FIDELIDADE
SEGUROS DESDE 1808

Solvency and financial condition report 2016

Certified by the Statutory Auditor and Responsible Actuary

FIDELIDADE
SEGUROS DESDE 1808

Summary

The legal framework on the taking-up and pursuit of the business of insurance and reinsurance approved by Law No. 147/2015, of 9 September, requires insurance undertakings to disclose publicly, on an annual basis, a report on their solvency and financial condition.

The qualitative information that insurance undertakings are required to disclose is set out in Chapter XII of Title I of Commission Delegated Regulation (EU) 2015/35, of 10 October 2014.

The quantitative information to be disclosed together with this report is laid down in Articles 4 and 5 of Commission Implementing Regulation (EU) No. 2015/2452, of 2 December 2015.

In line with the description contained in Article 292 of the Delegated Regulation, a "clear and concise" summary of the items detailed in this report will be presented below.

Business and performance

Fidelidade acts globally in the Portuguese insurance market, selling products across all lines of business, adopting a multi-brand strategy and operating through the largest commercial network in the country, including increasing growth of remote channels.

Key indicators in 2016 were:

€ 3,601 million **Total Premiums Written** **Life: € 2,450 million** **Non-Life: € 1,151 million**	**31.8%** **Market Share (PT)** **Life: 35.5%** **Non-Life: 25.8%**	**2,607** **Employees**
€ 14.7 billion **Net Assets**	**€ 100.4 million** **Net Profits**	**101.3%** **Non-Life Combined Ratio**

Fidelidade's international business is an important means of sustained growth and pursuit of its medium and long-term goals. The company currently operates in three continents (Europe, Africa and Asia), through branches in Spain, France, Luxembourg, Macau and Mozambique

In 2016, Fidelidade had a very consistent performance, recording total premiums written of EUR 3,601 million. Regarding the activity in Portugal, Fidelidade registered EUR 3,452 million, which enabled it to strengthen its leadership position, increasing its total market share to 31.8%, up 2.4 pp on 2015. This growth in the market reflected trends in both Life and Non-Life segments. The international business recorded substantial growth of 10.2%, with the strengthening of existing international operations.

Fidelidade's Net Assets were EUR 14,675 million in 2016, representing a rise of 3.2% compared to 2015.

Fidelidade's investment portfolio (including Cash and Bank Deposits), in the consolidated accounts, was at EUR 13.6 billion, similar to that registered in 2015.

In 2016, the policy of diversifying by class of asset and geographical location was followed, to maximise yields with an appropriate level of risk, in an environment of low interest rates.

Overall, investments performed well, resulting in an investment income of EUR 327 million and an investment yield of 2.4%.

System of governance

The Company has well-defined corporate governance and internal governance structures which are appropriate to its business strategy and operations. There is clear delegation of responsibilities, reporting lines and allocation of functions.

Key functions of risk management, internal audit, actuarial and compliance are defined as part of the risk management and internal control systems.

A description of the policy for remuneration of the management body is provided and how the practices established in it promote sound and effective risk management and do not encourage excessive risk-taking.

The Company has processes to assess the adequacy requirements of the persons who effectively run the company, supervise it, are its managers or perform key functions within it.

This report describes the risk management processes and procedures implemented in the Company, by category of risk.

Operational risk management and internal control processes are implemented to ensure that operations are managed and controlled in a sound and prudent manner.

The Company has approved the ORSA Policy with the aim of establishing general principles for the own risk and solvency assessment.

The rules and principles that the Company's internal audit function must comply with are outlined.

A general overview of the activities performed by the actuarial function in each of its areas of responsibility is provided.

The Company has approved the Outsourcing Policy with the aim of establishing a set of principles applicable to the outsourcing of critical or important functions or activities.

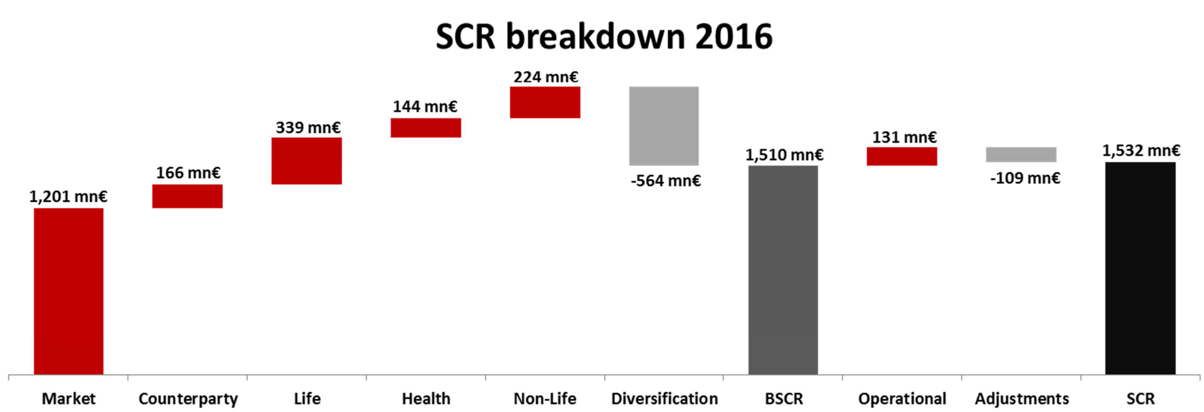
Risk profile

Risk management assists the Company in identifying, assessing, managing and monitoring risks, in order to ensure that adequate and immediate measures are adopted in the event of material changes in the Company's risk profile.

Accordingly, to outline its risk profile, the Company identifies the various risks to which it is exposed and then assesses these.

The risk assessment is based on the standard formula used to calculate the solvency capital requirement. For other risks, not included in that formula, the Company has opted to use a qualitative analysis to classify the foreseeable impact on its capital needs.

Hence, the calculation of the Company's solvency capital requirement (SCR) for 2016 was as follows:



The market risk is clearly prominent in this requirement, followed by the Life and Non-Life underwriting risks, which are much lower.

Various risk mitigation techniques are in use, or are being studied, for a set of risks to which the Company is exposed.

Risks which do not fall within the standard formula are identified as part of the ORSA process.

The Company recognises the following risks as potentially material risks: reputational risk, strategic risk, business (continuity) risk and legal risk.

In order to guarantee compliance with all the requirements laid down by the ASF, the Company has a project in progress for recognition of adjustment for the loss-absorbing capacity of deferred taxes.

Accordingly, regarding 2016, the Company only recognised adjustment relating to the decrease in deferred tax liabilities.

Valuation for solvency purposes

A description is provided of the bases, methods and main assumptions used for the valuation of assets for solvency purposes, and how these compare with those used in the financial statements. This information is divided into financial assets, real estate assets and other assets.

Recoverable amounts from reinsurance contracts and special purpose vehicles are also presented.

A description is provided of the bases, methods and main assumptions used for the valuation of technical provisions for solvency purposes, and how these compare with those used in the financial statements. This information is segmented into Life, Non-Life, Health – SLT (Similar to Life Techniques) and Health NSLT (Not Similar to Life Techniques).

The Company applied the transitional measure, set out in Article 25 of Law No. 147/2015, of 9 September, on technical provisions for liabilities similar to life regarding the homogeneous risk groups “Capital redemption products”, with and without profit-sharing, and “Health – SLT”, related with liabilities with workers’ compensation contracts.

The value of the technical provisions is presented by line of business, including the value of the best estimate, risk margin and value of the application of the transitional deduction to the technical provisions.

A comparison is also provided between the valuation of other liabilities for solvency purposes and their valuation in the financial statements.

Capital management

A comparison is presented between the own funds, as these are set out in the Company's financial statements, and the excess of assets over liabilities calculated for the purposes of solvency, and the differences are justified in detail.

Information is provided on the structure, amount and quality of the basic own funds.

The Company does not have any ancillary own funds.

Around 1% of the basic own funds are classified in Tier 3, and the rest are classified in Tier 1.

Information is presented on the Solvency Capital Requirement (SCR) and the Minimum Capital Requirement (MCR), including a breakdown of the SCR into large components.

The Company uses the standard formula and does not apply any internal model.

The Company applied the transitional measure applicable to the equity risk set out in Article 20(2) and (3) of Law No. 147/2015, of 9 September.

Calculations of the currency risk sub-module and the counterparty default risk module include the effect of hedging of exchange rate exposure of assets denominated in American dollars (USD), Hong Kong dollars (HKD) and Pounds sterling (GBP), via the use of futures contracts.

The Company's solvency capital requirement (SCR) coverage ratio and its minimum capital requirement (MCR) coverage ratio, at 31/12/2016, are 131.44% and 508.82%, respectively.

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1. Business and performance

1.1. Business

1.1.1. Name and legal form of the Company

Fidelidade - Companhia de Seguros, S.A. (“Fidelidade” or “Company”), with its head office in Lisbon, at Largo do Calhariz, 30, is a public limited liability company, resulting from the merger by incorporation of Império Bonança - Companhia de Seguros, S.A. in Companhia de Seguros Fidelidade-Mundial, S.A., in accordance with the public deed dated 31 May 2012.

The operation was authorised by the Portuguese insurance regulator (”Autoridade de Supervisão de Seguros e Fundos de Pensões” or “ASF”) by a resolution of its Board of Directors dated 23 February 2012.

From 15 May 2014, with the initial acquisition of Fidelidade share capital, the Company, through Longrun Portugal, SGPS, S.A., became part of Fosun International Holdings Ltd.

The Company is engaged in the performance of the insurance and reinsurance business in all technical lines of business. Traditionally, life insurance, including investment contracts, is the most important in terms of the technical liabilities being managed. Regarding the non-life technical lines of business, those with the greatest expression in volume of premiums are motor, fire and other damage, health and workers’ compensation, representing approximately 86.9% and 87.3% of total non-life premiums written during 2016 and 2015, respectively.

In order to perform its activity, Fidelidade has a nationwide branch network, agent centres and client branches. Overseas, the Company operates in Spain, France, Luxembourg, Macao and Mozambique.

1.1.2. Supervisory authority responsible for financial supervision of the Company

ASF, with its head office at Av. da República, 76, 1600-205 Lisbon, is the national authority responsible for the regulation and supervision of insurance, reinsurance, pension funds and their management companies and insurance mediation, both from a prudential and a market conduct point of view..

For the purposes of Supervision of Insurance Groups, the ASF is also the supervisor of the group to which the Company belongs.

1.1.3. The Company's Statutory Auditor

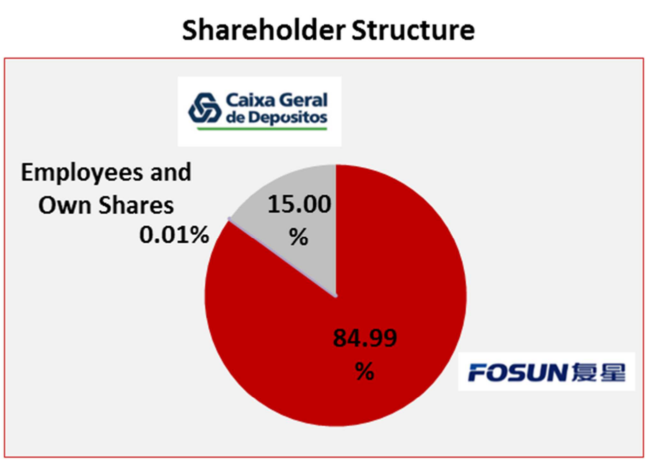
The Statutory Auditor, at 31 December 2016, is Ernst & Young Audit & Associados – SROC, S.A., with its head office at Avenida da Republica, nº 90 6º – 1600-206 Lisbon, represented by its partner Ana Rosa Ribeiro Salcedas Montes Pinto, Statutory Auditor no. 1230 and registered with the Securities Commission with the no. 20160841.

The Statutory Auditor was appointed on 15 May 2014.

Besides the work required of the statutory auditor by law, Ernst & Young Audit & Associados – SROC, S.A. does not provide any other type of services on a recurring basis.

1.1.4. Holders of qualifying holdings

Fidelidade's current shareholder structure is the result of the privatisation process which took place in 2014. Fosun now holds 84.99% of the capital, and CGD holds a 15.00% share. The complementary relationship and ambition of these two key shareholders provide a guarantee of the stability and dynamism of the Company's operations.



Description of the Major Shareholders:

Fosun:
Chinese investment conglomerate of global dimension, focused on the insurance industry and present in several different business sectors.

Caixa Geral de Depósitos:
Portuguese state bank, considered the largest financial institution in Portugal, with approx. 4 million clients and with presence in more than 20 countries.

The qualifying shares in Fidelidade's share capital, at 31 December 2016, are set out in the following table:

Shareholder	No. of Shares	% of Share Capital	% of Voting Rights
Longrun Portugal, SGPS, S.A.	102,833,140	84.9861%	84.9861%
Caixa Seguros e Saúde, S.A.	18,150,000	15%	15%

At 31 December 2016, Fidelidade held 13,300 own shares, corresponding to 0.0110% of the share capital and percentage of votes.

At 31 December 2016, the members of the management and supervisory bodies did not hold shares in the Company.

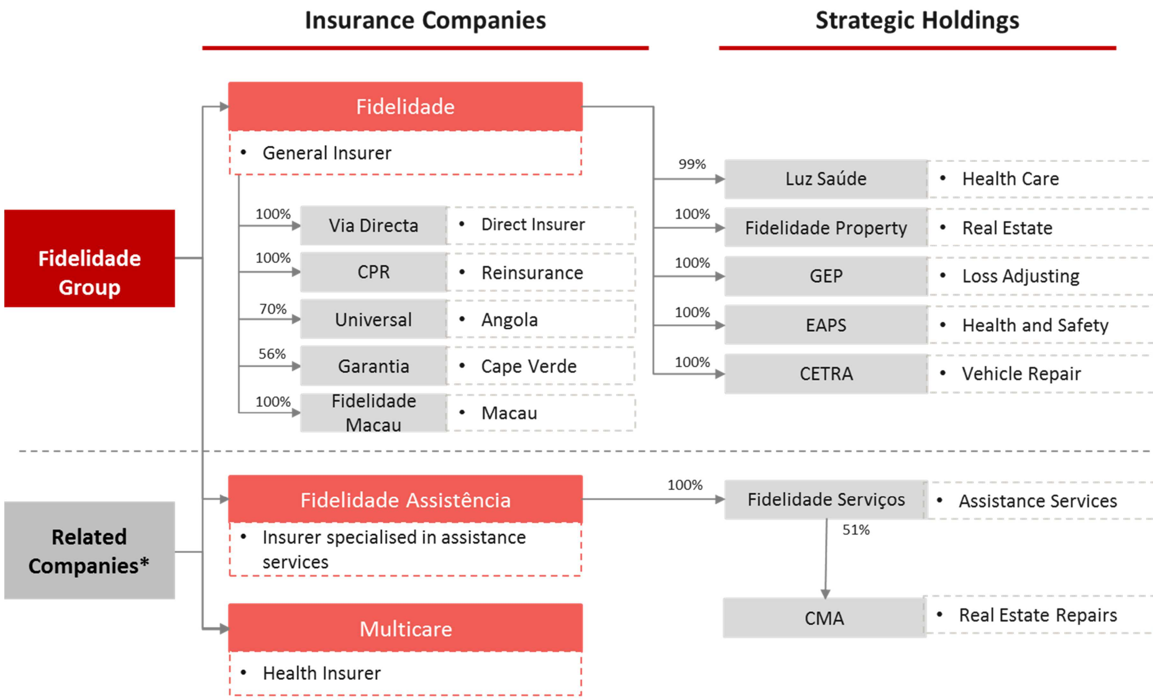
1.1.5. Position of the Company within the insurance group structure to which it belongs

The Fidelidade Group operates in the Portuguese market through its different insurance companies (Fidelidade, Via Directa and Companhia Portuguesa de Resseguros). It also has a presence in the international market through Fidelidade branches (in Spain, France, Luxembourg, Macau-Life Segment, and Mozambique) and through its insurance subsidiaries, Universal Seguros (Angola), Garantia (Cape Verde) and Fidelidade Macau (Non-Life segment).

Fidelidade also maintains close ties with other insurance companies that have a similar shareholder structure, Multicare and Fidelidade Assistência. In both cases, these insurers operate in a fully coordinated manner with Fidelidade in order to guarantee a robust offer of products and services.

Lastly, the Fidelidade Group also has strategic shares in companies providing related services, for example Luz Saúde, the leading healthcare provider group in Portugal.

These interests are in line with an approach of vertical integration in the insurance sector and fit within the Group's strategy of guaranteeing operational excellence and quality of the service provided throughout the value chain and of increasing the Group's position as a global service provider of people protection.



* Partner companies with a similar shareholder structure (Fosun: 80% and CGD: 20%), but not owned by Fidelidade

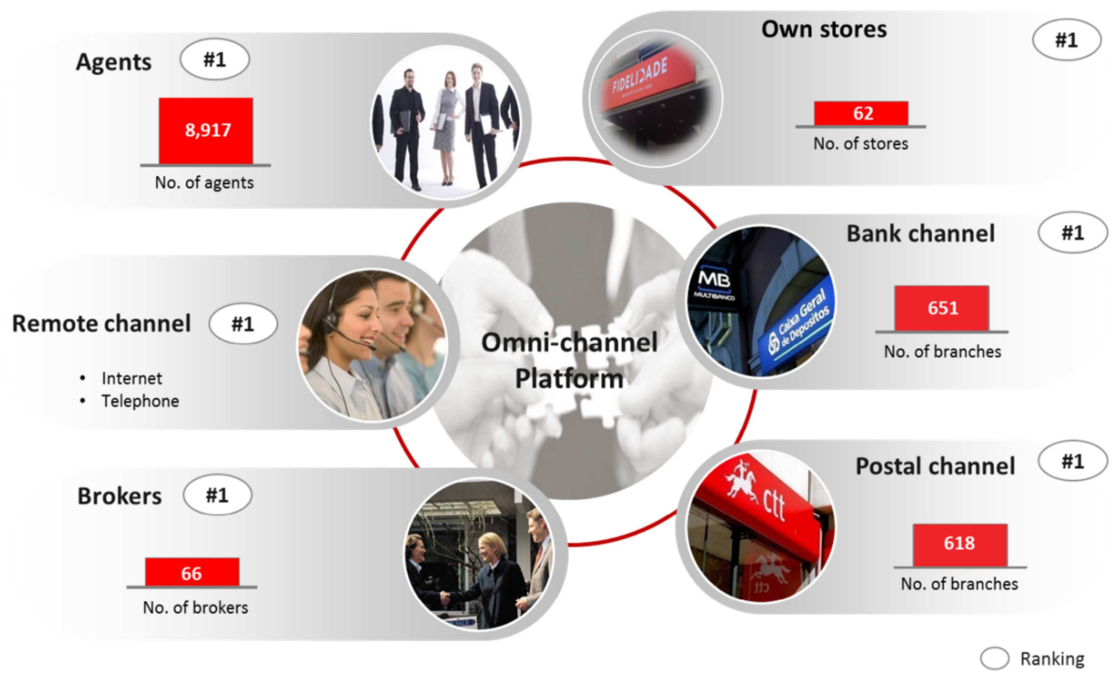
1.1.6. Company Business

Fidelidade acts globally in the Portuguese insurance market, selling products across all lines of business, adopting a multi-brand strategy and operating through the largest commercial network in the country, including increasing growth of remote channels.

Key indicators in 2016 were:

€ 3,601 million **Total Premiums Written** Life: € 2,450 million Non-Life: € 1,151 million	**31.8%** **Market Share (PT)** Life: 35.5% Non-Life: 25.8%	**2,607** **Employees**
€ 14.7 billion **Net Assets**	**€ 100.4 million** **Net Profits**	**101.3%** **Non-Life Combined Ratio**

Fidelidade sells products in all business segments through the largest and most diversified distribution network of insurance products operating in the Portuguese market: Fidelidade own stores; agents; brokers; CGD bank branches; the CTT (postal service) network; internet and telephone channels.



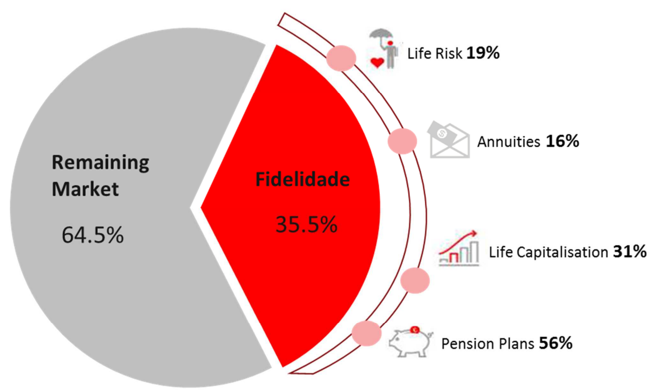
Fidelidade's offer includes Life insurance (Risk and Financial) and Non-Life insurance, which includes products such as Motor Insurance, Workers' Compensation, Health, and Home Insurance, among others. Fidelidade's insurance offer also provides a unique range of assistance in the different areas.

In 2016, Fidelidade once again strengthened its leadership across both Life and Non-Life segments, recording an overall market share of 31.8%, which corresponds to an increase of 2.4pp over the previous year.

In the Life segment, Fidelidade strengthened its market share in financial products (capitalisation and retirement savings plans), achieving clear leadership in both premiums and mathematical provisions/technical liabilities.

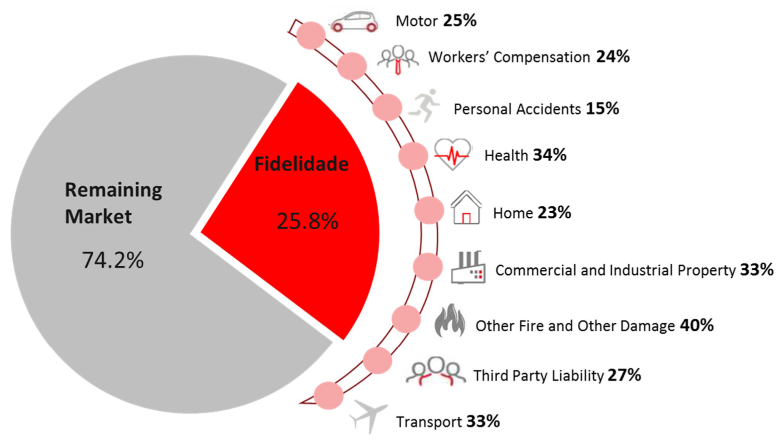
In the case of retirement products, and as a result of continued emphasis in this area, Fidelidade holds a 56% market share, reflecting our clients' great confidence in the Group's robustness.

