has low credit risk at 1 January 2018, then the Bank will determine that the credit risk on the asset has not increased significantly since initial recognition.

- IFRS 15 – Revenue from contracts with customers – Applicable in the EU in the financial years beginning on or after the 1st of January, 2018. This standard introduces a structure for revenue recognition based on principles and on a model to be applied to all contracts entered into with customers, thereby replacing standards IAS 18 - Revenue, IAS 11 - Construction contracts; IFRIC 13 – Customer loyalty programmes; IFRIC 15 – Agreements for the construction of real estate; IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue – Barter transactions involving advertising services.

- IFRS 16 – Leases: This standard introduces the principles of recognition and measurement of leases, thereby replacing IAS 17 – Leases. Such standard defines a single model of accounting for lease contracts which results in the recognition by the lessee of assets and liabilities for all lease contracts, except for leases of a duration of less than 12 months or for leases involving low value assets. Lessors shall continue to classify leases as operating or financial, wherefore IFRS 16 will not imply substantial changes for such entities in respect of the stipulations of IAS 17.

- Clarifications on IFRS 15 - Customer Contract Revenue - These amendments introduce a number of clarifications to the standard in order to eliminate the possibility of divergent interpretations of various topics.

- Amendments to IFRS 4 – Insurance contracts: Such amendments provide guidelines on the implementation of IFRS 4 together with IFRS 9. IFRS 4 will be replaced with the implementation of IFRS 17

These standards, although endorsed by the European Union, were not adopted by the Bank in 2017, as their application is not yet mandatory.

With the exception of IFRS 9 implementation, whose impact was described previously, the Bank don't anticipate material impacts on its financial statements.

Standards, interpretations, amendments and revisions not yet endorsed by the European Union

The following standards, interpretations, amendments and revisions, of mandatory application in future financial years, have not been endorsed by the European Union up to the date of approval of the financial statements herein:

- IFRS 17 - Insurance Contracts: This standard establishes, for insurance contracts within its scope, the principles for their recognition, measurement, presentation and disclosure. This standard replaces IFRS 4 - Insurance Contracts.

- Amendments to IFRS 2 – Share-based payment: Such amendments introduce several clarifications in the standard concerning: (i) the recording of cash-settled share-based payment transactions; (ii) the recording of changes in share-based payment transactions (from cash-settled to equity-settled); (iii) the classification of transactions having characteristics of an offset settlement.

- Amendments to IAS 40: Transfers of investment property - This amendment clarifies that a change in classification from or to investment property should only be made when there is evidence of a change in the use of the asset.

- Improvements to the international financial reporting standards – 2014-2016 Cycle – Such improvements involve the clarification of certain aspects related to: (i) IFRS 1 – First-time adoption of international financial reporting standards: eliminates certain short-term exemptions; (ii) IFRS 12 – Disclosure of interests in other entities: clarifies the standard’s scope concerning the application thereof to interests classified as held for sale or held for distribution under IFRS 5; (iii) IAS 28 – Investments in associates and joint ventures: introduces clarifications on the fair value measurement by investment results, such investments having been made in associates or joint ventures, held by venture capital companies or investment funds.

- Improvements to the international financial reporting standards – 2015-2017 Cycle – These improvements involve the clarification of some aspects related to: IFRS 3 - Concentration of business activities: it requires re-measurement of interests previously held when an entity obtains control over a subsidiary that previously had joint control; IFRS 11 - Joint ventures: clarifies that there should be no re-measurement of interests previously held when an entity obtains joint control over a joint transaction; IAS 12 - Income Tax: clarifies that all tax consequences of dividends should be recorded in profit or loss, regardless of how the tax arises; IAS 23 - Borrowing costs: clarifies that the part of the loan directly related to the acquisition / construction of an asset, owed after the corresponding asset has been ready for the intended use, is, for the purpose of determining the capitalization rate, considered an integral part of the entity's general financing.

- Amendments to IFRS 9 : prepayment features with negative compensation - This amendment allows financial assets with contractual conditions that anticipate, in their early amortization, the payment of a considerable amount by the creditor, can be measured at amortized cost or at fair value for reserves (depending on the business model), provided that: (i) on the date of the initial recognition of the asset, the fair value of the early amortization component is insignificant; and (ii) the possibility of negative compensation in the early amortization is the only reason for the asset in question not to be considered as an instrument that only includes payments of principal and interest.

- Amendments to IAS 28 – Long-term investments in associates and joint arrangements: This amendment clarifies that IFRS 9 should be applied (including related impairment requirements) to investments in associates and joint arrangements when the equity method is not applied to their measurement.

- IFRIC 22: Foreign currency transactions and advance consideration. Such interpretations sets out the date of the initial recognition of the advance consideration or of the deferred income as the transaction date for the purpose of determining the exchange rate of the revenue recognition.

- IFRIC 23 – Uncertainties in the treatment of income tax - This interpretation provides guidance on the determination of taxable income, tax bases, tax losses to be reported, tax credits to be used and tax rates in scenarios of uncertainty regarding treatment in seat of income tax.

