**Haitong Banco de Investimento do Brasil S.A.**
CNPJ/MF nº 34.111.187/0001-12
Head-Office: Av. Brigadeiro Faria Lima, 3729 - 8th floor - São Paulo - SP
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# MANAGEMENT REPORT

(In thousands of Reais)

**To our Shareholders**,

We hereby submit to you the management report and financial statements of Haitong Banco de Investimento do Brasil S.A. for the six-month period and year ended December 31, 2018, including the notes to the financial statements, prepared in accordance with Brazilian Corporate Law and the standards of the Central Bank of Brazil.

## Performance of activities

In the year ended December 31, 2018, Haitong Banco de Investimento do Brasil S.A. posted profit in the amount of R$ 1,060.

The Equity totaled R$ 501,034 at the end of the year, after considering the loss for the year and deduction of interest on own capital in the total of R$ 30,000. The capital adequacy ratio, as prescribed by the Basel Committee and regulated by the Central Bank of Brazil, reached 20.5% at the end of the year in the prudential consolidated financial statements, higher than the minimum of 10.5% required by the Central Bank of Brazil.

Total assets amounted to R$ 4,092,386 at the end of the year. Interbank investments and the securities and derivatives portfolio reached R$ 3,102,109 accounting for 75.8% of the total assets.

The securities portfolio reached R$ 2,388,680, accounting for 58.4% of the total assets, represented by 89.7% of government bonds and 10.3% of private securities. Out of this portfolio, the Bank classified 75.9% of the securities as "trading securities", 19.3% as "available-for-sale securities" and 4.8% as "held-to-maturity securities", based on Management's intention and the Bank's financial capacity to hold them to maturity. The Bank's liquidity position, represented by the portfolio of unpledged securities, reached R$ 956,422, accounting for 1.9 times the final equity.

The loan portfolio reached R$ 326,759 at the end of the year. This portfolio, including sureties and guarantees provided in the amount of R$ 265,809, reached the balance of R$ 592,568 at the end of the year. Out of this loan portfolio, 93.9% of transactions was classified between risk levels "AA" and "C" in accordance with the prevailing regulations of the Central Bank of Brazil. The past-due installments totaled R$ 5,463 corresponding to 1.7% of the portfolio. The allowance for loan losses totaled R$ 11,237, corresponding to 3.4% of the loan portfolio.

The amount of funds raised totaled R$ 3,223,048 at the end of the year, represented by R$ 10,005 of interbank deposits, R$ 647,331 of time deposits, R$ 1,641,445 of money market funding, R$ 722,235 of financial bills, R$ 201,631 of onlendings from BNDES and R$ 401 of structured transaction certificates.

## Acknowledgements

It is indispensable to translate the recognition to the work of our employees, the support of our shareholders and the trust of our clients and the financial institutions of the market..

São Paulo, March 06, 2019

**Board of Directors**

**BALANCE SHEETS DECEMBER 31, 2018 AND 2017 (In thousands of Reais)**

| Assets | Note | Dec 31, 2018 | Dec 31, 2017 |
|---|---|---|---|
| **Current assets** | | **2,580,851** | **3,588,848** |
| **Cash and banks** | 4 | **31,388** | **6,086** |
| **Interbank investments** | | **542,765** | **1,857,291** |
| Money market | 5 | 542,765 | 1,585,597 |
| Interbank deposits | 5 | – | 271,694 |
| **Securities and derivative instruments** | | **1,855,889** | **1,587,234** |
| Own portfolio | 6 a | 816,319 | 384,494 |
| Subject to repurchase commitments | 6 a | 799,058 | 1,057,135 |
| Subject to guarantees | 6 a | 202,842 | 105,225 |
| Derivative instruments | 7 a | 37,670 | 40,380 |
| **Loans** | | **100,528** | **74,359** |
| Loans - Private sector | 8 a | 106,749 | 109,711 |
| (Allowance for loan losses) | 8 b | (6,221) | (35,352) |
| **Other receivable** | | **47,680** | **59,581** |
| Receivables on sureties and guarantees honored | | – | 33,795 |
| Foreign exchange portfolio | | 46 | – |
| Income receivable | | 6,029 | 973 |
| Securities trading | 9 a | 4,614 | 14,563 |
| Other | 9 b | 36,991 | 44,045 |
| (Allowance for loan losses) | 8 b | – | (33,795) |
| **Other assets** | | **2,601** | **4,297** |
| Prepaid expenses | | 2,601 | 4,297 |
| **Long- term assets** | | **1,218,792** | **1,107,447** |
| **Interbank investments** | | **123,978** | **79,304** |
| Interbank deposits | 5 | 123,978 | 79,304 |
| **Securities and derivative instruments** | | **579,477** | **500,843** |
| Own portfolio | 6 a | 140,103 | 247,982 |
| Subject to repurchase commitments | 6 a | 424,328 | 18,852 |
| Subject to guarantees | 6 a | 6,030 | 224,421 |
| Derivative instruments | 7 a | 9,016 | 9,588 |
| **Loans** | | **191,488** | **254,634** |
| Loans - Private sector | 8 a | 196,267 | 273,054 |
| (Allowance for loan losses) | 8 b | (4,779) | (18,420) |
| **Other receivable** | | **323,678** | **271,701** |
| Income receivable | | – | 1,883 |
| Other | 9 b | 323,915 | 270,020 |
| (Allowance for loan losses) | 8 b | (237) | (202) |
| **Other assets** | | **171** | **965** |
| Prepaid expenses | | 171 | 965 |
| **Permanent assets** | | **292,743** | **176,006** |
| **Investments** | | **276,392** | **156,813** |
| Subsidiaries and affiliates - Domestic | 10 | 271,185 | 146,834 |
| Other investments | 10 | 5,207 | 9,979 |
| **Property and equipment** | | **8,873** | **10,274** |
| Other fixed assets for own use | | 16,845 | 17,446 |
| (Accumulated depreciation) | | (7,972) | (7,172) |
| **Intangible assets** | | **7,478** | **8,919** |
| Intangible assets | | 10,552 | 10,773 |
| (Accumulated amortization) | | (3,074) | (1,854) |
| **Total** | | **4,092,386** | **4,872,301** |

| Liabilities | Note | Dec 31, 2018 | Dec 31, 2017 |
|---|---|---|---|
| **Current liabilities** | | **2,213,940** | **3,565,394** |
| **Deposits** | | **501,939** | **920,721** |
| Interbank deposits | 11 a | 10,005 | 164,706 |
| Time deposits | 11 a | 491,934 | 756,015 |
| **Money market funding** | | **1,569,325** | **2,527,007** |
| Own portfolio | 11 a | 1,108,089 | 954,226 |
| Third-party portfolio | 11 a | 461,236 | 1,572,781 |
| **Proceeds from securities issuance** | | **42,238** | **65,214** |
| Proceeds from securities issuance | 11 a | 41,837 | 64,374 |
| Structured Transaction Certificates | 11 a | 401 | 840 |
| **Onlendings from public sector** | | **20,457** | **24,195** |
| BNDES | 11 a | 20,121 | 17,786 |
| FINAME | 11 a | 336 | 6,409 |
| **Derivative instruments** | | **15,066** | **11,782** |
| Derivative instruments | 7 a | 15,066 | 11,782 |
| **Other payables** | | **64,915** | **16,475** |
| Collection of taxes | | 1 | 2 |
| Foreign exchange portfolio | | 46 | – |
| Social and statutory | | 29,325 | 3,825 |
| Taxes payable | 9 c | 7,525 | 1,784 |
| Trading securities | 9 a | 2,961 | 874 |
| Other | 9 d | 25,057 | 9,990 |
| **Long-term liabilities** | | **1,376,389** | **777,877** |
| **Deposits** | | **155,397** | **206,180** |
| Time deposits | 11 a | 155,397 | 206,180 |
| **Money market funding** | | **72,120** | **86,979** |
| Own portfolio | 11 a | 72,120 | 86,979 |
| **Proceeds from securities issuance** | | **680,398** | **47,169** |
| Proceeds from securities issuance | 11 a | 680,398 | 47,169 |
| **Onlendings from public sector** | | **181,174** | **199,695** |
| BNDES | 11 a | 181,174 | 199,314 |
| FINAME | 11 a | – | 381 |
| **Derivative instruments** | | **145,993** | **99,085** |
| Derivative instruments | 7 a | 145,993 | 99,085 |
| **Other liabilities** | | **141,307** | **138,769** |
| Taxes payable | 9 c | 18,709 | 25,246 |
| Other | 9 d | 122,598 | 113,523 |
| **Deferred income** | | **1,023** | **784** |
| Deferred income | | 1,023 | 784 |
| **Equity** | | **501,034** | **528,246** |
| Capital - Domestic | 12 a | 420,000 | 420,000 |
| Earnings Reserves | | 79,682 | 203,503 |
| Valuation adjustments to equity | | 1,352 | (626) |
| Retained earnings | | – | (94,631) |
| **Total** | | **4,092,386** | **4,872,301** |

The accompanying notes are an integral part of these financial statements

## STATEMENTS OF PROFIT AND LOSS

**YEARS ENDED DECEMBER 31, 2018 AND 2017 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 (In thousands of Reais, except for the net income period/year per share)**

| | Note | 2nd six-month period 2018 | Years ended December 31, 2018 | Years ended December 31, 2017 |
|---|---|---|---|---|
| **Financial operations income** | | **564,515** | **1,184,285** | **699,512** |
| Loans | | 16,601 | 36,703 | 46,828 |
| Securities income | | 497,285 | 1,179,516 | 506,314 |
| Profit from derivative instruments | | 50,454 | (31,890) | 143,557 |
| Trade finance and foreign exchange income | | 175 | (44) | 2,813 |
| **Financial operations expenses** | | **(510,713)** | **(1,164,421)** | **(792,102)** |
| Deposits, money market and interbank investments | | (522,010) | (1,163,554) | (702,291) |
| Loans operations, assignment and onlending | | (8,237) | (16,650) | (18,825) |
| Allowance for loan losses | 8 c | 19,534 | 15,783 | (70,986) |
| **Profit (Loss) from financial operations** | | **53,802** | **19,864** | **(92,590)** |
| **Other operating income (expenses)** | | **(25,074)** | **(53,852)** | **(79,836)** |
| Service fee income | 17 b | 14,469 | 29,943 | 13,204 |
| Personnel expenses | | (25,958) | (50,263) | (57,744) |
| Other administrative expenses | 17 c | (12,423) | (24,222) | (31,718) |
| Tax expenses | 17 d | (3,511) | (8,453) | (5,735) |
| Equity in earnings (Losses) of subsidiaries | 10 | 3,768 | 8,658 | 1,608 |
| Other operating income | 17 e | 140 | 493 | 6,354 |
| Other operating expenses | 17 f | (1,559) | (10,008) | (5,805) |
| **Operating result** | | **28,728** | **(33,988)** | **(172,426)** |
| **Non-operating income (loss)** | | (3,994) | (4,433) | 10 |
| **Profit (loss) before income taxes and profit sharing** | | **24,734** | **(38,421)** | **(172,416)** |
| **Income tax and social contribution** | | **(16,690)** | **39,481** | **81,842** |
| Income tax | 13 a | 1,533 | 4,949 | 7,615 |
| Social contribution | 13 a | 1,343 | 2,171 | 7,059 |
| Deferred tax assets | 13 b | (19,566) | 32,361 | 67,168 |
| **Profit sharing** | | **–** | **–** | **(1,579)** |
| **Profit (loss) for the semester/year** | | **8,044** | **1,060** | **(92,153)** |
| **Number of shares** | 12 a | **127,338,665** | **127,338,665** | **127,338,665** |
| **Earnings (Losses) per share for the semester/year - in R$** | | **0.06** | **0.01** | **(0.72)** |

