7. EQUITY EXPOSURES IN THE BANKING BOOK

The Group holds equity exposures in the banking book, characterised by stability and with the objective of creating value. The holding of these positions, which include shares and risk capital fund participation units, complies with at least one of the following objectives:

• The development of entities or projects of strategic interest for the Group;

• Generating a return or opportunities for growth of the banking business;

• The development of entities with appreciation potential;

• Making entities with the capacity to recover viable, including namely shares received as payment or by converting credits into capital.

The equity exposures in the banking book are initially recognised at fair value, including gains and losses associated with the transactions, and are afterwards valued at their fair value based on the following hierarchy of criteria: market price listed in regulated and active market or, in its absence, based on external valuations made by independent entities, duly recognised, or based on the worth measurement input from transactions deemed valid between counterparties with good repute.

Changes in the fair value of these equities are registered against fair value reserves until they are sold or register impairment losses.

When sold, accrued gains or losses recognised in fair value reserves are registered under "Results from available for sale financial assets" on the income statement. The treatment associated with the recognition and reversion of these assets' impairment losses is described in chapter "4.1. Definitions and policies for assessment of losses and provisioning". Dividends are recognised under earnings when the rights to receiving them are attributed.

The equity exposures in the banking book are analysed in Table 50, as follows:

TABLE 50 – EQUITY EXPOSURES IN THE BANKING BOOK

(Thousand euros)

	Listed shares		Unlisted shares – Private equity		Other capital instruments [*]		Total		
	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16	
Acquisition cost / Notional amount	8,240	44,445	84,981	84,392			93,221	128,837	
Fair value	8,240	18,442	38,242	34,844			46,482	53,286	
Market price	8,240	18,442							
Balance sheet value	8,240	18,442	38,242	34,844			46,482	53,286	
Gains or losses arising from sales and settlements in the period							15,218	97,440	(1)
Total unrealised gains or losses							10,073	11,027	(2)
Total latent revaluation gains or losses							-46,739	-75,551	(3)

Note: Equity issued by the Bank as well as derivatives indexed to those instruments are not included.

[*] Venture capital funds, similar to equity according to Banco de Portugal.

[1] Gains or losses arising from sales and settlements in the period: results before taxes.

[2] Total unrealised gains or losses: reports the amount of the fair value reserves in this portfolio on the reporting dates and, therefore, it does not incorporate eventual impairments or goodwill related to the respective securities; corresponds to potential accounting capital gains/losses for this portfolio, to be booked to the profit and loss account in case of divestment.

[3] Total latent revaluation gains or losses: difference between the fair value and the acquisition cost of the securities in the portfolio on the reporting dates. Reflects the total gains/losses underlying the shares of the investment portfolio; however, part of the unrealised losses may have already been recognised, via results or reserves (namely by impairment or goodwill).

Within the scope of the approval by Banco de Portugal for the use of IRB methodologies, the Group used the simple risk weight method to compute own funds requirements for the equity in the banking book held by Group entities headquartered in Portugal and Poland. The own funds requirements for other operations and countries are still determined using the standardised approach.

The simple risk weight method applies 290% and 370% weights to exposures in listed and unlisted stocks, respectively, and may apply a lower weight (190%) to risk exposures resulting from shareholdings in unlisted companies included in portfolios that are sufficiently diversified. In addition, shares that were already in the portfolio on 31 December 2007 were exempted from these risk weights until 31 December 2017, and were subject to a single 100% weight during this period of time, identical to the standardised approach.

The significant exposures held over financial institutions and insurance companies that are not deducted to own funds are risk weighted at 250%.

The risk positions and risk weighted assets for equity exposures in the banking book are presented in Table 51.

TABLE 51 – EQUITY EXPOSURES

(Thousand euros)

	Risk weights	Risk positions		Risk weighted assets	
		31 Dec. 17	31 Dec. 16	31 Dec. 17	31 Dec. 16
STANDARDISED APPROACH	100%	22,453	32,190	11,480	2,575
IRB APPROACH [(1)]		121,110	160,989	125,126	46,092
Listed shares	290%	28,839	24,380	23,825	5,656
Unlisted shares	370%	92,270	136,609	101,302	40,436
EQUITY EXPOSURES SUBJECT TO RISK WEIGHTNING		472,838	362,449	1,255,979	906,122
TOTAL		616,401	555,627	1,392,586	954,789

[(1)] Based on the simple risk weight based approach; equities held by 31 December 2007 (risk weighted for 100%, as a result of the use of the applicable exemption), were included within the positions whose capital requirements are calculated according to the standardised approach.

Note: RWA shown in this table are emphasized in Table 11.