

Haitong Investment Ireland plc

Directors' Report and Financial Statements

Year ended 31 December 2019

Registered in Ireland under number 253333

Haitong Investment Ireland plc

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Haitong Investment Ireland plc

Directors and other information

Directors
Pedro Costa (Portuguese) – Executive Director and CEO
*Wu Min (Chinese) – Executive Director and Chairman
– Appointed 20 December 2019
Carlos Nogueira (Portuguese) – resigned 11 December 2019
Peter Murphy (Irish) – Executive Director
Tom Murray (Irish) – Non-Executive Director
*António Pacheco (Portuguese) – Executive Director
– Appointed 20 December 2019
*Nuno Carvalho (Portuguese) – Appointed 20 December 2019
*Zhang Xinjun (Chinese) – Appointed 20 December 2019

Registered office
Riverside One
Sir John Rogerson’s Quay
Dublin 2

Place of registration
Ireland

Registered number
253333

Secretary
HMP Secretarial Limited
Riverside One
Sir John Rogerson’s Quay
Dublin 2

Independent statutory auditor
Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

Bankers
Haitong Bank, S.A.
Edificio Quartzo
Rua Alexandre Herculano, 38
1269-161 Lisbon
Portugal

Ulster bank
Block B
Georges Quay
Dublin 2

Bank of Ireland
Thomastown
Kilkenny

Solicitors
McCann FitzGerald
Riverside One
Sir John Rogerson’s Quay
Dublin 2

Maples and Calder
75 St. Stephen's Green
Dublin 2

Haitong Investment Ireland plc

Directors' report

The Directors of Haitong Investment Ireland plc (“HIIP” or the “Company”) present their annual report and audited financial statements (the “Financial Statements”) for the financial year ended 31 December 2019.

Sale of the Company

On the 20 December 2019, further to the previous market announcements and in accordance with the announcement of Haitong Bank, S.A. (“Haitong Bank” or the “Bank” or “HBSA”), Haitong Bank has completed the sale of the entire share capital of Haitong Investment Ireland plc to Haitong International Holdings Limited resulting from the share sale and purchase agreement dated 30 September 2019. The sale price was Euro 12 000 000.

Principal activities

Haitong Investment Ireland plc is a wholly owned subsidiary of Haitong International Holdings Limited (the “Parent” or “Haitong International” or “HIHL”) a company with its headquarters in Hong Kong, China. The Company is engaged in the issuance of own debt securities some of which is listed on Euronext Dublin in accordance with the Noteholders’ requirements, the extension of credit to counterparties which are typically corporate entities, trading securities for its own account as well as entering into derivatives contracts to manage the risks derived from those activities. The ultimate Parent of the Company is Haitong Securities Co., Ltd. (the “Shareholder” or “Haitong Securities”) headquartered in Shanghai, China.

Dividends

On the 19 December 2019 the Company paid the dividend of Euro 150,000,000 to its then sole shareholder Haitong Bank. (2018: Euro Nil).

Directors

The names of the Directors in office at the date of signing of the financial statements and at any time during the financial year ended 31 December 2019 are set out below.

Pedro Costa (Portuguese) – Executive Director and CEO

Carlos Nogueira (Portuguese) – Executive Director

Peter Murphy (Irish) – Executive Director

Tom Murray (Irish) – Non-Executive Director

Wu Min (Chinese) – Executive Director and Chairman of the Board of Directors

António Pacheco (Portuguese) – Executive Director

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Directors' report (*continued*)

Nuno Carvalho (Portuguese) – Executive Director

Zhang Xinjun (Chinese) – Executive Director

The directors of the Company appointed in 2019 were:

Wu Min (Chinese) – appointed 20 December 2019

António Pacheco (Portuguese) – appointed 20 December 2019

Nuno Carvalho (Portuguese) – appointed 20 December 2019

Zhang Xinjun (Chinese) – appointed 20 December 2019

The appointments of Wu Min, Zhang Xinjun and Nuno Carvalho were subject to approval by Bank of Portugal. Approval was received on 10 February 2020.

The directors of the Company that resigned in 2019 were:

Carlos Nogueira (Portuguese) – resigned 26 November 2019

The directors are not required to retire by rotation.

Directors and Secretary and their interests

The Directors and Secretary in office at 31 December 2019 had no relevant beneficial interests in shares in, or debentures of the Company or its Parent Haitong International at any time during the financial year ended 31 December 2019.

Political donations

No political donations have been made during the financial year (2018: Euro Nil) that are required to be disclosed by the Electoral Act 1997.

Adequate accounting records

The Directors believe that they have complied with the requirements of Sections 281 to 285 of the Companies Act 2014 (the “Act”) with regard to accounting records, by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The accounting records of the Company are kept at Fourth Floor, Spencer House, Spencer Row, Dublin 1.

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Directors' report (*continued*)

Branches outside the state

There were no branches outside Ireland during the financial year (2018: no branches).

Relevant audit information

The Directors believe that they have complied with the requirements of Section 330 (3) of the Companies Act 2014 with regard to providing statutory auditors with relevant audit information.

The directors confirm that:

- a) there is no relevant audit information of which the Company's statutory auditors are unaware; and
- b) all steps have been taken by each director to make himself aware of any relevant information and to ensure the statutory auditor is made aware of any such information.

Directors' compliance statement

The Directors acknowledge that they are responsible for securing the Company's compliance with the Company's "relevant obligations" within the meaning of section 225 of the Companies Act 2014 (described below as the "Relevant Obligations").

The directors confirm that they have:

- a) drawn up a compliance policy statement setting out the Company's policies (that are, in the opinion of the Directors, appropriate to the Company) in respect of the Company's compliance with its Relevant Obligations;
- b) put in place appropriate arrangements or structures that, in the opinion of the directors, provide a reasonable assurance of compliance in all material respects with the Company's Relevant Obligations; and
- c) during the financial year to which this report relates, conducted a review of the arrangements or structures that the Directors have put in place to ensure material compliance with the Company's Relevant Obligations.

Events after the financial year end

Events affecting the Company after the financial year are confirmed in Note 33.

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Directors' report (continued)

Going concern

The Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Additionally the Parent has provided a Going Concern letter of comfort. Thus, they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

Review of Performance

The overview of results for the financial year and key performance indicators are set out below with further details presented on Page 28 of this report.

	(in euro)		
Statement of Profit or Loss	31.12.2019	31.12.2018	Change
Net interest income	2 294 401	547 195	319.3%
Net fees and commissions	(2 473 966)	(1 392 595)	(77.7%)
Net gains from investment in financial instruments	5 284 213	2 959 591	78.5%
Total income	5 104 648	2 114 191	141.4%
Staff costs	(308 425)	(282 940)	9.0%
General and administrative costs	(228 542)	(275 346)	(17.0%)
Depreciation	(39 015)	(4 478)	771.3%
Other operating expenses	(50 402)	(67 442)	(25.3%)
Total operating expenses	(626 384)	(630 206)	(0.6%)
Operating profit	4 478 264	1 483 985	201.8%
Impairment loss	(2 090 800)	(195 185)	971.2%
Provisions	(40 069)	-	N/A
Profit before tax	2 347 395	1 288 800	82.1%
Income tax	(293 424)	(166 453)	76.3%
Net profit for the year	2 053 971	1 122 347	83.0%

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Directors' report (continued)

Key performance indicators	31.12.2019	(in euro or %)	Change
		31.12.2018	
Total assets	859 460 782	1 290 656 547	(33.4%)
Net interest income	2 294 401	547 195	319.3%
Operating profit	4 478 264	1 483 985	201.8%
Profit before tax	2 347 395	1 288 800	82.1%
Net profit for the year	2 053 971	1 122 347	83.0%
Return on equity (ROE) %	1.4%	0.7%	0.7%
Number of Medium Term Notes in issue	30	57	(47.4%)
Number of staff	3	3	0.0%
Cost to Income Ratio	12.3%	29.8%	17.5%

The Company ended the financial year on a positive note and recorded a profit before tax of Euro 2.35 million (31 December 2018: profit of Euro 1.29 million). This positive result was influenced by an increase in net gains from investment in financial instruments which raised from Euro 2.96 million in 2018 up to Euro 5.28 million in 2019 and in net interest income which increased from Euro 0.55 million in 2018 to Euro 2.29 million in 2019.

Despite a decrease of Euro 21.75 million (31 December 2018: Euro 30.60 million) in 2019 interest income, primarily due to a decrease in interest income from derivative instruments and interest from loans and advances to customers, the overall net interest income increased from Euro 0.55 million in 2018 to Euro 2.29 million. Interest expense also decreased year-on-year to Euro 19.46 million (2018: Euro 33.0 million). The decrease in interest expense on derivative financial instruments and the decrease in interest on debt securities significantly influenced the overall decrease in interest expense. These movements resulted in an overall decrease in net interest expense of 35% for the year ended 31 December 2019 compared with the prior year.

Net fees and commissions expense increased by 77.7% year-on-year to Euro -2.47 million (31 December 2018: Euro -1.39 million). The increase is a result of increase in the fees paid on the financial guarantees provided by Haitong Bank.

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Directors' report (*continued*)

The total gains from investments in financial instruments raised to Euro 5.28 million (31 December 2018: 2.96 million) representing a year-on-year increase of 78.5%. This increase was significantly influenced by the increase in net gains from financial assets and financial liabilities at fair value through profit or loss which yielded a gain of Euro 2.92 million (31 December 2018: Euro 2.64 million) and in net gains from financial assets at fair value through OCI that amounted to Euro 3.95 million (31 December 2018: loss of Euro 11). The overall positive result arising from investments in financial instruments is tinted by a net loss of Euro 1.30 million arising from derecognition of financial assets measured at amortised cost (31 December 2018: Euro 6 230) and a net loss on foreign exchange differences of Euro 0.29 million (31 December 2018: gain of Euro 0.32 million).

When looking closer at the breakdown of the result arising from financial instruments at fair value through profit or loss, it should be noted that all the components of this heading yielded a gain in 2019. Net gain from trading and non-trading fixed income securities amounted to Euro 0.42 million (31 December 2018: 0.82 million), the net result from derivative financial instruments yielded a gain of Euro 3.56 million (31 December 2018: 4.56 million) and net gain on debt securities issued amounted to Euro 0.68 million (31 December 2018: loss of Euro 2.74 million). However, while all components of financial assets at fair value through profit or loss are in the positive territory, both results from trading and non-trading fixed income securities as well as results from derivative financial instruments recorded year-to-year decreases which is significantly influenced by the ongoing deleveraging process.

Positive FX movements within the results from derivatives, gave rise to income on exchange rate contracts increasing to Euro 3.27 million (31 December 2018: Euro 2.84 million).

Regarding impairment charges, the level of impairments of loans and advances to customers in 2019 has practically remained unchanged with the charge amounting to Euro 0.27 million (31 December 2018: Euro 0.20 million). The increase in impairment charges this year refers only to loans and advances to banks, with the loan to Haitong Bank no longer being an intercompany loan. The impairment charge on this loan amounted to Euro 1.89 million.

Total operating expenses remained consistent with the prior year amounted to Euro 0.62 million (31 December 2018: Euro 0.63 million) as did the Company headcount.

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Directors' report (*continued*)

Return on Equity ratio increased 0.7% to 1.4%, reflecting the increased net profit for the year. Return on Equity is the ratio of Net Profit to Total Equity. As the Company paid a dividend in December 2019, to ensure a meaningful year on year comparison, Total Equity for 2019 includes 92 per cent of the dividend plus the equity figure at 31 December 21019. Another positive note saw the Cost to Income ratio, which measures the relation between total income and operating costs, decrease from 29.8% to 12.3%. This reflects an increase in total income from Euro 2.11 million in 2018 to Euro 5.10 million in 2019 while operating costs remain closely monitored and consistent with the prior year.

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Directors' report *(continued)*

Developments in assets, liabilities and equity

Statement of Financial Position	(in euro)		
	31.12.2019	31.12.2018	Change
Cash and cash equivalents	12 495 835	2 120 305	489.3%
Trading and non-trading financial assets	2 168 283	3 721 220	(41.7%)
Derivative financial assets	29 142 732	39 689 905	(26.6%)
Financial assets at FV through OCI	-	256 534 318	(100.0%)
Loans and advances to banks	645 955 621	749 563 078	(13.8%)
Loans and advances to customers	138 092 421	228 096 863	(39.5%)
All other assets	31 605 890	10 930 858	189.1%
Total assets	859 460 782	1 290 656 547	(33.4%)
Amounts owed to credit institutions	749 783 072	939 214 786	(20.2%)
Derivative financial liabilities	31 704 252	42 949 659	(26.2%)
Debt securities issued	68 290 492	150 293 698	(54.6%)
All other liabilities	1 308 784	1 932 775	(32.3%)
Total liabilities	851 086 600	1 134 390 918	(25.0%)
Share capital	825 000	825 000	0.0%
Capital contribution	-	150 000 000	(100.0%)
Fair value reserve	358 015	303 433	18.0%
Profit brought forward	5 137 196	4 014 849	(28.0%)
Net profit/(loss) for the financial year	2 053 971	1 122 347	83.0%
Total equity	8 374 182	156 265 629	(93.7%)
Total equity and liabilities	859 460 782	1 290 656 547	(33.3%)

Total assets of the Company amounted to Euro 859 million at 31 December 2019 and were Euro 431 million lower than the corresponding total at the end of the previous year (31 December 2018: 1 290 million). The decrease of 33.4% is significantly influenced by a repurchase of financial assets at FV through OCI by the issuer, further decrease in loans and advances to customers, the fall in loans and advances to banks as well as the decline in derivative financial assets.

The company disposed of its financial assets at fair value through other comprehensive income portfolio through the repurchase of a bond ISIN PTESSYOM0012 by the issuer Haitong Bank, a move that realised a Euro 3.95 million gain for the Company.

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Directors' report *(continued)*

At 31 December 2019 loans and advances to customers were Euro 138 million (31 December 2018: 228 million), a development which reflects the continued deleveraging process over the past number of years as the appetite for capital intensive projects decreased and the Haitong Group adopted a revised business model to attain strategic repositioning. The model is focused upon a reduced balance sheet, with an objective of attaining a fee based business model leveraging less capital intensive transactions.

Derivative financial assets decreased by Euro 10.5 million compared with the prior year, a 26.6% year-on-year decrease in line with the decrease in debt securities issued.

Two asset classifications increased in 2019. Cash and cash equivalents increased by Euro 10.37 million. An increase of Euro 20.73 million in other assets when compared with the total at 31 December 2018 represents a 189.1% year-on-year increase is a development reflecting a new collateral account with Haitong Bank.

Significantly influenced by the decline in amounts owed to credit institutions and debt securities issued, total liabilities at 31 December 2019 were Euro 851 million (31 December 2018: Euro 1 134 million). A decrease of Euro 82.00 million in debt securities issued when compared with the total at 31 December 2018 represents a 54.6% year-on-year decrease. The number of notes in issue decreased from 57 in December 2018 to 30 as of 31 December 2019 indicating a diminished market appetite for structured securities in 2019. Derivative financial liabilities decreased to Euro 31.70 million at 31 December 2019 (31 December 2018: Euro 42.95 million), a development representative of the continued move towards a reduced balance sheet as outlined above.

The Company's funding requirements however are sufficiently satisfied through a loan facility provided by a syndicate of Chinese financial institutions. In advance of the Company sale, the fixed term loan from the Company's former Parent has been repaid early. In addition, Money Market instruments amounting to Euro 49.6 million at 31 December 2018 were no longer required hence the 20.2% decrease in the classification of amounts owed to credit institutions from Euro 939 million as of 31 December 2018 to 749 million as of 31 December 2019.

Notwithstanding their responsibilities as acknowledged throughout this report, The Board of Directors are satisfied with the accuracy of results for the financial year, which are set out in the statement of profit or loss on page 28 and in the supporting notes.

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Directors' report *(continued)*

Future development in earnings, assets, liabilities and equity of Haitong Investment Ireland plc

The Company achieved a positive result in 2019 and recorded a profit before tax of Euro 2.35 million. The main drivers of this positive outcome have been detailed in previous sections.

In the recent past, the Company's loan portfolio has incurred significant impairment charges resulting in depressed year-end results. Upon the adoption of IFRS 9 in 2018, the Company's loan portfolio has undergone extensive impairment analysis. With minimal issuance activity in the portfolio, notwithstanding exceptional events it is anticipated the current portfolio will not require additional annual impairment charges that negatively influence the Company's profitability capacity, as has been the case over recent financial years. However it is noted this outlook is subjective in light of the COVID-19 pandemic and is assuming external counterparty's can meet their obligations. Following the economic shock suffered worldwide in early 2020, the risk of default in loan portfolios has increased considerably and consequently the Company's future earning may well be negatively affected.

The prospect of future earnings for the Company will also be significantly influenced by the level of investments in financial assets in forthcoming years. As the Company continues on a path to strategic repositioning, the portfolio of loans and advances to customers has been restructured and thus decreased in value. While the restructuring process had a positive effect on the health of the Company's portfolios by way of reduced impairment provisions, it is anticipated the decreased level of investments will most likely generate decreased revenue. Nonetheless, this expectation is dependent on external factors beyond the Company's control. Accordingly it is noted Quarter 1 2020 has seen adverse market developments comparable to the Great Depression of the 1930s according to the International Monetary Fund ("IMF"). They forecast worldwide economies to contract by 5% as a result of the pandemic, with losses expected to "dwarf" those suffered in the global financial crisis in 2008. Action taken by Governments throughout the world has seen citizens in a state of lockdown as they are confined to their homes, consequently bringing economic activity to a standstill. Economic headlines thus far in 2020 have been focused on rising unemployment, corporate failures as Country's suffer increased budget deficits as their fiscal revenues diminish. Values on financial markets tumbled in March as the COVID-19 virus took hold in mainland Europe and the USA, which forced the EU and the Federal Reserved to implement stimulus packages. Early April has seen markets rally, however the future months remain highly uncertain, as there appears no resolution to the COVID-19 pandemic until a vacation is available. Consequently, the Company is operating in a period of great uncertainty, as are the Company's transaction counterparties. Notwithstanding the improvement in the quality of the Company's credit portfolio, difficult market conditions give rise to greater risk of defaults and the Company is now exposed to such a heightened levels of risk in 2020. As of quarter

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Directors' report *(continued)*

In 2020, the Company had not suffered any defaults, however with a deep worldwide recession looming 2020 will be a difficult period and create challenges which potentially could adversely affect the Company's performance this year. Together with the European Central Bank ("ECB"), financial regulators worldwide have identified the need to support business in the face of this crisis. The ECB has committed to action liquidity policies and an asset purchase scheme to the value of 7.3% of the EU's GDP. For the remaining three quarters of 2020, the ECB is committed to monthly asset purchases amounting to a total Euro 1 trillion. Such a sizable commitment indicates the enormity of the challenges now face by European based operators that have seen their cash flows rapidly eroded with citizens confined to their homes. Currently it is not possible to definitively specify the exact consequences of these market conditions nor can anyone be sure the actions of the ECB and Central Banks alike will be sufficient to help maintain those companies that need assistance. Similarly, the specifics for Haitong Investment Ireland plc are unknown at this time, however it is noted that the Company's activity is primarily with European based organisations and the risk of defaults in the Eurozone has increased considerably even in the face of regulators commitments.

Total assets declined by Euro 431 million in 2019 and total liabilities declined by Euro 283 million compared with prior year. The reduction reflects the shift away from capital intensive transactions that were typically a significant component of the Company balance sheet. Furthermore, the decline demonstrates the decrease in investor appetite for the Company's structured debt issuances, which has been an evident trend for some time. With medium term notes reaching natural maturity and some being redeemed early, it is anticipated that the value of debt securities issued will certainly reduce by 31 December 2020. This will have a consequence on the value of derivatives held for risk management purpose. However, it should be noted that the objective of the Company's business model is the provision of funding and investment of these funds in certain financial instruments or elsewhere in the broader Haitong Securities Group, so any development in total assets is interlinked with the strategic requirements of the ultimate Parent. It has to be noted however, that the completed sale of the Company to Haitong International Holdings may bring a new flow of transactions.

Opportunities, risks and uncertainties facing the Company

Prior to the year-end 2019, the board of Haitong Bank S.A completed the sale of Haitong Investment Ireland p.l.c. It is anticipated this sale within the Haitong Group will generate new opportunities for the Company, as the Group may exploit the scope of an Irish platform through increased asset diversification. Previously as a subsidiary of Haitong Bank SA, the extent of the Company's diversification was linked to the strategy and

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Directors' report *(continued)*

requirements of the former Parent. However following the sale to Haitong International Holdings Limited an opportunity may arise for the Company to become more autonomous with the ability to engage in broader business activities. The move will be instrumental for Haitong Investment Ireland plc to gain a new and more central role in the Haitong Group.

It is noted the ultimate shareholder of Haitong Investment plc, Haitong Securities Co. Ltd recorded a significant net profit of Euro 1.2 billion for year-end 2019. This result signifies an 83% YoY increase and the Company has announced a share capital increase of up to RMB 20 (EUR 2.5 billion) to reinforce the balance sheet and support growth. The commitment of the Haitong Group to its European based entities remains steadfast and underpinned by an ultimate Parent of considerable size and strength it is anticipated the Company's future development within the Haitong Group will be one of diversification and growth.

The effects of the COVID-19 virus were witnessed in early 2020 as the World Health Organization declared the upsurge to be a pandemic situation. As outlined previously this situation and a prolonged lockdown of citizens worldwide could have significant impacts on the economic global backdrop that in turn poses a threat to the Company's performance as well as undermining future development opportunities.

On 31 January 2020, the United Kingdom ("UK") left the European Union ("EU") and entered an 11-month transition period. Initial progress in talks to establish the shape of future relationships between the EU and the UK has been severely impacted by the COVID-19 pandemic and aligned with the resultant worldwide economic downturn, the substance of "Brexit" is more uncertain than ever. While the Company's current direct exposure to the UK financial markets and UK domiciled entities is minimal, the potential for Brexit to exert an influence on the wider macroeconomic environment remains a threat and such implications for economic conditions and market prices could depress asset values within the Company portfolio. Furthermore, a downturn in the UK may limit future opportunities in that jurisdiction, while the loss of one of its bigger member states will not have a positive effect on the European Union. The possibility of Brexit without the establishment of a trade agreement remains a considerable threat for European countries, and by consequence, a threat to the Company with European counterparties exposure. Uncertainties caused by the challenges to approve a Brexit deal led the GBP to fall 5% in 2019 vs the USD and for the EUR/USD to fall by 4.7%.

