HAITONG

2021 Interim Report

PORTUGAL
Haitong Bank, S.A
Rua Alexandre Herculano, 38
1269 -180 Lisboa | PORTUGAL
Phone: + 351 213196900
Email: info.haitongbank@haitongib.com

BRAZIL
Haitong Banco de Investimento do Brasil, S.A
Av. Brigadeiro Faria Lima,3729 – 8th floor
Itaim Bibi, CEP 04538-905, Sao Paulo | BRAZIL
Phone: + 55 11 30747444
Email: info.haitongbrazil@haitongib.com.br

SPAIN
Haitong Bank, S.A., Spain Branch
Paseo de la Castellana 52, 1st floor
28046 Madrid | SPAIN
Phone: + 34 914005400
Email: info.spainbranch@haitongib.com

UK
Haitong Bank, S.A., London Branch
1 Aldermanbury Square
LONDON EC2V 7HR | UK
Phone: +44 2074569191
Email: info.ukbranch@haitongib.com

POLAND
Haitong Bank, S.A., Warsaw Branch
Zlota 59th Street, floor V - 00-120
Warsaw | POLAND
(Entrance "Lumen" from Jana Pawła II Avenue)
Phone: + 48 223474000
Email: info.warsawbranch@haitongib.com

MACAU
Haitong Bank, S.A., Macau Branch
Avenida Doutor Mário Soares, nrs 300 – 322
Finance and IT Centre of Macau, 20º andar F
MACAU
Phone: +853 82901 000
Email: info.macaubranch@haitongib.com

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

KEY INDICATORS

(million euros)

	June 2021	December 2020	June 2020
Balance Sheet			
Total Assets	2,833	2,801	2,729
Total Liabilities	2,216	2,203	2,141
Total Equity	616	598	588
Results			
Banking Income	44	82	24
Operating Costs	-29	-58	-31
Operating Profit	15	24	-7
Impairment and Provisions	-9	-12	-4
Net Profit / (Loss)	3	2	-12
Profitability			
Return on average shareholders' equity (ROE)	0.8%	0.3%	-3.9%
Income before tax and non-controlling interests / Average equity (1)	2.1%	1.8%	-3.5%
Return on average net assets (ROA)	0.2%	0.1%	-0.8%
Income before tax and non-controlling interests / Average net asset (1)	0.5%	0.4%	-0.8%
Banking Income / Average net assets (1)	3.2%	2.9%	1.8%
Efficiency			
Operating costs / Banking income (Cost to Income ratio) (1)	65.0%	71.3%	127.0%
Staff Costs / Banking Income (1)	40.3%	41.9%	78.0%
Credit Quality			
Loan Portfolio (gross)	577	432	335
Loan Loss Charge	1	2	2
Non-Performing Loans Ratio	4.5%	1.9%	2.3%
Non-Performing Loans Coverage	17.7%	51.5%	52.3%
Solvency			
CET1 ratio (phased-in)	21.1%	22.7%	26.6%
Total capital ratio (phased-in)	26.3%	28.5%	33.8%
CET1 ratio (fully-loaded)	21.0%	22.6%	26.5%
Total capital ratio (fully-loaded)	26.3%	28.4%	33.6%
Leverage			
Leverage Ratio (phased-in)	15.7%	15.6%	18.4%
Leverage Ratio (fully-loaded)	15.6%	15.5%	18.3%
Liquidity Position			
Net Stable Funding Ratio (NSFR)	180%	157%	176%
Liquidity Coverage Ratio (LCR)	266%	259%	299%
Loans to deposits ratio ((Gross loans - provisions) / customer deposits) (1)	58%	41%	31%
Total Headcount	368	362	369

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

ORGANISATIONAL STRUCTURE

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

** As per the Executive Order of the Macau Chief Executive published 19th July 2021, the establishment of Haitong Bank's Macau Branch was formally authorized.*

The Bank also holds a 100% stake in Polish Hotel Company, a company dormant since September 1st, 2020.

SENIOR MANAGEMENT

Board of Directors

Lin Yong
Chairman

Wu Min
Chief Executive Officer and Executive Board Member

Treasury & Fixed Income
Corporate Solutions
CEO Office
Human Resources
Finance

Alan Fernandes
Executive Board Member

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

Miguel Guiomar
Executive Board Member

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

Nuno Carvalho
Executive Board Member

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

Vasco Câmara Martins
Executive Board Member

Risk Management
Rating
Operations

António Domingues
Non-Executive Board Member

Martina García
Non-Executive Board Member

Pan Guangtao
Non-Executive Board Member

Paulo Martins
Non-Executive Board Member

Vincent Camerlynck
Non-Executive Board Member

Zhang Xinjun
Non-Executive Board Member

Senior Managers with Seat on the Executive Committee

António Pacheco
Head of Finance

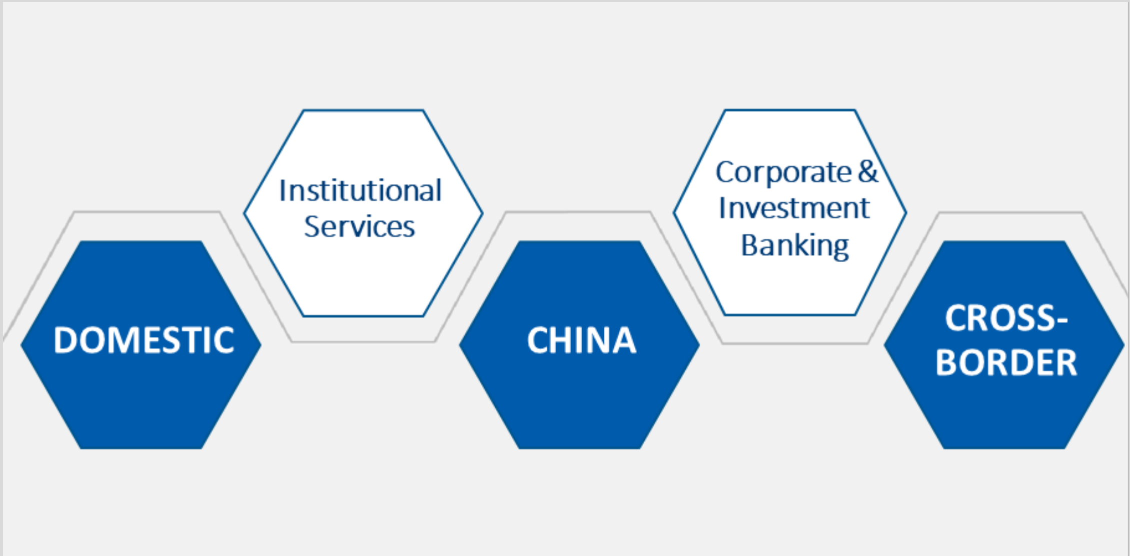
Pedro Costa
Head of CEO Office

Head of Corporate Solutions

Secretary to the Executive Committee and Board of Directors

Business Strategy

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



The Bank's strategy is underpinned by 3 drivers:

- *Domestic franchise in Iberia, Poland, UK and Brazil*
- *China Angle*
- *Cross-border business among these regions as well as China*

Product

BUSINESS MODEL

Corporate & Investment Banking

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

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

Corporate Derivatives
- Corporate Hedging Solutions

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

Institutional Services

Fixed Income
- Fixed Income Trading and Debt Market Making
- Fixed Income Banking Book Management
- Distribution to Institutional Clients
- Syndication

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

Private Equity
- Infrastructure fund
- Growth capital funds

CORPORATE SOLUTIONS

OVERVIEW

The Corporate Solutions Division is the primarily client-facing team, responsible for client coverage and business origination. This Division partners with clients to ensure the best corporate and investment banking solutions that suit their needs.

Corporate Solutions sits at the core of the Bank's strategic priority centred on the development of the client franchise in the various domestic regions.

Haitong Bank enjoys a unique business positioning by combining deep-rooted presence in various domestic markets in Europe and Latin America with its differentiating China Angle.

ACTIVITY HIGHLIGHTS

Corporate Solutions operates in strict coordination with the various product areas in full strategic alignment as follows:

- Structured Finance: the Bank has been successful in expanding the credit portfolio, offering bespoke solutions to clients focused on structured solutions such as collateralised lending, real estate financing, acquisition finance and syndicated loans;
- Capital Markets: continuing support on the origination of capital markets domestic debt deals. These included bond offerings and short-term instruments, such as commercial paper. This year the Bank was particularly active on Equity Capital Markets, following a selective approach in this area;
- M&A Advisory: there has been a consistent growth of the pipeline of both sell-side and buy-side deals, alongside cross-border opportunities and China related transactions. The Bank has leveraged on its solid reputation in advisory services;
- Corporate Derivatives: there has been a consistent expansion of corporate counterparties thanks to an active engagement with a broader client base. Haitong Bank offers a combination of bespoke hedging solutions to clients alongside a recognised electronic platform for plain vanilla products;
- Savings Products: Corporate Solutions has been working with the Treasury Department to support the expansion and diversification of the Bank's funding sources. Corporate Solutions has also been working together with Asset Management to support the distribution of the Bank's equity and fixed income funds and portfolio management.

Overall, with lockdowns easing, improved mobility and social opening, clients' activity has picked up during the first half of 2021. Total client initiatives, including pitches and proposals in the various product areas have increased by 85% from 140 to 260.

Capital Markets

OVERVIEW

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

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

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

STRATEGY

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

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

The Bank is well positioned to play the "China House" role, leveraging on its prominence over the last 3 years in EUR denominated transactions for Chinese issuers. In addition, the Bank leverages on the Group's unique access to Asian pools of demand.

€5.0m

Banking Income Amount

11%

Weight in Total Banking

Offering

- *Cross-border Euro and USD bonds structuring and underwriting*
- *Bond Issuance for local market*
- *Short-term debt instruments*
- *Participation in Equity business opportunities*

Well positioned to play the "China House" role

1H2021 MARKET REVIEW

Debt Capital Markets (DCM)

Though with a different outlook due to heavy vaccination programmes in advanced countries, the COVID-19 pandemic continued to affect international debt capital markets in the first half of this year, mostly noticeably in the type of issuers and surge in ESG bond issuance.

Overall, global debt capital markets activity totalled USD 5.3 trillion during the first half of 2021 (“1H2021”), down by 8% compared to the same period last year and the second consecutive first half to surpass USD 5.0 trillion in issuance. The number of new offerings brought to market in the period totalled 13,588, a 2% declined compared to the first half of 2020 (“1H2020”). DCM issuance during the second quarter of 2021 (“2Q2021”) decreased 1% compared to the first quarter of this year (“1Q2021”), but increased 4% by number of issues.

Global Investment Grade corporate debt offerings reached the second largest first half volume on record, in spite of an 18% decrease vs 1H2020, to USD 2.4 trillion. On the other hand, global high yield debt activity increased 52% year-on-year in 1H2021 to USD 400.9 billion, reaching the strongest volume on record for global high yield issuance.

Green bond issuance totalled USD 254.7 billion during 1H2021, a 188% increase compared to year ago levels and an all-time first half record.

Despite the emergence of sustainability and social bonds, annual debt issuance from agency, sovereign and supranational issuers totalled USD 1.6 trillion, down 2% from a year ago. Thus the weight of DCM activity from Financials, Government & Agencies, and Industrials Issuers increased to 78% of 1H2021 global debt issuance, vs 74% in 1H2020.

International bond offerings totalled USD 2.9 trillion during 1H2021, a 9% decrease year-on-year and a two-year low, though debt from emerging market corporate issuers increased by 4% vs 1H2020 up to USD 208.7 billion.

Asia local currency bond offerings totalled USD 1.4 trillion during 1H2021, a 4% increase year-on-year and the strongest first half for issuance since records began in 1980. China Yuan offerings increased 2% year-on-year.

Equity Capital Markets (ECM)

ECM activity totalled USD 686.5 billion during 1H2021, a 50% increase compared to 1H2020 and the strongest opening six-month period for global equity capital markets activity since records began in 1980. By number of issues, 3,662 ECM offerings were brought to market, a 46% increase compared to 1H2020 and an all-time first half record. Though 2Q2021 issuance decreased 8% compared to 1Q2021, it was the fifth consecutive quarter to surpass USD 300 billion.

Global initial public offering activity, excluding SPACs, during 1H2021 totalled USD 209.3 billion, more than three times greater than in 1H2020, and the strongest first half for global IPOs since records began in 1980. IPOs on US exchanges increased 237% during 1H2021.

Global secondary offering activity totalled USD 362.8 billion during 1H2021, a 21% increase compared to a year ago and the strongest first half since 2015. Nearly 2,400 follow-on issues were priced during 1H2021, the strongest first half for secondary offerings, by number, since records began in 1980.

ACTIVITY HIGHLIGHTS

In Portugal, Haitong Bank’s activity during 1H2021 was marked by the diversity of the transactions closed, not only in DCM, but also in ECM.

Haitong Bank continues to use its expertise in Eurobond issuance by Chinese borrowers, having concentrated its efforts on investment grade names.

The DCM Team in Portugal successfully concluded the following deals, among others:

- EUR 104 million Rights Issue via a Public Subscription Offer by Mota-Engil, S.A.. Haitong Bank acted as Joint Global Coordinator;
- EUR 65 million 4.75% bonds due 2023 through a Public Subscription Offer by Futebol Clube do Porto – Futebol SAD. Haitong Bank acted as Sole Global Coordinator;
- Guaranteed Commercial Paper Programme of EUR 50 million for SATA AIR AÇORES – Sociedade Açoriana de Transportes Aéreos, S.A.. Haitong Bank acted as Arranger and Dealer;
- Consent Solicitation Process by Mota-Engil, SGPS, S.A., regarding the covenants of two bonds. Haitong Bank acted as Joint Consent Solicitation Agent;
- USD 500 million 2.4% guaranteed bonds due 2026 issued by SFG International Holding Co. Ltd.. Haitong Bank acted as Joint Global Coordinator, Joint Lead Manager and Joint Bookrunner;
- USD 240 million 3.15% guaranteed bonds due 2026 issued by Hanhui International Ltd.. Haitong Bank acted as Joint Lead Manager and Joint Bookrunner.

In Poland, after the last unprecedented year for financial markets, 1H2021 showed a further recovery, especially in the last months, although this is not yet a “pre-pandemic” market. The most active issuers in Polish DCM in this period were companies from the real estate sector (due to limited access to other financing sources) and bank subsidiaries providing services in leasing, factoring or mortgage loans. However, few issues were carried out by entities from other sectors. In July, DCM Poland Team acted as a Co-arranger and Co-guarantor in the bonds’ issue of Cognor S.A. controlled by Cognor Holding S.A., one of the leading steel processing companies in Central Europe.

The early bond redemption by a company from the coal sector – Fasing - is also worth noting, as the bond issuance had been led by DCM Poland Team and partially acquired by Haitong Bank for its own portfolio.

As far as Polish Equity Capital Markets are concerned, 1H2021 brought a continuation of the IPO market revival, which commenced in 3Q2020. The total value of IPOs on the Warsaw Stock Exchange in 1H2021 exceeded EUR 1.2 billion (a half-year result unseen since 2010), providing a striking increase from a mere EUR 5 million IPO value in 1H2020. In 1H2021, ECM Poland closed the following deal:

- IPO of Vercom SA – one of the leading CPaaS (Communication Platform as a Service) providers in CEE. Haitong Bank acted as Co-manager;

In Spain, 1H2021 showed the beginning of the recovery trend in the capital markets, both in issuance and pricing compared to the end of 2020, but the high-yield market continues to grow at a slower pace.

DCM Spain's activity in 1H2021 started with a lower level of transactions than 4Q2020, although at a good pace and executing several transactions in the debt capital markets. During 1H2021, the Spanish division saw a drop in deal flow due to the high level of liquidity provided by the ICO ("Instituto de Crédito Oficial") to mid-market companies, at virtually free rates and with great ease of access, making these companies more reluctant to go to the capital markets.

Despite these conditions, the Spanish Branch continues to develop its capabilities and establish itself in the Spanish market with the aim of continuing to build on the recovery of the market, having executed the following main transactions so far this year:

- Private Placement of EUR 18.1 million for the senior debt refinancing for VM Capital, a German company with solar plants in Spain. Haitong Bank acted as debt Advisor and Placement Agent;
- Promissory Note Programme of EUR 100 million for Via Celere, a Real Estate company. Haitong Bank acted as Dealer;
- Commercial Paper Programme of EUR 75 million for Tradebe, an environmental

services and waste management company. Haitong Bank acted as Dealer;

- Commercial Paper Programme of EUR 30 million for Copasa, a Construction, development of infrastructures and provision of urban, logistic, and energy services company. Haitong Bank acted as Dealer.

In Brazil, fundraising in debt capital markets reached BRL 253 billion in 1H2021, up 65% from the same period last year. Once again, fixed income debentures stood out and accounted for BRL 99 billion in 1H2021, more than double year-on-year and equivalent to 82% of the total raised by debenture sales last year.

There were significant changes in the distribution of assets by holder compared with the same period last year. In 1H2021, intermediaries and other participants linked to issuances, which previously accounted for 87%, held 45% of such debt, followed by mutual funds, which jumped to 35% from 9% in 1H2020. Under this scenario Haitong Brazil was able to place a hybrid DCM transaction:

- BRL 60 million 3-year local debenture of Agricola Alvorada, which was partially subscribed to by Haitong Bank.

It is important to notice that, even with some rise in domestic interest rates, share offerings had a strong performance, raising BRL 68 billion in 1H2021, an 84% increase year-on-year. The current pipeline of 28 new offers and 20 follow-ons registered within the local securities commission should still absorb investors from the fixed income universe.

2H2021 OUTLOOK

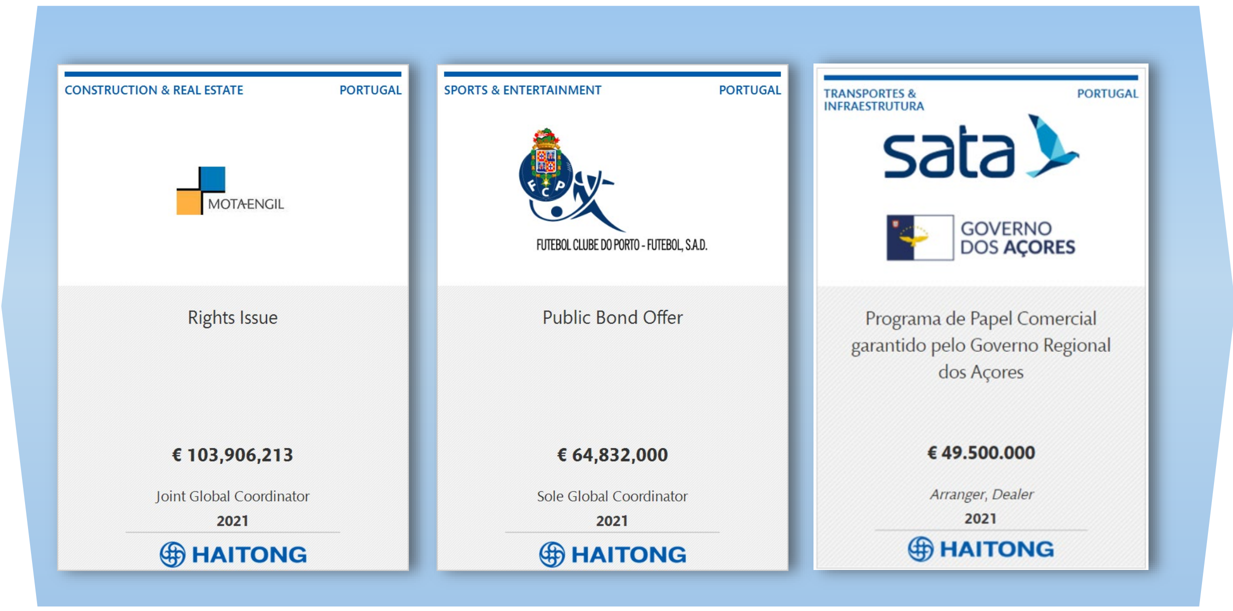
Global economies look on track for a strong post-pandemic recovery. Bond yields are rich versus fundamentals on many accounts, and we believe the time is ripe for markets to anticipate a gradual tapering of central bank purchases, thus slow monetary policy normalisation should begin.

Macro fundamentals are strong and EUR inflation is surprising to the upside, though its medium-term outlook is uncertain. Nevertheless, inflation risk should continue to influence markets and, as the pandemic is not over, issuers will likely remain on the conservative side, keeping issuance targets high and fuelling the market with new deal flow.

In Iberia, the deal pipeline is expected to remain strong in 2H2021, with issuers taking advantage of the still low interest rate environment. We expect DCM activity to also take advantage of increased debt issuance with a sustainability feature, mostly related to green or social factors.

In Poland, the DCM pipeline is picking up in line with the market trend, with the closing of new deals expected by year-end.

Under the current scenario of increasing local interest rates, the Brazilian Distribution desk is perceiving the increasing trend of corporate funds seeking higher yield fixed income transactions. In the wake of that, DCM Brazil is working on increasing its participation in non-high grade hybrid transactions, given the success with the Agrícola Alvorada debenture: we have c. 5-6 hybrid transactions of this kind in our pipeline, which should total close to BRL 600 million in notional.



CONSTRUCTION & REAL ESTATE | PORTUGAL

MOTA-ENGIL

Noteholders' Consent Solicitation
Mota-Engil 2018/2021
Mota-Engil 2018/2023

Total outstanding amount €73m

Joint Consent Solicitation Agent
2021
HAITONG

SOE | CHINA, BVI

山东财金集团 SHANDONG FINANCE GROUP

2.40% Guaranteed Bonds due 2026

US$ 500,000,000
Joint Global Coordinator, Joint Lead Manager, Joint Bookrunner
2021
HAITONG

SOE | CHINA

水发 SHUIFA

4% Guaranteed Green Bond due 2024

US$ 200,000,000
Joint Lead Manager, Joint Bookrunner
2021
HAITONG

TMT | POLAND

VERCOM

Initial Public Offering

PLN 225,000,000
Co-Manager
2021
HAITONG

ENERGY | GERMANY

VM CAPITAL

Debt Advisory to VM Solar Jerez GmbH

€ 18,104,483
Financial Adviser
2021
HAITONG

CONSTRUCTION & REAL ESTATE | SPAIN

vía célere
Casas que innovan tu vida

Commercial Paper Programme

€ 100,000,000
Dealer
2021
HAITONG

SERVICES | SPAIN

TRADEBE

Commercial Paper Programme

€ 75,000,000
Dealer
2021
HAITONG

CONSTRUCTION & REAL ESTATE | SPAIN

COPASA

Commercial Paper Programme

€ 30,000,000
Dealer
2021
HAITONG

AGRIBUSINESS | BRAZIL

Agricola ALVORADA

Non-convertible Local Debentures under ICVM 476 R$60 million

R$ 40,000,000
Sole Lead Bookrunner, Lender
2021
HAITONG

Structured Finance

OVERVIEW

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

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

STRATEGY

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

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

€17.6m

Banking Income Amount

40%

Weight in Total Banking

Offering

- *Project finance / Project bonds*
- *Acquisition finance*
- *Corporate Lending / Bridge Financing*
- *Bank Guarantees*

A Structured Finance and Infrastructure Specialist with a China Angle

ACTIVITY HIGHLIGHTS

Following the recent trend, Haitong Bank's Structured Finance activity has improved its performance and strengthened its presence in the lending space with a growing volume of new deals approved and closed in Europe and Brazil.

In the first half of 2021, the Structured Finance activity achieved total banking income of EUR 17.6 million, which represents a substantial increase in comparison with the same period last year. This achievement allowed for a very low cost-to-income ratio of c. 7% and for positive gross profit of over EUR 16 million.

Despite the general negative effects of the COVID-19 pandemic, Structured Finance has had a very good performance across the various geographies in which the Bank has a presence as a result of the well-coordinated commercial efforts combined with a focus on value-added transactions for both the Bank and its clients. Particular mention should be made of Spain, where Structured Finance has recently strengthened its local team and market positioning.

Activity has been particularly strong in sectors not impacted by the pandemic, namely energy, telecoms and infrastructure. During this period, a total of 5 new transactions have been successfully closed in Europe, covering the above-mentioned sectors in Portugal, Spain and Poland.

On top of the deals closed to date, several other transactions have merited internal credit approval during the first semester and are now going through the implementation phase with a view to reach financial closing by year-end.

The China-related business has also remained very active with a number of opportunities being developed and assessed, namely in the UK, where the real estate development and the energy sectors keep attracting Chinese investment.

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

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

In Brazil, despite the challenging situation during 1H2021, the Structured Finance area activity was very positive, taking into consideration the closing of several transactions for approximately BRL 250 million, with a special focus on the agribusiness sector. We expect that the economy will continue improving during 2H2021, especially toward the end of the year, with the vaccination efforts bringing additional financing opportunities to the Structured Finance business.

Structured Finance continues to collaborate with the Capital Markets area, generating synergies and seeking mandates for combined transactions where the Bank will act as both bookrunner and lender.

At the same time, the Bank continues to seek to position itself with investors, mainly Chinese and European, interested in closing structured financing transactions and in participating in the infrastructure sector.

2H2021 OUTLOOK

For 2H2021, the business prospects are quite positive as the completion of a number of Structured Finance deals, which have merited internal credit approval during 1H2021, are expected in all geographies.

The pipeline of new Structured Finance deals remains strong and growing: real estate / accommodation, energy and infrastructure sectors are currently the more representative ones in terms of new business opportunities.

In line with the first half, activity in acquisition finance is also expected to continue to be strong into the second half of the year, namely in Portugal and Spain. In this space, Haitong Bank will monitor several opportunities in the telecoms and infrastructure sectors.

Mergers and Acquisitions

OVERVIEW

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

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

STRATEGY

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

€6.2m

Banking Income Amount

14%

Weight in Total Banking

Offering

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

Local Player with a China Angle

1H2021 MARKET REVIEW

During 1H2021, global M&A activity registered a slight decrease of 6% YoY in terms of the value of completed transactions, totalling USD 1.3 trillion, according to Merger Market. In Europe, the M&A market did not follow the global trend but posted a modest 3% YoY increase in terms of value of completed transactions, reaching USD 389 billion.

Portugal registered USD 2.1 billion of completed transactions during 1H2021, with 24 deals completed, which represents a 57% decrease YoY. This performance is explained by the shortage of large deals as was the case in the previous year, namely only one large deal in the Energy sector was credited during 1H2021.

In Spain, the value of M&A completed transactions for 1H2021 amounted to circa USD 74 billion, totalling 416 closed deals.

The UK remains an important destination for global cross-border deals. However, the uncertainty caused by the COVID-19 pandemic continued to impact M&A activity in this period.

In Poland, the M&A market totalled 93 transactions during 1H2021 vs 51 during the same period of 2020. The value of M&A transactions completed amounted to circa USD 8.9 billion. Overall, the Polish economy seems to be quite resilient to the COVID-19 turbulence with positive GDP growth already, which should also help to generate good flow of M&A business.

The M&A market in Brazil totalled USD 8.8 billion in 1H2021, a reduction at approximately 10% over 1H2020. During 1H2021, 144 transactions were closed, with the 3 biggest deals responsible for circa 50% of the total volume.

The most active sectors were financial (35 deals), health and education (26) and technology (24). It is worth mentioning that the FX volatility observed throughout 1H2021 has brought uncertainties for foreign investors wishing to make new investments in Brazil.

ACTIVITY HIGHLIGHTS

In Portugal, Haitong Bank advised China Communications Construction Company, Ltd. (“CCCC”) in the negotiation of a partnership and investment agreement with Mota-Engil. In the context of this transaction, CCCC, one of the largest infrastructures groups in the world, became a relevant shareholder and a long-term partner of Mota-Engil.

Haitong Bank also acted as sell-side advisor to Sonae IM and remaining shareholders in the sale of the entire share capital and voting rights of Digitmarket – Sistemas de Informação S.A. (Bizdirect) to Claranet. This transaction has already been cleared by the Portuguese Competition Authority and completion occurred in mid-July.

Additionally, Haitong Bank advised on the sale of Cudell, a company that is engaged in supplying solutions for outdoor areas, namely, landscape irrigation and pool products, to Descours & Cabaud Group, a major private French player in this sector in Europe. The transaction is subject to clearance from the Portuguese Competition Authority and is expected to be completed early in 2H2021.

In Spain and during 1H2021, Haitong Bank closed the landmark acquisition for China Three Gorges of the Spanish solar portfolio of X-Elio (pending completion by the end of 2020) and the debt advisory on the project loan of VM Solar. In addition, the Bank’s structured finance portfolio has been reinforced by supporting multiple LBO financings.

During 1H2021, the UK M&A Team assisted international clients on three cross-border mandates in the renewable energy and waste recycling/management sectors in the UK. One buy-side cross-border transaction remains ongoing. The Team have also found success working with our China office to bring selected M&A ideas to a few Chinese clients, a service which clients noticeably appreciate. On the domestic front, the Team have been engaged to raise up to GBP 75 million capital for a European fund manager in a sector they know well, and are currently contacting investors.

In Poland, during 1H2021, Haitong Bank acted as a buy-side advisor for the leader in acquiring and collecting non-performing loans listed on the NASDAQ on the acquisition of Capital Partners TFI.

With a focus on the development of transactions in Brazil where the Chinese Angle applies, Haitong Bank has been working on various origination initiatives in the energy, mining and oil and gas sectors. Moreover, Haitong Bank has deepened its local presence with 4 sell-side mandates in the cosmetics, retail, sanitation and energy sectors, with some of them expected to be completed during 2H2021.

2H2021 OUTLOOK

Haitong Bank is very enthusiastic about 2H2021 due to a robust pipeline of ongoing projects in the different regions where it is present.

In Iberia, an important number of deal completions are expected to take place, despite the limitations imposed by the pandemic.

Activity from infra funds and private equities are expected to remain robust, mainly focused on cash yield opportunities and materializing build up strategies.

In the UK, M&A activity is expected to see a continued recovery. This could be driven by industries that have performed well during the pandemic (e.g. energy, financial services and healthcare). The pandemic has undoubtedly resulted in changes to business operations: we expect to see increased levels of interest in companies, which are driving industrial efficiency – e.g. through technology, business transformation or supply chain consolidation. Activity levels will no doubt be assisted by deferred processes, including non-core disposals, and probably combined with adjusted valuation expectations in some instances.

In Poland, the M&A market for 2H2021 looks positive with a number of envisaged transactions in the pipeline. In light of the fact that some transactions are at advanced stages, Haitong Poland also expects some new M&A transactions to be signed and closed before the end of 2021.

In Brazil, the coming months should see an increment in deal value as large divestments are planned to be pursued by Petrobras and large privatizations should be carried out by the Brazilian Federal Government. However, the number of deals should still remain low in 2H2021 as a consequence of the economic impact of the shutdowns in different regions of the country caused by COVID-19 and a potential increase in the unemployment rate.

CONSTRUCTION & REAL ESTATE | CHINA / PORTUGAL

CCCC
CHINA COMMUNICATIONS CONSTRUCTION COMPANY

Acquisition of a 32% stake in Mota-Engil, SGPS, SA

€ 241,000,000

Financial Adviser

2021

HAITONG

TMT | PORTUGAL

SONAE IM

Sale of 100% of Bizdirect to Claranet

Financial Adviser

2021

HAITONG

CONSUMER & RETAIL | PORTUGAL

outdoor solutions
CUDELL

Sale of 100% of Cudell OS to Descours & Cabaud
(Pending Completion)

Financial Adviser

2021

HAITONG

ENERGY | GERMANY

VM CAPITAL

Debt Advisory to VM Solar Jerez GmbH

€ 18,104,483

Financial Adviser

2021

HAITONG

ENERGY | CHINA / SPAIN

中国三峡
China Three Gorges Corporation

Financial Advisory to CTG Europe in the acquisition of a 572MW Solar PV Portfolio to X-Elio

Financial Adviser

2021

HAITONG

FIG | U.S.A. / POLAND

CAPITAL PARTNERS

Acquisition of 100% shares of TFI Capital Partners S.A. by global leader in acquiring and collecting nonperforming loans (listed on Nasdaq)

Sole Financial Adviser

2021

HAITONG

FIXED INCOME

OVERVIEW

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

The Fixed Income main areas of operation allow the Team to acquire significant expertise in the target markets and ensure a strong distribution capability of debt products to institutional clients globally.

The Fixed income division is present in Portugal, Spain, Poland and Brazil covering Haitong Bank's banking book management, trading / flow, Fixed Income Institutional Sales and Syndication.

STRATEGY

The Fixed Income Division will continue to follow Haitong Bank's strategic guidelines, focusing on the necessary endeavours to add the Chinese Angle to our current offer while aiming to become an important player in Chinese products. By building a strong bridge with Chinese local teams and having dynamic teams in our different offices, we will be able to create important synergies and become an execution hub of cross-border business opportunities from different geographies.

€8.2m

Banking Income Amount

19%

Weight in Total Banking

Offering

- Fixed Income Trading and Debt Market Making
- Fixed Income Banking Book Management
- OTC Derivatives to Institutional Clients
- Distribution to Institutional Clients
- Syndication

An execution hub of cross-border business opportunities from different geographies

ACTIVITY HIGHLIGHTS

In general terms and during 1H2021, there was an overall environment of economic growth and recovery from COVID-19 impacts. Interest rate hikes supported by inflation risks prospects in Europe and US, a positive performance in China, commodities outperforming and minimum lows in credit spreads all lead the market activity. This environment and uncertainty on interest rates have had an impact on client activity and global flows have fallen almost 50% when compared with the same period of 2020.

Trading / Flow

During 1H2021, there was some volatility in rates, especially in USD with the reflation trade kicking in the first quarter of the year. The fear of inflation and higher rates led to a strong reduction in secondary trading volumes but overall new issues and credit spreads performed quite well, both within the IG and HY universe. As curves flattened again towards the end of the semester, the Bank had more clients stepping in again to avoid excessive cash in the portfolios. We believe Central Bank policies in place for longer than generally expected should avoid significant spikes in volatility going forward, at least for the remainder of the year.

Banking Book Management

1H2021 was, against all the odds, a stable semester, with most central banks staying put or trying to assuage investor concerns about future revisions of monetary policy. In addition, the sharp reduction of the US and Europe's default rates gave comfort for credit spreads to remain at their tightest. With such a positive backdrop for credit markets, the lower rated companies were the best performers, with CCC rated issuers leading the movement.

As such, despite the strong performance within some market sectors, the Bank decided to be very cautious on the risks that were added to the portfolio. The Bank maintained a conservative approach to both credit and interest rate risks. From our point of view, throughout 2H2021 most Central Banks will have to revisit their current ultra-expansionary monetary policies, which could generate significant headwinds in Fixed Income markets. We believe that 2H2021 will see increased volatility in the Credit Markets, which could provide better entry points versus 1H2021.