The accompanying notes are an integral part of these financial statements

## STATEMENTS OF CASH FLOWS

**YEARS ENDED DECEMBER 31, 2018 AND 2017 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 (In thousands of Reais)**

| **Operating activities** | 2nd six-month period 2018 | Years ended December 31 2018 | Years ended December 31 2017 |
|---|---|---|---|
| **Profit (loss) for the semester/ year** | **8,044** | **1,060** | **(92,153)** |
| **Adjusted profit (loss)** | **6,885** | **(29,271)** | **83,178** |
| Allowance for loan losses | (19,534) | (15,783) | 70,986 |
| Depreciation and amortization | 1,933 | 3,855 | 5,056 |
| Equity in Earnings (Losses) of subsidiaries | (3,768) | (8,658) | (1,608) |
| Income tax and social contribution | 16,690 | (39,481) | (81,842) |
| Other provision | 11,643 | 33,026 | 90,128 |
| Exchange rate changes on cash and cash equivalents | (79) | (2,230) | 458 |
| **(Increase) decrease in operating assets** | **(832,094)** | **(258,995)** | **(570,195)** |
| (Increase) decrease in Interbank investments | 393,913 | 843,276 | 338,168 |
| (Increase) decrease in Securities and Derivative Instruments | 495,777 | (366,398) | 2,787,471 |
| (Increase) decrease in Loans operations | 27,799 | 52,795 | 74,541 |
| (Increase) decrease in Other receivables | 18,375 | (7,750) | 11,091 |
| (Increase) decrease in Other assets | 2,281 | 2,490 | 6,201 |
| Increase (decrease) in Deposits | (209,725) | (469,565) | (703,499) |
| Increase (decrease) in Money market funding and interbank investments | (1,843,284) | (972,541) | (3,052,881) |
| Increase (decrease) in Proceeds from securities issuance | 304,899 | 610,253 | 26,365 |
| Increase (decrease) in Borrowings and onlendings | (9,717) | (22,259) | (20,753) |
| Increase (decrease) in Derivative instruments | (33,007) | 50,192 | 13,072 |
| Increase (decrease) in Other payables | 20,204 | 23,283 | (48,019) |
| Increase (decrease) in Deferred income | 391 | 239 | 86 |
| Income Tax and Social Contribution paid | – | (3,010) | (2,038) |
| **Net cash provided by/used in operating activities** | **(817,165)** | **(287,206)** | **(579,170)** |
| **Investing activities** | | | |
| Capital increase in subsidiaries | – | (115,286) | – |
| Acquisition of property and equipment | (746) | (1,266) | (3,161) |
| Sale of property and equipment | 35 | 282 | 205 |
| Acquisition of intangible assets | (28) | (28) | – |
| **Net cash provided by/used in investing activities** | **(739)** | **(116,298)** | **(2,956)** |
| **Exchange rate changes on cash and cash equivalents** | **79** | **2,230** | **(458)** |
| **Decrease in cash and cash equivalents** | **(817,825)** | **(401,274)** | **(582,584)** |
| Beginning of period | 1,391,978 | 975,427 | 1,558,011 |
| End of period | 574,153 | 574,153 | 975,427 |
| **Decrease in cash and cash equivalents** | **(817,825)** | **(401,274)** | **(582,584)** |

The accompanying notes are an integral part of these financial statements

## STATEMENTS OF CHANGES IN EQUITY

**YEARS ENDED DECEMBER 31, 2018 AND 2017 AND SIX-MONTH PERIOD ENDED DECEMBER 31, 2018 (In thousands of Reais)**

| | Note | Capital | Earnings reserves: Legal reserve | Earnings reserves: Reserves for expasion | Valuation adjustments to equity | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balances at January 01, 2017** | | **420,000** | **31,042** | **172,461** | **(2,194)** | **–** | **621,309** |
| Adjustments from prior years to equity (see Note 9 "e") | | – | – | – | – | (2,478) | (2,478) |
| Valuation adjustments to equity | 6 b | – | – | – | 1,568 | – | 1,568 |
| Loss for the year | | – | – | – | – | (92,153) | (92,153) |
| **Balances at December 31, 2017** | | **420,000** | **31,042** | **172,461** | **(626)** | **(94,631)** | **528,246** |
| Realization of reserves | 12 c | – | – | (123,821) | – | 123,821 | – |
| Interest on capital | 12 b | – | – | – | – | (30,000) | (30,000) |
| Valuation adjustments to equity | 6 b | – | – | – | 1,978 | – | 1,978 |
| Other Events | | – | – | – | – | (250) | (250) |
| Profit for the year | | – | – | – | – | 1,060 | 1,060 |
| **Balances at December 31, 2018** | | **420,000** | **31,042** | **48,640** | **1,352** | **–** | **501,034** |
| **Balances at July 01, 2018** | | **420,000** | **31,042** | **172,461** | **(6,849)** | **(101,865)** | **514,789** |
| Realization of reserves | 12 c | – | – | (123,821) | – | 123,821 | – |
| Interest on capital | 12 b | – | – | – | – | (30,000) | (30,000) |
| Valuation adjustments to equity | 6 b | – | – | – | 8,201 | – | 8,201 |
| Profit for the semester | | – | – | – | – | 8,044 | 8,044 |
| **Balances at December 31, 2018** | | **420,000** | **31,042** | **48,640** | **1,352** | **–** | **501,034** |

The accompanying notes are an integral part of these financial statements

## 1 GENERAL INFORMATION

Haitong Banco de Investimento do Brasil S.A. (Bank) is a direct subsidiary of Haitong Bank S.A., headquartered in Lisbon (Portugal), whose transactions are conducted within the context of a group of companies that operate together in the financial market, and certain transactions of which are carried out by related institutions, comprising the financial system. As part of its business strategy, the Bank maintained the operations of Haitong Banco de Investimento do Brasil S.A. - Cayman Branch, whose total assets and equity totaled US$37,573 thousand (2017 - US$125,099 thousand) and US$18,960 thousand (2017 - US$98,806 thousand), respectively.

## 2 PRESENTATION OF THE FINANCIAL STATEMENTS

The Bank's financial statements, including its foreign branch, have been prepared in accordance with the accounting practices adopted in Brazil, based on the accounting guidelines set forth in Law 6404/76 and amendments introduced by Law 11638/07 and by Law 11941/2009, for the accounting for transactions, together with the rules and instructions of the National Monetary Council (CMN) and the Central Bank of Brazil (BACEN). These financial statements were approved by Management on March 06, 2019.

The financial statements of the foreign branch were adjusted to the accounting practices adopted in Brazil, applicable to financial institutions authorized to operate by the BACEN, and were translated into Brazilian reais based on the exchange rate of the local currency. These financial statements were consolidated in the financial statements of Haitong Banco de Investimento do Brasil S.A.. The balances of assets and liabilities and profit or loss arising from transactions between the Bank and its foreign branch have been eliminated, when applicable.

As part of the process of convergence with international financial reporting standards, certain accounting pronouncements and related interpretations were issued by the Accounting Pronouncements Committee (CPC), which will be applicable to financial institutions only after approved by the CMN. The accounting pronouncements already approved by the CMN include the following: **a)** Resolution 3566/08 - Impairment of Assets (CPC 01), **b)** Resolution 3604/08 - Statement of Cash Flows (CPC 03), **c)** Resolution 3750/09 - Related-Party Disclosures (CPC 05), **d)** Resolution 3823/09 - Provisions, Contingent Liabilities and Contingent Assets (CPC 25), **e)** Resolution 3973/11 - Events After the Reporting Period (CPC 24), **f)** Resolution 3989/11 - Share-Based Payment (CPC 10), **g)** Resolution 4007/11 - Accounting Policies, Changes in Accounting Estimates and Errors (CPC 23), **h)** Resolution 4144/12 - Conceptual Framework (R1), **i)** Resolution 4424/15 - Employee Benefits (CPC 33), **j)** Resolution 4524/16 - Effects of changes in exchange rates and translation of financial statements (CPC 02), **k)** Resolution 4534/16 - Intangible asset (CPC 04) and **l)** Resolution 4535/16 - Property, plant and equipment (CPC 27).

Currently, it is not possible to estimate when CMN will approve the other CPC accounting pronouncements or whether they will be prospectively or retroactively applied.

## 3 SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

**a.** Income and expenses are recognized on the accrual basis.

**b.** The securities purchased to comprise the Bank 's portfolio are recorded at the amount effectively paid, including brokerage and fees, and are classified according to the Bank Management's intention into three distinct categories, pursuant to BACEN Circular 3068 (see Note 6 "b"):

- **b.1)** Trading securities - securities acquired for the purpose of being actively and frequently traded. They are recorded at cost, plus income earned and adjusted to market value as a contra entry to profit or loss for the period;
- **b.2)** Available-for-sale securities - securities that are not specifically intended for trading purposes or to be held to maturity. They are recorded at cost, plus income earned, which is recorded as a contra entry to profit or loss for the period and adjusted to market value as a contra entry to equity, net of tax, which will only be recognized in profit or loss when effectively realized; and
- **b.3)** Held-to-maturity securities - securities that the Bank has the intent and financial capacity to hold in portfolio to maturity. They are recorded at cost, plus income earned as a contra entry to profit or loss for the period.

**c.** The Bank uses derivative instruments aiming at mitigating its exposure to market, currency and interest rate risks, by using the instruments available on the B3 and over-the-counter market. These derivative instruments are stated at fair value, in accordance with BACEN Circular 3082 (see Note 7 "a"). The derivative instruments (hedge instruments) used to mitigate risks arising from exposure to changes in the fair value of financial assets and financial liabilities (hedged items) are considered as hedge instruments (hedge transaction) and, when the transaction is contracted, they are classified as "market risk hedge" (see Note 7 "c"). In addition, since the beginning of the transaction and continuously, the Bank documents whether the hedge instrument is highly effective in offsetting changes in the fair value of the hedged item, attributable to the hedged risk. The hedge transaction is discontinued when the Bank cancels or no longer qualifies as a hedge or the hedge instrument expires or is sold, terminated or executed.The gains and losses arising from changes in the fair value of hedge instuments and hedged items are accounted for in income or expense accounts in profit or loss.