Historically the Company's Euro Medium Term Note Programme has been the conduit utilised to finance the Company's investment portfolio. Both 2018 and 2019 witnessed a further decrease in the value of debt securities issued as a significant number of notes were redeemed early and the level of new issues was

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Directors' report (*continued*)

depressed. These redemptions have realised losses, and this trend may be evident in the future depending on note holder behaviour and prevailing market conditions.

As outlined earlier European economic activity is entering a period of steep decline because of the COVID-19 pandemic. Consequently, the Company's counterparty risk is now considerably greater. While no defaults were seen in quarter 1 2020, nobody can be certain this will continue throughout the remainder of 2020. The concentration of the Company's non Group counterparty's are diverse and it is hoped the greater values of concentration in industries such as Power, Construction & Engineering, Healthcare and Transportation Infrastructure may well be more robust than those being service based in nature. However the risk of Company debtors being unable to meet contractual obligations and meet loan repayment commitments is now a considerable risk. Throughout the credit crisis twelve years previously, prevailing market conditions saw liquidity issues in the marketplace negatively affecting the Company's loan portfolio with repayment defaults, causing a severe level of impairment losses to be recognised in previous years. Despite significant improvement to the health of the Company's portfolios, this risk continues to exist.

An anticipated evolution to the methodology applied in measuring financial instruments is deemed an uncertainty to be facing the Company. For example market movements may change the valuation and pricing of derivatives. Such adjustments could have a negative impact on Company income.

As market parameters change, they could well have an impact on collateral requirements, which in turn effect liquidity requirements. Any potential changes in national and international regulatory or fiscal requirements are factors of uncertainty giving rise to risks for the Company. Future earnings may well be affected by such developments.

Changes to Company workforce, specifically in key positions are an operational risk for the Company. As a Company with a small workforce, operational knowledge is concentrated within a small number of people thereby creating considerable operational risk.

Operational risk arising from failed or inadequate internal process is deemed present but low among a small workforce who work very closely on a daily basis and where there are very clear reporting lines in place and monitored regularly in conjunction with the Board of Directors.

Similarly, external events are deemed to give rise to low operational risk and considering the location of the Company and the stability of its jurisdiction.

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Directors' report *(continued)*

System failure can create operational risk, however the Company's systems are managed by the Haitong Bank's IT department in Lisbon under a service level agreement and the provision for disaster recovery is contingent in the service received.

Considering the significance of loans and advances to customers within the Company's portfolios any changes to market rates including interest rates can have a positive or adverse effect on the Company's income. As of year-end 2019, 86% of the carrying value of the Company's loans and advances to customers are variable rate loans and thereby exposed to changes in the 3- month and 6-month Euribor and Libor rates. The outlook for 2020 is that the rates remain stable.

Financial risk management objectives and policies

The Company works directly with the Bank to manage operational, financial and other types of risks encountered. As an internal control the treasury and investment guidelines outline the procedures for authorisation of transactions and permissible limits. They also set out the process of initiation and the types of transactions the Company is allowed to enter into. These guidelines are periodically updated by way of Board resolution.

Risk management and control

In order to facilitate operational efficiency within the Company an Executive Committee was established in December 1999. The Company's Executive Committee, which includes members of the Board and Management, concerns itself with the overview and sanctioning of all the Company's transactions and credit limits. All transactions are approved on an individual basis pursuant to the guidelines and signing regulations approved by the Executive Committee. The Executive Committee also authorises the use of derivatives in accordance with the Company's guidelines and credit policy limits. Under a new Service Level Agreement ("SLA") between the Company and the Bank, Haitong Bank's risk control division operates as an interactive monitoring service for the Company's operations and provides ongoing guidance, information in respect of counterparty exposures, counterparty and credit risks and limits as well as general counterparty information. The Company's Executive Committee then uses the details provided under the SLA to monitor credit and other operational risks before approving transactions locally following an analysis of all existing transactions where any potential or new transactions are undertaken for the same security or counterparty. Upon review and satisfaction of all relevant details, the Company's management formally approves a transaction by way of an individual Executive Committee resolution.

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Directors' report (continued)

In order to minimise its exposure to Credit and Sovereign risk, the Company transfers risk to third parties by way of credit default swaps, credit linked notes, equity options and equity swaps. This transfers the inherent risk on the principal and accrued interest to the counterparty in the event of a credit event or default.

Financial instruments used for risk management purposes are contracts or agreements whose value is derived or determined from another financial asset or instrument's underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

The table below describes the significant activities undertaken by the Company, the related risks associated with such activities and the type of derivative instruments used to manage those risks.

Activity	Risk	Derivative employed
Fixed rate Euro Medium Term Note issues.	Sensitivity to changes in interest rates.	Interest rate swaps.
Equity linked to Euro Medium Term Note issues.	Sensitivity to changes in equity values.	Equity linked options and equity swaps.
Investment/funding in foreign currency.	Sensitivity to changes in foreign exchange rates.	Cross currency interest rate swaps and funding "In-currency."
All asset classes.	Sensitivity to country and counterparty risk.	Credit default swaps.
Syndicated loans and external funding.	Credit, conversion, counterparty, sovereign and market risk, interest and exchange rate fluctuations.	Third party guarantees, credit linked notes and credit default swaps.
Currency / currency rate pairs and interest rates.	Sensitivity to movements in exchange rates and interest rates.	FX options, forward rate agreements and FX forwards.

Further details of inherent risks faced by the Company and their respective management and mitigation are outlined in Note 34 to the Financial Statements.

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Directors' report (*continued*)

Corporate Governance Statement

The Company is subject to and complies with the Companies Act 2014 and the Listing Rules of Euronext Dublin Stock Exchange (“Euronext”), which are applicable to debt listed companies. The Company does not apply additional requirements in addition to those required by the foregoing.

The directors of the Company are responsible for establishing and maintaining adequate internal control and risk management systems in relation to the financial reporting process. Such systems are designed to manage rather than eliminate the risk of error or fraud in achieving the Company’s financial reporting objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The directors of the Company are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable it to ensure that the Financial Statements are prepared in accordance with International Financial Reporting Standards and comply with the Companies Act 2014 and the Euronext Listing Rules.

The measures taken by the directors to secure compliance with the Company’s obligation to keep adequate accounting records include the use of appropriate systems and procedures in conjunction with an out-sourcing arrangement provided by the Bank and the employment of competent personnel.

The Company has procedures in place to ensure all relevant accounting records are properly maintained and are readily available, including production of annual Financial Statements. The annual Financial Statements of the Company are required to be approved by the Board of Directors of the Company and filed with the Euronext before 30 April of each year. The statutory Financial Statements are required to be audited by an independent auditor who report annually on their findings. The Board evaluates and discusses significant accounting and reporting issues as the need arises.

Shareholder Meetings

The convening and conduct of shareholders’ meetings are governed by the Articles of Association of the Company (the “Articles”) and the Act. The Company is required to hold an annual general meeting each year and not more than eighteen months may lapse between the date of one annual general meeting of the Company and that of the next. The directors and or the Company Secretary may call general meetings and the notice requirements for the same are outlined in the Articles. The necessary quorum for a general meeting (other than an adjourned meeting) will be two Directors or persons acting as an alternate for a director.

Haitong Investment Ireland plc

Directors' report *(continued)*

Composition and Operation of the Board

The business of the Company is managed in Ireland by the directors who exercise all such powers of the Company as governed by the Act or by the Articles. A director may, and the secretary at the request of a director shall, call a meeting of the directors. Any director may waive notice of any meeting and any such waiver may be retrospective. If the directors so resolve, it shall not be necessary to give notice of a meeting of directors to any director or alternate director who, being a resident in the State, is for the time being absent from the State. Unless otherwise determined by the Company in a general meeting, the number of directors shall not exceed seven. Currently the Board of Directors of the Company is composed of seven directors, being those listed on page 2 of these Financial Statements.

The directors may meet together for the dispatch of business, adjourn and otherwise regulate their meetings as they think fit. The quorum necessary for the transaction of the business of the directors may be fixed by the directors, and unless so fixed at any other number, it will be three. Questions arising at any meeting of the directors are determined by a majority of votes and in the case of an equality of votes the chairman of the meeting will have a casting vote. A director may, and the Company's Secretary on the request of a director will, at any time call a meeting of the directors.

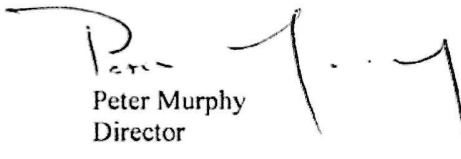
Audit committee


As the principal duties of an Audit committee are completed by the Board of Directors, the Company has decided not to have a separate Audit committee.

Auditor

Deloitte Ireland LLP, Chartered Accountants and Statutory Audit Firm appointed as auditors on 01 March 2018 have indicated their willingness of continuance in office in accordance with Section 383 (3) of the Companies Act 2014.

On behalf of the board


Peter Murphy
Director


António Pacheco
Director

28 April 2020

Haitong Investment Ireland plc

Directors' report (*continued*)

Directors' responsibilities statement

The directors are responsible for preparing the directors' report and the financial statements in accordance with the Companies Act 2014.

Irish company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union ("relevant financial reporting framework").

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as at the financial year end date and of the profit or loss of the company for the financial year and otherwise comply with the Companies Act 2014.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies for the Company and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the company, enable at any time, the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy, to enable them to ensure that the financial statements and directors' report comply with the Companies Act 2014 and with the European Communities (Transparency) Regulations 2007 and Central Bank (Supervision and Enforcement) Act 2013 Regulations 2015 (as amended) and the Euronext Listing Rules and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also required by the Transparency (Directive 2004/109/EC) Regulations 2007 (the "Transparency Regulations"), to include a management report containing a fair review of the business and a description of the principal risks and uncertainties facing the Company.

Haitong Investment Ireland plc

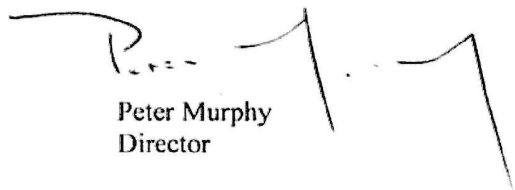
Directors' report (*continued*)

Responsibility Statement, in accordance with the Transparency Regulations

Each of the directors, whose names and functions are listed on page 2 of these Financial Statements confirm that, to the best of each person's knowledge and belief:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities and financial position of the Company at 31 December 2019 and its result for the year then ended; and
- the Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the board



Peter Murphy
Director



António Pacheco
Director

28 April 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAITONG INVESTMENT IRELAND PLC

Report on the audit of the financial statements

Opinion on the financial statements of Haitong Investment Ireland plc (the 'company')

In our opinion the financial statements:

- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2019 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:

- the Statement of Profit or Loss;
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flows; and
- the related notes 1 to 35, including a summary of significant accounting policies as set out in note 2.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA), as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit matter that we identified in the current year was:</p> <ul style="list-style-type: none"> • The recoverability and impairment assessment on loans and advances to customers. <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .</p>
Materiality	<p>The materiality that we used in the current year was €4.3m which was determined on the basis of approximately 0.5% of the Total Assets of the Company.</p>
Scoping	<p>Our audit is a risk based approach taking into account the structure of the company, types of investments, the involvement of the third parties service providers, the accounting processes and controls in place and the industry in which the company operates.</p>

Significant changes in our approach

We did not adopt any significant changes in our audit approach.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability and impairment assessment on loans and advances to customers

Key audit matter description



As of 31 December 2019, the accumulated impairment losses in loans to customers, amount to €1.5m. Gross balance for loans and advances to customers amounted to €125m. The impairment losses represent management's best estimate of the expected losses in the company's loan portfolio, at the reference date of the financial statements.

At 31 December 2019 these impairment losses were determined using the methodologies described in Note 2.3 to the financial statements, in accordance with IFRS 9 – Financial Instruments ("IFRS 9").

According to IFRS 9, the company classifies its loans to customers portfolio in 3 stages based on the changes in its credit risk since initial recognition. This classification requires the determination of the criteria for a significant increase in credit risk, and for being classified as credit impaired.

Considering the characteristics of the company's loan portfolio, a significant part of its impairment losses result from individual impairment analysis and conclusion on the appropriate classification of ECL stages. The stage classification and determination of impairment losses through individual analysis is subjective due to the level of judgement applied by management in the identification of significant increase in credit risk and estimating the present value of the amount that the company expects to recover from the loan, which incorporates assumptions about future events and managements intentions.

Due to the above, and taking into account the materiality of the amounts in the context of the financial statements, the determination of loan impairment was considered a key audit matter.

How the scope of our audit responded to the key audit matter



We analysed the relevant internal control procedures, including IT system controls, implemented by the company in the process of determining impairment losses for its loan portfolio.

We reviewed the methodology implemented by management in line with IFRS 9, including classification and impairment, and analysed it for reasonableness considering the requirements of the standard.

We selected a sample of customers from the company's loan portfolio for which we analysed the stage classification, considering the criteria defined by the company and the requirements of IFRS 9.

For a sample of customers, we analysed the following:

- Stage classification considering the company criteria for a significant increase in credit risk.
- The reasonableness of the estimated impairment losses recorded in the financial statements based on and independent review of management's assessment of the circumstances of the case, valuation of the collateral received and the expected future cash flows derived from case strategy.

For a sample of customers subject to modelled impairment, we recalculated the impairment losses considering the methodology and assumptions defined by the company. We reviewed the model inputs for reasonableness and the approach for consistency with IFRS 9.

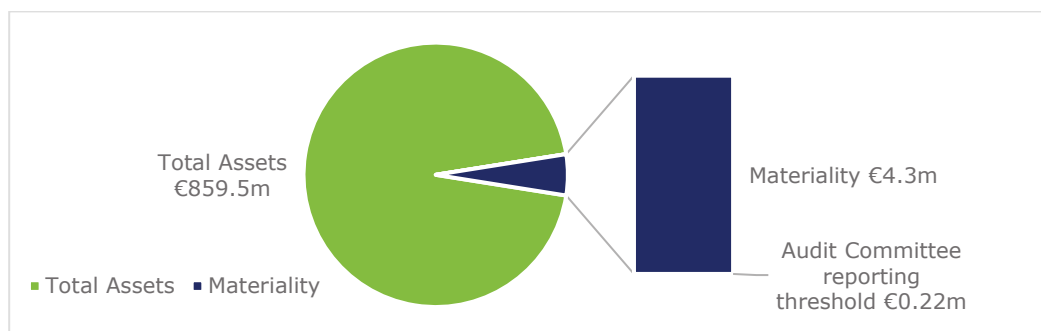
We reviewed the disclosures related to impairment for loans to customers, considering the applicable accounting framework.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be €4.3m which is approximately 0.5% of the Net Assets. We have considered the Net Assets to be the critical component for determining materiality. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the company, reliability of control environment.



We agreed with the Board of Directors that we would report to them any audit differences in excess of €0.22m as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This included an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Audited Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

In establishing the overall approach to the audit, we determined the type of work that required the involvement of component audit teams. As a result, we included Deloitte Portugal as part of our engagement team. Where the work was performed by Deloitte Portugal, we gave instruction as to the type of work to be performed and reviewed the results of this work to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements. We also assessed the competency of the specialists performing the work. We determined the level of involvement we needed to have in their work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Directors' Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may be reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinion on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

- In our opinion the information given in the directors' report is consistent with the financial statements and the directors' report has been prepared in accordance with the Companies Act 2014.

Corporate Governance Statement

We report, in relation to information given in the Corporate Governance Statement on page 16 that:

- In our opinion, based on the work undertaken during the course of the audit, the information given in the Corporate Governance Statement pursuant to subsections 2(c) and (d) of section 1373 of the Companies Act 2014 is consistent with the company's statutory financial statements in respect of the financial year concerned and such information has been prepared in accordance with the Companies Act 2014.
- Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in this information.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

Other matters which we are required to address

We were appointed by the Board of Directors on 01 March 2017 to audit the financial statements for the financial year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years covering the years ending 31 December 2016 to 31 December 2019.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the company in conducting the audit.

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISA (Ireland) 260.



John McCarroll
For and on behalf of Deloitte Ireland LLP
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2

29 April 2020

Haitong Investment Ireland plc

HAITONG INVESTMENT IRELAND PLC STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2019

(in euro)

	Notes	31.12.2019	31.12.2018
Interest and similar income	5	14 368 511	17 793 195
Other interest income	5	7 384 907	12 808 216
Interest expense and similar charges	5	(9 752 394)	(10 130 093)
Other interest expense	5	(9 706 623)	(19 924 123)
Net interest income		2 294 401	547 195
Fee and commission income	6	3 170 318	2 666 209
Fee and commission expense	6	(5 644 284)	(4 058 804)
Net gain from financial assets and liabilities measured at fair value through profit or loss	7	2 924 195	2 640 945
Net gain/(loss) from derecognition of financial assets measured at fair value through OCI	8	3 950 099	(11)
Net loss from derecognition of financial assets measured at amortised cost	9	(1 301 705)	(6 230)
Net gain/(loss) from foreign exchange differences	10	(288 376)	324 193
Other operating income	11	-	694
Total income		5 104 648	2 114 191
Staff costs	12	(308 425)	(282 940)
General and administrative expenses	13	(228 542)	(275 346)
Depreciation	20	(39 015)	(4 478)
Other operating expenses	11	(50 402)	(67 442)
Operating expenses		(626 384)	(630 206)
Operating profit		4 478 264	1 483 985
Impairment of loans and advances to customers and banks	14, 19	(2 169 750)	(203 221)
Reversal of impairment of other assets	14	78 950	8 036
Provisions net of reversals	14	(40 069)	-
Total impairments and provisions		(2 130 869)	(195 185)
Profit before taxation		2 347 395	1 288 800
Income tax			
Deferred taxation	21	-	-
Current taxation	21	(293 424)	(166 453)
Profit for the financial year		2 053 971	1 122 347

Haitong Investment Ireland plc

**HAITONG INVESTMENT IRELAND PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019**

(in euro)

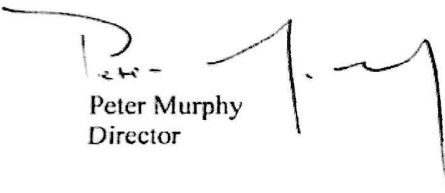
	31.12.2019	31.12.2018
Profit for the financial year	2 053 971	1 122 347
Other comprehensive profit/(loss) for the year		
Items that cannot be reclassified to profit or loss		
Effect of own risk on valuation of liabilities	957 240	4 106 669
Items that may be reclassified to profit or loss		
Changes in Fair Value Net of Taxes	(902 658)	(4 759 329)
Other comprehensive profit/(loss) for the year	<u>54 582</u>	<u>(652 660)</u>
Total comprehensive profit for the year	<u><u>2 108 553</u></u>	<u><u>469 687</u></u>


Haitong Investment Ireland plc

HAITONG INVESTMENT IRELAND PLC STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

(in euro)

	Notes	31.12.2019	31.12.2018
Assets			
Cash and cash equivalents	15	12 495 835	2 120 305
Financial assets at fair value through profit or loss			
Securities held for trading	16	152 710	418 019
Derivative financial assets	16	29 142 732	39 689 905
Non-trading financial assets	16	2 015 573	3 303 201
Loans designated at fair value through profit or loss	16	14 218 673	-
Financial assets at fair value through other comprehensive income	17, 31	-	256 534 318
Financial assets measured at amortised cost			
Loans and advances to banks	18	645 955 621	749 563 078
Loans and advances to customers	19	123 873 748	228 096 863
Property and equipment	20,31	173 379	2 629
Current tax assets	21	6 491	4 870
Deferred tax assets	21	2 207 137	2 220 370
Other assets	22	29 218 883	8 702 989
Total assets		859 460 782	1 290 656 547
Liabilities			
Financial liabilities measured at amortised cost			
Amounts owed to credit institutions	23	749 783 072	939 214 786
Financial liabilities at fair value through profit or loss			
Derivative financial liabilities	16	31 704 252	42 949 659
Debt securities issued	24	68 290 492	150 293 698
Current tax liabilities	21	305 820	12 396
Deferred tax liabilities	21	123 705	128 951
Other liabilities	25, 32	879 259	1 791 428
Total liabilities		851 086 600	1 134 390 918
Equity			
Share capital	26	825 000	825 000
Capital contribution	27	-	150 000 000
Fair value and other reserves	27	358 015	303 433
Profit brought forward	27	5 137 196	4 014 849
Profit for the financial year		2 053 971	1 122 347
Total equity		8 374 182	156 265 629
Total equity and liabilities		859 460 782	1 290 656 547


Peter Murphy
Director


António Pacheco
Director

28 April 2020

Haitong Investment Ireland plc

HAITONG INVESTMENT IRELAND PLC STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

(in euro)

	Share capital	Capital Contribution	Fair value reserve and other comprehensive income	Profit/(loss) brought forward	Profit/(loss) for the year	Total equity
Balance as at 31 December 2017	825 000	150 000 000	1 628 686	4 233 647	(218 798)	156 468 535
IFRS 9 adoption impact (Note 31)	-	-	(672 593)	-	-	(672 593)
Balance as at 1 January 2018	825 000	150 000 000	956 093	4 233 647	(218 798)	155 795 942
Changes in Fair Value net of tax	-	-	(4 759 329)	-	-	(4 759 329)
Effect of own risk on valuation of liabilities	-	-	4 106 669	-	-	4 106 669
Profit for the year	-	-	-	-	1 122 347	1 122 347
Total comprehensive income for the year	-	-	(652 660)	-	1 122 347	469 687
Transfer to retained earnings	-	-	-	(218 798)	218 798	-
Balance as at 31 December 2018	825 000	150 000 000	303 433	4 014 849	1 122 347	156 265 629
Changes in Fair Value net of tax	-	-	(902 658)	-	-	(902 658)
Effect of own risk on valuation of liabilities	-	-	957 240	-	-	957 240
Profit for the year	-	-	-	-	2 053 971	2 053 971
Total comprehensive income for the year	-	-	54 582	-	2 053 971	2 108 553
Transfer to retained earnings	-	(150 000 000)	-	151 122 347	(1 122 347)	-
Dividend payment	-	-	-	(150 000 000)	-	(150 000 000)
Balance as at 31 December 2019	825 000	-	358 015	5 137 196	2 053 971	8 374 182

Haitong Investment Ireland plc

HAITONG INVESTMENT IRELAND PLC STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

(in euro)

	Notes	31.12.2019	31.12.2018
Cash flows from operating activities			
Interest and similar income received		23 054 600	31 432 585
Interest expense and similar charges paid		(19 938 750)	(31 065 807)
Interest charged on lease liabilities	5	(2 665)	-
Fee and commission income received	6	3 170 318	2 666 209
Fee and commission expense paid	6	(5 644 284)	(4 058 804)
Cash payments to employees and suppliers	12, 13	(536 967)	(558 286)
		102 252	(1 584 103)
Cash flows arising from			
Trading and non-trading securities		235 135	1 950 534
Derivatives financial assets and liabilities	17	2 859 478	3 479 073
Loans and advances to banks		102 000 000	-
Loans and advances to customers	19	88 622 842	62 349 757
Other operational assets and liabilities	22,25	(21 977 739)	5 313 194
Net cash flow provided by operating activities before income taxes		171 841 968	71 508 455
Income taxes paid		(1 621)	(697)
Net cash flow provided by operating activities		171 840 347	71 507 758
Cash flows from investing activities			
Sale of financial assets at FVOCI	17	258 330 289	143 043 081
Acquisition of financial assets at FVOCI	17	-	(250 000 000)
Net cash flow used in investing activities		258 330 289	(106 956 919)
Cash flows from financing activities			
Debt Securities issued	24,29	-	4 165 721
Debt Securities (repurchased)	24,29	(80 224 744)	(74 982 699)
Amounts borrowed from credit institutions	23,29	-	49 627 948
Repayment of amounts owed to credit institutions	23,29	(189 531 327)	-
Repayment of the principal portion of lease liability	29, 32	(38 935)	-
Dividends paid	27	(150 000 000)	-
Net cash used in financing activities		(419 795 006)	(21 189 030)
Net (decrease)/increase in cash and cash equivalents		10 375 630	(56 638 191)
Cash and cash equivalents at the beginning of the year		2 120 305	58 758 496
Cash and cash equivalents at the end of the year		12 495 935	2 120 305
		10 375 630	(56 638 191)
Cash and cash equivalents include:			
Cash	15	285	490
Deposits with banks	15	12 495 650	2 119 815
Total		12 495 935	2 120 305

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Notes to the financial statements for the financial year ended 31 December 2019

The significant accounting policies that the Company applied in the preparation of the Financial Statements are set out in this section.