Institutional Sales

On the flow activity the Team has suffered from the hard landing in global fixed income flow where volumes have dropped almost 50% overall following uncertainty regarding interest rates and historically low credit spreads.

Despite this backdrop, the Team managed to increase the number of active clients and kept its focus on new capital markets deals and short-term debt placements. By taking advantage of strong client relationships, the Team was able service clients' needs well and identify relevant reverse enquiries providing successful distribution for all the new deals led by Haitong Bank.

Syndication

In terms of primary deals, 1H2021 was marked by the COVID-19 effects on the economy and financial markets. As happened in 2H2020, several issuers returned to the markets, with the higher rated ones the first to the markets.

The year is also being marked by inflation warnings and volatility on interest rates, both of which make investors' and issuers' decisions more challenging. Although improving, the high yield sector has continued to see new issues' volumes very subdued and below normal levels. The vast majority of Haitong Bank's issuers belong to this segment so the number of new issues in 1H2021 was reduced.

The Team continued to organize meetings (in a digital format due to contagion risks) between companies and investors to discuss the changing business prospects and each company's financial situation. TAP and Mota-Engil were some of the issuers who requested we liaise with investors. Pursuant to that request, the Team successfully carried out a waiver consent solicitation with investors.

In 1H2021, one saw several investment grade companies and also some China issuers tapping the market. The syndication Team actively participated in every pitch made by the Bank's DCM Team by providing accurate market readings and pricing. It also contributed to the execution of deals including marketing, roadshow organization, pricing, and allocation. The Bank was active in both private placements and benchmark transactions such as: Shuifa International (Baa1 rating, USD 200 million, 3-year maturity); Chongqing Nan'an (BBB rating, USD 150 million, 3-year maturity; Hanhui International (BBB+ rating, USD 240 million, 5-year maturity) and Shandong Financial Group International (A2/A+ rating, USD 500 million, 5-year maturity).

Fixed Income in Poland

Economic activity was largely influenced by the epidemic, although the impact was weaker than in the initial phase of the pandemic. The ongoing economic recovery, inflation higher than at the beginning of the year and expectations of some market participants regarding interest rate increases in the coming years put pressure on the increase in the yields of Polish bonds. The yields are increasing but much at a slower pace than inflation. This is due to the easing of the monetary policy of the NBP that kept interest rates unchanged and continued other measures taken in response to the pandemic.

On the other hand, customers are much more active, especially in the corporate bond market. Clients already understand the impact of COVID-19 on the sectors and are looking for higher returns to invest.

Fixed Income in Brazil

The Fixed Income Sales Team in Brazil continued to act in response to solicitations for sounding out several corporate names in order to analyse the viability of such offerings' distribution. However, in many cases they were not suitable nor competitive for distribution amongst our clients/institutional investors as the banks mandated used the balance sheet strategy focusing on the secondary market. The Agrícola Alvorada debenture was a notable successful placement, in which the Bank acted as a leader manager in the funding placement in a hybrid form, underwrote part of the deal as credit, diversifying the risk on the balance sheet by distributing the other part to investors.

Moreover, the distribution teams remained focus on raising funding from the institutional client base, being confident in reaching pre-COVID levels in the medium-term.

For 2H2021, regardless of the considerable presence of banks' firm underwritings, more institutional investors are also expected to participate in Fixed Income offers due to the outlook for rising interest rates. We believe that fixed income distribution may appear even more attractive in the second half of the year with rising interest rates.

CORPORATE DERIVATIVES

OVERVIEW

Haitong Bank's Derivatives Desk covers several asset classes such as interest rates, FX and commodities, providing its clients with tailor-made solutions to optimize their hedging strategy against an increase in interest rates, the exchange rate variations between payments and receipts of their products, and in fixing the cost / sale price of raw materials.

The Team has close to 20 years of combined experience in all Derivatives-related areas, such as Structured Finance and Project Finance, and maintains direct contact with Financial Managers and CFOs of the most prestigious listed and non-listed companies in Portugal, Spain, Poland and Brazil.

STRATEGY

Haitong Bank's Derivatives Desk aims to help companies protect their balance sheets against financial variables that may negatively affect their profits, allowing them to focus on their core business, lock in the margin in their products, and, above all, protect the value for the shareholder.

€2.0m

Banking Income Amount

5%

Weight in Total Banking

Offering

- *Corporate Hedging Solutions* covering several asset classes such as interest rates, FX and commodities

A reference in the protection of clients' balance sheet

ACTIVITY HIGHLIGHTS

In 1H2021, the Corporate Derivatives' Iberian activity fell significantly year on year. As a matter of prudence and given the unusual volatility of the market during the pandemic, the Bank decided to reduce exposure to structures with higher potential exposure, namely Structured FX and Commodities. With oil prices above USD 70, the Bank's exposure to Jet Fuel derivatives was cancelled in full. The absence of Commodities and Structured FX hedging heavily penalized the results of the Bank's derivatives area, in addition to the project finance legacy funding costs. About EUR 530 million were traded in foreign exchange mainly through the FX platform launched in January.

In Brazil, Corporate Derivatives & FX Team had some difficulties in the continuity/expansion of the business with specific niche customers with revenues through services (FX / Fees), mainly due to problems related to the volume of business and limited access to operational counterparties. However, the Team continued to implement its strategy in order to expand its derivatives customer base.

The priority was to present cases where there were synergies and combination of gains through cross-selling (Derivatives + Loans / DCM). The agribusiness sector presented most of the opportunities (risk x return). Agricola Alvorada, Cereal Group, and Caramuru Alimentos are some good examples to be highlighted.

2H2021 OUTLOOK

For 2H2021, the Iberian Corporate Derivatives desk has several deals in the pipeline in Structured FX, Interest Rates and in Commodities, covering Base Metals, Sugar and Carbon Allowances and is expected to recover part of the activity lost in the first half of the year. Several new customers were onboarded, some of whom have already started to transact with the Bank.

In Brazil, the expectations for the second half are positive. With client portfolio growth and the client base renewals, the Team will be able to present consistent results in order to rebuild and diversify the revenue sources.

Asset Management

OVERVIEW

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

STRATEGY

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

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

€3.0m

Banking Income

7%

Weight in Total Banking

Offering

- *Discretionary Management*
- *Fixed Income Fund*
- *New initiatives: Quantitative strategies*

Leveraging on a long and successful track record

1H2021 MARKET REVIEW

During 1H2021, the equity markets followed the gradual rising trend experienced since the summer of last year, with the various American and European indices gaining around 15%. Key to this were the Central Banks' ultra-expansionary monetary policies, supported by strong fiscal policies and, since the end of 2020, the advances made in vaccinations. It was actually the progress in vaccination policies, mainly in the developed economies, that allowed economic activity indicators and business and household confidence to continue to recover and to reach significant levels throughout the first half of the year.

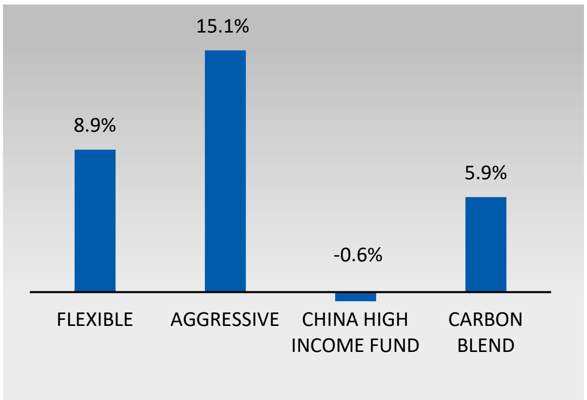
Once again, the US economy was at the forefront, supported by another strong fiscal package to combat the crisis, of USD 2.25 trillion, announced at the beginning of the year. Moreover, the newly elected Democratic president, Joe Biden, intends to expand public spending and investment by around USD 4 trillion. Once again, the financial markets were ahead of economic development, and the debt markets reacted in the first months of the year: the public debt yields, which had dipped to historic lows last year, began to rise, particularly in the longer maturities. The pressure on central banks mounted as inflation indicators began to rise, driven by base effects (the prices of many goods and services had fallen last year during the first months of the pandemic), disruptions in production chains and the rise in the price of oil and other commodities.

The discussion will initially focus on the reduction of the asset purchase programme. This issue is more or less common to several other economies, not least because rising inflation is a global phenomenon. Some countries, such as Brazil and Russia, have already started to raise their key rates and in China the Central Bank has been slowly curtailing support since the end of last year. In the second half of the year, the markets' performance will continue to depend on the success of the vaccination programmes and on the debate on the beginning of the withdrawal of monetary stimuli.

ACTIVITY HIGHLIGHTS

The performance of most of the Bank's strategies ended the year on positive ground. The rebound of the financial markets that kicked off in the second half of 2020 extended into the first half of 2021, particularly in the Western equity markets, including, after several years of under-performance, the European equity market. In this context a special mention should be made to the aggressive European equity strategy, which closed the semester with a gain of more than 15%, clearly above its historical average of 9.7% per year. In risk-weighted terms this performance is also noteworthy, with the Sharpe index at 3.05, which compares with 2.65 for the Eurostoxx50 TR benchmark.

1H2021 Performance of HB's Strategies

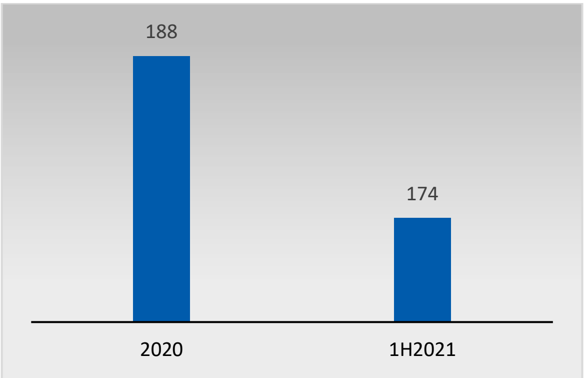


Source: Haitong Bank

This first half of the year proved rather more challenging for fixed income strategies. In a globally negative scenario for bonds, especially in the first quarter of the year, the performance of the China High Income fund, albeit above its benchmark, was still marginally negative at the end of the quarter, at 0.58%.

A less favourable climate to the bond market, particularly in China, also helps explain the negative trend of AUM in 1H2021. In fact, despite the positive performance of the balanced and aggressive strategies, the retraction in bond strategies ultimately led to a negative balance in terms of AUM evolution.

Assets under Management (million euros)



Source: Haitong Bank

In this context, travel restrictions resulting from the 3rd wave of the pandemic were also detrimental to business activity, particularly in the first quarter. Virtual contact remains an alternative but does not allow the same kind of dynamics.

2H2021 OUTLOOK

The second half of the year is still shrouded in uncertainty. On the one hand, the somewhat binary discussion between inflation and growth, or the absence of both, justifies some increased volatility. On the positive side, we believe that a healthy balance between economic recovery and central bank and government stimuli will allow the markets to preserve, or even expand, the gains obtained so far. However, the greatest uncertainty lingers about the behaviour of interest rates. The most recent trend also points to a recovery in bond prices.

At the core of all uncertainties, in terms of both market behaviour and the take-off of more fruitful trading activity, there remains the pandemic and its constraints. After a certain euphoria regarding the ability of vaccines to restore a much-desired normality, we are now going through a phase of some anguish regarding their real capacity, with all the attention focused on the resilience, or lack thereof, of health systems in countries with the most advanced vaccination rates. In any case, the Bank will continue to focus on creating value for its clients and developing the business with special determination in the High-Net-Worth client segment, taking advantage of the Haitong Group's global presence and expert track record.

PRIVATE EQUITY

OVERVIEW

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

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

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

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

The company is now changing its business model, with the aim of focusing on broad asset management activities beyond the pure private equity focus.

The business scope change involves several corporate changes and the approval of the regulator. The filing of the request to the CMVM occurred in November 2020 and is expected to be completed over the course of the second half of the year.

STRATEGY

Haitong Capital leverages on its sector and geographical expertise to support companies wishing to expand their businesses.

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

€4.3m
Banking Income

10%
Weight in Total Banking Income

Offering

- Growth Capital Fund

Playing a Sino-European role in the market

ACTIVITY HIGHLIGHTS

During 1H2021, the activity of Haitong Capital was affected by a new COVID-19 related lockdown period and its subsequent impact on the portfolio companies. The implementation of value preservation measures occurred across the portfolio to ensure business continuity. In this regard, some companies saw their activity reduced, but the majority of the portfolio companies saw their production plans unaffected.

During this quarter, Haitong Capital registered the liquidation of ES Iberia I, soon after the disposal of its last portfolio company.

Taking into account the advanced stage of maturity of the current funds under management - Haitong Infrastructure Fund (liquidation phase), and FCR – PME /Novo Banco - the deal flow sourcing activities were not maximised.

In May, the company launched a new private equity fund – Haitong Private Equity Fund - registered with the CMVM and, with a fully subscribed size of EUR 50 million. This fund aims to invest in European private equity deals, including in other similar funds.

Aggregate inflows from the investment portfolios totalled EUR 12.2 million. Among this, disposals represented a cumulative amount of EUR 10.8 million, generated by the exits from Armilar II and III, Fomentinveste and ESUS. The remaining inflows represented EUR 1.5 million and are mostly explained by interest payments for shareholder loans and dividend distributions. Within these, the dividend payments from ESID and Fomentinveste stand out as the most important contributors with an amount close to EUR 1.2 million.

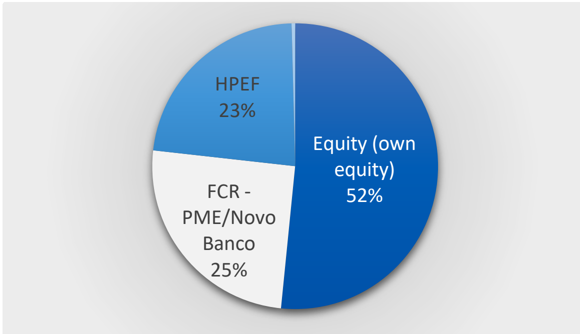
The Company also agreed to sell the stakes held in a number of Companies and Funds, including ESID and Fondo PPP Italia, inter alia, for a gross consideration of EUR 14.3 million. Such transactions are pending clearance of specific conditions precedent, which is likely to occur over the course of the third quarter.

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

In June, the fair market valuation of the investment portfolio reached EUR 14.8 million. This represents 4.1% appreciation when compared with EUR 14.2 million in June 2020, on a like-for-like basis, including dividends and accrued interests resulting from the same group of securities.

In 1H2021 the private equity activity posted a net profit of EUR 2.6 million and total equity amounted to EUR 59.2 million.

Breakdown of Funds under Management (1H2021)



Source: Haitong Bank.

2H2021 OUTLOOK

Haitong Bank Group is implementing a reorganisation of Haitong Capital - Sociedade de Capital de Risco, S.A. with a change in its business model. Going forward, and upon the regulator’s approval, Haitong Capital shall focus on broad asset management activities, beyond the traditional pure private equity background.

The firm also expects to complete transactions involving some of its portfolio assets upon clearance of the applicable conditions precedent during the third quarter.

Finally, Haitong Capital also expect to complete the liquidation of Haitong Infrastructure Fund by the end of the year after the disposal of the last portfolio company.

People

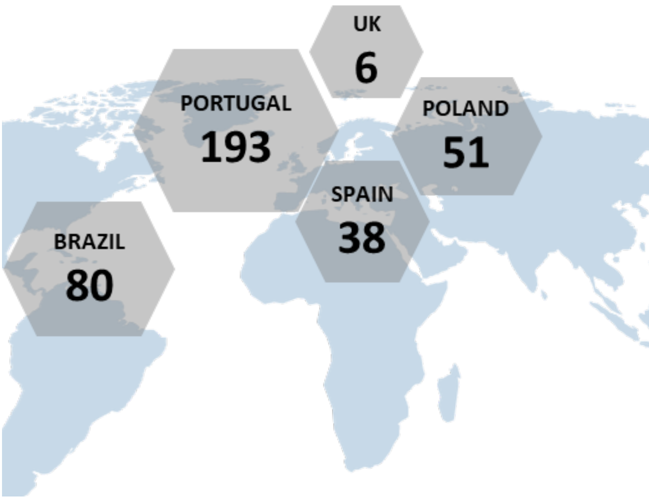
HUMAN RESOURCES

Haitong Bank continues to recognize Human Capital as a core asset. The Bank believes in acquiring the best talent, developing the existing workforce, promoting teamwork and encouraging individual achievement through career opportunities and mobility.

Human Resources plays a fundamental role in the coordination of the Bank's strategy with the suitability of the required workforce, which includes active participation in the expansion into new markets and regions. Moreover, Human Resources aims to increase the efficiency of its workforce by promoting mobility solutions, which lead to an improved front-office /back-office ratio and increased motivation and engagement.

During 1H2021, Human Resources continued its commitment to building talent, making efforts to identify and recruit the ideal candidates for every job opening. In this period, Haitong Bank's headcount saw a small increase as a result of further positioning the Bank towards its business strategy and strengthening specific teams across the different locations.

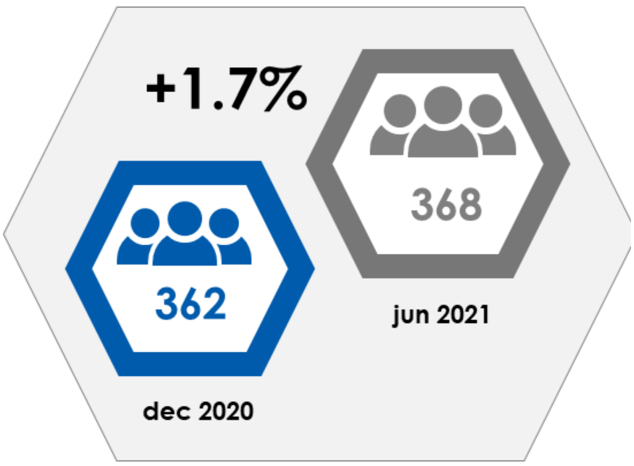
Headcount by Region (1H2021

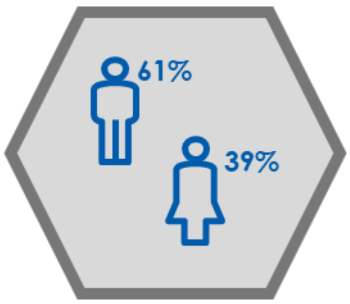


Source: Haitong Bank

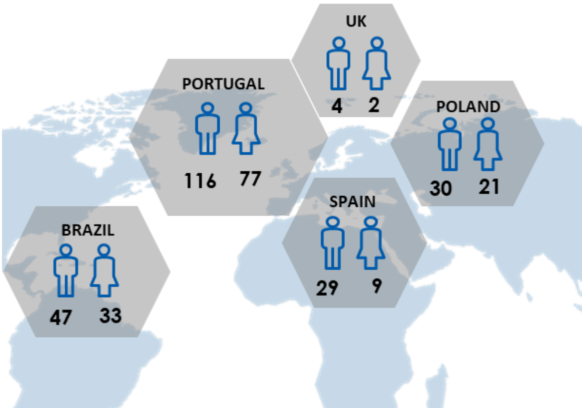
We embrace diversity and inclusion, working together to support the communities where the Bank operates in the various regions. The Bank continues to support equal opportunity principles. Currently, women represent 39% of the total workforce. There are also a considerable number of female employees in senior positions at the Bank.

Headcount 1H2021





Employee Headcount by Gender



Source: Haitong Bank

Employee Headcount Average Age

	Average (years)	
	Age	***Lenght of Service***
UK	44.5	8.9
Spain	44.4	12.6
Poland	39.1	6.6
Brazil	44.2	9.5
Portugal	41.7	11.7
Average	***42.2***	***10.6***

Source: Haitong Bank

HAITONG BANK'S CONTINUED RESPONSE TO COVID-19

With the effects of the global ongoing COVID-19 pandemic still present, the safety and wellbeing of its workforce continued to be one of the key priorities for Haitong Bank.

As the world's authorities advance with critical responses to COVID-19, namely mass vaccination programmes, Haitong Bank has continued to prioritise its business continuity measures, ensuring a healthy and safe workplace.

Most of the Bank's staff is still working from home. However, the Bank has paved the way for the safe reintegration of additional key staff to offices, strengthening the number of important teams onsite.

The main safety measures include:

- Constant sanitisation of office premises;
- Maintenance of existing controls, such as temperature checks for all incoming staff in offices and acrylic dividers for onsite staff workstations;
- Constant supply of adequate protective equipment such as face masks and alcohol-based sanitising gel;
- Continuous guidance to employees on the steps that must be taken when entering and leaving the Bank's premises.

In the context of the current COVID-19 pandemic, the Bank is focused on helping its workforce to be aligned with its business strategy and help them to be prepared for a recovery scenario.

ACTIVITY HIGHLIGHTS

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

- Participation in virtual career fairs for top universities, combining a strategy of improving the Bank's Employer Branding and attracting young talent;
- New KPI's deployment across the Bank and all its geographies, enabling individual goal setting even more aligned with the Bank's strategy, based on a clear, quantitative and accurate analysis process;
- Talent acquisition processes, including forecasting hiring needs, candidates sourcing (internal and external) and global selection and recruitment processes;
- Improved daily HR services, with a constant focus on efficient data administration and reporting and managing payroll and benefits;
- Supported the Corporate Governance and Remuneration Committees in the implementation of new and updated policies;
- Increased and effective communication in times of global uncertainty, leading with responsive, empathetic communications and policies that helped our workforce feel informed and supported.

2H2021 OUTLOOK

To be an efficient Human Resources Business Partner, it is crucial to respond proactively to the many challenges that lie ahead.

Some of our short-term goals include the following:

- Continued focus on attracting and recruiting the best talent available to ensure the Bank has the right people with the right skills;
- Support to the leadership's strategic and business initiatives, providing meaningful solutions for Human Resources challenges;
- Building on the knowledge, skills and abilities of our workforce and helping them develop and achieve their potential;
- Designing and implementing a culture of connection, using innovative digital platforms to establish and consolidate new models of collaboration and productivity;
- Constant focus on our talent sourcing processes and continuously increasing the Bank's visibility on social media recruiting platforms;
- A continued focus on central tasks such as workforce and organisational management, and global mobility.

Financial Performance

Macroeconomic Overview

1H2021 MARKET REVIEW

Global economic activity regained momentum with a combination of mass COVID-19 vaccinations and reopening of most economies in 1H2021. GDP growth was stronger where mass vaccination was more available earlier in 1Q2021 like in the US, UK, and China, according to preliminary data.

Mass vaccination gained traction in the EU in late 2Q2021 and the share of the population completely vaccinated reached 43% by July 20th. Developed nations saw full vaccination of 42% of the population while Emerging Nations only achieved full vaccination of 11% of the population in the same period according to government figures. While the majority of developed nations are likely to reach herd immunity in 2H2021, emerging markets should remain vulnerable to the social and economic impacts of different and new variants of the virus until at least 1H2022 in our opinion. In our view, the world is likely to make a transition into a "state of manageable disease" in 2022 with prospects of robust growth in 2021 and 2022.

Gross Domestic Product Growth

	2019	2020	2021	2022
World	**2.8%**	**-3.3%**	*6.0%*	*4.5%*
Euro Area	**1.3%**	**-6.5%**	*4.5%*	*4.2%*
USA	**2.2%**	**-3.5%**	*6.6%*	*4.2%*
Portugal	**2.5%**	**-7.6%**	*4.0%*	*5.0%*
Spain	**2.0%**	**-10.8%**	*5.9%*	*5.7%*
UK	**1.5%**	**-10.1%**	*6.8%*	*5.4%*
Poland	**4.7%**	**-2.7%**	*4.7%*	*5.0%*
Brazil	**1.4%**	**-4.1%**	*5.2%*	*2.2%*
China	**6.0%**	**2.3%**	*8.5%*	*5.6%*

**Consensus according to Bloomberg Jul21 | Bold=Actual | Italic=Consensus*
Source: Bloomberg

Fiscal and monetary stimuli were reaffirmed in all developed economies during 1H2021. Central banks in the US, UK, Euro area, Japan, and Canada maintained an outlook of prolonged monetary expansion with no change in benchmark rates in 2021 and 2022. Monetary authorities of the major central banks like the US Federal Reserve (FED), European Central Bank (ECB), and Bank of England (BoE) expect higher than target inflation caused by the prevalence of economic imbalances like the bottlenecks in global supply chains caused by the reopening of the economies in 2021. However, the FED, ECB, and the BoE also foresee more balanced economic growth in a "state of manageable pandemics" and reduced inflationary pressures in 2022-2023.

During 1H2021, economic recovery was uneven even in countries with earlier reopening (US and China) and marked by persistent supply chain shocks and higher inflation. According to consensus projections (Bloomberg) and compared to the Haitong Bank's 2020 Annual Report, global GDP was revised from 5.2% to 6.0% in 2021 and from 3.9% to 4.5% in 2022.

Disruptions in the supply chain of COVID-19 vaccines delayed the reopening of the global economy until 2Q2021, especially in Europe. As mentioned in the Annual Report, the economic activity measured by GDP continued to evolve in a "W" shape during 1H2021 with softer growth in 1Q2021 and a jump in 2Q2021 caused by a combination of the reopening and a strong base effect (vs. the first major lockdown worldwide which occurred in 2Q2020). According to consensus estimates, the US GDP is expected to grow 12.8% YoY in 2Q2021 vs. 0.4% YoY in 1Q2021. GDP in the Euro area fell -0.3% YoY in 1Q2021 and consensus estimates 13.1% YoY expansion in 2Q2021.

China was the first nation to suffer from the impact of the pandemic in 1Q2020 and managed to reopen its economy earlier than western economies based on GDP performance. During 1Q2021 Chinese GDP grew 18.3% YoY followed by a "softer" expansion of 7.9% YoY in 2Q2021, according to official data.

The volatility of economic activity was also observed in inflation rates in all economies on the back of supply-chain disruptions and strong consumer demand during the reopening of economies in 1H2021. According to the CRB commodities index, on average, the price of basic commodities spiked 54.6% YoY by the end of 2Q2021 (+25.3% YTD in 1H2021). The Brent crude oil advanced to the highest price since June 2015 to USD74.6 (45.7% YTD and 68.8% YoY) by June 2021.

CPI inflation by the end of 2Q2021 accelerated to 5.4% YoY in the US (vs. +1.3% YoY in December 2020), 1.9% YoY in the Euro area (vs. -0.3% YoY in December 2020), and 2.5% in the UK (vs. +0.6% YoY in December 2020). Inflation remained soft in China with CPI inflation at a pace of 1.1% YoY by June 2021 vs. 0.2% YoY by December 2020.

Emerging markets were heavily affected by the new variants of COVID-19 in 1H2021, especially India, Brazil, and South Africa. Even with a slow rate of vaccination, most emerging economies avoided extreme lockdowns like developed markets due to the limited government fiscal resources to support domestic economic activity. Higher global commodities prices and strong consumer demand in developed markets supported an export-based growth in emerging markets in our opinion. Brazil's GDP advanced 1.2% YoY in 1Q2021 and is expected to grow 12.6% YoY in 2Q2021 (Bloomberg consensus). A similar pace was observed in India where GDP grew 1.6% YoY in 1Q2021 and consensus expects +18.9% YoY in 2Q2021. South African GDP underperformed with a contraction of -3.2% YoY in 1Q2021 but consensus estimates indicate a rebound of 17.3% in 2Q2021.

Inflation also spiked in EMs with CPI accelerating to 8.4% YoY (June21) in Brazil, 6.3% YoY (June 2021) in India, and 4.9% in South Africa (June 2021). Brazil's central bank was one of the first to resume interest rate hikes to fight inflationary pressures since the beginning of the pandemic in Mar20. The Brazilian benchmark interest rate increased to 4.25% by June 2021 (vs. 2.0% in December 2020).

The yield of 10-year benchmark government bonds advanced in developed economies during 1H2021 vs. 2H2020. However, the resurgence of the 4th wave of cases in Europe and the US, caused by the Delta variant of the COVID-19 virus, reduced risk appetite in riskier asset classes and a flight to USD quality at the end of 2Q2021 vs. 1Q2021. The US 10-year Treasury Note's yield peaked at 1.74% in Mar 2021 and eased to 1.47% by the end of June 2021 (vs. 0.92% in December 2020). The yield of the 10Y German bund peaked at -0.10% in May 2021 with the reopening in Apr 2021 and the faster pace of vaccinations. At the end of June 2021, the German 10Y yield eased to -0.21% vs. -0.56% in December 2020. In Asia, the yield of Chinese 10-year government bonds denominated in US dollars slightly increased from 0.4% in December 2020 to 0.5% by the end of June 2021.

In currency markets (table below), the US dollar outperformed the euro by 2.9% YTD in 1H2021. The benchmark Dollar Index advanced 2.8% YTD in 1H2021 with 46.2% of the US population (+12 years old) fully vaccinated vs. 36.5% in Germany, 37.0% in Spain, and 29.3% in Portugal by the end of June 2021.

The UK's GBP outperformed the USD (+0.7%) with a higher rate of vaccination (49.2% of the total population) also supporting broader reopening of the economy in 2Q2021.

Emerging markets currencies were favoured by higher commodities prices and a strong performance by exports in 1H2021. The Brazilian real gained 4.3% YTD vs. USD and the Chinese Yuan Renminbi advanced 1.1% YTD vs. USD.

Foreign Exchange Markets (FX rate and % Change)					
		2019	2020	1S2021	% YTD
USA	Dollar Index	96.39	89.94	92.44	2.8%
Euro	USDEUR	1.12	1.22	1.18	-2.9%
UK	USDGBP	1.33	1.37	1.38	0.7%
China	CNYUSD	6.96	6.53	6.45	-1.1%
Brazil	BRLUSD	4.02	5.19	4.96	-4.3%
Poland	PLNUSD	3.79	3.73	3.81	2.1%

Source: Bloomberg | Analysis: Haitong Bank

2H2021 OUTLOOK

We continue to expect economic activity to advance at a volatile pace in 2021 and 2022. Over a year after the first outbreak, the COVID-19 virus is likely to persist as a risk for full global economic recovery while the supply of vaccines remains limited for the majority of the world population in our view. However, we expect a transition to a state of manageable disease with the gains in the scale and quality of the global vaccination rate over the next 1-2 years, even with new mutations of the virus.

In our view, market participants are likely to remain positive on the outlook for fiscal conditions in DMs during 2H2021. In such an outlook, especially in developed nations and China, we expect limited risks of a major correction in global financial markets in 2H2021. We also expect emerging markets and commodities to remain favoured by inflows during 2H2021, even with some strengthening of the USD during 3Q2021. EMs' GDP growth and foreign investment flows should also improve if the vaccination rate accelerates.

In our main scenario, the 10Y US Treasury yield should move toward 1.75% by the end of 2021. In the Euro area, we expect the 10Y German bund yield to move to the range of -0.10% to 0%.

Credit rating agencies refrained from major changes in sovereign debt ratings in 1H2021 since fiscal deterioration continued largely due to government spending aiming to fight the impact of the pandemic and support economic reactivation in most countries. In our view, downside risks for sovereign credit ratings will become more visible in case of delays in solid economic reactivation, weak fiscal performance in the post-pandemic period (2H2022 and 2023), and persistent imbalances in financial institutions' balance sheets (including central banks).

We expect the maintenance of the grade and outlook for the sovereign credit ratings of Portugal (S&P BBB/stable; Moody's Baa3/positive; and Fitch BBB/stable) and Spain (S&P A/negative; Moody's Baa1/stable; and A-/stable) in 2H2021 due to the outlook of support from the EU and the ECB until at least 2023. We also foresee the spreads of 10Y Portuguese Government bonds in the range of 50bps to 70bps vs. German 10Y Bund in 2H2021. The equivalent 10Y Spanish Government bond is expected to trade with a spread (vs. Germany) in the range of 60bps to 80bps in 2H2021 in our view.

In currency markets, we expect the EURUSD to move in the range of 1.15 to 1.20 by December 2021. Even after advancing 2.8% to 92 points in 1H2021, the Dollar index remains 3% weaker than the 5-year average of 95 points by June 2021. In our opinion, real interest rates in the US should remain negative even in late 2023 when the Fed is expected to resume a gradual pace of monetary normalization. Due to the outlook of negative carry of real interest rates in USD, we foresee some downside risk for the greenback in 2H2021 and 2022.

The global unemployment rate is expected by HB to remain high during 2H2021 but lower than the levels seen during the Great Recession (2008-2009). Furthermore, household income was favoured by the reopening of the economies and rising employment rates. Due to the uncertainties caused by the several lockdowns and social distancing, household savings remained at the highest levels in over 20 years (up to 20% of disposable income during 1H2021) in Europe and the US (where high-frequency data is more available).

The approval of fiscal stimulus bills in the US Congress totalling USD5.3 trillion in the past 14 months should feed into the real economy over the next 3 to 5 years. An additional USD1.2 trillion infrastructure plan is still pending approval in the US Congress and is expected to increase potential growth in the next decade.

In the EU, the EUR 750 billion NEXTGEN fiscal plan was launched at the end of 2Q2021 and is expected to boost recovery and new investment in member nations, especially targeting a transition to more sustainable economic growth.

We expect robust global economic growth in 2H2021 with a carry-over effect into 2022 driven by continuing monetary and fiscal policy stimulus, and private consumption. Growth in capital investment should improve in 2H2021 and further accelerate in 2022, in our opinion. Despite the volatility in inflation in 2021, we expect a milder pace for consumer prices by December 2021 and closer to central banks' targets in 2022 for DMs and China.

Last but not least, we expect a strong performance of green finance assets in 2021 ahead of the UN's Conference on Climate in November 2021 (COP26). The COP26 has an agenda to reinforce the global commitment toward the reduction in carbon emissions by 50% until 2030 and zero emissions by 2050. In the Euro area, the ECB will run a Climate Risk Stress Test in the banking system during 2022. Under the new standards of sustainable finance, climate risk will be considered an additional factor to measure the capital ratios for the Euro area banks. Such a test is expected to accelerate the demand for assets with higher ratings of environmental sustainability in the balance sheets of the Euro area's banks.