**d.** Loan transactions are classified in accordance with the Management's assessment in nine risk levels, considering the analysis of clients and collaterals, past experience, as well as specific risks underlying the transaction, in compliance with the parameters established by CMN Resolution 2682. After 60 days, the income from past-due transactions is only recognized as revenue when effectively received. H-rated (maximum risk) transactions remain at this level for six months, after which period they are written down against the existing allowance and controlled in memorandum accounts for at least five years, no longer being recognized in the balance sheets. Renegotiated transactions are maintained, at least, at the same classification level as their prior rating. The allowance for loan losses was recorded taking into account the current economic scenario and expectations regarding the realization of the portfolio, so that an adequate allowance in an amount sufficient to cover specific and overall risks is recorded, associated to the allowance calculated in accordance with the risk levels and the respective minimum percentages established by the CMN Resolution 2682 (see Note 8 "b").

**e.** Impairment of assets: An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable value. Impairment losses are recognized in profit or loss for the period. The carrying amount of non-financial assets, except other assets and tax credits, are reviewed at least every six months to determine whether there is any indication of impairment loss.

**f.** Permanent assets are stated at cost, taking the following aspects into consideration:

- Interests in subsidiaries are measured under the equity method of accounting (see Note 10).
- Depreciation of property and equipment is calculated using the straight-line method at the following annual rates: 20% for data processing systems and vehicles and 10% for furniture and equipment.
- Intangible assets are basically represented by software licenses. Their amortization is calculated using the straight-line method over the contractual term.

**g.** Current and noncurrent liabilities are measured at their known or estimated amounts, plus, when applicable, the charges and inflation adjustments (on a pro rata basis) and foreign exchange changes incurred.

**h.** Provisions, contingent liabilities and legal obligations are recognized, measured and disclosed in accordance with the criteria defined by CPC 25 (see Note 14), approved by CMN Resolution 3823:

- **Provisions:** recognized taking into consideration the opinion of legal advisors, the nature of the lawsuits, similarity with previous cases, complexity and position of the courts, whenever the loss is assessed as probable, which would cause a probable outflow of funds for the settlement of liabilities and when the relevant amounts are reliably measured;
- **Contingent liabilities:** according to CPC 25, "contingent" refers to liabilities whose recognition will depend on whether one or more future and uncertain events that are beyond Management's control take place or not. Contingent liabilities do not meet the recognition criteria since they are assessed as possible losses, and they must only be disclosed in the notes to the financial statements when relevant. Contingent liabilities assessed as remote losses are neither accrued nor disclosed; and
- **Legal obligations:** provision for tax risks: result from lawsuits, which are being challenged on the grounds of legality or constitutionality, which, regardless of the assessment of the likelihood of a favorable outcome, are fully recognized in the financial statements.

**FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In thousands of Brazilian reais - R$)**

**i.** Provisions for Income Tax (IRPJ), Social Contribution (CSLL), PIS (tax on revenue) and COFINS (tax on revenue) are calculated at the rate of 15% plus a 10% surtax above a certain limit, 15%, 0.65% and 4%, respectively, considering for tax base purposes, the legislation applicable to each tax (see Note 13 "a" for Income Tax and Social Contribution). Law 13169/15, which amended Law 7689/88, raises the social contribution rate to 20% of profit from September 1, 2015 to December 31, 2018. Beginning January 1, 2019, the rate will be 15% again. The Bank also complies with the accounting practice of recognizing deferred income and social contribution taxes, calculated on tax losses and temporary differences, at the same effective tax rates applied in the recognition of the provision (see Note 13 "b"). Such tax credits are recognized for accounting purposes based on current expectations for realization, considering the technical studies and analyses conducted by Management.

**j.** Financial guarantees provided: losses associated with the probability of future disbursements pledged to financial guarantees provided were evaluated according to the nature of the obligation provided, past experience, future expectations and the risk assessment policy of the Management. This review is reviewed at least every six months. The provision for financial guarantees provided was recorded in an amount sufficient to cover probable losses throughout the term of the guarantee provided and is recorded in an appropriate liability account, with a corresponding entry to the income statement for the period. The adoption of these procedures had their effect as of January 1, 2017, and the initial recording of the provision was recorded as a contra entry to retained earnings in equity, by the amount net of the tax effects, in accordance with CMN Resolution no. 4512 ( see Note 9 "e").

**k.** The financial statements, in accordance with accounting practices adopted in Brazil, include some line items whose amounts are determined using estimates based on past experience, legal and business environment, likelihood of occurrence of events subject or not to Management's control, etc. These estimates are reviewed at least semiannually, so as to determine amounts that approximate the future settlement amounts of the assets or liabilities considered.

## 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents, in accordance with CMN Resolution 3604, include cash on hand, bank deposits, and highly liquid short-term investments with insignificant risk of change in value and limits and maturity equal to or below 90 days. Cash and cash equivalents comprise:

| | 2018 | 2017 |
|---|---|---|
| Cash and banks | 31,388 | 6,086 |
| - Money market - Own portfolio position | 137,434 | – |
| - Money market - Short position | 405,331 | 697,647 |
| - Funds invested abroad | – | 271,694 |
| Total - Interbank investments | 542,765 | 969,341 |
| **Total** | **574,153** | **975,427** |

## 5 INTERBANK INVESTMENTS

| | Dec 31, 2018 | | | | | | Dec 31, 2017 | |
|---|---|---|---|---|---|---|---|---|
| | Up to 3 months | 3 months to 1 year | 1 a 3 years | 3 a 5 years | Carrying Amount | Cost Value | Carrying Amount | Cost Value |
| - Public securities - L.T.N. | 137,434 | – | – | – | 137,434 | 137,434 | – | – |
| Money market - Own portfolio position | **137,434** | – | – | – | **137,434** | **137,434** | – | – |
| - Public securities - L.T.N. | 103,454 | – | – | – | 103,454 | 103,454 | – | – |
| - Public securities - N.T.N.-B | – | – | – | – | – | – | 30,312 | 30,287 |
| - Public securities - N.T.N.-F | 301,877 | – | – | – | 301,877 | 301,877 | 1,555,285 | 1,553,925 |
| Money market - short position | **405,331** | **–** | **–** | **–** | **405,331** | **405,331** | **1,585,597** | **1,584,212** |
| Interbank deposits | – | – | 123,978 | – | 123,978 | 123,978 | 79,304 | 79,304 |
| Funds applied abroad | – | – | – | – | – | – | 271,694 | 271,694 |
| **Total as of Dec 31,2018 - R$** | **542,765** | **–** | **123,978** | **–** | **666,743** | **666,743** | **–** | **–** |
| **- %** | **81.4%** | **0.0%** | **18.6%** | **0.0%** | **100.0%** | **–** | **–** | **–** |
| **Total as of Dec 31,2017 - R$** | **969,341** | **887,950** | **–** | **79,304** | **–** | **–** | **1,936,595** | **1,935,210** |
| **- %** | **50.0%** | **45.9%** | **0.0%** | **4.1%** | **–** | **–** | **100.0%** | **–** |

## 6 SECURITIES

***a. Breakdown of securities***

| | Dec 31, 2018 | | | Dec 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Unpledged | Pledged | Total | Unpledged | Pledged | Total |
| Public securities - L.F.T. | – | 204,496 | 204,496 | 94,533 | 429,732 | 524,265 |
| Public securities - L.T.N. | 101,889 | 176,913 | 278,802 | 220,514 | 666,540 | 887,054 |
| Public securities - N.T.N.B. | 13,999 | 168,239 | 182,238 | 27,663 | 164,551 | 192,214 |
| Public securities - N.T.N.F. | 709,538 | 766,932 | 1,476,470 | 21,459 | – | 21,459 |
| Debentures | 80,678 | 20,232 | 100,910 | 161,127 | 28,784 | 189,911 |
| Investment fund quotas | 31,936 | – | 31,936 | 19,416 | – | 19,416 |
| Eurobonds | 18,382 | 95,446 | 113,828 | 16,810 | 116,026 | 132,836 |
| Promissory notes | – | – | – | 70,047 | – | 70,047 |
| Agribusiness credit bills | – | – | – | 907 | – | 907 |
| **Total** | **956,422** | **1,432,258** | **2,388,680** | **632,476** | **1,405,633** | **2,038,109** |

***b. Securities portfolio per category***

| | | | | | | | Dec 31, 2018 | | Dec 31, 2017 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Unpaid | Up to 3 months | 3 a 12 months | 1 a 3 years | 3 a 5 years | Over 5 years | Carrying Amount | Cost Value | Carrying Amount | Cost Value |
| Public securities - L.F.T. | – | – | – | 49,402 | – | 155,094 | 204,496 | 204,340 | 524,265 | 523,390 |
| Public securities - L.T.N. | – | – | – | 49,867 | 56,939 | – | 106,806 | 104,852 | 826,018 | 821,563 |
| Public securities - N.T.N.B. | – | – | – | 2,543 | – | – | 2,543 | 2,503 | 28,830 | 28,691 |
| Public securities - N.T.N.F. | – | – | – | – | 766,458 | 710,012 | 1,476,470 | 1,378,723 | 21,459 | 21,526 |
| Investment fund quotas | 23,775 | – | – | – | – | – | 23,775 | 23,775 | 11,984 | 11,984 |
| **Total Trading Securities (b.1)** | **23,775** | **–** | **–** | **101,812** | **823,397** | **865,106** | **1,814,090** | **1,714,193** | **1,412,556** | **1,407,154** |
| Public securities - L.T.N. | – | – | – | 124,475 | 47,521 | – | 171,996 | 169,713 | 61,036 | 60,979 |
| Public securities - N.T.N.B. | – | – | – | – | 179,695 | – | 179,695 | 179,660 | 163,384 | 164,002 |
| Debentures | – | – | 3,484 | 40,474 | 42,544 | 14,408 | 100,910 | 101,773 | 174,876 | 175,561 |
| Investment fund quotas | – | – | – | 8,161 | – | – | 8,161 | 8,161 | 7,432 | 7,432 |
| Agribusiness credit bills | – | – | – | – | – | – | – | – | 907 | 911 |
| Eurobond | – | – | – | – | – | – | – | – | 1,258 | 1,258 |
| Promissory notes | – | – | – | – | – | – | – | – | 70,047 | 70,066 |
| **Total Available for Sale (b.2)** | **–** | **–** | **3,484** | **173,110** | **269,760** | **14,408** | **460,762** | **459,307** | **478,940** | **480,209** |
| Debentures | – | – | – | – | – | – | – | – | 15,035 | 15,035 |
| Eurobond | – | – | – | 3,833 | 109,995 | – | 113,828 | 113,828 | 131,578 | 131,578 |
| **Total Held to maturity (b.3)** | **–** | **–** | **–** | **3,833** | **109,995** | **–** | **113,828** | **113,828** | **146,613** | **146,613** |
| **Total as of Dec 31,2018 - R$** | **23,775** | **–** | **3,484** | **278,755** | **1,203,152** | **879,514** | **2,388,680** | **2,287,328** | **–** | **–** |
| **- %** | **1.0%** | **0.0%** | **0.1%** | **11.7%** | **50.4%** | **36.8%** | **100.0%** | **–** | **–** | **–** |
| **Total as of Dec 31,2017 - R$** | **34,451** | **39,412** | **294,438** | **888,785** | **720,809** | **60,214** | **–** | **–** | **2,038,109** | **2,033,976** |
| **- %** | **1.7%** | **1.9%** | **14.4%** | **43.6%** | **35.4%** | **3.0%** | **–** | **–** | **100.0%** | **–** |

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The fair value of securities was obtained based on price quotations in the market on the balance sheet date. In case there is no liquidity or price quotation to calculate the fair value of a given security, the amounts are estimated based on dealer quotations, pricing models or price quotations for securities with similar features.