Life Segment – Market Share

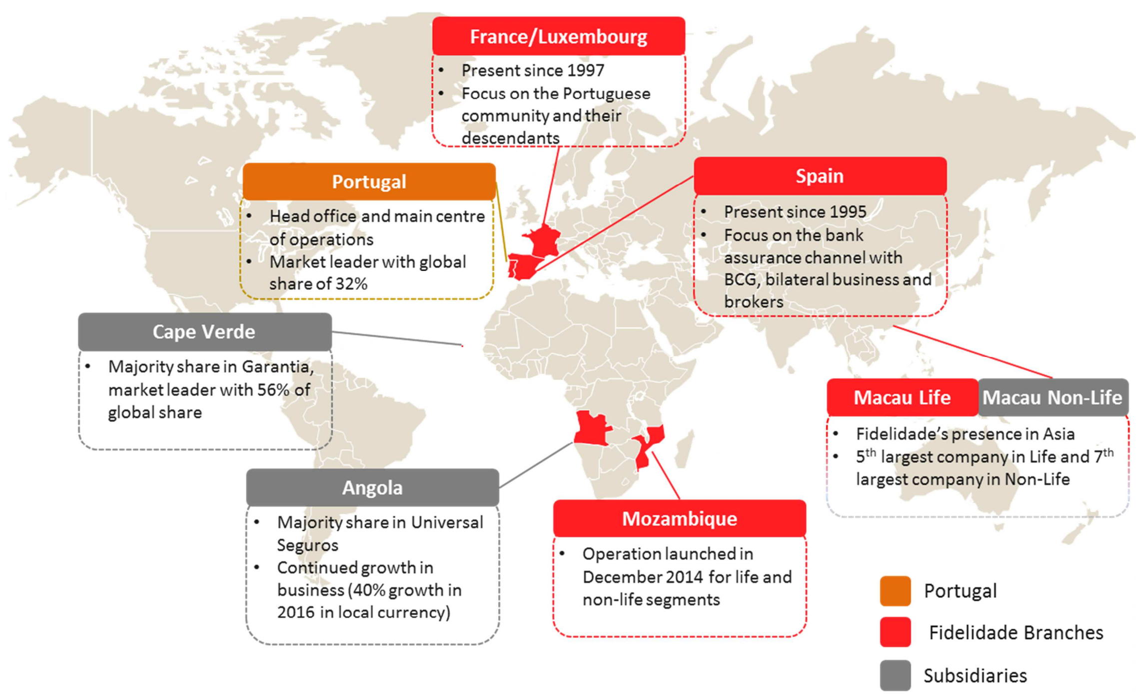


Fidelidade also grew more than most of its competitors in the Non-Life segment, increasing its market share by 0.8 pp to 25.8%. The 1.5 pp increase in the health products' market share (to 34%) was particularly significant, as was the increase in the market share of Personal Accidents to 15%.

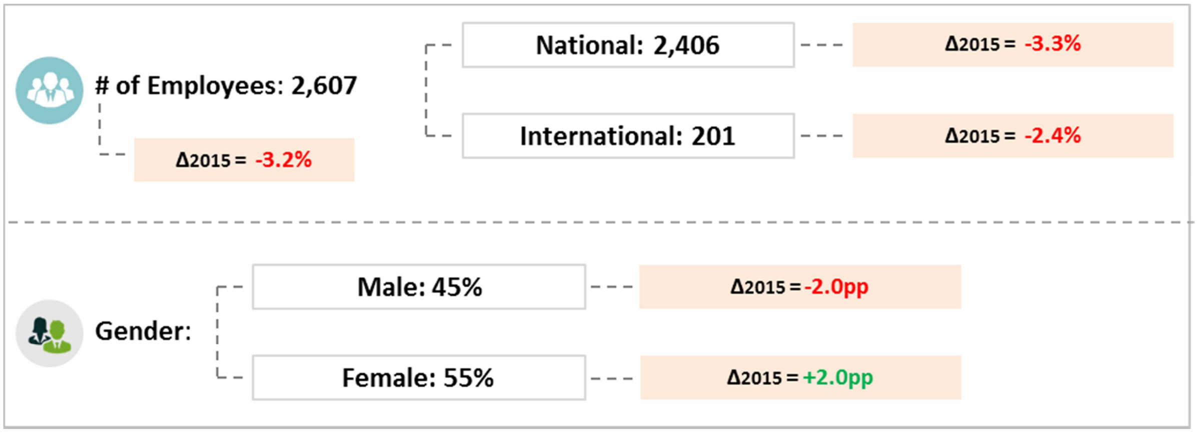
Non-Life Segment – Market Share



Fidelidade's international insurance business is an important means of sustained growth and pursuit of its medium and long-term goals. The company currently operates in three continents (Europe, Africa and Asia), through branches in Spain, France, Luxembourg, Macau and Mozambique.



At the end of 2016, Fidelidade had 2,607 employees, 92% based in Portugal and the remaining 8% in international operations.



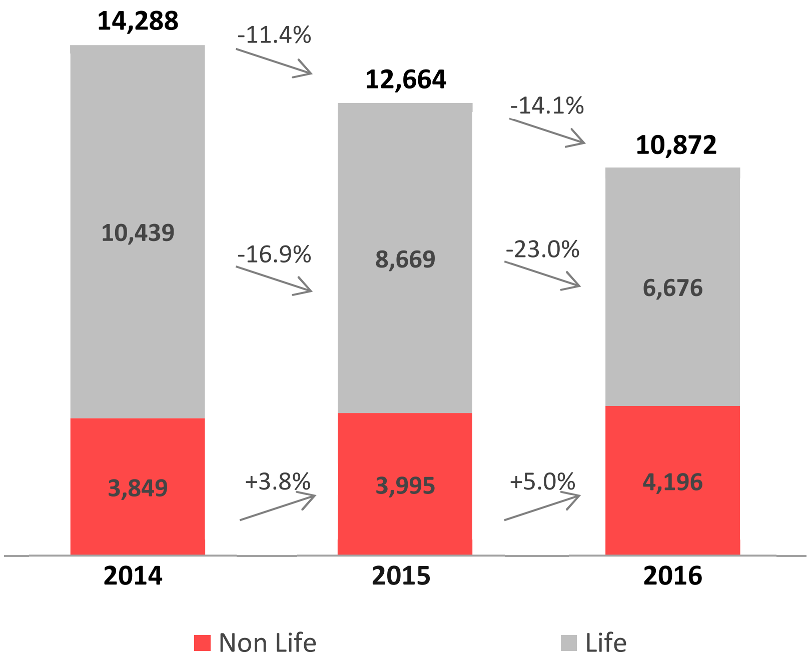
1.1.7. Events Summary 2016

January	**Solvency II – entry into force of the new regulations for the insurance sector**
February	Protechting – first edition of the start-ups accelerator with the support of Fidelidade and in cooperation with Beta-i, promoting innovation in the areas of health and assistance Fidelidade – Accidents Care – opening of a new unit in Oporto focused on providing medical services in the area of Workers' Compensation
March	Web Platform Fidelidade – launch of the new Fidelidade platform, guaranteeing accessibility and integration with other agent partners
April	Small Business Products – launch of products designed specifically for the protection of people, property and their liabilities
May	Rock in Rio – Fidelidade is present at Rock in Rio 2016, as the event's official insurer, and with one of the most visited stands
June	GICC – Global Insurance Committee of the Fosun Group in Lisbon, organised by Fidelidade with the participation of European, American and Asian insurers Multicare 24 – launch of Multicare's new health product, including online medical guidance, a total innovation in the Portuguese market
July	IAPMEI and Portugal Tourism – Fidelidade teams up with IAPMEI and Portugal Tourism to guarantee differentiated products for SMEs (*PME Líder* and *PME Excelência*) Munich Re – start of a partnership to develop an innovative 100% digital platform to attract savings
September	Santalucía – launch of cooperation with the market leader in Spain to promote the funeral and family assistance product in Portugal
October	Advance Medical – signing of a framework agreement with Advance Medical to set up a national platform of reference in the digital health area
November	Web Summit – Official Start-up gathering held with the participation of the Secretary of State for Industry and numerous partners in the innovation ecosystem
December	My Fidelidade – soft launch of Fidelidade's new mobile master app, centralising information on products and access to different Group services

1.2. Underwriting performance

1.2.1. Evolution of the Portuguese Insurance Market

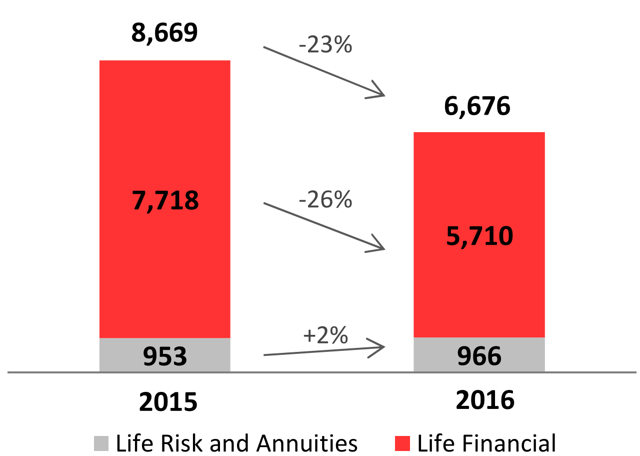
In 2016, direct insurance premiums totalled around EUR 10,872 million. Despite growth in the Non-Life segment, the market fell 14.1% compared to the previous year, reflecting a less positive trend in the Life segment.



Unit: Million Euros

Source: APS

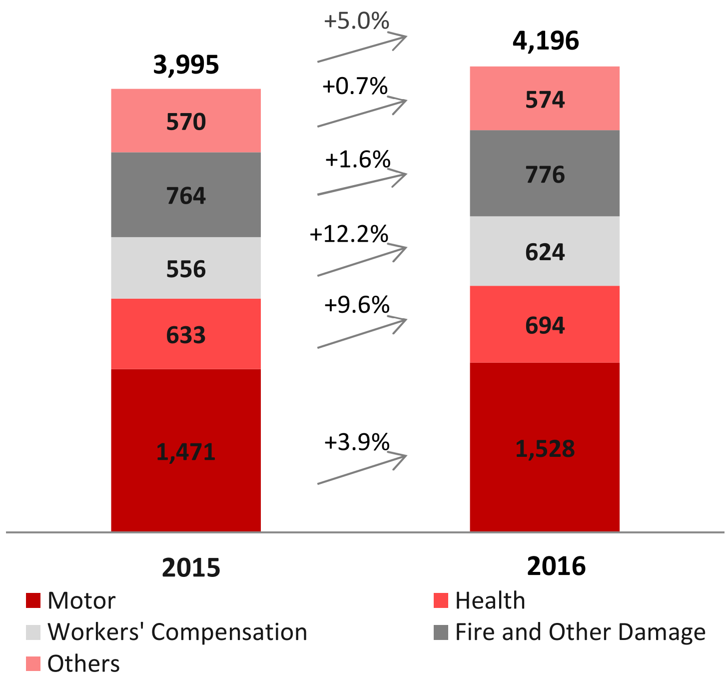
The Life segment fell 23% compared to the previous year, with total premiums of EUR 6,676 million. This sharp decline occurred for the second year running as a direct consequence of current challenges in the financial products markets.



Unit: Million Euros

Source: APS

The Non-Life segment demonstrated remarkable progress in 2016, with growth of 5.0% to EUR 4,196 million, confirming the upward trend in total premiums that began in 2015 (when growth was 3.8%). The growth rate in 2016 was the highest annual rate since 2003, in both nominal and real terms.



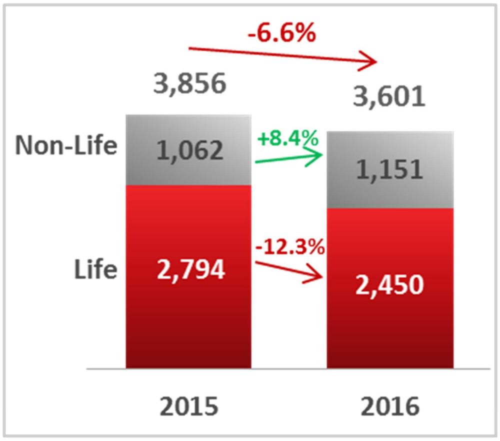
Unit: Million Euros

Source: APS

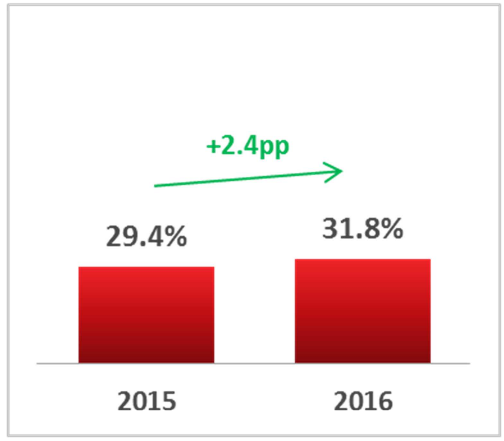
1.2.2. Fidelidade's performance

In 2016, in a year marked by the trends previously referred to, Fidelidade had a very consistent performance, recording total premiums written of EUR 3,601 million. Regarding the activity in Portugal, Fidelidade registered EUR 3,452 million, which enabled it to strengthen its leadership position, increasing its total market share to 31.8%, up 2.4 pp on 2015. This growth in the market reflected trends in both Life and Non-Life segments. The international business recorded substantial growth of 10.2%, with the strengthening of existing international operations.

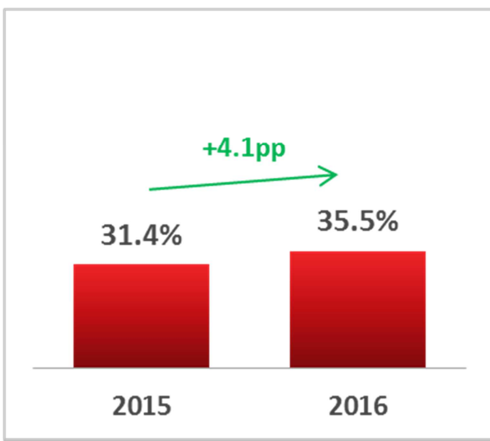
Total Premiums Written- Life and Non-Life *(M€)*



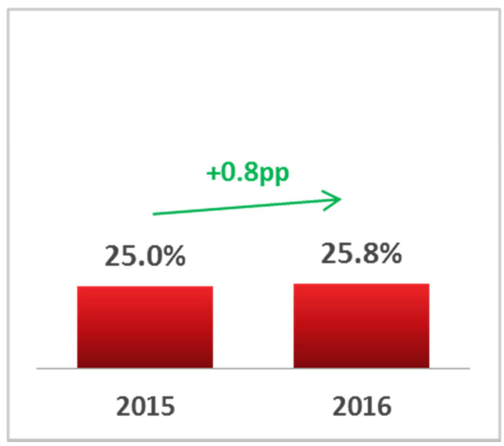
Total Market Share in Portugal *(%)*



Life Market Share in Portugal *(%)*



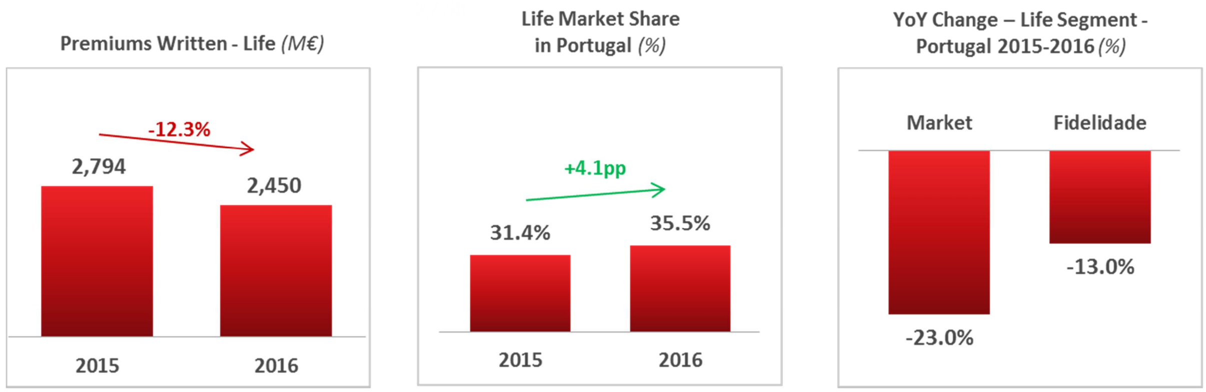
Non-Life Market Share In Portugal *(%)*



a) <u>Life Segment</u>

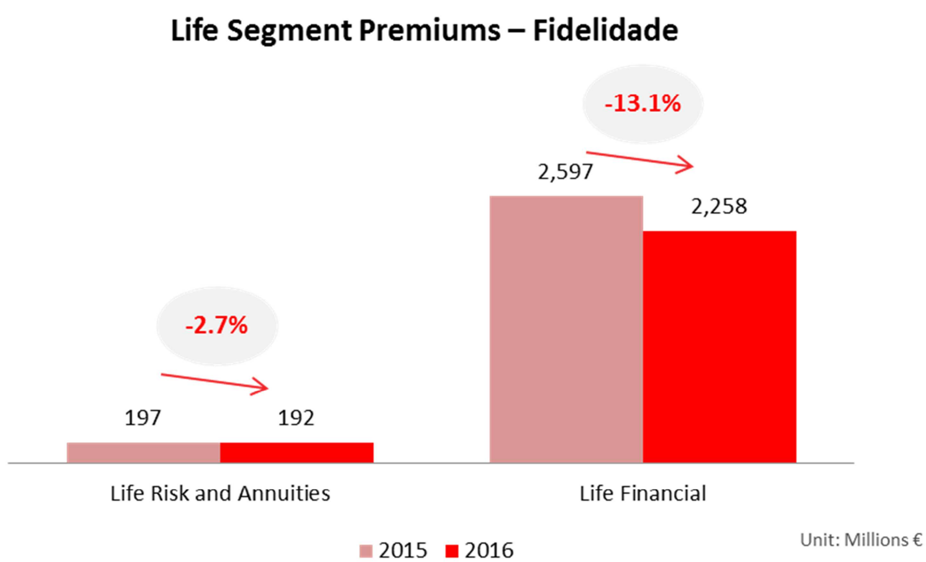
2016 was particularly demanding for the Life segment of the Portuguese insurance market. The premiums written by Fidelidade in this segment decreased by 12.3% to EUR 2,450 million.

Fidelidade’s commercial performance was however clearly positive in comparison with most of the market, particularly in Portugal. Although Fidelidade’s premiums fell 13.0%, the market as a whole declined by 23.0%. This performance led to a strengthening of Fidelidade’s leadership position, increasing its market share to 35.5%, which represents an increase of 4.1 pp over 2015.



The Life Risk and Annuities products displayed sustained performance despite a decline of 2.7% to a total of EUR 192 million.

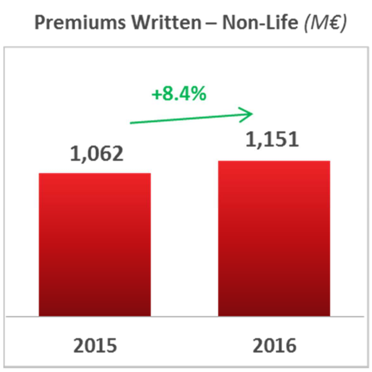
Life Financial premiums fell 13.1% to a total of EUR 2,258 million, in line with the decline in the insurance market in Portugal for this type of product, as a result of low interest rates, a low rate of saving by private individuals and high competition from new public debt products for individuals.

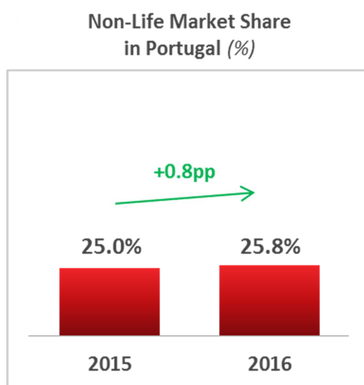


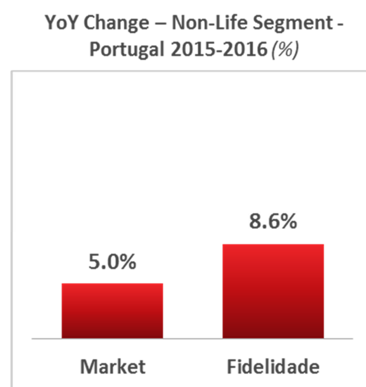
b) Non-Life Segment

Fidelidade's performance was clearly positive in the Non-Life segment, with the premiums written increasing 8.4% to EUR 1,151 million.

Fidelidade's commercial performance followed the positive trend of most of the market. In the Portuguese market, Fidelidade's premiums grew by 8.6%, in comparison with an increase of 5.0% in the market overall. These results enabled Fidelidade to strengthen its leadership position, increasing its market share to 25.8%, which represents a 0.8 pp increase over 2015.

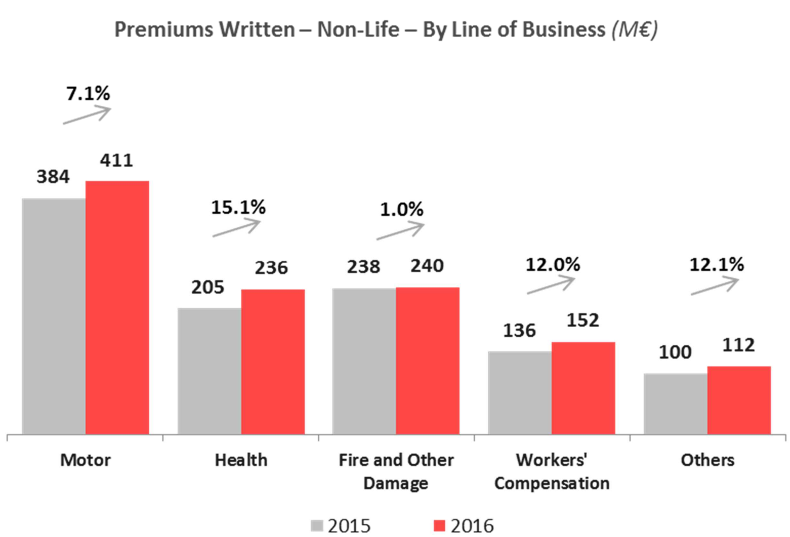






All the Non-Life lines of business displayed positive performance throughout 2016, but particularly significant was the performance of the Health, Workers' Compensation and Personal Accidents lines of business, which all had growth of over 10%.