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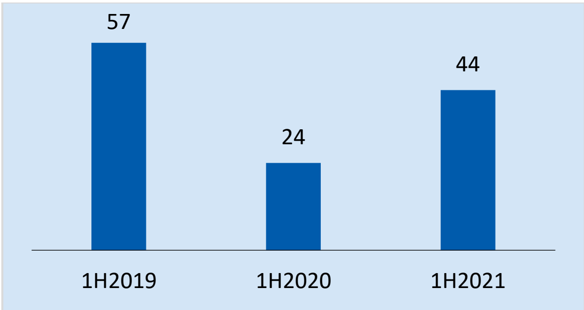
FINANCIAL OVERVIEW

By the end of 1H2021, Banking Income reached EUR 44 million, an 81% increase compared to the same period last year. While the ongoing pandemic continued to negatively affect the domestic business, some business areas such as Structured Finance and Fixed Income significantly recovered from last year's levels. Business activity remained very challenging for the investment banking business areas due to lower business from Chinese clients and to the delay in the closing of some transactions that were postponed to 2H2021.

Banking Income (EUR million)

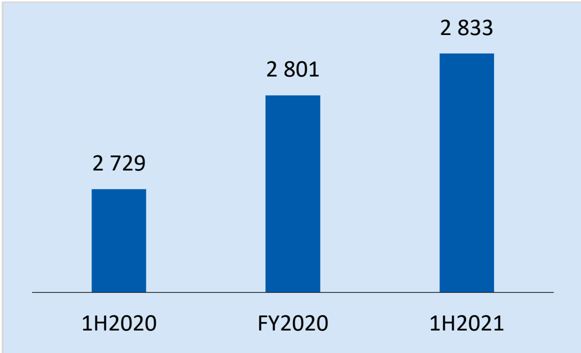


Source: Haitong Bank

The operating performance benefited from a further 7.5% decrease in operating costs to EUR 29 million, which are now 26% below the pre-COVID levels. This led to an Operating Profit of EUR 15 million in 1H2021 versus an Operating Loss of EUR 7 million in the same period of 2020, marking a clear recovery to pre-COVID levels.

Impairments and provisions more than doubled from the EUR 4.1 million of 1H2020, reaching EUR 9.1 million in 1H2021. Despite this, the Bank surpassed its break-even goal in 1H2021 with a EUR 2.3 million profit versus a Net Loss of EUR 11.7 million in 1H2020.

Total Assets (EUR million)



Source: Haitong Bank

The Bank remained focused on maintaining its high-level asset quality, continuing a conservative approach to new assets, which led to a positive, albeit moderate, trend.

Total Assets were slightly above the EUR 2.8 billion of the end of 2020, growing 1.1% to EUR 2.83 billion. The NPL ratio was 4.5% and the NPE was 4.4%. Regarding Capital, the Bank maintains a strong position with a CET1 Ratio of 21.1% and Total Capital of 26.3%.

In mid-July, the establishment of Haitong Bank's Macau Branch has received the required approvals from the competent authorities in Portugal and Macau. The Bank's presence in Macau further advances Haitong Bank's strategic pillar of building a cross-border business with a China Angle.

CORPORATE EVENTS

- In **May** 2021, the settlement of Espírito Santo IBERIA I Fund was concluded.
- In **June** 2021, Haitong Bank, S.A. acquired a 50.5% stake in Polish Hotel Company, raising its stake to 100% of this entity.
- In **July** 2021, as per the published Executive Order of the Macau Chief Executive, the establishment of Haitong Bank's Macau Branch was formally authorized.

RATING

On November 17, 2020, S&P reaffirmed the Bank's long-term credit rating at "BB" and the short-term credit rating at "B". The Outlook remained "Negative".

According to S&P, the "Negative" Outlook derives from the current situation originated by the COVID-19 pandemic, and is in line with the other Portuguese banks. According to S&P, this health crisis, which could last longer and be more widespread than currently envisaged, should continue adding pressure on revenue sources and credit losses, which S&P believes might amplify downside risks for Haitong Bank.

No additional changes were made by S&P up to the end of 1H2021.

TREASURY

1H2021 MARKET REVIEW

In 1H2021 one saw economic growth expectations rise with vaccination programs in place all over the world, despite the surge of the new Delta variant, and with improved economic indicators.

Growth expectations combined with a huge budget stimulus, bigger in the US than in the EU, expansionary monetary policies and restricted supply contributed to higher volatility given rising inflation fears. Bonds yields rose accordingly, making Central Banks, mostly the Fed but also the ECB, stand firm with their monetary policies and asset purchase programs, containing the yields' surge. However bond yields rose in 1Q2021 across EU countries and the US.

In Brazil, 1H2021 was marked by a stronger-than-expected economic recovery. The combination of still low interest rates, high credit supply and extension of the emergency cash transfer program significantly contributed to GDP growth in 1H2021.

However, the breakdown of the data still shows that the sectors have been experiencing a heterogeneous recovery dynamic. On the supply side, the manufacturing sector still benefits from a weaker BRL and from the structural consumption change imposed by the pandemic. The services sector is recovering more slowly, despite the acceleration of the vaccination process. Finally, the agriculture sector - more exposed to external competition and more productive than other sectors - continues to show strong expansion in the wake of rising commodity prices.

Regarding inflation, both stronger-than-expected growth and higher commodity prices contribute to more pressured inflation. Although many other recent shocks have mounted up, core measures continue to suggest that price increases tend to be more persistent than expected.

Furthermore, we believe that changes in global production chains as well as the increased market concentration imposed by the pandemic are possibly contributing to higher inflation. In this context, we believe that the Central Bank will continue to increase rates and bring the SELIC rate closer to 7% by the end of the year.

Finally, the end of 1H2021 was also marked by strong political turmoil and institutional instability. We believe these tensions could increase from the second half onwards as the presidential election cycle approaches.

10-year Yields

Country	Beginning -2021	2021 Highs	2021 Lows	End 1H2021
Germany	-0.572%	-0.105% (May)	-0.572% Jan)	-0.210%
Italy	0.541%	1.115% (May)	0.454% (Feb)	0.818%
Spain	0.043%	0.612% (May)	0.018%	0.410%
Portugal	0.026%	0.613% (May)	-0.030% (Jan)	0.386%
Greece	0.621%	1.118% (Feb)	0.569%	0.801%
USA	0.916%	1.740% (Mar)	0.913%	1.468%

Source: Bloomberg.

ACTIVITY HIGHLIGHTS

During 1H2021, the Bank maintained a very comfortable liquidity position and benefited from decreasing funding costs.

The TLTRO III rate was revised downwards and the Bank partially refinanced the intra-group financing, replacing it with a new cheaper syndicated loan.

Retail Deposits

During 1H2021 the Bank continued to source funds through online retail deposit platforms. The Bank concluded the implementation of a new online retail deposit partnership which is expected to improve overall funding cost and funding mix. This channel has proved to be a stable source of funding with positive effects on NSFR and LCR ratios.

Overall volumes maintained fairly stable, despite expected large volumes of maturing deposits.

In 1H2021, the Bank continued taking several initiatives to improve the quality of the retail deposits offering, such as the analysis of new markets and products.

Eurosystem Refinancing

As mentioned before, the TLTRO III rate was revised downwards during 1H2021. Additionally, the Bank increased the pool of eligible assets, improving its funding capacity.

In Brazil, the main focus has been the enlargement of investors' base via the diversification of the sources of funding.

The Bank has been able to increase its access to Institutional Investors, Corporate Clients and retail platforms, allowing access to the most suitable instruments to fund its activities.

The achieved outcome has been the maintenance of a very comfortable liquidity level, which will be important to support the growth of local activities.

2H2021 OUTLOOK

Treasury's main goal for 2021 is to continue to ensure the liquidity needed to develop the Bank's Business Plan is available, with a particular focus on reducing the funding cost and also through a stable and diversified funding structure, mainly composed of retail funding, long term financing through syndicated loans and/or bond issuances and also through the usage of monetary policy instruments available through the ECB, in particular the Eurosystem.

Risk Management

Governance

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

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

Risk Committee

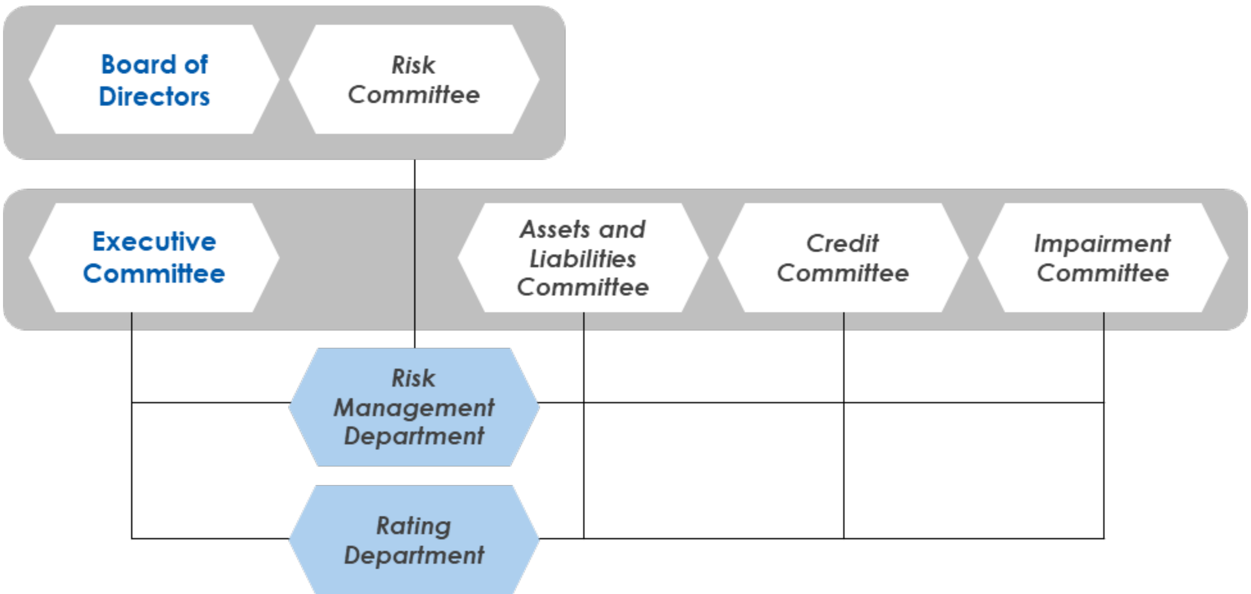
The Risk Committee's mission is to continuously monitor the development and implementation of the Bank's risk strategy/appetite and verify whether they are compatible with a sustainable strategy in the medium and long-term.

Assets and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") mission is to advise the Executive Committee on the management of the Bank's assets and liabilities, including the oversight of capital and liquidity/funding strategy's planning, performance management, liquidity/funding and asset and liability risk management, internal pricing and investment policy, in alignment with the Bank's business strategy and regulatory requirements.

Risk Management Department

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



Rating Department

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

Credit Committee

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

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

Impairment Committee

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

Risk Appetite

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

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

Haitong Bank acknowledges that its risk management function is a key factor for the prudent delivery of its strategic objectives. Haitong Bank's overall risk vision assessment rests on the following three guiding principles:

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

Credit Risk

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

MANAGEMENT PRACTICES

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

Internal Ratings

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

Monitoring

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

In this context, and with the central goal of complying with the risk appetite framework established by the Board of Directors, the credit risk monitoring function is considered as one of the key pillars of the Bank risk management and control system.

Credit Recovery Process

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

ASSET QUALITY

Loan Portfolio

Portfolio breakdown

In June 2021, the loan portfolio (gross exposure) amounted to EUR 577 million, which represents an increase of approximately EUR 145 million compared to December 2020.

Loan Portfolio Asset Classes and Geographic Breakdown (EUR thousand)

	June 2021		
	Domestic	*International*	*Total*
Loan Portfolio1	**176 704**	**400 670**	**577 374**
Specialized Lending	131 522	37 077	**168 599**
Corporate	41 047	228 209	**269 256**
Others	4 135	135 384	**139 519**

	December 2020		
	Domestic	*International*	*Total*
Loan Portfolio[1]	**143 984**	**288 046**	**432 030**
Specialized Lending	126 784	34 311	**161 095**
Corporate	13 038	240 783	**253 821**
Others	4 162	12 952	**17 114**

[1] *Gross of provisions*

Source: Haitong Bank.

The breakdown of the loan portfolio by asset class reveals the growing importance of the international lending activity of the Bank. There has been a continuing decrease of the Specialized Lending in proportion to the Bank's overall credit portfolio.

Loan Portfolio Asset Classes by Industry

	June 2021			
	Specialized Lending	Corporate	Others	Total
TOTAL	**29.2%**	**46.7%**	**24.1%**	**100.0%**
Transportation Infrastructure	16.8%	6.6%	0.0%	**23.4%**
Funds & Asset Managers	0.0%	0.0%	23.1%	**23.1%**
Power	10.2%	6.3%	0.0%	**16.5%**
Telecoms	0.0%	8.4%	0.0%	**8.4%**
Agribusiness & Commodity Foods	0.0%	5.5%	0.0%	**5.5%**
Construction & Engineering	0.0%	4.0%	0.0%	**4.0%**
Paper & Forest Products	0.0%	3.9%	0.0%	**3.9%**
Building Materials	0.0%	2.2%	0.0%	**2.2%**
Transportation	0.3%	1.8%	0.0%	**2.1%**
Commercial & Professional Services	0.0%	1.9%	0.0%	**1.9%**
Capital Goods	0.0%	1.9%	0.0%	**1.9%**
Metals & Mining	0.0%	0.0%	0.0%	**0.0%**
Real Estate	1.9%	1.4%	0.6%	**3.9%**
Others	0.0%	2.8%	0.4%	**3.2%**

	December 2020			
	Specialized Lending	Corporate	Others	Total
TOTAL	**37.3%**	**58.6%**	**4.1%**	**100.0%**
Transportation Infrastructure	23.3%	0.5%	0.0%	**23.8%**
Funds & Asset Managers	0.0%	0.0%	2.5%	**2.5%**
Power	13.5%	8.4%	0.0%	**21.9%**
Telecoms	0.0%	6.4%	0.0%	**6.4%**
Agribusiness & Commodity Foods	0.0%	3.2%	0.0%	**3.2%**
Construction & Engineering	0.0%	7.8%	0.0%	**7.8%**
Paper & Forest Products	0.0%	5.2%	0.0%	**5.2%**
Building Materials	0.0%	2.9%	0.0%	**2.9%**
Transportation	0.4%	2.7%	0.0%	**3.1%**
Commercial & Professional Services	0.0%	2.7%	0.0%	**2.7%**
Capital Goods	0.0%	2.7%	0.0%	**2.7%**
Metals & Mining	0.0%	13.4%	0.0%	**13.4%**
Real Estate	0.1%	2.1%	0.9%	**3.1%**
Others	0.0%	0.6%	0.7%	**1.3%**

Source: Haitong Bank.

Internal Rating Profile

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

Loan Portfolio Rating Profile

	June 2021	December 2020
[aaa+; a-]	0.4%	0.5%
[bbb+; bbb-]	15.8%	16.4%
[bb+; bb-]	48.9%	36.6%
[b+; b-]	34.8%	46.6%

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

Risk Indicators

Credit Risk Indicators (EUR thousand)

	June 2021	December 2020
Loan Portfolio	**577,374**	**432,030**
Non-Performing Loans (NPL)	**26,236**	**8,005**
NPL Ratio	4.5%	1.9%
Impairment for NPL	**4,653**	**4,123**
NPL coverage	17.7%	51.5%
Gross Exposure	**1,963,949**	**1,870,321**
Non-performing exposures (NPE) (1)	**85,820**	**64,581**
NPE Ratio	4.4%	3.5%
NPE Impairment Coverage	45.7%	44.1%
Forborne Exposures (1)	**58,476**	**117,006**
Of which performing exposure (%)	66.6%	88.0%

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

The deterioration of the non-performing loan (NPL) ratio to 4.5% and the non-performing exposure (NPE) to 4.4% in June 2021 results from the increase of non-performing loans in the Brazilian subsidiary.

Fixed Income Assets

Portfolio breakdown

The fixed income portfolio ended 1H2021 with a net total of EUR 1,360 million, representing an increase of EUR 110 million when compared with December 2020, as a result, not only from the increase of European and Brazilian sovereign debt portfolios but also deriving from the participation in debt placements of international corporate clients and banks, namely from Europe and China.

Fixed Income Portfolio by Sector (EUR thousand)

	June 2021	December 2020
Total	**1,360,351**	**1,249,910**
Governments	864,751	840,197
Real Estate	85,597	77,120
Banks	66,015	27,215
Transportation	47,667	54,604
Non Bank Financial Institutions	47,265	26,635
Power	29,503	20,400
Health Care	22,718	20,987
Retailing	20,971	20,860
Technology Hardware & Equipment	13,045	19,713
Construction & Engineering	18,168	23,634
Agribusiness & Commodity Foods	17,072	9,367
Metals & Mining	15,632	8,902
Automobiles & Components	15,009	14,955
Oil & Gas	13,438	13,894
Capital Goods	12,464	16,578
Hotels & Gaming	10,409	17,410
Telecoms	10,224	8,692
Water Utilities	10,196	6,223
Chemicals	8,288	223
Paper & Forest Products	7,593	7,256
Food, Beverage & Tobacco	6,649	358
Transportation Infrastructure	5,817	528
Building Materials	3,194	8,348
Others	8,666	5,811

Source: Haitong Bank.

Internal Rating Profile

In June 2021, the rating profile of the Bank's fixed income portfolio was the following:

Fixed Income Portfolio Rating Profile

	June 2021	December 2020
[aaa; a-]	4.3%	3.0%
[bbb+; bbb-]	27.3%	26.4%
[bb+; bb-]	66.1%	66.5%
[b+; b-]	2.3%	4.0%

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

Derivatives Portfolio

Portfolio Breakdown

The counterparty risk exposure in the Bank's portfolio of interest rate, exchange rate, credit and equity derivatives amounted to EUR 144 million in June 2021, which represents an increase of EUR 1 million in comparison with December 2020, with an increase of derivatives in the Transportation Infrastructure and Banks sectors, partly offset by the decrease in Transportation sector.

In terms of the breakdown by counterparty risk sector, in June 2021, 55% of the global exposure relates to transactions in Transportation Infrastructure, followed by 14% in Banks' counterparties.

Derivatives Portfolio by sector (EUR thousand)

	June 2021	December 2020
Total	**144,018**	**142,952**
Transportation Infrastructure	79,313	60,622
Banks	19,671	10,395
Oil & Gas	9,023	5,582
Non-Bank Financial Institutions	8,909	6,314
Food, Beverage & Tobacco	6,833	5,721
Power	5,973	5,061
Agribusiness & Commodity Foods	4,801	3,047
Transportation	3,440	40,105
Broker Dealers	2,823	3,187
Building Materials	1,168	639
Others	2,064	2,279

Source: Haitong Bank.

Internal Rating Profile

The Bank mainly takes counterparty credit risk in derivatives while providing hedge solutions to the corporate clients (also encompassing project finance entities). Thus, in June 2021, the Bank's total exposure to derivative instruments focused on interest rate swaps.

Derivatives Portfolio Rating Profile

	June 2021	December 2020
[aaa+;a-]	12.4%	7.9%
[bbb+;bbb-]	58.5%	46.1%
[bb+;bb-]	15.1%	7.9%
[b+;b-]	14.0%	38.1%

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

MARKET RISK

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

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

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

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

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

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

TRADING BOOK RISK

Management Practices

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

As of June 2021, Haitong Bank's VaR amounted to EUR 8.1 million, representing an increase of EUR 3.3 million when compared with December 2020.

Value at Risk by Risk Factor (EUR million)

	June 2021	December 2020
Foreign Exchange	6.2	1.9
Interest Rate	0.6	0.4
Equity and Commodities	0.0	0.0
Credit Spread	1.7	2.7
Covariance	-0.4	-0.3
Global VaR	**8.1**	**4.8**

Source: Haitong Bank.

BANKING BOOK RISKS

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

Interest Rate Risk

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

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

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

As of June 2021, the impact on the banking book economic value, under a parallel shock on the yield curve of +/- 200 bps was estimated at EUR 15.12 million. A floor of -100 bps was applied to the yield curve to prevent unrealistic scenarios of extremely negative interest rates.

Credit Spread Risk

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

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

PENSION FUND RISK

The pension fund risk stems from the possibility that the pension plan liabilities exceed the value of the pension fund portfolio of assets in such a way that Haitong Bank is required to make an extraordinary contribution to the pension fund. Otherwise, if the pension fund portfolio of assets' return is in line with the liabilities evolution, Haitong Bank is expected only to make the regular annual contribution (the pension plan normal cost).

In December 2020, based on a favourable opinion from Autoridade de Supervisão de Seguros e Fundos de Pensões (ASF), one of Haitong Bank's pension fund was converted into a defined contribution plan. This change has a favourable impact on the Bank's exposure to this risk.

Operational Risk

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

Management Practices

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

The management methodologies in place are supported by the principles issued by the Basel Committee, recognised as reflecting the best practices in this area.

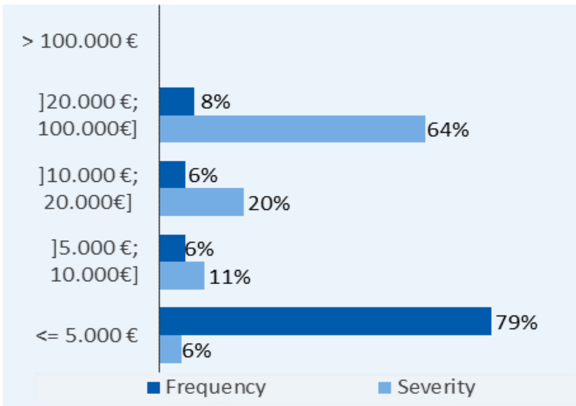
The operational risk management model is supported by an exclusively dedicated structure within the organisation which is responsible for the following processes:

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

OPERATIONAL RISK ANALYSIS

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

Distribution of frequency and severity of events by individual loss bucket

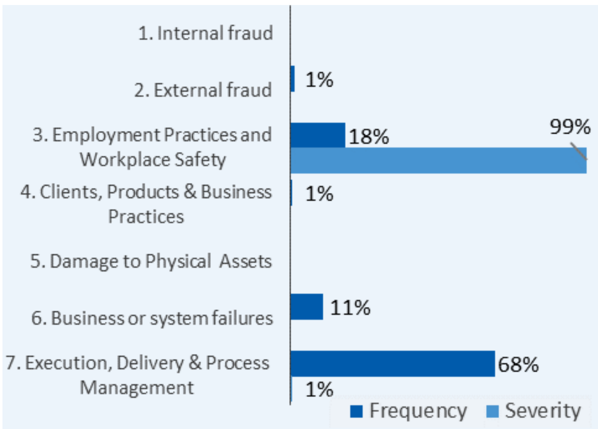


Source: Haitong Bank.

A great majority of the event recorded in 2021 (79%) refer to event losses below EUR 5,000.

Following Basel's event classification, in 2021, 68% of total reported events were related with Execution, Delivery & Process Management event type, however, only for 1% of these events reported were losses. Employment Practices and Workplace Safety events was the event type with higher loss severity accounting for 99% of total reported losses, with these losses generated in Haitong's Brazilian subsidiary.

Distribution of frequency and severity of events by event type



Source: Haitong Bank.

Liquidity Risk

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

Management Practices

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

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

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

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

LIQUIDITY POSITION

Liquidity Coverage Ratio

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

As of June 2021, Haitong Bank reached an LCR of 266%, which represents a resilient short-term liquidity position, comfortably complying with regulatory standards.

Liquidity Coverage Ratio (EUR thousand)

	June 2021	December 2020
High-Quality Liquid Assets	762 461	738 419
30 days Net Outflow	287 149	285 123
Liquidity Coverage Ratio	266%	259%

Source: Haitong Bank.

Net Stable Funding Ratio

The Basel Committee on Banking Supervision established the Net Stable Funding Ratio (NSFR) in October 2014 within the scope of the Basel III regulatory reform. The NSFR was translated into European Union law by Regulation (EU) 2019/876, entering into force from June 2021.

The NSFR constitutes a structural measure that aims at fostering longer-term stability by incentivizing banks to adequately manage their maturity mismatches by funding long-term assets with long-term liabilities.

As of June 2021, Haitong Bank reached a NSFR of 180%, ensuring an adequate medium- to long-term funding profile.

NSFR

	June 2021	December 2020
Net Stable Funding Ratio	180%	157%

Source: Haitong Bank.

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. Therefore is of critical importance to Haitong Bank's financial stability and sustainability.

Management Practices

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

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

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

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

REGULATORY CAPITAL AND LEVERAGE RATIOS

Solvency

Regulatory capital requirements are determined by the Bank of Portugal under the CRRII (Regulation EU nº 876/2019 amending Regulation EU nº 575/2013) and CRD V (Directive EU nº 878/2019 amending Directive EU nº 2013/36/EU). Under these regulatory frameworks, capital requirements are set in consideration of the level of risk that the Bank is exposed to, which is measured through both risk weighted assets (RWAs) and leverage.

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

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

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

The regulation also provides a counter-cyclical capital buffer of up to 2.5% to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth in Portugal. As of 30th June 2021, the Bank of Portugal decided not to impose any additional /counter-cyclical capital buffer, by setting it at 0% of the total risk exposure amount. This decision is subject to revision on a quarterly basis.

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

As of June 2021, Haitong Bank's capital ratios were calculated under the CRR II (Regulation EU nº 876/2019 amending Regulation EU nº 575/2013) and CRD V (Directive EU nº 878/2019 amending Directive EU nº 2013/36/EU). Standard Approach on both a transitional and fully-loaded basis, and are shown in the following table.

Solvency Ratios

	June 2021	
	Phased-in	***Fully-loaded***
CET1 ratio	21.1%	21.0%
Tier 1 ratio	26.2%	26.1%
Total capital ratio	26.3%	26.3%

	December 2020	
	Phased-in	***Fully-loaded***
CET1 ratio	22.7%	22.6%
Tier 1 ratio	28.4%	28.3%
Total capital ratio	28.5%	28.4%

Source: Haitong Bank.

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

Leverage

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

As of June 2021, Haitong Bank's leverage ratios, calculated under the Basel III Standard Approach on both a transitional and fully-loaded basis, are shown in the following table.

Leverage Ratios

	June 2021	***December 2020***
Phased-in	15.7%	15.6%
Fully-loaded	15.6%	15.5%

Source: Haitong Bank

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

FINANCIAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

1. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement for the periods of six months ended on the 30th June 2021 and 2020

(thousand euros)

	Notes	30.06.2021	30.06.2020
Interest and similar income	5	34 134	31 240
Interest and similar expenses	5	18 777	19 158
Financial margin		**15 357**	**12 082**
Fees and commissions income	6	27 059	22 605
Fees and commissions expenses	6	(2 684)	(3 562)
Net trading income	7	(9 009)	(13 510)
Net income from other financial instruments at fair value through profit or loss	8	4 205	106
Net gain/(loss) from derecognition of financial assets measured at fair value through other comprehensive income	9	54	(60)
Net gains/(losses) from hedge accounting	19	-	1
Net gains / (losses) from foreign exchange differences	10	408	9 889
Net gain/(loss) from derecognition of financial assets measured at amortised cost	11	8 994	864
Other operating income and expense	12	(274)	(4 062)
Operating Income		**44 110**	**24 353**
Employee costs	13	17 775	19 045
Administrative costs	15	7 681	8 470
Depreciations and amortisations	24 and 25	3 211	3 480
Provisions	31	(910)	1 232
Net impairment loss on financial assets	31	9 993	2 876
Operating expenses		**37 750**	**35 103**
Share of profit of associates	26	-	51
Profit / (Loss) before Income Tax		**6 360**	**(10 699)**
Income tax			
Current tax	32	3 273	(6 806)
Deferred tax	32	(122)	7 632
		3 151	**826**
Net profit of continued operations		**3 209**	**(11 525)**
Net Profit / (Loss) for the year		**3 209**	**(11 525)**
Attributable to shareholders of the parent company		**2 292**	**(11 738)**
Attributable to non-controlling interests	35	**917**	**213**
		3 209	**(11 525)**
Basic Income per Share (in euros)	16	0,01	-0,07
Diluted Income per Share (in euros)	16	0,01	-0,07

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

The Director of the Finance Department　　　　The Board of Directors

Consolidated Statement of Comprehensive Income for the periods of six months ended on the 30th June 2021 and 2020

(thousand euros)

	30.06.2021	30.06.2020
Net income for the period		
Attributable to shareholders of the parent company	2 292	(11 738)
Attributable to non-controlling interests	917	213
	3 209	**(11 525)**
Other comprehensive income for the period		
Items that will not be reclassified to profit and loss		
Actuarial gains/(losses), net of taxes	6 216	1 341
	6 216	**1 341**
Items that may be reclassified to profit and loss		
Exchange differences net of taxes		
Foreign currency translation differences for foreign operations	7 870	(33 461)
Net gains/(losses) on hedges of net investments in foreign operatons (see Note 39)	(697)	18 966
Other comprehensive income from associates	1	(37)
Fair value changes of debt instruments measured at fair value through other comprehensive income net of taxes	1 798	(2 651)
	8 972	**(17 183)**
Total comprehensive income/(loss) for the period	**18 397**	**(27 367)**
Attributable to shareholders of the parent company	**16 088**	**(20 553)**
Attributable to non-controlling interests	**2 309**	**(6 814)**
	18 397	**(27 367)**

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

Consolidated Statement of Financial Position as at the 30th June 2021 and 31st December 2020

(thousand euros)

	Notes	30.06.2021	31.12.2020
Assets			
Cash and cash equivalents	17	442 348	494 885
Financial assets at fair value through profit or loss		734 511	805 416
Financial assets held for trading		706 442	770 119
Securities	18	623 437	627 057
Derivative financial assets	19	83 005	143 062
Non-trading financial assets mandatorily at fair value through profit or loss		28 069	35 297
Securities	20	28 069	35 297
Financial assets at fair value through other comprehensive income	20	252 773	160 756
Financial assets measured at amortised cost		1 058 146	996 653
Securities	20	483 495	461 453
Loans and advances to banks	21	7 731	115 160
Loans and advances to customers	22	566 920	420 040
Hedging derivatives	19	-	151
Non-current assets held-for-sale	23	2 199	1 699
Other tangible assets	24	9 660	10 593
Intangible assets	25	3 847	4 658
Tax assets		119 890	118 189
Current income tax assets	32	23 395	22 490
Deferred income tax assets	32	96 495	95 699
Other assets	27	209 295	208 414
Total Assets		**2 832 669**	**2 801 414**
Liabilities			
Financial liabilities held for trading		97 896	221 787
Securities	18	10 832	79 083
Derivative financial liabilities	19	87 064	142 704
Financial liabilities measured at amortised cost		1 995 524	1 870 363
Resources of credit institutions	28	805 628	577 996
Resources of customers	29	1 125 209	1 227 505
Debt securities issued	30	64 687	64 862
Provisions	31	20 704	20 923
Tax liabilities		7 477	6 519
Current income tax liabilities	32	6 852	5 189
Deferred income tax liabilities	32	625	1 330
Other liabilities	33	94 582	83 733
Total Liabilities		**2 216 183**	**2 203 325**
Equity			
Share capital	34	844 769	844 769
Share premium	34	8 796	8 796
Other equity instruments	34	108 773	108 773
Fair-value reserves	35	571	(1 391)
Other reserves and retained earnings	35	(369 817)	(383 292)
Net profit/(loss) for the year attributable shareholders of the parent company		2 292	1 641
Total equity attributable to the shareholders of the parent company		**595 384**	**579 296**
Non-controlling interests	35	21 102	18 793
Total Equity		**616 486**	**598 089**
Total Equity and Liabilities		**2 832 669**	**2 801 414**

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

The Director of the Finance Department The Board of Directors

Consolidated Statement of Changes in Equity for the periods ended on the 30th June 2021, 31st December 2020 and 30th June 2020

(thousand euros)

	Share Capital	Share Premium	Other equity instruments	Fair-value reserves	Other Reserves, Retained Earnings and Other Comprehensive Income	Net profit/(loss) for the period attributable shareholders of the parent company	Equity attributable to shareholders of the parent company	Non-controlling interests	Total Equity
Balance as at 31 December 2019	**844 769**	**8 796**	**108 773**	**468**	**(380 914)**	**7 508**	**589 400**	**26 142**	**615 542**
Other movements recorded directly in equity (see Notes 35 and 39):									
Changes in fair value, net of taxes	-	-	-	(2 357)	-	-	(2 357)	(294)	(2 651)
Other comprehensive income of associates	-	-	-	-	(37)	-	(37)	-	(37)
Exchange differences, net of taxes	-	-	-	-	(7 762)	-	(7 762)	(6 733)	(14 495)
Actuarial gains/ (losses), net of taxes	-	-	-	-	1 341	-	1 341	-	1 341
Net profit / (loss) for the period	-	-	-	-	-	(11 738)	(11 738)	213	(11 525)
Total comprehensive income for the period	**-**	**-**	**-**	**(2 357)**	**(6 458)**	**(11 738)**	**(20 553)**	**(6 814)**	**(27 367)**
Transfers for reserves and retained earnings (see Note 35)	-	-	-	-	7 508	(7 508)	-	-	-
Balance as at 30 June 2020	**844 769**	**8 796**	**108 773**	**(1 889)**	**(379 864)**	**(11 738)**	**568 847**	**19 328**	**588 175**
Other movements recorded directly in equity (see Notes 35 and 39):									
Changes in fair value, net of taxes	-	-	-	498	-	-	498	(47)	451
Other comprehensive income of associates	-	-	-	-	400	-	400	-	400
Exchange differences, net of taxes	-	-	-	-	(1 446)	-	(1 446)	(812)	(2 258)
Actuarial gains/ (losses), net of taxes	-	-	-	-	(2 382)	-	(2 382)	-	(2 382)
Net profit / (loss) for the period	-	-	-	-	-	13 379	13 379	503	13 882
Total comprehensive income for the period	**-**	**-**	**-**	**498**	**(3 428)**	**13 379**	**10 449**	**(356)**	**10 093**
Transfers for reserves and retained earnings (see Note 35)	-	-	-	-	-	-	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	(179)	(179)
Balance as at 31 December 2020	**844 769**	**8 796**	**108 773**	**(1 391)**	**(383 292)**	**1 641**	**579 296**	**18 793**	**598 089**
Other movements recorded directly in equity (see Notes 35 and 39):									
Changes in fair value, net of taxes	-	-	-	1 962	-	-	1 962	(164)	1 798
Other comprehensive income of associates	-	-	-	-	1	-	1	-	1
Exchange differences, net of taxes	-	-	-	-	5 617	-	5 617	1 556	7 173
Actuarial gains/ (losses), net of taxes	-	-	-	-	6 216	-	6 216	-	6 216
Net profit / (loss) for the period	-	-	-	-	-	2 292	2 292	917	3 209
Total comprehensive income for the period	**-**	**-**	**-**	**1 962**	**11 834**	**2 292**	**16 088**	**2 309**	**18 397**
Transfers for reserves and retained earnings (see Note 35)	-	-	-	-	1 641	(1 641)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-
Balance as at 30 June 2021	**844 769**	**8 796**	**108 773**	**571**	**(369 817)**	**2 292**	**595 384**	**21 102**	**616 486**

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

Consolidated Cash Flow Statement for the periods ended on the 30th June 2021 and 2020

(thousand euros)

	Notes	30.06.2021	30.06.2020
Cash flows from operating activities			
Interests received		39 769	51 233
Interests paid		(10 996)	(27 023)
Fees and commissions received		26 975	23 916
Fees and commissions paid		(2 684)	(3 562)
Loans recovery		7 702	864
Cash payments to employees and suppliers		(30 105)	(29 778)
		30 661	**15 650**
Changes in operating assets and liabilities:			
Resources at central banks		306	3 865
Trading financial assets and liabilities		(69 138)	(38 302)
Loans and advances to banks		106 814	(6 190)
Resources of other credit institutions		227 463	173 139
Loans and advances to customers		(145 247)	(12 165)
Resources of costumers		(107 681)	(12 619)
Hedging derivatives		151	(91)
Other operating assets and liabilities		22 421	(196 260)
Net cash flow from operating activities before income tax		**65 750**	**(72 973)**
Income taxes paid		(2 353)	(1 590)
		63 397	**(74 563)**
Net cash flows from investment activities			
Acquisition of shares in subsidiaries and associated companies	23	500	-
Sale of investments in subsidiaries and associates	26	1	-
Purchase of securities		(254 525)	(80 324)
Sale and repayments of securities		138 707	163 097
Purchase of fixed assets		(254)	(1 279)
		(115 571)	**81 494**
Cash flows from financing activities			
Debt securities issued	30	11 241	11 299
Reimbursement of debt securities issued	30	(11 297)	(101 464)
Net cash flow from financing activities		**(56)**	**(90 165)**
Net changes in cash and equivalents		**(52 230)**	**(83 234)**
Cash and equivalents at the beginning for the year		491 314	631 876
Cash and equivalents at the end for the year		439 084	548 642
		(52 230)	**(83 234)**
Cash and equivalents includes:			
Cash	17	420 863	527 802
Deposits at other credit institutions	17	21 486	22 928
(-) Minimum Reserves	17	(3 265)	(2 088)
Total		**439 084**	**548 642**

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

2. NOTES TO THE CONSOLIDA/TED 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.

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

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

	Incorporation date	Acquisition date	Headquarters	Activity	% Economic interest	Consolidation method
Haitong Bank SA	**1983**	**-**	**Portugal**	**Bank**	**100%**	**Full Consolidation**
Haitong Capital - SCR, S.A.	1988	1996	Portugal	Venture capital	100%	Full Consolidation
Polish Hotel Company	2004	2021	Poland	Hospitality	100%	Non-Current Assets Held-for-Sale
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 Negócios S.A.	2004	2004	Brazil	Asset management	80%	Full Consolidation
Haitong do Brasil DTVM, SA	2009	2010	Brazil	Asset management	80%	Full Consolidation
Haitong Securities do Brasil S.A.	2000	2000	Brazil	Brokerage house	80%	Full Consolidation

In 2013, Haitong Bank started a simplification plan for its group. Several measures were taken within the scope of such process, including the disposal and merger of several holdings. The simplification process continued throughout the first semester of 2021, and the main changes made to the group's structure are set forth below.

