

8. 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 / restructured companies, 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 for equity instruments at fair value is not recognized through other comprehensive income, and the respective accumulated gains or losses are recorded in changes in fair value, according to the rules established in IFRS9 for this type of asset. Dividends are recognized in the income statement when the right to receive is attributed.

In compliance with the provisions of Article 447 of the CRR, we present in the table below the exposures on shares of the Banking Portfolio on 31/12/2020:

TABLE 66 – EQUITY EXPOSURES IN THE BANKING BOOK

(Thousand euros)							
	Listed shares		Unlisted shares		Other capital instruments ^(*)		Total
	31 Dec 2020	31 Dec 2019	Private equity 31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020 31 Dec 2019
Acquisition cost / Notional amount	35,759	42,471	86,293	81,419			122,052 123,890
Fair value	4,401	14,336	79,334	75,640			83,735 89,976
Market price	4,401	14,336	79,334	75,640			83,735 89,976
Balance sheet value	4,401	14,336	79,334	75,640			83,735 89,976
Gains or losses arising from sales and settlements in the period							11,566 24,386 ⁽¹⁾
Total unrealised gains or losses							-38,317 -33,914 ⁽²⁾
Total latent revaluation gains or losses							-38,317 -33,914 ⁽³⁾

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 67.

TABLE 67 – EQUITY EXPOSURES

(Thousand euros)

	Risk positions		Risk weighted assets	
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019
Venture capital funds	992,881	1,119,829	1,881,831	2,021,585
Financial participations (CRR 48)	355,130	322,506	887,824	806,266
Other equities	131,027	125,804	425,251	450,859
TOTAL	1,479,037	1,568,139	3,194,906	3,278,710

Includes Venture capital funds which, under the Look-Through method, are treated by the standardised approach or by the simple risk weight.