The above standards have not yet been endorsed by the European Union and, as such, have not been implemented by the Haitong Bank in the financial year ended as at the 31st of December, 2017. The Bank does not expect that the implementation of such standards will have relevant impact on its financial statements.

Report and Opinion of the Supervisory Board

Haitong Bank, S.A.
for financial year
2017

(Free translation of a report originally issued in Portuguese language: in case of doubt the Portuguese version will always prevail)

To the Shareholder of Haitong Bank, S.A.,

In accordance with the applicable legislation, we hereby present our report on the audit performed by the Supervisory Board to the Management Report, the individual and the consolidated financial statements and the proposal for the distribution of the year's results presented by the Board of Directors of Haitong Bank (hereinafter Haitong) for the year ended 31 December 2017.

The members of the Supervisory Board appointed for the 2017-2019 three-year period took office on 24 January 2018 after notifying Banco de Portugal that the legal requirements set forth in Article 30b (3) of the General Law on Credit Institutions and Financial Companies ("*Regime Geral das Instituições de Crédito e Sociedades Financeiras*") approved by Decree-Law no. 298/92 of 31 December had been met.

During the financial year of 2017 Haitong's Supervisory Board, as part of its designated functions, monitored, in accordance with the law and the company's articles of association, the development of Haitong's management and business activities, namely:

(i) assessed the adequacy and effectiveness of the risk management, internal control and internal audit systems;

(ii) attended Board of Directors meetings whenever invited;

(iii) reviewed management information documents submitted to the Supervisory Board by the Board of Directors;

(iv) monitored the verification of the accounting records and underlying support documents;

(v) assessed the accounting policies and valuation criteria adopted by Haitong; and

(vi) held meetings with the Statutory Auditor, whenever necessary, on the assessment of the accounting policies and valuation criteria adopted by Haitong, which always provided the information required.

In accordance with the applicable legislation, the Supervisory Board also assessed the Auditor's Report and Statutory Audit Certification ("*Certificação Legal de Contas*") prepared by the Statutory Auditor (Deloitte & Associados, SROC, S.A.) on the individual and consolidated financial statements for financial year 2017 and took note of the Additional Report on said financial statements submitted by the Statutory Auditor to the Supervisory Board, with which the Supervisory Board agrees.

The Supervisory Board also analysed the Management Report submitted by the Board of Directors and considers that the report complies with the applicable legal and statutory requirements and elucidates the main aspects of Haitong's activities in 2017, both in individual and in consolidated terms.

The Supervisory Board highlights the following:

- Haitong´s solvency was reinforced through the €418.5 million capital increase subscribed by the shareholder, as disclosed in the Management Report;

- After balance sheet date, the sale of the equity holdings in the subsidiaries Haitong Securities USA LLC, Haitong (UK) Limited and Haitong Securities (UK) Limited to Haitong International (BVI) Limited was concluded in February 2018 for a total amount of €23.835 million, generating a gain for the Bank of €13.231 million; and

- The relevant audit issues and other issues at both individual and consolidated level that are reported in the Statutory Audit Certification and Audit Report.

In light of the above, it is the opinion of the Supervisory Board that the following should be approved:

- The Management Report and remaining individual and consolidated reporting documents relative to the financial year ended on 31 December 2017;

- The proposal submitted by the Board of Directors on the allocation of the net loss for financial year 2017, in the amount of €140,540,947.19.

Lisbon, 27 March 2018

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

Declaration of Conformity with the Financial Information Reported

The present declaration is submitted under the terms of Article 245 (1-c)) of the Portuguese Securities Code.

The Supervisory Board hereby declares that, to the best of its knowledge:

- The information referred to in Article 245 (1-a)) of the Portuguese Securities Code as at 31 December 2017 was prepared in accordance with the applicable accounting standards, providing a true and fair view of the assets and liabilities, the financial situation and the results of Haitong and the companies included within its consolidated scope; and

- The management report faithfully details the evolution of the business and the performance and position of Haitong and the companies included within its consolidation scope, and contains a description of the main risks and uncertainties faced within the framework of ongoing activities.

Lisbon, 27 March 2018

THE SUPERVISORY BOARD

Mário Paulo Bettencourt de Oliveira
(Chairman)

Maria do Rosário Mayoral Robles Machado Simões Ventura

Cristina Maria da Costa Pinto

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STATUTORY AUDITOR'S REPORT AND AUDIT REPORT

(Amounts expressed in thousands of euros – t.euros)

(Free translation of a report originally issued in Portuguese language: in case of doubt, the Portuguese version will always prevail)

REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate financial statements of Haitong Bank, S.A. (the "Bank"), which comprise the separate balance sheet as at 31 December 2017 (that presents a total of 2,226,710 t.euros and total equity of 502,464 t.euros, including a net loss of 140,541 t.euros), the separate income statement, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and the accompanying notes to the separate financial statements, including a summary of the significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view, in all material respects, of the separate financial position of Haitong Bank, S.A. as at 31 December 2017 and of its separate financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards of Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the separate financial statements" section. We are independent from the Bank in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. Those matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on those matters.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's response to the most significant assessed risks of material misstatement**
Impairment for loans to customers (Notes 2.4, 3.1, 21 and 39)	
As of December 31, 2017, the balance of "Loans and advances to customers" amounts to 300,583 t.euros, net of impairment of 138,957 t.euros. The Bank determines the impairment losses for loans granted in accordance with the methodologies described in Note 2.4. to the separate financial statements. Given the characteristics of the Bank's loan portfolio, a very significant portion of the clients are subject to individual impairment analysis. Since the determination of impairment through individual analysis involves the realization by the Bank of estimates that incorporate a significant level of judgment, namely in the identification of impairment triggers and in estimating the recoverable amount, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of determining impairment losses for its loan portfolio through individual analysis. For a sample of clients, we analysed the reasonableness of the estimated impairment losses recorded in the financial statements based on the review of the Bank's judgments on the economic and financial situation of clients and perspectives on the evolution of their activity and on the future management of those loans by the Bank. We reviewed the disclosures related to impairment for loans to customers, considering the applicable accounting framework.
Legal contingencies (Notes 2.17 and 36)	
As disclosed in Note 36 to the separate financial statements, as of 31 December 2017 there are several lawsuits against the Bank, including some related to commercial paper issued by entities of the Espírito Santo Group and bonds issued by Banco Espírito Santo, S.A. Taking into account the relevance of the amounts involved, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of quantifying provisions for legal contingencies. We obtained information from external lawyers accompanying the lawsuits, including the description of disputes and the quantification of liabilities. We discussed with the Bank's Legal Department the current state of lawsuits and expectations regarding their outcome. We reviewed the disclosures related to legal contingencies.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the most significant assessed risks of material misstatement
Recoverability of deferred tax assets (Notes 2.16, 3.2 and 32)	
As of 31 December, 2017, , the Bank has recorded deferred tax assets in the amount of 100.180 t.euros, essentially related to: (i) temporary differences arising from impairment for loans to costumers (63,368 t.euros), provisions (1,752 t.euros) and employee benefits (3,623 t.euros); (ii) tax losses carried forward (31,437 t.euros), essentially originate in 2015 and 2016, that can be used within a period of 12 years, not exceeding 70% of taxable profit in each of those years. In accordance with IAS 12 - Income Taxes, deferred tax assets can only be recorded up to the extent that it is probable that future taxable profit will be available against which they can be utilised. The Bank prepared a forecast of its taxable profit to assess the recoverability of deferred tax assets. This estimate is judgmental by nature and depends on the assumptions made by Management to estimate the evolution of pre-tax profit and its interpretation of the tax legislation. To this extent, the recoverability of deferred tax assets is dependent on the Bank's ability to generate the estimated results. Any changes in the assumptions used in the estimation of future results or in the interpretation of the tax legislation may have a material impact on the recoverability of deferred tax assets. Given the materiality of deferred tax assets in the Bank's separate financial statements and the need to use estimates to determine their recoverability, this area was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of assessing the recoverability of deferred tax assets. We analysed the main assumptions considered by the Bank to estimate the evolution of pre-tax profits in the period covered by its analysis. We reviewed the reasonableness of the interpretation of the relevant tax legislation considered by the Bank in the estimation of future taxable profits. For this purpose, we involved our internal specialists in this area. We analysed the reasonableness of the evaluation of the recoverability of deferred tax assets prepared by the Bank, taking into account the understanding of the assumptions and the review of the interpretation of the tax legislation described above. We reviewed the disclosures related to deferred taxes, considering the applicable accounting framework.