The Motor line of business continues to be, clearly, the most significant activity in the Non-Life segment, representing over 30% of the total segment. The performance of this line of business was particularly solid, with premiums increasing 7.1%.



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c) International Business

In 2016, the total direct insurance premiums of the Fidelidade branches reached EUR 138 million, up 10.2% compared to the previous year.

The year was marked by important growth in the business in general across the branches and by consolidation of their business models. In 2016, Non-Life premiums were impacted negatively by the evolution, in 2015, of the Non-Life branch of Macau into a company under the local law (Fidelidade Macau – Companhia de Seguros).

The table below shows the evolution of premiums in the branches between 2015 and 2016:

INTERNATIONAL ACTIVITY (Direct Insurance Premiums)	2016		2015	
	Value *(M€)*	Change *(%)*	Value *(M€)*	Change *(%)*
SPAIN BRANCH				
Life (Insurance and Investment contracts)	34.1	20.7%	28.3	20.0%
Non-Life	18.4	24.8%	14.7	-4.9%
Total	**52.5**	**22.1%**	**43.0**	**10.1%**
FRANCE BRANCH				
Life (Insurance and Investment contracts)	35.1	16.8%	30.0	15.9%
Non-Life	38.6	32.1%	29.2	23.1%
Total	**73.6**	**24.3%**	**59.2**	**19.4%**
LUXEMBOURG BRANCH				
Life (Insurance and Investment contracts)	0.5	-89.2%	5.0	38.3%
Non-Life				
Total	**0.5**	**-89.2%**	**5.0**	**38.3%**
MACAU BRANCH				
Life (Insurance and Investment contracts)	10.5	44.4%	7.3	-39.9%
Non-Life			11.0	1.1%
Total	**10.5**	**44.4%**	**18.3**	**-20.5%**
MOZAMBIQUE BRANCH				
Life (Insurance and Investment contracts)	0.0	378.9%	0.0	248.7%
Non-Life	1.4	421.9%	0.3	8285.1%
Total	**1.4**	**420.4%**	**0.27**	**3924.1%**
INTERNATIONAL ACTIVITY - TOTAL				
Life (Insurance and Investment contracts)	**80.2**	**13.7%**	**70.5**	**8.3%**
Non-Life	**58.3**	**5.7%**	**55.1**	**10.2%**
Total	**138.5**	**10.2%**	**125.7**	**9.1%**

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d) Operational performance

Operational performance improved substantially during 2016, with a drop in the combined ratio from 105% to 101.3% (-3.7 pp). This result was due to improvement in both the expense ratio and the claims ratio.

The expense ratio fell 2.2 pp, from 32.6% to 30.4%, in 2016. This result reflects the increase in Fidelidade's operational efficiency, in addition to an effort to optimise and contain costs at the same time as the volume of Non-Life premiums has been increasing.

The claims ratio, including costs allocated to the claims function, decreased 1.6 pp, from 72.5% to 70.9%, in 2016. This is the result of a combination of factors, including a significant increase in profitability in the Workers' Compensation and Health lines of business, largely due to tariff adjustments and improvements in underwriting and claims management.

On the other hand, the Motor line of business recorded an increase in claims, as a result of increased use of motor vehicles. Hence, in 2016, this line of business did not make a positive contribution to the decrease in the overall claims ratio which Fidelidade has consistently registered in recent years.

1.2.3. Premiums, claims and expenses by line of business

The following tables provide a breakdown of premiums, claims and expenses by line of business.

Life Line of business (amounts in thousand euros)	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Life reinsurance	**Total**
Premiums written					
Gross	173,521	36,101	2,240,341	61	**2,450,024**
Reinsurers' share	1,228	0	13,345	0	**14,573**
Net	**172,293**	**36,101**	**2,226,996**	**61**	**2,435,451**
Premiums earned					
Gross	173,504	36,101	2,240,588	61	**2,450,254**
Reinsurers' share	1,233	0	13,326	0	**14,559**
Net	**172,271**	**36,101**	**2,227,262**	**61**	**2,435,695**
Claims incurred					
Gross	186,277	95,354	2,018,814	0	**2,300,445**
Reinsurers' share	509	0	7,763	0	**8,272**
Net	**185,768**	**95,354**	**2,011,051**	**0**	**2,292,173**
Changes in other technical provisions					
Gross	6,109	0	3,108	0	**9,217**
Reinsurers' share	-63	0	-1,286	0	**-1,349**
Net	**6,172**	**0**	**4,394**	**0**	**10,566**
Expenses incurred	**18,354**	**6,950**	**71,056**	**24**	**96,384**

Health – SLT Line of business **(amounts in thousand euros)**	Health Insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	**Total**
Premiums written					
Gross	0	0	0	0	**0**
Reinsurers' share	0	0	0	0	**0**
Net	**0**	**0**	**0**	**0**	**0**
Premiums earned					
Gross	0	0	0	0	**0**
Reinsurers' share	0	0	0	0	**0**
Net	**0**	**0**	**0**	**0**	**0**
Claims incurred					
Gross	0	73,089	0	0	**73,089**
Reinsurers' share	0	0	0	0	**0**
Net	**0**	**73,089**	**0**	**0**	**73,089**
Changes in other technical provisions					
Gross	0	0	0	0	**0**
Reinsurers' share	0	0	0	0	**0**
Net	**0**	**0**	**0**	**0**	**0**
Expenses incurred	**0**	**1,902**	**0**	**0**	**1,902**

Health – NSLT Line of business (amounts in thousand euros)	Medical expense insurance	Income protection insurance	Workers' compensation insurance	**Total**
Premiums written				
Gross – Direct business	236,065	27,773	151,220	**415,058**
Gross — Proportional reinsurance	380	171	474	**1,025**
Gross — Non-proportional reinsurance	0	0	0	**0**
Reinsurers' share	234,509	11,363	5,450	**251,322**
Net	**1,936**	**16,581**	**146,244**	**164,761**
Premiums earned				
Gross - Direct business	235,166	26,227	150,780	**412,173**
Gross — Proportional reinsurance	367	183	455	**1,005**
Gross — Non-proportional reinsurance	0	0	0	**0**
Reinsurers' share	233,560	11,736	5,431	**250,727**
Net	**1,973**	**14,674**	**145,804**	**162,451**
Claims incurred				
Gross - Direct business	176,039	7,764	70,935	**254,738**
Gross — Proportional reinsurance	0	-297	-650	**-947**
Gross — Non-proportional reinsurance	0	0	0	**0**
Reinsurers' share	174,883	7,106	1,159	**183,148**
Net	**1,156**	**361**	**69,126**	**70,643**
Changes in other technical provisions				
Gross - Direct business	-3,663	-126	-8,822	**-12,611**
Gross — Proportional reinsurance	0	0	0	**0**
Gross — Non-proportional reinsurance	0	0	0	**0**
Reinsurers' share	0	0	0	**0**
Net	**-3,663**	**-126,00**	**-8,822**	**-12,611**
Expenses incurred	**-443**	**8,005**	**45,947**	**53,509**

Non-Life Line of business (amounts in thousand euros)	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	**Total**
Premiums written										
Gross - Direct business	232,479	137,753	17,102	233,634	33,326	613	5,114	28,496	37,194	**725,711**
Gross — Proportional reinsurance accepted	996	638	435	6,196	639	0	0	0	31	**8,935**
Gross — Non-proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	**0**
Reinsurers' share	1,066	985	10,147	92,505	9,450	448	3,460	28,157	18,340	**164,558**
Net	**232,409**	**137,406**	**7,390**	**147,325**	**24,515**	**165**	**1,654**	**339**	**18,885**	**570,088**
Premiums earned										
Gross - Direct business	231,876	132,626	17,382	232,501	32,496	660	5,109	27,201	33,555	**713,406**
Gross — Proportional reinsurance accepted	994	568	454	5,873	645	0	0	0	33	**8,567**
Gross — Non-proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	**0**
Reinsurers' share	1,066	906	10,165	91,308	9,291	490	3,401	27,640	17,326	**161,593**
Net	**231,804**	**132,288**	**7,671**	**147,066**	**23,850**	**170**	**1,708**	**-439**	**16,262**	**560,380**
Claims incurred										
Gross - Direct business	166,626	79,413	512	122,774	4,996	54	1	2	20,089	**394,467**
Gross — Proportional reinsurance accepted	-1,803	2,456	-243	3,343	-71	-4	0	0	1	**3,679**
Gross — Non-proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	**0**
Reinsurers' share	3,129	442	-1,074	64,772	-3,004	25	0	0	13,289	**77,579**
Net	**161,694**	**81,427**	**1,343**	**61,345**	**7,929**	**25**	**1**	**2**	**6,801**	**320,567**

Non-Life Line of business (amounts in thousand euros)	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Total
Changes in other technical provisions										
Gross - Direct business	4,024	-2,697	-39	564	-609	-13	0	-541	31	**720**
Gross — Proportional reinsurance accepted	0	366	0	590	-23	0	0	0	0	**933**
Gross — Non-proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	**0**
Reinsurers' share	0	0	0	0	0	0	0	0	0	**0**
Net	**4,024**	**-2,331**	**-39**	**1,154**	**-632**	**-13**	**0**	**-541**	**31**	**1,653**
Expenses incurred	**78,716**	**41,249**	**3,079**	**65,804**	**13,767**	**212**	**1,477**	**8,218**	**8,991**	**221,513**

1.3. Investment performance

Fidelidade's Net Assets were EUR 14,675 million in 2016, representing a rise of 3.2% compared to 2015.

In its definition and application, the Fidelidade Group's investment policy considers the challenges currently facing the insurance business:

- The prolonged environment of low interest rates, which means assets must be sought which have a higher return than traditional fixed rate investments, although also ensuring that an appropriate level of risk is maintained;
- The need to optimise the capital structure, in line with the framework of the Solvency II regulations.

Fidelidade's investment portfolio (including Cash and Bank Deposits), in the consolidated accounts, was at EUR 13.6 billion, similar to that registered in 2015.

In 2016, the policy of diversifying by class of asset and geographical location was followed, to maximise yields with an appropriate level of risk, in an environment of low interest rates.

Overall, investments performed well, resulting in an investment income of EUR 327 million and an investment yield of 2.4%.

1.3.1. Income and expenses from investments

At 31 December 2016, the allocation of investments and other assets to insurance contracts or insurance contracts and other operations classified as investment contracts is as follows (amounts for solvency purposes):

Investments and other assets **(amounts in thousand euros)**	Life insurance	Non-life insurance	Not allocated	**Total**
Property, plant and equipment held for own use	0	85,805	14,816	**100,620**
Property (other than for own use)	0	268,459	25,420	**293,879**
Holdings in related undertakings, including participations	1,487,213	114,840	44,751	**1,646,804**
Equities — listed	830,973	376,416	17	**1,207,406**
Equities — unlisted	2,321	0	328	**2,649**
Government bonds	4,907,388	515,082	7,156	**5,429,625**
Corporate bonds	1,740,882	396,543	4,872	**2,142,297**
Structured notes	74,118	25,781	316	**100,215**
Collateralised securities	1,344	118	0	**1,462**
Collective investment undertakings	255,076	118,667	1,661	**375,404**
Derivatives	9,088	3,353	18,098	**30,539**
Deposits other than cash equivalents	572,020	195,079	103,114	**870,213**
Assets held for index-linked and unit-linked contracts	512,977	0	0	**512,977**
Loans and mortgages	0	0	32,179	**32,179**
Cash and cash equivalents	0	0	586,377	**586,377**
Total	**10,393,400**	**2,100,143**	**839,105**	**13,332,646**

The investments in the table above include investments allocated to unit-linked contracts, which break down as follows:

Investments allocated to unit-linked contracts	Amounts in thousand euros
Group companies debt instruments	49,920
Public debt instrument – domestic issuers	340,390
Public debt instrument – foreign issuers	12,646
Debt instrument – other domestic issuers	895
Debt instrument – other foreign issuers	10,255
Equity instruments – domestic issuers	12,029
Equity instruments – foreign issuers	7,177
Transactions to be settled	-1,973
Sight deposits	41,786
Term deposits	39,852
Total	**512,977**

In 2016, the following income was gained from investments:

Investments (amounts in thousand euros)	Dividends	Interest	Rents	**Total**
Investments allocated to technical provisions – life segment				
Government bonds	0	113,174	0	**113,174**
Corporate bonds	0	126,042	0	**126,042**
Equity securities	9,558	849	0	**10,407**
Collective investment undertakings	2,169	0	0	**2,169**
Structured notes	0	2,633	0	**2,633**
Collateralised securities	0	223	0	**223**
Cash and cash equivalents	0	5,269	0	**5,269**
Loans and mortgages	0	1,771	0	**1,771**
Property	0	0	0	**0**
Derivatives	0	-1,492	0	**-1,492**
	11,727	**248,469**	**0**	**260,196**
Investments allocated to technical provisions – non-life segment				
Government bonds	0	5,117	0	**5,117**
Corporate bonds	0	22,286	0	**22,286**
Equity securities	8,565	0	0	**8,565**
Collective investment undertakings	256	0	0	**256**
Structured notes	0	186	0	**186**
Collateralised securities	0	19	0	**19**
Cash and cash equivalents	0	731	0	**731**
Loans and mortgages	0	6	0	**6**
Property	0	0	18,709	**18,709**
Derivatives	0	0	0	**0**
	8,821	**28,345**	**18,709**	**55,875**

Investments (amounts in thousand euros)	Dividends	Interest	Rents	Total
Investments not allocated				
Government bonds	0	302	0	**302**
Corporate bonds	0	111	0	**111**
Equity securities	14	0	0	**14**
Collective investment undertakings	3	0	0	**3**
Structured notes	0	4	0	**4**
Collateralised securities	0	0	0	**0**
Cash and cash equivalents	0	-201	0	**-201**
Loans and mortgages	0	1,310	0	**1,310**
Property	0	0	2,504	**2,504**
Derivatives	0	0	0	**0**
	17	**1,526**	**2,504**	**4,047**
Total	**20,565**	**278,340**	**21,213**	**320,118**

In 2016, the financial expenses resulting from investments were as follows:

Investment expenses (amounts in thousand euros)	Life	Non-life	Not allocated	Total
Costs allocated	2,667	9,626	2,280	**14,573**
Other investment expenses	728	196	25	**949**
Total	**3,395**	**9,822**	**2,305**	**15,522**

1.3.2. Information on gains and losses directly recognised in shareholders' equity

In 2016, the net gains and losses in financial instruments were as follows:

Amounts in thousand euros	As a charge to		Total
	Income statement	Shareholders' Equity	
Income from financial instruments			
assets held for trading	-1,492	0	**-1,492**
financial assets initially recognised at fair value through profit or loss	24,451	0	**24,451**
available-for-sale assets	265,751	0	**265,751**
loans and accounts receivable	8,791	0	**8,791**
sight deposits	95	0	**95**
other financial assets	1,309	0	**1,309**
Net income on financial assets and liabilities not recognised at fair value through profit or loss			
available-for-sale assets	211,370	-43,370	**168,000**
loans and accounts receivable	-83	0	**-83**
Net income on financial assets and liabilities recognised at fair value through profit or loss			
assets held for trading	-68,960	0	**-68,960**
financial assets initially recognised at fair value through profit or loss	219	0	**219**
others	-4,652	0	**-4,652**
Exchange differences	39,406	0	**39,406**
Impairment losses (net of reversal)			
available-for-sale assets	-179,345	0	**-179,345**
loans and accounts receivable	200	0	**200**
others	146	0	**146**
Total	**297,206**	**-43,370**	**253,836**

1.3.3. Information on investment in securitisations

At 31 December 2016, the value of investment in securitisations is immaterial, and no information is therefore included in this chapter.

1.4. Performance of other activities

There are no other activities performed by the Company with material relevance for the purposes of disclosure in this report.

1.5. Any other information

There is no other material information relating to the Company’s business and performance.

2. System of governance

2.1. General information on the system of governance

2.1.1. Corporate governance structure

Corporate governance involves a series of relationships between the management of the company, its shareholders and other stakeholders, by means of which the company's objectives are defined, and also the means by which these will be achieved and monitored.

The Company adopts a unitary corporate governance model with a Board of Directors which includes an Executive Committee.

The following table represents the Company's Corporate Governance structure during 2016:

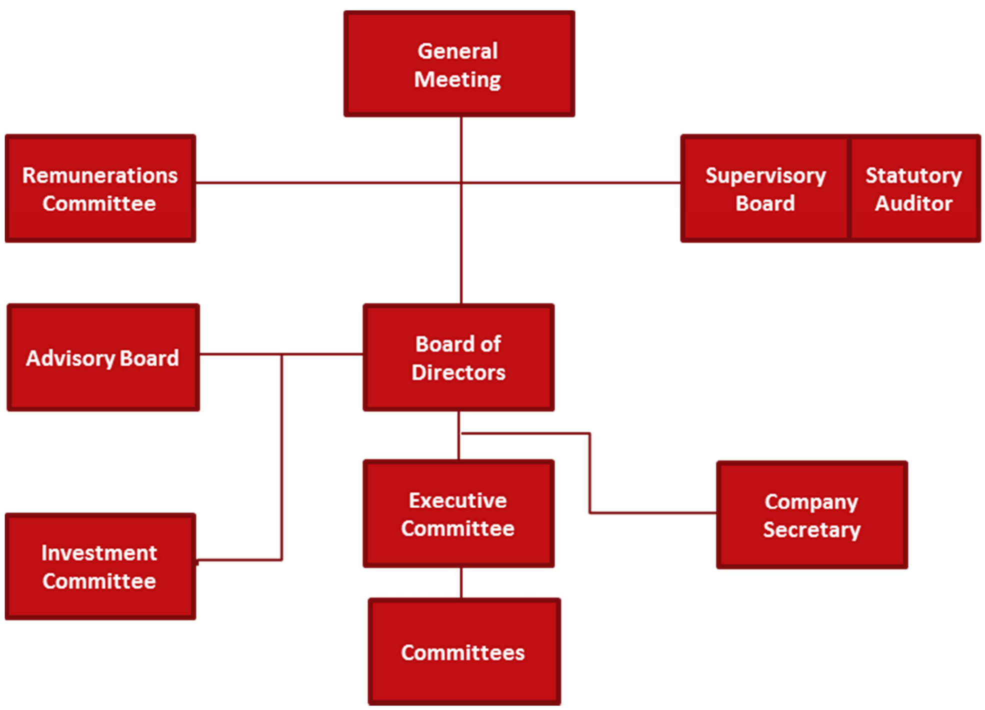


Figure 1 – Corporate governance structure

The main competences of the bodies included in the corporate governance structure are:

a) General Meeting

Resolutions of the General Meeting are approved by a majority of votes of the shareholders present or represented at the General Meeting, whenever the law or the Articles of Association do not require a greater number (Article 11(2) of the Articles of Association).

Resolutions concerning any amendments to the Company's Articles of Association, and the appointment of the company's supervisory body and the respective external auditor when this is not one of the four largest international auditing companies, may only be approved if a vote in favour is achieved with a majority of at least 95% of the voting rights representing the entire share capital.

b) Board of Directors

As one of the Company's corporate bodies, the Board of Directors has the broadest of powers to manage and represent the company. Besides the general powers given to it by law, the Board of Directors is responsible for:

- Managing the company business and performing all the acts and operations related to the corporate purpose which do not fall within the competence of other company bodies;
- Representing the company in and out of court, actively and passively, with the power to withdraw, settle and accept liability in any proceedings, and also entering into arbitration agreements;
- Acquiring, selling or otherwise disposing of or encumbering movable and immovable rights and property;
- Setting up companies, subscribing, acquiring, pledging and disposing of shares;
- Establishing the technical and administrative organisation of the company and the rules of internal operation, namely regarding employees and their remuneration;
- Appointing legal representatives, with the powers it deems appropriate, including those of delegation.

c) Executive Committee

Without prejudice to the possibility of rescinding powers delegated to the Executive Committee, the Board of Directors has delegated the day-to-day management of the Company to this committee, which includes:

- All insurance and reinsurance operations and operations which are connected or complementary to insurance and reinsurance operations, including those which relate to acts and contracts regarding salvage, the rebuilding and repair of real estate, vehicle repair, and the application of provisions, reserves and capital;
- Representation of the Company before the supervisory authorities and associations for the sector;
- Acquisition of services;
- Employees' admissions, definition of levels, categories, remuneration conditions and other benefits, and appointment to management positions;
- Exercise of disciplinary powers and the application of any sanctions;
- Representation of the Company before any bodies which represent the employees;
- Opening and closing of branches or agencies;
- Nomination of the person representing the Company at the general meetings of companies in which it holds shares, with determination of how the vote is to be cast;
- Nomination of the persons who will take up company positions for which the Company is elected, and the persons that the Company will indicate to take up company positions in companies in which it holds a share;
- Issuing of instructions which are binding on the companies which are in a group relationship with the Company involving full control;
- Representation of the Company in and out of court, actively and passively, including initiating and defending any judicial or arbitration proceedings, and accepting liability in, withdrawing from or settling any actions, and assuming arbitration commitments;
- Appointment of legal representatives, with or without power of attorney, to perform certain acts, or categories of acts, with definition of the scope of the respective mandates.

d) Advisory Board

The Advisory Board (AB) has the following competences:

- Analysis and reflection on the Fidelidade insurance group's global strategy, with responsibility for commenting on the outline for the annual plan of activities and budget
- Monitoring how implementation of the Fidelidade insurance group's internationalisation and investment strategy is developing, assessing the issues submitted to it by the Board of Directors.

The members of the Advisory Board are appointed by the Board of Directors, and their mandate coincides with that of the Board of Directors.

e) Investment Committee

The Company's investment decisions are subject to supervision by the Investment Committee.