**b.1.** "Trading securities": The positive adjustment to the fair value of securities in the amount of R$99,897 (2017 R$ 5,402), obtained between the cost amount of R$ 1,714,193 (2017 R$1,407,154) and the fair value of R$ 1,814,090 (2017 R$ 1,412,556), was recorded in a specific line item in profit or loss.

**b.2.** "Available-for-sale securities": The positive adjustment to the fair value of securities in the amount of R$ 1,455 (negative adjustment in 2017 R$ 1,269), obtained between the cost amount of R$ 459,307 (2017 R$ 480,209) and the fair value of R$ 460,762 (2017 R$ 478,940), was recorded in a specific line item in equity, net of taxes. The cost and market values of debentures and investments in foreign securities were deducted from a provision for recoverable value of R$ 43,188 (2017 R$ 42,633).

**b.3.** "Held-to-maturity securities": recorded at acquisition cost, plus income earned and deducted from provision of impairment loss of R$ zero (2017 R$ 80,014), as a contra entry to profit or loss for the year. The fair value of these securities amounted to R$ 111,901 (2017 R$ 163,115) on the balance sheet date.

## 7 DERIVATIVE INSTRUMENTS

***a. Derivatives***

The derivative instruments are represented by futures, forward, options and swap contracts, registered with B3 or the Clearing House for the Custody and Financial Settlement of Securities (CETIP) or the Brazilian Company for Custody and Settlement (CBLC), involving fixed rates, interbank rate (DI), exchange rate change or price indices, as shown below:

| | | | Dec 31, 2018 | | | Dec 31, 2017 |
|---|---|---|---|---|---|---|
| | | Fair Value | Cost Value | | Fair Value | Cost Value |
| | Reference Value | Net Exposure Asset (Liability) | Net Exposure Asset (Liability) | Reference Value | Net Exposure Asset (Liability) | Net Exposure Asset (Liability) |
| PRÉ | 1,237,565 | 5,455 | 3,587 | 9,600 | (1,125) | (1,337) |
| CDI | 1,938,455 | (147,190) | (119,160) | 1,821,223 | (57,600) | (52,244) |
| DOLLAR | 2,027,231 | 29,705 | 33,777 | 1,231,181 | 7,025 | 14,561 |
| LIBOR | – | – | – | – | – | – |
| **Swaps** | **5,203,251** | **(112,030)** | **(81,796)** | **3,062,004** | **(51,700)** | **(39,020)** |
| DOLLAR | 102,725 | (658) | (650) | 147,365 | (8,213) | (7,932) |
| **Forward** | **102,725** | **(658)** | **(650)** | **147,365** | **(8,213)** | **(7,932)** |
| **Purchase with call option - Shares** | **18,456** | **575** | **499** | **1,743** | **34** | **36** |
| **Purchase with put option - Shares** | **456** | **5** | **7** | **–** | **–** | **–** |
| DOLLAR | 21,983 | (2,043) | (2,192) | 18,987 | (1,001) | (1,714) |
| Shares | 19,000 | (214) | (131) | – | – | – |
| Shares - COE | 384 | (8) | (30) | 859 | (19) | (63) |
| **Sales with call option** | **41,367** | **(2,265)** | **(2,353)** | **19,846** | **(1,020)** | **(1,777)** |
| **TOTAL Derivative instruments (Asset - Liabilities)** | **5,366,255** | **(114,373)** | **(84,293)** | **3,230,958** | **(60,899)** | **(48,693)** |
| DAP | 14,287 | (7) | (7) | – | – | – |
| DI | 5,561,303 | (1,392) | (1,392) | 6,188,071 | 5,641 | 5,641 |
| DDI | 2,738,237 | (2,463) | (2,463) | 3,191,056 | (694) | (694) |
| DOLLAR | 312,075 | 810 | 810 | 841,036 | 1,534 | 1,534 |
| **Future - Purchase and sale** | **8,625,902** | **(3,052)** | **(3,052)** | **10,220,163** | **6,481** | **6,481** |

The premiums/differentials receivable and payable from options, futures and swaps transactions and the daily adjustments receivable and payable from futures transactions are adjusted to their fair value and recorded in asset and liability accounts as "Derivative instruments" and "Trading account", respectively, and the reference values of these transactions are recorded in clearing accounts.

For the measurement of fair values, the Bank adopted the following criteria: for futures transactions, it uses stock exchange quotations, for options transactions, it uses own pricing models based on market benchmarks and for swap and Forward transactions, it estimates the future cash flows of each of its parties discounted to present value, in accordance with the respective interest curves, which reflect appropriate risk factors, primarily based on the B3 prices.

The exposure to credit risk in futures contracts is mitigated due to the daily financial settlement. The swap contracts are subject to credit risk in case the counterparty does not have the capacity or willingness to perform its contractual obligations. As at December 31, 2018, the total exposure of credit risk in swaps set forth in Art. 1, Item III of BACEN Circular 2770, totaled R$ 397,583 (2017 R$ 421,896).

***b. Aging list of derivative instruments***

| | Up to 3 months | 3 a 12 months | 1 a 3 years | 3 a 5 years | Over 5 years | Total 2018 | Total 2017 |
|---|---|---|---|---|---|---|---|
| Swaps (a) | (3,133) | 26,923 | (135,820) | – | – | (112,030) | (51,700) |
| Forward (a) | 33 | (691) | – | – | – | (658) | (8,213) |
| Options (a) | 146 | (674) | (1,157) | – | – | (1,685) | (986) |
| **Total as of Dec 31, 2018** | **(2,954)** | **25,558** | **(136,977)** | **–** | **–** | **(114,373)** | **–** |
| **Total as of Dec 31, 2017** | **(8,859)** | **37,456** | **(89,496)** | **–** | **–** | **–** | **(60,899)** |
| **Future as of Dec 31, 2018 (b)** | **689,199** | **2,127,670** | **4,179,633** | **1,389,755** | **239,645** | **8,625,902** | **–** |
| **Future as of Dec 31, 2017 (b)** | **1,458,393** | **2,908,549** | **4,089,052** | **818,169** | **946,000** | **–** | **10,220,163** |

(a) Net exposure values and (b) reference values

***c. Derivatives used as hedge instruments for market risk***

As of December 31, 2018, the Bank did not have a market risk hedge accounting transaction. In 2017, the Bank had the following market risk accounting hedge framework in order to offset risks arising from the exposure to changes in fair value arising from the accumulated fluctuation of the DI interest rate and the fixed interest rate applicable to repurchase transactions and time deposits:

| | | | | | | | Dec 31, 2017 |
|---|---|---|---|---|---|---|---|
| | | | Fair value | | Variation fo fair value | | |
| **Hedge object** | **Risk** | **Hedge** | **Derivative instruments** | **Total Portfolio Hedged** | **Derivative instruments** | **Total Portfolio Hedged** | **% Effectiveness** |
| Money market **(a)** | PRE | Future | 1,581,727 | 1,585,597 | 8,912 | 8,934 | 99.8% |

**(a)** In 2017, the positive adjustment to fair value of the hedged repurchase transactions totaled R$ 1,385 and was recorded as " Money market short position " (see Note 5).

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## 8 LOANS

The loan portfolio totaled R$ 326,759 (2017 R$ 436,829) on the balance sheet date. If the balance of R$ 265,809 (2017 R$ 245,284) of sureties and guarantees provided recorded in memorandum accounts is included, the portfolio would total R$ 592,568 (2017 R$ 682,113).

***a. Breakdown of the loan portfolio per economic activity and per maturity***

| | Current | | | | | Past-due | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Up to 3 months | 3 to 12 months | 1 to 3 years | 3 to 5 years | Over 5 years | Up to 12 months | After 12 months | Total Dec 31, 2018 | Total Dec 31, 2017 |
| Loans - Industry | 162 | 838 | 1,676 | 1,676 | 65 | – | – | 4,417 | 24,982 |
| Loans - Commerce | – | – | – | – | – | – | – | – | 128 |
| Loans - Other services | 51,639 | 1,391 | – | – | – | – | 5,463 | 58,493 | 93,734 |
| Financing - Industry | 4,998 | 8,165 | 20,127 | 17,079 | 91,273 | – | – | 141,642 | 149,812 |
| Financing - Other services | 2,725 | 6,930 | 19,503 | 18,803 | 26,065 | – | – | 74,026 | 88,000 |
| Financing (export) - Industry | 24,438 | – | – | – | – | – | – | 24,438 | 26,109 |
| **Loans** | **83,962** | **17,324** | **41,306** | **37,558** | **117,403** | **–** | **5,463** | **303,016** | **382,765** |
| Receivables on sureties and guarantees honored | – | – | – | – | – | – | – | – | 33,795 |
| Receivables arising from export contracts: | | | | | | | | – | |
| - Industry | 25 | – | – | 2,372 | 21,346 | – | – | 23,743 | 20,269 |
| **Other receivables - Sundry (note 9 "b")** | **25** | **–** | **–** | **2,372** | **21,346** | **–** | **–** | **23,743** | **54,064** |
| **Total as of Dec 31,2018 - R$** | **83,987** | **17,324** | **41,306** | **39,930** | **138,749** | **–** | **5,463** | **326,759** | **–** |
| **- %** | **25.7%** | **5.3%** | **12.6%** | **12.2%** | **42.5%** | **0.0%** | **1.7%** | **100.0%** | **–** |
| **Total as of Dec 31,2017 - R$** | **14,964** | **59,851** | **99,779** | **36,783** | **156,740** | **68,712** | **–** | **–** | **436,829** |
| **- %** | **3.4%** | **13.7%** | **22.9%** | **8.4%** | **35.9%** | **15.7%** | **–** | **–** | **100.0%** |