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the most significant assessed risks of material misstatement
Resolution Fund (Note 36)	
Following the resolution measures applied to Banco Espírito Santo, S.A. (BES) and Banif – Banco Internacional do Funchal, S.A. (Banif), the Resolution Fund became holder of the entire share capital of Novo Banco, S.A. and Oitante, S.A.. In this context it obtained loans from the Portuguese State and from a banking syndicate (in which the Bank does not participate) and assumed other responsibilities and contingent liabilities, including those related to the litigation associated with these processes. In order to reimburse these loans and to meet other responsibilities it may assume, the proceeds of the Resolution Fund are essentially the periodic contributions from participating institutions (including the Bank) and the contribution over the banking sector. The member of the Portuguese Government responsible for the finance area may also determine by ministerial order that the participating institutions make special contributions in the situations provided for in the applicable legislation, particularly in the event that the Resolution Fund does not have sufficient own resources for the fulfilment of its obligations. The annual contributions to the Fund are recognized as losses on an annual basis, as set out in IFRIC 21 – Levies. According to a public notice from the Resolution Fund dated 21 March 2017, the conditions of the loans that the Resolution Fund obtained to finance the resolution measures applied to BES and Banif, namely the 3,900,000 t.euros loan granted by the State and the 700,000 t.euros loan granted by a bank syndicate, were renegotiated in the first quarter of 2017, including the extension of the maturity date to 31 December 2046 and the possibility to adjust that date, with the purpose of guaranteeing the capacity of the Resolution Fund to fully meet its obligations based on regular revenues and without the need to resort to special contributions or any other type of extraordinary contributions from the banking sector.	We analysed the public communications from the Resolution Fund and from the Office of the Portuguese Minister of Finance of 28 September 2016 and the public communication from the Resolution Fund of 21 March 2017, related to the new terms of the loans granted to the Resolution Fund and the corresponding impact on its sustainability and financial stability. We analysed the public announcement and the content of the resolution approved by the Council of Ministers on 2 October 2017, which authorized the formalization by the Portuguese State, as ultimate grantor of financial stability, of a framework agreement with the Resolution Fund, in order to make available financial sources to the Resolution Fund, if and when necessary, to fulfil the contractual obligations that may arise from the sale operation of 75% of the share capital of Novo Banco, S.A.. We analysed the framework agreement formalized between the Portuguese State and the Resolution Fund. We analysed the public announcement from the Resolution Fund of 18 October 2017, regarding the conclusion of the sale of Novo Banco, S.A. to Lone Star. We read the last Report and Accounts of the Resolution Fund that refers to the year 2016. We reviewed the accounting framework of the contributions to the Resolution Fund. We obtained from the Bank's Management the representation regarding their expectation that the liabilities and contingent liabilities assumed by the Resolution Fund, as well as the responsibilities arising from the transactions it performed, will not imply the payment from the Bank of any special contributions or any other type of extraordinary contributions to the Resolution Fund. We reviewed the disclosures included in the financial statements related to this matter, presented in Note 36.

Description of the most significant risks of material misstatement identified	**Summary of the auditor's response to the most significant assessed risks of material misstatement**
Resolution Fund (Note 36)	
As at 31 March 2017 the Bank of Portugal announced the selection of Lone Star to complete the sale operation of Novo Banco, whose conclusion was announced by the Resolution Fund on 18 October 2017. The agreed conditions include a contingent capitalization mechanism, according to which the Resolution Fund commits to make capital injections up to the maximum total amount of 3,890,000 t.euros) in case certain cumulative conditions are met. After the conclusion of this operation, Lone Star became holder of 75% of the share capital of Novo Banco, and the Resolution Fund maintained a 25% share of capital. On 2 October 2017, the Council of Ministers approved a resolution which authorized the formalization by the Portuguese State, as ultimate grantor of financial stability, of a framework agreement with the Resolution Fund, in order to make available financial sources to the Resolution Fund, if and when necessary, to fulfil the contractual obligations that may arise from the sale operation of 75% of the share capital of Novo Banco, S.A. The framework agreement was signed on that same date and sets out that the funds that may be required to ensure the fulfilment of the responsibilities arising from the contract of the Novo Banco, S.A. sale will be made available, with an annual limit of 850,000 t.euros. It is also defined that the respective reimbursement will consider that one of the objectives of this framework agreement is to ensure the stability of the contributory effort that lies on the banking sector, meaning, without the need to charge special contributions or any other extraordinary contributions to the Resolution Fund participants. The financial statements as at 31 December 2017 reflect Management's expectation that no special contributions or any other extraordinary contributions will be required from the Bank in order to finance the resolution measures applied to BES and Banif or any other liability or contingent liability assumed by the Resolution Fund. Considering the Resolution Fund responsibilities and the assumptions of the Management as described above, this area was considered a key audit matter.	

Description of the most significant risks of material misstatement identified	Summary of the auditor's response to the most significant assessed risks of material misstatement
Impairment for investments in subsidiaries and associates (Notes 2.24, 3.3, 22 and 25)	
As of 31 December 2017, the caption "Investments in subsidiaries and associates" presents a balance of 166,785 t.euros net of impairment of 51,934 t.euros. Additionally, the Bank transferred to "Non-current assets held-for-sale" the investments held in Haitong (UK) Limited and Haitong Securities USA LLC, following the purchase and sale agreement celebrated with an Haitong Group entity in December 2017. Investments in subsidiaries and associates are recorded at acquisition cost less impairment losses. When impairment triggers are identified, these investments are subject to impairment assessment, based on profit forecasts of the investees or, when not available, using fair value measurement techniques. The estimation of future results, the definition of market inputs and the determination of the rate at which they should be discounted imply a high degree of judgment by Management. For this reason, this was considered a key audit matter.	We analysed the relevant internal control procedures implemented by the Bank in the process of determination of impairment losses for the investments in subsidiaries and associates. We analysed the reasonableness of the impairment tests prepared by the Bank for the subsidiaries and associates where it identified impairment triggers, namely through a critical analysis of profit forecasts and of the main assumptions made by Management. In our work we involved internal valuation experts. We analysed the impairment assessment of the investments held in Haitong (UK) Limited and Haitong Securities USA LLC, taking into consideration the agreed terms of the sale. We reviewed the disclosures relating to investments in subsidiaries and associates, considering the applicable accounting framework.