Note 1 – Activity

Haitong Investment Ireland plc is a public company limited by shares, which is registered in Ireland. Its registration number is 253333 and its registered office is located at Riverside One, Sir John Rogerson’s Quay, Dublin 2. The main activity of the Company consists of trading on its own account, the extension of credit and investing in financial instruments.

The Company’s Parent undertaking is Haitong International Holdings Limited (the “Parent” or “Haitong International” or “HIHL”) a company with its headquarters in Hong Kong, China.

The largest group in which the Financial Statements of the Company are consolidated is headed by Haitong Securities Co. Ltd.

Note 2 – Statement of accounting policies

2.1. Basis of preparation and statement of compliance

The Financial Statements of Haitong Investment Ireland plc have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as adopted by the European Union, as applicable for the year ended 31 December 2019, and in accordance with the provisions of the Companies Act 2014 (the “Act”).

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.

The Company has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2019. The accounting policies used by the Company in the preparation of its Financial Statements as at 31 December 2019 are consistent with those used in the preparation of the financial statements of the previous period, except for the changes arising from the adoption of the following standards and interpretations: IFRS 16 – Leases, IFRIC 23 - Uncertainty over Income Tax Treatments.

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Notes to the financial statements as at 31 December 2019 *(continued)*

The Company adopted IFRS 16 – Lease transactions on 1 January 2019, replacing IAS 17 – Lease transactions, which was in force until 31 December 2018. The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated. The Company did not adopt any of the requirements of IFRS 16 in prior periods. The impact from adopting this standard is presented in Note 31.

The Company adopted the interpretative standard IFRIC 23 on 1 January 2019. The assumptions and judgements made by its directors upon the adoption of IFRIC 23 are presented in Note 3.4.

The accounting standards and interpretations recently issued but not yet effective, therefore not adopted by the Company and those that the Company has just adopted in the preparation of its Financial Statements for the year ended 31 December 2019 are set out in Note 35.

The Financial Statements are presented in Euro and have been prepared under the historical cost convention, except for the assets and liabilities accounted at fair value, namely, derivative contracts, debt securities issued, financial assets and financial liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The preparation of Financial Statements in accordance with IFRS as adopted by the EU requires the application of judgement and the use of estimates and assumptions by management that affects the process of applying the Company's accounting policies and the reported amounts of certain income, expenses, assets and liabilities. Any changes to such assumptions or any difference when compared to reality may have an impact on the current estimates and judgements. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 3. These Financial Statements were approved in the Board of Directors meeting held on 24 April 2020.

2.2. Foreign currency transactions

The Financial Statements of the Company are prepared using the functional currency, which is defined as the currency of the primary economic environment in which that entity operates. In the case of the Company, the functional and presentation currency is the Euro.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are

Haitong Investment Ireland plc

Notes to the financial statements as at 31 December 2019 *(continued)*

translated to Euro at the foreign exchange rates ruling at the statement of financial position date. Foreign exchange differences arising on translation are recognised in the statement of profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies accounted for at fair value are translated to Euro at the foreign exchange rates in force as at the date of determination of their fair value. The resulting exchange differences are accounted for in the statement of profit or loss.

2.3. Financial instruments – IFRS 9

As described in Note 2.1, the Company adopted IFRS 9 – Financial Instruments on 1 January 2018, replacing IAS 39 – Financial Instruments: Recognition and Measurement, which was in force until 31 December 2017. The Company has not previously adopted any of the requirements of IFRS 9 in previous periods except for recognition of its own credit risk adjustment in the Company’s other comprehensive income.

As permitted by the transitional provisions of IFRS 9, the Company chose not to restate the comparative balances of the previous period. All the adjustments to the book values of the financial assets and liabilities at the transition date were recognised in shareholder’s equity with reference to 1 January 2018. Consequently, the changes occurred in the information disclosed in the notes to the Financial Statements arising from the amendments to IFRS 7, following the adoption of IFRS 9, were applied only to the current reporting period. The accounting policies in force after the adoption of IFRS 9 on 1 January 2018 applicable to the Company’s financial statements as at 31 December 2019, are described below. The accounting policies applicable to the comparative period (IAS 39) are described in Note 2.4.

2.3.1. Financial assets classification

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

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

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Notes to the financial statements as at 31 December 2019 *(continued)*

Financial assets classification and measurement depends on the SPPI test results (assessment of the contractual cash flows characteristics, in order to conclude if it corresponds to Solely Payments Of Principal And Interests, further referred to as “SPPI”) and the business model test.

a) Financial assets at amortised cost

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

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

The “Financial assets at amortised cost” category includes Loans and advances to banks and Loans and advances to customers.

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:

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

c) Financial assets at fair value through profit or loss

A financial asset is classified in the category “Financial assets at fair value through profit and loss” if the business model defined by the Company for its management or the characteristics of its contractual cash flows do not meet the conditions described above to be measured at amortised cost or at fair value through other comprehensive income (FVOCI).

In addition, the Company may irrevocably designate a financial asset that meets the criteria to be classified as “Financial assets at amortised 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 and their corresponding gains and losses on different bases. On the transition date and on 31 December 2019, the Company did not select this irrevocable option, having classified in this category the following subcategories:

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Notes to the financial statements as at 31 December 2019 *(continued)*

- Securities held for trading – this subcategory includes assets that are:
 - originated or acquired for the purpose of sale in the short term;
 - being part of a group of financial instruments identified and jointly managed for which there is evidence of recent actions with the aim of achieving short-term gains.
- Non-trading financial assets at fair value through profit or loss - this subcategory includes the following assets:
 - debt instruments that do not originate cash flows on specific dates, that are only payments of principal and interest on the amount of outstanding principal;
 - equity instruments, which are not classified as held for trading.
- Derivative financial assets – this subcategory includes derivative instruments that do not comply with the definition of a financial collateral agreement or have not been designated as hedging derivatives.

Gains and losses on financial assets and liabilities at fair value through profit or loss, namely, changes in fair value as well as dividends received from these portfolios are recognised as “Net gains/(losses) from financial assets and liabilities measured as fair value through profit or loss”.

Derivatives traded in organised markets, as well as OTC derivatives collateralised under ISDA agreements, upon the initial recognition at fair value are marked-to-market on a daily basis and the resulting gains or losses are recognised directly in the statement of profit or loss. The fair value changes on these derivatives are settled daily in cash through the collateral accounts (where applicable) held by the Company. When applicable, the collateral accounts are included under the caption of ‘Other assets’ (Note 22) and ‘Other liabilities’ (Note 25) and comprise the minimum cash collateral required for open positions.

The Company also receives collateral in the form of cash in respect of those derivative contracts in order to reduce credit and liquidity risks. Collateral received in the form of cash is recorded on the statement of financial position under the caption of ‘Other liabilities’ (Note 25). Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

In certain circumstances, the Company will pledge collateral in respect of its own derivative liabilities. Collateral paid away in the form of cash is recorded in ‘Other assets’ (Note 22). Any interest payable or receivable arising is recorded as interest expense or interest income respectively.

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Notes to the financial statements as at 31 December 2019 *(continued)*

2.3.2. 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 and sales 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 that may modify the timing or value of contractual cash flows (such as early amortization clauses or extension of duration), the Company 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 outstanding principal.

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 amortised cost or at fair value through other comprehensive income.

2.3.3. Initial recognition

At initial recognition all financial instruments will be 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 Company had not realized the transaction. These include, for example, commissions paid to intermediaries and expenses for formalizing mortgages.

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Notes to the financial statements as at 31 December 2019 *(continued)*

2.3.4. Subsequent measurement

After initial recognition, the Company measures financial assets at amortised 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 Company estimates the fair value using (i) valuation methodologies, such as the use of prices of recent similar transactions carried out under market conditions, discounted cash flow techniques and customised 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.

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

- interest is recognised in the statement of profit or loss 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 the instrument);
- other changes in value will be recognised as income or expense when the instrument is derecognised 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 (FVPL) are recognised according to the following criteria:

- 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 “Net gains/(losses) from financial assets and liabilities measured as fair value through profit or loss”;
- interests on debt instruments are measured using the effective interest rate method and presented separately on the face of the statement of profit or loss.

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

- interest is recognised in the statement of profit or loss 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 the instrument);
- foreign exchange differences are recognised in the statement of profit or loss;

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Notes to the financial statements as at 31 December 2019 *(continued)*

- impairment losses or gains on its recovery are recognised in the statement of profit or loss;
- 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 amortised 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 “Net gain/(loss) from derecognition of financial assets at FVOCI” in the statement of profit or loss.

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 adopted policy, the Company recalculates the gross amount of the financial asset and recognises a gain or loss arising from the difference with the previous amortised cost against profit or loss. The gross amount of the financial asset is then recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective rate of interest.

2.3.5. Reclassifications between categories of financial instruments

When the Company decides to change the business model for the management of its portfolio of financial assets, then 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.

2.3.6. Derecognition criteria

The Company derecognises a financial asset in the following situations:

- when the contractual rights to the cash flows of this asset expire;
- upon a transfer of an asset, and when, as a result of such transfer, all the risks and rewards of that asset are transferred to another entity;
- when an asset is renegotiated due to a significant change to the asset’s terms and conditions.

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Notes to the financial statements as at 31 December 2019 *(continued)*

Loans written-off

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

2.3.7. Purchased or originated credit impaired assets

Purchased 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, where 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 allowance. Instead, lifetime expected credit losses (“ECL”) are incorporated into the calculation of the effective interest rate. Consequently, at initial recognition, the gross book value of POCI (initial balances) is equal to the net book value before being recognised as POCI (difference between the initial balance and total discounted cash flows).

2.3.8. Impairment of financial assets

The Company determines impairment losses on financial assets that are measured at amortised cost and at fair value through other comprehensive income, as well as for other exposures that have associated credit risk such as financial guarantees and commitments.

The IFRS 9 requirements aim to recognize expected losses from operations, assessed on an individual and collective basis, taking into account all reasonable, reliable and reasoned information available at each reporting date, including forward-looking information.

Debt instruments’ impairment losses for the year are recognised as a cost as Impairment of Financial Assets in the statement of profit or loss. Impairment losses on debt instruments measured at amortised cost and measured at fair value through other comprehensive income are recognised against a cumulative balance sheet impairment account, which reduces the book value of the asset.

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Notes to the financial statements as at 31 December 2019 *(continued)*

Impairment losses on exposures that have associated credit risk and which are not debt instruments are recognised as a provision under "Provisions" in the liability side of the balance sheet. Increases and reversals are recognised as Provisions in the statement of profit or loss.

Where the Company benefits from a guarantee provided by the Bank no impairment is recognised (Note 19 and Note 28).

Impairment Model

IFRS 9 replaces the IAS 39 incurred loss model by an expected credit losses forward-looking model, which considers expected losses over the lifetime of financial instruments. Thus, in determining ECL, macroeconomic factors are taken into account, as well as other forward-looking information, whose changes impact expected losses.

The instruments subject to impairment are divided into three stages, taking into account the level of credit risk evolution, since the initial recognition:

- **Stage 1** – Performing: financial assets for which there has been no significant increase in credit risk from the moment of initial recognition. In this case, the impairment will reflect ECL resulting from default events that may occur in the next 12 months after the reporting date;
- **Stage 2** – Under Performing: financial assets for which a significant increase in credit risk has occurred since the initial recognition but for which there is no objective evidence of default. 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 default 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 is applicable to all instruments without warning signals (in Stage 1) in order to determine the lifetime expected credit loss in the case of exposures with significant increases in credit risk (Stage 2). In addition, the Top 20 performing largest debtors are subject annually to an individual analysis, in order to trace early warning signals that may indicate a transfer to Stage 2. Stage 2 exposures are analysed individually, confirming that there are no indications of unlikelihood to pay of the debtor and the events considered by Capital requirements Regulations (CRR) in its definition of default and by IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3. Stage 2 exposures are subject to the application of a lifetime impairment rate determined by using a lifetime collective model. All Stage 3 clients are subject to an individual analysis.

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Notes to the financial statements as at 31 December 2019 *(continued)*

At initial recognition, an instrument is allocated to Stage 1 (except for financial instruments acquired as POCI). For each of the following reporting dates, an assessment of the change in the risk of a default occurring over the expected life of the financial instrument is required for that contract.

A change in the risk of a default may result in a transfer from Stage 1 to Stage 2 or Stage 3. As long as the risk of default of a financial asset is low or does not increase significantly after initial recognition, it remains in Stage 1 with a 12-months ECL. When the instrument's current rating, compared with the rating at initial recognition, increases significantly, the instrument is transferred to Stage 2 and the lifetime ECL over the residual life of the financial asset will be recognised. A transfer into Stage 3 is required when objective evidence of default appears (as defined below).

When a financial asset is no longer assessed to be in default, it is reclassified out of Stage 3 back into 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 the lifetime expected credit losses.

A probation period was established for a financial asset that 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 unlikelihood to pay exists. The probation period for non-performing forbore exposures is longer (12 months). Note that non-performing forbore exposures should accomplish as a minimum a 24 months period in order to be reclassified to Stage 1.

Default definition

Under IFRS 9, the Company considers its financial assets to be in default by applying the same definition that is applied for prudential purposes by the Group. Thus, HIIP defined default as incorporating either of the following criteria:

- i) material exposures which are more than 90 days past-due;
- ii) the debtor is assessed as unlikely to reimburse credit obligations in full, without collateral claim.

With regards to criteria of unlikelihood to pay, the Company addresses the following situations:

- i) distressed restructurings;
- ii) clients with loans written-off of interest or capital;
- iii) all clients with an impairment loss rate resulting from individual assessment of more than 20%;
- iv) the Company sells the credit obligation at a material credit-related economic loss;

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Notes to the financial statements as at 31 December 2019 *(continued)*

- v) the obligor has been placed (or is likely to be placed) in bankruptcy and/or insolvency proceeding;
- vi) forbore non-performing exposures; and
- vii) where interest related to credit obligations is no longer recognized in the statement of profit or loss of the Company (non-accrual status).

The definition of default applied by the Company, follows article 178 of the Regulation (EU) No 575/2013 ratified by the European Parliament and by the Council on 26 June 2013 regarding 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).

Expected Credit Losses

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

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

- Loans and advances to customers;
- Loans and advances to banks;
- Securities;
- Receivables;
- Cash and cash equivalents.

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

- Financial assets with no signs of impairment at the reporting date (Stage 1 – Performing): the present value of the difference between the contractual cash flows and the cash flows that the Company expects to receive;
- Financial assets with a significant increase in credit risk or with impairment at the reporting date:
 - Stage 2 – Under Performing: the difference between the gross book value and the net present value of the estimated cash flows; and
 - Stage 3 – Non Performing: the difference between the net book value and the net present value of the estimated cash flows;

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Notes to the financial statements as at 31 December 2019 *(continued)*

- Unused credit commitments: the amount of the unused commitment as of the reference date multiplied by the credit conversion factor, the probability of default and the loss given default;
- Financial guarantees: the net present value of expected payments less the amounts that the Company expects to recover.

IFRS 9 defines financial assets with warning signals similar to impaired financial assets in accordance with IAS 39, which correspond to impairment triggers.

Significant increase in credit risk (SICR)

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 Company will consider all relevant information available without undue cost or effort.

The Company identifies the occurrence of a significant increase in credit risk exposure through two approaches applied simultaneously:

- comparison between the current rating and the rating at the time of initial recognition; and
- use of the following internally defined early warning signals (EWS):
 - 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 banking system;
 - iii) debt restructuring towards a debtor facing and/or about to face financial difficulties in meeting its financial commitments (with no indication of unlikelihood to pay);
 - iv) debts to tax agency, social security and/or to employees under a default;
 - v) clients with warning signals activated in the previous three months;
 - vi) other specific/exceptional situations (ad-hoc) criteria e.g. natural disasters.

The Company identifies a SICR in the following circumstances:

- a) debtors with one of the triggers (i), (iii), (v) and (vi) activated; and
- b) debtors with triggers (ii) and (iv) simultaneously activated.

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

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Notes to the financial statements as at 31 December 2019 *(continued)*

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

2.3.9. Financial liabilities

Classification, initial recognition and subsequent measurement

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

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

1) 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

This classification includes liabilities acquired or issued principally for the purpose of generating a profit from short-term fluctuations in price, or liabilities that form part of a portfolio of identified instruments that are managed together and for which there is intention of short-term profit-taking. Derivatives are always categorised as held for trading unless they are accounted for as hedges.

- b) Financial liabilities designated at fair value through profit or loss

The Company 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 an accounting mismatch.

The Company classified its Debt securities issued in this category.

Initial recognition and subsequent measurement

Considering that the transactions carried out by the Company 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

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Notes to the financial statements as at 31 December 2019 *(continued)*

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 in 'Interest expense and similar charges' based on the effective interest rate of each transaction.

2) 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 Amounts owed to credit institutions.

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 in 'Interest expense and similar charges', based on the effective interest rate method.

Reclassification between categories of financial liabilities

Reclassification of financial liabilities is not allowed.

Derecognition of financial liabilities

The Company derecognises financial liabilities when they are cancelled or expired.

2.3.10. Interest recognition

Interest income and expense for financial instruments measured at amortised cost is 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 exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

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Notes to the financial statements as at 31 December 2019 (continued)

For calculating the effective interest rate, the Company 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 Stage 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 statement of profit or loss 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 purchased 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. Equipment

Equipment is recognised at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred. Depreciation of other assets is calculated using the straight-line method over their estimated useful lives, as follows:

	Number of years
Computer equipment	4 to 5
Other equipment	5

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the statement of profit or loss.

The recoverable amount is determined as the greater of its fair value less costs to sell and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

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Notes to the financial statements as at 31 December 2019 *(continued)*

2.6 Lease transactions (IFRS 16)

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

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company 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 Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or
 - the Company 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.

2.6.1 As a lessee

The Company 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

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Notes to the financial statements as at 31 December 2019 *(continued)*

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 Company's incremental borrowing rate. As required by IFRS 16, the Company 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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company 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 Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured 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.

2.8. Employee benefits

Defined Contribution Plan

The employees of the Company are covered by a Defined Contribution Plan made through individual Personal Retirement Savings Accounts (PRSAs). The contributions made are based on eligible remuneration. Contributions made are recorded as an expense in the 'Staff costs' on an accrual basis.

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Notes to the financial statements as at 31 December 2019 *(continued)*

2.9. Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity. Deferred tax recognised directly in equity relating to fair value re-measurement of financial assets at fair value through OCI or own credit risk in financial liabilities at fair value through profit or loss is subsequently recognised in the statement of profit or loss when gains or losses giving rise to the deferred tax are also recognised in the statement of profit or loss.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the statement of financial position date.

Deferred tax is provided using the statement of financial position liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted at the statement of financial position date and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax liabilities are generally recognised for all taxable temporary differences except for differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be deducted.

2.9.1 Uncertain tax treatments (IFRIC 23)

An uncertain tax treatment is any tax treatment applied by the Company where there is uncertainty over whether that approach will be accepted by the tax authority. IFRIC 23 applies to all aspects of income tax accounting where there is an uncertainty regarding the treatment of an item, including taxable profit or loss, the tax bases of assets and liabilities, tax losses and credits and tax rates. According to this interpretation IAS 12 – Income taxes, not IAS 37 - Provisions, contingent liabilities and contingent assets, applies to accounting for uncertain income tax treatments.

There are no new disclosure requirements in IFRIC 23. However, it requires the Company to make a series of assumptions and judgements on how each uncertainty will be treated:

- Judgement whether each uncertainty in tax treatment should be considered separately or together as a group;

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Notes to the financial statements as at 31 December 2019 *(continued)*

- Assumption that a tax authority with the right to examine and challenge tax treatments will examine those treatments and have full knowledge of all related information;
- Judgement whether it is probable or not, that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return
 - When concluded that it is probable, the Company will determine its accounting for income taxes consistently with that tax treatment.
 - When concluded it is not probable, the Company will reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made.