The members of the Investment Committee are appointed by the Board of Directors, and their mandate coincides with that of the Board of Directors.

f) Remunerations Committee

The Remunerations Committee is responsible for establishing the remuneration of the members of the Company's corporate bodies.

The mandate of the members of the Remunerations Committee coincides with that of the Board of Directors.

g) Supervisory Board and Statutory Auditor

The supervision of the Company is the responsibility of a Supervisory Board and a Statutory Auditor Firm.

h) Company Secretary

The Company Secretary is a Corporate Body, appointed by the Board of Directors, which, besides ensuring the legal functions of Company Secretary in companies in which that appointment exists, coordinates, as a Corporate Body, the company's corporate function.

i) Committees

The specific committees operate according to competences delegated by the Executive Committee, without prejudice to the subsequent ratification of their decisions by the management body.

The specific committees are, therefore, structures which report to the Executive Committee, which delegates competences to them, and are intermediary decision-making bodies.

Accordingly, the specific committees are decision-making bodies set up to assess and decide on proposals regarding different areas of the day-to-day management.

Furthermore, the competence delegated to each of the specific committees is limited exclusively to acts of day-to-day management regarding matters which are the responsibility of the structural bodies which include each of the committees, as permanent members.

2.1.2. Internal governance

Internal governance is the responsibility of the management body and its main concerns are to define the company's business objectives and risk appetite, the organisation of the company's business, the granting of responsibilities and authority, the reporting lines and the information that must be provided, and the organisation of the internal control system.

The Company guarantees an adequate separation of functions and delegation of responsibilities, by approving each structural body's organic and functional structure, defining its scope and general aims, the related organisational chart and main functions, and appointing its heads.

Means of internal communication are defined for transmitting decisions and resolutions of the Executive Committee, for presenting decision-making proposals and for communication between the structural bodies.

To guarantee an adequate connection between corporate governance, personified in the Executive Committee, and the organisational structure, which ensures the greatest consistency and implementation of the Company's executive management, the members of the Executive Committee are given areas of governance, so that each of them is responsible for monitoring a group of structural bodies.

2.1.3. Key functions

The risk management and internal control systems are managed by the Risk Management Division, the Audit Division, the Compliance Office, the Risk Committee, the Underwriting Policy Acceptance and Supervision Committee and the Products Committee (Life and Non-Life).

The key functions established within those systems are given to the following bodies:

Divisions	**Risk Management Division**	**Audit Division**	**Compliance Office**
Key functions	Risk Management Function Actuarial Function	Internal Audit Function	Compliance Function

Figure 2 – Key functions

The following functions are defined for these bodies:

2.1.3.1. Risk Management Function

- Ensuring information is produced and made available to support decision-making, both by the Executive Committee and by the different Divisions;
- Ensuring the development, implementation and maintenance of a risk management system which enables all material risks to which the Insurers and the group are exposed to be identified, assessed and monitored;
- Drawing up, proposing and revising the Capital Management Policy, the medium-term Capital Management Plan and the respective Contingency Plans;
- Assessing and monitoring the current and future solvency situation;
- Drawing up, proposing and revising the Asset and Liability Management Policy;
- Participating in the drawing up and revision of the Investment and Liquidity Policies;
- Identifying, assessing and monitoring the market risks and counterparty credit risks;
- Monitoring compliance with the defined level of liquidity and coverage of estimated payments by estimated receipts;
- Identifying, assessing and monitoring operational risks incurred in the insurance group, as well as identifying and characterising the existing control tools;
- Diagnosing and identifying improvements in the operational and control systems;
- Assessing and monitoring the risk mitigation instruments, namely Reinsurance;
- Participating in the revision of the Underwriting and Reinsurance Policies;
- Drawing up, proposing and revising the Provisioning Policy;
- Identifying, assessing and monitoring underwriting risks, and the credit risk of instruments to mitigate those risks, and preparing information to support decision-making.

2.1.3.2. Actuarial Function

- Monitoring the accounting Technical Provisions, assessing their level of prudence;
- Undertaking an actuarial assessment of the portfolios, including calculation of the fair value of liabilities of a technical nature;
- Ensuring consultancy and actuarial technical assistance to the bodies and institutions which request it, as part of contracts for the provision of actuarial-type services, in particular, on the subject of pension funds, benefits plans or any other private pension plan frameworks.

2.1.3.3. Internal Audit Function

- Drawing up an annual audit plan which focuses on assessing the effectiveness of the internal control and risk management systems, working with the Executive Committee to draw up the annual report on the organisational structure and the existing risk management and internal control systems;
- Assessing compliance with the principles and rules defined as part of the internal control and operational risk management, identifying possible insufficiencies and suggesting action plans to mitigate the inherent risk or optimise the control in terms of effectiveness;
- Drawing up a report to be presented to the Executive Committee and to the Supervisory Bodies at least once a year on Auditing Issues, with a summary of the main deficiencies detected in the auditing actions and which identifies the recommendations that were followed;
- Presenting the reports prepared by the Division to the Executive Committee, by means of an IT system;
- Aiding the Executive Committee, when requested by the latter, in uncovering the facts relating to potential disciplinary breaches by employees and irregularities performed by agents or service providers;
- Confirming compliance with the laws and regulations which govern the business;
- Performing ad hoc assessments and reviews, as requested by the Executive Committee;
- Working with the External Audit and with the Statutory Auditor.

2.1.3.4. Compliance Function

- Ensuring the coordination and monitoring of compliance issues;
- Ensuring the coordination of the compliance function, with a view to comply with legislation and other regulations, and with internal policies and procedures, seeking to prevent sanctions of a legal or regulatory nature and financial losses or reputational harm;
- Drawing up and proposing the Companies' Compliance Manual and ensuring it is maintained and disseminated.

2.1.3.5. Committees

The management of the risk management and internal control systems is also ensured by the following committees:

a) Risk Committee

The Risk Committee is responsible for commenting on Risk Management and Internal Control issues which are submitted to it by the Executive Committee, relying on the definition of the risk strategy to be followed by the Companies. Accordingly, the Risk Committee proposes to the Executive Committee risks policies and global objectives to be considered in the Companies' Risk Management and Internal Control.

b) Underwriting Policy Acceptance and Supervision Committee

The main function of this Committee, which covers all channels and products, is to deliberate on the acceptance of risks which exceed the competences of the Business Divisions or which require its intervention due to their specific nature.

c) Products Committee (Life and Non-Life)

The Products Committees' main mission is to coordinate the release of products of all Group companies, ensuring that the offer is consistent with the multi-channel and value creation strategy, ensuring alignment of the new offer and the existing offer with the Company's strategic planning and risk appetite defined by the Executive Committee.

2.1.4. Remuneration rights of the members of the management body

The Remuneration Policy applicable to Fidelidade's corporate bodies is based on the following guidelines:

- It encourages effective risk management and control, avoiding excessive exposure to risk and potential conflicts of interest and ensuring coherence with Fidelidade's long-term objectives, values and interests;
- It is structured in a manner which is clear and transparent in terms of its definition, implementation and monitoring;
- It ensures total remuneration which is competitive and fair, aligned with national and European trends, in particular with Fidelidade's peers;

- It includes a fixed component, adjusted to the functions and responsibility of the directors, which is adequately balanced with a variable component with a short-term portion and a medium-term portion, both subject to the performance of the individual and the organisation, in line with the achievement of specific objectives, which are quantifiable and aligned with the interests of Fidelidade, its shareholders and also policy holders, insured persons, participants and beneficiaries.

Accordingly, the remuneration of the executive members of the management body comprises a fixed component and a variable component, and the latter is composed of a portion which seeks to remunerate short-term performance and a portion aiming to remunerate medium-term performance. The latter is awarded after the accounts for each financial year have been approved and after fulfilment of the predefined objectives has been confirmed.

The fixed component is a sufficiently sizeable proportion of the total remuneration, and the short and medium-term variable components are flexible proportions of the annual fixed remuneration. The executive members of the management body may not enter into contracts aimed at mitigating the risk inherent to the variable nature of their remuneration.

A range of non-remuneratory benefits are provided for the executive members of the management body, with the same conditions as those applicable to Fidelidade employees.

The complementary pensions and early retirement rules applicable to the members of the management body and other holders of key functions follow the same conditions as those applicable to Fidelidade employees.

Besides those described above, there are no other remuneration mechanisms, and no other payments are provided for in the event of any removal of a director. In the event of termination of functions by agreement, the amounts involved must be approved by the Remunerations Committee.

In line with the Remuneration Policy, the members of the Supervisory Board only receive fixed remuneration. Non-executive members of the Board of Directors do not receive any kind of remuneration for the functions performed.

There are no share allocation or stock option plans for members of the Company's management and supervisory bodies.

2.1.5. Transactions with related parties

Operations to be performed between the Company and holders of qualifying shares or entities which are in any kind of relationship with them are subject to assessment and a decision of the Board of Directors, and these operations, like all others performed by the Company, are subject to supervision by the Supervisory Board. Information on business with related parties is disclosed in the Notes to the Separate Financial Statements (Note 41) and Notes to the Consolidated Financial Statements (Note 46).

2.1.6. Assessment of the adequacy of the system of governance

Taking into consideration the nature, scale and complexity of its activities, the Company considers that the system of governance complies with the requirements set out in the Legal Framework on the Taking-up and Pursuit of the Business of Insurance and Reinsurance.

2.2. Fit and proper requirements

On 31 May 2016, the Company's Executive Committee approved the Fit & Proper policy which falls within the scope of the requirements set out in Article 66(2) of the Legal Framework on the Taking-up and Pursuit of the Business of Insurance and Reinsurance (RJASR) and the objective of which is to establish general principles for assessing that the persons who effectively run the company, supervise it, are its managers or perform key functions within it are fit and proper.

The aforementioned Policy was approved by the General Meeting of the Company, which met on 31 March 2017.

In line with the Fit and Proper Policy, the scope of application of which is singular, covering the various insurance companies within the Longrun, SGPS, S.A., universe and Longrun itself, persons who effectively run the company, supervise it, are its managers or perform key functions within it must at all times comply with the requirements of qualifications (fit), integrity (proper), independence and availability. Additional requirements are provided for collegiate bodies.

The following persons are subject to the assessment: members of the management body, members of the supervisory body, the statutory auditor who is responsible for issuing the statutory auditor's report and the responsible actuary.

The following persons are also subject to the assessment: persons who perform other functions which give them significant influence over the management of the Companies, Top-Level Managers, persons who are responsible for or perform risk management, compliance, internal audit and actuarial functions, representatives of the Companies' branches and, where key functions are outsourced, the internal interlocutor for those functions.

The Companies must confirm that the persons subject to the assessment fulfil the fit and proper requirements to perform their respective functions. The Policy therefore sets out the process for assessing those requirements, divided into three major areas: (1) Assessment; (2) Registration; (3) Appointment.

The Assessment Committee is responsible for assessing the fit and proper requirements of the members of the Management and Supervisory Bodies, the Statutory Auditor and the Responsible Actuary. The Assessment Committee is also responsible for assessing the heads of risk management, compliance and internal audit functions, and also the head of the People and Organisation Division.

The responsibility for assessing other persons – top-level managers, the persons responsible for the actuarial function, branch representatives, staff who perform key functions and those responsible for important or critical functions or activities which are outsourced – lies with the People and Organisation Division.

The assessment is carried out prior to the commencement of functions (initial assessment) and the continuing compliance with the fit and proper requirements is confirmed every three years thereafter (successive assessment), by means of a statement presented for the purpose by the interested party, whenever that compliance continues.

Since the appointed persons must inform the insurance company of any facts subsequent to the appointment or to the registration which change the content of the statement initially presented, an extraordinary assessment will be carried out whenever they become aware of any subsequent circumstances which may lead to the requirements not being fulfilled within the scope of their functions.

2.3. Risk management system including the own risk and solvency assessment

2.3.1. Risk management processes

The Risk Management Division is a first-line body in the corporate structure, reporting directly to the Company's Executive Committee. Its mission is based on defining, implementing and maintaining a risk management system which enables identification, measuring, monitoring and reporting of risks, individually or collectively, including risks not contemplated in the solvency capital requirement, enabling the Executive Committee and the various Divisions involved to incorporate this knowledge into their decision-making process.

The timetable with the planned activities to assure implementation of the Solvency II rules, sent to the ASF within the scope of Circular No. 5/2014, of 12 December, contained the activities needed to eliminate the differences identified in a previous gap analysis, covering both the transitional phase (with a more immediate timeframe – 2014 and 2015) and the consolidation phase for the application of the new Solvency II rules (with a more distant timeframe, after January 2016).

Accordingly, the activities carried out by the Risk Management Division, in 2016, are fundamentally based on the enhancement and consolidation of several matters related with the three solvency pillars, and technical aspects and certification of information produced within this scope.

The following activities can be highlighted:

- Conducting the annual own risk and solvency assessment (ORSA) and reporting the results to the ASF in the respective supervision report;
- Preparing and sending, as part of the initial report, as of 1 January 2016, annual information contained in the Quantitative Report Templates – QRT, and the respective qualitative information, which was subject to certification by the statutory auditor and by the responsible actuary, pursuant to the regulations issued by the ASF, namely Regulatory Standard No. 5/2016 –R, of 12 May;
- Reporting to the ASF, in relation to the first year under the Solvency II rules, up-to-date information on the Company's system of governance;
- Commencement of quarterly quantitative reporting under Solvency II.

Among the activities performed by the Risk Management Division in 2016, it is also important to mention the activities related to capital optimisation measures, namely, the application of the transitional measures on technical provisions, of the transitional measure for the equity risk sub-module and the change of contractual boundaries for temporary annual renewable Life Risk insurance contracts.

The following sub-paragraphs describe the Company's processes and procedures for each category of risk:

2.3.1.1. Strategic risk

The Company's strategy is attained by means of a chain of responsibilities beginning with the Executive Committee, which defines the high-level strategic objectives, passing to the heads of each Division, who are responsible for outlining plans to achieve those objectives, and ending with the Company's employees, who seek to achieve the proposed objectives on a daily basis within the scope of their functions.

2.3.1.2. Underwriting Risk – Product Design and Pricing

The Business Divisions are responsible for managing and assessing this risk, also with the involvement of other areas (Reinsurance, Marketing, Commercial, Risk Management). The Business Divisions ensure the technical development of new products, or reformulation of existing ones, by defining their technical characteristics and technical documentation, and by establishing their prices, rules for delegation of powers and underwriting policies, and by drawing up technical information to support the sales activity.

For each product, there is a process of identifying the needs which are intended to be met and defining the Company's strategic objectives which are intended to be achieved with its launch / reformulation.

The launch of new products, reformulation of existing ones and pricing updates are approved in advance by the Product Committee, Life or Non-Life.

Analyses are periodically undertaken of products/prices with the purpose to assess how adequate they are in terms of contractual conditions versus profitability.

2.3.1.3. Underwriting Risk – Underwriting

The Business Divisions are responsible for managing and assessing the risks associated with underwriting the Company's products, and the power to give discounts is delegated to the sales areas only in situations where knowledge of the risk is high and the technical risk is low.

The aim of the Company's Underwriting Policy is to classify the risks according to the level of exposure to and knowledge of the risk. This policy takes the form of underwriting rules and delegation of available competences.

The Company has an Underwriting Policy Acceptance and Supervision Committee, the mission of which is to analyse and accept risks the acceptance of which, as defined in the Underwriting Policy, is not delegated to the Business Divisions.

The Business Divisions are responsible for underwriting risks the acceptance of which is not delegated.

In order to guarantee that the underwriting policies are adequately followed, in the products' sales phase, compliance with the underwriting rules defined is checked. In addition to this control, the adequacy of the underwriting policies is regularly monitored, by means of statistical indicators of the portfolio's development, the drawing up of risk profiles and occasional analyses of contracts.

There is a system of Portfolio Selection and Checking which occurs monthly, aimed at checking and monitoring clients in the portfolio, in order to safeguard profitability of the business.

2.3.1.4. Underwriting Risk – Reserving

The Company's Provisioning Policy establishes the methodologies for calculating provisions, broken down by line of business and in accordance with the liabilities to be estimated. Accordingly, different provisions methodologies are defined for each line of business, based on recognised actuarial methods.

Alongside this process, an analysis is conducted, for the Life Segment, of the provisions set up, considering the methodologies used for calculating the provisions and the insurer's historical experience relating to each of the liabilities, and compliance with the rules in force regarding the calculation of provisions is also validated. Forecasts are made annually of the technical results for the different lines of business with the aim of assessing the adequacy of the technical bases in force.

In order to guarantee the reliability of the information used in the reserving process for the Company's liabilities, the quality of the information is validated by reconciling the accounting information with the operational information.

For the Non-Life segment, the analysis of the sufficiency of the provisions of the various lines of business is assessed / validated throughout the year.

This analysis is conducted for the main lines of business / groups of business, representing over 90% of the claims provisions, namely motor, workers' compensation, personal accidents and health.

Provisions not covered by this analysis (less than 10%) correspond to claims which are subject to special supervision and monitoring by the technical areas and, therefore, the amount of the provision allocated to them is accepted as an adequate estimate of the claim cost.

The analyses conducted consider direct liabilities with insured persons (claims reported or not), and also costs to be paid in the future, namely the FAT (Workers Compensation Fund).

Additionally, to guarantee an adequate provisioning of the responsibilities, the Company conducts adequacy tests on the liabilities related with the insurance contracts in force. To do this, estimations of the present value of future cash flows (deriving from the insurance contracts) are prepared, including expenses to be incurred with claims settlement and cash flows associated with options and guarantees implicit in the insurance contracts.

The Company also regularly assesses compliance of the provisions by analysing the responsibilities in terms of uncertainty, length of contract, nature of claims and expenses with settlement of claims. Compliance with the rules in force regarding the calculation of provisions is also validated. In addition, a range of micro and macro-economic scenarios are used to confirm the adequacy of the amount of the provision.

In order to guarantee the reliability of the information used in the process for establishing provisions for the Company's liabilities, the quality of the information is validated by reconciling the accounting information with the operational information.

2.3.1.5. Underwriting Risk – Claims Management Processes

The Business Divisions are the main players in the management and assessment of risk associated with the Company's claims processes.

The Company's Claims Management Policy is formalised in procedures manuals of the divisions responsible for its management, namely, the Business Divisions.

In order to promote better following up of claims management, regarding claims which are slow or complex to resolve, time limits are defined for settlement. If these are exceeded, the claims are sent for analysis by specialised sectors.

Regular statistical information is prepared on this matter to ensure control of the time limits for settling claims and supervision of those which are covered by reinsurance treaties.

2.3.1.6. Underwriting Risk – Reinsurance and Alternative Risk Transfer

The Reinsurance Division negotiates and manages reinsurance treaties, closely accompanied by the Executive Committee, which approves the conditions negotiated prior to their acceptance.

In terms of the Company's Reinsurance Policy, each year the Reinsurance Division defines the reinsurance objectives for the next year based on a needs analysis conducted with the technical and actuarial areas and in line with the Executive Committee's objectives and strategic guidelines.

The Reinsurance Policy is implemented by the Reinsurance Division, by the drawing-up and monitoring of the reinsurance treaties existing in the Company.

As part of the monitoring of this risk, the Reinsurance Division carries out quarterly analyses of the technical results by treaty. These analyses include a comparison with the information relating to the previous five years, for an analysis of the trends year-to-year and over several years, thus allowing the evolution of the reinsurance technical results to be monitored. This information is used for subsequent negotiations with the reinsurers.

2.3.1.7. Market Risk

The Investment Policy, which defines the guiding principles for managing investments, provides support for the Company's entire investment process. It is a fundamental support tool for managing the Company's business and investments, and defines guidelines to support the activity of the areas responsible for its implementation.

On the other hand, it also defines the participation of the Risk Management Division in defining the exposure limits of the investments portfolio, with the aim of guaranteeing that the document is aligned with the Company's global objectives.

Besides establishing the delegation of competences regarding investment or divestment in financial assets and property, it also defines limits for exposure to different classes of assets, considering the risk-return ratio, which enables adequate risk management and a balanced portfolio.

Mechanisms are also established to enable control and management of risk levels and potential losses.

2.3.1.8. Counterparty Default Risk

The Company is essentially exposed to Counterparty Default Risk when selecting and accompanying counterparties and reinsurers.

Securities issuers are assessed in order to measure their credit quality. This assessment uses information on their rating (among others) and evaluates the portfolio's compliance with the limits of exposure to this issuer defined in the Investments Policy.

However, the risk is constantly monitored, and an effort is made to follow the opinions / outlooks of the international ratings agencies so as to prevent a decline in the rating of the securities held. On the other hand, establishing internal limits by counterparty, and not authorising situations of risk accumulation, means that proper spreading of risk can be guaranteed over time.

Regarding reinsurance, decisions concerning the selection of reinsurers are taken in line with the knowledge and relationship existing between the Company and the reinsurers in the international market, and it is Company policy not to accept any reinsurer with a rating below A- (S&P rating or equivalent rating of another rating agency).

2.3.1.9. Concentration Risk

Management of this risk is connected with the processes for managing other risks, since it is transversal to the different Areas.

In order to follow the portfolio's level of exposure to the various sources of concentration risk mentioned, the Business Divisions conduct periodic qualitative analyses of the portfolio.

As part of the Company's underwriting policies, procedures are defined which aim to mitigate Concentration Risk, in particular, when situations are detected in which there are two or more policies which cover risks situated at a location considered to be a common risk, these are classified as situations of risk accumulation and require a specific analysis.

Regarding the Concentration Risk of Counterparties, the Investments Policy in force defines limits for the Company's exposure to this risk, by securities issuer and business sector.

These limits are revised periodically and amended when necessary, following approval from the Executive Committee.

Regarding Concentration Risk associated with reinsurance, the Reinsurance Division produces an annual report with a summary of the Company's reinsurance objectives for the following year. This report is based on an analysis of the risk spread, and, in addition to summarising the conditions of the reinsurance treaties in force, it also presents the percentages of exposure to each reinsurer, organised by lines of business.

2.3.1.10. Liquidity Risk

In a short-term perspective, responsibility for managing investments liquidity is given to the Investments Division.

A daily report is produced to control the liquidity level of the investment accounts, which takes into consideration operations pending settlement and financing needs of new coverages. A daily check is also carried out of the sales of campaign products, in the various channels, to detect the portfolios' financing needs.