Responsibilities of management and supervisory body for the separate financial statements

Management is responsible for:

- the preparation of separate financial statements that give a true and fair view of the Bank's financial position, financial performance and cash flows in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRS);
- the preparation of the management report, including the corporate governance report, in accordance with applicable laws and regulations;
- designing and maintaining an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Bank's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Bank's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the separate financial statements

Our responsibility is to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- we communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiency in internal control that we identify during our audit;

- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter;

- provide the supervisory body with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the Management report is consistent with the separate financial statements and the verification of the requirements as provided in numbers 4 and 5 of article 451 of the Portuguese Companies Code.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management report

Pursuant to article 451, number 3.e) of the Portuguese Companies Code ("Código das Sociedades Comerciais"), it is our opinion that the Management report was prepared in accordance with the applicable law and regulatory requirements and the information contained therein is consistent with the audited separate financial statements and, having regard to our knowledge of the Bank, we have not identifed material misstatements.

On the Corporate governance report

Pursuant to article 451, number 4, of the Portuguese Companies Code ("Código das Sociedades Comerciais"), we conclude that the corporate governance report includes the elements required to the Bank under the terms of article 245-A of the Portuguese Securities Code ("Código dos Valores Mobiliários"), and we have not identified any material misstatements on the information disclosed therein which, accordingly, complies with the requirements of items c), d), f), h), i) and m) of that article.

On the additional matters provided in article 10 of Regulation (UE) 537/2014

Pursuant to article 10 of Regulation (UE) 537/2014 of the European Parliament and of the Council of April 16th, 2014, in addition to the key audit matters mentioned above, we also report on the following:

- We were appointed auditors of the Bank in the shareholders' general meeting held on 16 November 2016, to conclude the ongoing mandate until the end of 2016. We were reappointed as auditors of the Bank in the shareholder's general meeting held on 17 August 2017 for a mandate from 2017 to 2019.

- Management has confirmed to us that they are not aware of any fraud or suspection of fraud having occurred that has a material effect on the separate financial statements. In planning and executing our audit in accordance with ISAs, we maintained professional skepticism and we designed audit procedures to respond to the risk of material misstatements in the separate financial statements due to fraud. As a result of our work, we have not identified any material misstatement in the separate financial statements due to fraud.

- We confirm that the audit opinion issued is consistent with the additional report that we prepared and delivered to the Bank's supervisory body as at 26 March 2018.

- We declare that we have not provided any prohibited services as described in article 77, number 8, of the Ordem dos Revisores Oficiais de Contas statutes (Legal Regime of the Portuguese Statutory Auditors) and we have remained independent from the Bank in conducting the audit.

Lisbon, 26 March 2018

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

EXPLANATION ADDED FOR TRANSLATION

(This report is a translation of a report originally issued in Portuguese. Therefore according to Deloitte & Associados, SROC S.A. internal procedures, the report is not to be signed. In the event of discrepancies, the Portuguese language version prevails.)

ANNEXES

I. SHARES AND BONDS HELD BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BODIES

(Annex referred to in paragraph 5 of Article 447 of the Portuguese Commercial Companies Code)

Shareholders / Bondholders	Securities	Securities held as of 31/12/2016	Transactions in 2017				Securities held as of 31/12/2017
			Date	Acquisitions	Disposals	Unit Price (EUR)	
Wu Min	-	-	-	-	-	-	-
Lin Yong	**Haitong International Securities Group Limited** - Ordinary Shares	4,263,371	15/03/2017	173,348 [(1)]			
			18/08/2017	83,618 [(2)]			
			21/11/2017	100,913 [(2)]			4,621,250
	Haitong International Securities Group Limited - Share Options	800,311	18/08/2017	805 [(3)]			
			21/11/2017	315 [(4)]			
			07/12/2017	800,000			1,601,431
	Haitong International Securities Group Limited - Awarded Shares (unvested)	520,045	15/03/2017		173,348 [(1)]		
			28/04/2017	397,604			744,301
Alan do Amaral Fernandes	-	-	-	-	-	-	-
Christian Georges Jacques Minzolini	-	-	-	-	-	-	-
Mo Yiu Poon	**Haitong International Securities Group Limited** - Ordinary Shares	-	15/03/2017	94,533 [(5)]			94,533
	Haitong International Securities Group Limited - Share Options	2,801,557	18/08/2017	2,814 [(3)]			
			21/11/2017	1,102 [(4)]			
			07/12/2017	300,000			3,105,473
	Haitong International Securities Group Limited - Awarded Shares (unvested)	283,599	15/03/2017		94,533 [(5)]		
			28/04/2017	35,928			224,994
Pan Guangtao	-	-	-	-	-	-	-
Paulo José Lameiras Martins	-	-	-	-	-	-	-
Vincent Marie L. Camerlynck	-	-	-	-	-	-	-
Tito Manuel das Neves Magalhães Basto	-	-	-	-	-	-	-
Mário Paulo Bettencourt de Oliveira	-	-	-	-	-	-	-
Paulo Ribeiro da Silva	-	-	-	-	-	-	-
Deloitte & Associados, SROC, S.A.	-	-	-	-	-	-	-