The Company will measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty, i.e. the most likely amount method or the expected value method. The most likely amount method will be used when the possible outcomes are binary or are concentrated on one value. The expected value method will be used when there is a range of possible outcomes that are neither binary nor concentrated on one value.

The judgments and estimates made by the Company in determining any uncertain tax treatment are disclosed in the Note 3.4.

2.10. Fee and commission income

Fees and commissions are recognised as follows:

- Fees and commissions that are earned on the execution of a significant act, as loan syndication fees and participation fees, are recognised as income when the significant act has been completed. In the case of participation fees earned upon entering into a syndicate or stand-alone credit facility, the fees are recorded in the statement of financial position as deferred income and amortised to the profit and loss over the life of the credit facility;
- Fees and commissions earned over the period in which the services are provided are recognised as income in the period the services are provided; and
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest method.

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Notes to the financial statements as at 31 December 2019 *(continued)*

2.11. Segment reporting

The Company adopted IFRS 8 Operating Segments for the disclosure of financial information by operating segments. An operating segment is a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- Whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- For which discrete financial information is available.

The details of the Company's operating segment are presented in Note 4.

2.12. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the amounts accounted for in the statement of financial position with maturity that is less than three months from the inception date, including cash and deposits with banks.

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Notes to the financial statements as at 31 December 2019 *(continued)*

Note 3 – Critical accounting estimates and judgements used in applying accounting policies

IFRS set forth a range of accounting treatments that requires management to apply judgement and make estimates, and assumptions in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Company's reported results and related disclosure. A broader description of the accounting policies employed by the Company is already outlined in Note 2 to the Financial Statements.

Because in many cases there are alternatives to the accounting treatment adopted by management, the Company's reported results would differ if a different treatment were chosen. Management believes that its choices are appropriate and that the Financial Statements present the Company's financial position and results fairly in all material respects.

3.1. 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 Solely to Payments of Principal and Interest on the outstanding principal) and the test of the business model.

The Company 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 have to be considered:

- the way in which the performance of assets is evaluated;
- the risks that affect the performance of the assets and the way these risks are managed; and
- how asset managers are rewarded.

The Company monitors the financial assets measured at amortised 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 of the business model of the financial assets that remain in the Company's 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.

Thus, the use of a different model or of different assumptions or judgements in performing a particular evaluation may have produced different financial results from the ones reported.

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Notes to the financial statements as at 31 December 2019 *(continued)*

3.2. Fair value of derivatives and other assets and liabilities at fair value

Fair values are based on listed market prices when available. Otherwise fair value is determined on a basis of similar prices derived from recent transactions at arm's length or in accordance with valuation methodologies based on discounted future cash flows techniques, by taking into account the market conditions, the underlying instruments time value, yield curve from an entity with comparable profile and volatility factors. Such pricing models further incorporate own credit risk as well as the counterparty's credit risk. These methodologies may require the use of assumptions or judgements in estimating fair value. In the specific case of the fair value changes of financial liabilities resulting from changes in the Company's own credit risk, the Company considers the available yield curve of financial entity whose rating is comparable with that of the Group.

Consequently, the use of a different model or of different assumptions or judgements in applying a particular methodology may have produced different financial results from the ones reported.

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

The Company periodically reviews its financial assets at amortised cost and at fair value through other comprehensive income in order to evaluate the existence of impairment and to estimate its level accurately.

Individual analysis

Taking into consideration the specific characteristics of the credit portfolio, the Company decided that the main approach for impairment calculation is the individual analysis, taking into account relevant and specific factors that may justify a subsequent adjustment to the impairment rate. The nature of the assumption made by the Company includes identification of all exposures that are subject to individual analysis, encompassing Top 20 performing largest exposures, all under-performing (Stage 2) and non-performing (Stage 3) exposures, and ensures that they are subject of analysis by the Company's Board of Directors. In the case of Stage 1 exposures, the individual analysis is carried out in order to confirm that the Top 20 largest exposures doesn't show any warning signals that causes a reclassification to Stage 2. Stage 2 exposures are analysed individually, in order to verify the absence of uncertainty which may indicate the likelihood the debtor being unable to pay and the events considered by Capital requirements Regulations (CRR) in its definition of default and by IFRS 9 in the definition of impaired financial instruments, which could cause transfer to Stage 3. The nature of the assumptions supporting the individual analysis of specific cases to be discussed includes: a) historical information (exposure by contract and type, impairment rate in force, collateral and respective valuation); and b) scenarios of expected cash flows discounted to the current date, using the applicable debt cost rate for each period, in order to obtain expected credit losses . For each scenario,

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Notes to the financial statements as at 31 December 2019 *(continued)*

the respective assumptions and approach are assured based on the activity of the counterparty, the value of collateral and sale or execution thereof. Consequently, carrying amounts are deemed highly sensitive to the methods, assumptions and estimates underlying their calculation, the level of sensitivity being significantly influenced by the respective assumptions being based on the activity of the counterparty.

Thus, the process of individual analysis is subject to various estimates and evaluations, including prediction of recovery and valuation of existing collateral. The use of different scenarios or alternative methodologies with other assumptions and estimates could result in different levels of impairment losses being recognised and may have produced different financial results from the ones reported.

Collective analysis

Impairment assessment on the collective basis is constructed 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 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), and (iii) Collateral haircut.

Regarding internal rating: it reflects the probability of default in a perspective of time. The Company 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.

Regarding Loss Given Default ("LGD"), it is defined as the magnitude of loss at the time of default. The Company applies LGD based on Moody's benchmarks covering a wide historical period.

Regarding Collateral Haircut, it is based on the capital regulatory requirements (CRR) eligibility criteria and haircut.

The use of alternative methodologies and of different assumptions and estimates may result in a different level of recognised impairment losses, along with its corresponding impact on the Company's profit or loss.

Forward looking information

Under IFRS 9, the Company incorporates forward-looking information, both in its assessment of the significant risk increase and in the measurement of the expected credit losses. The expected credit losses over the lifetime of financial instruments are required to be measure 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 information is based on a simplified approach, grounded in characteristics of the Company's business profile and in the proportionality of its portfolios. The Company

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Notes to the financial statements as at 31 December 2019 *(continued)*

relies on macroeconomic information obtained from the Bank of Portugal. The Company has implemented a single central scenario approach, based on external and macroeconomic information. This approach provides sufficient granularity to fulfil audit and regulatory requirements concerning the forecasting capabilities of the Company's collective model. This approach was defined specifically for the IFRS 9 standard, considering the standard requirements and information available. The incorporated forward-looking information has a 12 months' time horizon and all the portfolios exposures or obligors are subject to the same forward-looking information. The Company's impairment framework considers Stage 1 clients only in the collective model. This approach requires the use of assumptions or judgements in the assessment of credit risk and in the measurement of the expected credit losses. No significant changes in the estimation techniques or significant assumptions were made during the reporting period.

Thus, the use of different approach or alternative methodologies with other assumptions and estimates could result in different levels of impairment losses being recognised and may have produced different financial results from the ones reported.

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Notes to the financial statements as at 31 December 2019 *(continued)*

3.4. Income taxes

The Company accounts for deferred taxes in accordance with the policy set out in Note 2.7, whereby deferred tax assets are accounted for only insofar as it is expected that there will be taxable profits in the future, sufficient 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 may be significantly affected by extraordinary situations that are not expected to occur in future years.

The assessment of the recoverability of deferred tax assets was carried out by the Company based on projections of its future taxable profits, with such projections being derived from the Group's business plan for HIIP. The estimate of future taxable profit involves a significant level of judgement, specifically that future profits are deemed probable, i.e. more likely than not. A sensitivity analysis based on the significant judgements indicates that in the event future profits are not being sufficient to absorb tax losses carried forward, then the existing deferred tax asset may not be available in its entirety to the Company. The sensitivity analysis indicates significant correlation between the portion of the deferred tax asset available for utilisation and the level of reported profits.

In addition, following the analysis of several scenarios incorporating the uncertainty of the local tax regime applicable in future years, an assumption was adopted to consider the application of the current tax regime that permits prior year losses to be utilised against future gains arising from the same trade.

3.4.1 Significant judgement regarding recognition of deferred tax

In 2018, the Company adopted IFRS 9 - Financial Instruments. In this regard, there is no transitional regime that establishes the tax treatment to be applied to the transition adjustments to IFRS 9, so the treatment conferred resulted from the interpretation of the application of the rules of the Revenue Office. The Company carried out a review of the recoverability of deferred tax assets with reference to January 1, 2019, considering the impacts related to the adoption of IFRS 9 and the current interpretation of the tax implications applicable to the transition adjustments to IFRS 9.

It follows from the assessment, the future profits are deemed probable, more likely than not, therefore the directors have made a significant judgement that, the recognition of deferred tax asset is appropriate. Regarding the future development of the Company's activity, the directors anticipate the level of future profits will be such that prior year losses will be fully utilised.

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Notes to the financial statements as at 31 December 2019 *(continued)*

3.4.2 Adoption of IFRIC 23 - Uncertainty over income tax treatments

As of 1 January 2019 the Company adopted the new interpretation to IAS 12 – Income taxes, published by IASB as IFRIC 23 – Uncertainty over income tax treatments, which recommends the required measurement and recognition to be applied in the event of uncertainties regarding the acceptance of a given income tax treatment by the local tax authority. Hence, according to IFRIC 23, income tax should reflect the entity's best estimate of the presumed outcome of the situation under discussion. This estimated value, based either on the expected value or the most probable value, should be recorded by the entity as an income tax asset or an income tax liability based on IAS 12 – Income taxes and not on IAS 37 - Provisions, contingent liabilities and contingent assets.

Assuming that a tax authority with the right to examine and challenge tax treatments will examine those treatments and have full knowledge of all related information, the directors of the Company are of the view that based on the information available to them and the current tax regime in Ireland, it is probable that the utilisation of the prior year losses against future gains arising from the same trade will be accepted by a relevant tax authority.

The above assumptions and judgements were considered the most adequate by the directors of the Company in relation to the information available on the date of approval of the financial statements. However, the use of different assumptions at the level of the above-mentioned variables could lead to different conclusions than those that formed the basis of the preparation of these financial statements.

Note 4 – Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity). The Company's principal activities are the issuance of debt securities and investment in financial instruments which are the revenue generating segment of the Company. The only component of the entity that engages in business activities, do so solely in Ireland, and it does not engage in any additional business activity as no component of the Company is permitted or authorised to engage in further activity which may earn revenues or incur expenses.

The Company's Executive Committee, which includes members of the Board of Directors, concerns itself with the overview and sanctioning of all the Company's transactions and credit limits. All transactions are approved on an individual basis pursuant to the guidelines and signing regulations approved by the Executive Committee.

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Notes to the financial statements as at 31 December 2019 (continued)

As the Chairman of the Board, Mr. Wu Min is the Company's ultimate Chief Operating Decision Maker (CODM). Typically, the information used by CODM to make decisions about resources to be allocated and the assessment of performance of investments held would include:

- Market prices and rates fluctuations – daily fluctuations of share prices, indexes, foreign exchange rates as well as interest rates are captured by the centralised risk department at Haitong Bank level.
- Credit quality of investments held – credit quality of investments held is reviewed on an individual basis. The breakdown of the credit ratings is set out in Note 33.
- Industry exposure – the level of exposure to particular industries is decided upon by the Company's Executive Committee which sets out the exposure limits on an individual basis. The breakdown of Company's exposure to sectors is disclosed in Note 33.
- Liquidity levels – daily assessments of exposure to liquidity are based on identification of negative mismatches, which signal liquidity gaps. A decision is then made to cover the short term funding requirements by money market loans obtained directly from the Bank.

Moreover, there is one discrete and indivisible set of financial information available for one component only.

Therefore, based on the above, the directors confirm that the Company is deemed to have one reportable operating segment in accordance with the definition in IFRS 8.5.

The Company derives its revenues from the portfolio of investments in derivatives, fixed income securities, loans, debt securities issued, and other financial instruments including cash, deposits with banks and short-term securities such as money market deals as analysed in tables below and overleaf.

	Year ended 31.12.2019					(in euro)
	Derivatives	Fixed income securities	Loans	Debt securities issued	Other financial instruments	Total
Net interest income	2 565 962	3 327 327	1 548 559	(4 891 247)	(256 200)	2 294 401
Net fees and commissions	-	-	(2 408 966)	-	(65 000)	(2 473 966)
Net gains from investment in financial instruments	3 559 033	2 631 290	(1 300 695)	682 962	(288 377)	5 284 213
Total income	6 124 995	5 958 617	(2 161 102)	(4 208 285)	(609 577)	5 104 648

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Notes to the financial statements as at 31 December 2019 (continued)

	Year ended 31.12.2018					(in euro)
	Derivatives	Fixed income securities	Loans	Debt securities issued	Other financial instruments	Total
Net interest income	194 927	4 742 696	3 321 696	(7 790 812)	78 688	547 195
Net fees and commissions	-	5 485	(1 333 081)	-	(65 000)	(1 392 596)
Net gains from investment in financial instruments	4 558 235	817 857	(6 230)	(2 735 158)	324 888	2 959 592
Total income	4 753 162	5 566 038	1 982 385	(10 525 970)	338 576	2 114 191

The analysis of the segment's revenues by geographical area is presented as follows:

	Year ended 31.12.2019	Portugal	Rest of EU	Rest of World
Interest and similar income		34.0%	50.7%	15.3%
Interest expense and similar charges		25.0%	75.0%	0.0%
Fee and commission income		100.0%	0.0%	0.0%
Fee and commission expense		38.7%	0.0%	61.3%
Net gains from investment in financial instruments		142.0%	-44.5%	2.5%

	Year ended 31.12.2018	Portugal	Rest of EU	Rest of World
Interest and similar income		40.9%	43.8%	15.3%
Interest expense and similar charges		40.6%	59.4%	0.0%
Fee and commission income		100.0%	0.0%	0.0%
Fee and commission expense		37.3%	0.0%	62.7%
Net gains from investment in financial instruments		781.2%	-676.7%	-4.5%

The Company does not hold any non-current assets other than financial instruments and deferred tax assets.

The Company's single biggest customer from which the Company derives more than 10 % of its revenues is Haitong Bank S.A. The balances and revenues derived from transactions with the Bank are presented in Note 29.

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Notes to the financial statements as at 31 December 2019 (continued)

Note 5 – Net interest income

This heading is analysed as follows:

(in euro)			
31.12.2019			
	Interest income or interest expense calculated using effective interest rate	Other interest income or expense from assets and liabilities at FVTPL	Total
Interest and similar income			
Interest from loans and advances to customers	3 592 065	-	3 592 065
Interest from loans and advances to banks	7 452 687	-	7 452 687
Interest from derivative instruments	-	7 381 339	7 381 339
Interest from financial assets at FVOCI	3 323 759	-	3 323 759
Interest from securities held for trading	-	3 568	3 568
	14 368 511	7 384 907	21 753 418
Interest expense and similar charges			
Interest on amounts owed to credit institutions	(9 724 683)	-	(9 724 683)
Interest on derivative financial assets and liabilities	-	(4 815 376)	(4 815 376)
Interest on financial liabilities designated at fair value through profit or loss	-	(4 891 247)	(4 891 247)
Interest on collateral accounts	(25 046)	-	(25 046)
Interest on leasing (IFRS 16)	(2 665)	-	(2 665)
	(9 752 394)	(9 706 623)	(19 459 017)
Net interest income	4 616 117	(2 321 716)	2 294 401

(in euro)			
31.12.2018			
	Interest income or interest expense calculated using effective interest rate	Other interest income or expense from assets and liabilities at FVTPL	Total
Interest and similar income			
Interest from loans and advances to customers	5 555 469	-	5 555 469
Interest from loans and advances to banks	7 976 322	-	7 976 322
Interest from derivative instruments	-	12 326 924	12 326 924
Interest from financial assets at fair value through OCI	4 261 404	-	4 261 404
Interest from securities held for trading	-	481 292	481 292
	17 793 195	12 808 216	30 601 411
Interest expense and similar charges			
Interest on amounts owed to credit institutions	(10 079 553)	-	(10 079 553)
Interest on derivative financial assets and liabilities	-	(12 133 311)	(12 133 311)
Interest on financial liabilities designated at fair value through profit or loss	-	(7 790 812)	(7 790 812)
Interest on collateral accounts	(50 540)	-	(50 540)
	(10 130 093)	(19 924 123)	(30 054 216)
Net interest income	7 663 102	(7 115 907)	547 195

Interest from and on derivative financial assets and liabilities includes interest from derivatives used to manage the risk of financial liabilities designated at fair value through profit or loss.

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Notes to the financial statements as at 31 December 2019 (continued)

Note 6 – Net fee and commission income and expense

This heading is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Fee and commission income		
From loans and advances to third parties	-	67 785
From loans to HBSA	3 170 318	2 598 424
	3 170 318	2 666 209
Fee and commission expense		
SLA fee for services rendered by HBSA	(65 000)	(65 000)
Financial guarantees provided by HBSA	(3 460 850)	(2 545 313)
Other fees and commission expenses	(2 118 434)	(1 448 491)
	(5 644 284)	(4 058 804)

Financial guarantees provided by the Bank refer to guarantees which cover overdue loans and advances to customers.

Other fees and commission expenses include both agent and other sundry fees paid to other financial institutions.

The Company has a Service Level Agreement (SLA) with Haitong Bank, under which it receives administration and support services in the area of Credit, Fixed Income and Derivative products administration, IT support, specialised accounting in relation to the aforementioned product areas and risk control. In 2019 the Company paid an annual fee of Euro 65 000 for these services (2018: Euro 65 000).

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Notes to the financial statements as at 31 December 2019 (continued)

Note 7 – Net gain from financial assets and liabilities measured at fair value through profit or loss

This heading is analysed as follows:

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
(in euro)						
Assets and liabilities at fair value through profit or loss						
Loans designated at FVTPL	1 008	-	1 008	-	-	-
Securities held for trading						
Bonds and other fixed income securities						
Issued by public entities	-	-	-	6 482 676	1 829 035	4 653 641
Issued by non-public entities	508 653	137 072	371 581	402 718	103 437	299 281
Non-trading securities	98 171	1 788 561	(1 690 390)	-	4 135 055	(4 135 055)
	607 832	1 925 633	(1 317 801)	6 885 394	6 067 527	817 867
Derivative financial instruments						
Exchange rate contracts	11 557 374	8 284 339	3 273 035	20 824 213	17 986 323	2 837 890
Interest rate contracts	19 359 926	18 400 185	959 741	73 622 299	73 567 373	54 926
Equity/Index contracts	1 310 514	243 170	1 067 344	7 024 148	1 370 783	5 653 365
Credit default contracts	31 658	1 772 744	(1 741 086)	91 583	4 079 528	(3 987 945)
	32 259 472	28 700 438	3 559 034	101 562 243	97 004 007	4 558 236
	32 867 304	30 626 071	2 241 233	108 447 637	103 071 534	5 376 103
Financial liabilities designated at fair value through profit or loss						
Debt securities issued	682 962	-	682 962	7 478 833	10 213 991	(2 735 158)
	682 962	-	682 962	7 478 833	10 213 991	(2 735 158)
	33 550 266	30 626 071	2 924 195	115 926 470	113 285 525	2 640 945

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Notes to the financial statements as at 31 December 2019 (continued)

Note 8 – Net (loss)/gain from derecognition of financial assets measured at fair value through OCI

This heading is analysed as follows:

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Bonds and other fixed income securities:						
Issued by non-public entities	3 950 099	-	3 950 099	-	(11)	(11)
	3 950 099	-	3 950 099	-	(11)	(11)

Gains and losses from financial assets measured at fair value through OCI arise on disposal. During the financial year, one of the bonds held by the Company was repurchased by the issuer which resulted in a gain of Euro 3 950 099.

Note 9 – Net (loss)/gain from derecognition of financial assets measured at amortised cost

This heading is analysed as follows:

	31.12.2019			31.12.2018		
	Gains	Losses	Total	Gains	Losses	Total
Loans and advances to customers:	-	(1 301 705)	(1 301 705)	-	(6 230)	(6 230)
	-	(1 301 705)	(1 301 705)	-	(6 230)	(6 230)

Gains and losses from Loans and advances to customers arise on their derecognition. During the financial year, one of the loans held by the Company was repaid early incurring a loss of Euro 1 301 705.

Note 10 – Net gain/(loss) from foreign exchange differences

This heading is analysed as follows:

	31.12.2019	31.12.2018
Currency revaluation	(288 376)	324 193
	(288 376)	324 193

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Notes to the financial statements as at 31 December 2019 (continued)

The current revaluation total amount includes the exchange differences arising on translating monetary assets and liabilities at the exchange rates ruling at the statement of financial position date in accordance with the accounting policy described in Note 2.2.

Note 11 – Other operating income and other operating expenses

This heading is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Other operating income	-	694
Other operating expenses	(50 402)	(67 442)
	(50 402)	(66 748)

Other operating expenses include irrecoverable VAT and local taxes on foreign bank accounts.

Other operating income includes non-reoccurring gains.

Note 12 – Staff costs

This heading is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Wages and salaries	249 574	222 578
Pension costs	24 426	24 426
Social insurance costs	26 957	24 544
Retention payment and medical insurance	7 468	11 392
	308 425	282 940

All staff costs presented above have been expensed during the financial year.

The emoluments paid to the Company's directors are analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Aggregate amount of emoluments paid in respect of qualifying services	154 500	143 034
Aggregate amount of pension contributions	9 600	9 600
Aggregate amount of retention payment and medical insurance	4 943	5 537
	169 043	158 171

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Notes to the financial statements as at 31 December 2019 (continued)

The previous table comprises all the directors' remuneration for the current and prior financial year.

The pension contributions outlined have been made on behalf of one Director.