Subsidiaries

- In June 2021, Haitong Bank, S.A. acquired the remaining 50.5% of Polish Hotel Company, holding 100% of the entity; the company is in deactivation, and its activity will be closed from September 1, 2021. Nevertheless, the group continues to actively search for solutions for this asset.

Associates

- In May 2021, Espírito Santo IBERIA I fund has been closed by the amount of one thousand euros, approximately.

During the first semester of 2021, movements related to acquisitions, sales and other investments and reimbursements in subsidiary and associated companies are detailed as follows:

(thousand euros)

	30.06.2021					
	Acquisitions			Disposals		
	Acquisition cost	Other Investments (a)	Total	Sale amount	Other Reimbursements (a)	Total
Subsidiaries						
Polish Hotel Company	500	-	500	-	-	-
	500	-	500	-	-	-
Associates						
Fundo Espírito Santo IBERIA I		-	-	-	1	1
Total	**500**	**-**	**500**	**-**	**1**	**1**

During the 2020 financial year, there was no movements regarding acquisitions and disposals of investments in subsidiaries and associates.

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

NOTE 2 – MAIN ACCOUNTING POLICIES

2.1. Bases of preparation

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

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

Haitong Bank's consolidated financial statements set forth herein refer to the period ended on the 30th of June, 2021, which have been prepared in accordance with the IFRS in force, as adopted in the European Union until the 30th of June, 2021. This consolidated financial statements disclosures are in accordance with the requirements set by IAS 34 and do not include all the information to be published in the annual financial statements.

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1st January 2021. The accounting policies in this note were consistently to all entities of the Group and are consistent with those used in the preparation of the financial statements of the previous period.

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

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

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

The consolidated financial statements herein have been approved in the Board of Directors meeting held on the 20 of August, 2021.

2.2. Basis of consolidation

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

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

Subsidiaries

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

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

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

Associates

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

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

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

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

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

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

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

Goodwill

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

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

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

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

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

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

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

Transactions with non-controlling interests

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

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

Translation of financial statements in foreign currency

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

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

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

Balances and transactions eliminated on consolidation

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

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

2.3. Foreign currency transactions

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

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

2.4. Financial instruments

2.4.1 Financial assets classification

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

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

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

a) Financial assets measured at amortised cost

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

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

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

b) Financial assets at fair value through other comprehensive income

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

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

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

The Bank did not adopt this irrevocable option under IAS 32, and only debt securities were classified in this category.

c) Financial assets at fair value through profit or loss

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

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

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

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

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

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

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

Business model evaluation for financial assets management

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

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

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

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

Initial recognition

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

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

Subsequent measurement

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

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

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

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

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

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

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

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

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

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

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

Reclassifications between categories of financial instruments

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

Derecognition criteria

The Bank derecognises a financial asset in the following situations:

a) when transferring that asset and, as a result of such transfer, all the risks and rewards of that asset are transferred to another entity when a change is found to be significant under the terms and conditions of that asset;
b) when transferring the asset and, following this transfer, all the risks and benefits of the asset are transferred to another entity considered when there is a significant change in the terms and conditions of the asset;
c) when a significant change on the asset terms and conditions occur.

Loans written-off

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

Purchase or originated credit impaired assets

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

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

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

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

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

Impairment of financial assets

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

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

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

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

Impairment Model

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

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

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

The collective model implemented by the Group is applicable to all instruments classified in Stage 1, as well to determine the minimum lifetime expected credit losses, in the case of exposures with a significant increase in credit risk (Stage 2) since initial recognition, but which are not considered to be impaired.

In addition, the top 20 performing largest debtors are annually subject to an individual analysis, in order to trace early warning signals that may indicate the need to transfer to Stage 2.

Stage 2 exposures are analysed individually, confirming that there are no indications of unlikeliness to pay of the debtor neither the existence of events considered by Capital Requirements Regulations (CRR) in its definition of default and by IFRS 9 in the definition of impaired financial instruments, which could determine a transfer to Stage 3. Stage 2 exposures are subject to the application of a lifetime impairment rate using a lifetime collective model to determine the minimum impairment rate applicable to financial instruments. All Stage 3 clients are subject to an individual impairment analysis.

At initial recognition, any instrument is allocated to Stage 1, except for purchased or originated credit impaired (POCI) financial instruments which are allocated to Stage 3. An assessment of the change in credit risk throughout the expected life of financial instrument is carried out at each reporting date.

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

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

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

Note 39 – Risk Management discloses the inputs of the Group's collective impairment model, as well as the adjustments made to incorporate forward-looking information.

Expected Credit Losses

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

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

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

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

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

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

Significant increase in credit risk

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

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

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

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

The Group implemented the internal procedure to quarterly elaborate an EWS assessment, covering all clients classified in Stage 1, thus enabling the timely manner identification of indicators which suggest a significant increase in credit risk, and also encompassing all clients classified in Stage 1 and 2, allowing for the timely identification of indicators that may suggest a reduced likelihood of payments by the debtors.

According with internal procedures defined by the Group, when there is a significant increase in the credit risk of a debtor, the financial instruments are subject to individual analysis, confirming that there are no indications of unlikeliness to pay of the debtor and the events considered by CRR in its definition of default and by IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3. The exposures properly classified in Stage 2 are subject to the use of a lifetime impairment rate determined using a lifetime collective model to determine the minimum impairment rate applicable to financial instruments.

Default definition

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

In what regards unlikeliness to pay criteria, the Group addresses the following situations: i) distressed restructurings; ii) clients with loans written-off of interest or capital; iii) the Group sells the credit obligation at a material (more than 5%) credit-related economic loss; iv) the obligor has been placed (or is likely to be placed) in bankruptcy or similar protection; v) interest related to credit obligations is no longer recognized (non-accrued status) in the income statement (part or under conditionality); and vi) other conditions (ad-hoc) that may suggest reduced likelihood of payments by the debtor.

The definition of default followed by the Group follows article 178 of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and includes the European Banking Association ("EBA") definition of non-performing exposures ("NPE") requirements according to its final report on the application of definition of default (EBA/GL/2016/07).

Forbearance definition

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

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

i. a modification of the previous terms and conditions of a contract that the debtor is considered unable to comply with due to financial difficulties resulting in insufficient debt service ability and that would not have been granted had the debtor not been experiencing such difficulties;
ii. a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been experiencing financial difficulties.

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

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

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

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

2.4.2 Hedge accounting

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

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

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

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

Hedge effectiveness

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

Hedge of a net investment in a foreign operation

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

2.4.3 Financial liabilities

Classification, initial recognition and subsequent measurement

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

- Financial liabilities at amortised cost;

- Financial liabilities at fair value through profit or loss;

Financial liabilities at fair value through profit or loss

Classification

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

a) Financial liabilities held for trading

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

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

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

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

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

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

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

Initial recognition and subsequent measurement

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

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

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

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

Financial liabilities at amortised cost

Classification

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

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

Initial recognition and subsequent measurement

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

Reclassification between categories of financial liabilities

Reclassifications of financial liabilities are not allowed.

Derecognition of financial liabilities

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

2.4.4 Interest recognition

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

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

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

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

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

2.4.5 Financial guarantees

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

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

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

2.5. Assets sold with repurchase agreement and securities lending

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

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

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

2.6. Equity instruments

An instrument is classified as equity instrument only if:

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

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

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

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

2.7. Offsetting financial instruments

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

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

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

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

2.9. Other tangible assets

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

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

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

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

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

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

2.10. Intangible assets

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

Costs directly related to the development of software applications are recognised and accounted for as intangible assets if they are expected to create future economic benefits beyond one financial year.

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

2.11. Lease transactions (IFRS 16)

As set out in IFRS 16, at inception of a contract, the Group assesses whether it is or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

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

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

As set out in IFRS 16, the Group chose not to apply the requirements of this standard to short-term lease contracts which are less or equal to one year, and to lease contracts where the underlying asset has no significant amount (up to € 5,000).

As a lessee

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

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

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

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

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

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

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

Short-term leases and leases of low-value assets

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

As a lessor

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

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

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

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

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

2.12. Employee benefits

Pensions

Portugal

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

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

In Portugal, there are two defined benefit pension plans which are provided to the employees. The first plan results from the abovementioned ACT agreement and foreseen by its clauses 94th and 103rd. The second plan is complementary and was applicable for its participants and beneficiaries until the 30th of December of 2020. From this date, this plan exists exclusively for the respective beneficiaries and eventual future beneficiaries, by death of those. Defined benefit plans cover pension benefits to be received by employees during retirement, usually dependent on one or more factors such as age, years of service and salary level. On 30th of December of 2020, a new defined contribution plan was introduced, for which the previous participants of the complimentary plan were transferred – former employees with vested rights, as well as active employees.

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

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

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

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

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

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

Other Geographies

In the remaining geographies, namely Spain, United Kingdom, Poland and Brazil, the Group provides defined contribution pension plans. In these cases, the contributions are previously defined and the benefits assigned at retirement will depend on the amount of the contributions made and the accumulated income.

Health-care benefits

Portugal

The Group provides to its banking employees health-care benefits through a specific Social-Medical

Assistance Service. This Social-Medical Assistance Service (Serviço de Assistência Médico-Social, SAMS) is an autonomous entity which is managed by the respective Union.

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

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

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

Other Geographies

In the remaining geographies, the Group provides local medical plans to its workforce that are complimentary to the national health services provided in each of the respective geography.

Long-term service bonuses

In Portugal, under the new ACT, signed at the 5th July 2016, the long-term service bonus was replaced by a career bonus, payable immediately prior to the employee´s retirement date, if the employee retires at the service of the Group, corresponding to 1.5 of his/her salary at the time of its payment. The career bonus is accounted for by the Group in accordance with IAS 19, as a long-term employee benefit. The remeasurement effects and past service costs of this benefit are recognised in the income statement for the year, as occurred with the accounting model for long-term service bonuses.

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

Variable remuneration paid to employees

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

2.13. Income taxes

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

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

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

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

The Group offsets assets and liabilities by deferred taxes for each subsidiary, every time (i) the income tax of each subsidiary to be paid to the Tax Authorities is determined on a net basis, i.e., offsetting current asset and liability taxes, and (ii) taxes are collected by the same Tax Authority over the same tax entity. This offsetting is therefore made at the level of each subsidiary, reflecting the asset balance in the consolidated balance sheet the sum of the values of the subsidiaries that present deferred tax assets and the liability balance in the consolidated balance sheet the sum of the values of the subsidiaries that present deferred tax liabilities.

2.14. Provisions

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

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

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

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

2.15. Recognition of fee and commission income

Income from services and commissions are recognised as follows:

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

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

2.16. Segment reporting

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

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

2.17. Earnings per share

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

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

2.18. Cash and cash equivalents

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

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

The IFRS set forth a range of accounting treatments and require the Board of Directors to make the necessary judgements and estimates to decide on the most appropriate accounting treatment. These estimates were made considering the best information available at the date of preparation of the financial statements, considering the context of uncertainly that results from the impact of Covid-19 in the current economic scope. The Group's main accounting estimates and judgements used thereby when applying the accounting principles are laid down in this Note with the purpose of improving the understanding on how the implementation thereof affects the Group's reported results and their disclosure.

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

Whereas in many situations there are alternatives to the accounting treatment adopted by the Board of Directors, the results reported by the Group could have differed if it adopted a different treatment. The

Board of Directors believes that it made the appropriate choices, and that the financial statements give an adequate description of the Group's financial position and of the result of its operations in all material respects.

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

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

Individual analysis

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

The Risk Management Department identifies all exposures subject to individual analysis, encompassing Top 20 corporate performing largest exposures, all under-performing (Stage 2) and non-performing (Stage 3) exposures, and ensures that they are subject of analysis by the Impairment Committee to support the Executive Committee decision. In the case of Stage 1 exposures, the individual analysis is carried out in order to confirm that the Top 20 largest exposures doesn't show any warning signals that causes a reclassification to Stage 2. Stage 2 exposures are analyzed individually, in order to verify the absence of indicative unlikeliness to pay of the debtor and the events considered by Capital requirements Regulations (CRR) in its definition of default and by standard IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3.

The documentation supporting the individual analysis of cases to be discussed at the Impairment Committee to support the Executive Committee decision includes: a) historical information (exposure by contract and type, impairment rates in force, collateral and respective valuation); and b) recovery scenarios with expected cash flows discounted to the current date, using the effective interest rate that was determined at initial recognition, in order to obtain expected credit losses.

The recovery scenarios should take into consideration the future prospects contemplating not only the most probable scenario but also alternative scenarios. For each of the scenarios presented, the respective assumptions and respective explanation is assured based on the activity of the company (incorporating data from the historical financial statements, certain events and other financial estimates when available), the value of collateral (including the respective valuation methodologies) and sale or execution thereof. The recovery scenarios are weighted by their probability of occurrence. Thus, the individual analysis' process is subject to various estimates and evaluations, including recoveries' predictions and existing collaterals valuation.

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

Collective analysis

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

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

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

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

3.2. Income taxes

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

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

On the other hand, the Bank accounts for deferred taxes in accordance with the policy set forth in Note 2.13, whereby deferred tax assets are accounted for only insofar as it is expected that there will be taxable profit in the future, which are able to absorb tax losses carried forward and deductible temporary differences.

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

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

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

Tax Authorities are required to review the calculation of the basis of assessment, made by the Bank, for a period of four years, except where any deduction or tax credit has been made, where the time-limit is the exercise of that right. Hence, there is a possibility that the basis of assessment will be corrected, mainly due to differences in the interpretation of the tax legislation. However, it is the Bank's Boards of Directors belief that there will be no additional settlements of significant value in the context of the financial statements.

3.3. 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.

3.4. Fair value of financial derivatives and assets and liabilities at fair value through profit or loss

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

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

3.5. Classification and Measurement

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

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

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

NOTE 4 – SEGMENT REPORTING

4.1. Description Of Operating Segments

Each operating segment comprises the following activities, products, customers and structures of the Group:

Mergers and Acquisitions

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

Capital Markets

The Capital Markets Division comprises origination, structuring and execution of market-oriented debt instruments. The equity capital market transactions are explored on an opportunistic basis. The Bank provides its services to corporates, financial institutions, public companies and state-related entities.

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

The Equity Capital Markets (ECM) area comprises mainly capital increases, takeover offers and listing for corporate clients.

Corporate Derivatives

Haitong Bank's Derivatives Desk covers several asset classes such as interest rates, FX and commodities, assisting companies in the immunization of their balance against financial variables that may negatively affect their profits, allowing them to focus on their core business and lock-in the margin in their products. Consequently, companies can optimize their hedging strategy against the increase of interest rates, the exchange variations between payments and receipts of their products, and in fixing the cost / sale price of raw materials.

Fixed Income

The purpose of the Fixed Income Division is to provide a professional, differentiated and high-quality product and service to institutional and corporate clients, as well as provide Haitong Bank with a strong multi-client and international distribution platform. Its presence in various geographies and the combination of its origination and distribution capacity stimulate the identification of new business opportunities and promotes cross border activity. With dedicated Trading, Syndication, Distribution, the Fixed Income Division offers market-making services for corporate and sovereign debt securities, multi-product international distribution, syndication capacity for different products and tailor-made products for institutional clients. Fixed income is also responsible for managing Haitong Bank's Banking books in accordance with the investment policies established by the Executive Committee.

In addition to the aforementioned, the Fixed Income Division Brazil mission is the managing of several risk factors, in which the Bank is exposed, such as: fixed interest rates, inflation, FX, equities. The Fixed Income activity in Brazil also includes the managing of the risks originated through the proprietary portfolio and strategy of the Treasury area (trading and banking books) or through other risk factors gaps resulting from the Bank's commercial or Sales activities.

Equities

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

Structured Finance

The mission of the Structured Finance Division is to develop financing solutions to its Clients, namely under the form of acquisition / leverage finance, project finance, corporate and asset based loans, as well as the provision of financial advisory services and the provision of arranging and agency services for financing operations.

Corporate Solutions

The purpose of the Corporate Solutions Division is to establish relationships with clients in various sectors and to identify business opportunities and attract business to the Bank's product areas.

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

Treasury

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

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

Private Equity

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

Corporate Centre

The Corporate Centre does not correspond to a business area; it is a combination of corporate structures ensuring basic functions of global management for the Group, such as those associated with the management and supervisory bodies, Compliance, CEO Office, Finance, Customers, among others.

Special Portfolio Management

The purpose of the Special Portfolio Management Division ("SPM") is to manage all the nonperforming credit operations classified by the IFRS9 criteria in which the Bank is involved as finance provider.

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

Other

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

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

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

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

Measurement of profits or losses from the segments

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

Haitong Bank's Structures dedicated to the Segment

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

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

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

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

Interest income and expenses

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

Net profit / (loss) from fee and commission

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

Investments consolidated under the equity method

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

Non-current assets

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

Deferred tax assets

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

Domestic and International Areas

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

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

(thousand euros)

	Period of six months ended at 30.06.2021												
	Structured Finance	Special Portfolio Management	Mergers and Acquisitions	Capital Markets	Corporate Derivatives	Fixed Income	Equities	Private Equity	Treasury	Corporate Solutions	Corporate Centre	Other	Total
Net interest income	4 361	(199)	(3)	36	(1)	13 262	(18)	(1)	(2 553)	(1)	-	474	15 357
Net fees and comissions	4 486	236	6 153	4 914	1 201	2 227	2 010	1 391	(1 510)	800	(127)	3 206	24 987
COMERCIAL OPERATING INCOME	**8 847**	**37**	**6 150**	**4 950**	**1 200**	**15 489**	**1 992**	**1 390**	**(4 063)**	**799**	**(127)**	**3 680**	**40 344**
Results on financial operation	9 150	13	30	34	1 315	(7 035)	-	2 951	2 406	-	(1 824)	573	7 613
Costs Deducting Banking Income	(435)	-	(29)	(21)	(14)	(204)	(11)	(9)	(155)	-	(2 918)	(53)	(3 849)
Intersegment Operating Income	50	(50)	-	-	(473)	(42)	1	-	34	-	447	35	2
TOTAL OPERATING INCOME	**17 612**	**-**	**6 151**	**4 963**	**2 028**	**8 208**	**1 982**	**4 332**	**(1 778)**	**799**	**(4 422)**	**4 235**	**44 110**
Operation expenses	**1 287**	**372**	**2 384**	**1 156**	**827**	**2 559**	**923**	**395**	**620**	**823**	**16 434**	**887**	**28 667**
Staff costs	1 092	333	1 792	756	419	1 285	433	266	238	662	9 860	639	17 775
General administration expenses	135	20	458	341	339	1 116	425	71	339	78	4 158	201	7 681
Depreciations and Amortisations	60	19	134	59	69	158	65	58	43	83	2 416	47	3 211
Gross income	**16 325**	**(372)**	**3 767**	**3 807**	**1 201**	**5 649**	**1 059**	**3 937**	**(2 398)**	**(24)**	**(20 856)**	**3 348**	**15 443**
Impairment and Provisions	**873**	**18**	**(11)**	**(10 155)**	**15**	**(396)**	**(1)**	**15**	**(100)**	**-**	**588**	**71**	**(9 083)**
Credit impairment	(712)	(12)	-	-	-	(1)	-	-	-	-	10	62	(653)
Securities impairment	1 295	-	-	(10 165)	-	(294)	-	-	5	-	-	-	(9 159)
Net provisions and other impairment	290	30	(11)	10	15	(101)	(1)	15	(105)	-	578	9	729
Income before taxes	**17 198**	**(354)**	**3 756**	**(6 348)**	**1 216**	**5 253**	**1 058**	**3 952**	**(2 498)**	**(24)**	**(20 268)**	**3 419**	**6 360**

(thousand euros)

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

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

(thousand euros)

	30.06.2021			
	Portugal	Rest of the Europe	America	Total
Net income	421	(1 877)	3 748	2 292
Net asset	1 569 124	363 580	899 965	2 832 669
Investments in assets				
tangible	61	20	13	94
intangible	139	6	15	160

(thousand euros)

	31.12.2020			
	Portugal	Rest of the Europe	America	Total
Net income	(13 528)	12 714	2 455	1 641
Net asset	1 617 594	209 328	974 492	2 801 414
Investments in associates	-	-	-	-
Investments in assets				
tangible	1 664	452	100	2 216
intangible	386	-	178	564

NOTE 5 – FINANCIAL MARGIN

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at					
	30.06.2021			30.06.2020		
	From assets/liabilities at amortised cost and at fair-value through other comprehensive income	From assets/liabilities at fair-value through profit and loss	Total	From assets/liabilities at amortised cost and at fair-value through other comprehensive income	From assets/liabilities at fair-value through profit and loss	Total
Interest and similar income						
Interest from loans and advances to customers	9 027	-	9 027	7 069	-	7 069
Interest from deposits and investments in credit institutions	614	-	614	1 633	-	1 633
Interest from financial assets at fair value through other comprehensive income	1 024	-	1 024	528	-	528
Interest from financial assets at fair-value through profit and loss	-	21 138	21 138	-	19 156	19 156
Interest from debt securities at amortised cost	2 257	-	2 257	2 759	-	2 759
Other interest and similar income	74	-	74	95	-	95
	12 996	**21 138**	**34 134**	**12 084**	**19 156**	**31 240**
Interest and similar expenses						
Interest from deposits from central banks and other credit institutions	6 545	-	6 545	7 467	-	7 467
Interest from debt securities issued	1 111	-	1 111	3 179	-	3 179
Interest from customers accounts	10 823	-	10 823	7 951	-	7 951
Interest from leasing	85	-	85	105	-	105
Other interest and similar expenses	213	-	213	456	-	456
	18 777	**-**	**18 777**	**19 158**	**-**	**19 158**
	(5 781)	**21 138**	**15 357**	**(7 074)**	**19 156**	**12 082**

As at June 30th, 2021, interest and similar income includes an amount of 2 809 thousand euros and 1 241 thousand euros concerning contracts flagged as stage 2 and stage 3, respectively (June 30th, 2020,: 7,010 thousand euros and 781 thousand euros, respectively).

NOTE 6 – NET FEES AND COMMISSIONS INCOME

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Fees and commissions income		
From banking services	24 022	16 317
From guarantees provided	770	804
From transactions with securities	2 267	5 484
	27 059	**22 605**
Fees and commissions expenses		
From banking services rendered by third parties	1 511	1 273
From transactions with securities	736	824
From guarantees received	201	247
Other fee and comission expenses	236	1 218
	2 684	**3 562**
	24 375	**19 043**

As at June 30th, 2021, the income regarding fees and commission included 16,902 thousand euros (June 30th, 2020,: 11,105 thousand euros) concern Haitong Group related parties (Note 37).

As at June 30th, 2021 and 2020, the amount of fees and commissions present the following distribution, by geographical segment:

(thousand euros)

	30.06.2021	30.06.2020
Fees and commissions income		
China	8 397	3 480
Virgin Islands	7 954	5 734
Portugal	3 184	2 354
Bermuda	2 102	2 318
Poland	1 029	382
Brazil	938	202
Luxembourg	999	422
Spain	257	3 192
Germany	253	8
Others	1 946	4 513
	27 059	**22 605**

NOTE 7 – NET TRADING INCOME

This heading's amount is composed of:

(thousands euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Trading assets and liabilities		
Securities		
Bonds and other fixed-income securities		
Issued by public entities	(43 380)	2 329
Of other entities	1 257	1 914
Shares	299	1 226
	(41 824)	**5 469**
Financial derivatives		
Foreign-exchange contracts	2 122	78 784
Interest rates contracts	30 291	(94 504)
Equity/indexes contracts	(544)	(516)
Credit default contracts	-	266
Other	946	(3 009)
	32 815	**(18 979)**
	(9 009)	**(13 510)**

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

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Assets and liabilities at fair value through profit or loss		
Securities		
Loans and advances to customers	-	(5)
Shares	686	(836)
Other variable-income securities	3 519	947
	4 205	**106**
	4 205	**106**

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

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Bonds and other fixed-income securities		
Of other entities	54	(56)
Shares	-	(4)
	54	**(60)**

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

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Currency revaluation	408	9 889
	408	**9 889**

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., and the results of foreign exchange derivatives.

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

As at the June 30th, 2021 and 2020, this heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Loans recoveries	7 702	864
Sale of loans and advances to customers	1 292	-
	8 994	**864**

NOTE 12 – OTHER OPERATING INCOME AND EXPENSES

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Other customer services	611	90
Direct and Indirect taxes	(2 202)	(2 372)
Other operating results	1 162	(1 939)
Non-financial assets	(5)	(23)
Sub-leasing	160	182
	(274)	**(4 062)**

Direct and indirect taxes include 1,185 thousand euros concerning the cost associated with the Bank Levy (June 30th, 2020: 1,421 thousand euros), established pursuant to Law no. 55-A/2010, of the 31st of December.

As at the June 30th, 2021, the balance Other operating income and expenses includes, among other, the followings:

i. I. a cost of 1,101 thousand euros related to Contributions to the National Resolution Fund and to the EU Resolution Fund (1,581 thousand euros at 30 June 2020);
ii. II. a cost of 331 thousand euros related to Contributions to the Loan Guarantee Fund applicable to the subsidiary Haitong Banco de Investimento do Brasil S.A. (93 thousand euros as at 30 June 2020);
iii. III. a profit of 1,842 thousand euros related with financial liabilities modified.

NOTE 13 – EMPLOYEE COSTS

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Wages and salaries		
Remuneration	13 622	14 149
Career benefits (Note 14)	(30)	6
Impact of the Safeguard Regime (see Note 14)	(127)	-
Changes from termination agreements (see Note 14)	120	(514)
Expenses with retirement pensions (see Note 14)	110	387
Other mandatory social charges	2 892	4 004
Other expenses	1 188	1 013
	17 775	**19 045**

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

(thousand euros)

	Board of Directors	Identified Staff	Total
June 2021			
Remunerations and other short-term benefits	830	3 714	4 544
Variable remunerations	800	1 160	1 960
Total	**1 630**	**4 874**	**6 504**
June 2020			
Remunerations and other short-term benefits	777	4 173	4 950
Variable remunerations	527	1 316	1 843
Total	**1 304**	**5 489**	**6 793**

The category "Identified Staff" considers the staff whose actions have a material impact on the Bank's risk profile ("Identified Staff").

On the 30th of June 2021 and 2020, Haitong Bank Group did not present any credit granted to its Management Bodies.

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

	30.06.2021	30.06.2020
Directors	189	193
Management	3	3
Specific roles	144	141
Administrative roles	20	20
Support roles	11	12
	367	**369**

As at the 30th of June 2021 and 2020, the Group had a total of 368 and 369 employees.

NOTE 14 – EMPLOYEES BENEFITS

Retirement pensions and healthcare benefits

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

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

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

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

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

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

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

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

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

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

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

	Assumptions	
	30.06.2021	30.06.2020
Financial Assumptions		
Expected return rates	1,60%	1,70%
Discount rate	1,60%	1,70%
Pension growth rates	0,50%	0,50%
Salary growth rates	0,75%	0,75%
Demographic Assumptions and Assessment Methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90 -3 years
Actuarial valuation method	Project Unit Credit Method	

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

(thousand euros)

	30.06.2021	30.06.2020
Current service cost (see Note 13)	110	387
Interest Expenses / (Income)	(7)	9
Expenses of the period	**103**	**396**

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

Career bonuses

On the June 30th, 2021, December 31st, 2020 and June 30th, 2020, the liabilities assumed by the Group and the costs recognized in the periods with the career bonus are the following:

(thousand euros)

	30.06.2021	31.12.2020	30.06.2020
Liabilities at the begining of the period	**616**	**545**	**539**
Period expenses (See Note 13)	(30)	71	6
Liabilities at the end of the period (see Note 33)	**586**	**616**	**545**

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

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

NOTE 15 – ADMINISTRATIVE COSTS

This heading's amount is composed of:

(thousand euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Communications and expedition	2 129	2 320
Rents and leases	436	413
Travels and representation costs	90	183
Maintenance and related services	213	323
Insurance	45	85
Advertising and publications	56	73
Legal and litigation	30	20
Specialised services		
IT services	2 107	1 908
Temporary labour	3	3
Independent labour	148	470
Other specialised services	1 591	1 717
Other expenses	833	955
	7 681	**8 470**

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

NOTE 16 – EARNINGS PER SHARE

Basic earnings per share

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

(thousand euros)

	Period of six months ended at	
	30.06.2021	30.06.2020
Consolidated net income attributable to shareholders of the parent company[1]	2 292	(11 738)
Weighted average number of ordinary shares outstanding (thousand)	**168 954**	**168 954**
Basic earnings per share attributable to shareholders of the parent company (euros)	**0,01**	**-0,07**

(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 June 30th, 2021 and 2020, the Bank holds instruments issued without diluting effect, therefore diluted earnings per share equals basic earnings per share.

NOTE 17 – CASH AND CASH EQUIVALENTS

As at the June 30th, 2021 and December 31th, 2020, this heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
Cash	7	7
Demand deposit at central banks		
Bank of Portugal	412 583	446 535
Other central banks	8 273	16 534
	420 856	**463 069**
Deposits at other credit institutions in Portugal		
Demand deposits	5 162	5 037
	5 162	**5 037**
Deposits at other credit institutions abroad		
Demand deposits	16 324	26 772
	16 324	**26 772**
	442 349	**494 885**
Impairment losses (Note 31)	(1)	-
	442 348	**494 885**

The 'Demand deposits in central banks – Bank of Portugal' heading, includes deposits with a mandatory nature, intended to comply with the legal minimum cash deposits requirements. In accordance with Regulation (EU) no. 1358/2011 of the European Central Bank, of the 14th of December, 2011, the mandatory minimum deposits in demand deposits in the Bank of Portugal, are paid and represent 1% of the deposits and debt securities with maturity up to 2 years, whereof are excluded deposits and debt securities from entities subject to the minimum reserve requirement scheme of the European System of Central Banks. On the June 30th, 2021, the average rate of return of such deposits was 0,00% (31st of December, 2020: 0.00%).

The compliance with mandatory minimum deposits, for a specific observation period, is effected by taking into account the medium amount of the balances of the deposits with the Bank of Portugal throughout the aforementioned period. The balance of the account with the Bank of Portugal as at the 30th of June, 2021, has been comprised in the maintenance period from the 16th of June, 2021, to the 27th of July, 2021, which corresponded a mandatory minimum reserve amounting to 3,265 thousand euros (31st of December, 2020:

3,571 thousand euros).

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

As at June 30th, 2021 and December 31st, 2020, the heading of trading financial assets and liabilities is as follows:

(thousand euros)

	30.06.2021	31.12.2020
Financial assets held-for-trading		
Bonds and other fixed-income securities		
From public issuers	598 979	603 870
From other issuers	24 382	23 125
Shares	76	62
	623 437	**627 057**
Financial liabilities held-for-trading		
Short selling	10 832	79 083
	10 832	**79 083**

As at June 30th, 2021, the heading of financial assets held for trading includes 297,849 thousand euros in securities pledged as collateral by the Group (442,667 thousand euros as at 31st of December 2020) (see Note 37).