Notes:
[(1)] 173,348 unvested awarded shares were vested on 15/3/2017
[(2)] Scrip Dividend
[(3)] Share option adjustment as a result of the allotment of ordinary shares under the final dividend for the year ended 31 December 2016 in the form of scrip dividend.
[(4)] Share option adjustment as a result of the allotment of ordinary shares under the interim dividend for the 6 months ended 30 June 2017 in the form of scrip dividend.
[(5)] 94,533 unvested awarded shares were vested on 15/3/2017

II. SHAREHOLDERS

(Annex referred to in paragraph 4 of Article 448 of the Portuguese Commercial Companies Code)

Shareholder	% of Share Capital
Haitong International Holdings Limited	100%

III. CORPORATE GOVERNANCE STRUCTURES AND PRACTICES

(Article 245 – A (4) of the Portuguese Securities Code)

- **Qualified holdings in the company's share capital**

  Haitong International Holdings Limited, a Hong-Kong based subsidiary of Haitong Securities Co., Ltd. holds the entire share capital of the Bank with voting rights.

- **Identification of the shareholders that detain special rights and a description of those rights**

  The Bank's share capital is entirely represented by ordinary shares.

- **Possible restrictions on voting rights, such as limitations on the voting rights dependent on holding a certain number or percentage of shares, deadlines imposed on the right to vote, or key rights of patrimonial content.**

  Shareholders or groups of shareholders who hold a minimum of one hundred shares at least five days prior to the date of the Bank's Annual General Meeting are entitled to participate in the meeting. Each one hundred shares are entitled to one vote.

- **Rules governing the appointment and replacement of members of the management body and the amendment of the articles of association**

  The members of the Board of Directors are elected at the Annual General Meeting. There are no specific rules concerning the replacement of Board Members. Any replacements shall be made in accordance with the terms set out in the Companies Code.

  There are no specific rules concerning changes to the Bank's articles of association. Any such changes shall be made under the general terms foreseen in the Companies Code.

- **Powers of the management body, particularly as regards resolutions on capital increases**

  The Board of Directors does not hold any powers with regards to resolutions on capital increases.

- **Key features of the internal control and risk management systems implemented at the Company in relation to the financial reporting process**

- Internal Control System

The Bank has in place an effective internal control system which is populated by the relevant control areas as depicted in Notice 5/2008 of the Bank of Portugal.

With regard to each of the control areas as set out in Notice 5/2008, the respective control tasks are trusted to (in alphabetical order): the Internal Audit function, the Compliance function and the Risk Management function (includes Operational Risk).

- Risk Control System

The Board of Directors is ultimately responsible for Haitong Bank's Risk Management Framework.

The Risk Committee is charged with continuously monitoring the development and implementation of the risk strategy and the risk appetite of the institution and to verify whether they are compatible with a sustainable strategy in the medium and long-term.

As an independent control function, the Risk Management Department aims to enable the Bank to make informed decisions and to assure that the risk policies approved by the management body are duly implemented and followed.

For further details, please refer to section 7. "Risk Management" in the Management Report.

IV. NON-FINANCIAL INFORMATION AND DIVERSITY

(Article 508º G – Portuguese Corporate Code)

This section discusses the development, performance, position and impact of the group's activities in relation to: environmental, social and worker issues; equality between women and men; non-discrimination; respect for human rights; corruption and bribery prevention.

Social Responsibility

Haitong Bank endeavours to ensure that it has, at all times, a responsible relationship with all its stakeholders, particularly Employees, Customers, Shareholders. It aims to develop its activities under a sound culture of social responsibility and to contribute to the social benefit and development of the sectors and communities with which it interacts in the course of its activities.

Notwithstanding the difficult operating environment in 2017, Haitong Bank remained committed to its social responsibilities. It has continued to participate, support and encourage its employees and related parties to be active and fully engaged, illustrated by their significant participation in a number of the following social initiatives:

- **Portuguese Red Cross**
  Following the tragedy of Pedrogão Grande, where a devastating fire led to a large number of casualties, Haitong Bank donated EUR 5,000 and its employees donated EUR 2,240 to support the victims.

  “Comunidade Vida e Paz”
  Haitong Bank donated medicines and medical supplies to be used to support the homeless.

- **“Ajuda de Mãe”**
  Haitong Bank employees donated toys for the children of single mothers supported by the institution.

- **“Apoio à Vida”**
  Haitong Bank employees donated school materials for children supported by the institution.

- **“Portuguese League Against Cancer (LPCC)”**
  Haitong Bank employees donated to the yearly national public fundraising campaign by the Portuguese League Against Cancer.

Environment

Haitong Bank is a Credit Institution and Financial Intermediary, operating mostly in the Investment Banking Sector, with minimal exposure to retail customers. It has no significant infrastructure and a limited headcount and hence has a very limited environmental footprint.

Notwithstanding this limited footprint, Haitong Bank is committed to operating based on sustainable and environmentally friendly practices, such as the secure and confidential destruction of documentation, which have led to the recycling of around 18.7 tons of used paper.