By professional category, the average number of employees of the Company is analysed as follows:

	31.12.2019	31.12.2018
Senior management	1	1
Accounting functions	1	1
Administrative functions	1	1
	3	3

Note 13 – General and administrative expenses

This heading is analysed as follows:

	31.12.2019	31.12.2018
		(in euro)
Rental costs	13 078	49 565
Communication costs	7 790	8 333
Maintenance and related services	2 490	1 694
Travelling and representation costs	3 116	5 693
Water, energy and fuel	5 183	5 121
Consumables	2 619	2 800
Professional services		
Legal services	89 416	119 938
Tax advisory services	12 000	-
Remuneration paid to independent statutory auditor		
Audit of Company's financial statements	40 000	40 000
Bank agency fees	21 867	14 270
Listing fees	1 800	2 580
Software fees	21 232	20 831
Other costs	7 951	4 521
	228 542	275 346

Upon adoption of IFRS 16 on 1 January 2019, the costs arising from the office lease contract are no longer recognised as Rental costs. For further details, please see Note 31.

The Company's Independent statutory auditor was not engaged for any services additional to the statutory audit.

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Notes to the financial statements as at 31 December 2019 (continued)

Note 14 – Impairments and provisions

This heading is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Impairment of loans and advances to customers	(274 998)	(203 221)
Impairment of loans and advances to banks	(1 894 752)	-
Reversal of impairment/(impairment) of other assets		
(Impairment)/reversal of impairment of cash and cash equivalents	(100)	1 815
Reversal of impairment of financial assets at FVOCI	79 050	6 221
Total reversal of impairment of other assets	<u>78 950</u>	<u>8 036</u>
Provisions for guarantees and commitments assumed	(40 069)	-
	(2 130 869)	(195 185)

The movements in impairment of loans and advances to customers are presented in Note 19.

The movements in impairment of loans and advances to banks are presented in Note 18.

The impairment of cash and cash equivalents as disclosed in Note 15 and Note 32.

The movements in impairment of financial assets at FVOCI are analysed in Note 17.

Note 15 – Cash and cash equivalents

As at 31 December 2019 and 2018, this balance is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Cash	285	490
	285	490
Deposits with banks in Ireland ⁽¹⁾		
Repayable on demand	63 304	35 960
	63 304	35 960
Deposits with banks abroad ⁽²⁾		
Repayable on demand	12 432 346	2 083 855
	12 432 346	2 083 855
Impairment of deposits with banks abroad	(100)	-
	12 495 835	2 120 305

⁽¹⁾ The rating of the banks is Bank of Ireland: A-; Ulster Bank: A-; (2018: BBB+ & BBB+) (Standard & Poor's).

⁽²⁾ The rating of the banks is Haitong Bank: BB; China Construction Bank: A; (2018: BB- & A) (Standard & Poor's).

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Notes to the financial statements as at 31 December 2019 (continued)

The impairment of deposits with banks abroad amount refers to the impairment of deposits held by Haitong Bank. As Stage 1 exposures consisting the residual maturity of the deals up to one year are subject to the ECL model, the Company recognised an impairment of Euro 100 (31 December 2018: Euro Nil).

Note 16 – Financial assets and liabilities at fair value through profit or loss

As at 31 December 2019 and 2018, this balance is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Financial assets at fair value through profit or loss		
Securities held for trading	152 710	418 019
Non-trading financial assets at fair value	2 015 573	3 303 201
Derivative financial assets	29 142 732	39 689 905
Loans designated at fair value through profit or loss	14 218 673	-
	<u>45 529 688</u>	<u>43 411 125</u>
Financial liabilities at fair value through profit or loss		
Derivative financial liabilities	31 704 252	42 949 659
	<u>31 704 252</u>	<u>42 949 659</u>

The non-trading financial assets balance as at 31 December 2019 refers to a zero coupon subordinated bond ISIN PTESSZOM0011 with maturity in December 2030 issued by Haitong Bank in the form of Medium Term Note. As this bond does not pay interest on specific dates, it is classified as a non-trading asset at fair value through profit or loss as per accounting policy described in Note 2.3.1.

During 2019 the Company renegotiated one of its loans. Due to the fact that the new terms are substantially different, the Company derecognised the original financial asset as per accounting policy described in Note 2.3.6 and recognised the renegotiated loan at fair value through profit or loss.

Derivative financial assets and liabilities balances include both, derivatives held for trading and derivatives for risk management purposes as disclosed on the following page.

The analysis of the securities held for trading by quoted and unquoted securities is as follows:

	(in euro)					
	31.12.2019			31.12.2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Bonds						
Issued by non-public entities	19 365	133 345	152 710	117 966	300 053	418 019
Issued by public entities	-	-	-	-	-	-
	<u>19 365</u>	<u>133 345</u>	<u>152 710</u>	<u>117 966</u>	<u>300 053</u>	<u>418 019</u>

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Notes to the financial statements as at 31 December 2019 (continued)

As at 31 December 2019 and 2018, the analysis of the securities held for trading by the period to contractual maturity, is as follows:

	(in euro)	
	31.12.2019	31.12.2018
Up to 12 months	266	-
From 1 to 5 years	133 438	417 840
More than 5 years	19 006	179
	152 710	418 019

In accordance with the accounting policy described in Note 2.3.1. financial assets held for trading are those acquired with the purpose of sale in the short term, regardless of their maturity.

As at 31 December 2019 and 2018, derivative financial assets and liabilities can be analysed as follows:

	(in euro)					
	31.12.2019			31.12.2018		
	Derivatives for risk management purposes	Derivatives held for trading	Total	Derivatives for risk management purposes	Derivatives held for trading	Total
Derivative financial assets						
Interest rate contracts	1 110 719	26 780 084	27 890 803	3 313 268	31 924 089	35 237 357
Equity / Index contracts	108 194	-	108 194	243 170	-	243 170
Credit default contracts	708 105	-	708 105	1 365 735	-	1 365 735
Exchange rate contracts	435 630	-	435 630	-	2 843 643	2 843 643
	2 362 648	26 780 084	29 142 732	4 922 173	34 767 732	39 689 905
Derivative financial liabilities						
Interest rate contracts	1 311 884	26 566 912	27 878 796	3 951 477	31 693 155	35 644 632
Equity / Index contracts	1 355 968	-	1 355 968	2 558 288	-	2 558 288
Credit default contracts	2 469 488	-	2 469 488	1 423 692	-	1 423 692
Exchange rate contracts	-	-	-	-	3 323 047	3 323 047
	5 137 340	26 566 912	31 704 252	7 933 457	35 016 202	42 949 659
Net	(2 774 692)	213 172	(2 561 520)	(3 011 284)	(248 470)	(3 259 754)

There were no hedging positions as at 31 December 2019 and 31 December 2018 and hedge accounting was not applicable at any point during the years 2019 and 2018. The Company uses derivative financial instruments to manage the risk of changes in fair value of its debt securities issued in the form of medium term notes. Derivatives for risk management purposes are matched to specific issuances of debt securities, with the changes in fair value recorded in the statement of profit or loss, together with the changes in the fair value of the respective medium term notes.

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Notes to the financial statements as at 31 December 2019 (continued)

As at 31 December 2019 and 2018, the analysis of derivative financial assets and liabilities by contractual maturity is as follows:

	31.12.2019		31.12.2018	
	Derivative financial assets	Derivative financial liabilities	Derivative financial assets	Derivative financial liabilities
Up to 3 months	437 282	13 706	418 051	330 729
From 3 to 12 months	1 348 170	3 776 524	973 897	1 285 551
From 1 to 5 years	11 488 256	12 320 094	8 166 257	11 270 417
More than 5 years	15 869 024	15 593 928	30 131 700	30 062 962
	29 142 732	31 704 252	39 689 905	42 949 659

As at 31 December 2019, derivative financial assets and liabilities include operations collateralised by the constitution of collateral accounts in order to manage risks arising from exposures contracted between the Company and counterparties. The Company manages this risk by entering into ISDA Master Agreements with certain counterparties, which require either the Company or a counterparty to collateralise derivatives held for trading transactions in cash under a Credit Support Annex (CSA) in order to ensure that at any point of time an exposure arising from the derivative is fully covered by the collateral amount. Any movement in fair value of the derivative requires the corresponding change in the value of the collateral to be settled immediately in cash. On the maturity of the transaction the collateral must be returned. The collateral balance for derivative liabilities is presented in other assets (see Note 22), and collateral balance for derivative assets is presented in other liabilities as set out in Note 25.

Currently it is strictly necessary to have ISDA and CSA Agreements in place to be able to close derivative positions and repurchase transactions in the OTC markets. These agreements are the standard market convention.

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Notes to the financial statements as at 31 December 2019 (continued)

Note 17 – Financial assets at fair value through other comprehensive income

As at 31 December 2019 and 2018, this balance is analysed as follows:

	(in euro)				
	Acquisition Cost	Fair value reserve		Impairment	Fair value
		Positive	Negative		
Bonds and other fixed income securities					
Issued by non-public entities	-	-	-	-	-
Balance as at 31 December 2019	-	-	-	-	-
Bonds and other fixed income securities					
Issued by non-public entities	255 581 759	1 031 609	-	(79 050)	256 534 318
Balance as at 31 December 2018	255 581 759	1 031 609	-	(79 050)	256 534 318

During the financial year, the Company received a cash consideration due on maturity and early redemption of its notes in amount of Euro 258 330 289 (2018: Euro 143 043 081) and acquired securities for a cash consideration amounting to Euro Nil (2018: Euro 250 000 000).

The changes that occurred in impairment of financial assets at FVOCI are presented as follows:

	(in euro)	
	31.12.2019	31.12.2018
IFRS 9 adoption impact (Note 31)	-	85 271
Balance as at 1 January	79 050	85 271
Charge for the year	-	-
Write-back for the year	(79 050)	(6 221)
Exchange differences	-	-
Balance as at 31 December	-	79 050

The analysis of financial assets at FVOCI by contractual maturity is as follows:

	(in euro)	
	31.12.2019	31.12.2018
Up to 3 months	-	-
From 3 to 12 months	-	4 476 178
From 1 to 5 years	-	252 058 140
More than 5 years	-	-
Total	-	256 534 318

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Notes to the financial statements as at 31 December 2019 (continued)

The analysis of financial assets at FVOCI by quoted and unquoted securities is presented as follows:

	31.12.2019			31.12.2018		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
(in euro)						
Bonds and other fixed income securities						
Issued by non-public entities	-	-	-	4 476 178	252 058 140	256 534 318
	-	-	-	4 476 178	252 058 140	256 534 318

Note 18 – Loans and advances to banks

As at 31 December 2019 and 2018, this balance is analysed as follows:

	31.12.2019		31.12.2018	
	(in euro)			
Loans and advances to banks	647 850 373		749 563 078	
Allowance for impaired loans and advances	(1 894 752)		-	
	645 955 621		749 563 078	

The loans and advances to banks refers to a loan agreement between the Company and its former Parent Haitong Bank S.A. (with Standard & Poor's rating of BB in 2019, BB- in 2018). The loan comprises two tranches, a fixed rate one amounting to Euro 273 million with maturity in June 2021 and a floating rate tranche amounting to Euro 375 million with maturity in March 2022.

The Company left Haitong Bank's consolidation perimeter in December 2019 and so any exposure with Haitong Bank S.A being no longer exempt. Therefore, all exposures with Haitong Bank S.A are subject to the ECL model as are any other counterparty. Therefore the Company recognised an impairment of Euro 1 894 752.

The changes that occurred in impairment of loans and advances to banks are presented as follows:

	31.12.2019		31.12.2018	
	(in euro)			
Balance as at 1 January	-		-	
Charge for the year	1 894 752		-	
Write-back for the year	-		-	
Exchange differences	-		-	
Balance as at 31 December	1 894 752		-	

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Notes to the financial statements as at 31 December 2019 (continued)

Note 19 – Loans and advances to customers

As at 31 December 2019 and 2018, this balance is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Corporate loans and syndicated credit	115 829 122	203 824 620
	115 829 122	203 824 620
Overdue amounts of loans and interest		
Up to 90 days		-
More than 90 days	9 569 610	33 828 584
	9 569 610	33 828 584
	125 398 732	237 653 204
Allowance for impaired loans and advances	(1 524 984)	(9 556 341)
	123 873 748	228 096 863

In accordance with the accounting policy described in Note 2.3.8, all loans and advances are subject to impairment testing on a collective (Stage 1) and an individual basis (Stage 2 and 3).

Further details arising from IFRS 9 impairment requirements are presented in Note 34.2.

As at 31 December 2019 and 2018, the analysis of loans and advances to customers by maturity is as follows:

	(in euro)	
	31.12.2019	31.12.2018
Up to 3 months	-	-
From 3 to 12 months	-	-
From 1 to 5 years	37 307 732	32 209 436
More than 5 years	78 521 390	171 546 020
Undetermined	9 569 610	33 897 748
	125 398 732	237 653 204

The analysis of loans and advances to customers by interest rate type is presented as follows:

	(in euro)	
	31.12.2019	31.12.2018
Fixed rate	41 514 260	32 675 205
Variable rate	83 884 472	204 977 999
	125 398 732	237 653 204

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Notes to the financial statements as at 31 December 2019 (continued)

Loans and advances to customers by type of collateral are presented as follows:

	(in euro)	
	31.12.2019	31.12.2018
Securities	99 708 612	187 131 878
Other pledges	25 439 603	27 683 641
Unsecured	250 517	22 837 685
	125 398 732	237 653 204

Collateral classified as other pledges includes guarantees, promissory notes and pledged receivables.

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

	(in euro)	
	31.12.2019	31.12.2018
IFRS 9 adoption impact	-	681 592
Balance as at 1 January	9 556 341	8 932 936
Charge for the year	274 998	203 221
Derecognition during the year	(8 306 355)	-
Exchange differences	-	420 184
Balance as at 31 December	1 524 985	9 556 341

The impact arising from the adoption of IFRS 9 is presented in Note 31.

During 2019, the Company renegotiated one of its loans. As the new terms are substantially different, the Company derecognised the original financial asset and recognised the renegotiated loan at fair value through profit or loss, as prescribed by IFRS 9. The renegotiated loan is presented in the Note 16.

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Notes to the financial statements as at 31 December 2019 *(continued)*

Note 20 – Property and equipment

As at 31 December 2019 and 2018, this balance is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Right-of-use asset (IFRS 16)	209 765	-
Equipment		
Computers	19 677	19 677
Other equipment	30 231	30 231
	<u>259 673</u>	<u>49 908</u>
Accumulated depreciation	<u>(86 294)</u>	<u>(47 279)</u>
Total	<u>173 379</u>	<u>2 629</u>

The movement in this balance is analysed as follows:

	(in euro)			
	Property	Computers	Other equipment	Total
Acquisition cost				
Balance as at 31 December 2017	-	19 677	30 231	49 908
Acquisitions during the year 2018	-	-	-	-
Balance as at 31 December 2018	-	19 677	30 231	49 908
IFRS 16 adoption impact (Note 31)	209 765	-	-	209 765
Balance as at 1 January 2019	<u>209 765</u>	<u>19 677</u>	<u>30 231</u>	<u>259 673</u>
Acquisitions during the year 2019	-	-	-	-
Balance as at 31 December 2019	<u>209 765</u>	<u>19 677</u>	<u>30 231</u>	<u>259 673</u>
Depreciation				
Balance as at 31 December 2017	-	16 557	26 244	42 801
Depreciation for the year 2018	-	1 368	3 110	4 478
Balance as at 31 December 2018	-	17 925	29 354	47 279
Depreciation for the year 2019	36 626	1 752	637	39 015
Balance as at 31 December 2019	<u>36 626</u>	<u>19 677</u>	<u>29 991</u>	<u>86 294</u>
Carrying value as at 31 December 2019	<u>173 139</u>	<u>-</u>	<u>240</u>	<u>173 379</u>
Carrying value as at 31 December 2018	<u>-</u>	<u>1 752</u>	<u>877</u>	<u>2 629</u>

Further details regarding the adoption of IFRS 16 are presented in the Note 31.

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Notes to the financial statements as at 31 December 2019 (continued)

Note 21 – Taxation

Current and deferred taxation is explained as follows:

	(in euro)	
	31.12.2019	31.12.2018
Factors affecting tax charge in the year		
Profit/(Loss) on ordinary activities before taxation	2 347 395	1 288 800
Profit/(Loss) on ordinary activities multiplied by the standard rate of corporation tax in 2019: 12.5% (2018: 12.5%)	<u>293 424</u>	<u>161 100</u>
Tax Liability Recognised	(293 424)	(161 100)
Allowance for add-backs and timing differences	-	(5 353)
Total income tax for the year	<u>(293 424)</u>	<u>(166 453)</u>

Factors that may affect future tax charges: The Company's activities are taxable at 12.5%.

The current and deferred tax assets balances are presented as follows:

	(in euro)	
	31.12.2019	31.12.2018
Current tax asset	6 491	4 870
Deferred tax asset	2 207 137	2 220 370
Total income tax assets	<u>2 213 628</u>	<u>2 225 240</u>

Following the assessment described in Note 3.4 the future profits are deemed probable, i.e. more likely than not, therefore the directors have deemed the recognition of deferred tax asset appropriate. It is anticipated the level of future profits will be such that prior year losses will be fully utilised.

The current and deferred tax liabilities balances are presented as follows:

	(in euro)	
	31.12.2019	31.12.2018
Current tax liabilities	305 820	12 396
Deferred tax liabilities	123 705	128 951
	<u>429 525</u>	<u>141 347</u>

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Notes to the financial statements as at 31 December 2019 (continued)

The movements in deferred tax assets and liabilities recognised in the statement of financial position as at 31 December 2019 and 2018 can be analysed as follows:

(in euro)

Deferred tax	Assets		Liabilities		Net	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
IFRS 9 impact adjustment		96 085		-		96 085
Balance as at 01 January	2 220 370	2 719 525	(128 951)	(720 900)	2 091 419	1 998 625
Financial assets at fair value through OCI	-	(15 029)		591 949		576 920
Own Credit Risk DVA	(13 233)	(484 126)	5 246	-	(7 987)	(484 126)
Tax losses carried forward	-	-	-	-	-	-
Tax losses carried back against previous years' profits	-	-	-	-	-	-
Balance as at 31 December	2 207 137	2 220 370	(123 705)	(128 951)	2 083 432	2 091 419

The tax asset balance as at 1 January 2018 relate to tax losses incurred in the years 2014, 2015 and 2017.

Tax recognised in the statement of profit or loss and in other comprehensive income during the 2019 and 2018 financial years had the following sources:

(in euro)

	31.12.2019		31.12.2018	
	Recognised in profit or loss	Recognised in other comprehensive income	Recognised in profit or loss	Recognised in other comprehensive income
Tax losses carried forward			-	-
Financial assets at fair value through OCI			-	576 920
Own credit risk DVA		(7 987)		(484 126)
Deferred taxation		(7 987)	-	92 794
Current taxation	(293 424)		(166 453)	-
Total recognised tax	(293 424)	(7 987)	(166 453)	92 794

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Notes to the financial statements as at 31 December 2019 (continued)

Note 22 – Other assets

As at 31 December 2019 and 2018, this balance is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Debtors		
VAT and Withholding Tax incurred	2 965	4 853
Other debtors	2 886 235	7 553 741
	2 889 200	7 558 594
Impairment of receivables	(2 723 210)	(6 874 810)
	165 990	683 784
Other assets		
Collateral Account	28 670 000	8 000 000
Derivative transactions pending settlement	382 893	19 205
	29 052 893	8 019 205
	29 218 883	8 702 989

The other debtors amount includes a balance receivable on overdue coupons from an Interest Rate Swap that reached its maturity. As the swap is now fully impaired, an impairment of Euro 2 723 210 is carried at 31 December 2019 against these debtors (31 December 2018: Euro 6 874 810) as shown in a table below.

(in euro)			
IRS ID	Overdue coupons	Impairment amount	Impairment %
4259	2 723 210	2 723 210	100%
Total	2 723 210	2 723 210	100%

The Company provides and accepts collateral in the form of cash in respect of derivative financial instruments. Collateral is subject to the standard industry terms of Credit Support Annexes as explained in Note 16. As at 31 December 2019 Euro 28.67 million (2018: Euro 8.00 million) of collateral is included within ‘Other assets’ as collateral pledged for derivative liabilities.

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Notes to the financial statements as at 31 December 2019 (continued)

Note 23 – Amounts owed to credit institutions

	(in euro)	
	31.12.2019	31.12.2018
Money market deals	-	49 629 176
Syndicated loans	749 783 072	749 556 384
Loan from related party	-	140 029 226
	749 783 072	939 214 786

The money market deals refer to very short-term (2 days) money market loans from the Bank with maturity on 2 January 2019.

The loan from related party refers to a fixed rate loan with a nominal value of Euro 138.5 million received from the Company's former Parent Haitong Bank S.A and with maturity in June 2019. The loan has been repaid.

The syndicated loans refer to a loan agreement the Company entered with a syndicate of Chinese financial institutions lead by China Construction Bank in May 2016 to provide the refinancing of the loan facility arranged between the Company's former Parent Haitong Bank S.A. and Portuguese Novo Banco S.A. in 2015. The loans comprise two tranches: B and C with a nominal value of Euro 375 million each and with maturities in June 2021 and March 2022 respectively. The Company's ultimate shareholder Haitong Securities Co. Ltd has provided a guarantee to the syndicate of Chinese banks.

The syndicated loans are analysed as follows:

(in euro)				
Deal ID	Tranche	Maturity date	Interest rate	Nominal value
853016005	B	01.06.2021	Fixed	280 000 000
853016006	B	01.06.2021	Fixed	95 000 000
853019001	C	22.03.2022	Variable	120 000 000
853019002	C	22.03.2022	Variable	105 000 000
853019003	C	22.03.2022	Variable	100 000 000
853019004	C	22.03.2022	Variable	50 000 000
TOTAL				750 000 000

The financial institutions that form the syndicate of Chinese banks are not related parties of the Company.

No securities have been pledged in connection with these loan facilities.

As the amounts owed to credit institutions constitute liabilities arising from financing activities their cash and non-cash movements are reconciled in Note 30.

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Notes to the financial statements as at 31 December 2019 (continued)

Note 24 – Debt securities issued

The Company issues debt securities in conjunction with its Euro Medium Term Notes Programme.

Outstanding debt securities balance is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Debt securities issued		
Designated at fair value through profit or loss	68 290 492	150 293 698
	68 290 492	150 293 698

During the year ended 31 December 2019, the Company issued debt securities amounting to Euro Nil (31 December 2018: Euro 4 165 721), and redeemed securities amounting to Euro 80 224 744 (31 December 2018: Euro 74 982 699).