As at June 30th, 2021 and December 31st, 2020, the analysis of financial assets held-for-trading, by residual maturity period, is as follows:

(thousand euros)

	30.06.2021	31.12.2020
Up to three months	9 308	1 578
From three months to one year	7 881	13 444
From one to five years	197 697	255 815
More than five years	408 475	356 158
Undetermined period	76	62
	623 437	**627 057**

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

As at June 30th, 2021 and December 31st, 2020, the heading of financial assets held-for-trading, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	30.06.2021			31.12.2020		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds and other fixed-income securities						
Issued by public entities	10 263	588 716	598 979	5 075	598 795	603 870
Issued by other entities	23 372	1 010	24 382	18 028	5 097	23 125
Shares	76	-	76	62	-	62
Total book value	**33 711**	**589 726**	**623 437**	**23 165**	**603 892**	**627 057**

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.

Additionally, the Bank performs backtesting of all operations carried out and has never observed losses or divergences in relation to the valuation methodology.

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

NOTE 19 – DERIVATIVES

As at June 30th, 2021 and December 31st, 2020, financial derivatives heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
Derivatives financial assets		
Trading derivatives		
Foreign-exchange contracts	11 066	17 493
Interest-rate contracts	66 732	90 168
Other contracts	5 207	35 401
	83 005	**143 062**
Derivatives financial liabilities		
Trading derivatives		
Foreign-exchange contracts	18 398	18 450
Interest-rate contracts	63 720	88 064
Other contracts	4 946	36 190
	87 064	**142 704**
	(4 059)	**358**
Hedging Derivatives		
Derivatives financial assets		
Foreign-exchange contracts	**-**	**151**
	-	**151**
	-	**151**

As at June 30th, 2021 and December 31st, 2020, trading financial derivatives is analysed as follows:

(thousand euros)

	30.06.2021			31.12.2020		
	Notional	Fair value		Notional	Fair value	
		Positive	Negative		Positive	Negative
Foreign-exchange contracts						
Forward	-	5 894	12 910	-	6 809	7 579
- buy	514 673			252 083		
- sell	514 629			251 714		
Currency Swaps		789	1 239		1 321	1 270
- buy	251 422			244 150		
- sell	251 875			244 292		
Currency Futures		-	-		-	-
- buy	114 771			26 880		
- sell	186 192			126 726		
Currency Interest Rate Swaps		2 378	2 466		8 782	8 953
- buy	18 415			23 186		
- sell	18 415			23 186		
Currency Options		2 005	1 783		581	648
- buy	270 506			160 744		
- sell	318 593			185 330		
	2 459 491	**11 066**	**18 398**	**1 538 291**	**17 493**	**18 450**
Interest-rate contracts						
Interest Rate Swaps		66 209	63 189		89 604	87 496
- buy	1 286 409			1 564 396		
- sell	1 286 409			1 564 396		
Interest Rate Caps & Floors		523	531		564	568
- buy	55 976			65 773		
- sell	50 321			59 701		
Interest Rate Futures		-	-	-	-	-
- buy	410 331			694 409		
- sell	728 060			707 958		
	3 817 506	**66 732**	**63 720**	**4 656 633**	**90 168**	**88 064**
Contracts on shares/indexes						
Equity / Index Swaps		5 207	4 946		35 401	36 190
- buy	52 816			109 065		
- sell	52 816			109 065		
Equity / Index Futures		-	-		-	-
- buy	-			-		
- sell	3 366			3 053		
	108 998	**5 207**	**4 946**	**221 183**	**35 401**	**36 190**
Credit agreements						
Credit Default Swaps		-	-	-	-	-
- buy	615			615		
- sell	615			615		
	1 230	**-**	**-**	**1 230**	**-**	**-**
Total	**6 387 225**	**83 005**	**87 064**	**6 417 337**	**143 062**	**142 704**

As at June 30th, 2021 and December 31st, 2020, the analysis of trading financial derivatives, by residual maturity period, is as follows:

(thousand euros)

	30.06.2021			31.12.2020		
	Notional		Fair Value	Notional		Fair Value
	Sale	Purchase	(net)	Sale	Purchase	(net)
Up to three months	625 952	581 284	(4 108)	458 382	419 921	1 572
From three months to one year	844 405	782 769	(3 683)	695 252	875 580	(1 047)
From one to five years	1 109 888	840 787	3 302	1 053 290	755 813	(2 219)
More than five years	831 046	771 094	430	1 069 111	1 089 988	2 052
	3 411 291	**2 975 934**	**(4 059)**	**3 276 035**	**3 141 302**	**358**

a) Hedging Derivatives

As at June 30th, 2021 there were no operations regarding hedging derivatives. The change in the management strategy for this exposure took place on May 30, 2021. The effect of this cancellation was as established by IFRS 9 recorded prospectively, with the impact of applying hedge accounting in 2021 of 697 thousand Euros in comprehensive income.

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

(thousand euros)

	31.12.2020		
	Notional		Fair Value
	Sell	Buy	
Up to three months	75 665	75 738	151
	75 665	**75 738**	**151**

As at June 30th 2021, derivatives, both assets and liabilities, include operations collateralized by the constitution of collateral accounts in order to ensure the fair value hedge of the active and liability exposures contracted between the Bank and several financial institutions. The balances related to these collateral are recorded under "Other assets - collateral deposited under clearing agreements" (Note 27) and "Other liabilities - collateral deposited under clearing agreements" (Note 33).

As at June 30th, 2021, the hedge accounting relationships are analysed in Note 39.

NOTE 20 – SECURITIES

As at June 30th 2021 and December 31st 2020, this heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
Non-trading financial assets mandatorily at fair value through profit or loss		
Bonds and other fixed-income securities		
From other issuers	721	703
Shares	227	1 511
Other variable income securities	27 121	33 083
	28 069	**35 297**
Financial assets at fair value through other comprehensive income		
Bonds and other fixed-income securities		
From public issuers	54 269	18 479
From other issuers	198 504	142 277
	252 773	**160 756**
Financial assets measured at amortised cost		
Securities		
Bonds and other fixed-income securities		
From public issuers	203 407	209 797
From other issuers	280 088	251 656
	483 495	**461 453**
	764 337	**657 506**

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

As at June 30th, 2021 and December 31st 2020, the portfolio of Financial assets at fair value through other comprehensive income is analysed as follows:

(thousand euros)

	Cost (1)	Fair value reserve		Impairment (Note 31)	Book value
		Positive	Negative		
Bonds and other fixed-income securities					
Issued by public entities	55 240	54	(764)	(261)	54 269
Issued by other entities	202 996	1 713	(414)	(5 791)	198 504
Balance as at 30 June 2021	**258 236**	**1 767**	**(1 178)**	**(6 052)**	**252 773**
Bonds and other fixed-income securities					
Issued by public entities	17 780	791	-	(92)	18 479
Issued by other entities	148 055	886	(3 149)	(3 515)	142 277
Balance as at 31 December 2020	**165 835**	**1 677**	**(3 149)**	**(3 607)**	**160 756**

(1) Amortised cost

As at June 30th, 2021 and December 31st 2020, the portfolio of financial assets at amortized cost is analysed as follows:

(thousand euros)

	Cost (1)	Impairment (Note 31)	Book value
Bonds and other fixed-income securities			
Issued by public entities	203 569	(161)	203 408
Issued by other entities	298 635	(18 548)	280 087
Balance as at 30 June 2021	**502 204**	**(18 709)**	**483 495**
Bonds and other fixed-income securities			
Issued by public entities	209 964	(167)	209 797
Issued by other entities	262 364	(10 708)	251 656
Balance as at 31 December 2020	**472 328**	**(10 875)**	**461 453**

(1) Amortised cost

As at June 30th, 2021, the heading of Financial assets includes 413,181 thousand euros (December 31st 2020: 339,045 thousand euros) in securities pledged as collateral by the Group (see Note 37).

As at June 30th, 2021 and 31st of December 2020, the analysis of securities portfolios by maturity period, is presented as follows:

(thousand euros)

	30.06.2021	31.12.2020
Up to three months	138 942	31 531
From three months to one year	127 098	207 655
From one to five years	410 788	307 212
More than five years	60 161	76 518
Undetermined period	27 348	34 590
	764 337	**657 506**

As at June 30th, 2021 and December 31st, 2020, the heading of securities, concerning quoted and unquoted securities, is divided as follows:

(thousand euros)

	30.06.2021			31.12.2020		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Securities						
Bonds and other fixed-income securities						
Issued by public entities	220 273	37 403	257 676	213 572	14 704	228 276
Issued by other entities	223 324	255 989	479 313	134 734	259 902	394 636
Shares	8	219	227	9	1 502	1 511
Other variable-income securities	-	27 121	27 121	-	33 083	33 083
Total statement of financial position value	**443 605**	**320 732**	**764 337**	**348 315**	**309 191**	**657 506**

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.

NOTE 21 - LOANS AND ADVANCES TO BANKS

As at June 30th, 2021 and December 31st, 2020, this heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
Loans and advances to banks in Portugal		
Deposits	56	56
Interbank money market	2 500	-
	2 556	**56**
Loans and advances to banks abroad		
Reverse repos	2 409	112 353
Other loans and advances	3 376	3 251
	5 785	**115 604**
	8 341	**115 660**
Impairment losses (Note 31)	(610)	(500)
	7 731	**115 160**

As at June 30th, 2021 and December 31st, 2020, the analysis of loans and advances to banks, by residual maturity period, is presented as follows:

(thousand euros)

	30.06.2021	31.12.2020
Up to three months	5 841	69 005
From three months to one year	2 500	46 655
	8 341	**115 660**

NOTE 22 – LOANS AND ADVANCES TO CUSTOMERS

As at June 30th, 2021 and December 31st, 2020, this heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
At amortized cost		
Domestic loans		
Corporate		
Loans	259 346	229 524
Retail		
Mortgage loans	383	411
	259 729	**229 935**
Foreign loans		
Corporate		
Loans	170 447	187 580
Reverse repos	133 534	10 856
Retail		
Other credits	13	13
	303 994	**198 449**
Overdue loans and interest		
Up to 90 days	9 992	-
For more than 90 days	3 659	3 646
	13 651	**3 646**
	577 374	**432 030**
Impairment losses (Note 31)	(10 454)	(11 990)
	566 920	**420 040**
	566 920	**420 040**

As at June 30th, 2021 and December 31st, 2020, the analysis of loans and advances to costumers, by residual maturity period, is presented as follows:

(thousand euros)

	30.06.2021	31.12.2020
Up to three months	177 609	134 919
From three months to one year	27 968	13 376
From one to five years	128 456	95 990
More than five years	229 689	184 100
Undetermined period	13 652	3 646
	577 374	**432 030**

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

As at June 30th, 2021 and December 31st, 2020, this heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
Subsidiaries acquired exclusively for resale purposes	2 199	1 699
	2 199	**1 699**

Non-current assets held-for-sale only includes the investment in Polish Hotel Company. The Group has implemented a plan for the immediate sale of this subsidiary. However, due to market conditions, it was not possible to carry out the divestiture within the period originally foreseen. The company will close its hotel business on September 1st, 2021.Currently, the asset is under revaluation. Nevertheless, the Group continues to make efforts to divest all of the company's capital, with the added difficulty of Covid19's extremely negative impact on the sector.

NOTE 24 – OTHER TANGIBLE ASSETS

As at June 30th, 2021 and December 31st, 2020, this heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
Real Estate		
For own use	1	1
Improvements in leasehold property	7 469	7 328
	7 470	**7 329**
Equipment		
IT equipment	11 370	11 285
Indoor installations	2 114	2 117
Furniture	2 470	2 456
Machinery and tools	1 095	1 082
Motor vehicles	283	267
Security equipment	262	262
Others	222	216
	17 816	**17 685**
	25 286	**25 014**
Work in progress		
Improvements in leasehold property	1 077	1 077
Equipment	478	474
	1 555	**1 551**
Right-of-use		
IT equipment	112	95
Vehicles	685	661
Buildings	13 118	12 143
	13 915	**12 899**
	40 756	**39 464**
Accumulated depreciations	(31 096)	(28 871)
	9 660	**10 593**

The movement in this heading was as follows:

(thousand euros)

	Real estate	Equipment	Right-of-use: Buildings	Right-of-use: IT equipment	Right-of-use: Vehicles	Work in progress	Total
Acquisition cost							
Balance as at 31 December 2019	**9 010**	**18 087**	**10 110**	**97**	**1 139**	**-**	**38 443**
Acquisitions	1	664	-	-	-	1 551	2 216
Write-offs / sales	(675)	(801)	-	-	-	-	(1 476)
Transfers	-	95	-	-	-	-	95
Exchange differences and other movements	(1 007)	(360)	2 033	(2)	(478)	-	186
Balance as at 31 December 2020	**7 329**	**17 685**	**12 143**	**95**	**661**	**1 551**	**39 464**
Acquisitions	-	90	-	-	-	4	94
Write-offs / sales	-	(38)	-	-	-	-	(38)
Exchange differences and other movements	141	79	975	17	24	-	1 236
Balance as at 30 June 2021	**7 470**	**17 816**	**13 118**	**112**	**685**	**1 555**	**40 756**
Depreciations							
Balance as at 31 December 2019	**5 831**	**16 391**	**2 906**	**46**	**492**	**-**	**25 666**
Depreciations of period	516	699	3 343	37	257	-	4 852
Depreciation of discontinued operations	-	(401)	-	-	-	-	(401)
Exchange differences and other movements	(449)	(170)	(245)	(12)	(370)	-	(1 246)
Balance as at 31 December 2020	**5 898**	**16 519**	**6 004**	**71**	**379**	**-**	**28 871**
Depreciations of period	234	262	1 586	14	92	-	2 188
Write-offs / sales	-	(38)	-	-	-	-	(38)
Exchange differences and other movements	112	53	22	(70)	(42)	-	75
Balance as at 30 June 2021	**6 244**	**16 796**	**7 612**	**15**	**429**	**-**	**31 096**
Net book value as at 30 June 2021	**1 226**	**1 020**	**5 506**	**97**	**256**	**1 555**	**9 660**
Net book value as at 31 December 2020	**1 431**	**1 166**	**6 139**	**24**	**282**	**1 551**	**10 593**

NOTE 25 – INTANGIBLE ASSETS

As at June 30th, 2021 and December 31st, 2020, this heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
Goodwill	9 859	9 859
Purchased from third parties		
Software	34 357	34 182
Others	1 006	999
	35 363	**35 181**
Work in progress	859	743
	46 081	**45 783**
Accumulated amortisations	(32 375)	(31 266)
Impairment losses (Note 31)	(9 859)	(9 859)
	(42 234)	**(41 125)**
	3 847	**4 658**

As at June 30th, 2021 and December 31st, 2020, the impairment recorded is the total amount of the Goodwill, related with Haitong Capital – Sociedade de Capital de Risco, S.A.

The movement in this heading was as follows:

(thousand euros)

	Goodwill	Software	Other fixed assets	Work in progress	Total
Acquisition cost					
Balance as at 31st December 2019	**9 859**	**34 594**	**916**	**626**	**45 995**
Acquisitions:					
Purchased from third parties	-	269	83	212	564
Transfers from discontinued operations	-	-	-	(95)	(95)
Exchange differences and other movements	-	(681)	-	-	(681)
Balance as at 31st December 2020	**9 859**	**34 182**	**999**	**743**	**45 783**
Acquisitions:					
Purchased from third parties	-	44	-	116	160
Exchange differences and other movements	-	131	7	-	138
Balance as at 30 June 2021	**9 859**	**34 357**	**1 006**	**859**	**46 081**
Amortizations					
Balance as at 31st December 2019	**-**	**28 253**	**916**	**-**	**29 169**
Amortizations of the period	-	2 397	9	-	2 406
Exchange differences and other movements	-	(308)	(1)	-	(309)
Balance as at 31st December 2020	**-**	**30 342**	**924**	**-**	**31 266**
Amortizations of the period	-	1 018	5	-	1 023
Exchange differences and other movements	-	85	1	-	86
Balance as at 30 June 2021	**-**	**31 445**	**930**	**-**	**32 375**
Impairment					
Balance as at 31st December 2019	**9 859**	**-**	**-**	**-**	**9 859**
Impairment losses	-	-	-	-	-
Balance as at 31st December 2020	**9 859**	**-**	**-**	**-**	**9 859**
Impairment losses	-	-	-	-	-
Balance as at 30 June 2021	**9 859**	**-**	**-**	**-**	**9 859**
Net balance as at 30 June 2021	**-**	**2 912**	**76**	**859**	**3 847**
Net balance as at 31st December 2020	**-**	**3 840**	**75**	**743**	**4 658**

NOTE 26 – INVESTMENTS IN ASSOCIATED COMPANIES

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

(thousand euros)

	Assets		Liabilities		Equity		Income		Net income	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Fundo Espírito Santo IBERIA I	-	63	-	66	-	(3)	-	-	-	(825)

(thousand euros)

	Aquisition cost		% held		Book Value		Net income from the associated companies attributable to the Group	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Fundo Espírito Santo IBERIA I	-	2 766	0%	46%	-	340	-	(379)
	-	**2 766**			**-**	**340**	**-**	**(379)**
Impairment (See Note 31)					**-**	**(340)**		
					-	**-**		

The movement of this heading is as follows:

(thousand euros)

	30.06.2021	31.12.2020	30.06.2020
Opening balance	-	29	15
Disposals and other reimbursements	(1)	-	-
Net Income from associated companies	-	(430)	51
Other comprehensive income from associates	1	401	(37)
Closing balance	**-**	**-**	**29**

NOTE 27 – OTHER ASSETS

As at June 30th, 2021 and December 31st, 2020, the Other Assets heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
Debtors and other assets		
Collateral deposited under collateral agreements (Note 19)	62 643	118 249
Supplies, supplementary capital instalments and subordinated assets	3 937	-
Public sector	59 894	31 183
Deposits placed under margin accounts (futures contracts)	2 070	2 535
Other sundry debtors	20 430	24 377
Loans and derivatives receivables	10 272	10 552
	159 246	186 896
Impairment losses for debtors and other investments (Note 31)	(9 917)	(9 688)
	149 329	**177 208**
Other assets		
Gold, other precious metals, numismatic, medals and other liquid assets	1 292	52
Other assets	5 392	5 372
	6 684	**5 424**
Income receivable	**55**	**15**
Prepayments and deferred costs	**4 405**	**2 733**
Other sundry assets		
Exchange transactions pending settlement	4 580	4 272
Market securities transactions pending settlement	25 634	9 790
Retirement pensions (Note 14)	7 264	318
Other transactions pending settlement	11 344	8 654
	48 822	**23 034**
	209 295	**208 414**

As at June 30th, 2021, the public administrative sector item includes, among others, a judicial deposit in Brazil with an amount of 20,696 thousand euros (19,049 thousand euros as at 31 December 2020) related with a tax contingency (Note 36). This item also includes the value of the security deposit made to the Portuguese State ("Direção Geral do Tesouro e Finanças") under the tax credit (confirmed by the Portuguese Tax Authority) inherent to REAID in the amount of 22,519 thousand euros.

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

NOTE 28 – RESOURCES OF CREDIT INSTITUTIONS

The resources of credit institutions heading is presented as follows:

(thousand euros)

	30.06.2021	31.12.2020
Resources of central banks		
Banco de Portugal	108 537	110 600
	108 537	**110 600**
Resources of other credit institutions		
Domestic		
Repurchase agreements	18	18
	18	**18**
Foreign		
Deposits	8 703	7 945
Loans	377 877	-
Repurchase agreements	279 616	428 361
Other resources	30 877	31 072
	697 073	**467 378**
	805 628	**577 996**

As at June 30th, 2021 and 31st of December 2020, the analysis of resources of credit institutions by residual maturity period is as follows:

(thousand euros)

	30.06.2021	31.12.2020
Up to three months	277 972	467 396
From three months to one year	8 703	-
From one to five years	499 423	110 600
More than five years	19 530	-
	805 628	**577 996**

NOTE 29 – RESOURCES OF CUSTOMERS

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

(thousand euros)

	30.06.2021	31.12.2020
Repayable on demand		
Demand deposits	86 614	72 995
Time deposits		
Fixed-term deposits	665 834	598 274
Other resources		
Repurchase agreements	141 989	4 661
Other Deposits	1 023	1 015
Other	229 749	550 560
	372 761	**556 236**
	1 125 209	**1 227 505**

As at June 30th, 2021 and December 31st, 2020, the analysis of due to customers by residual maturity period is as follows:

(thousand euros)

	30.06.2021	31.12.2020
Demand deposits	86 614	72 995
Fixed-term deposits		
Up to 3 months	101 694	425 201
3 to 12 months	293 153	130 148
1 to 5 years	270 987	42 925
	665 834	598 274
Other resources		
Up to 3 months	143 019	5 683
3 to 12 months	33 706	21 737
1 to 5 years	196 036	528 816
	372 761	556 236
	1 125 209	**1 227 505**

NOTE 30 – DEBT SECURITIES ISSUED

The debt securities issued heading can be divided as follows:

(thousand euros)

	30.06.2021	31.12.2020
Debt securities issued		
Other Bonds	64 687	64 862
	64 687	**64 862**

The fair-value of the portfolio regarding debt securities issued is presented in Note 38.

During the first semester of 2021, Haitong Bank Group issued securities amounting to 11,241 thousand euros (31st of December 2020: 8,187 thousand euros) and reimbursed debt securities of 11,297 thousand euros (31st of December 2020: 141,392 thousand euros).

Considering the issued securities of the first six months of 2021, the main characteristics of the debit securities issued is as follows:

(thousand euros)

				30.06.2021		
Issuer	Designation	Currency	Issue Date	Book Value	Maturity	Interest Rate
HT_BR	LF NOVA LF HAITONG BRINTLLFI5S9	BRL	2021	172	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5T7	BRL	2021	1 721	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5U5	BRL	2021	344	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5V3	BRL	2021	516	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5W1	BRL	2021	1 721	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5X9	BRL	2021	860	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5Y7	BRL	2021	103	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI5Z4	BRL	2021	239	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI609	BRL	2021	445	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI617	BRL	2021	992	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI625	BRL	2021	34	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI633	BRL	2021	86	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI641	BRL	2021	128	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI658	BRL	2021	60	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI666	BRL	2021	427	2023	CDI 100%
HT_BR	LF NOVA LF HAITONG BRINTLLFI674	BRL	2021	3 392	2024	IPCA 100%

NOTE 31 – PROVISIONS AND IMPAIRMENT

As at June 30th, 2021 and December 31st 2020, 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 2019	**5 995**	**15 314**	**21 309**
Net charge of the period	483	749	1 232
Write back	(51)	(3 320)	(3 371)
Foreign exchange differences and others	(923)	(76)	(999)
Balance as at 30 June 2020	**5 504**	**12 667**	**18 171**
Net charge of the period	4 957	(494)	4 463
Write back	(1 633)	-	(1 633)
Foreign exchange differences and others	(46)	(32)	(78)
Balance as at 31 December 2020	**8 782**	**12 141**	**20 923**
Net charge of the period	(615)	(295)	(910)
Write back	(10)	-	(10)
Foreign exchange differences and others	689	12	701
Balance as at 30 June 2021	**8 846**	**11 858**	**20 704**

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

The movements in impairment losses can be analyzed as follows:

(thousand euros)

	31.12.2020	Net charge of the period	Write back	Stage 3	Exchange differences and others	30.06.2021
Cash and cash equivalents (Note 17)	-	-	-	-	1	1
Financial assets measured at fair value through OCI (Note 20)	3 607	1 334	(3)	(66)	1 180	6 052
Financial assets measured at amortized cost						
Loan and advances to banks (Note 21)	500	94	-	-	16	610
Loan and advances to customers (Note 22)	11 990	654	(2 781)	34	557	10 454
Securities (Note 20)	10 875	7 826	-	-	9	18 710
Intagible assets (Note 25)	9 859	-	-	-	-	9 859
Investments in associated companies (Note 26)	340	-	(340)	-	-	-
Other assets (Note 27)	9 688	85	-	-	144	9 917
	46 859	**9 993**	**(3 124)**	**(32)**	**1 907**	**55 603**

(thousand euros)

	30.06.2020	Net charge of the period	Write back	Stage 3	Exchange differences and others	31.12.2020
Cash and cash equivalents (Note 17)	531	(484)	-	-	(47)	-
Financial assets measured at fair value through OCI (Note 20)	2 964	458	(449)	1	633	3 607
Financial assets measured at amortized cost						
Loan and advances to banks (Note 21)	15 100	475	(15 077)	-	2	500
Loan and advances to customers (Note 22)	12 081	173	-	(3)	(261)	11 990
Securities (Note 20)	8 699	2 176	-	15	(15)	10 875
Intagible assets	9 859	-	-	-	-	9 859
Investments in associated companies (Note 26)	340	-	-	-	-	340
Other assets (Note 27)	8 756	1 056	-	-	(124)	9 688
	58 330	**3 854**	**(15 526)**	**13**	**188**	**46 859**

(thousand euros)

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

NOTE 32 – INCOME TAXES

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

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

The current tax of June 2021 and 2020 were calculated based on a nominal corporate income tax rate and Municipal Surcharge of 22.5%, in accordance with Law no. 82-B/2014, of 31st of December, and Law no. 2/2007, of 15th of January. Additionally there is a State Surcharge which corresponds to an additional rate of 3% of the taxable profit between 1,500 and 7,500 thousand euros, 5% of the profit between 7,500 and 35,000 thousand euros, 9% of any profit which exceeds this amount (if applicable).

Deferred taxes are calculated based on tax rates anticipated to be in force at the temporary differences reversal date, which corresponds to the rates enacted or substantively enacted at the balance sheet date. Thus, for the first half of 2021 deferred tax was calculated at the rate of 26.24%.

Regarding activity in Portugal, Law No. 98/2019 was published on 4 September 2019, which changed the tax regime applicable to the impairment of financial and credit institution. That law establishes in article 4 an adaptation period of 5 years beginning on or after 1 January 2019, pursuant to which the regime in force on the date of entry into force of this law remains applicable, unless there is communication addressed to the Director-General of the Portuguese Tax Authority of the option for the definitive regime. Bearing in mind that for the 2021 financial year this regime was optional, the Bank has not yet joined it. Therefore, the Bank considered, for the purpose of calculating taxable income and the recording and analysis of the recoverability of deferred tax assets with reference to December 31, 2020, that the amount of credit impairment and provisions for guarantees recorded, that is deductible for the purposes of CIT (Corporate Income Tax), corresponds to the amount of deductible impairments/provisions that would have been calculated if the reference to Banco de Portugal Notice 3/95 remained in force.

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:

a) Determining net losses;

b) Voluntary winding-up, court insolvency or, when applicable, with the withdrawal of the corresponding authorisation by the competent supervising authority.

As at 31st of December 2015, Haitong Bank determined a tax credit of 5,281 thousand euros, which corresponds to a special reserve of 5,809 thousand euros recorded during the year of 2016.

As at 31st of December 2016, Haitong Bank determined a tax credit of 20,529 thousand euros, which corresponds to a special reserve of 22,582 thousand euros recorded during the year of 2017.

As at 31st of December 2017, Haitong Bank determined a tax credit of 9,060 thousand euros, which corresponds to a special reserve of 9,966 thousand euros recorded during the year of 2018.

As at 31st of December 2018, Haitong Bank determined a tax credit of 232 thousand euros, which corresponds to a special reserve of 256 thousand euros recorded during the year of 2019.

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

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

Indeed, for each financial year it will be important to recalculate the reference value of the rights and if it is different from the nominal value of the shares, it will be necessary to adjust the value of the special reserve. For the year 2020, if this were to occur in 2021, and taking into account the amounts of the financial statements as at 31 December 2020, as well as the amount of tax credits converted by reference to the years 2015, 2016, 2017 and 2018 it would be necessary to increase special reserve in an estimated value of 19,250 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.

At 31st of December 2020, Haitong Bank has a negative result within its individual financial statements. So, it should, in 2021, and after certification by the Statutory Auditors, convert part of the deferred taxes assets covered by this special regime, in proportion between net income and equity, as well as proceed with the constitution of a special reserve and issue of conversion rights into shares representing the share capital attributable to the Portuguese State

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

In July 2019 and January 2020, the Bank was notified of the final Reports of the Tax Authority's inspection services, issued for 2015 and 2016, respectively. In these reports, certain procedures adopted by the Bank, namely in association with special regime for differed taxes (REAID) are being challenged.

In this sense, following the Bank disagreement with these corrections, in November 2019, an administrative complaint was submit regarding the 2015 Tax Inspection Report and in April 2020, an administrative complaint was submit regarding the 2016 inspection report.

On January 2021, the Bank received the 2017 and 2018 tax inspection report issued by the Tax Authority's inspection services. In this report, similarly to what happened in the 2015 and 2016 tax inspection reports, some procedures adopted by the Bank with regard to the application of REAID are raised.

The Bank disagreeing with these corrections, so in second half of 2021, it is Bank intention to submit an administrative complaint for the Tax inspection report of 2017 and 2018.

Finally, it is also noted that, within the scope of the tax inspection for the years 2015 ,2016, 2017 and 2018, the tax authority made corrections to the tax credit of these two years in the amount of 14,611 thousand euros (of a total amount of 35,103 thousand euros). Thus, that tax credit would be reclassified to the item of deferred tax assets.

The Bank's management considers that the procedures adopted in those years are compliant with the legislation in force, and therefore estimates that it is not likely that the Tax Authority's position will prevail. Even so, if this correction occur, it would materialize in the recognition of deferred tax assets. In addition, the Board of Directors believes that any corrections that may arise, related to the years inspected, will not have a material impact either on the Bank's capital or on the Bank's results in fiscal year 2021, as its affect tax losses that have not yet been used and for which deferred tax losses have been not recognized.

As of 1 January 2019, the Bank adopted the new interpretative standard of IAS 12 - IFRIC 23 - 'Uncertainty over Income Tax Treatments' - which to recommend the measurement requirements and recognition to be applied in the event of uncertainties regarding the acceptance of a given tax treatment by the Tax Administration concerning income tax and should reflect the entity's best estimate of the presumed outcome of the situation under discussion. This estimated value based on the expected value or the most probable value should be recorded by the entity as an asset or liability for income tax based on IAS 12 and not by IAS 37.

The activity of branches abroad is incorporated in the Bank's accounts for determining the taxable profit. Although, the profit of those branches is subject to taxation in the countries where they are established, local taxes are deductible to the taxes to be paid in Portugal, in accordance with art. 91º of CIT Code, when applicable. The branches' profits are subject to local taxation at the following nominal rates.

Branch	Nominal income tax rate
London	19%
Madrid	30%
Warsaw	19%

The subsidiary located in Brazil, are subject to tax on their profits under the terms established in the tax rules in force in Brazil, thus in this country profits are subject to nominal rates situated between 34% and 45%.

As at 30th of June 2021 and 31st of December 2020, current tax assets and liabilities can be analyzed as follows:

(thousand euros)

	Asset		Liabiity	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Corporate income tax	3 370	2 465	(6 852)	(5 189)
Tax Credit (Special Scheme for Deferred Taxes)	20 025	20 025	-	-
Current tax asset / (liability)	**23 395**	**22 490**	**(6 852)**	**(5 189)**

Deferred tax assets and liabilities recognized in the statement of financial position as 30th of June 2021 and in 2020 can be analyzed as follows:

(thousand euros)

	Asset		Liability		Net	
	30.06.2021	31.12.2020	30.06.2021	31.12.2020	30.06.2021	31.12.2020
Derivative financial instruments	1 822	4 057	-	-	1 822	4 057
Securities	(68)	246	(625)	(1 370)	(693)	(1 124)
Loans and advances to customers	33 530	33 489	-	68	33 530	33 557
Provisions	3 138	2 037	-	(8)	3 138	2 029
Pension Fund and Long-term employee benefits	6 028	6 028	-	-	6 028	6 028
Other	(4 739)	(4 243)	-	(20)	(4 739)	(4 263)
Tax losses carried forward	56 784	54 085	-	-	56 784	54 085
Deferred tax asset/(liability)	**96 495**	**95 699**	**(625)**	**(1 330)**	**95 870**	**94 369**
Net deferred tax asset / (liability)	**96 495**	**95 699**	**(625)**	**(1 330)**	**95 870**	**94 369**

The Group only recognizes deferred tax assets in relation to reportable tax losses when it considers that they are expected to be recovered in the near future. Of the total deferred tax assets of tax losses, 34 375 thousand euros relate to Haitong Bank in Portugal and the remaining amount corresponds to Brazil. It should be noted that the tax losses of 2017 and 2018 did not booked deferred tax assets, which can be used until the year 2024 and 2025, respectively. The period of tax losses utilization takes into account the exceptional measures to the COVID-19 pandemic under the terms of Law No. 27-A / 2020 (Supplementary State Budget for 2020).

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

(thousand euros)

	30.06.2021	31.12.2020	30.06.2020
Opening balance	94 369	102 572	115 393
Recognised in profit or loss	122	1 203	(7 632)
Recognised in fair value reserves	(396)	(91)	1 382
Recognised in other reserves	-	(5 825)	2
Foreign exchange variation and others	1 775	(3 490)	(6 573)
Closing balance (Asset / (Liability))	**95 870**	**94 369**	**102 572**

Tax recognised in the income statement and reserves as at 30th of June 2021 and 30th of June 2020 had the following source:

(thousand euros)

	30.06.2021		30.06.2020	
	Recognised in profit or loss	Recognised in reserves	Recognised in profit or loss	Recognised in reserves
Deferred Taxes				
Derivative financial instruments	2 046	-	-	-
Securities	(703)	226	325	(1 138)
Loans and advances to customers	489	-	6 888	-
Provisions	104	-	723	-
Pension Fund	-	-	(278)	(2)
Other	(1 183)	170	(74)	(244)
Tax losses carried forward	(875)	-	48	-
	(122)	396	7 632	(1 384)
Current Taxes	3 273	-	(6 806)	-
Total recognised tax	**3 151**	**396**	**826**	**(1 384)**

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

(thousand euros)

	30.06.2021		30.06.2020	
	%	Value	%	Value
Profit or loss before tax and Non-controlling interests		**6 360**		**(10 699)**
Income tax rate of Haitong Bank	21,0		26,2	
Tax determined based on the income tax rate of Haitong Bank		1 335		(2 806)
Difference in the tax rate of subsidiaries	34,9	2 221	(13,1)	1 406
Tax benefits	(1,1)	(67)	-	-
Bank Levy	1,6	100	(3,5)	373
Unrecognized tax losses	(7)	(432)	-	-
Branches' income tax	2,9	183	(7,2)	767
Differences arising from consolidation	(1,7)	(107)	5,3	(568)
Other movements according to the tax estimation	(4,4)	(278)	(17,4)	1 861
Autonomous taxation	2,2	138	(0,6)	68
Other	0,9	58	2,6	(275)
	49,5	**3 151**	**(7,7)**	**826**

NOTE 33 – OTHER LIABILITIES

As at June 30th, 2021 and December 31st, 2020, the Other liabilities heading is analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020
Creditors and other resources		
Public sector	10 913	10 786
Deposited collateral under collateral agreements (Note 19)	7 450	12 260
Sundry creditors		
Leasing liabilities	6 145	6 719
Creditors from transactions with securities	13 079	15 253
Suppliers	2 197	1 051
Other sundry creditors	4 891	4 540
	44 675	**50 609**
Accrued expenses		
Career bonuses (see Note 14)	586	616
Other accrued expenses	8 711	9 333
	9 297	**9 949**
Deferred income	**435**	**317**
Other sundry liabilities		
Stock exchange transactions pending settlement	22 615	10 291
Foreign exchange transactions pending settlement	-	298
Other transactions pending settlement	17 560	12 269
	40 175	**22 858**
Retirement pensions (see Note 14)	**-**	**-**
	94 582	**83 733**

As at June 30th, 2021 and December 31st, 2020, the headings regarding Stock exchange transactions pending settlement refer to transactions with securities pending settlement.