In a medium / long-term perspective, the Company conducts a monthly ALM analysis of the liabilities and assets linked to the Life and Non-Life segments.

2.3.1.11. Reputational Risk

Management of Reputational Risk is fundamentally based on:

a. The existence of a communication and image function;
b. The function of clients' complaints management, which includes providing management information to the heads of the different Company Areas and the Executive Committee;
c. Planning and monitoring of the Company's Human Resources;
d. The Corporate Social Responsibility programme.

The activities carried out in this area have had an impact, namely, in the various awards the Company has earned:

- Trusted Brand 2017 in the insurance category, from Reader's Digest, for the 16th year in a row;
- Portuguese consumers' brand of choice, awarded for the third time at the 5th edition of the Consumers Choice awards. This choice is based on values such as trust and motivation;
- "Best Large Life Insurer", in the Banking and Insurance Category, awarded by the journal *Exame*.
- Insurer with the best reputation in Portugal in the *Marktest Reputation Index*;
- 1st place in all image indicators in the Basef Seguros awards.

2.3.1.12. Operational Risk

Initiatives have been developed specifically for managing operational risk and internal control, based on best practice defined both by the ASF and by the EIOPA:

- Documentation and classification of existing control activities, linking them to the risks previously identified in the business processes;
- Implementation of decentralised recording procedures for events and subsequent losses, including near misses, resulting from risks associated with the business processes, and also own assessment of risks and control activities.

This risk will be discussed further in Chapter 2.4.1. Information on the internal control system

2.3.2. Own risk and solvency assessment

The Company approved the ORSA Policy with the aim of establishing the general principles for the own risk and solvency assessment regarding:

- Processes and procedures;
- Functions and responsibilities;
- Criteria and methodologies;
- Reporting;
- Articulation with the strategic management process and use of the ORSA results.

According to the Policy, the ORSA aims to provide a level of security which is acceptable to the Company's Executive Committee regarding compliance with the strategic objectives, within the framework of the risk appetite established.

Accordingly, considering the risk appetite defined, the ORSA seeks to provide a prospective vision of the capacity of the Company's available capital to support different levels of risk, resulting both from strategic decisions and from scenarios involving external factors.

The ORSA is, therefore, an integrated process in the Company's strategic management, which enables a global vision to be gained on a regular basis of all the relevant risks which are a threat to the pursuit of the strategic objectives and the consequences of these in terms of (future) capital needs.

This process also contributes to promoting the Company's risk culture, by identifying the risks the Company is exposed to (including those not considered in the capital requirements), introducing the concept of economic capital in the management processes and communicating the risks, thereby allowing those receiving this information to incorporate this knowledge into their decision making.

In order to comply with these objectives, the ORSA process is divided into five major activities: (1) business strategy; (2) prospective assessment; (3) analysis of scenarios and definition of limits; (4) reporting; (5) constant monitoring.

The Executive Committee is responsible for steering the entire ORSA process, including approving it. The Risk Management Division and the Strategic Planning and Corporate Performance Division are involved in carrying out the process.

As part of the ORSA, the global solvency needs are calculated considering the Company's risk profile. The concept of Economic Capital is used to produce this calculation, which is based on a standard formula for calculating the SCR. In this process, all the risks that the Company is or may be exposed to are identified. These risks are assessed quantitatively and/or qualitatively.

To provide a prospective vision of the Company's risk profile and, consequently, of its global solvency needs, forecasts are produced, for a time period which coincides with the period defined in strategic planning, of the Company's financial position, the result of its operations, the changes in its own funds and its solvency needs.

Given that the Economic Capital calculated within the scope of the ORSA will tend to be different to the SCR calculated by the Company, an assessment is made (which is qualitative and, whenever so justified, quantitative) of the possible differences between the Company's risk profile and the assumptions underlying the calculation of the SCR.

As a complement to the assessment of the global solvency needs, a series of analyses of scenarios are planned in order to validate the defined strategy in extreme scenarios.

The ORSA is conducted annually, and may also be carried out extraordinarily in certain situations. Reports are produced both for the supervisor and for internal use.

Also within the scope of the ORSA process, an assessment is planned to determine, on a continuous basis, the regulatory capital requirements and the requirements provided for in the Solvency II Directive applicable to the technical provisions.

This assessment, which is one of the activities in the ORSA process, named "continuous monitoring", consists of the production of a monthly report containing the estimated Solvency II position, adjusted by the effect of capital optimisation measures in progress or being studied.

2.4. Internal control system

2.4.1. Information on the internal control system

The Risk Management Division is responsible for managing operational risk and the Company's internal control system.

In turn, the Audit Division is responsible for assessing the adequacy of the system of operational risk management and the internal control system, in order to report fragilities / deficiencies detected and recommendations for their improvement.

Management of the Company's operational risk and its internal control is performed according to the following flow diagram:

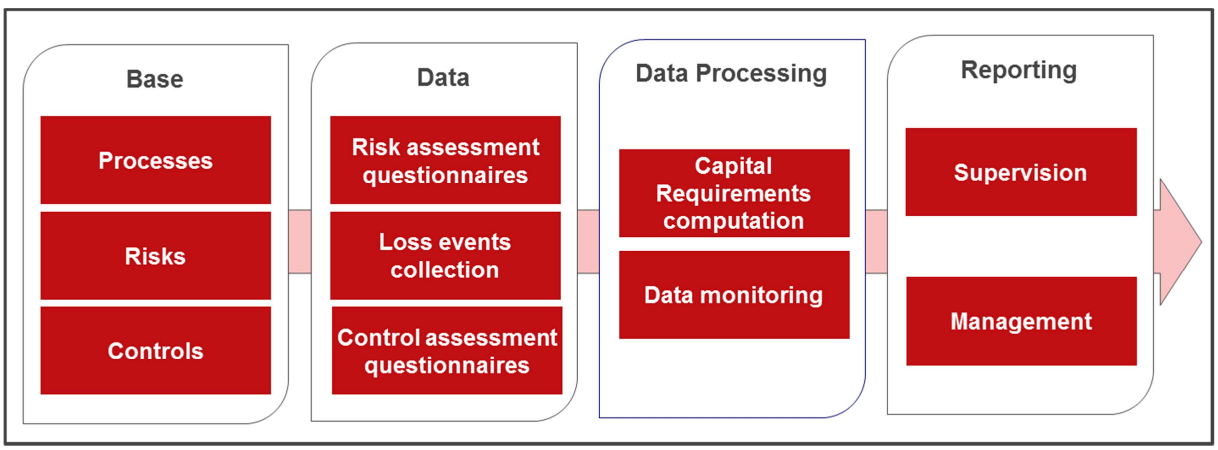


Figure 3 – Flow diagram of operational risk and internal control management

a) <u>Business processes</u>

All the Company's business processes have been documented, considering a pre-defined "tree" of processes containing three levels: macroprocess; process; sub-process.

Documentation and updating of the Company's business processes are a necessary condition for the aforementioned systems.

b) Risks and controls

For these processes, the most significant **risks** to which they are exposed were identified (on the basis of a pre-defined risk matrix) and also the existing **controls** which mitigate these.

Accordingly, the Company **controls** were **documented and characterised**, while being associated to the risks previously identified.

In documenting the controls, a range of items needed in order to characterise them were defined, namely: the category, nature, type, frequency and evidence of the control.

c) Assessment

To assess the Company's operational risk, quantitative information is collected on the risks previously identified by means of answers to **Risk Assessment Questionnaires** and the recording of events and subsequent losses resulting from the risks associated with the processes.

The **assessment of the internal control system** is supported by a process of own assessment of the controls. This process of information collection occurs by means of answers to **Controls Assessment Questionnaires** which aim to assess the effectiveness of the controls by those responsible for their execution.

It is important to mention that the various Company Structural Bodies are responsible for enhancing the operational risk and internal control management process, in order to ensure that the management and control of operations is performed in a sound and prudent manner. They are also responsible for ensuring that documentation on the business processes, respective risks and control activities exists and is up-to-date.

Another aim of this operational risk and internal control management process is to provide and disseminate, throughout the Company, a culture of risk management, thereby strengthening the protection of the Company' stakeholders, in particular, the policy holders and beneficiaries.

2.4.2. Information on activities performed by the compliance function

The Compliance Office (GCO) is a body of staff with functional independence which performs key functions within the system of Risk Management and Internal Control, and which reports directly to the Executive Committee.

The GCO's main mission is to contribute so that the management bodies, management structure and staff of the Group Companies comply with the legislation, rules, codes and standards in force, both externally and internally, in order to avoid situations which may harm the companies' image and their reputation in the market, as well as potential financial losses.

The Company's compliance policy is duly formalised in the "Compliance Manual". This document, which is disseminated to all employees and is available on the intranet, defines the compliance strategy, the mission and structure of the body responsible for implementation of the compliance function, the work and control processes associated with the performance of the compliance function, and the rules of ethical and professional conduct which, reflecting the values which govern the actions of the Fidelidade group, lead to the behaviour which is expected of and mandatory for all employees.

2.5. Internal Audit Function

As stated above, the internal audit function is given to the Audit Division (DAU), which is a first-line body in the corporate structure, reporting directly to the Company's Executive Committee. Its mission is to guarantee assessment and monitoring of the Company's risk management and internal control systems, and to confirm compliance with the internal rules and the legislation in force. Its general purpose, therefore, is to contribute to creating value and improving circuits and procedures, seeking to increase the effectiveness and efficiency of operations, the safeguarding of assets, trust in the financial reporting and compliance with laws and regulations.

The rules and principles that the internal audit function must obey are established in the Internal Audit Regulation.

This Regulation sets out the competence and scope of intervention of the internal audit function, which is performed by the Audit Division within the scope of the Fidelidade Group's insurance undertakings.

To perform this function, the Audit Division has access to all the structural bodies, and to all the documentation, and the management bodies, top-level managers and staff of the various insurance companies must cooperate with the Audit Division, providing it with all the information they have and that is requested of them.

The internal auditors, for their part and in the performance of their functions, must follow the deontological principles set out in the Regulation, in particular those of independence, confidentiality, objectivity and diligence. The Regulation also rules to report situations of conflict of interest.

Regarding the audit process, there are definitions of the types of internal audit, modes of intervention (in person and at a distance) and the scope of auditing activities (global or sectorial) which must be included in the annual auditing plan to be submitted for the appreciation and approval of the Executive Committee.

When performing the internal audits, the auditors must observe the procedures established in the Regulation regarding the naming of the team, the establishment of the audit schedule and the preparation and conducting of the audit.

In terms of reporting, principles are set out which must govern the drawing up of the reports, their minimum content, the persons to whom they are addressed and the type of reports (preliminary report and final report).

Lastly, there are provisions on internal audit's monitoring of the application of any improvement actions proposed, with the production of follow-up reports whenever justified.

2.6. Actuarial Function

As stated above, the actuarial function is given to the Risk Management Division, which is a first-line body in the corporate structure, reporting directly to the Company's Executive Committee. Given the proximity between the risk management function and the actuarial function, the mission of this structural body is based, on the one hand, on defining, implementing and maintaining a risk management system and, on the other hand, on ensuring actuarial assessment of the Company's portfolios.

Considering the nature, complexity and size of the Company's portfolios, the actuarial function is sub-divided into the life actuarial function and the non-life and health actuarial function.

The actuarial function coordinates and monitors the calculation of the **accounting technical provisions**, and, for such purpose, assesses both the methodologies applied and the amounts set out in the financial statements.

In the **life segment**, considering that most of the technical provisions are calculated automatically by policy management systems, configured in line with the technical notes of the products and with the ASF rules, tests are conducted monthly to assess the adequacy of the respective technical provisions.

When calculating the technical provisions of the **non-life and health segments**, the ASF rules are observed, namely regarding the identification of the provisions to be set up and the calculation rules to be observed in each of the technical provisions.

The actuarial function involves the calculation of the **technical provisions for solvency purposes**, with calculation of the best estimate and risk margin.

The calculations are made as part of the reporting to the ASF, evolution over time is analysed and comparisons are made with the statutory reporting amounts, and any differences are identified and documented.

The actuarial function reports regularly to the Executive Committee on the results obtained from monitoring the provisions levels.

The Life and Non-Life and Health actuarial functions produce annual actuarial reports related to the annual period being analysed.

The information used by the actuarial function is subject to validation processes which include, among others, comparisons with previous positions and with the statutory reporting amounts, and any divergences are identified and justified, and, if necessary, corrected.

The actuarial function monitors the prospective valuation of the technical provisions for solvency purposes, assessing its reasonableness, taking into account the strategic objectives assumed by the Company, the factors for converting the valuation of the technical provisions in the financial statements to their valuation for solvency purposes and the application of measures, either regulatory (transitional deduction from technical provisions) or management measures (changes in the contract boundaries of group risk life insurance contracts and changes in the characteristics and guarantees of new products sold in the life savings segment).

The Company has approved a policy for designing and approving new products and for reformulating existing ones, which sets out the actuarial function's articulation with the business and marketing areas which are responsible for proposals for new products and respective specifications. The same applies to changes to existing products, where the actuarial function intervenes by giving its opinion on the proposed changes.

The actuarial function provides support to the reinsurance area in the negotiation of reinsurance treaties, providing information with risk and profitability metrics and sensitivity analyses and portfolio statistics.

The actuarial function monitors the evolution of the reinsurance treaties, including their conditions in the actuarial analyses conducted. The adequacy of the treaties for the Company's liabilities is subject to actuarial analysis.

2.7. Outsourcing

The Company's Executive Committee approved the Outsourcing Policy within the framework of the requirements set out in Article 64(4) of the RJASR, with the aim of establishing a set of principles applicable to the outsourcing of critical or important functions or activities.

In line with the Outsourcing Policy, the scope of application of which is singular, covering the various insurance companies within the Longrun SGPS, S.A. universe, general principles are established which are applicable to the outsourcing of critical or important functions or activities, and the main process activities leading to their contracting either from within the group or outside of it: (1) Identification and documentation of the critical or important functions or activities, (2) Selection of the service provider; (3) Contract formalization; (4) Notification to the ASF.

Insofar as the Companies maintain full responsibility for any functions or activities which may be outsourced, definitions are provided of the main aspects to be implemented related with the monitoring inherent to the outsourced function or activity.

The responsibilities of each of the participants are identified, both in the outsourcing process and in the subsequent monitoring of the service provider.

With the approval of the Outsourcing Policy, the principles and process applicable to new outsourcing of critical or important functions or activities are established.

Regarding the application of the Outsourcing Policy, within the Fidelidade Group a range of outsourced functions or activities considered critical or important have been identified, related with key functions, investments, accounting, information technology, claims and call centres. The service providers of these functions or activities are mainly located in Portugal.

2.8. Any other information

There is no other material information relating to the Company's system of governance.

3. Risk profile

Risk management is an integral part of the Company's daily activities, and an integrated approach is applied in order to ensure the Company's strategic objectives (clients' interests, financial strength and efficiency of processes) are maintained.

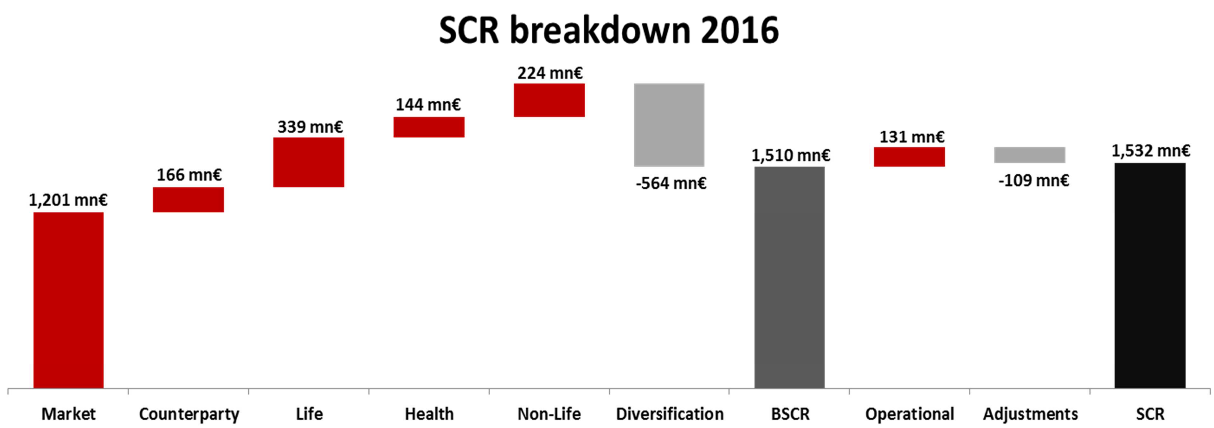
On the other hand, this integrated approach ensures value creation via the identification of adequate balance between risk and return, simultaneously guaranteeing the Company's obligations to its stakeholders.

Risk management assists the Company in identifying, assessing, managing and monitoring risks, in order to ensure that adequate and immediate measures are adopted in the event of material changes in the Company's risk profile.

Accordingly, to outline its risk profile, the Company identifies the various risks to which it is exposed and then assesses these.

The risk assessment is based on a standard formula used to calculate the solvency capital requirement. For other risks, not included in that formula, the Company has opted to use a qualitative analysis to classify the foreseeable impact on its capital needs.

Hence, the calculation of the Company's solvency capital requirement (SCR) for 2016 was as follows:



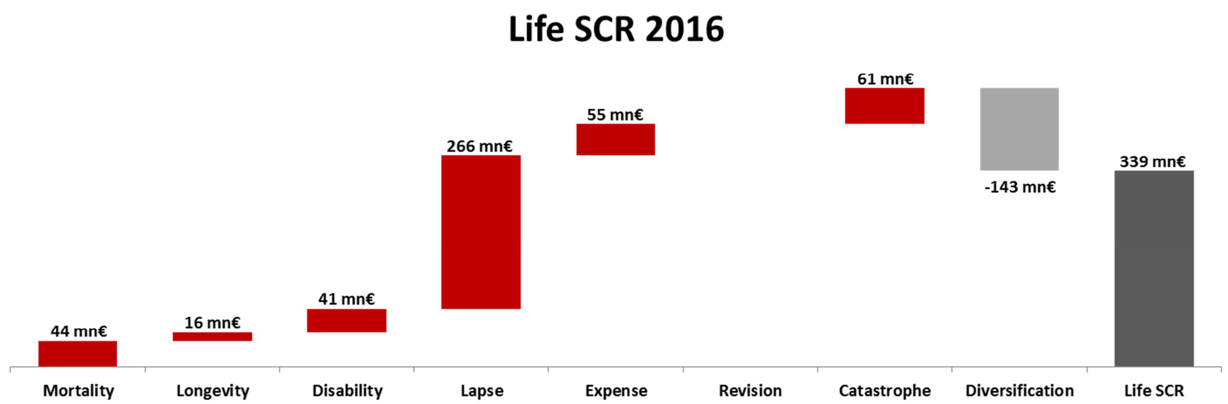
The market risk is clearly prominent in this requirement, followed by the Life and Non-Life underwriting risks, which are much lower.

These risks will now be analysed, in particular with regard to their nature and impact on the Company.

3.1. Underwriting risks

3.1.1. Life underwriting risk

The life underwriting risk is the second most significant for the company.



Analysing the sub-modules that make up this risk, the **lapse risk** is the most important within the life underwriting risk module.

Its importance results from the impact of temporary annual renewable contracts linked to mortgages which the Company is not entitled to cancel or change the prices of, so that the contract boundaries considered for the purpose of assessing the technical provisions are, for these contracts, the maturity of the mortgage associated with each of them.

The second most significant sub-module, although carrying much less weight than the lapse risk, is the **catastrophe risk**. This risk is significantly related with the mortality risk which results from the significant weight in sums insured associated with life risk contracts.

Following this is the **expense risk**, which basically results from the fact that, when calculating the capital requirements of this risk sub-module, the Company considered as expenses, for the total amount of the Life liabilities, as per the understanding of the ASF, the commissions to be paid for the intermediation activity of brokers, within the scope of Article 31 of Commission Delegated Regulation (EU) 2015/35, of 10 October 2014, and, consequently, these were subject to the shocks applicable to this risk.

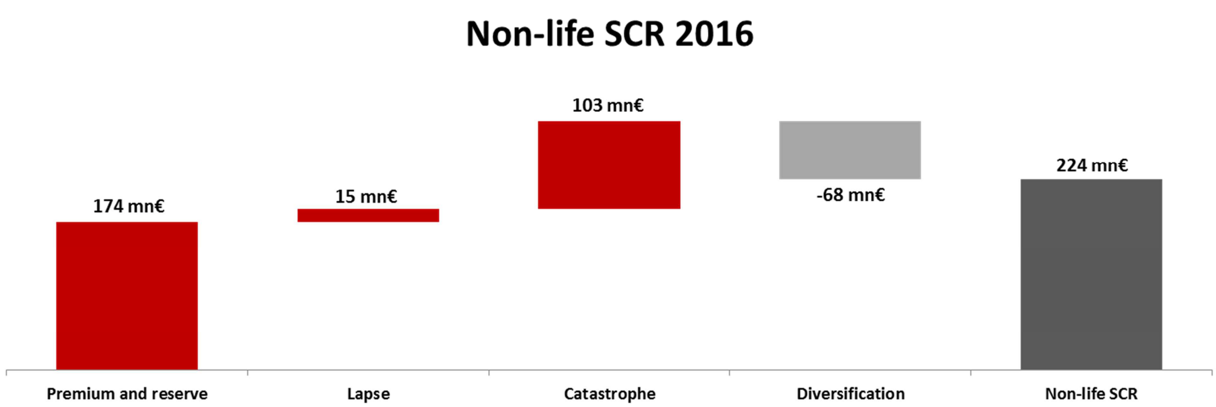
With similar values, not far from the weight of the two previous risks (catastrophe and expense risks), we have the **mortality and disability risks**, both with their origins in Life Risk insurance contracts.

Lastly, there is the **longevity risk**, the significance of which is relatively low in this risk module, since the Companies' Annuities portfolio is small.

The **revision risk** is zero, since there is no exposure to this risk in the Portuguese market.

3.1.2. Non-life underwriting risk

The non-life underwriting risk is the third most significant for the company.



Within this sub-module, the **premium and reserve risk** is the most important.