The carrying amount of financial liabilities designated at fair value through profit or loss at 31 December 2019 was Euro 1.3 million lower than the contractual outstanding amount due at maturity (31 December 2018: Euro 0.3 million higher).

Depending on investor requirements, selected debt securities issued are listed on Euronext Dublin (Main Securities Market and Global Exchange Market). As at 31 December 2019 the carrying value of securities listed on both markets amounted to EUR 9 528 200 (31 December 2018: Euro 14 943 850).

Liquidity summary

As at 31 December 2019 and 2018, the analysis of debt securities outstanding by the period to contractual maturity is as follows:

	(in euro)	
	31.12.2019	31.12.2018
Up to 3 months	582 022	18 982 211
From 3 to 12 months	59 281 421	55 064 996
From 1 to 5 years	7 633 703	75 695 673
More than 5 years	793 346	550 818
	68 290 492	150 293 698

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The main characteristics of the outstanding debt securities are presented as follows:

Designation	Series	Currency	Issue Date	Maturity	(in euro)	
					Carrying Value	Global yield / interest rate
ESIP PORTUGUESE REP CLN DEC2021	MTN-S-610	EUR	20/12/2011	20/12/2021	548 966	Monthly
ESIP APR2020 BES PROTECCAO LKD	MTN-S-634	EUR	11/04/2012	13/04/2020	659 508	Annual
ESIP AUTOCALL JAN20 EQL	MTN-S-684	EUR	23/01/2013	18/01/2020	482 022	Annual
ESIP 6Y CLN BASKET 0 REC MAR20	MTN-S-803	EUR	21/02/2014	20/03/2020	100 000	Monthly
ESIP 7Y SAN GDF SANOFI LKD APR21	MTN-S-834	EUR	11/04/2014	12/04/2021	404 988	Annual
ESIP 7Y SAN GDF LINKED APR21 2	MTN-S-833	EUR	11/04/2014	12/04/2021	474 730	Annual
ESIP 5Y CLN BASKET JUN2020 5	MTN-S-840	EUR	29/04/2014	20/06/2020	102 099	Monthly
ESIP 5Y CLN GALP JUN20	MTN-S-869	EUR	29/04/2015	29/06/2020	2 286 216	Quarterly
ESIP 5Y CLN ARC MIIT JUN20	MTN-S-871	EUR	29/05/2015	29/06/2020	11 962 227	Quarterly
ESIP 5Y CLN ARCELORMITT 4 JUN20	MTN-S-874	EUR	29/06/2015	29/06/2020	5 640 152	Quarterly
ESIP 5Y CLN ALTICE JUN20	MTN-S-873	EUR	29/06/2015	29/06/2020	4 295 293	Quarterly
ESIP BASKET CLN JUL2020	MTN-S-877	EUR	30/07/2015	30/07/2020	3 622 251	Quarterly
ESIP BASKET CLN SEP2020 USD II	MTN-S-878	USD	10/08/2015	30/09/2020	451 136	Quarterly
ESIP BASKET CLN SEP2020 EUR III	MTN-S-880	EUR	10/08/2015	30/09/2020	1 025 351	Quarterly
ESIP BASKET CLN SEP2020 EUR IV	MTN-S-879	EUR	27/08/2015	30/09/2020	1 614 389	Quarterly
HIIP DUAL CLN BASKET SEP2020 EUR III	MTN-S-883	EUR	30/09/2015	30/09/2020	1 413 902	Quarterly
HIIP BASKET CLN SEP2020 EUR	MTN-S-882	EUR	30/09/2015	30/09/2020	6 073 946	Quarterly
HIIP CLN FIAT DEC2020	MTN-S-884	EUR	29/10/2015	30/12/2020	977 584	Quarterly
HIIP CLN BASKET DEC2020	MTN-S-885	EUR	29/10/2015	30/12/2020	3 552 991	Quarterly
HIIP CLN BASKET DEC2020	MTN-S-886	EUR	27/11/2015	30/12/2020	3 520 810	Quarterly
HIIP CLN BASKET DEC2020	MTN-S-888	EUR	04/12/2015	30/12/2020	5 184 605	Quarterly
HIIP CLN BASKET DEC2020	MTN-S-890	EUR	30/12/2015	30/12/2020	4 937 521	Quarterly
HIIP CLN MITTAL DEC2020	MTN-S-895	EUR	19/02/2016	30/12/2020	668 620	Monthly
HIIP EQL BASKET OCT2020	MTN-S-898	EUR	17/10/2017	19/10/2020	1 292 822	Annual
HIIP EUR INDEX DEC2022	MTN-S-899	EUR	28/12/2017	15/12/2022	1 463 331	Interest at Maturity
HIIP EUR INDEX 12-2022	MTN-S-900	EUR	28/12/2017	15/12/2022	1 415 384	Interest at Maturity
HIIP EUR INDEX 01-2026	MTN-S-901	USD	15/02/2018	23/01/2026	793 346	Quarterly
HIIP CPN SD3E DEC2022	MTN-S-902	EUR	15/06/2018	15/12/2022	1 069 381	Interest at Maturity
HIIP CPN SD3E DEC2022	MTN-S-903	EUR	15/06/2018	08/12/2022	1 068 620	Annual
HIIP EQF OMEAEHA JUL2023	MTN-S-904	EUR	23/07/2018	24/07/2023	1 188 301	Interest at Maturity
Total					68 290 492	

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Notes to the financial statements as at 31 December 2019 (continued)

The Company has not pledged any financial assets as collateral in connection with the debt securities issued. The Company however has the benefit of a Keep Well Agreement provided by Haitong Bank, S.A. in 2018. It is a contract that warrants the Bank will cover liabilities arising from the debt securities issued in case of the Company's liquidation, administration or receivership. Further details on the Keep Well Agreement can be accessed under the following link:

<http://www.centralbank.ie/docs/default-source/regulation/prospectus-regulation/2018/prospectusdoc-2018-07/318166-baseprospectus.pdf>

As the debt securities issued constitute liabilities arising from financing activities their cash and non-cash movements are reconciled in Note 30.

Proposed Company's actions to manage liquidity risk arising from notes maturing in 2020 are detailed in Note 34.6.

Note 25 – Other liabilities

As at 31 December 2019 and 2018, this balance is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Lease contracts		
Lease liability (IFRS 16)	170 830	-
	170 830	-
Creditors		
Sundry creditors	58 216	748 827
	58 216	748 827
Other sundry liabilities		
Foreign exchange transactions pending settlement	360 323	-
Other transactions pending settlement	-	459 552
Other accrued expenses	289 890	583 049
	650 213	1 042 601
	879 259	1 791 428

During the year ended 31 December 2019, the Company repaid the principal portion of Lease liabilities amounting to Euro 38 935 (31 December 2018: Euro Nil).

Further details regarding the adoption of IFRS 16 are presented in the Note 31.

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Notes to the financial statements as at 31 December 2019 (continued)

Note 26 – Called up share capital

The holders of ordinary shares may receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. The ordinary shares rank *pari passu* in all respects. All shares in issue are share capital and not liabilities.

This balance is analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Authorised equity:		
75 000 000 (2018: 75 000 000) ordinary shares at 5 euro each	375 000 000	375 000 000
Allotted, called up and fully paid:		
165 000 (2018: 165 000) ordinary shares at 5 euro each	825 000	825 000

The Parent holds 100% of the share capital of the Company. The Company does not have any externally imposed capital requirements.

Note 27 – Capital contribution, fair value reserve and profit or loss brought forward

Capital contribution

Capital contributions of Euro Nil (31 December 2018: Euro 150 000 000).

On the 19 December 2019 the Company transferred the capital contribution to the retained profits in line item ‘Profit or loss brought forward’ in order to pay a dividend of Euro 150 000 000 to the Company’s former shareholder Haitong Bank, S.A..

Fair value reserve and profit or loss brought forward

The fair value reserve represents the amount of the unrealised gains and losses arising from securities classified at fair value through other comprehensive income, net of impairment losses recognised in the statement of profit or loss in the year/previous year as well as the amount arising from the change in fair value of debt securities issued due to own credit risk being recognised in Other Comprehensive Income. The amount of this reserve is presented net of deferred taxes.

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Notes to the financial statements as at 31 December 2019 (continued)

During 2019 and 2018, the movements in these balances are analysed as follows:

				(in euro)
	Gross fair value reserve	Deferred tax	Total fair value reserve	Profit/(loss) brought forward
Balance as at 31 December 2017	1 824 920	(196 234)	1 628 686	4 233 647
IFRS 9 adoption impact	(768 678)	96 085	(672 593)	-
Balance as at 1 January 2018	1 056 242	(100 149)	956 093	4 233 647
Changes in fair value	(745 454)	92 794	(652 660)	-
Loss brought forward	-	-	-	(218 798)
Balance as at 31 December 2018	310 788	(7 355)	303 433	4 014 849
Changes in fair value	62 569	(7 987)	54 582	-
Profit brought forward	-	-	-	1 122 347
Transfer of Capital contribution	-	-	-	150 000 000
Dividend payment	-	-	-	(150 000 000)
Balance as at 31 December 2019	373 357	(15 342)	358 015	5 137 196

On the 19 December 2019, upon the approval of the Board of Directors, the Company paid a dividend of Euro 150 000 000 out of its retained profits to its former shareholder Haitong Bank.

As at 31 December 2019 and 2018, the fair value reserve can be analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Cost of financial assets at FVOCI	-	255 581 759
Accumulated impairment recognised	-	(79 050)
Cost of financial assets at FVOCI, net of impairment	-	255 502 709
Fair value of financial assets at FVOCI	-	256 534 318
Net unrealised profit recognised in the fair value reserve	-	1 031 609
Own credit risk DVA	891 411	(204 088)
Other changes in fair value	(518 054)	(516 733)
Deferred tax	(15 342)	(7 355)
Balance as at 31 December	358 015	303 433

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Notes to the financial statements as at 31 December 2019 (continued)

Note 28 – Off – balance sheet items

As at 31 December 2019 and 2018, this balance can be analysed as follows:

	(in euro)	
	31.12.2019	31.12.2018
Commitments		
Irrevocable commitments	11 753 644	-
	11 753 644	-

Irrevocable commitments represent contractual agreements to extend credit to third parties (e.g. unused credit lines). These agreements are generally contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

Note 29 – Related party transactions

As at 31 December 2019 and 2018, the balances and transactions with related parties are presented as follows:

	(in thousands of euro)							
	31.12.2019				31.12.2018			
	Assets	Liabilities	Gains	Losses	Assets	Liabilities	Gains	Losses
HAITONG BANK SA	691 109	25 232	30 378	13 375	1 020 193	230 217	338 544	318 774
TOTAL	691 109	25 232	30 378	13 375	1 020 193	230 217	338 544	318 774

As at 31 December 2019 the nature of the statement of financial position related party transactions are presented as follows:

	(in thousands of euro)			
	31.12.2019		31.12.2018	
	Assets	Liabilities	Assets	Liabilities
Financial assets at fair value through OCI	-	-	252 058	-
Amounts owed to credit institutions	-	-	-	189 658
Deposits with banks	12 015	-	1 828	-
Derivative financial assets and liabilities	7 405	25 151	13 331	38 876
Financial assets held for trading	2 168	-	3 303	-
Loans and advances to banks	647 850	-	749 563	-
Other assets	21 671	-	110	-
Other liabilities	-	81	-	1 683
Total	691 109	25 232	1 020 193	230 217

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Notes to the financial statements as at 31 December 2019 (continued)

As at 31 December 2019, the balance of loan guarantees provided by Haitong Bank SA. to the Company is Euro 21 458 220 and the balance of loan guarantees provided by Haitong International Securities to the Company is USD 15 972 159.

All related party transactions were entered into on an arm's length basis in the normal course of business.

Note 30 – Changes in liabilities arising from financing activities

The table below details changes in Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as "cash flows from financing activities".

					(in euro)
	Balance as at 01.01.2019	Financing cash flows	Non-cash changes		Balance as at 31.12.2019
			Fair value adjustments	Other changes	
Syndicated loans	749 556 384	-	-	226 688	749 783 072
Loans from related parties	140 029 226	(139 902 851)	-	(126 375)	-
Money market deals	49 629 176	(49 629 176)	-	-	-
Lease liabilities (IFRS 16)	209 765	(38 935)	-	-	170 830
Debt securities issued	150 293 698	(80 224 744)	(1 666 704)	(111 758)	68 290 492
Liabilities from financing activities	1 089 718 249	(269 795 706)	(1 666 704)	(11 445)	818 244 394

Note 31 – IFRS 16 Adoption

The Company has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard ("modified retrospective approach"). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Company decided not to apply the practical expedient regarding the definition of a lease, and reassessed whether all relevant contracts were, or contained, a lease. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

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Notes to the financial statements as at 31 December 2019 (continued)

At the date of initial application, the Company only identified contracts classified as ‘operating leases’, under the principles of IFRS 16 Leases.

The Company has not identified any 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 reconciliation of lease liability is presented in the table below:

	(in euro)
Operating lease liability as at 31 December 2018	-
Discounted using the lessee’s incremental borrowing rate of at the date of initial application	-
(Less): short-term leases recognised on a straight-line basis as expense	-
(Less): low-value leases recognised on a straight-line basis as expense	-
(Less): commitments not considered as leasing commitments under IFRS 16	-
Add: operating leases not recognized under IAS 17	209 765
Add/(less): adjustments as a result of a different treatment of extension and termination options	-
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	-
Lease liability recognised as at 1 January 2019	209 765
Of which are:	
Current Lease Liabilities	-
Non-current Lease Liabilities	209 765
Total lease liabilities	209 765

The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 1.49%. Interest charged on the lease liability is shown in the Note 5.

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

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Notes to the financial statements as at 31 December 2019 (continued)

The adoption of IFRS 16 - Leases affected the following line items in the balance sheet on 31 December 2019 and 1 January 2019:

	(in euro)	
	31.12.2019	01.01.2019
Property and equipment		
Right-of-use assets	173 379	209 765
Other liabilities		
Lease liabilities	170 830	209 765

During the financial year ended 31 December 2019 the Company repaid the principal portion of the lease liability in amount of Euro 38 935.

The right-of-use assets distribution by topology is the following:

	(in euro)	
	31.12.2019	01.01.2019
Property	173 379	209 765
Total right-of-use assets	173 379	209 765

There was no impact of adoption of IFRS 16 on retained earnings on 1 January 2019.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- The use of a single discount rate curve to a portfolio of leases with reasonably similar characteristics;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- The accounting for operating leases with an underlying asset valued at less than EUR 5.000;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application;
- Reliance on previous assessments on whether leases are onerous.

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Notes to the financial statements as at 31 December 2019 *(continued)*

Note 32 – Fair value of financial assets and liabilities

Haitong Investment Ireland plc 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 main methods and assumptions used in the abovementioned valuation of the fair-value of financial assets and liabilities are 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 presently) considering that the instalments are paid in compliance with the deadlines contractually agreed upon.

Amounts owed to 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.

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.

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Notes to the financial statements as at 31 December 2019 (continued)

The fair value of financial assets and liabilities is analysed in tables below.

31 December 2019	Amortised Cost	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Book Value	Fair value (in euro)
Cash and cash equivalents	12 495 835	12 495 835	-	-	12 495 835	12 495 835
Financial assets at FVTPL						
Securities held for trading	-	-	-	152 710	152 710	152 710
Non-trading securities	-	-	-	2 015 573	2 015 573	2 015 573
Derivatives						
Interest rate	-	-	27 176 255	714 547	27 890 803	27 890 803
Exchange rate	-	-	435 630	-	435 630	435 630
Equity /index	-	-	-	108 194	108 194	108 194
Credit	-	-	329 455	378 650	708 105	708 105
Loans designated at FVTPL	-	-	-	14 218 673	14 218 673	14 218 673
Financial assets at FVOCI						
Debt instruments	-	-	-	-	-	-
Financial assets at amortised cost						
Loans and advances to banks	645 955 621	-	645 955 621	-	645 955 621	645 955 621
Loans and advances to customers	123 873 748	-	123 873 748	-	123 873 748	136 967 732
Financial assets	782 325 204	12 495 835	797 770 709	17 588 347	827 854 892	840 948 876
Financial liabilities at amortised cost						
Amounts owed to credit institutions	749 783 072	-	-	-	749 783 072	749 783 072
Financial liabilities at FVTPL						
Derivatives						
Interest rate	-	-	26 919 814	958 982	27 878 796	27 878 796
Exchange rate	-	-	-	-	-	-
Equity /index	-	-	-	1 355 968	1 355 968	1 355 968
Credit	-	-	47 497	2 421 991	2 469 488	2 469 488
Debt securities issued	-	-	68 290 492	-	68 290 492	68 290 492
Financial liabilities	749 783 072	-	95 257 803	4 736 941	849 777 816	849 777 816

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Notes to the financial statements as at 31 December 2019 (continued)

31 December 2018	Amortised Cost	Quoted Market Prices (Level 1)	Valuation models based on observable market information (Level 2)	Valuation models based on unobservable market information (Level 3)	Book Value	Fair value (in euro)
Cash and cash equivalents	2 120 305	-	-	-	2 120 305	2 120 305
Financial assets at FVTPL						
Securities held for trading	-	-	210	417 809	418 019	418 019
Non-trading securities	-	-	-	3 303 201	3 303 201	3 303 201
Derivatives						
Interest rate	-	-	35 078 268	159 089	35 237 357	35 237 357
Exchange rate	-	-	421 288	2 422 355	2 843 643	2 843 643
Equity /index	-	-	-	243 170	243 170	243 170
Credit	-	-	765 896	599 839	1 365 735	1 365 735
Financial assets at FVOCI						
Debt instruments	-	-	-	256 534 318	256 534 318	256 534 318
Financial assets at amortised cost						
Loans and advances to banks	749 563 078	-	-	-	749 563 078	749 563 078
Loans and advances to customers	228 096 863	-	-	-	228 096 863	226 217 272
Financial assets	979 780 246	-	36 265 662	263 679 781	1 279 725 689	1 277 846 098
Financial liabilities at amortised cost						
Amounts owed to credit institutions	939 214 786	-	-	-	939 214 786	939 214 786
Financial liabilities at FVTPL						
Derivatives						
Interest rate	-	-	35 457 385	187 247	35 644 632	35 644 632
Exchange rate	-	-	422 899	2 900 148	3 323 047	3 323 047
Equity /index	-	-	-	2 558 288	2 558 288	2 558 288
Credit	-	-	-	1 423 692	1 423 692	1 423 692
Debt securities issued	-	-	150 293 697	-	150 293 697	150 293 697
Financial liabilities	939 214 786	-	186 173 981	7 069 375	1 132 458 142	1 132 458 142

The movements that occurred between 31 December 2018 and 31 December 2019 in assets and liabilities classified in Level 3 are presented in Note 32.4.

32.1. Fair value hierarchy

The Company determines the fair value of its financial assets and liabilities in accordance with the hierarchy levels defined in IFRS 13 on the basis of the significance of inputs used in the measurements:

- **Level 1 - Quoted market prices** – Instruments valued using quoted prices observed in active and liquid markets. These may include government bonds and credit bonds.
- **Level 2 - Valuation models based on observable market information** – Instruments valued using valuation techniques based on observable market inputs, quotes prices for similar instruments in active markets or for identical instruments in markets that are neither active nor liquid. These include bonds and plain vanilla OTC derivatives.

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Notes to the financial statements as at 31 December 2019 *(continued)*

- **Level 3 - Valuation models based on unobservable market information** – Instruments valued using valuation techniques based on non-observable market inputs and that do not comply with the requirements to be classified under Level 1 nor Level 2. These include non-plain vanilla OTC derivatives valued based on non-observable market inputs or on indicative prices published by third parties, and distressed and highly illiquid bonds.

32.2. Valuation techniques used in fair value measurements

The objective of valuation techniques used by the Company is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The methods used by the Company for calculation of fair value of financial instruments in the financial statements are presented below.

Securities held for trading and financial assets at fair value through OCI

The fair value of fixed income securities held for trading and securities at fair value through OCI is based on quoted prices or indicative broker quotes, where the securities are available on an active market or an exchange. When quoted prices are unavailable the fair-value is estimated on the basis of discounted value of expected future cash flows.

Debt securities issued

The fair value of these instruments is based on market prices, when available. When quoted prices are unavailable the fair-value is estimated on the basis of discounted value of expected future cash flows.

Derivatives

The Company uses widely recognised valuation models for determining the fair value of common and simple derivatives, such as interest rate and currency swaps that use only observable market data and require little judgement and estimation. Observable prices or model inputs are usually available in the market for exchange-traded derivatives and simple over-the-counter (OTC) derivatives, such as interest rate swaps. For more complex OTC derivatives the Company uses indicative prices published by third parties. Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes option pricing model and other valuation models.

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Notes to the financial statements as at 31 December 2019 *(continued)*

Credit and debit value adjustments

The Company also considers the impact of counterparty risk (i.e. the risk of default of a counterparty) when valuing its OTC held for trading derivatives and impact of own credit risk (i.e. the risk of default of the Company) when valuing unquoted debt securities issued by using the following valuation adjustments:

- **credit value adjustments (CVA)** reflect the counterparties' credit risk embedded in the fair value of uncollateralised held for trading derivative assets. CVA per counterparty is calculated using the net present value of the counterparty exposure (NPV) to which the probability of default of the counterparty (PD) and the loss given default (LGD) are applied, therefore the Company computes CVA as:
$$CVA = NPV \times PD \times LGD$$

For unsecured counterparties, the Company uses a 60% loss given default and a default probability based on S&P's rating methodology adopted by the Company for its internal rating assignment.

In case where cash collateral is pledged by a counterparty, the Company applies a pro rata adjustment based on the total exposure for the particular counterparty and the collateral received. The accumulated credit value adjustment recognised as at 31 December 2019 amounted to Euro 383 865 (31 December 2018: Euro 1 023 687).

- **debit value adjustments (DVA)** reflect the Company's own credit risk embedded in the fair value of the Company's liabilities. DVA is calculated for unquoted debt securities issued by HIIP. The inputs required to calculate the DVA are (i) the yield curve based on the maturity of the particular debt security and (ii) a market observable CDS reference curve from a third party with comparable rating that is used as the proxy since there is no active CDS market for Haitong Investment Ireland plc. Therefore, for each debt security, the Company computes DVA by applying to the notional value of a structured note the discount factor derived from those curves for the particular maturity.