NOTE 34 – CAPITAL, SHARE PREMIUM AND OTHER CAPITAL INSTRUMENTS

Ordinary shares

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

On the 3rd of August 2014, the Bank of Portugal applied a resolution action to Banco Espírito Santo, S.A., shareholder of 100% of the capital of the Bank, and established Novo Banco, S.A., with the share capital of 4.9 billion euros, which incorporated assets of Banco Espírito Santo, S.A. selected by the Bank of Portugal. In this regard, the Bank, its branches and subsidiaries were transferred to Novo Banco, S.A.

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

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

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

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

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

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

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

As at June 30th, 2021 and 2020 the share capital of Haitong Bank amounts to 844,769 thousand euros and is represented by 168,953,800 shares with the nominal value of 5 euros each, fully held by Haitong International Holdings Limited.

Share premiums

As at 30th, June 2021 and December 31st, 2020, share premiums are represented by 8,796 thousand euros, corresponding to the amount paid by shareholders in the increase of capital of previous years.

Other equity instruments

During October 2010 the Group issued perpetual subordinated bonds with conditioned interest in the overall amount of 50 million euros. These bonds have a noncumulative conditioned interest, payable only if and when declared by the Board of Directors.

This conditioned interest, corresponding to the applicable annual rate of 8.5% on nominal value, is paid biannually. These securities may be fully, but not partially, reimbursed after the 15th of September 2015, relying solely on the choice of Haitong Bank, upon approval of the Bank of Portugal. These bonds are considered a capital instrument in accordance with the accounting policy described in Note 2.6 due to their characteristics.

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

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

As at June 30th, 2021 and December 31st, 2020, 3,731 thousand euros regarding these bonds are in circulation. In the first semester of 2021 and 2020 the Group haven't paid interest.

In March 2018, the Bank issued perpetual instruments eligible as additional own funds of level 1 (Additional Tier 1), in the overall amount of USD 130,000 thousand, corresponding to 105,042 thousand euros, identified as "Fixed Rate Perpetual Deeply Subordinated Additional Tier 1 Resettable Instruments". Such bonds have a non-cumulative conditional interest which is payable only if and when reported by the Board of Directors. Due to their features, such bonds are deemed to be capital instruments, in accordance with the accounting policy laid down in Note 2.6.

NOTE 35 – FAIR-VALUE RESERVES, OTHER RESERVES, RETAINED EARNINGS AND NON-CONTROLLING INTERESTS

Legal reserve, fair-value reserves and other reserves

Legal reserves can only be used to cover accumulated loss carryover or to increase capital. Under Portuguese legislation applicable to the banking sector (Article 97 of RGICSF [Legal Framework of Credit Institutions and Financial Companies]), the Bank is required to set-up annually a legal reserve equal to a minimum of 10% of annual profits until the reserve equals the share capital.

Fair-value reserves represent the possible capital gains and losses in relation to the financial assets trough other comprehensive income portfolio, net of impairment recognised in the income statement of the year and/or previous years. The value of this reserve is presented net of deferred tax.

The other reserves heading includes the special reserve, under REAID, in the amount corresponding to 38,613 thousand euros.

The movements of these headings were the following:

(thousand euros)

	Fair Value reserves			Other reserves and retained earnings				
	Revaluation reserves	Income tax reserves	Total fair value reserve	Legal Reserve	Actuarial gains/losses (net of taxes)	Exchange differences	Other reserves and retained earnings	Total Other reserves and retained earnings
Balance as at 31 December 2019	**1 473**	**(1 005)**	**468**	**39 878**	**(31 736)**	**(169 192)**	**(219 864)**	**(380 914)**
Actuarial gains/losses (net of taxes)	-	-	-	-	1 341	-	-	1 341
Changes in fair value (net of taxes)	(3 739)	1 382	(2 357)	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	(7 762)	-	(7 762)
Other comprehensive income of associates	-	-	-	-	-	-	(37)	(37)
Transfer to reserves	-	-	-	-	-	-	7 508	7 508
Balance as at 30 June 2020	**(2 266)**	**377**	**(1 889)**	**39 878**	**(30 395)**	**(176 954)**	**(212 393)**	**(379 864)**
Actuarial gains/losses (net of taxes)	-	-	-	-	(2 382)	-	-	(2 382)
Changes in fair value (net of taxes)	589	(91)	498	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	(1 446)	-	(1 446)
Other comprehensive income of associates	-	-	-	-	-	-	400	400
Balance as at 31 December 2020	**(1 677)**	**286**	**(1 391)**	**39 878**	**(32 777)**	**(178 400)**	**(211 993)**	**(383 292)**
Actuarial gains/losses (net of taxes)	-	-	-	-	6 216	-	-	6 216
Changes in fair value (net of taxes)	2 357	(396)	1 962	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	5 617	-	5 617
Other comprehensive income of associates	-	-	-	-	-	-	1	1
Transfer to reserves	-	-	-	-	-	-	1 641	1 641
Balance as at 30 June 2021	**680**	**(110)**	**571**	**39 878**	**(26 561)**	**(172 783)**	**(210 351)**	**(369 817)**

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

(thousand euros)

	30.06.2021	31.12.2020
Opening balance	**(1 391)**	**468**
Fair value changes	1 023	(986)
Disposals of the period	1	(2 426)
Impairment recognised in the period	1 334	262
Deferred taxes recognised in reserves during the period	(396)	1 291
Closing balance	**571**	**(1 391)**

Non-controlling interests

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

(thousand euros)

	30.06.2021		31.12.2020	
	Balance sheet	Income statement	Balance sheet	Income statement
Haitong Banco de Investimento do Brasil S.A.	10 715	927	9 142	1 386
Haitong Securities do Brasil S.A.	3 202	(22)	2 999	(51)
Haitong Negócios S.A.	4 968	33	4 569	(632)
FI Multimercado Treasury	765	(21)	729	24
Others	1 452	-	1 354	(11)
	21 102	**917**	**18 793**	**716**

The movement of Non-controlling interests of the periods ended on the June 30th, 2021, December 31st, 2020 and June 30th, 2020 can be analysed as follows:

(thousand euros)

	30.06.2021	31.12.2020	30.06.2020
Opening balance	**18 793**	**26 142**	**26 142**
Dividends paid	-	(179)	-
Changes in fair value reserve	(164)	(341)	(294)
Exchange difference and other	1 556	(7 545)	(6 733)
Net income for the period	917	716	213
Closing balance	**21 102**	**18 793**	**19 328**

NOTE 36 – CONTINGENT LIABILITIES, GUARANTEES AND COMMITMENTS

As at June 30th, 2021 and 31st of December 2020, off-balance elements are as follows:

(thousand euros)

	30.06.2021	31.12.2020
Contingent liabilities		
Guarantees and stand by letters of credit	120 425	142 768
Assets pledged as collateral	812 769	774 229
	933 194	**916 997**
Commitments		
Irrevocable commitments	76 953	58 010
	76 953	**58 010**

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

As at June 30th, 2021, the heading of financial assets pledged as collateral includes:

- Securities pledged as collateral to the Bank of Portugal (i) within the scope of the Large-Value Payment System, amounting to 10,000 thousand euros as at the June 30th, 2021 (31st of December, 2020: 10,000 thousand euros), (ii) within the scope of target long-term refinancing operations, amounting to 110,600 thousand euros (31st of December, 2020: 110,600 thousand euros) and (iii) 210,507 thousand euros of collaterals not discounted, being the total of securities eligible for rediscount with the Bank of Portugal amounted to 332,107 thousand euros as at the June 30th, 2021 (31st of December, 2020: 368,286 thousand euros), (iv) within the scope of Interbank Clearing System [Sistema de Compensação Interbancária], amounting to 1,000 thousand euros;
- Securities pledged as collateral to the Portuguese Securities Market Commission within the Investor Compensation Scheme in the amount of 109 thousand euros (31st of December 2020: 109 thousand euros).
- Securities pledged as collaterals to Fundo de Garantia de Depósitos [Deposit Guarantee Fund] in the amount of 108 thousand euros (31st of December 2020: 107 thousand euros).
- Securities pledged as collateral within the scope of transactions with repurchase agreements: 429,913 thousand euros (31st of December 2020: 445,850 thousand euros).
- Securities pledged as collateral within the scope of derivatives compensation contracts 50,532 thousand euros (31st of December 2020: 30,410 thousand euros).

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

(thousand euros)

	30.06.2021	31.12.2020
Liabilities related to services provided		
Commercial paper programmes agency	116 700	87 500
Other responsabilities related with services provided	396 968	475 316
	513 668	**562 816**

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 currently a defendant in a proceeding associated with the capital increase of BES, which took place in June 2014.

As regards to this legal proceeding (case brought by several Funds), after the decision of the trial court to declare that the case had been "abandonment", the Lisbon Court of Appeal revoked that decision and ordered the continuation of the proceeding. Two of the Defendants in this proceeding appealed to the Supreme Court of Justice that confirmed the decision of the Court of Appeal. Extraordinary Review Appeals were filed to the Constitutional Court, all of them maintaining the previously decided by the Lisbon Court of Appeal. The legal procedure return to the trial court (1st instance) lawsuit for the continuation of its terms, awaiting the appointment of a prior hearing.

Haitong Bank is also a defendant in 11 proceedings, nearly all of which are associated with issues of commercial paper of GES's entities.

In note 37, in what concerns the 2020 yearly accounts, it is stated that, in the opinion of Haitong Bank's Legal Department and of the external lawyers to whom the proceedings have been entrusted, such proceedings do not have legal sustainability, wherefore it is considered unlikely that any judgment will be made against Haitong Bank in relation thereto. Such opinion is hereby reasserted.

Such opinion has been supported by several judicial decisions.

In fact, of the 78 cases filed against the Bank regarding the issue of commercial paper by GES' entities, 46 cases have already been res judicata with the total acquittal of Haitong Bank and 21 cases having been withdrawn by the claimants.

On the 16th July 2019, Haitong Bank has been notified of a new legal action brought against itself and several former board members of BES, regarding commercial paper issued by Espírito Santo International and Rioforte in 2013.

Such legal action has been submitted by a credit recovery fund (Fundo de Recuperação de Créditos "FRC – INQ – Papel Comercial ESI e Rio Forte") to which have been assigned the claims submitted by certain holders of ESI and Rioforte commercial papel and amounts to 517,500,099.71 euros. Haitong Bank presented its written defense on the 25th June 2020. The Bank is waiting for the preliminary hearing to be scheduled by the Court.

In the opinion of the external lawyers to whom this proceeding, brought by FRC, has been entrusted, such proceeding does not have a solid legal sustainability and therefore it is considered unlikely that any judgment will be made against Haitong Bank.

Following the above stated, Haitong Bank did not establish any provision related to such legal proceedings.

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

In Brazil, there is a judicial discussion around the constitutionality of the law applicable to the contributions of PIS ("Programa de Integração Social") and COFINS ("Financiamento da Seguridade Social) taxes which falls over other income that is not originated from sale of goods or from services rendered. Based on a court decision, all Brazilian group entities are monthly depositing to the court the amount under discussion and only are assessing to Tax Authorities the amount of tax related to services rendered, which are not under such discussion. The amounts subject to judicial deposit are recorded on Balance Sheet, in other assets. It's the understanding of the Group, based on external legal opinions, that the chances to obtain an unfavourable judicial decision against the Bank are below 50%, which supports the Group decision to not record any provision for this contingency. At 30 June 2021, the accumulated amount of the mentioned nonassessed contributions, but judicially deposited by the group was 20,696 thousand euros.

Following the above stated, Haitong Bank did not establish any provision related to such legal proceedings.

Resolution Fund

Resolution measures applied to Banco Espírito Santo, S.A. and BANIF – Banco Internacional do Funchal, S.A.

The Board of Directors of the Bank of Portugal decided, on 3rd of August 2014, to apply a resolution measure to Banco Espírito Santo, S.A. ("BES"), having the generality of the activity and net worth of BES been transferred to Novo Banco, S.A. In line with EU regulations, the capitalisation of Novo Banco was secured by the Resolution Fund, established by Decree-Law No. 31-A/2012 of 10 February. As provided for in said Decree-Law, the Resolution Fund's resources come from contributions paid by the institutions participating in the Fund and from the banking sector contribution. Moreover, legislation provides that whenever these resources prove insufficient to fulfil obligations, other means of financing can be use, including: (i) special contributions from credit institutions; and (ii) from loans taken out.

Following the resolution measure, the capital needs of Novo Banco were calculated at 4,900 million euros, having the capital subscription held by the Resolution Fund been funded by the Portuguese State (3,900 million euros) and by eight financial institutions participants of the Fund (700 million euros), in which the Bank is not included(not including the Bank).

Subsequently, in view of the resolution process of Banco Espírito Santo, S.A., Bank of Portugal resolved, as announced on 29th of December 2015, the transfer of responsibility to Resolution Fund of "…possible negative outcomes of future decisions, arising from the resolution process [of Banco Espírito Santo, S.A.], with responsibilities or contingencies as a result.".

On July 2016, the Resolution Fund stated that it would analyse and assess the necessary steps to be taken following the disclosure of the results of the independent valuation exercise, performed to estimate the level of credit recovery by each creditor class in the hypothetical scenario of a normal insolvency proceeding of BES as at 3rd of August 2014.

Pursuant to applicable law, if at the completion of BES's winding-up, it is concluded that creditors, whose credits have not been transferred to Novo Banco suffered a loss higher than the loss they would have hypothetically suffered if BES had initiated its winding-up process immediately before the resolution measure was adopted, such creditors will have the right to receive the difference from the Resolution Fund.

Following BES resolution, there is a relevant set of legal actions in progress against the Resolution Fund. According to Note 23 of the 2018 Resolution Fund Annual Report, "Lawsuits related to the application of resolution measures do not have legal precedents, which makes it impossible to use jurisprudence in their assessment, as well as a reliable estimate of any associated contingent financial effect. However, on March 12, 2019, a judgment was handed down by the Administrative Court of Círculo de Lisboa, unanimously by its twenty judges, which confirmed the constitutionality of the resolution's legal regime and the full legality of the resolution measure applied to BES on December 3. August 2014. Also by judgment of the Supreme Administrative Court, of March 13, 2019, a decision on the merits was rendered entirely in favour of the Resolution Fund related to the impugnation of the Novo Banco sale process. The Steering Committee, supported by the opinion of the lawyers who ensure the sponsorship of these actions and in view of the legal and procedural information available so far, considers that there is no evidence to support its belief that the probability of success is greater than the probability of failure".

On October 18, 2017, the Resolution Fund announced the conclusion of the sale process of 75% of Novo Banco, SA's share capital to Lone Star, whose selection had been communicated by Banco de Portugal on March 31, 2017. The Agreed conditions include the existence of a contingent capitalization mechanism, under which the Resolution Fund undertakes to carry out capital injections up to the maximum total amount of 3,890,000 thousand euros in the event of certain cumulative conditions materializing.In a statement dated June 17, 2019, the Resolution Fund released a set of clarifications related to the payment due in 2019 under the contingent capitalization agreement entered into with Novo Banco, namely:

- In order for payments to be made by the Resolution Fund (limited to a maximum of 3,890 million euros during the entire life of the mechanism), it is necessary for losses on the assets covered by the contingent mechanism to occur and for Novo Banco's capital ratios to be level below the agreed reference thresholds;

- The payment to be made by the Resolution Fund corresponds to the lowest amount between the accumulated losses on the covered assets and the amount necessary to restore the capital ratios above the minimum reference threshold;
- The reference capital ratios are, in the years 2017, 2018 and 2019, anchored to the regulatory requirements applicable to Novo Banco (ratio of 11.25% and 12.75%, respectively, for CET1 and Tier I), but , as of 2020, the reference ratio corresponds to a CET1 ratio of 12%;
- The initial reference value of the portfolio that integrates the contingent capitalization mechanism was 7,838 million euros at 30 June 2016 (book value of the respective assets, net of impairments), and the value of the portfolio at 31 December in 2018, it amounted to approximately 3,920 million euros (book value of the respective assets net of impairments);
- The accumulated losses for the assets covered and the respective management, between 30 June 2016 (the reference date of the mechanism) and 31 December 2019, correspond to 2,661 million euros. Of this amount, the Resolution Fund paid in 2018, in accordance with the terms and conditions of the contingent capitalization mechanism, approximately 792 million euros, so the amount of losses not supported by the Fund was, at the end of 2018, approximately 1,869 million euros;
- The amount required for Novo Banco's capital ratios to remain at the agreed levels in 2018 is 1,149 million euros. The amount payable by the Resolution Fund results from the comparison between the amount of 1,869 million euros (accumulated loss on covered assets not supported by the Fund) and the amount of 1,149 million euros and corresponds to the lowest of these values, i.e., Euros 1,149 million euros.

On May 24, 2018, the Resolution Fund announced that on the same date the payment to Novo Banco, SA of the amount of approximately 791,695 thousand euros, resulting from the application of the aforementioned contingent capitalization mechanism relating to the results disclosed for 2017, having used own resources for this purpose, complemented by an additional State loan in the amount of 430,000 thousand euros, under the framework agreement signed between the Portuguese State and the Resolution Fund in October 2017.

On May 6, 2019, the Resolution Fund made a payment to Novo Banco of the amount calculated for the financial year of 2018 in the amount of 1,149 million Euros, using its own resources for this purpose and using a loan from the State of 850 million euros. Euros which corresponds to the maximum financing limit agreed. Thus, the amount paid by the Resolution Fund to Novo Banco in two years was 1,941 million euros.

According to the 2018 Resolution Fund Report and Accounts, "With regard to future periods, it is considered that there is significant uncertainty as to the relevant parameters for determining any future liabilities, whether for their increase or reduction , under the terms of the contingent capitalization mechanism agreement with Novo Banco ".

According to a notice issued by the Resolution Fund on 4 June 2020, the payment made by the Resolution Fund to Novo Banco in May 2020, in the amount of 1 035 million euros, results from the execution of the 2017 agreements, under the process of the sale of the 75% stake of the Resolution Fund in Novo Banco, complying with all the procedures and limits defined therein.

In the same notice, the Resolution Fund also clarifies that the "Resolution Fund and Novo Banco initiated an arbitration proceeding to clarify the treatment that should be given, under the Contingent Capital Agreement, of the effects of Novo Banco's decision to waiver the transitional regime it currently benefits from and which aims to reduce the impact of the introduction of IFRS 9 on the credit institutions' own funds. This issue falls within the scope of the implementation of the Contingent Capital Agreement, which sets the maximum amount of payments to be made by the Resolution Fund at 3 890 million euros. Thus, even if the arbitration proceeding were to have an unfavourable outcome for the Resolution Fund's claims, its effects would fall under the maximum limit of 3 890 million euros in accordance with the Contingent Capital Agreement. The above arbitral proceedings therefore do not represent an additional risk compared to the ceiling of 3 890 million euros. ”

Thus, considering the payments already made and the amount of the provision recorded in 2019, the remaining amount that can still be used amounts to 912 million euros.

As at 31 December 2020, Novo Banco is held by Lone Star and the Resolution Fund, with a share capital of 75% and 25%, respectively.

Novo Banco, adhered to the Special Regime applicable to Deferred Tax Assets (REAID), provided under Law No. 61/2014, of 26 August, having had the confirmation of the conversion of deferred tax assets into tax credits by the Tax and Customs Authority, for the tax periods of 2015 and 2016, in exchange for the conversion rights attributed to the State. If the Resolution Fund does not exercise its right to acquire the conversion rights attributed to the State, which expires in 2022, the State may become a shareholder of Novo Banco SA up to a stake of 2.71% of Novo Banco’s share capital, while diluting the Resolution Fund’s shareholding position. According to the Resolution Fund’s 2019 annual report, under the terms of the Sale and Subscription Agreement of 75% of share capital of Novo Banco with Lone Star on October 17, 2017, the effect of dilution associated with REAID shall exclusively affect the Resolution Fund’s stake. According to note 21, although subject to certain assumptions, that the processes in progress for the conversion of deferred tax assets into tax credits with reference to the 2017 and 2018 may correspond to about 7.6 percentage points of the share capital of Novo Banco. These effects may impact the Resolution Fund's shareholder position in Novo Banco.

Resolution measures applied to Banif - Banco Internacional do Funchal, S.A.

Additionally, Bank of Portugal established, on 19th and 20th of December 2015, a resolution measure was applied over on BANIF – Banco Internacional do Funchal, S.A (“BANIF”). The operation involved State support, including 489 million euros taken over by the Resolution Fund, funded through a loan agreement granted by the Portuguese State. Moreover, the Resolution Fund provided a guarantee relative to bonds issued by the vehicle constituted in the scope of BANIF’s resolution, in the amount of 746 million euros, counter-guaranteed by the Portuguese State.

General features

To repay the loans received and other liabilities it may be required to assume relative to the above mentioned resolution measures, the Resolution Fund is financed through the periodic and special contributions of the participating institutions (including the Bank) and from the contribution on the banking sector. Under article 153-I of Decree-Law No. 345/98, of 9 November, if the resources of the Resolution Fund are insufficient to meet its obligations, participating institutions may be called upon, via a separate statute, to make special contributions. The amounts, instalments, deadlines and other terms of those contributions shall also be defined by said statute.

As part of the application of these measures, the Resolution Fund borrowed and assumed other contingent liabilities and responsibilities, in particular:

- The loans obtained from the State recorded on December 31, 2018 the amounts made available (i) in 2014 to finance the resolution measure applied to BES (3,900 million euros); (ii) to finance Banif's loss absorption (353 million euros); (iii) under the framework agreement signed with the State in October 2017, for the financing of measures under the contingent capital mechanism (430 million euros, to which are added 850 million euros of additional funding requested in 2019, as previously described);
- Other financing granted by institutions participating in the Resolution Fund in the amount of 700 million euros, in which the Bank does not participate, within the scope of the application of BES's resolution measure;
- Underwriting by the Resolution Fund of Tier 2 issuance to be carried out by Novo Banco, up to the amount of 400 million euros (this underwriting did not materialize, because the issue was placed with third parties as announced by Novo Banco on 29 July 2018);
- The effects of applying the principle that no credit institution of the credit institution under resolution can assume a greater loss than it would have if it had gone into liquidation;
- The negative effects of the resolution process resulting in additional responsibilities or contingencies for Novo Banco that have to be neutralized by the Resolution Fund;

Legal proceedings against the Resolution Fund:

- Guarantee provided to the bonds issued by Oitante S.A. This guarantee is counter-guaranteed by the Portuguese State;
- Contingent capital mechanism, in which Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning with the assets belonging to that portfolio, up to a maximum amount of 3,890 million euros, subordinated the fulfillment of the conditions described above, including a reduction in the CET1 capital ratio to less than 8% -13%;
- The Portuguese State may inject capital into Novo Banco, under some conditions and via different instruments, in the event that the total capital ratio reaches values below the capital requirements defined under the SREP, as referred to in the respective European Commission Decision.

According to Note 21 of the 2019 Resolution Fund Annual Report, the Resolution Fund considers that, at the date, there are no elements that allow a reliable estimate of the potential financial effect of these potential liabilities.

On September 28, 2016, the Resolution Fund issued a statement stating that the maturity of the loan due on December 31, 2017 would be adjusted to ensure the Fund's ability to fully meet its obligations based on the his regular income, regardless of the contingencies to which he is exposed, nor the need to collect extraordinary contributions.

According to the FR statement of March 21, 2017:

- “The conditions for loans obtained by the Fund to finance the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed.” These loans amount to 4,953 million euros, of which 4,253 million euros granted by the State and 700 million euros granted by a banking syndicate.

- Those loans now mature in December 2046, without prejudice to the possibility of early repayment based on the use of the Resolution Fund's revenues. The maturity will be adjusted in terms that guarantee the Resolution Fund's ability to fully meet its obligations based on regular revenues and without the need for recourse to special contributions or any other type of extraordinary contributions.
- The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund, based on a stable, predictable and affordable charge for the banking sector.
- The new conditions allow the full payment of the Resolution Fund's liabilities to be ensured, as well as the respective remuneration, without the need for recourse to special contributions or any other type of extraordinary contributions by the banking sector ".

On the other hand, and in the context of the sale process of Novo Banco, SA, on October 2, 2017, the Council of Ministers approved a resolution in which it authorized the conclusion, by the Portuguese State, as the final guarantor of financial stability, of an agreement with the Resolution Fund, with a view to making financial resources available to the Resolution Fund, if and when deemed necessary, for the satisfaction of contractual obligations that may eventually arise from the sale of the 75% stake in Novo Mercado Banco, SA It is also mentioned that the respective reimbursement will bear in mind that one of the objectives of this agreement is to ensure the stability of the contributory effort that falls on the banking sector, that is, without the need to be charged, to the participants of the Resolution Fund, contributions special or any other type of extraordinary contributions.

The Resolution Fund's own resources had a negative balance of 7,021 million euros, according to the latest accounts published with the 2019 Resolution Fund Report and Accounts.

In order to meet its responsibilities, the Resolution Fund has revenues from contributions, initial and periodic, from participating institutions (including Haitong Bank) and the contribution on the banking sector established by Law No. 55-A / 2010. It is also foreseen the possibility for the Government to determine, by ordinance, that special contributions be made in the situations provided for by law, specifically in the event that the Resolution Fund does not have its own resources to fulfill its obligations.

In accordance with Decree-Law No. 24/2013 that determines the operation of the Resolution Fund, the Bank has provided mandatory contributions since 2013 pursuant to the aforementioned Decree.

On 3rd of November 2015, Bank of Portugal issued a Circular-Letter according to which the periodical contribution for the Resolution Fund must be recognised as cost at the time of the event that originates mandatory contribution payments, which is in the last day of April of each year, pursuant to article no. 9 of Decree-Law No. 24/2013 of 19 February, ensuring that the Bank recognises the contribution as an expense in the year it is due. On 15th of November 2015, the Resolution Fund issued a press release stating: "it is further explained that it is unlikely that the Resolution Fund shall propose the establishment of a special contribution for the financing of the resolution measure applied to BES. Therefore, the chance of a possible charge of a special contribution is far-flung."

The regime provided for in Decree-Law No. 24/2013 establishes that Banco de Portugal sets, by instruction, the rate to be applied each year on the basis of the objective levy of periodic contributions. Banco de Portugal Instruction No. 24/2019, published on December 16, 2019, set the base rate to be in force in 2020 for the determination of periodic contributions to the FR at 0.06% compared to the rate of 0.057% that was in force in 2019.

As of 2015, the Bank also started to make contributions within the scope of the establishment of the European Resolution Fund, with contributions made in 2020 amounting to 974 thousand euros.

In 2020, the Bank made periodic contributions to the Resolution Fund and the banking sector in the amounts of 570 thousand euros and 1,669 thousand euros, respectively, which are recognized as costs under the terms set out in IFRIC 21 - Fees.

The COVID-19 pandemic, duration and effects, constitute a context of additional uncertainty regarding the resulting impacts, as shown in the opinion of the Novo Banco's external auditor included in the Novo Banco's Annual Report and Accounts of 2020 and in the opinion of the board Banco de Portugal's audit report included in the Resolution Fund's 2020 Report and Accounts.

NOTE 37 – RELATED PARTIES TRANSACTIONS

The Group's related parties transactions as at June 30th, 2021 and December 31st, 2020, as well as the respective expenses and income recognized in the year, are summarized as follows:

(thousand euros)

	30.06.2021					
	Assets					
	Others	Total	Guarantees	Liabilities	Income	Expenses
Shareholders						
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	-	-	-	-
Subsidiaries and associates of shareholders						
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	-	-	-	-	8 000	-
HAITONG SECURITIES	4 840	4 840	-	-	4 840	-
HAITONG UNITRUST FINANCIAL & LEASING	-	-	-	-	-	-
HAITONG INTERNATIONAL SECURITIES CO LTD	2 050	2 050	-	-	1 960	1
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED	-	-	-	-	2 102	-
HAITONG INTERNATIONAL (UK) LIMITED	-	-	-	68	-	381
HAITONG INTERNATIONAL ADVISORY COMPANY LIMITED	-	-	-	-	1 292	-
HAITONG INVESTMENT IRELAND PLC	4 880	4 880	15 099	288 737	1 420	5 963
HAITONG PRIVATE EQUITY FUND	42	42	-	14 789	42	-
TOTAL	**11 812**	**11 812**	**15 099**	**303 594**	**19 656**	**6 345**

(thousand euros)

	31.12.2020					
	Assets					
	Others	Total	Guarantees	Liabilities	Income	Expenses
Shareholders						
HAITONG INTERNATIONAL HOLDINGS LIMITED	-	-	-	-	-	12
Subsidiaries and associates of shareholders						
HAITONG INTERNATIONAL STRATEGIC INVESTMENT	2 970	2 970	-	-	8 000	-
HAITONG SECURITIES	-	-	-	-	16 500	-
HAITONG INTERNATIONAL SECURITIES CO LTD	686	686	-	-	778	-
HAITONG INNOVATION SECURITIES INVESTMENT CO LTD	-	-	-	-	1 500	-
HAITONG INTERNATIONAL SECURITIES GROUP LIMITED	-	-	-	-	2 318	-
HAITONG INTERNATIONAL SECURITIES USA INC	-	-	-	-	2	-
HAITONG INTERNATIONAL SECURITIES CO LTD	880	880	-	-	3 926	-
UNICAM LIMITED	2 471	2 471	-	-	3 000	-
HAITONG INTERNATIONAL (UK) LIMITED	-	-	-	-	-	502
HAITONG INVESTMENT IRELAND PLC	9 199	9 199	15 099	689 936	17 431	27 432
TOTAL	**16 206**	**16 206**	**15 099**	**689 936**	**53 455**	**27 946**

As at June 30th, 2021, the income heading includes 16,902 thousand euros concerning fee and commission income heading from banking services (31st of December 2020: 36,768 thousand euros).

NOTE 38 – FAIR-VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair-value of financial assets and liabilities

Haitong Bank Group estimates the fair value of its instruments based on prices quoted in active markets or, when such prices are not available, based on valuation techniques following standard valuation models such as discounted cash flows and option pricing models. The valuation models' parameter inputs are based on observable data, when available, derived from prices of financial instruments actively traded or based on indicative broker quotes.

The Group performs valuation adjustments to reflect counterparty credit risk (CVA) for uncollateralized derivatives assets considering the current exposure, loss given default and the probability of default. This probability of default is based on the Group's credit risk assessment model or market information where applicable.

The fair-value of financial assets and liabilities for the Group is analysed as follows:

(thousand euros)

	Amortised cost	Valued at Fair Value			Total book value	Fair Value
		Level 1	Level 2	Level 3		
Balance as at 30 June 2021						
Cash and cash equivalents	442 348	-	-	-	442 348	442 348
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Securities	-	33 711	588 726	1 000	623 437	623 437
Derivative financial assets	-	-	79 493	3 512	83 005	83 005
Non-trading financial assets mandatorily at fair value through profit or loss						
Securities	-	728	7 312	20 029	28 069	28 069
Loans and advances to customers	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	102 553	56 743	93 477	252 773	252 773
Financial assets measured at amortised cost						
Securities	483 495	-	-	-	483 495	483 374
Loans and advances to banks	7 731	-	-	-	7 731	7 731
Loans and advances to customers	566 920	-	-	-	566 920	561 268
Financial Assets	**1 500 494**	**136 992**	**732 274**	**118 018**	**2 487 778**	**2 482 005**
Financial liabilities held for trading						
Securities	-	10 798	-	34	10 832	10 832
Derivative financial liabilities	-	-	86 662	402	87 064	87 064
Financial liabilities measured at amortised cost						
Resources of credit institutions	805 628	-	-	-	805 628	805 628
Resources of customers	1 125 209	-	-	-	1 125 209	1 125 209
Debt securities issued	64 687	-	-	-	64 687	64 687
Hedging derivatives	-	-	-	-	-	-
Financial Liabilities	**1 995 524**	**10 798**	**86 662**	**436**	**2 093 420**	**2 093 420**
Balance as at 31st December 2020						
Cash and cash equivalents	494 885	-	-	-	494 885	494 885
Financial assets at fair value through profit or loss						
Financial assets held for trading						
Securities	-	23 165	603 892	-	627 057	627 057
Derivative financial assets	-	-	141 256	1 806	143 062	143 062
Non-trading financial assets mandatorily at fair value through profit or loss						
Securities	-	715	6 565	28 017	35 297	35 297
Loans and advances to customers	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	31 421	14 704	114 631	160 756	160 756
Financial assets measured at amortised cost						
Securities	461 453	-	-	-	461 453	449 115
Loans and advances to banks	115 160	-	-	-	115 160	115 160
Loans and advances to customers	420 040	-	-	-	420 040	415 231
Financial Assets	**1 491 538**	**55 301**	**766 417**	**144 454**	**2 457 710**	**2 440 563**
Financial liabilities held for trading						
Securities	-	-	79 083	-	79 083	79 083
Derivative financial liabilities	-	-	140 898	1 806	142 704	142 704
Financial liabilities measured at amortised cost						
Resources of credit institutions	577 996	-	-	-	577 996	577 996
Resources of customers	1 227 505	-	-	-	1 227 505	1 227 505
Debt securities issued	64 862	-	-	-	64 862	64 862
Financial Liabilities	**1 870 363**	**-**	**219 981**	**1 806**	**2 092 150**	**2 092 150**

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 includes bonds, plain vanilla OTC derivatives, less liquid equities and funds valued at Net Asset Values (NAV) published daily by the fund manager and with possibility of daily redemption. The OTC derivatives includes financial instruments traded in OTC (over-the-counter), in which the counterparty has signed agreements of collateral (ISDA with CSA – Credit Support Annex), with very small Minimum Transfer Amount (MTS), which allows to mitigate the counterparty's Credit Risk while the CVA (Credit Value Adjustment) does not have a significant impact on the instrument valuation. Additionally, it also includes financial derivatives traded in OTC, without CSA, but the percentage of information not observed in market (e.g.: Internal Rating, Probability of Default determined by internal models, etc.) within the CVA valuation is not meaningful in what concerns the value of derivative as a whole (it is considered as significant when the value of CVA is higher than 5%).