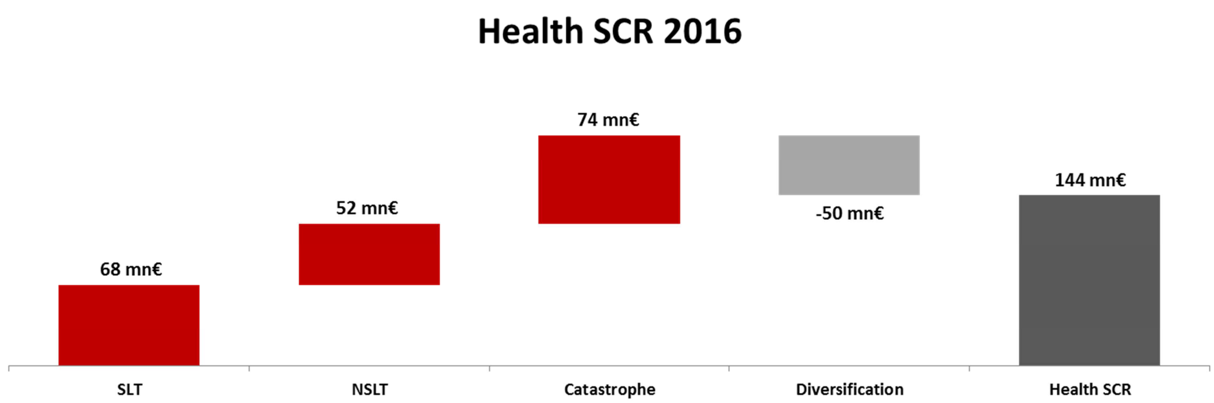
The weight of this risk basically results from the volume of premiums and reserves relating to motor insurance contracts (third party liability and other coverages), fire and other damage insurance and general third-party liability insurance.

With a much lower figure, there is the **catastrophe risk**, which basically comes from the significant amount of sums insured with seismic phenomena coverage. However, in the event of a seismic phenomenon, because of the existing reinsurance contracts only a part of the liability will be assumed by the Company. That is why this risk is not considered to be significant. It is also important to state that the mitigating effect of these reinsurance contracts is considered in the counterparty risk module.

Regarding the **lapse risk**, its weight is particularly insignificant, given that the insurance contracts have a contractual boundary up to the next renewal date and the operating margin is low.

3.1.3. Health underwriting risk

In terms of weight, this is the third risk in the hierarchy of underwriting risk modules.



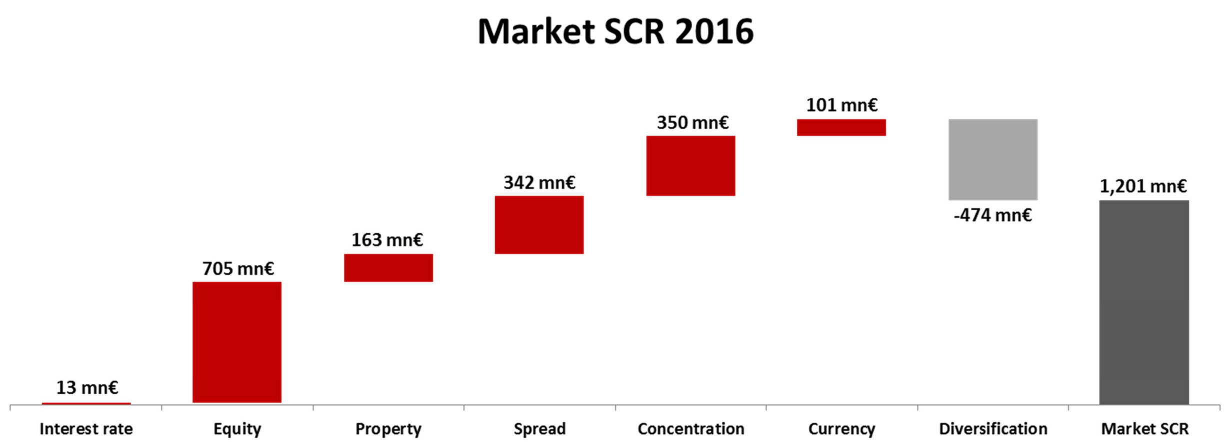
The **catastrophe risk** is the most significant sub-module, mainly as a result of the concentration of accidents, given the sums insured involved.

The **SLT** (similar to life techniques) **module of health** is basically composed of longevity risk resulting from pensions and permanent assistance expenses in the workers' compensation line of business.

With a lower figure is the **NSLT** (not similar to life techniques) **module of health**, the origins of which are in the premiums and provisions risk from the workers' compensation and personal accidents lines of business, given that health insurance is reinsured with Multicare.

3.2. Market risk

Market risk is the company's most significant risk, and is clearly above the other risk modules.



Within this module, the **equity risk** is the highest.

Reflecting the investment strategy that has been followed, the Company has increased its exposure to equity markets, although the participations that make up over half of this risk are two property investment vehicles which, in line with the specification of the standard formula, affect the equity risk, given that the look-through approach is not possible, for the moment, for investment vehicles. It can be highlighted that instruments considered alternative investments, such as commodities, funds, private equity, etc., are of very low significance in the whole portfolio.

The next most important risk in this module is the **concentration risk**. The greatest exposure in this risk is to the Fosun International Limited economic group, and the global amount exposed is strongly influenced by direct participations of Fidelidade in insurers outside the Eurozone (Angola, Cape Verde and Macau) and in Luz Saúde (which, in the understanding of the ASF, is not considered an ancillary services company).

With a very similar figure, we have the **spread risk**, which is a result of the Company's high exposure to financial instruments (bonds and term deposits) with a low rating, namely, exposure to Portuguese entities whose credit quality has been downgraded as a result of the financial markets context in recent years.

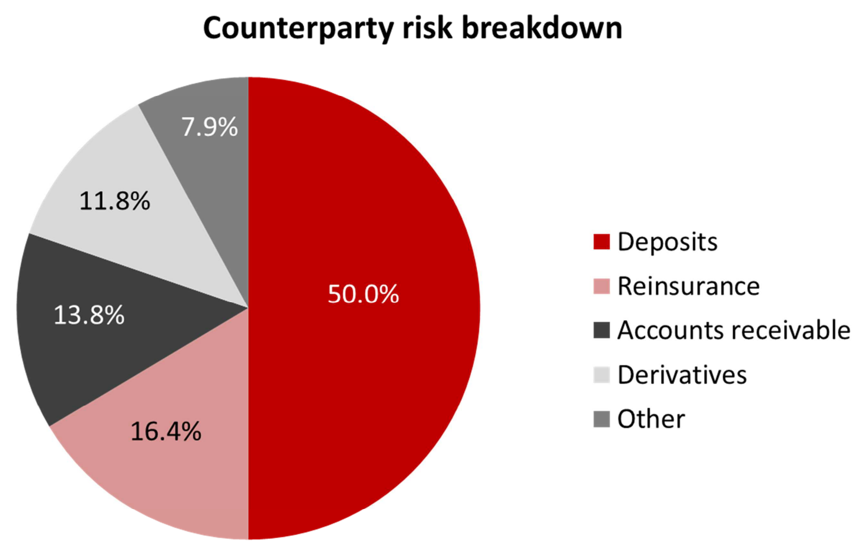
With clearly lower values are the **property and currency risks**. The value of the currency risk reflects the hedging for the most significant exposures to foreign currency.

Lastly, and with a particularly insignificant value, is the **interest rate risk**, as a result of the Asset and Liability management monitoring of the duration gap.

3.3. Counterparty Default risk

The **counterparty default risk** module is the fourth highest of all the risks assessed by the company.

The breakdown of this risk by counterparty type is as follows:



In the deposits component, approximately half are from sight deposits with Caixa Geral de Depósitos.

3.4. Liquidity risk

This risk is managed in the Company so that there is always capacity to meet its obligations and liabilities.

Accordingly, the Company prepares a monthly ALM analysis of the Assets and Liabilities.

The analyses conducted cover the interest rate gap, considering the yield to maturity and modified duration of the liabilities and the respective assets, including the convexity effect, and short and long-term cash flow matching.

This analysis also includes a comparison between the cash flow matching and liquidity-generating capacity of assets without maturity, namely shares, funds and property.

An analysis of the liquidity-generating needs is carried out following the ALM process. Based on the ALM report, tests are conducted, namely, of the adequacy of the portfolios' size in relation to the known liabilities, considering the flows of liabilities maturities forecast for the month in progress. The result of this diagnosis is the application or generation of liquidity, by identifying portfolios and amounts of liquidity to be generated or applied which translates into asset sale or purchase need recommendations.

Given the above, the Company considers that there is adequate mitigation of this risk, which allows it to conclude that this risk is low.

Regarding liquidity risk, "expected profit included in future premiums" (EPIFP) is considered to be the current expected value of future cash flows resulting from the inclusion in the technical provisions of premiums relating to existing insurance and reinsurance contracts, which should be received in the future, but which may not be received for some reason other than the occurrence of insured events, regardless of the legal or contractual rights of the policy holder to terminate the policy.

The EPIFP, at 31 December 2016, is:

	Amount in thousand euros
Expected profit included in future premiums	**654,614**

3.5. Operational risk

This is the risk of losses resulting either from the inadequacy or failure of internal procedures, persons, or systems or from the occurrence of external events.

This is the risk module with least weight of all the risks assessed by the Company.

In its management of operational risk and internal control, the Company identifies, within its processes, the most significant operational risks to which these are exposed (based on a pre-defined risks matrix), and it documents the controls which exist to mitigate these.

To assess the Company's operational risk, quantitative information is collected on the risks previously identified and an assessment is carried out of the internal control system, supported by a process of own assessment of the control activities documented.

3.6. Other material risks

As part of the ORSA process risks are identified which do not fall within the standard formula.

The following risks are recognised by the Company as possible material risks:

3.6.1. Reputational risk

Besides the processes for managing this risk, based on the existence of communication and image and complaints management functions, on the adequate planning and monitoring of the Company's human resources and on the Corporate Social Responsibility Programme, the Company manages its public image by, whenever necessary, issuing press releases and appearing in the media and in publications of interest, which allows it to effectively manage potential reputational effects.

The Company, therefore, considers that there is adequate mitigation of this risk, and this risk is classified as low for that reason.

3.6.2. Strategic risk

The Company's strategy is attained by means of a chain of responsibilities beginning with the Executive Committee, which defines the high level strategic objectives (this process is accommodated within a governance model which involves the Board of Directors, the Investments Committee and the Advisory Board), passing to the first line managers of each Division, who are responsible for outlining plans to achieve those objectives, and ending with the Company's employees, who seek to achieve the proposed objectives on a daily basis within the scope of their functions

The strategic decisions taken by the Company are based on well-defined processes of approval and of implementation and monitoring, which have proved to be both effective in terms of implementing the strategy and adequate as a reaction to external factors which may affect the Company's activity. This risk is therefore considered to be low.

3.6.3. Business (continuity) risk

Like any other insurance undertaking operating in Portugal, the Company may be exposed to potential market events. However, this risk is classified as low, given the Company's strong position in the Portuguese insurance market, which has also been increasing.

When analysing this risk, the possibility of the Company suffering losses as a consequence of centralising the development of its business in a given sector, geographical area or specific clients was also considered.

The Company's **business concentration risk** is considered low, given the high level of diversification in the type of products sold and the sales channels used and in the Company's clients. However, it should be noted that there is a high level of concentration geographically speaking, with most of the business being in Portugal. Nevertheless, the Company is in the process of expanding its business internationally, in particular in markets outside Europe where it is already carrying on its business.

3.6.4. Legal risk

Although this risk is included in the definition of operational risk, the decision was made to analyse it separately, given both its importance and the method of assessment / measurement set out in the standard formula for operational risk, which does not allow for it to be highlighted.

The Company is constantly adapting to the rules in force (at both national and international level) and to the impacts that these have on its business. However, there is a risk, which is considered medium, resulting from potential regulatory changes.

Regarding fiscal changes to which the Company may become subject, we may highlight those related with deferred taxes, namely in terms of the tax rate and/or period for reporting tax losses.

Linked to this risk there is also the risk of possible changes to the level of tax benefits related with certain investment products. If these changes occur, some products may lose the competitive advantage associated with them, which leads to a risk related to sales of these products. Although this situation has already occurred in the past with some products, without any significant impact for the Company, this risk must still be considered.

Regarding legislation applicable to the insurance business, the Company has implemented the measures necessary for the application of the Solvency II Directive, transposed into the national legal order in

September 2015. However, given the legal uncertainties which still remain, this is considered to be a relevant risk, not only for the Company, but for the whole insurance sector.

It is also worth noting that, despite no significant impact being envisaged, the Company is subject to possible changes to various European rules which are under consultation, such as IMD2, the Insurance Mediation Directive, MiFID 2, the Markets in Financial Instruments Directive, and also regulation on packaged retail and insurance-based investment products (PRIIPs).

In conclusion, and considering all the points covered above, the legal risk associated with the Company is considered medium, due to the impacts which potential changes in the tax legislation would have and due to uncertainties related with the application of the Solvency II regime.

3.7. Mitigation measures

Various risk mitigation techniques are in use, or are being studied, for a set of risks to which the Company is exposed. The following may be highlighted:

Market Risk - Currency

Using futures and forwards contracts the Company hedges the currency exposure of its portfolio assets:

- the exposure to assets denominated in American Dollars (USD) and in Hong Kong Dollars (HKD), given the high correlation between USD and HKD, is mitigated by using futures contracts in USD;
- the exposure to assets denominated in Pounds Sterling (GBP) is mitigated by using futures contracts in GBP;
- the exposure to assets denominated in Yens (JPY) is mitigated by using forwards in JPY.

The futures contracts in question have a duration of three months, and the Company intends to replace them with similar contracts, at the end of that period.

The effect of this mitigation on the calculation of the capital requirement associated with currency risk is also reflected in the counterparty default risk module, considering exposure to the Chicago Mercantile Exchange.

Underwriting risk - life

Regarding the lapse risk associated with the life segment, the Company is studying ways to mitigate this risk given its relevance fundamentally in relation to temporary annual renewable (TAR) group life insurance contracts in which the contractual boundary is linked to the maturity of the underlying mortgages.

The method being studied may involve reinsuring part of the lapse risk, considering the objective of reducing it to the optimal point at which selection of other lapse risk scenarios is avoided.

3.8. Any other information

3.8.1. Adjustment for the loss-absorbing capacity of deferred taxes

In order to guarantee compliance with all the requirements laid down by the ASF, the Company has a project in progress for recognition of adjustment for the loss-absorbing capacity of deferred taxes.

Accordingly, regarding 2016, the Company only recognised the adjustment relating to the decrease in deferred tax liabilities.

However, with the conclusion of the aforementioned project, it is predicted that in the next years this adjustment will be greater than that which is now being presented, with the subsequent increase in the solvency capital requirement coverage ratio.

3.8.2. Risk sensitivity

The sensitivity of the solvency ratio, at 31 December 2016, to the main risks to which the Company is exposed, expressed as an absolute impact on that ratio (in percentage points), is presented in the table below:

Risk Type	Effect on:		
	Eligible Funds	Capital Requirement	Ratio
Value of equity-20%	-27	+9	-20
Value of property -10%	-3	+1	-2
Spread +100bps	-14	+1	-13

Explanation of the Solvency II sensitivity analyses:

Risk	Scenario
Equity	Impact of a 20% decrease in the value of equity, including equity funds.
Property	Impact of a 10% decrease in the value of property, including Real Estate Funds.
Spread	Impact of a 100 bps (basis points) increase in debt securities.

4. Valuation for solvency purposes

In this chapter we present information on the valuation of the assets, technical provisions and other liabilities for solvency purposes and compare that valuation with that used in the financial statements.

The following paragraphs describe the bases, methods and main assumptions used for the valuation for solvency purposes, which breaks down as follows:

Amounts in thousand euros

		Solvency II	Financial statements	Difference[1]
	Assets			
4.1	**Total Assets**	**14,365,996**	**14,730,944**	**-364,948**
	Liabilities			
4.2	Technical Provisions	11,377,471	12,123,180	-745,709
4.3	Other liabilities	974,898	767,648	207,250
	Total Liabilities	**12,352,369**	**12,890,828**	**-538,459**
	Excess Assets over Liabilities	**2,013,627**	**1,840,116**	**173,511**

[1] Valuation for solvency purposes less financial statements valuation.

4.1. Assets

The valuation of the assets for solvency purposes and a comparison with that used in the financial statements is presented in this report, segmented into:

- Financial assets;
- Real estate assets;
- Other assets.

This chapter also includes the amounts recoverable from reinsurance contracts and special purpose vehicles.

The following table summarises the comparison, which is discussed further in the sub-chapters below:

Amounts in thousand euros

Assets	Solvency II	Financial statements	Difference[2]
Financial assets	12,052,696	12,293,565	-240,869
Real estate assets	661,394	661,394	0
Other assets	1,476,202	1,528,181	-51,979
Reinsurance recoverables	175,704	247,804	-72,100
TOTAL	**14,365,996**	**14,730,944**	**-364,948**

Table 1 – Comparison of the valuation of assets for solvency purposes and their valuation in the financial statements at 31-12-2016

[2] Valuation for solvency purposes less financial statements valuation.

4.1.1. Financial assets

The following table presents the valuation of the financial assets for solvency purposes, by class of asset.

Amounts in thousand euros

Asset[3]	Solvency II
Holdings in related undertakings, including participations	1,646,804
Equities — listed	1,207,406
Equities — unlisted	2,649
Government bonds	5,429,625
Corporate bonds	2,142,297
Structured notes	100,215
Collateralised securities	1,462
Collective investment undertakings	108,509
Derivatives	30,539
Deposits other than cash equivalents	870,213
Other investments	0
Assets held for index-linked and unit-linked contracts	512,977
TOTAL	**12,052,696**

Table 2 – Valuation of financial assets for solvency purposes at 31-12-2016

For solvency purposes, financial assets are valued in line with the following bases, methods and assumptions.

Financial assets are registered at fair value, which corresponds to the amount for which a financial asset could be sold or a liability settled between independent, knowledgeable parties interested in concluding the transaction in normal market conditions (exit price).

Within the scope of the Solvency II regime, the following categories are used to determine the fair value of financial instruments:

[3] Information contained in QRT S.02.01.01, relating to 31/12/2016.

QMP – Quoted market price in active markets for the same assets

In this category, the fair value is determined considering the quoted market price in the main active market.

A financial instrument is considered to be quoted in an active market if:

- The quoted market prices are regularly and immediately available;
- The prices represent regular recent transactions made in market conditions.

In the case of a share, this corresponds to the closing price on the buyer's side at the close of the stock exchange session. In the case of instruments listed in several markets the market considered is that with the highest level of liquidity. The market with the highest level of liquidity is determined by comparing the average volume of sales for the last 3 months in the different markets where the security is admitted to listing. This valuation does not consider securities listed in markets with different legal forms (for example, ordinary shares versus American Depositary Receipt (ADR) and securities which are listed on other markets in currencies different to those of the securities held in portfolio).

In the case of a bond, this corresponds to the bid price obtained in the selected provider. The criteria for selecting the provider consider the use of prices which are directly observable in the price formation and the regularity of the observations, giving preference, in decreasing order, to consensus prices, BGN (Bloomberg Generic) or BVL (Bloomberg Valuation Service) prices with scoring above 5 and which imply the use of direct observations. For unlisted assets, in the absence of consensus prices composed of direct observations, the valuation is obtained from prices reported through OTC transactions platforms, such as TRACE (Trade Reporting and Compliance Engine) when these prices are available.

In the case of units of participation, the Net Asset Value (NAV) disclosed for the Fund is used. The NAV is mainly ascertained from the relevant regulator (for example, the CMVM). When the NAV is not registered with the regulator, it is used the information disclosed by the managing company or by the agent hired by the managing company in line with the disclosure cycles contracted.

QMPS – Quoted market price in active markets for similar assets

In this category, fair value is determined by considering the prices obtained from the market maker. This valuation is constructed, in the absence of transactions, from similar assets. In defining similar assets, issues preferably from the same issuer are considered or from an issuer with a similar credit quality for similar residual maturities.

The Company's portfolio assets in this situation are essentially private placements.

AVM – Alternative valuation methods

The Company does not make valuations from financial models.

However, the Company has assets in its portfolio classified, for the purpose of valuation, in this category:

(a) Assets with evidence of impairment, recognised at zero value or immaterial;

(b) Monetary assets (cash and deposits) are valued at face value;

(c) Assets valued using BVL (*Bloomberg Valuation Service*) prices with scoring lower than or equal to 5, but not based on direct observations.

AEM – Adjusted equity method

Assets considered in this category are initially recognised at cost and are periodically subjected to revaluation in line with the financial statements disclosure. This valuation is made from the accounting value perspective, with the adjustments necessary to align it with the Solvency II criteria (for example, elimination of goodwill and non-tradable intangible assets).

The valuation, considering the financial statements, also takes into account eventual qualifications or emphasis of matters in the auditor's report, also incorporating any relevant fact occurring after the balance sheet date which the Company is aware of.

IEM – IFRS equity methods

Not currently applicable.

The following table presents a comparison of the valuation of financial assets for solvency purposes and their valuation in the financial statements.

Amounts in thousand euros

Assets[4]	Solvency II	Financial statements	Difference[5]
Holdings in related undertakings, including participations	1,646,804	1,834,664	-187,860
Equities — listed	1,207,406	1,207,406	0
Equities — unlisted	2,649	55,658	-53,009
Government bonds	5,429,625	5,429,625	0
Corporate bonds	2,142,297	2,142,297	0
Structured notes	100,215	100,215	0
Collateralised securities	1,462	1,462	0
Collective investment undertakings	108,509	108,509	0
Derivatives	30,539	30,539	0
Deposits other than cash equivalents	870,213	870,213	0
Other investments	0	0	0
Assets held for index-linked and unit-linked contracts	512,977	512,977	0
TOTAL	**12,052,696**	**12,293,565**	**-240,869**

Table 3 – Comparison of the valuation of financial assets for solvency purposes and their valuation in the financial statements at 31-12-2016

The differences, by class of asset, are:

- Holdings in related undertakings, including participations.

  This results, on the one hand, from the valuation, for solvency purposes, of unlisted subsidiaries using the Adjusted Equity Method (AEM), (net, the total value of these holdings for solvency purposes increased by m€ 104,608).