***b. Classification of the loan portfolio by risk level***

CMN Resolution 2682 introduced the criteria for the classification of loans and the recognition of the allowance for loan losses. These allowances are based on client risk assessment systems and operations. Below is the breakdown of the loan portfolio and the minimum allowance for loan losses required at their corresponding risk levels as established in the aforementioned Resolution.

| | | Dec 31, 2018 | | | | | Dec 31, 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Loan portfolio | | | Provision | | Loan portfolio | | | Provision | |
| **Risk Level** | **%** | **Current** | **Past-due** | **Total** | **Minimum** | **Accounting** | **Current** | **Past-due** | **Total** | **Minimum** | **Accounting** |
| AA | – | 88,198 | – | 88,198 | – | – | 80,497 | – | 80,497 | – | – |
| A | 0.5 | 143,286 | – | 143,286 | 716 | 716 | 172,225 | – | 172,225 | 861 | 861 |
| B | 1.0 | 75,469 | – | 75,469 | 755 | 755 | 20,270 | – | 20,270 | 203 | 203 |
| C | 3.0 | – | – | – | – | – | – | – | – | – | – |
| D | 10.0 | – | – | – | – | – | 40,776 | – | 40,776 | 4,078 | 4,078 |
| E | 30.0 | 14,343 | – | 14,343 | 4,303 | 4,303 | 54,350 | – | 54,350 | 16,305 | 16,305 |
| F | 50.0 | – | – | – | – | – | – | – | – | – | – |
| G | 70.0 | – | – | – | – | – | – | 7,963 | 7,963 | 5,574 | 5,574 |
| H | 100.0 | – | 5,463 | 5,463 | 5,463 | 5,463 | – | 60,748 | 60,748 | 60,748 | 60,748 |
| **Total** | | **321,296** | **5,463** | **326,759** | **11,237** | **11,237** | **368,118** | **68,711** | **436,829** | **87,769** | **87,769** |

***c. Allowance for loan losses***

As at December 31, 2017, the allowance for loan losses totaled R$ 87,769, subject to changes during the year due to: a) additional allowance of R$ 214 (2017 R$ 71,022), b) reversal of allowance of R$ 15,998 (2017 R$ 35), c) write-offs R$ 60,748 (2017 R$ 1,903) and d) exchange loss of R$ zero (2017 R$ 38), reaching the final balance of R$ 11,237 in December 31, 2018, corresponding to 3.4% (2017 - 14.5%) of the loan portfolio. In 2018 there were loan recoveries in the amount of R$ 551 (2017 R$ zero) and the balance off renegotiated operations totaled R$24,438 (2017 R$ 51,100).

***d. Concentration of Loan portfolio (includes guarantees provided - see note 9 "e")***

| | Dec 31, 2018 | | Dec 31, 2017 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| • Main debtor | 137,346 | 23.2% | 143,573 | 21.0% |
| • 10 main debtors | 522,213 | 88.1% | 575,636 | 84.4% |
| • 20 main debtors | 592,481 | 99.9% | 672,501 | 98.6% |
| • Total - Portfolio | **592,568** | **100.0%** | **682,113** | **100.0%** |

## 9 OTHER RECEIVABLES AND OTHER PAYABLES

a. **Other receivables - trading account (Asset):** represented by escrow deposits held in banks abroad of R$ 4,614 (2017 R$ 8,082) and transactions with financial assets carried out at B3 (see note 7 "a") in the amount of R$ zero (2017 R$ 6,481), whose financial settlements take place up to the third business day following the balance sheet date. **Other payables - trading account (Liabilities):** represented by transactions with financial assets carried out at B3 (see note 7 "a") in the amount of R$ 2,961 (2017 R$ 874), whose financial settlements take place up to the third business day following the balance sheet date.

b. **Other receivables - Sundry:** composed of receivables arising from export contracts (see Note 8 "a") of R$ 23,743 (2017 R$ 20,269), deferred tax assets (see Note 13"b") of R$ 202,869 (2017 R$ 171,080), escrow deposits (see Note 14 "a") of R$ 123,830 (2017 R$ 113,642), taxes for offset of R$ 9,207 (2017 R$ 7,903) and advances, reimbursable payments and sundry debtors of R$ 1,257 (2017 R$ 1,171).

c. **Other payables - tax and social security:** composed of the provision for deferred income tax and social contribution calculated on the adjustment to fair value of securities and derivative instruments and non-taxable income from updating escrow deposits (see Note 13 "b") of R$ 18,709 (2017 R$ 25,247) and taxes and contributions payable of R$ 7,525 (2017 R$ 1,783).

d. **Other payables - Sundry:** composed of provision for tax risks (see Note 14 "a") of R$ 122,598 (2017 R$ 113,497), accrued payments of R$ 8,303 (2017 R$ 4,038), provision for labor liabilities (see note 14 "b.2") of R$ 1,013 (2017 R$ zero), provision for guarantees provided (see Note 9 "e") of R$ 3,181 (2017 R$ 3,500) and sundry creditors - domestic of R$ 12,560 (2017 R$ 2,478).

e. **Financial guarantees provided**: CMN Resolution 4512 of July 28, 2016 regulated the assessment of losses associated to the probability of future disbursements related to financial guarantees provided, as well as, on the constitution and registration of a provision sufficient to cover these probable losses to be applied prospectively to effective January 1, 2017. As at December 31, 2017, the provision totaled R$ 3,500, reversing against the result in the amount of R$ 319, reaching the final balance of R$ 3,181 in December 31, 2018, corresponding to 1.2% of the guarantees provided portfolio (R$ 265,809).

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## 10 INVESTMENTS

Composed of interests in subsidiaries of R$ 271,185 (2017 R$ 146,834) and other investments of R$ 5,207 (2017 R$ 9,979), which are represented basically by shares issued by privately-held companies.

| | Haitong Securities do Brasil CCVM S.A. | Haitong do Brasil DTVM S.A. (a) | Haitong do Brasil Participações Ltda. | Haitong Negócios S.A. (b) | Total |
|---|---|---|---|---|---|
| Capital | 100,000 | 51,900 | 40,780 | 54,090 | |
| Equity | 92,739 | 37,521 | 55,665 | 85,260 | |
| Profit and Loss for the peruod | 3,490 | 1,068 | 1,600 | 2,500 | |
| Number of common shares | 12,809,890 | 3,503,519,702 | – | 25,281,790 | |
| Number of preferred shares | 12,528,520 | – | – | – | |
| Number of quota | – | – | 40,779,891 | – | |
| % ownership interest | 100.00% | 100.00% | 100.00% | 100.00% | |
| **Equity in earnings (Losses) of subsidiaries** | | | | | |
| **- for de year ended December 31, 2018** | **3,490** | **1,068** | **1,600** | **2,500** | **8,658** |
| **- for de year ended December 31, 2017** | **1,886** | **(354)** | **76** | **–** | **1,608** |
| **Carrying amount of investment:** | | | | | |
| **- as of Dec 31,2018** | **92,739** | **37,521** | **55,665** | **85,260** | **271,185** |
| **- as of Dec 31,2017** | **88,842** | **3,928** | **54,064** | **–** | **146,834** |

(a) On January 26, 2018, the Company's capital increased by R$ 32,525 through the issuance of 3,126,027,866 registered common shares with no par value, and paid-in at the time of subscription. This capital increase was approved by BACEN on February 6, 2018.

(b) On January 18, 2018, the Bank acquired all the capital shares of Haitong Negócios S.A. from its subsidiary Haitong do Brasil Participações Ltda. for the amount of R$ 32,671, corresponding to the book value of the shares at December 31, 2017. Subsequently, at the Extraordinary Shareholders' Meeting held on January 19, 2018, the Company's capital increased by R$ 50,090 through the issuance of 15,301,459 registered common shares, with no par value, and paid-in at the time of subscription, with the purpose of increase your applied cash.

## 11 FUNDS RAISED

**a.** ***Breakdown by aging list***

| | | | | | | Dec 31, 2018 | | Dec 31, 2017 | |
|---|---|---|---|---|---|---|---|---|---|
| | Up to 3 months | 3 to 12 months | 1 to 3 years | 3 to 5 years | Over 5 years | Carrying Amount | Cost Value | Carrying Amount | Cost Value |
| Interbank Deposits **(a)** | 10,005 | – | – | – | – | 10,005 | 10,005 | 164,706 | 164,706 |
| Time Deposits **(b)** | 240,047 | 251,887 | 155,397 | – | – | 647,331 | 647,331 | 962,195 | 962,195 |
| **Total - Deposits** | **250,052** | **251,887** | **155,397** | **–** | **–** | **657,336** | **657,336** | **1,126,901** | **1,126,901** |
| Money Market funding | 1,569,325 | – | – | 72,120 | – | 1,641,445 | 1,641,445 | 2,613,986 | 2,613,986 |
| Financial Bills **(c)** | 5,833 | 36,004 | 671,878 | 8,520 | – | 722,235 | 722,235 | 111,543 | 111,543 |
| Structured Finance Certificates | – | 401 | – | – | – | 401 | 401 | 840 | 840 |
| Onlendings -BNDES **(d)** | 7,390 | 12,731 | 38,626 | 35,883 | 106,665 | 201,295 | 201,295 | 217,100 | 217,100 |
| Onlendings - FINAME **(d)** | 315 | 21 | – | – | – | 336 | 336 | 6,790 | 6,790 |
| **Total as of December 31, 2018** | **1,832,915** | **301,044** | **865,901** | **116,523** | **106,665** | **3,223,048** | **3,223,048** | **–** | **–** |
| **% Concentration 2018** | **56.9%** | **9.3%** | **26.9%** | **3.6%** | **3.3%** | **100.0%** | **–** | **–** | **–** |
| **Total as of December 31, 2017** | **1,901,481** | **1,635,656** | **293,343** | **122,087** | **124,593** | **–** | **–** | **4,077,160** | **4,077,160** |
| **% Concentration 2017** | **46.6%** | **40.1%** | **7.2%** | **3.0%** | **3.1%** | **–** | **–** | **100.0%** | **–** |

As at December 31, 2018, the funds raised in Brazil had the following characteristics:

**(a)** Interbank deposits with maturities up to March 2019, indexed to the Interbank Deposit (DI) rate fluctuation;

**(b)** Time deposits negotiated at a fixed rate of up to 19.06% p.a., maturing through November 2020 and indexed to the DI, maturing through December 2020;

**(c)** Financial bills issued with maturities through May 2023, basically indexed to the DI and IPCA fluctuation; and

**(d)** Onlendings (BNDES) with maturity through March 2034, basically indexed to the fluctuation of the Long-Term Interest Rate (TJLP) plus interest of up to 2.3% p.a.