Level 3 - Instruments measured using valuation techniques based on non-observable market inputs and that do not comply with the requirements to be classified under Level 1 nor Level 2. These include non-plain vanilla OTC derivatives valued based on non-observable market inputs or on indicative prices published by third parties, distressed and highly illiquid bonds, funds valued at Net Asset Values (NAV) published by the fund manager without possibility of daily redemption and private equity placements. In the Level 3 are included financial instruments traded in OTC market with counterparties which Haitong Bank doesn't have CSA signed and the percentage of unobservable data incorporated in CVA valuating is considered significant in the total value of the derivative (value of CVA has a weight higher than 5% of the value of derivate).

In the first half of 2021, based on the assessment of the securities' market liquidity, trading assets of 29.67 thousand euros from Level 1 to Level 2 and 633 thousand euros from Level 2 to Level 1 were transferred.

For financial instruments recorded in the balance sheet at fair value, the movement occurred between December 31st , 2020 and June 30th, 2021 in assets and liabilities classified in level 3 is as follows:

(thousand euros)

	Financial assets and liabilities held for trading		Financial assets mandatory at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Securities	Derivative financial assets	Securities	Loans and advances		
Balance as at 31st December 2020	-	-	**28 017**	-	**114 631**	**142 648**
Results recognized in Net Interest Margin	-	-	-	-	2 900	**2 900**
Net trading income and from other financial instruments at fair value through profit or loss	2	-	3 447	-	-	**3 449**
Net gains/(losses) derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	-	44	**44**
Impairment on other financial assets net of reversal and recoveries	-	-	-	-	(2 408)	**(2 408)**
Other fair value changes	-	-	237	-	1 906	**2 143**
Fair value reserve changes	-	-	-	-	3 672	**3 672**
Acquisitions	964	-	-	-	49 122	**50 086**
Sales	-	-	(10 964)	-	(37 738)	**(48 702)**
Reimbursements	-	-	(708)	-	(11 932)	**(12 640)**
Transfers from other levels	-	3 110	-	-	-	**3 110**
Transfers to other levels	-	-	-	-	(26 720)	**(26 720)**
Balance as at 30 June 2021	**966**	**3 110**	**20 029**	**-**	**93 477**	**117 582**

For instruments classified at level 3, in the first half of 2021, based on the assessment of the securities' market liquidity, 19,225 thousand euros were transferred to level 2 and 7,494 thousand euros to level 1.

As for the Derivatives Instruments 3,110 thousands euros were transferred from Level 2 to Level 3 due to the CVA have a weight higher than 5% of derivatives market value.

(thousand euros)

	Financial assets and liabilities held for trading		Financial assets mandatory at fair value through profit or loss		Financial assets at fair value through other comprehensive income	Total
	Securities	Derivative financial assets	Securities	Loans and advances to costumers		
Balance as at 31st December 2019	**-**	**2 600**	**29 874**	**107**	**55 268**	**87 849**
Results recognized in Net Interest Margin	-	-	-	-	1 691	**1 691**
Net trading income and from other financial instruments at fair value through profit or loss	-	(4 935)	2 627	(12)	3	**(2 317)**
Net gains/(losses) derecognition of financial assets measured at fair value through other comprehensive income	-	-	-	-	(831)	**(831)**
Impairment on other financial assets net of reversal and recoveries	-	-	-	-	(372)	**(372)**
Other fair value changes	-	-	(1 210)	(7)	(5 665)	**(6 882)**
Fair value reserve changes	-	-	-	-	179	**179**
Acquisitions	-	-	-	-	97 463	**97 463**
Sales	-	-	(683)	-	(23 686)	**(24 369)**
Reimbursements	-	-	(2 591)	(88)	(12 574)	**(15 253)**
Derivatives financial flows	-	2 897	-	-	-	**2 897**
Transfers from other levels	-	-	-	-	3 155	**3 155**
Transfers to other levels	-	(562)	-	-	-	**(562)**
Balance as at 31st December 2020	**-**	**-**	**28 017**	**-**	**114 631**	**142 648**

In 2020 accordingly with the liquidity assessment of the securities, 632 thousands euros of securities were transferred from Level 1 to Level 2, and 3,155 thousands from Level 2 to Level 3. During the year were transferred from Level 2 to Level 1 4,381 thousands euros.

As for the Derivatives Instruments 562 thousands euros were transferred from Level 3 to Level 2 due to the CVA have a weight lower than 5% of derivatives market value.

The main parameters used during 2021 in what concerns valuation models were the following:

Yield curves

The short-term rates set out below reflects indicative values of deposit interest rates and/or futures. Swap rates are used in the long-term tenors of the interest curve:

(%)

	30.06.2021			31.12.2020		
	EUR	USD	GBP	EUR	USD	GBP
Overnight	-0.55	0.09	0.04	-0.56	0.08	0.03
1 month	-0.53	0.10	0.06	-0.50	0.14	0.02
3 months	-0.54	0.15	0.08	-0.50	0.23	0.03
6 months	-0.50	0.15	0.11	-0.50	0.17	0.03
1 year	-0.49	0.17	0.16	-0.51	0.17	0.00
3 years	-0.40	0.49	0.51	-0.51	0.16	0.09
5 years	-0.26	0.95	0.70	-0.46	0.43	0.19
7 years	-0.11	1.20	0.83	-0.39	0.66	0.28
10 years	0.10	1.43	0.97	-0.27	0.94	0.40
15 years	0.36	1.65	1.09	-0.07	1.22	0.53
20 years	0.48	1.74	1.12	0.01	1.35	0.58
25 years	0.50	1.77	1.11	0.01	1.41	0.59
30 years	0.48	1.77	1.09	-0.03	1.44	0.58

Source: Haitong Bank

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	3 years	5 years	7 years	10 years
30.06.2021				
CDX USD Main	26.59	54.15	80.31	102.71
iTraxx Eur Main	26.88	46.76	65.15	84.92
iTraxx Eur Senior Financial	-	54.52	-	-
31.12.2020				
CDX USD Main	29.94	49.90	70.50	90.93
iTraxx Eur Main	30.60	47.93	65.99	86.31
iTraxx Eur Senior Financial	-	59.01	-	-

Interest rate volatilities

The following figures reflect at-the-money implied volatilities:

(%)

	30.06.2021			31.12.2020		
	EUR	USD	GBP	EUR	USD	GBP
1 year	13.16	20.50	18.97	15.09	19.03	20.29
3 years	23.78	50.65	39.41	21.11	25.05	31.30
5 years	36.81	67.14	52.00	28.06	37.52	39.21
7 years	46.07	72.92	57.16	34.26	48.72	45.21
10 years	53.44	74.77	60.63	41.19	57.70	51.21
15 years	57.08	73.86	63.75	46.66	61.92	55.37

Source: Haitong Bank

Foreign exchange rate and volatilities

The table below reflects ECB's (European Central Bank) foreign exchange rates fixings and at-the-money implied volatilities:

	Exchange Rate		Volatiliy (%)				
	30.06.2021	31.12.2020	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.188	1.227	5.633	5.668	5.720	5.740	6.085
EUR/GBP	0.858	0.899	4.800	5.048	5.335	5.545	5.925
EUR/CHF	1.098	1.080	3.645	4.033	4.323	4.555	4.923
EUR/PLN	4.520	4.560	5.345	5.235	5.145	5.103	5.108
EUR/CNY	7.674	8.022	5.445	5.545	5.715	5.903	5.985
USD/BRLa)	4.969	5.194	15.702	15.645	15.653	15.743	15.810

a)Calculated based on the cross exchange rate between EUR/USD and EUR/BRL

Equity Indexes

The evolution of the main equity indices and the corresponding volatilities are summarized in the following table:

	Quotation			Historical volatility (%)		Implied volatility (%)
	30.06.2021	31.12.2020	Range %	1 month	3 months	
DJ Euro Stoxx 50	4 064	3 553	14.40	10.39	13.20	14.13
PSI 20	5 035	4 898	2.79	11.95	14.79	-
IBEX 35	8 821	8 074	9.26	12.18	14.20	-
DAX	15 531	13 719	13.21	11.50	13.95	14.75
S&P 500	4 298	3 756	14.41	8.40	13.60	11.16
BOVESPA	126 802	119 017	6.54	11.78	18.31	20.27

Source: Haitong Bank

The main methods and assumptions used in the abovementioned valuation of the fair-value of financial assets and liabilities are analyzed as follows:

Cash and cash equivalents and Loans and advances to banks

The statement of financial position value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Loans and advances to customers

The fair-value of loans and advances to customers is estimated based on the update of expected cash flows and interest, by taking into account market spreads for similar transactions (if they were entered into in the current moment) considering that the instalments are paid in compliance with the deadlines contractually agreed upon.

Resources of other credit institutions

The balance-sheet value of these financial instruments is considered a reasonable assumption of the corresponding fair-value due to their associated short timeframe.

Resources of customers

The fair-value of these financial instruments is determined based on the update of expected cash flows in capital and interest, considering that the payments are in compliance with the deadlines agreed upon contract. Considering that the applicable interest rates are of variable nature and the maturity period of the deposits is substantially inferior to one year, there are no measurable differences in fair-value.

Debt securities issued and Subordinated Liabilities

The fair-value of these instruments is based in market prices, when available. When unavailable, the fair-value it is estimated based on the update of expected cash flows in capital and interest regarding these instruments in the future.

NOTE 39 – RISK MANAGEMENT

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.

Credit Risk

The Credit Risk results from the possibility of financial losses arising from the default of the customer or counterparty in relation to the contractual financial obligations established with the Group in the scope of its credit activity. Credit risk is mainly present in traditional banking products - loans, guarantees and other contingent liabilities - and in derivative products - swaps, forwards and options (counterparty risk).

The Group's credit portfolios are permanently monitored, with interaction between the business teams and risk management throughout the sequential stages of the credit cycle.

The monitoring of the Group's credit risk profile is regularly monitored, namely, in what concerns the evolution of credit exposure, delinquency ratios and provisioning, and concentration metrics.

The Group also controls the approved credit limits and assures the proper functioning of mechanisms related with the credit approval process.

Calculation of ECL

The IFRS 9 standard outlines a "three-stage" model for impairment based on changes in credit quality since initial recognition. According to Haitong Bank Group model, Expected Credit Loss (ECL) is determined as per the detailed information included in chapter 2.4.1., Impairment of Financial Assets and Financial Model:

- Stage 1 – Performing: Impairment assessment is carried out based 12-month expected credit loss (ECL). ECL is determined as the exposure as of the reference date multiplied by the 12-month probability of default and the loss given default;
- Stage 2 – Under Performing: Impairment assessment will reflect the ECL resulting from default events that may occur over the expected residual life of the instrument;
- Stage 3 – Non Performing: Impairment assessment will reflect the ECL over the expected residual life of the instrument.

Inputs in the measurement of ECL

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

- Probability of Default (PD): describes the likelihood of default. Haitong Bank takes in account the PD's from S&P, whereas the rating assigning process is performed internally based on the S&P methodology. This assures the alignment between the internal risk management and the impairment calculation process.

- Loss Given Default (LGD): is the magnitude of the loss at the time of a default. The Bank applies the LGD based on Moody's LGD benchmarks covering a wide historical period.
- Exposure at Default (EAD): the expected exposure in the event of a default. The calculation of EAD depends of the asset type.

Regarding undrawn loan commitments and financial guarantees, the amount considered in the calculation of impairment at each stage results from the exposure as of the reference date weighted by the credit conversion factor (according with CRR).

Forward-Looking Information

The Group maintained a simplified approach in what regards the incorporation of forward-looking information (the "forward-looking exercise"), namely to anticipate the recognition of expected credit losses, grounded to the characteristics and size of the Group, and based on a principle of proportionality.

Within the scope of the forward-looking exercise, the Group adjusted the through-the-cycle probabilities of default ("TTC PD's"), incorporating prospective macroeconomic information, and generated "point-in-time" probabilities of default ("PiT PD's"), which are more precise and adequate to a point in time. The TTC PD's are the default probabilities provided by S&P, having the Group developed a methodology to estimate PiT PD's, based on the Scalar Factor concept, i.e., a coefficient that enables the conversion of TTC PD's into PiT PD's.

The Group's forward-looking exercise applies to the collective impairment model also covering exposures with a significant increase in credit risk, i.e, classified in Stage 2, namely whenever economic projections are available.

In 2020, the forward-looking exercise relied on two scenarios (baseline and severe case), weighted by their respective likelihood of occurrence. The assumptions of the exercise are disclosed in the 2020 Annexes to the Financial Statements of the Bank. The 2021 forward-looking exercise will be conducted in the second half of the year.

The financial instruments subject to standard IFRS 9 impairment requirements are presented below, detailed by stage, as of June 30th, 2021 and December 31st, 2020.

(thousand euros)

Asset Type	30.06.2021										
	Stage 1					Stage 2				Stage 3	
	Low to Fair risk [aaa+;a-]	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Not rated	Total Stage 1	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Not rated	Total Stage 2	Impaired [d]	Total Stage 3
Loans and advances to customers	1 838	350 131	-	134 374	486 343	64 795	-	-	64 795	26 236	26 236
Guarantees	-	80 331	50	8 000	88 381	-	13 729	-	13 729	18 315	18 315
Debt Securities	38 500	682 186	-	-	720 686	-	-	-	-	39 754	39 754
Loans and advances to banks	-	4 964	-	-	4 964	-	-	3 377	3 377	-	-
Cash and cash equivalents	435 420	6 903	-	19	442 342	-	-	-	-	-	-
Debtors and other assets	-	1 581	915	17 922	20 418	-	-	-	-	10 284	10 284
Total	**475 758**	**1 126 096**	**965**	**160 315**	**1 763 134**	**64 795**	**13 729**	**3 377**	**81 901**	**94 589**	**94 589**

(thousand euros)

Asset Type	31.12.2020									
	Stage 1					Stage 2			Stage 3	
	Low to Fair risk [aaa+;a-]	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Not rated	Total Stage 1	Monitoring [bbb+;b-]	Substandard [ccc+;ccc]	Total Stage 2	Impaired [d]	Total Stage 3
Loans and advances to customers	2 083	279 447	-	11 684	293 214	130 811	-	130 811	8 005	8 005
Guarantees	-	100 932	-	8 449	109 381	-	15 076	15 076	18 311	18 311
Debt Securities	29 477	564 504	-	3 455	597 436	-	-	-	40 727	40 727
Loans and advances to banks	-	112 409	-	-	112 409	-	3 251	3 251	-	-
Cash and cash equivalents	487 947	6 931	-	-	494 878	-	-	-	-	-
Debtors and other assets	7	934	5 084	18 338	24 363	-	-	-	10 566	10 566
Total	**519 514**	**1 065 157**	**5 084**	**41 926**	**1 631 681**	**130 811**	**18 327**	**149 138**	**77 609**	**77 609**

As of June 30, 2021, the majority of non-rated exposures (83.3%) relates to buy-sell backs transactions with Polish sovereign debt serving as underlying.

As of June 30, 2021, the maximum exposure to credit risk of financial assets not subject to impairment requirements amounts to 421 million euros, corresponding to exposures to Central banks.

The table below compiles all financial instruments and guarantees at amortized cost by industry, stage and days of delay as June 30, 2021 and December 31, 2020.

(thousand euros)

Financial instruments at amortized cost (including financial guarantees) by industry, stage and past due status	30.06.2021												
	Stage 1					Stage 2		Stage 3					
	No overdue		1 - 29 days	More than 181 days		No overdue		No overdue		30 - 90 days		More than 181 days	
	Gross carrying amount	Loss allowance	Gross carrying amount	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Agribusiness & Commodity Foods	43 697	349	-	-	-	5 131	264	-	-	-	-	205	194
Agricultural Cooperatives	8 616	11	-	-	-	-	-	-	-	-	-	-	-
Automobiles & Components	11 490	21	-	-	-	-	-	-	-	-	-	-	-
Banks	464 731	144	-	1 636	1 636	3 376	525	-	-	-	-	-	-
Building Materials	15 747	126	-	192	192	-	-	12	12	-	-	-	-
Capital Goods	28 012	38	-	40	40	-	-	-	-	-	-	-	-
Chemicals	8 308	628	-	-	-	-	-	-	-	-	-	-	-
Commercial & Prof. Services	10 756	128	-	90	90	-	-	3 521	415	-	-	-	-
Construction & Engineering	75 123	314	16	407	407	-	-	10 043	743	9 990	521	1 578	1 549
Consumer Durables & Apparel	3 431	18	-	-	-	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	5 525	138	-	-	-	-	-	-	-	-	-	-	-
Funds & Asset Managers	133 534	2	-	-	-	-	-	-	-	-	-	-	-
Governments	213 626	173	-	214	214	-	-	-	-	-	-	-	-
Health Care	5 382	28	-	-	-	-	-	-	-	-	-	-	-
Hotels & Gaming	50	-	-	-	-	-	-	-	-	-	-	2 127	1 156
Household & Personal Products	31	5	-	-	-	-	-	-	-	-	-	-	-
Investment Holdings	25	-	-	-	-	-	-	-	-	-	-	-	-
Media & Entertainment	45	1	-	94	94	-	-	-	-	-	-	-	-
Metals & Mining	13 651	18	-	-	-	-	-	-	-	-	-	-	-
Non Bank Financial Institutions	26 940	26	-	-	-	-	-	15 099	10 906	-	-	-	-
Oil & Gas	13 494	56	-	-	-	-	-	-	-	-	-	-	-
Paper & Forest Products	25 051	205	-	60	60	-	-	-	-	-	-	-	-
Power	79 173	480	-	57	57	30 041	2 588	-	-	-	-	-	-
Real Estate	87 172	736	-	166	166	3 751	348	-	-	-	-	-	-
Retailing	13 681	21	-	-	-	-	-	-	-	-	-	-	-
Software	20	10	-	-	-	-	-	-	-	-	-	-	-
Tech. Hardware & Equipment	-	-	-	-	-	-	-	27 267	17 658	-	-	-	-
Telecoms	55 245	260	-	-	-	13 729	85	-	-	-	-	-	-
Transportation	35 703	137	-	-	-	1 628	146	-	-	-	-	-	-
Transportation Infrastructure	109 100	403	-	-	-	24 245	293	2 236	859	-	-	10 022	1 663
Water Utilities	11 293	35	-	-	-	-	-	-	-	-	-	-	-
Others	12 624	796	-	3 139	3 139	-	-	-	-	-	-	-	-
Total	**1 511 276**	**5 307**	**16**	**6 095**	**6 095**	**81 901**	**4 249**	**58 178**	**30 593**	**9 990**	**521**	**13 932**	**4 562**

(thousand euros)

Financial instruments at amortized cost (including financial guarantees) by industry, stage and past due status	31.12.2020									
	Stage 1				Stage 2		Stage 3			
	No overdue		More than 181 days		No overdue		No overdue		More than 181 days	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Agribusiness & Commodity Foods	18 211	94	-	-	4 996	307	-	-	190	180
Automobiles & Components	11 458	21	-	-	-	-	-	-	-	-
Banks	646 982	282	1 589	1 589	3 251	488	-	-	-	-
Building Materials	20 970	223	192	192	-	-	12	12	-	-
Capital Goods	31 344	61	40	40	-	-	-	-	-	-
Chemicals	576	576	-	-	-	-	-	-	-	-
Commercial & Professional Services	11 260	225	86	86	-	-	4 282	1 071	-	-
Construction & Engineering	86 503	438	407	407	9 420	187	1 192	281	1 564	1 545
Consumer Durables & Apparel	3 146	32	-	-	-	-	-	-	-	-
Food, Beverage & Tobacco	404	38	-	-	-	-	-	-	-	-
Funds & Asset Managers	10 856	1	-	-	-	-	-	-	-	-
Governments	220 107	177	214	214	-	-	-	-	-	-
Health Care	5 327	28	-	-	-	-	-	-	-	-
Hotels & Gaming	50	-	-	-	-	-	-	-	2 127	1 156
Household & Personal Products	13	3	-	-	-	-	-	-	-	-
Investment Holdings	25	-	-	-	-	-	-	-	-	-
Media & Entertainment	7	3	94	94	-	-	-	-	-	-
Metals & Mining	13 684	15	-	-	57 931	2 295	-	-	-	-
Non Bank Financial Institutions	24 845	40	-	-	-	-	15 099	10 824	-	-
Oil & Gas	13 326	54	-	-	-	-	-	-	-	-
Paper & Forest Products	25 469	202	60	60	-	-	-	-	-	-
Power	89 121	627	57	57	26 923	2 351	-	-	-	-
Real Estate	65 182	439	166	166	3 751	322	-	-	-	-
Retailing	13 801	17	-	-	-	-	-	-	-	-
Software	20	10	-	-	-	-	-	-	-	-
Technology Hardware & Equipment	-	-	-	-	-	-	27 267	9 726	-	-
Telecoms	34 804	156	-	-	15 076	82	-	-	-	-
Transportation	36 977	118	-	-	1 621	120	-	-	-	-
Transportation Infrastructure	74 848	316	-	-	26 169	588	2 100	806	10 316	1 640
Water Utilities	3 486	19	-	-	-	-	-	-	-	-
Others	10 486	821	3 113	3 113	-	-	-	-	-	-
Total	**1 473 288**	**5 036**	**6 018**	**6 018**	**149 138**	**6 740**	**49 952**	**22 720**	**14 197**	**4 521**

In the following section is presented the gross exposure by asset type, impairment stage and internal rating bucket.

Loans and advances to costumers

The table below presents a summary of the portfolio of loans and advances to costumers of Haitong Bank Group, as of 30th of June 2021 and December 31st, 2020:

(thousand euros)

Loans and advances to customers		30.06.2021				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	1 838	-	-	-	**1 838**
Monitoring	[bbb+;b-]	350 131	64 795	-	-	**414 926**
Impaired	[d]	-	-	25 475	761	**26 236**
Not rated		134 374	-	-	-	**134 374**
Gross carrying amount		**486 343**	**64 795**	**25 475**	**761**	**577 374**
Loss allowance (Note 31)		2 162	3 639	4 653	-	**10 454**
Carrying amount		**484 181**	**61 156**	**20 822**	**761**	**566 920**
Total gross carrying amount		**486 343**	**64 795**	**25 475**	**761**	**577 374**
Loss allowance (Note 31)		**2 162**	**3 639**	**4 653**	**-**	**10 454**
Total Carrying amount		**484 181**	**61 156**	**20 822**	**761**	**566 920**

(thousand euros)

Loans and advances to customers		31.12.2020				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	2 083	-	-	-	**2 083**
Monitoring	[bbb+;b-]	279 447	130 811	-	-	**410 258**
Impaired	[d]	-	-	8 005	-	**8 005**
Not rated		11 684	-	-	-	**11 684**
Gross carrying amount		**293 214**	**130 811**	**8 005**	**-**	**432 030**
Loss allowance (Note 31)		1 697	6 169	4 124	-	**11 990**
Carrying amount		**291 517**	**124 642**	**3 881**	**-**	**420 040**
Total gross carrying amount		**293 214**	**130 811**	**8 005**	**-**	**432 030**
Loss allowance		1 697	6 169	4 124	**-**	11 990
Revaluation		-	-	-	-	-
Total Carrying amount		**291 517**	**124 642**	**3 881**	**-**	**420 040**

Guarantees

The table below presents a summary of the portfolio of guarantees granted to clients of Haitong Bank Group, as of 30th of June 2021 and December 31st, 2020:

(thousand euros)

Guarantees		30.06.2021				
		Stage 1	Stage 2	Stage 3	POCI	Total
Monitoring	[bbb+;b-]	80 331	-	-	-	**80 331**
Substandard	[ccc+;ccc]	50	13 729	-	-	**13 779**
Impaired	[d]	-	-	18 315	-	**18 315**
Not rated		8 000	-	-	-	**8 000**
Total gross carrying amount		**88 381**	**13 729**	**18 315**	**-**	**120 425**
Loss allowance (Note 31)		100	85	11 450	-	11 635
Total Carrying amount		**88 281**	**13 644**	**6 865**	**-**	**108 790**

(thousand euros)

Guarantees		31.12.2020				
		Stage 1	Stage 2	Stage 3	POCI	Total
Monitoring	[bbb+;b-]	100 932	-	-	-	**100 932**
Substandard	[ccc+;ccc]	-	15 076	-	-	**15 076**
Impaired	[d]	-	-	18 311	-	**18 311**
Not rated		8 449	-	-	-	**8 449**
Total gross carrying amount		**109 381**	**15 076**	**18 311**	**-**	**142 768**
Loss allowance (Note 31)		387	82	11 513	-	**11 982**
Total Carrying amount		**108 994**	**14 994**	**6 798**	**-**	**130 786**

Debt securities

The table below presents a summary of the portfolio of debt securities at amortized cost and at fair value through other comprehensive income of Haitong Bank Group, as of 30th of June 2021 and December 31st, 2020:

(thousand euros)

FVOCI and Amortised cost debt Securities		30.06.2021				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	9 123	-	-	-	**9 123**
Monitoring	[bbb+;b-]	465 816	-	-	-	**465 816**
Impaired	[d]	-	-	27 265	-	**27 265**
Gross carrying amount		**474 939**	**-**	**27 265**	**-**	**502 204**
Loss allowance (Note 31)		1 052	-	17 658	-	**18 710**
Carrying amount		**473 887**	**-**	**9 607**	**-**	**483 494**
Fair Value through Other Comprehensive Income						
Low to fair risk	[aaa+;a-]	29 378	-	-	-	**29 378**
Monitoring	[bbb+;b-]	216 370	-	-	-	**216 370**
Impaired	[d]	-	-	7 978	4 510	**12 488**
Gross carrying amount		**245 748**	**-**	**7 978**	**4 510**	**258 236**
Loss allowance (Note 31)		789	-	5 167	96	**6 052**
Revaluation		(35)	-	624	-	**589**
Carrying amount		**244 924**	**-**	**3 435**	**4 414**	**252 773**
Total gross carrying amount		**720 687**	**-**	**35 243**	**4 510**	**760 440**
Loss allowance		1 841	-	22 825	96	24 762
Revaluation		(35)	-	624	-	589
Total Carrying amount		**718 811**	**-**	**13 042**	**4 414**	**736 267**

(thousand euros)

FVOCI and Amortised cost debt Securities		31.12.2020				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	7 089	-	-	-	**7 089**
Monitoring	[bbb+;b-]	436 167	-	-	-	**436 167**
Impaired	[d]	-	-	27 267	-	**27 267**
Not rated		1 805	-	-	-	**1 805**
Gross carrying amount		**445 061**	**-**	**27 267**	**-**	**472 328**
Loss allowance (Note 31)		1 149	-	9 726	-	**10 875**
Carrying amount		**443 912**	**-**	**17 541**	**-**	**461 453**
Fair Value through Other Comprehensive Income						
Low to fair risk	[aaa+;a-]	22 388	-	-	-	**22 388**
Monitoring	[bbb+;b-]	128 337	-	-	-	**128 337**
Impaired	[d]	-	-	7 978	5 482	**13 460**
Not rated		1 650	-	-	-	**1 650**
Gross carrying amount		**152 375**	**-**	**7 978**	**5 482**	**165 835**
Loss allowance (Note 31)		604	-	2 846	157	**3 607**
Revaluation		1 489	-	(2 961)	-	**(1 472)**
Carrying amount		**153 260**	**-**	**2 171**	**5 325**	**160 756**
Total gross carrying amount		**597 436**	**-**	**35 245**	**5 482**	**638 163**
Loss allowance		1 753	-	12 572	157	14 482
Revaluation		1 489	-	(2 961)	-	(1 472)
Total Carrying amount		**597 172**	**-**	**19 712**	**5 325**	**622 209**

Cash equivalents

The table below presents a summary of the cash equivalents portfolio of Haitong Bank Group, as of as of 30th of June 2021 and December 31st, 2020:

(thousand euros)

Cash equivalents		30.06.2021				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	435 420	-	-	-	**435 420**
Monitoring	[bbb+;b-]	6 903	-	-	-	**6 903**
Not rated		19	-	-	-	**19**
Total gross carrying amount		**442 342**	**-**	**-**	**-**	**442 342**
Loss allowance (Note 31)		1	-	-	-	**1**
Total Carrying amount		**442 341**	**-**	**-**	**-**	**442 341**

(thousand euros)

Cash equivalents		31.12.2020				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	487 947	-	-	-	**487 947**
Monitoring	[bbb+;b-]	6 931	-	-	-	**6 931**
Total gross carrying amount		**494 878**	**-**	**-**	**-**	**494 878**
Total Carrying amount		**494 878**	**-**	**-**	**-**	**494 878**

Loans and advances to banks

The table below presents a summary of the portfolio of loans and advances to banks of Haitong Bank Group, as of 30th of June 2021 and December 31st, 2020:

(thousand euros)

Loans and advances to Banks		30.06.2021				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Monitoring	[bbb+;b-]	4 964	-	-	-	**4 964**
Not rated		-	3 377	-	-	**3 377**
Total gross carrying amount		**4 964**	**3 377**	**-**	**-**	**8 341**
Loss allowance (Note 31)		85	525	-	-	**610**
Total Carrying amount		**4 879**	**2 852**	**-**	**-**	**7 731**

(thousand euros)

Loans and advances to Banks		31.12.2020				
		Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Monitoring	[bbb+;b-]	112 409	-	-	-	**112 409**
Substandard	[ccc+;ccc]	-	3 251	-	-	**3 251**
Total gross carrying amount		**112 409**	**3 251**	**-**	**-**	**115 660**
Loss allowance (Note 31)		**11**	**489**	**-**	**-**	**500**
Total Carrying amount		**112 398**	**2 762**	**-**	**-**	**115 160**

Debtors and other assets

The table below presents a summary of the portfolio of debtors and other assets portfolio of Haitong Bank Group, as of 30th of June 2021 and December 31st, 2020:

(thousand euros)

Debtors and other assets		30.06.2021 Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Monitoring	[bbb+;b-]	1 581	-	-	-	**1 581**
Substandard	[ccc+;ccc]	915	-	-	-	**915**
Impaired	[d]	-	-	262	10 022	**10 284**
Not rated		17 922	-	-	-	**17 922**
Total gross carrying amount		**20 418**	**-**	**262**	**10 022**	**30 702**
Loss allowance (Note 31)		8 002	-	252	1 663	**9 917**
Total Carrying amount		**12 416**	**-**	**10**	**8 359**	**20 785**

(thousand euros)

Debtors and other assets		31.12.2020 Stage 1	Stage 2	Stage 3	POCI	Total
Amortized cost						
Low to fair risk	[aaa+;a-]	7	-	-	-	**7**
Monitoring	[bbb+;b-]	934	-	-	-	**934**
Substandard	[ccc+;ccc]	5 084	-	-	-	**5 084**
Impaired	[d]	-	-	248	10 318	**10 566**
Not rated		18 338	-	-	-	**18 338**
Total gross carrying amount		**24 363**	**-**	**248**	**10 318**	**34 929**
Loss allowance (Note 31)		7 810	-	238	1 640	**9 688**
Total Carrying amount		**16 553**	**-**	**10**	**8 678**	**25 241**

Throughout 2021, there were not any financial assets since initial recognition for which the expected credit losses have been transfer from Stage 2 to Stage 1 (lifetime expected credit losses to 12 month expected credit losses).

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

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

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

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

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

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

Regarding pledges over non listed equity securities, pledges over equipment and mortgages valuation, it is done at least on an annual basis and it is based on financial information of the borrower or on valuation reports of external entities (e.g.: real estate).

The maximum exposure to credit risk at the end of the period and without taking into account any risk mitigating techniques was already been presented on the previous pages. As of June 30 2021, the amount of financial instruments with no losses identified, due to credit risk's mitigation techniques (i.e. whenever the exposure at default net of collateral is equal to zero), was 13,546 thousand euros, accounted under loans and advances to customers and guarantees.

The table below disaggregates the financial instrument and financial guarantees' gross exposure, and exposure at default (EAD) separately for each stage and POCI.

(thousand euros)

Rating bucket		30.06.2021							
		Stage 1		Stage 2		Stage 3		POCI	
		Gross Exposure	EAD	Gross Exposure	EAD	Gross Exposure	EAD	Gross Exposure	EAD
Low to fair risk	[aaa+;a-]	475 758	481 289	-	-	-	-	-	-
Monitoring	[bbb+;b-]	1 126 096	1 007 874	64 795	62 050	-	-	-	-
Substandard	[ccc+;ccc]	965	916	13 729	6 864	-	-	-	-
Impaired	[d]	-	-	-	-	79 296	76 924	15 293	15 293
Not rated		160 315	22 976	3 377	3 377	-	-	-	-
Total		**1 763 134**	**1 513 055**	**81 901**	**72 291**	**79 296**	**76 924**	**15 293**	**15 293**

(thousand euros)

Rating bucket		31.12.2020							
		Stage 1		Stage 2		Stage 3		POCI	
		Gross Exposure	EAD	Gross Exposure	EAD	Gross Exposure	EAD	Gross Exposure	EAD
Low to fair risk	[aaa+;a-]	519 514	519 515	-	-	-	-	-	-
Monitoring	[bbb+;b-]	1 065 156	847 991	130 811	128 070	-	-	-	-
Substandard	[ccc+;ccc]	5 084	5 085	18 327	10 789	-	-	-	-
Impaired	[d]	-	-	-	-	61 809	59 222	15 800	15 800
Not rated		41 927	22 990	-	-	-	-	-	-
Total		**1 631 681**	**1 395 581**	**149 138**	**138 859**	**61 809**	**59 222**	**15 800**	**15 800**

Breakdown of Non-Performing and Forborne Exposures

In accordance with the definitions set out in Annex V to Commission Implementing Regulation (EU) 2018/1627 of 8 October 2018, amending Implementing Regulation (EU) No 680/2014 as regards prudent valuation for supervisory reporting, the Group discloses the non-performing exposures and the forborne exposures.

The definition of non-performing exposures are provided under section 2.4.1.

Forborne exposures shall be debt contracts in respect of which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing, or about to experience, difficulties in meeting its financial commitments ("financial difficulties). Exposures shall not be treated as forborne where the debtor is not in financial difficulties.

