

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 valuation measurement input from transactions deemed valid between reputable counterparties.

The Group maintains a monitoring process of these positions' fair value.

Changes in the fair value of these equities are registered against fair value changes until they are sold.

Impairment is not recognised for equity instruments at fair value through other comprehensive income, and the respective accumulated gains or losses recorded in fair value changes are transferred to retained earnings at the time of their derecognition. Dividends are recognised under earnings when the rights to receiving them are attributed.

The equity exposures in the Banking Book are shown in Table 47, as follows:

TABLE 47 – EQUITY EXPOSURES IN THE BANKING BOOK

(Milhares de euros)

	Listed shares		Unlisted shares Private equity		Other capital instruments ^(*)		Total	
	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17	31 Dec 18	31 Dec 17
Acquisition cost / Notional amount	42 744	25 523	58 688	84 981			101 432	93 221
Fair value	19 944	8 240	51 289	38 242			71 233	46 482
Market price	19 944	8 240	51 289	38 242			71 233	46 482
Balance sheet value	19 944	8 240	51 289	38 242			71 233	46 482
Gains or losses arising from sales and settlements in the period							14 587	15 218
Total unrealised gains or losses							-30 199	10 073
Total latent revaluation gains or losses							-30 199	-46 739

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

(*) Venture capital funds, similar to equity.

(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. 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 48.

TABLE 48 – EQUITY EXPOSURES

	(Thousand euros)			
	Risk positions		Risk weighted assets	
	31 Dec. 18	31 Dec. 17	31 Dec. 18	31 Dec. 17
STANDARDISED APPROACH	29 457	22 453	71 919	11 480
IRB APPROACH ⁽¹⁾	155 346	121 110	559 367	125 126
Listed shares	19 265	28 839	55 867	23 825
Unlisted shares	136 081	92 270	503 500	101 302
EQUITY EXPOSURES SUBJECT TO RISK WEIGHTING	331 649	472 838	670 757	1 255 979
TOTAL	516 451	616 401	1 302 043	1 392 586

⁽¹⁾ Simple risk weight approach.