**b.** ***Concentration of Deposits (include interbank and time deposits)***

| | Dec 31, 2018 | | Dec 31, 2017 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| • Main depositor | 181,159 | 27.6% | 200,436 | 17.8% |
| • 10 main depositors | 641,026 | 97.5% | 955,475 | 84.8% |
| • 20 main depositors | 652,061 | 99.2% | 1,084,800 | 96.3% |
| • Total - Deposits | **657,336** | **100.0%** | **1,126,901** | **100.0%** |

## 12 EQUITY

**a. Capital -** capital of R$ 420,000 is represented by 127,338,665 registered shares, of which 63,669,344 are common shares and 63,669,321 are preferred shares, with no par value.

**b. Dividends -** The Bank's bylaws establishes a minimum dividend of 25% of annual profit, adjusted as provided for in Article 202 of the Brazilian Corporate Law. As for preferred shares, dividends are fixed in an amount at least 10% higher than the amount of common shares, in accordance with item I, Article 17 of Law 6404/76, as amended by Law 9457/97.

In 2018, interest on capital totaled R$ 30,000 (2017 R$ zero), corresponding to gross values of R$0,224373553917587 per common share and R$0,246810909309346 per preferred share, subject to the levy of withholding income tax at a rate of 15%. Interest on capital was calculated based on the Long-Term Interest Rate (TJLP) applicable to equity accounts in accordance with Law 9249 of December 26, 1995. The adoption of the payment of the aforementioned interest on capital increased the Bank's result by R$ 12,000. This interest was accounted for in accordance with BACEN Circular 2739/97 and in compliance with tax provisions.

**c. Earnings reserves -** The "Reserve for Expansion" is recorded to support future investment plans and, it will be used to offset losses, if any, increase capital or pay dividends. Out of the profit for the year, 5% is allocated to the "Legal Reserve", which should not exceed 20% of capital.

At the balance sheet date, the "Reserve for Expansion" was reduced in the amount of R$ 123,821 to offset the remaining balance of accumulated losses (R$ 93,821) and to pay the declared interest on capital (R$ 30,000) described in note 12 "b".

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## 13 INCOME TAX AND SOCIAL CONTRIBUTION

*a. Statement of calculation of income tax (IRPJ) and social contribution (CSLL)*

| | Years ended December 31 | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Income Tax | Social Contribution | Income Tax | Social Contribution |
| **Income before taxes and profit sharing** | **(38,421)** | **(38,421)** | **(172,416)** | **(172,416)** |
| **Additions and exclusions on the calculation of the taxes:** | **(34,497)** | **(33,383)** | **175,780** | **176,440** |
| • Non-deductible expenses | 61,103 | 60,883 | 80,729 | 79,559 |
| • Non-deductible provisions | (101,458) | (101,458) | 78,126 | 78,126 |
| • Equity in earnings (Losses) of subsidiaries | (8,657) | (8,657) | (1,607) | (1,607) |
| • Profit (loss) from branch abroad | (58,345) | (58,345) | (5,574) | (5,574) |
| • Interest on capital | (30,000) | (30,000) | – | – |
| • Profit sharing | – | – | (1,579) | (1,579) |
| • Mark-to-market - securities and derivatives | 104,194 | 104,194 | 27,515 | 27,515 |
| • Other additions and deductions | (1,334) | – | (1,830) | – |
| **Calculation Basis before offsetting** | **(72,918)** | **(71,804)** | **3,364** | **4,024** |
| **Total charges due in the current year** | **–** | **–** | **(725)** | **(804)** |
| Complement of deferred tax credits on income tax and social contribuition losses | 17,950 | 10,770 | – | – |
| Supplementation (Reversal) of deferred tax credits on temporary differences | 11,006 | (7,365) | 37,271 | 29,897 |
| Reversal of deferred tax | 4,949 | 2,171 | 8,340 | 7,863 |
| **Income Tax and Social Contribution expenses** | **33,905** | **5,576** | **44,886** | **36,956** |

*b. Deferred tax assets and deferred tax liabilities*

| Variations in the year of 2018 | Dec 31, 2017 | Recognition | Realization and/or reversal | Dec 31, 2018 |
|---|---|---|---|---|
| Negative basis of social contribuition | – | 10,770 | – | 10,770 |
| Tax loss carryforward | – | 17,950 | – | 17,950 |
| Allowance for loan losses | 39,497 | 1,501 | (36,503) | 4,495 |
| Credits written off against loss | 45,170 | 24,299 | (5,239) | 64,230 |
| Provision for credit risks | 38,960 | 9,162 | (28,525) | 19,597 |
| Provision for guarantees provided | 1,574 | – | (302) | 1,272 |
| Provision for tax risks | 44,798 | 3,640 | – | 48,438 |
| Negative adjustment to value of securities, derivatives and money market funding | – | 31,913 | – | 31,913 |
| Other | 509 | 4,204 | (509) | 4,204 |
| **Subtotal** | **170,508** | **103,439** | **(71,078)** | **202,869** |
| Negative adjustment to fair value of securities (Available for sale) | 572 | – | (572) | – |
| **Deferred tax assets** | **171,080** | **103,439** | **(71,650)** | **202,869** |
| Positive adjustment to value of securities (Available for sale) | – | (582) | – | (582) |
| Positive adjustment to value of securities and derivatives instruments | (8,967) | | 8,967 | – |
| Non-taxable income from monetary adjustment on escrow deposits | (16,280) | (1,847) | – | (18,127) |
| **Deferred tax liabilities** | **(25,247)** | **(2,429)** | **8,967** | **(18,709)** |
| **NET** | **145,833** | **101,010** | **(62,683)** | **184,160** |

| Variations in the year of 2017 | Dec 31, 2016 | Recognition | Realization and/or reversal | Dec 31, 2017 |
|---|---|---|---|---|
| **Subtotal Tax credits** | 101,312 | 108,250 | (39,054) | 170,508 |
| Negative adjustment to value of securities (Available for sale) | 1,796 | – | (1,224) | 572 |
| **Deferred tax assets** | **103,108** | **108,250** | **(40,278)** | **171,080** |
| **Deferred tax liabilities** (Positive adjustment to value of securities and derivatives instruments and non-taxable income from monetary adjustment on escrow deposits) | (41,450) | – | 16,203 | (25,247) |
| **NET** | **61,658** | **108,250** | **(24,075)** | **145,833** |

The balance of deferred tax assests and net of deferred tax liabilities amounted to R$ 184,160 (2017 R$ 145,833) corresponding to 36.7% (2017 27.6%) in relation to final equity:

- The deferred income and social contribution taxes amounted to R$ 202,869 (2017 R$ 171,080), recognized in line item "Other receivables - Sundry" (Note 9 "b"). The recognition of these tax credits is based on the expected generation of future taxable income.
- The deferred tax liabilities of income and social contribution taxes in the amount of R$ 18,709 (2017 R$ 25,247) were calculated on the positive adjustments to the fair value of securities and derivative instruments and non-taxable income from updating escrow deposits, and recognized in line item "Other payables - Tax and social security" (Note 9 "c").

As at December 31, 2018, there were no deferred tax assets not recorded in assets and the present value of the deferred tax assets calculated based on the Selic rate mounts to R$ 170,738 (2017 R$ 135,699).

Management estimates that the realization of these deferred tax assets and deferred tax liabilities will take place in up to 10 years, as shown in the following table:

| | Carrying Amount as of Dec 31, 2018 | | | | % Long Term Asset (Liabilities) | |
|---|---|---|---|---|---|---|
| | Tax credits | Deferred tax | NET | Present Value | Annual | Acumulated |
| 2019 | 20,696 | – | 20,696 | 19,396 | 11.2% | 11.2% |
| 2020 | 14,530 | 321 | 14,851 | 13,738 | 8.1% | 19.3% |
| 2021 | 18,289 | (647) | 17,642 | 16,335 | 9.6% | 28.9% |
| 2022 | 68,633 | (18,303) | 50,330 | 46,602 | 27.3% | 56.2% |
| 2023 | 19,307 | (104) | 19,203 | 17,781 | 10.4% | 66.6% |
| 2024 | 8,838 | – | 8,838 | 8,183 | 4.8% | 71.4% |
| 2025 | 11,966 | 24 | 11,990 | 11,102 | 6.5% | 77.9% |
| 2026 | 10,971 | – | 10,971 | 10,158 | 6.0% | 83.9% |
| 2027 | 12,541 | – | 12,541 | 11,612 | 6.8% | 90.7% |
| 2028 | 17,098 | – | 17,098 | 15,831 | 9.3% | 100.0% |
| **Total** | **202,869** | **(18,709)** | **184,160** | **170,738** | | |

## 14 PROVISIONS, CONTINGENT LIABILITIES AND LEGAL OBLIGATIONS

The Bank and its subsidiaries, in the ordinary course of business, are parties to lawsuits of tax, social security, labor and civil nature. The respective provisions for risks were recognized based on the prevailing law, the opinion of the legal counsel, the nature and complexity of lawsuits, former court rulings, loss history and other criteria that enable Management to estimate the probable cash outflow amount as reliably as possible.

**a. Legal obligations:** Legal obligations refer to amounts payable related to tax liabilities, whose legality or constitutionality is being challenged in courts, particularly:

**a.1)** payment of taxes on revenue (PIS and COFINS), ruling out Article 3 of Law 9718, which established the inappropriate expansion of such tax basis, whose provision and corresponding escrow deposit totaled R$ 121,096 (2017 R$ 111,995) and R$ 121,257 (2017 R$ 112,076), respectively. Both the legal obligation and the escrow deposit were adjusted based on the Selic rate fluctuation.

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As at December 31, 2017, the provision totaled R$ 111,995, which was increased during the year by new obligations of R$ 4,483 (2017 R$ 4,241) and inflation adjustment of R$ 4,618 (2017 R$ 5,844), reaching the final balance of R$ 121,096 in December 31, 2018, which amount fully supports the risk arising from such obligations.

**a.2)** collection of alleged income tax, withholding tax and Federal VAT (PIS) credits, whose amounts were deposited in escrow to obtain a debt clearance certificate, with unclearance effects, from the Federal Revenue Service and the General Attorneys' Office of the National Treasury, whose provision and corresponding escrow deposit totaled R$ 1,502 (2017 R$ 1,502).

These legal obligations are recorded in the item "Provision for tax risks" of the "Other payables - Sundry" (Note 9 "d") and the existing judicial deposits are recorded under the caption "Escrow deposits" in the group "Receivables - Sundry"(Note 9 "b").

**b. Contingent liabilities**

**b.1)** The Bank recognized the following main contingencies that were individually assessed by our legal counsel as "possible loss": **i)** social security - R$ 9,108: administrative proceedings relating to the levy of social security contribution on non-compensatory amounts (from 2008 to 2012); **ii)** tax - R$ 3,781: represented mainly by administrative proceedings related to the calculation of social contribution tax in the base years 2008 and 2015 (R$ 2,176), collection of IRPJ and CSLL on inflation adjustment of equity securities of CETIP (R$ 542) and compensation claimed by PER/DCOMP and not approved (R$ 807); and **iii)** labor losses whose maximum loss attributed by our legal advisors totaled R$ 6,237, most of them in the beginning of discussion.