The accumulated debit value adjustment arising from the changes in the fair value of debt securities issued due to own credit risk being recognised as at 31 December 2019 is Euro 891 411 (31 December 2018: Euro - 204 088). In 2019 Standard&Poor elevated the credit rating of HIIP's debt securities from bb- to bb, and changed the outlook from neutral to positive, therefore DVA changed from a negative amount in 2018 to a positive one in 2019.

The logic in applying these adjustments is to reflect the probability of default of either a counterparty (for CVA) or the Company (for DVA) in order to measure the impact of this risk on the valuation of OTC derivatives and unquoted debt securities.

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Notes to the financial statements as at 31 December 2019 (continued)

Cash and Deposits with 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 term nature.

Loans and advances to customers and to banks

The fair value of loans and advances to customers and loans and advances to banks is estimated based on the discounted value of the expected future cash flows of capital and appropriate interest rate and taking into account market spreads for similar transactions (if they were entered into in about the same time) considering that the instalments are paid in accordance with the contractually agreed deadlines.

32.3. Inputs used in fair value measurements

Interest rate curves

The short term rates presented reflect benchmark interest rates for money markets and interest rate derivatives. The long term rates presented are represented by the swap interest rate for the respective periods:

	31.12.2019			31.12.2018		
	EUR	USD	GBP	EUR	USD	GBP
<i>Overnight</i>	-0.48	1.56	0.68	-0.42	2.41	0.67
1 month	-0.48	1.77	0.70	-0.39	2.53	0.73
3 months	-0.43	1.92	0.79	-0.34	2.82	0.91
6 months	-0.36	1.77	0.88	-0.33	2.73	1.03
1 year	-0.34	1.72	0.82	-0.27	2.71	1.07
3 years	-0.24	1.64	0.82	-0.07	2.72	1.22
5 years	-0.12	1.72	0.88	0.20	2.56	1.30
7 years	0.02	1.78	0.94	0.47	2.60	1.36
10 years	0.21	1.88	1.02	0.83	2.70	1.44
15 years	0.47	2.01	1.10	1.20	2.80	1.52
20 years	0.61	2.08	1.13	1.39	2.84	1.55
25 years	0.65	2.11	1.12	1.41	2.84	1.55
30 years	0.64	2.10	1.11	1.44	2.82	1.54

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Notes to the financial statements as at 31 December 2019 (continued)

Interest rate volatility

The values presented below refer to the implied volatilities (in the money) used for the valuation of interest rate derivatives:

	(%)					
	31.12.2019			31.12.2018		
	EUR	USD	GBP	EUR	USD	GBP
1 year	58.64	65.47	46.03	1.79	11.25	33.95
3 years	59.17	64.85	50.00	1.44	22.87	-
5 years	59.66	64.52	53.48	20.27	27.29	58.01
7 years	59.60	63.82	55.77	34.46	28.35	61.25
10 years	59.83	63.19	57.41	48.13	30.29	-
15 years	59.15	62.63	56.56	60.46	-	-

Exchange rates and volatility

The exchange rates (European Central Bank) are presented below at the statement of financial position date and the implied volatilities (at the money) for the main currencies used for exchange rate derivatives valuation:

Exchange rates	Volatility (%)						
	31.12.2019	31.12.2018	1 month	3 months	6 months	9 months	12 months
EUR/USD	1.1234	1.1450	5.04	5.16	5.35	5.53	5.78
EUR/GBP	0.8508	0.8945	7.14	6.84	6.78	6.84	6.93
EUR/CHF	1.0854	1.1269	3.97	4.16	4.36	4.54	4.66
EUR/PLN	4.2568	4.3014	3.77	3.91	4.03	4.13	4.21
EUR/CNY	7.8205	7.8751	-	-	-	-	-
USD/BRL ^{a)}	4.0197	3.8812	10.35	10.52	10.53	10.65	10.73

^{a)} Calculation based in EUR/USD and EUR/BRL exchange rates

All exchange rates used by the Company in its valuation models are the spot rates observed in the market at the time of the valuation.

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Notes to the financial statements as at 31 December 2019 (continued)

Equity indexes

The following table outlines the evolution of the main market equity indexes and the respective volatilities used for the valuation of equity derivatives:

	Quote			Historical Volatility		Implied Volatility
	31.12.2019	31.12.2018	Annual change	1 month	3 months	
	(points)	(points)	(%)	(%)	(%)	(%)
DJ Euro Stoxx 50	3 745	3 001	24.8	11.15	11.68	-
PSI 20	5 214	4 731	10.2	9.67	10.42	-
IBEX 35	9 549	8 540	11.8	12.15	12.24	-
DAX	13 249	10 559	25.5	10.70	12.12	12.59
S&P 500	3 231	2 507	28.9	7.32	9.53	11.14
BOVESPA	115 645	87 887	31.6	11.24	15.03	19.21

Credit spreads

The credit spreads and recovery rates used by the Company for the valuation of credit derivatives are sourced on a daily basis from Markit. The evolution of the main indexes, which is understood as being representative of the credit spreads behaviour in the market throughout the year, is presented as follows:

Index	Series	(basis points)				
		1 year	3 years	5 years	7 years	10 years
Year 2019						
CDX USD Main	33	-	27.68	54.15	80.31	102.71
iTraxx Eur Main	32	-	23.19	44.25	64.76	84.92
iTraxx Eur Senior Financial	32	-	-	51.62	-	-
Year 2018						
CDX USD Main	31	-	54.19	87.75	112.99	132.62
iTraxx Eur Main	30	-	55.63	87.37	111.31	131.15
iTraxx Eur Senior Financial	30	-	-	108.52	-	-

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Notes to the financial statements as at 31 December 2019 (continued)

32.4. Movements in assets and liabilities classified in Level 3

For financial instruments recorded in the balance sheet at fair value, the movements that occurred between 31 December 2018 and 31 December 2019 in assets and liabilities classified in Level 3 are analysed as follows:

	Financial assets at FVOCI	Financial assets at FVTPL		Derivative assets and liabilities (Net)
		Securities held for trading	Non-trading securities	
Balance as at 1 January 2019	256 534 318	417 809	3 303 201	(3 644 922)
Results recognized in Net Interest Income	3 324 150	25 620	-	1 915 328
Net gains/(losses) from assets and liabilities at FVTPL	-	31 958	(1 738 073)	349 860
Net gains from financial assets at FVOCI	3 950 099	-	-	-
Impairment on other financial assets net of reversal and recoveries	79 050	-	339 851	-
Other fair value changes	-	14 487	-	17 987
Fair value reserve changes	(1 031 609)	-	-	-
Acquisitions	-	-	110 594	-
Disposals	(262 856 008)	(337 164)	-	-
Reimbursements	-	-	-	-
Derivatives financial flows	-	-	-	(1 962 297)
Transfers from other levels	-	-	-	32 929
Transfers to other levels	-	-	-	(244 435)
Balance as at 31 December 2019	-	152 710	2 015 573	(3 535 550)

(in euro)

	Financial assets at FVOCI	Financial assets at FVTPL		Derivative assets and liabilities (Net)
		Securities held for trading	Non-trading securities	
Balance as at 1 January 2018 (after IFRS 9 reclassification)	4 301 439	256 165	-	(2 947 850)
Results recognized in Net Interest Income	1 327 700	354 861	-	(2 589 420)
Net gains from assets and liabilities at FVTPL	-	4 842 302	-	3 248 490
Net gains from financial assets at FVOCI	-	-	-	-
Impairment on other financial assets net of reversal and recoveries	6 221	-	(3 885 150)	-
Other fair value changes	(392)	19 342	-	(4 427 183)
Fair value reserve changes	1 066 571	-	-	-
Acquisitions	250 000 000	-	7 135 806	-
Disposals	-	(5 054 861)	-	-
Reimbursements	(167 221)	-	52 545	-
Derivatives financial flows	-	-	-	3 070 439
Transfers from other levels	-	-	-	602
Balance as at 31 December 2018	256 534 318	417 809	3 303 201	(3 644 922)

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Notes to the financial statements as at 31 December 2019 *(continued)*

32.5. The effect of unobservable inputs on fair value measurement

The Company believes that its estimates of fair value are appropriate and are developed using the best information available in the circumstances, including the Company's own data and taking into account all information about market participant assumptions that is reasonably available. For fair value measurements of financial assets at fair value through profit or loss classified as Level 3, on the basis of the best available data, the Company believes that there is no reasonable possible alternative for the valuation.

Note 33 – Events after the financial year end

In March 2020, the World Health Organization declared the upsurge of the COVID-19 virus to be a pandemic situation. As of the date of approval of these financial accounts, the virus continues to spread in Ireland and overall in European countries. This situation and its evolution will most likely have significant impacts on the economic global backdrop and potentially on the Company, as the impacts on European and Chinese economies are especially important for its activity and for the value of its assets. European Governments and Central Banks have committed significant stimulus packages for the duration of 2020. However as economic activity has ceased liquidity pressures have mounted for business across almost all sectors of economies. Furthermore, unemployment rates have soared as business have been forced to make staff redundant due to the cessation in activity. While the quantitative effect of these developments on the Company is not yet possible to determine, the Board of Directors is monitoring the increased risk and the assessment of possible effects on the Company's performance will continue throughout 2020. With European citizens in lockdown and confined to their homes, a contingency plan to ensure business continuity is in place with staff executing their roles as per more normal circumstances. As noted earlier in the Financial Statements, per the information currently available, the Directors have a reasonable expectation that the Company will be able to continue in operation existence for the foreseeable future.

There were no material subsequent events identified prior to the approval of the Financial Statements, which necessitate revision of the figures included in the Financial Statements.

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Notes to the financial statements as at 31 December 2019 *(continued)*

Note 34 – Risk management

34.1. Risk management and control

In terms of risk management, the following qualitative information of the Haitong Investment Ireland PLC is presented.

Control and risk management, for the role they have played in active management support, are one of the main strategic axes supporting their balanced and sustained development.

The Company works directly with the Bank to manage operational, financial and other types of risks encountered. As an internal control, the treasury and investment guidelines outline the procedures for authorisation of transactions and permissible limits. They also set out the process of initiation and the types

of transactions the Company is allowed to enter into. These guidelines are periodically updated by way of Board resolution.

The former Parent's Risk Department has maintained the following main objectives:

- Identification, quantification and control of the different types of risk assumed, progressively adopting uniform principles and methodologies;
- Continuous contribution to the improvement of tools to support the structuring of operations and the development of internal techniques for evaluating performance and optimizing the capital base;
- Proactive management of situations of significant delay and non-compliance with contractual obligations.

The Company's Executive Committee, which includes members of the Board and Management, concerns itself with the overview and sanctioning of all the Company's transactions and credit limits. All transactions are approved on an individual basis pursuant to the guidelines and signing regulations approved by the Executive Committee. The Executive Committee also authorises the use of derivatives in accordance with the Company's guidelines and credit policy limits. Under a Service Level Agreement ("SLA") between the Company and the Bank, Haitong Bank's risk control division operates as an interactive monitoring service for the Company's operations and provides ongoing guidance, information in respect of counterparty exposures, counterparty and credit risks and limits as well as general counterparty information. The Company's Executive Committee then uses the details provided under the SLA to monitor credit and other operational risks before approving transactions locally following an analysis of all existing transactions where any potential or new transactions are undertaken for the same security or counterparty. Upon review and

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Notes to the financial statements as at 31 December 2019 *(continued)*

satisfaction of all relevant details, the Company's management formally approves a transaction by way of an individual Executive Committee resolution.

In order to minimise its exposure to Credit and Sovereign risk, the Company transfers risk to third parties by way of credit default swaps, credit linked notes, equity options and equity swaps. This transfers the inherent risk on the principal and accrued interest to the counterparty in the event of a credit event or default. Financial instruments used for risk management purposes are contracts or agreements whose value is derived or determined from another financial asset or instrument's underlying price, rate or index inherent in the contract or agreement, such as interest rates, exchange rates or stock market indices.

The risks below prevalent to the operations of the Company have been identified and quantified, where applicable.

34.2. 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 obligations established with the Company in the scope of its credit activity. Credit risk is mainly present in traditional banking products - loans, guarantees and other contingent liabilities - and in trading products - swaps, forwards and options (counterparty risk).

Permanent management of credit portfolios is carried out, favouring the interaction between the various teams involved in risk management throughout the successive stages of the credit process. This approach is complemented by the introduction of continuous improvements in risk assessment and control methodologies and tools.

The monitoring of the Company's credit risk profile, in particular with regard to the evolution of credit exposures and monitoring of credit losses, delinquency ratios and provisioning, as well as concentration metrics is carried out on a regular basis. The analysis of compliance with the approved credit limits and the proper functioning of the mechanisms associated with approvals of credit lines in the scope of the current activity of the business areas are also analysed.

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Notes to the financial statements as at 31 December 2019 *(continued)*

Internal ratings

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

Internal ratings are assigned using the internal rating tools (scorecards and guidelines) sponsored by Standard & Poor's ('S&P'). The annual update and maintenance of the internal rating methodological framework is done through contracted services with Standard & Poor's.

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 Investment Ireland plc model, Expected Credit Loss (ECL) is determined as follows:

- 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 is carried out based lifetime ECL through the difference between the gross book value and the net present value of the estimated cash flows.
- Stage 3 – Non Performing: Impairment assessment is carried out based lifetime ECL through the difference between the net book value and the net present value of the estimated cash flows.

As a result of the characteristics of the Company'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. In order to complement this analysis, the Company developed an internal model for calculating collective impairment, incorporating the following parameters:

- Probability of Default (PD): reflects the probability of default in a perspective of time. Haitong Investment Ireland PLC 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 Company 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 on the asset type.

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Notes to the financial statements as at 31 December 2019 (continued)

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 (in accordance with Regulation (EU) No 575/2013).

Details of the Company's approach to the requirements of IFRS 9 are outlined in Note 3.3 of these Financial Statements.

The financial instruments subject to IFRS 9 impairment requirements are presented below, detailed by stage, as of 31 December 2019. Credit ratings for each stage are shown in square brackets.

(in thousands of euro)

Class of assets	Stage 1			Total Stage 1	Stage 2			Total Stage 2	Stage 3		Total Stage 3
	Low to Fair risk [aaa+;a-]	Monitoring [bbb+;b-]	ECL applied		Monitoring [bbb+;b-]	ECL applied	Impaired [d]		ECL applied		
Loans and advances to customers	8 894	84 650	(409)	93 135	15 981	(1 116)	14 865	15 874	-	15 874	
Assets at Fair Value through Profit and Loss	-	-	-	-	-	-	-	14 219	-	14 219	
Other assets	-	-	-	-	-	-	-	2 723	(2 723)	-	
Loans and advances to banks	-	647 850	(1 895)	645 955	-	-	-	-	-	-	
Cash and cash equivalents	374	12 122	-	12 496	-	-	-	-	-	-	
Total	9 268	744 622	(2 304)	751 586	15 981	(1 116)	14 865	32 816	(2 723)	32 816	

During the financial year ended 31 December 2019 there were modified financial assets for which since initial recognition the expected credit losses have gone from lifetime expected credit losses to 12 month expected credit losses. There were no other transfers between stages during 2019. The transfers are presented in the following table.

(in thousands of euro)

Class of assets	31.12.2019			31.12.2018		
	Stage 1		Monitoring [bbb+;b-]	Stage 2		Monitoring [bbb+;b-]
	Monitoring [bbb+;b-]	ECL applied		ECL applied	ECL applied	
Loans and advances to customers	16 541	(24)	16 517	17 360	(161)	17 189

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Notes to the financial statements as at 31 December 2019 (continued)

The table below presents all financial assets carried at amortised cost by industry, stage and days of delay as of 31 December 2019.

(in thousands of euro)

Financial assets at amortised cost	Stage 1		Stage 2				Stage 3			
	No overdue		No overdue		1-29 days		No overdue		More than 181 days	
	Gross carrying amount	ECL applied	Gross carrying amount	ECL applied	Gross carrying amount	ECL applied	Gross carrying amount	ECL applied	Gross carrying amount	ECL applied
Banks	660 346	1 895	-	-	-	-	-	-	-	-
Chemicals	-	-	-	-	-	-	2 878	-	-	-
Commercial & Professional Services	-	-	-	-	-	-	3 426	-	-	-
Healthcare	17 114	13	-	-	-	-	-	-	-	-
Hotels & Gaming	-	-	-	-	-	-	2 723	2 723	9 570	-
Power	43 798	288	1 250	46	-	-	-	-	-	-
Real Estate	29 456	105	-	-	-	-	-	-	-	-
Transportation Infrastructure	3 175	2	10 576	782	4 155	288	-	-	-	-
Total	753 889	(2 303)	11 826	(828)	4 155	(288)	9 027	(2 723)	9 570	-

The gross exposure is presented below by financial instrument type, internal rating band and impairment stage.

Loans and advances to customers

The table below presents a summary of the portfolio of loans and advances to customers of Haitong Investment Ireland PLC, as of 31 December 2019 and 31 December 2018:

(in thousands of euro)

Loans and advances to customers	31/12/2019				31/12/2018
	Stage 1	Stage 2	Stage 3	Total	Total
Low to fair risk [aaa+;a-]	8 894	-	-	8 894	-
Monitoring [bbb+;b-]	84 650	15 981	-	100 631	99 513
Impaired [d]	-	-	15 874	15 874	138 140
Gross carrying amount	93 544	15 981	15 874	125 399	237 653
ECL applied	(409)	(1 116)	-	(1 525)	(9 556)
Carrying amount (Note 19)	93 135	14 865	15 874	123 874	228 097
Loans designated at FVTPL	-	-	14 219	14 219	-
Gross carrying amount	-	-	14 219	14 219	-
Total carrying amount	93 135	14 865	30 093	138 093	228 097

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Notes to the financial statements as at 31 December 2019 (continued)

In accordance with the accounting policy described in Note 2.3.8, where the Company benefits from a guarantee provided by the Bank, no impairment is recognised. Further details on guarantees provided by the Bank are disclosed in Note 19.

Financial assets at FVOCI

The table below presents a summary of the Company's portfolio of bonds and other fixed income securities classified as financial assets at FVOCI, as of 31 December 2019 and 31 December 2018:

(in thousands of euro)

Financial assets at FVOCI	31/12/2019				31/12/2018
	Stage 1	Stage 2	Stage 3	Total	Total
Monitoring [bbb+;b-]	-	-	-	-	256 613
Total gross carrying amount	-	-	-	-	256 613
ECL applied	-	-	-	-	(79)
Carrying amount (Note 17)	-	-	-	-	256 534

Loans and advances to banks

The table below presents a summary of the loans and advances to banks, as of 31 December 2019 and 31 December 2018:

(in thousands of euro)

Loans and advances to banks	31/12/2019				31/12/2018
	Stage 1	Stage 2	Stage 3	Total	Total
Monitoring [bbb+;b-]	647 850	-	-	647 850	749 563
Total gross carrying amount	647 850	-	-	647 850	749 563
ECL applied	(1 895)	-	-	(1 895)	-
Carrying amount (Note 18)	645 955	-	-	645 995	749 563

Cash and cash equivalents

The table below presents a summary of the Company's cash and cash equivalents, as of 31 December 2019 and 31 December 2018:

(in thousands of euro)

Cash and cash equivalents	31/12/2019				31/12/2018
	Stage 1	Stage 2	Stage 3	Total	Total
Low to fair risk [aaa+:a-]	374	-	-	374	255
Monitoring [bbb+;b-]	12 122	-	-	12 122	1 865
Total gross carrying amount	12 496	-	-	12 496	2 120
ECL applied	-	-	-	-	-
Carrying amount (Note 15)	12 496	-	-	12 496	2 120

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Notes to the financial statements as at 31 December 2019 (continued)

Debtors

The table below presents a summary of the debtors portfolio included within the line item of Other Assets, as of 31 December 2019 and 31 December 2018:

(in thousands of euro)

Cash and cash equivalents	31/12/2019				31/12/2018
	Stage 1	Stage 2	Stage 3	Total	Total
Impaired [d]	-	-	2 723	2 723	-
Total gross carrying amount	-	-	2 723	2 723	-
ECL applied	-	-	(2 723)	(2 723)	-
Carrying amount (Note 22)	-	-	-	-	-

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.

Risk mitigation techniques

The main risk mitigation techniques used by the Company are financial pledges (funded credit protection – financial collateral in the form of securities and cash). Haitong Investment Ireland plc follows the prescription of CRR in what concerns collateral haircuts for impairment calculation. Thus, instead of using the collateral value, the Company 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 and 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.

The maximum exposure to credit risk at the end of the period and without taking into account any risk mitigating techniques is represented by the carrying amounts of the Company's assets which has already been presented in the notes to the Financial Statements. As of 31 December 2019 and 31 December 2018, the amount of financial instruments with no losses identified, due to credit risk's mitigation techniques, was Euro 15 623 and Euro 115 302 thousand euros, respectively, accounted under loans and advances to customers.

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The tables below presents the gross exposure and exposure at default of all financial assets disaggregated between rating buckets for each stage as of 31 December 2019 and 31 December 2018:

		31/12/2019				(in thousands of euro)	
Rating bucket		Stage 1		Stage 2		Stage 3	
		Gross Exposure	Exposure at Default	Gross Exposure	Exposure at Default	Gross Exposure	Exposure at Default
Low to fair risk	[aaa+;a-]	9,268	7,107	-	-	-	-
Monitoring	[bbb+;b-]	744,622	747,302	15,981	12,338	-	-
Impaired	[d]	-	-	-	-	42,165	42,165
Total		753,890	754,409	15,981	12,338	42,165	42,165

		31/12/2018				(in thousands of euro)	
Rating bucket		Stage 1		Stage 2		Stage 3	
		Gross Exposure	Exposure at Default	Gross Exposure	Exposure at Default	Gross Exposure	Exposure at Default
Low to fair risk	[aaa+;a-]	255	255	-	-	-	-
Monitoring	[bbb+;b-]	1 057 030	1 055 624	49 493	44 030	-	-
Impaired	[d]	-	-	-	-	138 140	125 940
Total		1 057 285	1 055 879	49 493	44 030	138 140	125 940

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Notes to the financial statements as at 31 December 2019 (continued)

Credit quality

The tables below set out information about the credit quality of financial assets that are neither past due nor impaired.