[4] Information contained in QRT S.02.01.01, relating to 31-12-2016.
[5] Valuation for solvency purposes less valuation in the financial statements.

On the other hand, it is due to the recognition of the market value of Luz Saúde which is registered in the financial statements at acquisition cost (the value of this participation for solvency purposes fell by m€ 292,468).

- Shares — unlisted

  This results from the valuation, for solvency purposes, of unlisted securities using the Adjusted Equity Method (AEM).

4.1.2. Real estate assets

The following table presents the valuation of real estate assets for solvency purposes, by class of asset.

Amounts in thousand euros

Assets[6]	Solvency II
Property, plant and equipment held for own use	100,620
Property (other than for own use)	293,879
Collective investment undertakings	266,895
TOTAL	**661,394**

Table 4 – Valuation of real estate assets for solvency purposes at 31-12-2016

For solvency purposes, real estate assets are valued in line with the following bases, methods and assumptions.

The Company's real estate assets are accounted for at their Market Value, which is the price for which the property could be sold, at the valuation date, in a private agreement between an independent and interested vendor and purchaser, taking into account three conditions: the property is put up for sale on the market, the conditions of sale permit a regular sale; and the period for negotiating the sale is normal, considering the nature of the property.

[6] Information contained in QRT S.02.01.01, relating to 31-12-2016.

The Company determines the Property Value (i.e. the Market Value) in this way, by means of valuations performed by independent experts at least every two years, taking into account the following valuation methods:

a. **Comparative Method**: consists of valuing the property by comparison, based on transactions and/or real purchase offers for land and buildings which have identical physical and functional characteristics, and which are located in the same area of the real estate market.

   To use this method there must be a representative and credible sample in terms of transactions and/or real purchase offers which are not out of step regarding the time of valuation (homogeneity of the sample).

b. **Cost Method**: consists of determining the value of the building based on the sum of the market value of the land and all costs necessary for the construction of a building with the same physical and functional characteristics.

   When determining the final value of the building the depreciation rate must be considered on the basis of its age, state of conservation and estimated useful life, plus the required profit margins.

c. **Income Method**: consists of calculating the value of the property based on the ratio between the effective annual rent or that foreseeably produced, net of conservation and maintenance costs, and a capitalisation rate appropriate to its characteristics and the level of investment risk, given the general conditions of the real estate market at the time of valuation.

d. **Future Rentals Updating Method**: consists of calculating the value of the property from the sum of the effective cash-flows or those foreseeably produced and its residual value at the end of the planned investment period or of its useful life, updated at a market rate for applications with a similar risk profile.

   The use of this methodology to calculate the Market Value is directly related to analysis of real estate investments, and is not, therefore, generally applied to the Company's property in the same way the methods mentioned above are.

Thus, the Market Value of buildings for own use or for income is usually calculated by applying weighting factors to the result obtained either from the Comparative Method or from the Income Method, taking into consideration the property establishment rules of the property in question.

In the case of land or buildings of which the Market Value is estimated to be greater than seven and a half million euros, two valuations are performed by different experts, and the lower value prevails.

Assets belonging to Real Estate Investment Funds are valued annually, in line with the provisions of CMVM Regulation No. 08/2002 and Law No. 16/2015, of 24 February. For these valuations, two independent, CMVM-registered experts are used, who produce reports containing a range of information and minimum items.

As previously stated, real estate owned by the Insurer, or its subsidiaries, is valued every two years. Besides this, it is also valued whenever there are substantial changes in real estate market conditions or when the assumptions underlying the previous valuation have changed significantly. In the case of sales, the valuation must always have been made in the last six months. Expert Asset Valuers registered with the CMVM are also used, and whenever the asset's value is over € 7,500,000.00 valuations are sought from two experts.

The following table presents a comparison of the valuation of real estate assets for solvency purposes and their valuation in the financial statements.

Amounts in thousand euros

Assets[7]	Solvency II	Financial statements	Difference[8]
Property, plant and equipment held for own use	100,620	100,620	0
Property (other than for own use)	293,879	293,879	0
Collective investment undertakings	266,895	266,895	0
TOTAL	**661,394**	**661,394**	**0**

Table 5 – Comparison of real estate assets for solvency purposes and their valuation in the financial statements at 31-12-2016

No differences were found since all classes of real estate assets are valued in the financial statements at fair value.

[7] Information contained in QRT S.02.01.01, relating to 31-12-2016.
[8] Valuation for solvency purposes less valuation in the financial statements.

4.1.3. Other Assets

The following table presents the valuation of other assets for solvency purposes, by class of asset.

Amounts in thousand euros

Assets[9]	Solvency II
Goodwill	0
Deferred acquisition costs	0
Intangible assets	0
Deferred tax assets	438,166
Pension benefit surplus	8,531
Loans and mortgages to individuals	180
Other loans and mortgages	30,681
Loans on policies	1,318
Deposits to cedants	1,455
Insurance and intermediaries receivables	115,926
Reinsurance recoverables	20,506
Receivables (trade, not insurance)	251,672
Own shares (held directly)	149
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
Cash and cash equivalents	586,377
Any other assets, not elsewhere shown	21,241
TOTAL	**1,476,202**

Table 6 – Valuation of other assets for solvency purposes at 31-12-2016

Other assets are generally valued in the financial statements at fair value. Specific situations where that is not the case are explained in the following table, which presents a comparison of the valuation of other assets for solvency purposes and their valuation in the financial statements.

[9] Information contained in QRT S.02.01.01, relating to 31-12-2016.

Amounts in thousand euros

Assets[10]	Solvency II	Financial statements	Difference[11]
Goodwill	0	0	0
Deferred acquisition costs	0	48,705	-48,705
Intangible assets	0	15,142	-15,142
Deferred tax assets	438,166	403,872	34,294
Pension benefit surplus	8,531	8,531	0
Loans and mortgages to individuals	180	180	0
Other loans and mortgages	30,681	30,681	0
Loans on policies	1,318	1,318	0
Deposits to cedants	1,455	1,455	0
Insurance and intermediaries receivables	115,926	138,352	-22,426
Reinsurance recoverables	20,506	20,506	0
Receivables (trade, not insurance)	251,672	251,672	0
Own shares (held directly)	149	149	0
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0	0
Cash and cash equivalents	586,377	586,377	0
Any other assets, not elsewhere shown	21,241	21,241	0
TOTAL	**1,476,202**	**1,528,181**	**-51,979**

Table 7 – Comparison of the valuation of other assets for solvency purposes and their valuation in the financial statements at 31-12-2016

[10] Information contained in QRT S.02.01.01, relating to 31-12-2016.
[11] Valuation for solvency purposes less valuation in the financial statements.

The differences, by class of asset, are:

- Deferred acquisition costs

  The value of these assets for solvency purposes is zero.

- Intangible assets

  In order for these assets to have a value in the balance sheet for solvency purposes, they must be able to be sold separately and, moreover, it would be necessary to demonstrate that there is an active market in which similar intangible assets are traded. Given that the Company's assets considered in this class do not meet these requirements, their value for solvency purposes is zero.

- Deferred tax assets

  The difference results from the application of the tax rate to losses with taxable temporary differences implicit in the balance sheet for solvency purposes, that is, after adjustments with a negative impact on own funds;

- Insurance and intermediaries receivables

  The difference relates to receivables for reimbursement of amounts paid out in claims. This amount is considered in the Non-Life (€13,759m) and Health – NSLT (€8,667 m) technical provisions, given that its valuation for solvency purposes is net of these receivables.

4.1.4. Reinsurance and special purpose vehicles recoverables

The following table shows the amounts recoverable from reinsurance contracts and special purpose vehicles, by line of business.

Amounts in thousand euros

Line of Business[12]	Solvency II	Financial statements	Difference[13]
Life and accidents and health similar to life, excluding accidents and health insurance and index-linked and unit-linked	15,989	21,065	-5,076
Life, index-linked and unit-linked	0	0	0
Non-life, excluding accidents and health insurance	99,704	138,522	-38,818
Accidents and health similar to life	0	0	0
Accidents and health similar to non-life	60,011	88,217	-28,206
TOTAL	**175,704**	**247,804**	**-72,100**

Table 8 - Comparison of the valuation of reinsurance recoverables for solvency purposes and their valuation in the financial statements at 31-12-2016

Reinsurance recoverables were calculated according to methodologies in line with those used for the valuation of technical provisions, considering the adjustment to reflect the probability of reinsurer default.

12 Information contained in QRT S.02.01.01, relating to 31-12-2016.
13 Valuation for solvency purposes less valuation in the financial statements.

4.2. Technical provisions

The valuation of technical provisions for solvency purposes and a comparison with that used in the financial statements is presented in this report, segmented into:

- Life;
- Non-life;
- Health:
  - SLT (Similar to Life Techniques);
  - NSLT (Not Similar to Life Techniques);

The following table summarises the comparison, which is discussed further in the sub-chapters below:

Amounts in thousand euros

Line of Business	Solvency II	Financial statements	Difference[14]
Life	9,673,887	10,160,077	-486,190
Non-life	716,326	992,143	-275,817
Health – SLT	815,600	794,036	21,564
Health – NSLT	171,658	176,924	-5,266
TOTAL	**11,377,471**	**12,123,180**	**-745,709**

Table 9 - Comparison of the valuation of technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2016

[14] Valuation for solvency purposes less valuation in the financial statements.

4.2.1. Life

The following table presents the value of the Life technical provisions by line of business, including the value of the best estimate, risk margin and the value of the application of the transitional measure on technical provisions:

Amounts in thousand euros

Line of Business		Best estimate	Risk margin	TMTP[15]	Technical Provisions
Index-linked and unit-linked insurance	Contracts without options and guarantees	135,101	438	0	135,539
	Contracts with options and guarantees	373,812	146	0	373,958
Capitalisation	Contracts with profit sharing	1,700,196	13,045	-205,508	1,507,733
	Contracts without profit sharing	8,151,043	16,734	-393,792	7,773,985
Risk	Contracts with profit sharing	40,806	262	0	41,068
	Contracts without profit sharing	-554,272	157,449	0	-396,823
Annuities	Contracts with profit sharing	141,880	7,499	0	149,379
	Contracts without profit sharing	86,073	2,975	0	89,048
Reinsurance accepted		0	0	0	0
TOTAL		**10,074,639**	**198,548**	**-599,300**	**9,673,887**

Table 10 – Valuation of Life technical provisions for solvency purposes at 31-12-2016

The Life technical provisions are the result of the sum of the best estimate and the risk margin less the transitional measure on technical provisions.

The best estimate corresponds to the current value of future projected cash-flows related to insurance contracts, including premiums, claims, commissions and expenses, discounted at the relevant interest rate term structures (see point 4.2.6). Stochastic techniques were used when determining the time value of the options and guarantees.

[15] Transitional measure on technical provisions.

Future cash-flows projections are obtained by applying probabilities of events occurring based on a historical analysis of these events in the Company's portfolio, in particular mortality, disability, survival, lapse, expense and inflation.

The risk margin is calculated using the formula mentioned in Article 37(1) of Commission Delegated Regulation (EU) 2015/35, of 10 October 2014, that is, using the cost of capital method with a rate of 6%.

In this method capital corresponds to the solvency capital requirement of the Life Underwriting Risk, Operational Risk and Counterparty Risk (in the part corresponding to the Life segment), allocated by line of business.

The following table presents a comparison of the valuation of Life technical provisions for solvency purposes and their valuation in the financial statements.

Amounts in thousand euros

Line of Business		Technical Provisions	Financial statements	Difference[16]
Index-linked and unit-linked insurance	Contracts without options and guarantees	135,539	137,743	-2,204
	Contracts with options and guarantees	373,958	375,235	-1,277
Capitalisation	Contracts with profit sharing	1,507,733	1,498,134	9,599
	Contracts without profit sharing	7,773,985	7,783,274	-9,289
Risk	Contracts with profit sharing	41,068	42,926	-1,858
	Contracts without profit sharing	-396,823	133,655	-530,478
Annuities	Contracts with profit sharing	149,379	107,775	41,604
	Contracts without profit sharing	89,048	81,335	7,713
Reinsurance accepted		0	0	0
TOTAL		**9,673,887**	**10,160,077**	**-486,190**

Table 11 - Comparison of the valuation of the Life technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2016

[16] Valuation for solvency purposes less valuation in the financial statements.

In risk products, the main reason for the difference is the fact that the contractual boundaries of a series of temporary annual renewable (TAR) group life insurance contracts linked to mortgages are linked to the maturity of the underlying mortgage contract, as described in point 4.5.1 of this report.

4.2.2. Non-life

The following table presents the value of the Non-life technical provisions by line of business, including the value of the best estimate and the risk margin.

Amounts in thousand euros

Line of Business	Best estimate	Risk margin	Technical Provisions
Third party liability insurance - motor	338,987	9,392	348,379
Other motor vehicle insurance	67,470	3,141	70,611
Marine, aviation and transport insurance	8,930	534	9,464
Fire and other damage insurance	164,812	3,491	168,303
Third party liability - general	95,255	2,541	97,796
Credit and suretyship insurance	1,831	86	1,917
Legal protection insurance	315	33	348
Assistance	-1,115	22	-1,093
Miscellaneous pecuniary losses	19,827	774	20,601
Non-proportional reinsurance accepted	0	0	0
TOTAL	**696,312**	**20,014**	**716,326**

Table 12 – Valuation of Non-life technical provisions for solvency purposes at 31-12-2016

The Non-life technical provisions are the result of adding the value of the best estimate of the claims and premiums provisions and the risk margin.

The best estimate of the provisions corresponds to the current value of future projected cash-flows related to insurance contracts, including premiums, claims, commissions and expenses, discounted at the relevant interest rate term structures (see point 4.2.6).

Future cash-flows projections are obtained by applying probabilities of events occurring based on a historical analysis of these events in the Company's portfolio, in particular claims, lapse, expense and inflation.

The risk margin is calculated using the formula mentioned in Article 37(1) of Commission Delegated Regulation (EU) 2015/35, of 10 October 2014, that is, using the cost of capital method with a rate of 6%.

In this method capital corresponds to the solvency capital requirement of the Non-life Underwriting Risk, Operational Risk and Counterparty Risk (in the part corresponding to the Non-life segment), allocated by line of business.

The following table presents a comparison of the valuation of Non-life technical provisions for solvency purposes and their valuation in the financial statements.

Amounts in thousand euros

Line of Business	Technical Provision	Financial statements	Difference[17]
Third party liability insurance - motor	348,379	504,385	-156,006
Other motor vehicle insurance	70,611	89,507	-18,896
Marine, aviation and transport insurance	9,464	11,215	-1,751
Fire and other damage insurance	168,303	209,780	-41,477
Third party liability - general	97,796	111,865	-14,069
Credit and suretyship insurance	1,917	654	1,263
Legal protection insurance	348	2,130	-1,782
Assistance	-1,093	16,774	-17,867
Miscellaneous pecuniary losses	20,601	21,831	-1,230
Non-proportional reinsurance accepted	0	0	0
Other technical provisions	0	24,002	-24,002
TOTAL	**716,326**	**992,143**	**-275,817**

Table 13 - Comparison of the valuation of Non-life technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2016

[17] Valuation for solvency purposes less valuation in the financial statements.

The main differences identified result from:

- The provisions calculated on the basis of economic principles include the associated estimate of reimbursements, while the accounting provisions presented are gross of reimbursements, as previously stated in the paragraph entitled “insurance and intermediaries receivables” in point 4.1.3. of Other Assets;
- A prudent provisioning policy, associated with good claims management and follow-up;
- The statutory provisions reflect the estimate of payables not discounted.

The heading Other technical provisions, which only appears in the financial statements with the value of € 24,002 m, mostly corresponds to amount allocated to the equalisation provision.

4.2.3. Health - SLT

The following table presents the value of the Health-SLT technical provisions by line of business, including the value of the best estimate, the risk margin and the value of the application of the transitional measure on technical provisions:

Amounts in thousand euros

Line of Business		Best estimate	Risk margin	TMTP[15]	Technical Provisions
Health insurance (direct insurance)	Contracts without options and guarantees	0	0	0	0
	Contracts with options and guarantees	0	0	0	0
Health insurance (reinsurance accepted)		0	0	0	0
Annual payments resulting from non-life insurance contracts related with accident and health insurance liabilities		1,052,280	88,865	-325,545	815,600
Annual payments resulting from non-life insurance contracts related with insurance liabilities other than accidents and health		0	0	0	0
TOTAL		**1,052,280**	**88,865**	**-325,545**	**815,600**

Table 14 – Valuation of Health - SLT technical provisions for solvency purposes at 31-12-2016

The Health - SLT technical provisions are the result of adding the value of the best estimate of the claims provisions and the risk margin, adjusted by the transitional measure on technical provisions.

The best estimate of the provisions corresponds to the current value of future projected cash-flows related to insurance contracts, including claims and expenses, discounted at the relevant interest rate term structures (see point 4.2.6).

Future cash-flows projections are obtained by applying probabilities of events occurring based on a historical analysis of these events in the Company's portfolio, in particular survival, expense and inflation.

The risk margin is calculated using the formula mentioned in Article 37(1) of Commission Delegated Regulation (EU) 2015/35, of 10 October 2014, that is, using the cost of capital method with a rate of 6%.

In this method capital corresponds to the solvency capital requirement of the Health - SLT Underwriting Risk and Operational Risk (in the part corresponding to the Health - SLT segment).

The following table presents a comparison of the valuation of Health - SLT technical provisions for solvency purposes and their valuation in the financial statements.

Amounts in thousand euros

<table>
<tr><th colspan="2">Line of Business</th><th>Technical Provisions</th><th>Financial statements</th><th>Difference[18]</th></tr>
<tr><td rowspan="2">Health insurance (direct insurance)</td><td>Contracts without options and guarantees</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td>Contracts with options and guarantees</td><td>0</td><td>0</td><td>0</td></tr>
<tr><td colspan="2">Health insurance (reinsurance accepted)</td><td></td><td>0</td><td>0</td></tr>
<tr><td colspan="2">Annual payments resulting from non-life insurance contracts related with accident and health insurance liabilities</td><td>815,600</td><td>794,036</td><td>21,564</td></tr>
<tr><td colspan="2">Annual payments resulting from non-life insurance contracts related with insurance liabilities other than accidents and health</td><td></td><td>0</td><td>0</td></tr>
<tr><td colspan="2">TOTAL</td><td>815,600</td><td>794,036</td><td>21,564</td></tr>
</table>

Table 15 - Comparison of the valuation of the Health-SLT technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2016

[18] Valuation for solvency purposes less valuation in the financial statements.

Considering the adjustment of the transitional measure on technical provisions, the impact of revaluing the provisions results fundamentally from the evolution of the interest rates term structure referred to in 4.2.6.

4.2.4. Health - NSLT

The following table presents the value of the Health – NSLT technical provisions by line of business, including the value of the best estimate and the risk margin.

Amounts in thousand euros

Line of Business	Best estimate	Risk margin	Technical Provisions
Medical expenses insurance	48,720	36	48,756
Income protection insurance	32,204	525	32,729
Workers' compensation insurance	87,337	2,836	90,173
TOTAL	**168,261**	**3,397**	**171,658**

Table 16 – Valuation of the Health - NSLT technical provisions for solvency purposes at 31-12-2016

The Health – NSLT technical provisions are the result of adding the value of the best estimate of the claims and premiums provisions and the risk margin.

The best estimate of the provisions corresponds to the current value of future projected cash-flows related to insurance contracts, including premiums, claims, commissions and expenses, discounted at the relevant interest rates term structures (see point 4.2.6).

Future cash-flows projections are obtained by applying probabilities of events occurring based on a historical analysis of these events in the Company's portfolio, in particular claims, lapse, expense and inflation.

The risk margin is calculated using the formula mentioned in Article 37(1) of Commission Delegated Regulation (EU) 2015/35, of 10 October 2014, that is, using the cost of capital method with a rate of 6%.

In this method capital corresponds to the solvency capital requirement of the Health - NSLT Underwriting Risk, Operational Risk and Counterparty Risk (in the part corresponding to the Health - NSLT segment), allocated by line of business.

The following table presents a comparison of the valuation of Health - NSLT technical provisions for solvency purposes and their valuation in the financial statements.

Amounts in thousand euros

Line of Business	Technical Provisions	Financial statements	Difference[19]
Medical expenses insurance	48,756	70,465	-21,709
Income protection insurance	32,729	30,976	1,753
Workers' compensation insurance	90,173	75,483	14,690
TOTAL	**171,658**	**176,924**	**-5,266**

Table 17 - Comparison of the valuation of the Health - NSLT technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2016

The main differences identified between the figures for the accounting provisions and the provisions calculated on the basis of economic principles result from:

- The provisions calculated on the basis of economic principles include the associated estimate of reimbursements, while the accounting provisions presented are gross of reimbursements, as previously stated in the paragraph entitled "insurance and intermediaries receivables" in point 4.1.3. of Other Assets;
- A prudent provisions policy, associated with good claims management and follow-up;
- The statutory provisions reflect the estimate of payables not discounted.

4.2.5. Inflation rate

Banco de Portugal discloses the harmonised index of prices in the economic bulletin, and this is used as the inflation rate for the purposes of calculating the best estimate.

[19] Valuation for solvency purposes less valuation in the financial statements.