In this sense, as at June 30, 2021 and December 31, 2020, the breakdown of performing and non-performing exposures was as follows:

	30.06.2021			31.12.2020		
	Gross amount	Impairment, Negative revaluations and Provisions	Coverage	Gross amount	Impairment, Negative revaluations and Provisions	Coverage
Performing exposures	**1 878 129**	**8 480**	**0,5%**	**1 805 738**	**10 603**	**0,6%**
Non-Performing exposures (NPE)	**85 820**	**39 206**	**45,7%**	**64 581**	**28 512**	**44,1%**
Banking Book Debt Securities	40 380	22 921	56,8%	37 767	12 729	33,7%
Loans and advances to customers	26 236	4 653	17,7%	8 005	4 124	51,5%
Guarantees	18 315	11 450	62,5%	18 311	11 513	62,9%
Loan commitments	889	182	20,5%	498	146	29,3%
Total	**1 963 949**	**47 686**	**2,4%**	**1 870 319**	**39 115**	**2,1%**
NPE ratio	**4,4%**			**3,5%**		
NPL ratio	**4,5%**			**1,9%**		

As at June 30, 2021 and December 31, 2020, the breakdown of performing and non-performing forborne exposures was as follows:

	30.06.2021			31.12.2020		
	Gross amount	Impairment, Negative revaluations and Provisions	Coverage	Gross amount	Impairment, Negative revaluations and Provisions	Coverage
Performing exposures	**1 839 205**	**5 280**	**0,3%**	**1 702 717**	**5 140**	**0,3%**
Performing Forborne exposures	**38 924**	**3 200**	**8,2%**	**103 021**	**5 463**	**5,3%**
Loans and advances to customers	38 924	3 200	8,2%	103 021	5 463	5,3%
Non-Performing Forborne exposures	**19 552**	**4 296**	**22,0%**	**13 985**	**4 426**	**31,6%**
Banking Book Debt Securities	4 511	96	2,1%	5 482	156	2,8%
Loans and advances to customers	14 152	4 018	28,4%	8 005	4 124	51,5%
Loan commitments	889	182	20,5%	498	146	29,3%
Non-Performing exposures	**66 268**	**34 910**	**52,7%**	**50 596**	**24 086**	**47,6%**
Total	**1 963 949**	**47 686**	**2,4%**	**1 870 319**	**39 115**	**2,1%**

Concentration risk

Concerning the concentration risk - that is, the risk arising from the possibility of exposure or from a group of exposures sharing common or interrelated risk factors that produce losses large enough to affect the Group's solvency - Haitong Bank has internal limits established for the largest single-name exposures. Regular monitoring of these limits, together with regulatory limits, strengthens the Group's monitoring framework for the concentration of credit risk.

The breakdown of loans and advances to costumers, financial assets held for trading and securities, by sector of activity, for the end of 30th of June 2021 and December 31st, 2020, is as follows:

(thousand euros)

Industry	30.06.2021							
	Loans and advances to customers				Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Securities	Derivative financial assets	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans				
Agribusiness & Commodity Foods	31 681	-	538	-	-	1 165	17 147	75
Agricultural Cooperatives	8 616	-	11	-	-	183	-	-
Automobiles & Components	-	-	-	-	1 590	30	13 449	30
Banks	-	-	-	-	8 872	15 397	67 437	89
Broker Dealers	-	-	-	-	-	2 948	-	-
Building Materials	12 497	-	65	-	-	278	3 255	61
Capital Goods	10 735	-	14	-	281	-	12 294	110
Chemicals	-	-	-	-	506	784	7 686	6
Commercial & Professional Services	10 981	-	196	-	1 378	-	1 479	2
Construction & Engineering	11 720	11 524	495	2 023	1 455	-	16 961	174
Consumer Durables & Apparel	-	-	-	-	-	-	3 406	18
Food, Beverage & Tobacco	5 525	-	138	-	-	2 441	6 653	4
Funds & Asset Managers	133 534	-	2	-	-	3	10 853	-
Governments	1 838	-	-	-	598 979	-	266 203	431
Health Care	-	-	-	-	-	-	22 726	114
Hotels & Gaming	-	2 127	-	1 156	407	-	10 082	31
Household & Personal Products	-	-	-	-	-	-	2 604	3
Media & Entertainment	-	-	-	-	102	-	-	-
Metals & Mining	-	-	-	-	-	-	15 645	23
Non Bank Financial Institutions	-	-	-	-	2 026	4 082	34 512	28
Oil & Gas	-	-	-	-	-	2 219	13 494	56
Paper & Forest Products	22 276	-	201	-	-	140	7 611	18
Power	95 318	-	3 022	-	1 729	3 644	25 858	67
Real Estate	22 570	-	535	-	528	43	87 447	437
Retailing	-	-	-	-	729	-	20 271	29
Software	-	-	-	-	-	-	8	-
Technology Hardware & Equipment	-	-	-	-	-	-	35 870	22 825
Telecoms	48 383	-	247	-	-	87	10 238	14
Transportation	12 148	-	253	-	682	-	46 710	94
Transportation Infrastructure	135 505	-	1 554	-	1 165	49 561	4 656	4
Water Utilities	-	-	-	-	-	-	10 214	19
Others	396	-	4	-	3 008	-	14 330	-
TOTAL	**563 723**	**13 651**	**7 275**	**3 179**	**623 437**	**83 005**	**789 099**	**24 762**

(thousand euros)

Industry	31.12.2020								
	Loans and advances to customers					Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Revaluation	Securities	Derivative financial assets	Gross amount	Impairment
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Overdue loans				
Agribusiness & Commodity Foods	13 791	-	352	-	-	-	1 908	9 416	49
Automobiles & Components	-	-	-	-	-	1 760	1 857	13 225	30
Banks	-	-	-	-	-	3 311	21 532	23 937	32
Broker Dealers	-	-	-	-	-	-	2 041	-	-
Building Materials	12 464	-	64	-	-	-	-	8 506	158
Capital Goods	11 804	-	25	-	-	216	-	16 549	187
Chemicals	-	-	-	-	-	223	368	-	-
Commercial & Professional Services	11 814	-	712	-	-	-	-	1 420	2
Construction & Engineering	32 254	1 519	311	1 499	-	2 163	-	21 754	221
Consumer Durables & Apparel	-	-	-	-	-	-	-	3 145	32
Food, Beverage & Tobacco	404	-	38	-	-	358	8 983	-	-
Funds & Asset Managers	10 856	-	1	-	-	-	-	9 354	-
Governments	2 083	-	1	-	-	603 870	-	236 595	269
Health Care	-	-	-	-	-	203	-	20 891	107
Hotels & Gaming	-	2 127	-	1 156	-	-	-	17 492	32
Insurance	-	-	-	-	-	923	-	-	-
Media & Entertainment	-	-	-	-	-	514	-	-	-
Metals & Mining	57 931	-	2 295	-	-	-	-	8 912	11
Non Bank Financial Institutions	-	-	-	-	-	1 865	6 278	24 811	40
Oil & Gas	-	-	-	-	-	622	3 967	13 326	55
Paper & Forest Products	22 647	-	198	-	-	4 464	214	2 795	3
Power	94 625	-	2 794	-	-	1 234	4 614	19 279	114
Real Estate	13 114	-	491	-	-	395	86	79 042	391
Retailing	-	-	-	-	-	2 030	-	18 852	23
Software	-	-	-	-	-	-	-	9	-
Technology Hardware & Equipment	-	-	-	-	-	-	-	32 285	12 572
Telecoms	27 814	-	143	-	-	1 745	67	6 960	13
Transportation	13 422	-	208	-	-	633	33 594	54 079	108
Transportation Infrastructure	102 937	-	1 699	-	-	528	57 553	-	-
Water Utilities	-	-	-	-	-	-	-	6 256	33
Others	424	-	3	-	-	-	-	23 098	-
TOTAL	**428 384**	**3 646**	**9 335**	**2 655**	**-**	**627 057**	**143 062**	**671 988**	**14 482**

The breakdown of loans and advances to costumers, financial assets held for trading and securities, by country risk, for the end of 30th of June 2021 and December 31st, 2020, is as follows:

(thousand euros)

Country	30.06.2021								
	Loans and advances to customers					Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Revaluation				
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Overdue loans	Securities	Derivative financial assets	Gross amount	Impairment
Brazil	139 290	9 992	5 217	521	-	589 363	3 049	102 116	586
Bulgaria	-	-	-	-	-	-	-	1 406	3
China	-	-	-	-	-	506	-	166 034	23 154
Cyprus	-	-	-	-	-	-	-	9 333	11
Czech Republic	-	-	-	-	-	-	-	1 967	1
Finland	-	-	-	-	-	-	-	2 746	3
France	-	-	-	-	-	2 100	992	26 364	37
Germany	-	-	-	-	-	281	4 794	11 732	12
Greece	-	-	-	-	-	-	-	13 033	40
Hong Kong	-	-	-	-	-	102	-	1 845	1
Ireland	-	-	-	-	-	-	4 082	-	-
Italy	-	-	-	-	-	1 313	-	103 488	91
Luxembourg	-	-	-	-	-	123	-	35 356	12
Poland	165 794	1 532	165	1 503	-	9 692	-	44 341	226
Portugal	174 193	2 127	1 255	1 155	-	5 793	57 528	222 811	522
Romania	-	-	-	-	-	-	-	8 106	10
Spain	84 050	-	633	-	-	6 121	7 435	10 910	18
Sweden	-	-	-	-	-	-	-	7 784	14
United Kingdom	-	-	-	-	-	4 598	4 317	14 778	19
United States	-	-	-	-	-	2 897	808	-	-
Virgin islands (british)	-	-	-	-	-	548	-	4 949	2
Others	396	-	5	-	-	-	-	-	-
TOTAL	**563 723**	**13 651**	**7 275**	**3 179**	**-**	**623 437**	**83 005**	**789 099**	**24 762**

(thousand euros)

Country	31.12.2020								
	Loans and advances to customers					Financial assets held-for-trading		Securities	
	Gross amount		Impairment		Revaluation				
	Outstanding loans	Overdue loans	Outstanding loans	Overdue loans	Overdue loans	Securities	Derivative financial assets	Gross amount	Impairment
Andorra	-	-	-	-	-	-	112	-	-
Brazil	118 857	-	4 393	-	-	599 424	3 979	79 376	583
Bulgaria	-	-	-	-	-	-	-	1 435	4
China	-	-	-	-	-	223	-	119 226	12 850
Cyprus	-	-	-	-	-	-	-	9 449	12
Finland	-	-	-	-	-	-	-	2 795	3
France	-	-	-	-	-	508	4 097	17 929	28
Germany	57 931	-	2 295	-	-	217	3 877	5 051	6
Hong kong	-	-	-	-	-	-	-	1 805	19
Ireland	-	-	-	-	-	-	6 278	-	-
Italy	-	-	-	-	-	925	-	101 451	90
Luxembourg	-	-	-	-	-	395	-	29 906	11
Netherlands	-	-	-	-	-	101	-	-	-
Poland	21 848	1 519	57	1 499	-	8 995	214	49 238	250
Portugal	141 447	2 127	1 406	1 156	-	8 431	102 854	219 507	580
Romania	-	-	-	-	-	-	-	8 060	10
Spain	87 877	-	1 181	-	-	6 016	14 495	3 642	4
Sweden	-	-	-	-	-	-	-	7 884	14
Switzerland	-	-	-	-	-	358	-	-	-
United Kingdom	-	-	-	-	-	1 047	7 156	8 146	15
United States	-	-	-	-	-	417	-	-	-
Virgin islands (british)	-	-	-	-	-	-	-	7 088	3
Others	424	-	3	-	-	-	-	-	-
TOTAL	**428 384**	**3 646**	**9 335**	**2 655**	**-**	**627 057**	**143 062**	**671 988**	**14 482**

Market risk

Market risk is the possibility of losses resulting from adverse movements in market prices, such as equity, interest rates, foreign exchange rates and credit spreads.

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

(thousand euros)

	30.06.2021				31.12.2020			
	June	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Foreign Exchange Risk	6 151	3 005	6 723	1 662	1 926	3 236	3 995	1 684
Interest Rate Risk	637	882	1 625	187	420	838	1 825	333
Equities and Commodities	-	11	57	-	23	52	1 895	-
Credit spread	1 675	1 970	2 871	205	2 736	2 131	4 888	771
Covariance	(367)	n.a.	n.a.	n.a.	(262)	n.a.	n.a.	n.a.
Global VaR	**8 096**	**5 602**	**9 577**	**3 836**	**4 843**	**6 129**	**7 580**	**4 052**

Source: Haitong Bank

The following table presents the average interest rates as well as the average balances and interest for the period, relating to the Group's major financial asset and liability categories, for the periods ended at June 30th 2021 and December 31st 2020, as well as the respective average balances and interest of the period:

(thousand euros)

	30.06.2021			31.12.2020		
	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	554 884	614	0.22%	596 585	3 659	0.61%
Loans and advances to customers	320 841	9 027	5.67%	352 464	15 252	4.32%
Investment in securities	862 298	24 419	5.71%	803 180	43 023	5.34%
Collateral accounts	85 347	74	0.17%	211 810	159	0.07%
Financial assets	**1 823 370**	**34 134**	**2.01%**	**1 964 039**	**62 093**	**3,15%**
Monetary resources	644 663	6 545	2.05%	503 855	12 561	2.49%
Resources of customers	1 143 052	10 823	1.91%	1 086 172	18 042	1.66%
Liabilities represented by securities	58 935	1 111	3.80%	92 033	3 696	4.00%
Other resources	38 639	298	1.56%	125 950	1 119	0.89%
Financial liabilities	**1 885 289**	**18 777**	**0.84%**	**1 808 010**	**35 418**	**1.95%**
Financial Result		**15 357**			**26 675**	

As of 30th June 2021 and 31st December 2020, the exposure of assets and liabilities by currency in regards to the foreign exchange risk was as follows:

(thousand euros)

	30.06.2021			31.12.2020		
	Spot	Forward	Net Exposure	Spot	Forward	Net Exposure
AUD	14	-	14	14	-	14
BRL	92 934	7 948	100 882	30 434	(11 815)	18 620
CAD	58	-	58	56	-	56
CHF	233	-	233	94	-	94
CNY	215	-	215	(275)	-	(275)
CZK	-	-	-	24	-	24
DKK	201	-	201	209	-	209
GBP	(1 420)	-	(1 420)	(1 922)	-	(1 922)
HKD	(1 528)	1 560	32	(1 574)	2 189	615
HUF	-	-	-	15	-	15
JPY	79	-	79	92	-	92
MOP	(4)	-	(4)	(4)	-	(4)
MXN	115	-	115	112	-	112
NOK	9	-	9	23	-	23
PLN	75 926	(75 798)	128	70 218	(70 083)	135
SEK	90	-	90	97	-	97
TRY	-	-	-	13	-	13
USD	75 964	(84 216)	(8 252)	150 122	(158 944)	(8 822)
	242 886	**(150 506)**	**92 380**	**247 748**	**(238 653)**	**9 096**

Source: Haitong Bank

The main source of FX risk of Haitong Bank comes from its foreign subsidiary Haitong Banco de Investimento do Brasil S.A.

As at December 31st 2020, the information of net investments, considered by the Group in total or partial hedging strategies on subsidiaries and on hedging instruments used, is the following:

(thousand euros)

		31.12.2020			
	Currency	Net investment	Hedging instruments	Net investment	Hedging instruments
		Currency	Currency	Euros	Euros
Company					
Haitong Banco de Investimento do Brasil S.A	BRL	482 252	482 252	75 947	75 947

Information on gains and losses on derivatives used to hedge net investments in foreign institutions, recognized in foreign exchange reserves, is presented in the Statement of Changes in Equity. These hedging relationships were considered effective throughout the first five months of 2021, in accordance with the accounting policy described in note 2.4.2.

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

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

As of 30th of June 2021 and December 31st, 2020, the Bank maintain similar interest-rate risk sensitive assets and liabilities in the banking book. The repricing profile presented below:

(thousand euros)

	30.06.2021					
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Assets	1 063 698	364 080	94 176	442 375	73 897	2 038 226
Liabilities	(506 917)	(475 152)	(242 852)	(472 726)	(221)	(1 697 868)
Gap	**556 781**	**(111 072)**	**(148 676)**	**(30 351)**	**73 676**	**340 358**

Source: Haitong Bank

(thousand euros)

	31.12.2020					
	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years	Total
Assets	1 524 046	293 177	299 039	393 605	93 813	2 603 680
Liabilities	(1 204 751)	(516 102)	(184 902)	(455 996)	(1 122)	(2 362 873)
Gap	**319 295**	**(222 925)**	**114 137**	**(62 391)**	**92 691**	**240 807**

Source: Haitong Bank

The impact on the banking book portfolio economic value and earnings-metrics, under several scenarios was as follows:

(thousand euros)

Scenarios	30.06.2021		31.12.2020	
	Delta EVE	Delta NII	Delta EVE	Delta NII
+200 bps	15 115	(2 046)	14 459	1 158
-200 bps	2 653	2 046	4 054	(1 158)
Parallel up	12 003	n.a.	11 917	n.a.
Parallel down	4 749	n.a.	3 106	n.a.
Steepener	(5 586)	n.a.	(5 066)	n.a.
Flattener	(5 085)	n.a.	(4 587)	n.a.
Short rates up	15 170	n.a.	14 028	n.a.
Short rates down	(2 836)	n.a.	(2 972)	n.a.
% Total Capital	2.76%	0.37%	2.73%	n.a.
% Tier 1 Capital	2.78%	n.a.	2.65%	n.a.

Source: Haitong Bank

Benchmark interest rate reforms

Regulation (EU) 2016/1011 of the European Parliament and of the Council (known as the EU Benchmark Regulation or BMR) established a common framework to ensure that benchmark interest rates meet certain requirements that ensure their reliability and efficiency as well as protect the consumer and investor, which implied a set of reforms, currently underway, of the reference interest rates with different implications for the activities of financial institutions.

The Bank has fallback provisions in its contracts in accordance with market practice to respond to a discontinuity of fees. As of June 30, 2021, there are no financing contracts whose contract rate is associated with Libor rates that are expected to be discontinued. The Bank holds derivatives whose rates are expected to be discontinued and the respective contractual amendments are being negotiated. The contracts in question are under ISDA contracts.

Hedge accounting

Although on 30 May 2021 there has been a change to the management strategy, the table below includes the detail of the hedging and hedged instruments used in the Group's hedging strategies and accounted at the Balance sheet item - Hedging derivatives:

(thousand euros)

	30.06.2021				
	Notional	Book value		Change in fair value (A)	Currency translation reserve
		Assets	Liabilities		
Hedging of net investments in foreign entities					
Hedging instruments					
Foreign exchange risk					
Forward	-	-	-	(698)	(698)
Hedged Itens					
Haitong Banco de Investimento do Brasil S.A	n.a	n.a	n.a	6 313	6 313
Total	**-**	**-**	**-**	**5 615**	**5 615**

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

(thousand euros)

	31.12.2020				
	Notional	Book value		Change in fair value (A)	Currency translation reserve
		Assets	Liabilities		
Hedging of net investments in foreign entities					
Hedging instruments					
Foreign exchange risk					
Forward	75 665	151	-	28 080	28 079
Hedged Itens					
Haitong Banco de Investimento do Brasil S.A	n.a	n.a	n.a	(29 918)	(29 918)
Total	**75 665**	**151**	**-**	**(1 838)**	**(1 839)**

(A) Changes in fair value used to calculate the ineffectiveness of the hedge

The table below includes information on the effectiveness of hedging relationships, as well as impacts on results and other comprehensive income, with reference to 30th of June 2021 and 2020:

(thousand euros)

	30.06.2021	
	Gains / (Losses) realised in Other comprehensive income	Ineffectiveness recognised in Income statement (a)
Hedging of net investments in foreign entities		
Hedging instruments		
Foreign exchange risk		
Forward	(697)	-

(a) Net gains/(losses) from hedge accounting

(thousand euros)

	30.06.2021	
	Gains / (Losses) realised in Other comprehensive income	Ineffectiveness recognised in Income statement (a)
Hedging of net investments in foreign entities		
Hedging instruments		
Foreign exchange risk		
Forward	25 713	1

(a) Net gains/(losses) from hedge accounting

Liquidity risk

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

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

To achieve these goals, Haitong Bank seeks to develop a diversified investors’ base, ensuring access to alternative funding sources and instruments, and keeping an adequate funding structure to finance its activity.

Haitong Bank's liquidity and funding management is under the direct responsibility of the Executive Committee, advised by the Assets and Liabilities Committee (ALCO). The Head of Treasury is in charge of the operational management of liquidity, with local teams ensuring liquidity daily management in each of the Bank's treasury hubs (Lisbon, São Paulo and Warsaw).

The Bank manages its liquidity by establishing a liquidity risk policy, monitoring a set of liquidity risk metrics, including prudential liquidity ratios, stress testing and liquidity contingency plans, and by setting limits consistent with the Bank's liquidity risk appetite and regulatory requirements.

As of 30 June 2021, the Bank held 762 million Euros of High Quality Liquid Assets (738 million Euros in 31 December 2020), of which 416 million were available demand deposits in Central Banks (459 million Euros in 31 December 2020). The remainder of the High Quality Liquid Assets (HQLA) was mainly composed by sovereign debt of European Union countries and by Brazilian Government bonds denominated in Brazilian Reais owned by Haitong Bank subsidiary in Brazil.

In 30 June 2021, Haitong Bank held a surplus of 475 million Euros of its 30 days stressed net outflows, which corresponded to a LCR of 266% (259% on 31 December 2020) comfortably above both regulatory and internal limits.

Liquidity Coverage Ratio	June 2021	December 2020
High Quality Liquid Assets	762	738
Surplus over stressed net outflows	475	453
Liquidity Coverage Ratio	**266%**	**259%**

Haitong Bank funding from the Bank of Portugal amounts to 111 million Euros at 30 June 2021 (111 million Euros at the end of 2020) obtained through the Targeted Longer-Term Refinancing Operations facility, maturing in 2022 and 2023.

In first half of 2021, Haitong Bank's main sources of funding were wholesale facilities provided by a Haitong Securities Group company, long term facilities provided by banks, debt securities issued by the Brazilian subsidiary, sales with repurchase agreements (repos) and deposits from clients (households and corporate clients).

In market stress situations where the value of derivatives is significantly impacted, additional collateral amounts may be required from Haitong Bank due to master netting agreements (e.g. ISDA) and margin agreements (e.g. Credit Support Annex) entered into with financial institutions. Derivatives positions and collateral received and posted are detailed in notes 19 and 27, respectively.

As of 30th of June 2021, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	30.06.2021						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and cash equivalents	442 348	-	-	-	-	-	442 348
Financial assets held-for-trading (Securities)	-	25 759	27 795	383 508	527 388	-	964 450
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	721	-	27 352	28 073
Financial assets at fair value through other comprehensive income	-	42 506	57 791	178 401	24 801	-	303 499
Financial assets at amortised cost	-	98 221	107 001	265 558	52 641	-	523 421
Loans and advances to banks	2 409	2 989	2 415	-	-	-	7 813
Loans and advances to customers	126 941	60 427	68 403	234 286	150 970	-	641 027
Derivatives Instruments	-	648 023	267 395	170 424	231 938	62 643	1 380 423
	571 698	**877 925**	**530 800**	**1 232 898**	**987 738**	**89 995**	**4 291 054**
Liabilities							
Resources from credit institutions	-	279 378	13 442	545 255	59 270	-	897 345
Resources from customers	87 833	246 001	335 059	470 740	-	-	1 139 633
Debt securities issued	-	17 920	25 523	25 891	-	-	69 334
Financial liabilities held-for-trading (Securities)	5 303	5 529	-	-	-	-	10 832
Derivatives Instruments	-	650 778	266 885	167 894	234 343	7 450	1 327 350
	93 136	**1 199 606**	**640 909**	**1 209 780**	**293 613**	**7 450**	**3 444 494**

As of 31st December 2020, contractual undiscounted cash flows of financial assets and liabilities present the following structure:

(thousand euros)

	31.12.2020						
	On demand	Up to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Undetermined	Total
Assets							
Cash and cash equivalents	494 885	-	-	-	-	-	494 885
Financial assets held-for-trading (Securities)	-	17 279	34 192	407 686	379 374	-	838 531
Non-trading financial assets mandatorily at fair value through profit or loss	-	-	-	703	-	34 594	35 297
Financial assets at fair value through other comprehensive income	-	11 774	48 510	124 043	20 143	-	204 470
Financial assets at amortised cost	-	28 845	182 269	205 269	71 962	-	488 345
Loans and advances to banks	-	69 005	46 656	-	-	-	115 661
Loans and advances to customers	-	89 784	98 103	173 445	146 369	-	507 701
Derivatives Instruments	-	563 079	134 044	165 031	216 386	118 249	1 196 789
	494 885	779 766	543 774	1 076 177	834 234	152 843	3 881 679
Liabilities							
Resources of other credit institutions	15 348	413 691	3 834	179 689	55 789	-	668 351
Resources of customers	73 753	185 925	182 070	813 414	-	-	1 255 162
Debt securities issued	-	-	56 400	10 903	-	-	67 303
Financial liabilities held-for-trading (Securities)	-	44 838	34 246	-	-	-	79 084
Derivatives Instruments	-	532 956	156 594	126 351	234 508	12 260	1 062 669
	89 101	1 177 410	433 144	1 130 357	290 297	12 260	3 132 569

The derivatives undiscounted cash flows are calculated as gross cash flows of each side of the deal, not considering any net positions.

Operational risk

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

The Bank has in place a framework to ensure the standardization and systematization of the regular activities regarding the identification, assessment, response/ mitigation, monitoring, and control and report of operational risk. A team within the Risk Management Department is exclusively dedicated to the management of this framework.

Capital Management and Solvency Ratio

The main purposes of capital management in the Group are (i) to promote sustainable growth of activity by creating enough capital to withstand the increase of assets, (ii) meet the minimum requirements established by the supervising entities in relation to capital adequacy and (iii) ensure the achievement of the strategic goals set by Group in relation to capital adequacy.

Regulatory capital requirements are determined by the Bank of Portugal under the CRR (Regulation EU nº 876/2019 amending Regulation EU nº 575/2013) and CRD IV (Directive EU nº 878/2019 amending Directive EU nº 2013/36/EU). Under these regulatory frameworks, capital requirements are set in consideration of the level of risk that the Bank is exposed to, which is measured through both risk weighted assets (RWAs) and leverage.

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

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

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

The regulation also provides a counter-cyclical capital buffer of up to 2.5% to be imposed in the event that national supervisors deem it necessary in order to counteract excessive credit growth in Portugal. As of 30th June 2021, the Bank of Portugal decided not to impose any additional counter-cyclical capital buffer, by setting it at 0% of the total risk exposure amount. This decision is subject to revision on a quarterly basis.

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

At the moment and for reporting purposes related to prudential effects before the supervising authorities, the Group uses the Standard method for handling credit risk and operational risk ("The Standardized Approach" - TSA method).

The following table summarizes the capital adequacy of the Haitong Bank S.A. Group as at 30th of June 2021 and 31st of December 2020:

	30.06.2021		31.12.2020	
	Phased-in	Fully-loaded	Phased-in	Fully-loaded
CET1 ratio	21,1%	21,0%	22,7%	22,6%
Tier 1 ratio	26,2%	26,1%	28,4%	28,3%
Total Capital ratio	26,3%	26,3%	28,5%	28,4%

Source: Haitong Bank

The assumptions used in the capital adequacy calculations are described in chapter Risk Management | Solvency in the Management Report.

NOTE 40 – SUBSEQUENT EVENTS

As per the Executive Order of the Macau Chief Executive published 19th July 2021, the establishment of Haitong Bank's Macau Branch was formally authorized.

Statement of the Auditing of the Accounts

Under no. 3 of article 8 of the Securities Code, we declare that the financial information for the first half of 2021 relating to Haitong Bank, S.A. and the companies included in its consolidation perimeter have not been audited.

Lisbon, 20 August 2021

Lin Yong
(Chairman of the Board of Directors)

Wu Min
(Chief Executive Officer)

Alan do Amaral Fernandes
(Executive Board Member)

José Miguel Aleixo Nunes Guiomar
(Executive Board Member)

Nuno Miguel Sousa Figueiredo Carvalho
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Vasco Câmara Pires dos Santos Martins
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Pan Guangtao
(Non-Executive Board Member)

Paulo José Lameiras Martins
(Non-Executive Board Member)

Vincent Marie L. Camerlynck
(Non-Executive Board Member)

Xinjun Zhang
(Non-Executive Board Member)

ANNEXES

Shares and Bonds held by Members of the Board of Directors and Supervisory Bodies

Annex referred to in paragraph 5 of Article 447 of the Portuguese Companies Code

Board of Directors	*Securities*	*Securities held as of 31/12/2020*	*Transactions in 1H2021*			*Securities held as of 30/06/2021*
			Date	*Acquisitions*	*Disposals*	
Wu Min	-	-	-	-	-	-
Lin Yong	Haitong International Securities Group Limited - Ordinary shares	6,682,555	23/03/2021	249,918 (Note 1)		
			24/03/2021	398,010 (Note 2)		
			13/05/2021	177,729 (Note 3)		7,508,212
	Haitong International Securities Group Limited - Share Options	5,218,979	12/05/2021		807,116 (Note 4)	4,411,863
	Haitong International Securities Group Limited - Awarded Shares (unvested)	1,871,595	23/03/2021		249,918 (Note 1)	
			24/03/2021		398,010 (Note 2)	
			13/05/2021		177,729 (Note 3)	1,045,938
Alan do Amaral Fernandes	-	-	-	-	-	-
António Domingues	-	-	-	-	-	-
Martina Garcia	-	-	-	-	-	-
Miguel Guiomar	-	-	-	-	-	-
Nuno Miguel Sousa Figueiredo Carvalho		-	-	-	-	-
Pan Guangtao	-	-	-	-	-	-
Paulo José Lameiras Martins	-	-	-	-	-	-
Vasco Câmara Pires dos Santos Martins		-	-	-	-	-
Vincent Marie L. Camerlynck	-	-	-	-	-	-
Zhang Xinjun	Haitong International Securities Group Limited - Ordinary shares	802,133	13/05/2021	67,651 (Note 5)		869,784
	Haitong International Securities Group Limited - Share Options	2,510,972	12/05/2021		504,446 (Note 6)	2,006,526
	Haitong International Securities Group Limited - Awarded Shares (unvested)	67,651	13/05/2021		67,651 (Note 5)	0

Supervisory Board	*Securities*	*Securities held as of 31/12/2020*	*Transactions in 1H2021*			*Securities held as of 30/06/2021*
			Date	*Acquisitions*	*Disposals*	
Mário Paulo Bettencourt de Oliveira	-	-	-	-	-	-
Cristina Maria da Costa Pinto	-	-	-	-	-	-
Maria do Rosário Mayoral Robles Machado Simões Ventura	-	-	-	-	-	-
Paulo Ribeiro da Silva	-	-	-	-	-	-
Deloitte & Associados, SROC, S,A,	-	-	-	-	-	-

Notes:

Note 1: 249,918 unvested awarded shares were vested on 23/3/2021

Note 2: 398,010 unvested awarded shares were vested on 24/3/2021

Note 3: 177,729 unvested awarded shares were vested on 13/5/2021

Note 4: 807,116 outstanding share options were lapsed on 12/5/2021

Note 5: 67,651 unvested awarded shares were vested on 13/5/2021

Note 6: 504,446 outstanding share options were lapsed on 12/5/2021

Corporate Bodies and Committees

As of the 2021 Interim Report publication date

General Meeting Board

President
Maria João Ricou

Secretary
David Ramalhete

Supervisory Board

Chair
Maria do Rosário Ventura

Members
Mário Bettencourt
Cristina Pinto

Alternate
Paulo Ribeiro da Silva

Statutory Auditor

Member in office
Deloitte & Associados, SROC, S.A.[1]

Remuneration Committee

Chair
Martina Garcia
Members
António Domingues
Lin Yong
Vincent Camerlynck

Risk Committee

Chair
Vincent Camerlynck
Members
António Domingues
Pan Guangtao

Credit Committee

Voting Members (8)

Head of Risk Management Function

Moderator

Secretary

Suport Assistant

Impairment Committee

Chair

Voting Members (4)

Non-Voting Members

Secretary

Asset and Liability Committee

Chair

Voting Members (8)

Non-Voting Members (1)

Secretary

Board of Directors

Chair
Lin Yong
Members
Wu Min
Alan Fernandes
António Domingues
Martina García
Miguel Guiomar
Nuno Carvalho
Pan Guangtao
Paulo Martins
Vasco Câmara Martins
Vincent Camerlynck
Zhang Xinjun (Jeff)
Secretary
Pedro Costa

Executive Committee

CEO
Wu Min

Members

Alan Fernandes
Miguel Guiomar
Nuno Carvalho
Vasco Câmara Martins

Senior Managers with a Seat on the Executive Committee

António Pacheco
Pedro Costa

Secretary
Pedro Costa

Internal Audit Committee

Chair
António Domingues

Members
Vincent Camerlynck
Zhang Xinjun (Jeff)
Paulo Martins

Corporate Governance Committee

Chair
António Domingues
Members
Vincent Camerlynck
Lin Yong

IBK Global Adoption Committee

Voting Members (6)

Chair
IBK Executive Board Member

Secretary

Members
Head of Risk Management Function
Head of Compliance Function

New Business Committee

Chair
Executive Board Member responsible for Risk Management

Voting Members

Deputy Head of CEO Office
Head of Finance
Head of Legal
Head of IT
Head of Operations

Non-recurrent Members
To be appointed by the Chair on case by case basis, dependent on topic
Non-Voting Members
Head of Risk Management Funcion
Head of Compliance Function and Data Protection Officer
Secretary

[1] Deloitte & Associados, SROC, S.A. nominated João Carlos Henriques Gomes Ferreira

Declaration of Conformity

In accordance with Article 246 (1-c) of the Portuguese Securities Code, the Members of the Board of Directors of Haitong Bank, S.A. hereby declare that, to the best of their knowledge:

a) The consolidated financial statements of Haitong Bank, S.A. for the six months ended on 30 June 2021 were prepared in accordance with the legally applicable accounting standards and with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of July 19th, as set forth in Article 246 (3) of the Portuguese Securities Code;

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

c) c) The Management Report describes faithfully Haitong Bank, S.A. and consolidated companies' business evolution, performance and financial position for the first six months of 2021, and includes a description of the main risks and uncertainties that could affect the business.

Lisbon, 20 August 2021

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+351 21 319 69 00

www.haitongib.com

info.haitongbank@haitongib.com

LinkedIn Haitong