**b.2)** The Bank recognized a single contingency of labor nature assessed as "probable loss", whose lawsuit became final and unappealable, whereby a provision of R$ 1,013 was recordedunder "Provision for Labor Liabilities" in "Other payables - Sundry" (see Note 9 "d").

**b.3)** The subsidiary Haitong Securities do Brasil S.A. - C.C.V.M. recognized tax, social security and labor contingencies, which are being challenged at administrative and judicial levels and were assessed by our legal counsel as "possible loss", mainly represented by lawsuits relating to the collection of IRPJ and CSLL on the adjustment of equity securities of the Stock Exchanges and CETIP (R$ 41,871) and collection of PIS and COFINS on the proceeds from the sale of shares of Stock Exchanges and CETIP (R$ 39,257) and labor lawsuits (R$ 43,048), most of them in the beginning of discussion.

## 15 RELATED-PARTY TRANSACTIONS

**a)** The Bank's transactions are conducted within the context of a group of companies that operate in an integrated manner in the financial and capital markets and are broken down as follows:

| | | Assets/(Liabilities) | | Income/(Expenses) | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| **Swaps** | | **–** | **–** | **–** | **(236)** |
| Haitong Investment Ireland Plc. | Related Company | – | – | – | (236) |
| **Income receivable** | | **4,528** | **–** | **4,528** | **–** |
| Haitong Bank S.A. (Lisbon) | Parent | 4,528 | – | 4,528 | – |
| Haitong do Brasil D.T.V.M. S.A. | Subsidiary | – | – | 4 | – |
| **Dividends and Interest on capital payable** | | **(23,460)** | **(3,060)** | **–** | **–** |
| Haitong Bank S.A. (Lisbon) | Parent | (23,460) | (3,060) | – | – |
| **Interbank deposits** | | – | **(13,609)** | **(13)** | **(9)** |
| Haitong Securities do Brasil C.C.V.M. S.A. | Subsidiary | – | (13,609) | (13) | (9) |
| **Time deposits** | | **(106,476)** | **(16,855)** | **(6,151)** | **(1,725)** |
| Haitong Negócios S.A. | Subsidiary | (57,479) | (4,752) | (3,302) | (571) |
| Haitong do Brasil Participações Ltda. | Subsidiary | (48,997) | (12,103) | (2,849) | (1,154) |
| **Money market funding** | | **(43,987)** | – | **(2,492)** | **(1,724)** |
| Haitong Securities do Brasil C.C.V.M. S.A. | Subsidiary | (12,304) | – | (812) | (1,724) |
| Haitong do Brasil D.T.V.M. S.A. | Subsidiary | (31,683) | – | (1,680) | – |
| **Debtors (Creditors)** | | – | – | **–** | **(14)** |
| Haitong Securities do Brasil C.C.V.M. S.A. | Subsidiary | – | – | – | (14) |

**b)** Compensation of key Management personnel totaled R$ 4,666 in the year of 2018 (2017 R$ 7,942). The Bank does not offer long-term or severance benefits, or share-based compensation to its key Management personnel.

## 16 RISK MANAGEMENT

**a. Introduction**

Haitong Brazil clearly assumes that the risk management of its activities is one of its strategic pillars for its growth and development in the country and, in this way, protect the capital of the institution and enable the best profitability of its business. These objectives are achieved through the definition of shareholder risk appetite and supported by a structure of policies and procedures fully compliant with local legislation, international best practices and integrated with the shareholder.

**b. Types of Risk**

- **Market Risk:** Market risk, by definition, deals with the possibility of losses arising from fluctuations in interest rates, stock / commodity prices, exchange rate variations and other risk factors, which sensitize the market value of instruments held by the institution classified in the trading portfolio. The management of market risk is carried out through daily information to the Management, to the Treasury and to the control of risks in the matrix. Monitoring is based on current exposure levels within the established limits. The main usual market metrics are used as: VaR (Value at Risk), greeks, sensitivity analysis (PV01) and Stress Testing. Complementing the market risk monitoring framework, the capital requirement is reported daily, according to rules established by the Brazilian Central Bank (BACEN).
- **IRRBB (*Interest Rate Risk Banking Book)***: IRRBB is defined as the risk, either current or prospective, from impacts arising from adverse movements in the interest rates, on the institution's results and capital, for instruments in the banking book. The IRRBB is monitored within the Haitong Brazil Prudential Conglomerate, considering all the balance sheet items classified in the banking portfolio and their respective risk factors, through reports that express the risk through metrics such as PV01 (effect for 1 point- base) for risk factors, measures based on economic value approach (EVA) and the earnings-based approach (NII) in addition to a set of criteria established by Circular no. 3,365 from BACEN. Complementing the IRRBB's monitoring framework, the capital requirement for this risk is reported on a daily basis, according to rules established by the the BACEN.
- **Credit risk**: this is the possibility of losses associated with non-compliance by the counterparty or borrower of their financial obligations under the agreed terms, devaluation, reduction of remuneration and expected gains in financial instrument arising from the deterioration of the credit quality of the counterparty, mitigating instrument; the restructuring of financial instruments; or costs of recovering exposures characterized as problematic assets. All exposure to credit risk is approved locally and endorsed by the parent company in global credit committees. The concession of limits granted goes through a process of assigning a rating to clients of the different risk segments and follows a global internal methodology. Complementing the control of credit risks, monthly information is extracted from the Statement of Operational Limits (DLO) for the evaluation and reporting of credit risk at the level of the capital consumption associated with the exposures.
- **Liquidity risk**: it is the institution's inability to honor its expected and unexpected current and future obligations, including those arising from collateralisation or even from lack of liquidity for its assets, without affecting its day-to-day operations or even incurring losses significant. Liquidity risk is controlled through the daily monitoring of available liquidity, ie instruments considered to be HQLA (High Quality Liquid Asset) and are free of any embarrassment. In addition, monthly monitoring of the liquidity indicators defined by the Basel Committee, namely LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio) is carried out. All these metrics are reported to Management, Treasury and risk control in the matrix, which must conform to the limits defined internally. Additionally, cash flow projection mechanisms are used, adopting assumptions about the behavior of future inflows and outflows in a period of up to 365 calendar days, according to the good practices of liquidity risk control.
- **Operational risk**: it is the possibility of occurrence of losses resulting from external events or failures, deficiency or inadequacy of internal processes, people or systems and also due to non-compliance with legal provisions as well as the respective indemnities for damages to third parties resulting from activities developed by the institution . The Bank monitors the measurement and mitigation of the risks of these events in order to maintain the regular functioning of the institution and avoid the occurrence of losses, both effective and potential. The occurrences of operational risk events are recorded in their own system (GRO: Operational Risk Management) by the respective areas. The events are monitored and reported to the Local Administration and to the control of risks in the Head Office.

- **Risk of Compliance**: it is the risk of legal or regulatory sanctions, financial loss or reputational damage, as well as administrative or criminal measures arising from non-compliance with legal and regulatory provisions, local and international market norms or from commitments entered into through codes self-regulation, technical standards or codes of conduct. Compliance risk is managed in a preventive way, through activities monitoring, acculturation of employees, training on legislation and internal rules applicable to the Bank's business.
- **Risk of Money Laundering and Terrorism Financing**: Risk that the Bank may be intentionally used to launder money, through its products and services, with funds of illicit origin in Brazil and/or abroad, such as corruption, drug trafficking and currency evasion. The risk of terrorist financing relates to the possibility of using the Bank for the operations of individuals and / or legal entities in transactions involving funds intended for terrorist activities. Such persons may or may not appear on international lists published by the FATF - International Financial Action Task Force, United Nations (UN), European Union, among others. To prevent and combat money laundering and terrorist financing, the Bank has control and monitoring tools based on international practices, which include corporate governance, computer systems, and teams capable of conducting internal monitoring. The Bank conducts periodic training for all its employees on the prevention of money laundering and combating the financing of terrorism, to enable them to carry out their internal policies on the subject.
- **Reputational Risk**: it is associated with an unfavorable perception of the Bank by the various agents with which it relates, whether internal or external agents, which may have an unfavorable impact on the results, as well as on the dynamics and evolution of the institution's activities.
- **Socio-environmental risk**: it deals with the possibility of occurrence of losses of the institutions due to socio-environmental damages. The socio-environmental risk, including the risk of image and reputation, are factors considered in the analysis of credit and operational risk to which the Institution is exposed, considering the relationship and relevant activities of the institution. Thus, adequate management of socio-environmental risk is linked to the mitigation of events that may impact the operational risk, credit risk, reputational risk and capital risk of the institution. The institution establishes a social and environmental responsibility questionnaire as an indispensable form in the client's registry. In addition, the approval of any type of operation is submitted to the relevant analyzes, considering the possible existence of socio-environmental impact in the allocation of resources. Whenever there is a socio-environmental risk, the related contracts will establish a specific early maturity clause, the obligation of the debtor to keep the environmental licenses up to date and to inform the institution of any assessment that has been suffered.

**c. Integrated Risk and Capital Management and Segmentation**

In accordance with the activities envisaged by the "Agenda BC+" and with the international alignment for best prudential regulation practices, CMN Resolution 4553 was published, which established the segmentation of financial institutions and other institutions authorized to operate in the country for the purpose of proportional application of prudential regulation, without jeopardizing the security, solidity of financial institutions, with greater efficiency and lower cost of compliance. In this context, **Haitong Brazil** was classified in the "S3" segment, designated institutions of between 0.1% and 1% of GDP at the date of publication.

Subsequently, on February 23, 2017, CMN Resolution 4557 was issued, which provides for the structure of risk and capital management (GIR). The Resolution points to the need to implement a continuous and integrated risk and capital management framework, requirements for the definition of the Risk Appetite Statement (RAS), establishing a stress testing program, the constitution of the Risk Committee and the appointment of a director responsible for risk management (CRO), with definitions of performance, responsibilities and independence requirements.

**d. Governance of Risks and Capital**

The Haitong Brazil Board of Directors (CA) is the main body responsible for establishing the guidelines, policies and powers for risk and capital management. In turn, the Risk Control Department, through the CRO, is responsible for supporting CA members in the performance of their risk and capital management responsibilities. At the Executive level, they play an important role in risk and capital management, the Bank's Board of Directors, the Chief Risk Officer (CRO), the Credit and Risk Committee (CCR) in Brazil and the Global Credit Committee (GCC) in Haitong Bank in Portugal.