(in euro)

Credit Risk Rating	31.12.2019				
	Trading and non-trading securities	Derivative financial assets	Loans at FV through P&L	Loans and advances to banks	Loans and advances to customers
A-	-	-	-	-	8 893 895
BBB+	-	-	-	-	-
BBB	-	-	-	-	3 175 248
BBB-	-	-	-	-	-
BB+	-	1 415 979	-	-	16 540 626
BB	2 015 573	18 244 480	-	645 955 621	29 456 209
BB-	-	5 859 018	-	-	13 564 195
B+	-	3 623 255	-	-	36 644 439
B	-	-	-	-	-
B-	-	-	-	-	1 250 113
CCC+	-	-	-	-	-
LCCC	-	-	-	-	-
D	-	-	14 218 673	-	6 304 401
NR	152 710	-	-	-	-
Total	2 168 283	29 142 732	14 218 673	645 955 621	115 829 126

(in euro)

Credit Risk Rating	31.12.2018				
	Trading and non-trading securities	Derivative financial assets	Financial assets at FV through OCI	Loans and advances to banks	Loans and advances to customers
A-	-	-	-	-	-
BBB+	-	-	-	-	9 352 575
BBB	-	-	-	-	-
BBB-	-	1 386 163	4 476 178	-	10 753 383
BB+	-	1 441 165	-	-	8 760 812
BB	-	14 188 613	-	-	-
BB-	3 303 201	15 959 013	252 058 140	749 563 078	14 293 681
B+	-	3 778 175	-	-	26 971 140
B	-	-	-	-	19 498 532
B-	-	549 433	-	-	9 883 332
CCC+	-	2 387 343	-	-	-
LCCC	-	-	-	-	-
D	-	-	-	-	104 311 166
NR	418 019	-	-	-	-
Total	3 721 220	39 689 905	256 534 318	749 563 078	203 824 621

Source: Haitong Bank, S.A.

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Notes to the financial statements as at 31 December 2019 (continued)

The table below presents the breakdown of financial assets that are neither past due nor impaired, categorised by credit rating as well as the corresponding year-on-year movements to illustrate changes in Credit Risk across the portfolio:

Internal Rating Band	Financial assets as at 31.12.2019		Financial assets as at 31.12.2018		Year-on-year change
	(in euro)	(% of total financial assets)	(in euro)	(% of total financial assets)	(%)
A Rated	8 893 895	1.1%	-	0.0%	1.1%
BBB- to BBB+	3 175 248	0.4%	25 968 299	2.1%	(1.7%)
BB- to BB+	733 051 701	90.8%	1 059 567 703	84.5%	6.3%
B- to B+	41 517 807	5.1%	60 680 612	4.8%	0.3%
LCCC to CCC+	-	0.0%	2 387 343	0.2%	(0.2%)
D and Unrated	20 675 784	2.6%	104 729 185	8.4%	(5.8%)

As the data above demonstrates, there has been a positive change in Credit Risk across the portfolio at 31 December 2019 compared with the previous year-end. The two largest movements, a 5.8% year-on-year decrease of “D and unrated” financial assets to 2.6% of the total at 31 December 2019 (31 December 2018: 8.4%) and a 6.3% increase in “BB- to BB+” financial assets to 90.8% at 31 December 2019 (31 December 2018: 84.5%), indicate an improvement in credit quality and a reduction of credit risk. The appearance of 1.1% of “A rated” assets as at 31 December 2019 should also be noted. The largest concentration of Company financial assets remains within the “BB- to BB+” risk-rating category, in line with previous years.

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Notes to the financial statements as at 31 December 2019 (continued)

Risk concentration

There were no significant concentrations of credit risk to any single non-Group counterparty at the statement of financial position date. The Company's financial assets exposed to credit risk were concentrated in the following industries presented in the tables outlined below.

(in euro)

	31.12.2019							
	Loans and advances to customers			Loans to banks	Securities at FV through P&L			
	Outstanding	Overdue	Impairment	Gross amount	Securities	Derivatives	Non-trading	Loans at FV
Banking	-	-	-	545 955 621	-	7 093 360	2 015 573	-
Chemicals	2 878 238	-	-	-	-	-	-	-
Commercial & Professional Services	3 426 163	-	-	-	-	-	-	-
Construction & Engineering	29 456 209	-	(105 274)	-	152 710	-	-	14 218 673
Food, Beverage & Tobacco	-	-	-	-	-	-	-	-
Healthcare	17 113 964	-	(13 430)	-	-	-	-	-
Hotels & tourism	-	9 569 610	-	-	-	-	-	-
Power	45 048 213	-	(334 500)	-	-	22 049 372	-	-
Non-food retail	-	-	-	-	-	-	-	-
Real estate	-	-	-	-	-	-	-	-
Transportation Infrastructure	17 906 335	-	(1 071 780)	-	-	-	-	-
	115 829 122	9 569 610	(1 524 984)	545 955 621	152 710	29 142 732	2 015 573	14 218 673

(in euro)

	31.12.2018							
	Loans and advances to customers			Loans to banks	Securities at FV through P&L		Financial assets at FV through OCI	
	Outstanding	Overdue	Impairment	Gross amount	Securities	Derivatives	Gross amount	Impairment
Banking	-	-	-	749 563 078	3 303 205	10 027 974	252 058 140	-
Chemicals	2 732 314	-	-	-	-	-	-	-
Commercial & Professional Services	40 878 159	1 707 314	(59 966)	-	-	-	-	-
Construction & Engineering	22 578 028	-	(8 466 760)	-	118 015	-	4 555 228	(79 050)
Food, Beverage & Tobacco	-	-	-	-	-	2 919 590	-	-
Healthcare	17 951 691	-	(120 869)	-	-	-	-	-
Hotels & tourism	-	9 569 607	-	-	-	-	-	-
Power	62 637 287	-	(722 767)	-	-	26 742 341	-	-
Non-food retail	-	-	-	-	-	-	-	-
Real estate	-	-	-	-	300 000	-	-	-
Transportation Infrastructure	53 933 355	2 828 277	(185 979)	-	-	-	-	-
	200 710 834	14 105 198	(9 556 341)	749 563 078	3 721 220	39 689 905	256 613 368	(79 050)

Overdue loans consist of principal and/or interest amounts which remain outstanding after the payment date listed in the loan contract.

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Notes to the financial statements as at 31 December 2019 (continued)

34.3. Market Risk

Market risk is the possible loss resulting from an adverse change in the value of a financial instrument due to fluctuations in interest rates, foreign exchange rates or share prices.

The Company manages market risk by engaging in interest rate swaps, forward rate agreements, caps and floors, equity options and equity swaps. The management of the Market risk on a daily basis is outsourced to Haitong Bank's risk department and corrective action is taken where necessary.

Unaudited information

The main measure of market risk is the assessment of potential losses under adverse market conditions, for which the Value at Risk (VaR) valuation criteria is used. The Company's VaR model uses the Historical Simulation, based on a confidence level of 99% and an investment period of 10 days. Volatilities and correlations are historical, based on an observation period of one year.

(in millions of euro)

	31.12.2019				31.12.2018			
	December	Annual Average	Maximum	Minimum	December	Annual Average	Maximum	Minimum
Exchange Risk	0.04	0.15	0.26	0.04	0.30	0.28	0.26	0.23
Interest Rate Risk	0.00	0.00	0.00	0.00	0.00	0.10	0.52	0.00
Equity	0.00	0.00	0.00	0.00	0.04	0.10	0.12	0.17
Credit Spread	0.00	0.00	0.00	0.00	0.00	0.13	0.71	0.00
Diversification effect	0.00	0.00	0.00	0.00	-0.04	-0.13	-0.24	-0.17
Total	0.04	0.15	0.26	0.04	0.30	0.48	1.37	0.23

Value at risk (VaR) on 31 December 2019 relates to trading positions in equities, interest rate instruments, volatility, credit spreads, commodities, as well as FX positions (except the FX position in equities in the portfolio of financial assets at FVOCI and in the portfolio of assets at fair value). It totalled EUR 40 210, compared to EUR 303 187 on 31 December 2018 as outlined in the above table which is unaudited.

34.4. Interest Rate Risk

Interest rate sensitivity gap analysis concerns the difference between financial assets and liability repricing. Items are allocated to a minimum of five time-bands by reference to the earlier of the next contractual interest rate repricing date and maturity. A negative interest rate gap exists when more liabilities than assets reprice during a given period. Interest rate repricing tables in respect of 2019 and 2018 are outlined in the following tables overleaf.

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Notes to the financial statements as at 31 December 2019 (continued)

(in millions of euro)						
31.12.2019						
Interest rate repricing - Euro	Not more than 3 months	Over 3 months but less than 6 months	Over 6 months but less than 1 year	Over 1 year but not more than 5 years	Over 5 years	Total
Assets	449	35	47	299	5	835
Liabilities	(377)	(3)	(63)	(390)	(1)	(834)
Gap	71	32	(16)	(90)	4	1

(in millions of euro)						
31.12.2018						
Interest rate repricing - Euro	Not more than 3 months	Over 3 months but less than 6 months	Over 6 months but less than 1 year	Over 1 year but not more than 5 years	Over 5 years	Total
Assets	28	437	6	641	4	1 116
Liabilities	(120)	(432)	(11)	(598)	(1)	(1 162)
Gap	(92)	5	(5)	43	3	(46)

The model used to monitor the sensitivity to interest rate risk is based on the duration model and considers parallel scenarios.

Scenario	(in millions of euro)	
	31 December 2019	31 December 2018
Increase of 100 bps	1.3	3.7
Decrease of 100 bps	(0.7)	(3.5)

Interest Rate Risk may be understood in two different but complementary ways, namely as the effect on the net interest income, or as the impact on capital, resulting from interest rate movements that affect company's balance sheet. Fluctuations in market interest rates can affect the company's net interest margin by altering the amount of income and costs associated with interest rate products, and can affect the value of the underlying assets, liabilities and off-balance sheet instruments. The Company's exposure to interest rate risk is calculated in compliance with the Bank for International Settlements (BIS) methodology, classifying all interest rate sensitive assets, liabilities and off balance sheet items, excluding those from trading, using repricing tenors. The model used is similar to the duration model, using a stress-testing scenario corresponding to a parallel shift of 100 basis points in the yield curve for all interest rate levels (Bank of Portugal Instruction 19/2005). Interest rate risk measurement focuses on determining the effect of changes in interest rates on equity and net interest income.

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Notes to the financial statements as at 31 December 2019 *(continued)*

34.5. Currency Risk

The Company does not maintain material non-trading open currency positions other than the foreign currency translation exposures arising from its investments denominated in non-Euro currencies. The Company's policy is to mitigate the effect of these exposures by financing a significant proportion of its net investment with borrowings in the same currencies as the underlying currencies involved. The funding policy is reviewed on a monthly basis by the Bank. The Company has no substantial net exposure to foreign exchange rate fluctuations or changes in foreign currency interest rates.

As at 31 December 2019 the Company had no exposure to public debt from the peripheral Eurozone countries (Spain, Italy, Portugal and Greece), which is monitored by the Company (31 December 2018: Euro Nil).

34.6. Liquidity Risk

Liquidity risk derives from the potential incapacity to fund assets while satisfying commitments on due dates from potential difficulties in liquidating positions in the portfolio without incurring excessive losses. While the Company may have some liabilities, where cash outflows can occur at an earlier date, for liquidity risk purposes the contractual maturity date is considered.

Liquidity is managed in order to maintain adequate liquidity levels to meet short, medium and long term funding needs. The overall exposure to liquidity is assessed by identifying negative mismatches, which signify a matching or covering requirement.

Liquidity is managed both by the Company and by the Treasury function at Haitong Bank in accordance with both entities SLA. Any shortfalls or funding requirements are covered by money market loans obtained directly from the Bank.

Management Practices

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

The Company takes primary responsibility for its own liquidity risk management and does so in conjunction and support of the Bank's Capital, Assets and Liabilities Management Committee.

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Notes to the financial statements as at 31 December 2019 *(continued)*

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

- Ensure the ability to meet obligations as they come due in a timely manner and at a reasonable cost;
- Compliance with regulatory standards on liquidity;
- Full alignment with liquidity risk appetite;
- Availability of a sufficient and immediate liquidity buffer to ensure ability to react to any event of stress that could restrict the market access under both normal and stressed conditions;
- Development of a diversified investor base and maintaining access to a variety of alternative funding sources, while minimising the cost of funding.
- Promote the suitability between the funding structure and the necessary funds to finance the Company's activity, namely in terms of maturities, counterparties and funding instruments diversification; and
- Continuous development of an appropriate internal framework for the identification, measurement, limitation, monitoring and mitigation of liquidity risk.

Liquidity Position

In conjunction with the Bank's Treasury Department, the Executive Committee oversees the liquidity position of the Company.

The Company's financial instruments include investments in both listed and unlisted markets. Listed securities can be liquidated quickly and while some securities are unlisted there is still a perceived demand therefore allowing these securities to be realisable. In addition, the Company holds derivative contracts traded over-the-counter, which are not traded in an organised public market and which generally may be illiquid. As a result the Company may not be able to liquidate these positions at an amount close to its fair value.

The Company has a policy of keeping positive balances of its all bank accounts held in Haitong Bank. Each time when there is a risk that any of the accounts will go into an overdraft position, the Company in conjunction with Haitong Bank's Treasury department will enter either into a money market loan transaction or into an FX swap to cover any liquidity shortfalls.

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Notes to the financial statements as at 31 December 2019 (continued)

The structure of contractual maturities of financial assets and liabilities as at 31 December 2019 and 2018 is presented in the tables below.

							(in euro)
31 December 2019	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Undetermined	Total
Cash	285	-	-	-	-	-	285
Deposits with Banks	12 495 550	-	-	-	-	-	12 495 550
Financial assets at FVTPL							
Securities held for trading	-	35 606	1 056	2 057 569	32 028	-	2 126 259
Non-trading securities	-	-	-	-	-	-	-
Derivatives	-	50 940 495	9 393 193	17 357 613	2 859 229	28 670 000	109 220 530
Loans designated at FVTPL	-	-	-	-	-	-	-
Financial assets at FV through OCI	-	-	-	-	-	-	-
Loans and advances to banks	-	1 838 700	5 516 100	654 869 588	-	-	662 224 388
Loans and advances to customers	-	1 680 583	6 498 814	79 606 035	60 840 043	9 569 610	158 195 085
Financial assets	12 495 835	54 495 384	21 490 163	753 890 805	63 731 300	38 239 610	944 262 097
Amounts owed to credit institutions	-	1 757 813	5 273 438	755 625 000	-	-	762 656 251
Financial liabilities at FV through P&L:	-						
Derivatives	-	50 026 539	9 016 608	17 200 673	2 796 215	-	79 040 035
Debt securities issued	-	1 382 288	64 454 729	8 215 450	712 124	-	74 764 591
Financial liabilities	-	53 166 640	78 744 775	781 041 123	3 508 339	-	916 460 877

							(in euro)
31 December 2018	On demand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Undetermined	Total
Cash	490	-	-	-	-	-	490
Deposits with Banks	2 119 815	-	-	-	-	-	2 119 815
Financial assets at FVTPL							
Securities held for trading	-	-	-	2 157 881	174 672	-	2 332 553
Derivatives	-	1 576 035	13 400 055	27 245 693	8 218 183	8 000 000	58 439 966
Financial assets at FV through OCI	-	82 950	7 858 306	256 750 000	-	-	264 691 256
Loans and advances to banks	-	1 917 188	379 045 313	381 384 375	-	-	762 346 876
Loans and advances to customers	-	2 497 740	16 811 168	74 498 048	136 736 388	33 828 584	264 371 928
Financial assets	2 120 305	6 073 913	417 114 842	742 035 997	145 129 243	41 828 584	1 354 302 884
Amounts owed to credit institutions	-	51 526 385	379 007 813	519 828 125	-	-	950 362 323
Financial liabilities at FV through P&L:	-						
Derivatives	-	951 403	12 327 478	26 228 962	8 023 193	-	47 531 036
Debt securities issued	-	19 460 977	57 517 334	72 869 783	698 690	-	150 546 784
Financial liabilities	-	71 938 765	448 852 625	618 926 870	8 721 883	-	1 148 440 143

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Notes to the financial statements as at 31 December 2019 *(continued)*

Any shortfalls or funding requirements will be covered by money market loans obtainable directly from the Bank.

34.7. Operational Risk

Operational risk represents the risk of losses resulting from failures in internal procedures, people behaviour, information systems and external events. The Company continually updates and improves procedures and documentation in respect of all functions performed and carried out to ensure operational risk is mitigated.

34.8. Capital Requirements and Solvency Ratio

In terms of prudential matters, where applicable, the Company is subject to supervision of the Central Bank of Ireland (CBI). The Company is not subject to any externally imposed capital requirements.

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Notes to the financial statements as at 31 December 2019 *(continued)*

Note 35 – Recently Issued pronouncements

35.1. Recently issued pronouncements already adopted by the company

In preparation of the consolidated financial statements for the year ended 31 December 2019, the Company adopted the following standards and interpretations recently issued:

IFRS 16 – Leases

The IASB issued on 13 January 2016 a new standard IFRS 16 Leases, effective (with early application if applied at the same time IFRS 15) for annual periods beginning on or after 1 January 2019. This new standard replaces IAS 17 Leases. IFRS 16 removes the classification of leases as either operating leases or finance leases (for the lessee—the lease customer), treating all leases as finance leases. Short-term leases (less than 12 months) and leases of low-value assets (such as IT equipment) are exempt from the requirements. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The impact from the adoption of this standard on the Company's financial statements is presented in the Note 31

IFRIC 23 — Uncertainty over Income Tax Treatments

The interpretation issued on 7 June 2017 is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

According to the interpretation entity is required to use judgement to determine whether each tax treatment should be considered independently or whether some tax treatments should be considered together. The decision should be based on which approach provides better predictions of the resolution of the uncertainty. An entity is also to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

Moreover, an entity has to consider whether it is probable that the relevant authority will accept each tax treatment, or group of tax treatments, that it used or plans to use in its income tax filing. If the entity concludes that it is probable that a particular tax treatment is accepted, the entity has to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings. If the entity concludes that it is not probable that a particular tax treatment is

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Notes to the financial statements as at 31 December 2019 *(continued)*

accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better predictions of the resolution of the uncertainty. An entity has to reassess its judgements and estimates if facts and circumstances change.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. The judgements and assumptions made by the Company upon adoption of IFRIC 23 are presented in the Note 3.4.

IAS 28 - Long-term Interests in Associates and Joint Ventures

The IASB issued on 12 October 2017 amendments to clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

The amendments in Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) are:

- Paragraph 14A has been added to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Paragraph 41 has been deleted because the Board felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.

The amendments are effective for periods beginning on or after 1 January 2019.

There is no impact on the Company's financial statements from adoption of these amendments.

IFRS 9 - Prepayment Features with Negative Compensation

The amendments issued by IASB on 12 October 2017 in order to address concerns about how IFRS 9 Financial Instruments classifies particular prepayable financial assets. In addition, the IASB has clarified an aspect of the accounting for financial liabilities following a modification.

Changes regarding symmetric prepayment options

Under the current IFRS 9 requirements, the SPPI condition is not met if the lender has to make a settlement payment in the event of termination by the borrower (also referred to as early repayment gain). The amendment changes the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

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The final amendments also contain (in the Basis for Conclusions) a clarification regarding the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. The IASB clarifies that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortised cost amount.

The amendments are to be applied retrospectively for fiscal years beginning on or after 1 January 2019, i.e. one year after the first application of IFRS 9 in its current version.

There is no impact on the Company's financial statements from adoption of this amendment.

Annual Improvements 2015-2017 Cycle

On 27 November 2017 the IASB introduced amendments to the following standards:

- **IFRS 3 Business Combinations** - The amendments clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
- **IFRS 11 Joint Arrangements** – The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- **IAS 12 Income Taxes** - The amendments clarify that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.
- **IAS 23 Borrowing Costs** - The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The amendments are effective for annual periods beginning on or after 1 January 2019. There is no impact on the Company's financial statements from adoption of these amendments.

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Notes to the financial statements as at 31 December 2019 *(continued)*

IAS 19 - Plan Amendment, Curtailment or Settlement

The IASB issued on 7 February 2018 the following amendments to IAS 19:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement to be determined using the assumptions used for the re-measurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The amendments are effective for annual periods beginning on or after 1 January 2019. There is no impact on the Company's financial statements from adoption of these amendments.

35.2. Recently issued pronouncements that are not yet effective for the company

The Company decided not to early apply the following standards and interpretations:

IFRS 17 - Insurance Contracts

The IASB issued on 18 May 2017 a new standard IFRS 17 Insurance contracts. The standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021. This amendment is effective for annual periods beginning on or after 1 January 2021.

Amendments to Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework published 29 March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments are effective for annual periods beginning on or after 1 January 2020.

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Notes to the financial statements as at 31 December 2019 *(continued)*

IFRS 3 — *Business Combinations - Definition of a Business*

The IASB issued on 22 October 2018 the amendments in Definition of a Business within IFRS 3 with changes to Appendix A - Defined terms, the application guidance, and the illustrative examples of IFRS 3 only. The amendments:

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

The amendment is effective for annual periods beginning on or after 1 January 2020. However, it is not yet endorsed for use in the EU.

IAS 1 and IAS 8 — *Definition of Material*

The IASB issued on 31 October 2018 the amendments to IAS 1 and IAS 8 to clarify the definition of ‘material’ and to align the definition used in the Conceptual Framework and the standards.

The amendment is effective for annual periods beginning on or after 1 January 2020.

IFRS 9, IAS 39 and IFRS 7 — *Interest Rate Benchmark Reform*

The IASB issued on 26 September 2019 the amendments to IFRS 9, IAS 39 and IFRS 7 to clarify that entities may continue to apply certain hedge accounting requirements assuming, that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based, will not be altered as a result of interest rate benchmark reform.

The amendment is effective for annual periods beginning on or after 1 January 2020.

IAS 1 — *Classification of Liabilities as Current or Non-Current*

The IASB issued on 23 January 2020 the amendments to IAS 1 aiming to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and

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other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

The amendment is effective for annual periods beginning on or after 1 January 2022. However, it is not yet endorsed for use in the EU.