Minimizing its environmental footprint is of increasing importance for the Bank, both in terms of reducing the environmental impact and costs. It is with this purpose that the Bank continuously seeks to implement new measures related to the reduction of energy, water and materials consumption.

Workers' Issues

Please see Section 7 of the management report ("Human Resources")

Equality and Diversity

Although the Bank advocates the diversity of skills, geography and generations, it gives priority to gender diversity to the extent that it is under represented within the Bank's management bodies, which is seen as an instrument of efficiency in the use of the human resources, increase the independence of its officers and foster equal opportunities and a socially responsible behaviour at the Bank.

In this regard, Haitong Bank has achieved significant progress over the period, moving from a scenario of inexistent gender diversity on its corporate bodies to a current rate of around 25% of representation of the sub-represented gender.

Corruption and Bribery Prevention

Haitong Bank is an international financial institution active in multiple geographies and jurisdictions. As such, it is its responsibility to ensure that its employees conduct themselves with the utmost integrity and due diligence while carrying out their activities. As per the Bank's Code of Conduct, employees must perform their functions according to the highest standards of professionalism, competence, due diligence and loyalty, and in strict compliance with the relevant legal and regulatory provisions in force in the geographies where they operate.

The Bank has approved an Anti-bribery Policy aimed at establishing specific internal guidance for the prevention of bribery. This is based on national and international legal provisions, including, but not limited to, the Portuguese Laws on bribery prevention, the Organisation for Economic Cooperation and Development (OECD) Convention on bribery of foreign public officials in international business transactions, the Convention on the fight against bribery involving officials of the European Communities or officials of member states of the European Union, the Criminal Law Convention on bribery of the Council of Europe and the United Nations Convention against bribery.

Given the Bank's presence and/or operations in different geographies, this policy also encompasses a set of anti-bribery rules and principles in force in such jurisdictions, notwithstanding the obligation of each employee to acknowledge the anti-bribery laws applicable in each case and take the necessary steps to comply with such laws. In this respect, the following acts in force in the United States and the United Kingdom, respectively, are particularly noteworthy: U.S. Foreign Corrupt Practices Act and the UK Bribery Act.

Overall assessment

Taking into account the scope of its activities and their impact on the environment and stakeholders and naturally bearing in mind the proportionality principle and its limited footprint and exposure to the issues above, Haitong Bank views the above policies and procedures in a positive way.

V. BANK OF PORTUGAL REFERENCE INDICATORS

(Notice 23/2011 and 32/2013 of Bank of Portugal)

Bank of Portugal Reference Indicators (Consolidated basis)	2017	2016 Restated
SOLVENCY		
Total capital Ratio	21.3%	9.7%
TIER 1 Ratio	21.2%	9.6%
CET1 Ratio	21.2%	7.1%
ASSET QUALITY		
Overdue and Doubtful Loans / Gross Loans	10.3%	18.6%
Overdue and Doubtful Loans net of Impairments / Total Net Loans	4.3%	10.7%
Credit at Risk / Gross Loans	37.3%	44.1%
Credit at Risk (net) / Net Loans	25.9%	27.7%
Restructured Credit / Gross Loans	51.9%	55.2%
Restructured Credit not included in Credit at Risk / Gross Loans	15.7%	11.2%
PROFITABILITY		
Income before Taxes and Minorities / Average Total Equity	-29.6%	-17.5%
Banking Income / Average Net Assets	1.9%	2.3%
Income before Taxes and Minorities / Average Net Assets	-3.4%	-1.7%
EFFICIENCY		
Staff Costs + General and Administrative Expenses + + Depreciation / Banking Income	160.9%	118.3%
Staff Costs / Banking Income	99.7%	68.3%
LOANS TO DEPOSITS RATIO		
(Gross Loans - Provisions) / Customer Deposits	123.9%	119.6%

Bank of Portugal Reference Indicators (Individual basis)	2017	2016 Restated
SOLVENCY		
Total capital Ratio	23.4%	10.7%
TIER 1 Ratio	23.4%	10.7%
CET1 Ratio	23.4%	7.6%
ASSET QUALITY		
Overdue and Doubtful Loans / Gross Loans	25.2%	25.6%
Overdue and Doubtful Loans net of Impairments / Total Net Loans	4.8%	12.0%
Credit at Risk / Gross Loans	38.3%	41.6%
Credit at Risk (net) / Net Loans	10.4%	18.1%
Restructured Credit / Gross Loans	46.0%	48.4%
Restructured Credit not included in Credit at Risk / Gross Loans	7.7%	6.8%
PROFITABILITY		
Income before Taxes and Minorities / Average Total Equity	-30.2%	-41.0%
Banking Income / Average Net Assets	2.0%	-0.6%
Income before Taxes and Minorities / Average Net Assets	-5.5%	-7.9%
EFFICIENCY		
Staff Costs + General and Administrative Expenses + + Depreciation / Banking Income	189.8%	-553.7%
Staff Costs / Banking Income	113.8%	-301.1%
LOANS TO DEPOSITS RATIO		
(Gross Loans - Provisions) / Customer Deposits	103.0%	149.0%