The management and control of risks and capital of Haitong Brazil is structured in accordance with responsibilities supported in "Three Lines of Defense" that perform independent functions, in a way that does not jeopardize its effectiveness, as well as its distinct performance, as follows:

1. First Line of Defense is the one represented by the business areas (Front-Office), responsible for identifying, measuring, evaluating, controlling, reporting and mitigating the risks of its operations and activities.
2. Second Line of Defense is an independent unit represented by the Risk Control Board. The responsibility of this second line is to ensure the monitoring and control of risk in order to ensure that the Bank's activities are adherent to the level of risk appetite defined by the Bank's Management. In Haitong Brazil, in addition to Risk Control, the second line is also supported by Compliance and IT / Security areas.
3. Third Line of Defense is represented by the Internal Audit, which, independently, reviews and validates the activities of the first two lines of defense and contributes to its improvement. The support of the Board of Directors and the Board of Directors completes the performance in the third line of defense.

The functioning of the "Three Lines of Defense", even independent of each other, must occur in a coordinated way, in order to maximize its efficiency and contribute to the development of the Bank.

<u>Risk Culture</u>: Haitong Brazil has adopted diverse actions to disseminate the culture of risk, in order to strengthen values and align its guidelines and risk appetite of the institution with its employees. In this way, the Bank makes cross-cutting and efficient the operation of the three lines of defense mentioned above.

**e. Integrated Risk Management**

In a conceptual way, risk management is the responsibility of all the areas and employees who must inform in a timely manner the risks, the failures and the deficiencies of control to the areas in conditions to heal them.

Haitong Brasil has an area responsible for Integrated Risk Management, whose responsibilities are exercised centrally and independently, led by the CRO (Chief Risk Officer). This unit is responsible for the identification, monitoring and reporting of risks considered relevant by Management (material risks), using specific processes, internal methodologies, limits, policies and procedures for controls established in accordance with the risk appetite defined by the Board of Directors. Accordance with the guidelines established and authorized by the shareholder.

The Risk Control area is responsible for the measurement, monitoring, reporting and continuous and integrated control of positions and exposures to risk vis-à-vis pre-approved limits, for all operations performed and for risk factors incurred, whose processes are formalized through periodic reports. Additionally, it is responsible for conducting risk stress tests of the Bank's portfolio. These exposures to material risks and own portfolio positions that guide risk tolerance limits are defined and formalized in the respective internal governance committees.

<u>Amounts updated based on the last report distributed - 12/31/2018</u>:

- Market Risk: The Bank's VaR totaled R$ 637 (Average of R$ 1,095 in 2018), which represented 0.16% of Reference Equity at the end of the year.
- Liquidity Risk: Free / available liquidity totaled R$ 1,047,767 (Average of R$ 778 in 2018), which represented 2.68 times the PR. The Bank calculates the liquidity indicators LCR and NSFR for consolidation purposes with the parent company and for its internal management, although there is no local application by the regulator for Haitong Brazil ("S3" segment) . At the time, the LCR was 990.0% and the NSFR at 175.0%, both higher than the limits set by local regulator.
- Leverage Ratio: At the closing date, the reported rate was 6.64%.
- Credit Risk: Loans and guarantees totaled R$ 592,568, corresponding to 14.5% of Total Assets, being distributed in the following main sectors: Electric Energy (38.0%); Telecommunications (17.6%); Water and Sanitation (10.7%); Infrastructure and Transport (9.0%) and Agrifood (8.9%). Of this portfolio, 65.9% of the operations were covered by guarantees provided by clients, represented mainly by: sureties, guarantees and stand by letter of credit (49.2%); corporate shares (35.3%), grains (5.8%), real estate (4.6%), equipment (3.8%), and the remainder distributed between reserve accounts and revenue binding (1.3%)

**f. Capital management:**

Capital management is defined as a continuous process of monitoring and controlling the capital of the Bank, assessing the need for capital against the risks to which the institution is subject and the planning of goals and capital needs, taking into account the strategic objectives of the institution. Always adopting a prospective position and anticipating the need for capital arising from possible changes in market conditions.

Responsible for the management of capital with the Central Bank of Brazil, the Chief Risk Management Officer (CRO), currently subordinate to the President, was appointed. The capital management process is aligned with best practices in the market and covers all areas involved in the identification and evaluation of the relevant integrated risks incurred by the Bank. If the assessment of the capital requirement points to a value above the Minimum Capital required by the Regulator, the institution will adopt appropriate measures to maintain capital compatible with the results of its internal evaluations.

The Haitong Brazil Capital Plan is prepared in a manner consistent with strategic planning and is prepared concomitantly with the annual review of the Annual Business Plan and Budget. The responsibilities and organizational structure of capital management involve the Board of Executive Officers, the Board of Directors, the Risk Control and Management Control areas. In addition, in accordance with current legislation, it has a Contingency Plan that allows adequate capitalization in case of stress conditions, thus requiring, to trigger the necessary and more adequate stages, for the application of the Contingency Plan established and approved by the top management.

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## 17 OTHER INFORMATION

**a.** Haitong Banco de Investimento do Brasil S.A. determines its operational limits on a consolidated basis, within the parameters defined by Basel III, which requirements imposed more and better quality in the level of capital of institutions, and the prudential measures, which made the financial system more resilient to crises that may occur. Below is the ratio between the regulatory capital and the required capital and the weighted average risk (risk-weighted assets - RWA):

| | **Conglomerate Prudencial** |
|---|---|
| • Principal capital | 389,896 |
| **Regulatory capital - Total** | **389,896** |
| Capital allocation - credit risk | 96,040 |
| Capital allocation - market risk | 35,598 |
| Capital allocation - operational risk | 29,408 |
| **Required regulatory capital** | **161,046** |
| **Excess regulatory capital** | **228,850** |
| **Ratio as of Dec 31, 2018** | **20.9%** |
| **Ratio as of Dec 31, 2017** | **17.1%** |
| Additional of minimum main Capital Required for RWA | 35,010 |
| **Excess regulatory capital** | **193,840** |
| **Ratio as of Dec 31, 2018** | **20.5%** |
| **Ratio as of Dec 31, 2017** | **16.8%** |
| Regulatory capital calculated for covering the interest rate risk of operations not classified into the trading portfolio (IRRBB) | 24,987 |

**b.** Service revenue is composed of revenue from specialized technical advisory services R$ 22,377 (2nd semester 2018 R$ 10,552 and 2017 R$ 5,801); income from guarantees provided R$ 7,553 (2nd semester 2018 R$ 3,911 and 2017 R$ 7,391) and other revenues from fees, and Brokerage fee for securities placement and intermediation R$ 13 (2nd semester 2018 R$ 6 and 2017 R$ 12).

***c.*** Other administrative expenses are composed of expenses on financial system services of R$ 2,776 (2nd semester 2018 R$ 1,226 and 2017 R$ 2,426); communications of R$ 3,596 (2nd semester 2018 R$ 1,905 and 2017 R$ 4,514); third-party and specialized technical services of R$ 3,505 (2nd semester 2018 R$ 1,783 and 2017 R$ 3,379); rent and common area maintenance fees of R$ 3,414 (2nd semester 2018 R$ 1,819 and 2017 R$ 8,343); data processing and IT services of R$ 3,765 (2nd semester 2018 R$ 1,851 and 2017 R$ 3,871); travel expenses of R$ 827 (2nd semester 2018 R$ 533 and 2017 R$ 591); depreciation and amortization of R$ 3,796 (2nd semester 2018 R$ 1,903 and 2017 R$ 5,000) and other expenses of R$ 2,543 (2nd semester 2018 R$ 1,403 and 2017 R$ 3,594).

***d.*** Tax expenses are composed of expenses on federal taxes (PIS, COFINS, IOF) of R$ 6,610 (2nd semester 2018 R$ 2,647 and 2017 R$ 4,598), state taxes of R$ 56 (2nd semester 2018 R$ zero and 2017 R$ 45) and municipal taxes (ISS, IPTU) of R$ 1,787 (2nd semester 2018 R$ 864 and 2017 R$ 1,092).

***e.*** Other operating income are composed basically of exchange gain on investments in foreign branches of R$ zero (2nd semester 2018 of R$ zero and 2017 R$ 4,755) and reversal of provision of R$ 319 (2nd semester 2018 R$ zero and 2017 R$ 1,007) and finance income of R$ 62 (2nd semester 2018 R$ 29 and 2017 R$ 92).

***f.*** Other operating expenses are composed basically of additional provision for credit risks of R$ 2,475 (2nd semester 2018 R$ zero and 2017 R$ 3,670), exchange losses on cash in foreign currency of R$ 5,907 (2nd semester 2018 R$ zero and 2017 R$ 458) and labor liabilities R$ 1,186 (2nd semester 2018 R$ 1,186 and 2017 R$ 540).

## BOARD OF DIRECTORS

**Yong Lin**
Chairman

**Alan do Amaral Fernandes**

**Frederico dos Reis Arrochela Alegria**

**Paulo José Lameiras Martins**

**Roberto Fonseca Simões Filho**

**Wu Min**

## DIRECTORS

**Alan do Amaral Fernandes**
President

**Carlos José Caetano Guzzo**

**Roberto Fonseca Simões Filho**

**Silvan Barros Suassuna**

## ACCOUNTANT

**Marcos Tetsuo Takeda** - CRC-1SP197374/O-1

(Convenience Translation into English from the Original Previously Issued in Portuguese)

To the
Board of Directors and Shareholders of
**Haitong Banco de Investimento do Brasil S.A.**
São Paulo - SP

**Opinion**

We have audited the accompanying financial statements of Haitong Banco de Investimento do Brasil S.A. ("Bank"), which comprise the balance sheet as of December 31, 2018, and the statement of profit and loss, statement of changes in equity and statement of cash flows for the six-month period and year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Haitong Banco de Investimento do Brasil S.A. as of December 31, 2018, and its financial performance and its cash flows for the six-month period and year then ended in accordance with accounting practices adopted in Brazil, applicable to financial institutions authorized to operate by the Central Bank of Brazil.

**Basis for opinion**

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "*Auditor's Responsibilities for the Audit of the Financial Statements*" section of our report. We are independent of the Bank in accordance with the relevant ethical requirements in the Code of Ethics for Professional Accountants and the professional standards issued by the Brazilian Federal Accounting Council (CFC), and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion..

**Other information accompanying the financial statements and the independent auditor's report**

Management is responsible for the other information. The other information comprises the Management Report.

Our opinion on the financial statements does not cover the Management Report, and we do not express any form of audit conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices adopted in Brazil, applicable to financial institutions authorized to operate by the Central Bank of Brazil, and for such internal control as Management determines 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, Management is responsible for assessing the Bank'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 Management either intends to liquidate the Bank or to cease operations, or has 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 the Brazilian and International Standards on Auditing 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 Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 we identify during our audit.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 18, 2019

**DELOITTE TOUCHE TOHMATSU**
**Auditores Independentes**
**Vanderlei Minoru Yamashita**
Engagement Partner

Deloitte.

*The financial statements were published in the "DCI - Diário Comércio, Indústria & Serviços" edition of March 19, 2019*