VI. REMUNERATION OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD MEMBERS AND RELEVANT STAFF (SENIOR MANAGING DIRECTORS AND CONTROL FUNCTIONS STAFF)

1) Annual amount of the fixed remunerations paid by Haitong Bank, S.A. or companies under its control in 2017 to each of the members of the Board of Directors and the Supervisory Board:

Board of Directors

(euros)

Executive Members of the Board of Directors	Haitong Bank and Branches	Subsidiaries and Affiliates	Total
Wu Min (1) (2)	106,548		106,548
Mo Yiu Poon (2)	397,072		397,072
Christian Georges Jacques Minzolini	399,459		399,459
Paulo José Lameiras Martins	395,378		395,378
Alan do Amaral Fernandes		342,364	342,364
Total	**1,298,457**	**342,364**	**1,640,821**

(1) Appointed CEO on 30th October 2017
(2) During 2017, these Board Members received an allowance to cover their stay outside their usual place of residence, for periods longer than 10 days per month

(euros)

Ex-Executive Members of the Board of Directors	Haitong Bank and Branches	Subsidiaries and Affiliates	Total
Hiroki Miyazato (1) (2)	553,255		553,255
Total	**553,255**		**553,255**

(1) Ceased to be an Executive Board Member on 30th October 2017
(2) During 2017, these Board Members received an allowance to cover their stay outside their usual place of residence, for periods longer than 10 days per month

(euros)

Independent Non-Executive Board Members	Haitong Bank and Branches	Subsidiaries and Affiliates	Total
David Hobley (1)	87,500		87,500
Vincent CamerLynck	108,609		108,609
Total	**196,109**		**196,109**

(1) Payments referred from January to June 2017

Note: Other non-executive (and non-independent) Board members who perform functions at Haitong Securities Group and/or at Haitong International Securities are not authorized, in accordance with local legislation, to receive remuneration for their position at Haitong Bank.

The members of the Supervisory Board of Haitong S.A. did not receive any variable remuneration in 2017, having been paid the following fixed remunerations:

Supervisory Board

(euros)

Supervisory Board Members	Haitong Bank and Branches Total Remuneration
José Manuel Macedo Pereira [(1)]	5,000
Tito Manuel das Neves Magalhães Basto	9,000
Mário Paulo Bettencourt de Oliveira	9,000
Total	**23,000**

(1) Payments referred from January to May 2017

The deputy member of the Supervisory Board did not receive any fixed or variable remuneration paid by Haitong Bank, S.A. or companies under its control for the duties performed during the year 2017.

Statutory Auditors

(euros)

Statutory Auditors	Haitong Bank and Branches Total Remuneration
Deloitte e Associados SROC S.A.	283,250

2) Amount and type of variable remuneration received by the members of the Board of Directors:

a) Variable remuneration regarding 2017:

No variable remuneration was awarded regarding 2017.

b) Variable remuneration regarding previous years (paid):

No variable remuneration was awarded relative to previous years.

c) Variable remuneration regarding previous years (due but not paid):

No variable remuneration was due but not paid.

d) Variable remuneration regarding previous years that was cancelled:

The conditions foreseen in the “Variable Remuneration Plan Based on Financial Instruments for the Executive Members of the Board of Directors of Haitong Bank, S.A.” were not met. Therefore the medium-term variable remuneration was cancelled.

3) Relevant Staff of the Bank or companies under its control (Senior Managing Directors or Control Functions Staff)

a) Annual amount of the fixed and variable remunerations paid by Haitong Bank, S.A. or companies under its control in 2017 to Senior Managing Directors or Control Functions Staff:

(euros)

Employees	Fixed Remuneration	Variable Remuneration paid in 2017 relative to 2016	Variable Remuneration paid in 2017 relative to other years	Haitong Bank and Branches Total Remuneration
Senior Managing Directors	5,706,982	233,577		5,940,559
Risk Control Function	1,004,407	10,816		1,015,223
Compliance Function	1,228,879	12,597		1,241,476
Internal Audit Function	418,283	8,358		426,641

b) Variable Remuneration regarding previous years:

No variable remuneration was awarded regarding to previous years.

The conditions foreseen in the “Variable Remuneration Plan Based on Financial Instruments” were not met. Therefore the medium-term variable remuneration was cancelled.

4) Number of Senior Managing Directors or Control Functions Staff hired by the Bank or by companies under its control:

New Staff	Nr.
Senior Managing Directors	1
Risk Control Function	7
Compliance Function	4
Internal Audit Function	2

5) Payments made by the Bank or by companies under its control to Board members that resign to the mandate or for early termination of the labour contract with Senior Managing Directors or Control Functions Staff, number of beneficiaries of such payments and largest payment made:

(euros)

Employees Departures	Nr.	Amount
Board Members	1	0
Senior Managing Directors	12	6,012,684
Risk Control Function	1	74,860
Compliance Function	4	427,352
Internal Audit Function	1	345,040

The largest payment made was 705,399 euros.

HAITONG BANK, S.A.

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