The harmonised index of prices disclosed by Banco de Portugal in December 2016 has a timeframe of three years (2017-2019):

	Weights 2015		EB December 2016				EB October 2016	EB June 2016		
		2015	2016(p)	2017(p)	2018(p)	2019(p)	2016(p)	2016(p)	2017(p)	2018(p)
Gross domestic product	100.0	1.6	1.2	1.4	1.5	1.5	1.1	1.3	1.6	1.5
Private consumption	65.6	2.6	2.1	1.3	1.4	1.3	1.8	2.1	1.7	1.3
Public consumption	18.2	0.8	1.0	0.0	0.4	0.2	1.0	1.1	0.4	0.6
Gross fixed capital formation	15.3	4.5	-1.7	4.4	4.3	4.5	-1.8	0.1	4.3	4.6
Domestic demand	99.3	2.5	1.2	1.5	1.7	1.6	1.1	1.8	1.7	1.7
Exports	40.6	6.1	3.7	4.8	4.6	4.4	3.0	1.6	4.7	4.7
Imports	39.8	8.2	3.5	4.8	4.9	4.4	3.0	2.8	4.9	4.8
Contribution to GDP growth net of imports (in p.p.)[a]										
Domestic demand		1.1	0.4	0.5	0.6	0.6	0.5	1.0	0.7	0.7
Exports		0.5	0.8	0.9	0.8	0.9	0.6	0.3	0.9	0.9
Employment[b]		1.4	1.5	1.0	0.9	1.0	1.0	–	–	–
Unemployment rate		12.4	11.0	10.1	9.4	8.5	11.2	–	–	–
Current plus capital account (% of GDP)		1.7	1.1	0.9	0.9	1.1	1.3	1.9	1.6	1.6
Trade balance (% of GDP)		1.8	2.2	1.9	1.8	1.8	2.1	1.6	1.3	1.2
Harmonized index of consumer prices		0.5	0.8	1.4	1.5	1.5	0.7	0.7	1.4	1.5

Sources: Statistics Portugal and Banco de Portugal.

Figure 4 - Banco de Portugal Projections 2017-2019 | Annual rate of change, percentage

In the best estimate projections, 1.4% was considered in 2017 and 1.5% in subsequent years.

4.2.6. Reference interest rates

When valuing the technical provisions, the Company used the relevant risk-free interest rate structures established in Commission Implementing Regulation (EU) 2017/309, of 23 February 2017, without volatility adjustment.

4.3. Other liabilities

The following table presents a comparison of the valuation of other liabilities for solvency purposes and their valuation in the financial statements.

Amounts in thousand euros

Liabilities[20]	Solvency II	Financial statements	Difference[21]
Contingent liabilities	0	0	0
Provisions other than technical provisions	81,618	81,618	0
Pension benefit obligations	72	72	0
Deposits from reinsurers	114,417	114,417	0
Deferred tax liabilities	412,399	204,280	208,119
Derivatives	41,905	41,905	0
Debts owed to credit institutions	0	0	0
Financial liabilities other than debts owed to credit institutions	0	0	0
Insurance and intermediaries payables	70,790	70,790	0
Reinsurance payables	30,435	31,304	-869
Payables (trade, not insurance)	141,781	141,781	0
Subordinated liabilities	0	0	0
Any other liabilities, not elsewhere shown	81,481	81,481	0
TOTAL	**974,898**	**767,648**	**207,250**

Table 18 - Comparison of the valuation of other liabilities for solvency purposes and their valuation in the financial statements at 31-12-2016

[20] Information contained in QRT S.02.01.01, relating to 31-12-2016.
[21] Valuation for solvency purposes less valuation in the financial statements.

Other liabilities are generally valued in the financial statements at fair value. Specific situations where that is not the case are the following:

- Deferred tax liabilities

  The difference results from the application of the tax rate to gains with taxable temporary differences implicit in the balance sheet for solvency purposes, that is, after adjustments with a positive impact on own funds;

- Reinsurance payables

  The difference relates to reinsurance ceded payables, relating to reimbursement of amounts paid out in direct insurance claims. For solvency purposes these payables are included in the Non-life (€101m) and Health – NSLT (€768m) technical provisions, the valuation of which was net of these.

4.4. Alternative valuation methods

As mentioned in point 4.1.1. of this report, the Company does not make valuations from financial models.

On the other hand, to determine the fair value of its financial assets for solvency purposes, the Company classifies them into different categories.

In two of these categories the determination of fair value is not based on quoted price in active markets. These are AVM and AEM:

- **AVM:**
    - Assets of bankrupt entities or assets without value, not derecognised;
    - Monetary assets (cash and deposits);
    - Bonds with low liquidity or with a quoted price not based on transactions;
- **AEM** – Unquoted participations

4.5. Any other information

4.5.1. Changing the contractual limits of temporary annual renewable insurance contracts

When calculating the best estimate of the Life liabilities relating to temporary annual renewable (TAR) life insurance contracts, the contractual boundary considered is the date of the next renewal except for contracts for which the Company has provenly waived the unilateral right to terminate the contract and to reject or amend the tariffs in force.

For these contracts which are all linked to mortgages, for the purpose of valuing their technical provisions, the Company considered their contractual boundary to be the maturity of mortgage agreement associated with each adhesion, taking into account lapse probabilities. Although the reinsurance treaty associated with these contracts is of annual duration, when calculating the reinsurance recoverables the Company assumed a time limit consistent with the insurance contract limits to which they relate, according to the understanding of the ASF.

4.5.2. Application of the transitional deduction on technical provisions

Pursuant to Article 25 of Law No. 147/2015, of 9 September, the Company applied the transitional deduction on technical provisions for liabilities similar to life, in the following groups of homogeneous risks:

- Capital redemption products, with and without profit-sharing;
- Health – SLT, related with liabilities with workers' compensation insurance contracts.

Accordingly, the following table contains the respective amounts of the gross technical provisions and of the reinsurance recoverables, for solvency purposes, with the reference date of 1/1/2016, and in the financial statements, with the reference date of 31/12/2015. The **amount of the transitional deduction applied** is also shown:

Amounts in thousand euros

Lines of business/ Homogeneous risk groups		Gross Technical Provisions			Reinsurance Recoverables		Transitional Deduction
		Financial Statements	Solvency II		Financial Statements	Solvency II	
			Best estimate	Risk margin			
29 and 33	Life insurance liabilities - Health – SLT	793,788	1,033,799	85,534	0	0	325,545
30	Life insurance liabilities – Insurance with profit sharing – Capital redemption products	1,482,854	1,676,417	11,945	0	0	205,508
32	Life insurance liabilities – Other liabilities similar to life - Capital redemption products	7,505,455	7,883,284	15,963	0	0	393,792
Total		**9,782,097**	**10,593,500**	**113,442**	**0**	**0**	**924,845**

The following table quantifies the impact on the Company's financial condition, at 31/12/2016, of **not applying this transitional deduction**, namely the impact on the amount of the technical provisions, solvency capital requirement, minimum capital requirement, basic own funds and eligible own funds to meet the minimum capital requirement and the solvency capital requirement:

Amounts in thousand euros

	Transitional measure applicable to technical provisions		
	Amount with the transitional measure	Amount without the transitional measure	Impact of the transitional measure
Technical provisions	10,489,487	11,414,332	-924,845
Basic own funds Excess of assets over liabilities	2,013,627	1,361,611	652,016
Eligible own funds to meet SCR	2,013,478	1,292,638	720,839
Solvency Capital Requirement (SCR)	1,531,813	1,531,813	0
Eligible own funds to meet MCR	1,987,712	1,062,866	924,845
Minimum Capital Requirement (MCR)	390,654	410,498	-19,844

The **impact of the decrease in the transitional deduction on technical provisions, on the first day of 2017**, is approximately 0.5% of the total amount of the Company's technical provisions, and the effects on its solvency condition are therefore immaterial, in the wording of Article 291 of Commission Delegated Regulation (EU) 2015/35, of 10 October 2014.

5. Capital management

5.1. Own funds

5.1.1. Management of own funds

The new legal framework on the taking-up and pursuit of the business of insurance requires insurance undertakings to have an effective risk management system.

Accordingly, the own risk and solvency assessment, normally identified by the acronym ORSA, is considered a central element in this system, since it relates, from a prospective view, risk, capital and return, in the context of business strategy established by the insurance undertaking.

The ORSA exercise, which coincides with the Company's strategic planning timeframe (never less than 2 years), therefore plays a key role in the Company's Capital Management, supporting its main activities, namely:

- *Assessment, together with risk management, of the risk appetite structure in relation to the business strategy and capital management strategy;*
- Contributing to the commencement of the strategic planning process, through the performance of a capital adequacy assessment in the most recent period, involving both regulatory capital and economic capital, and also, when justified, risk rating;
- *Monitoring of capital adequacy in line with the regulatory capital requirements and the internal capital needs.*

Considering the results obtained in the ORSA, and if the capital requirements are not in line with those defined, both in regulatory terms and in terms of other limits defined internally, corrective actions to be implemented are detailed, in order to restore the adequate/intended level of capital.

5.1.2. Structure, amount and tiering of own funds

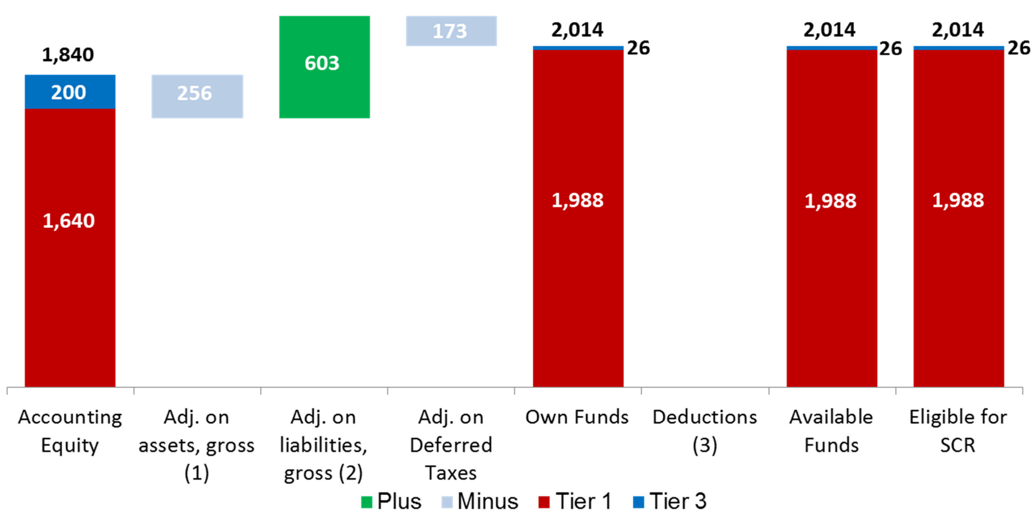
The following table presents a comparison of the own funds as set out in the Company's financial statements and the excess of assets over liabilities calculated for solvency purposes:

Amounts in thousand euros

	Solvency II	Financial statements	Difference[22]
Assets	14,365,996	14,730,944	-364,948
Technical Provisions	11,377,471	12,123,180	-745,709
Other liabilities	974,898	767,648	207,250
Excess of assets over liabilities[23]	**2,013,627**	**1,840,116**	**173,511**

Table 19: Comparison of the valuation of own funds for solvency purposes and their valuation in the financial statements at 31-12-2016

The difference is explained by the graph below (amounts in million euros):



(1) Own Funds impact of difference between market value and book value of assets
(2) Own Funds impact of difference between fair value plus risk margin and book value of liabilities (net of reinsurance)
(3) Own Funds deductions for participations (>20%) in financial and credit institutions

[22] Valuation for solvency purposes less valuation in the financial statements.
[23] Information contained in QRT S.02.01.01, relating to 31-12-2016.

The following table provides information on the structure, amount and quality of the basic own funds and ancillary own funds:

Amounts in thousand euros

	Own Funds - Structure[24]	Amount	Tier
BASIC OWN FUNDS	Ordinary share capital (gross of own shares)	381,150	1
	Share premium account related to ordinary share capital	115,103	1
	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0	
	Subordinated mutual members accounts	0	
	Surplus funds	0	
	Preference shares	0	
	Share premium account related to preference shares	0	
	Reconciliation reserve	969,928	1
	Subordinated liabilities	0	
	An amount equal to the value of net deferred tax assets	25,766	3
	Other items approved by the supervisory authority as basic own funds not specified above	521,531	1
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	0	
	Deductions for participations in financial and credit institutions	0	
	TOTAL BASIC OWN FUNDS	**2,013,478**	
Ancillary Own Funds	Unpaid and uncalled ordinary share capital callable on demand	0	
	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0	
	Unpaid and uncalled preference shares callable on demand	0	
	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0	
	Letters of credit and guarantees under Article 96(2) of Directive 2009/138/EC	0	
	Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC	0	
	Supplementary members calls under first subparagraph of Article 96(3) of Directive 2009/138/EC	0	
	Supplementary members calls - other than under first subparagraph of Article 96(3) of Directive 2009/138/EC	0	
	Other ancillary own funds	0	
	TOTAL ANCILLARY OWN FUNDS	**0**	
TOTAL AVAILABLE FUNDS		**2,013,478**	
Own shares (held directly and indirectly)		149	
EXCESS OF ASSETS OVER LIABILITIES		**2,013,627**	

Table 20 – Structure, amount and tiering of own funds at 31-12-2016

[24] Information contained in QRT S.23.01.01, relating to 31-12-2016.

The table below shows the amounts of own funds available and eligible to meet the solvency capital requirement (SCR) and the minimum capital requirement (MCR), classified by tier:

Amounts in thousand euros

	Available own funds to meet		Eligible own funds to meet	
	SCR	MCR	SCR	MCR
Tier 1	1,987,712	1,987,712	1,987,712	1,987,712
Tier 2	0	0	0	0
Tier 3	25,766	0	25,766	0
Total[25]	**2,013,478**	**1,987,712**	**2,013,478**	**1,987,712**

No restrictions were identified which affect the availability and transferability of the company's own funds.

[25] Information contained in QRT S.23.01.01, relating to 31-12-2016.

5.2. Solvency capital requirement and minimum capital requirement

To calculate the solvency capital requirement, the Company applies the standard formula set out in Articles 119 to 129 of the Legal Framework on the Taking-up and Pursuit of the Business of Insurance and Reinsurance, approved by Law No. 147/2015, of 9 September, and does not use simplified calculations or specific company parameters.

Calculation of the minimum capital requirement is in line with that set out in Article 147 of the aforementioned Legal Framework.

Information is presented below on the solvency capital requirement (SCR) and the minimum capital requirement (MCR) and also the respective coverage ratio.

Amounts in thousand euros

	Capital Requirements	Coverage Ratio
SCR	1,531,813	131.44%
MCR	390,654	508.82%

Table 21 – SCR and MCR at 31-12-2016

The table below provides a breakdown of the SCR into its major components, focusing, in particular, on the breakdown of the BSCR and the adjustments for the loss-absorbing capacity of the technical provisions and of deferred taxes.

Amounts in thousand euros

	SCR Breakdown
Market risk	1,200,694
Counterparty default risk	165,889
Life insurance specific risk	338,866
Accidents and health insurance specific risk	143,978
Non-life insurance specific risk	224,329
Diversification	-563,502
Intangible assets risk	0
Basic Solvency Capital Requirement	**1,510,254**
Operational risk	130,658
Loss-absorbing capacity of technical provisions	-5,430
Loss-absorbing capacity of deferred taxes	-103,669
Solvency Capital Requirement	**1,531,813**

Table 22 –SCR Breakdown at 31-12-2016

5.3. Use of the duration-based equity risk sub-module in the calculation of the solvency capital requirement

The Company does not use the duration-based equity risk sub-module, set out in Article 125(5) of the Legal Framework on the Taking-up and Pursuit of the Business of Insurance and Reinsurance, approved by Law No. 147/2015, of 9 September.

5.4. Differences between the standard formula and any internal model used

As previously stated, the Company uses the standard formula, and does not apply any internal model.

5.5. Non-compliance with the minimum capital requirement and non-compliance with the solvency capital requirement

There was no failure to comply with the minimum capital requirement during the period covered by this report.

In the quarterly quantitative information for supervisory purposes, with reference to 31 March 2016, the Company presented a solvency capital requirement coverage ratio of 93.61%.

This situation, which was temporary and extraordinary, was the result of the application of sight deposits in CGD of liquidity surpluses generated by the Company which, for market reasons, were not invested immediately, leading to a significant increase in the capital requirements relating to the counterparty default risk module.

It is important to note that the solvency capital requirement used in the aforementioned quarterly information was influenced by the fact that the Company recognised adjustment for the loss-absorbing capacity of deferred taxes as zero. If the Company had recognised the said adjustment, the resulting ratio would have been above 100%.

Nevertheless, this exposure was reduced in the subsequent months through greater diversification of investments, and the quarterly information sent to the ASF, in relation to 30 June 2016, therefore showed a solvency capital requirement coverage ratio of 110.5%.

The ASF was duly informed of this one-off non-compliance situation.

5.6. Any other information

5.6.1. Transitional measure on equity risk

The Company applied the transitional regime applicable to the equity risk set out in Article 20(2) and (3) of Law No. 147/2015, of 9 September.

5.6.2. Futures contracts

Calculations of the currency risk sub-module and the counterparty default risk module include the effect of hedging of exchange rate exposure of assets denominated in American dollars (USD), Hong Kong dollars (HKD) and Pounds sterling (GBP), via the use of futures contracts.

To hedge the exchange rate exposure of assets denominated in Yens (JPY) the Company used exchange rate forwards in JPY, and the effect of these was also reflected in those capital requirements.

Appendices

Quantitative information*

* Amounts in thousands of euros

S.02.01.02
Balance sheet

		Solvency II value
Assets		**C0010**
Goodwill	**R0010**	
Deferred acquisition costs	**R0020**	
Intangible assets	**R0030**	0
Deferred tax assets	**R0040**	438,165
Pension benefit surplus	**R0050**	8,531
Property, plant & equipment held for own use	**R0060**	100,620
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	12,100,494
Property (other than for own use)	**R0080**	293,879
Holdings in related undertakings, including participations	**R0090**	1,646,804
Equities	**R0100**	1,210,056
Equities - listed	**R0110**	1,207,406
Equities - unlisted	**R0120**	2,649
Bonds	**R0130**	7,673,599
Government Bonds	**R0140**	5,429,625
Corporate Bonds	**R0150**	2,142,297
Structured notes	**R0160**	100,215
Collateralised securities	**R0170**	1,462
Collective Investments Undertakings	**R0180**	375,404
Derivatives	**R0190**	30,539
Deposits other than cash equivalents	**R0200**	870,213
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	512,977
Loans and mortgages	**R0230**	32,179
Loans on policies	**R0240**	1,318
Loans and mortgages to individuals	**R0250**	180
Other loans and mortgages	**R0260**	30,681
Reinsurance recoverables from:	**R0270**	175,703
Non-life and health similar to non-life	**R0280**	159,715
Non-life excluding health	**R0290**	99,704
Health similar to non-life	**R0300**	60,011
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	15,989
Health similar to life	**R0320**	0
Life excluding health and index-linked and unit-linked	**R0330**	15,989
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	1,455
Insurance and intermediaries receivables	**R0360**	115,926
Reinsurance receivables	**R0370**	20,506
Receivables (trade, not insurance)	**R0380**	251,672
Own shares (held directly)	**R0390**	149
Amounts due in respect of own fund items or initial fund called up but not yet paid in	**R0400**	
Cash and cash equivalents	**R0410**	586,377
Any other assets, not elsewhere shown	**R0420**	21,241
Total assets	**R0500**	14,365,995

S.02.01.02
Balance sheet

Liabilities		Solvency II value
		C0010
Technical provisions – non-life	R0510	887,983
Technical provisions – non-life (excluding health)	R0520	716,325
Technical provisions calculated as a whole	R0530	
Best Estimate	R0540	696,310
Risk margin	R0550	20,015
Technical provisions - health (similar to non-life)	R0560	171,658
Technical provisions calculated as a whole	R0570	
Best Estimate	R0580	168,261
Risk margin	R0590	3,397
Technical provisions - life (excluding index-linked and unit-linked)	R0600	9,979,990
Technical provisions - health (similar to life)	R0610	815,600
Technical provisions calculated as a whole	R0620	
Best Estimate	R0630	726,735
Risk margin	R0640	88,865
Technical provisions – life (excluding health and index-linked and unit-linked)	R0650	9,164,390
Technical provisions calculated as a whole	R0660	
Best Estimate	R0670	8,966,426
Risk margin	R0680	197,964
Technical provisions – index-linked and unit-linked	R0690	509,497
Technical provisions calculated as a whole	R0700	137,743
Best Estimate	R0710	371,171
Risk margin	R0720	583
Other technical provisions	R0730	
Contingent liabilities	R0740	0
Provisions other than technical provisions	R0750	81,618
Pension benefit obligations	R0760	72
Deposits from reinsurers	R0770	114,417
Deferred tax liabilities	R0780	412,399
Derivatives	R0790	41,905
Debts owed to credit institutions	R0800	
Financial liabilities other than debts owed to credit institutions	R0810	
Insurance & intermediaries payables	R0820	70,790
Reinsurance payables	R0830	30,435
Payables (trade, not insurance)	R0840	141,781
Subordinated liabilities	R0850	
Subordinated liabilities not in Basic Own Funds	R0860	
Subordinated liabilities in Basic Own Funds	R0870	
Any other liabilities, not elsewhere shown	R0880	81,481
Total liabilities	R0900	12,352,368
Excess of assets over liabilities	R1000	2,013,627

S.05.01.02
Premiums, claims and expenses by line of business

		Line of Business for: **non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)**												Line of Business for: **accepted non-proportional reinsurance**				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Health	Casualty	Marine, aviation, transport	Property	Total
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written																		
Gross - Direct Business	**R0110**	236,065	27,773	151,220	232,479	137,753	17,102	233,634	33,326	613	5,114	28,496	37,194					1,140,767
Gross - Proportional reinsurance accepted	**R0120**	380	171	474	996	638	435	6,196	639				31					9,961
Gross - Non-proportional reinsurance accepted	**R0130**																	
Reinsurers' share	**R0140**	234,509	11,363	5,450	1,066	985	10,147	92,505	9,450	448	3,460	28,157	18,340					415,880
Net	**R0200**	1,935	16,581	146,243	232,409	137,407	7,389	147,325	24,515	165	1,654	339	18,885					734,847
Premiums earned																		
Gross - Direct Business	**R0210**	235,166	26,227	150,780	231,876	132,626	17,382	232,501	32,496	660	5,109	27,201	33,555					1,125,580
Gross - Proportional reinsurance accepted	**R0220**	367	183	455	994	568	454	5,873	645	0	0	0	33					9,574
Gross - Non-proportional reinsurance accepted	**R0230**																	
Reinsurers' share	**R0240**	233,560	11,736	5,431	1,066	906	10,165	91,308	9,291	490	3,401	27,640	17,326					412,319
Net	**R0300**	1,974	14,674	145,803	231,804	132,289	7,671	147,066	23,850	170	1,708	-439	16,263					722,833
Claims incurred																		
Gross - Direct Business	**R0310**	176,039	7,764	70,935	166,626	79,413	512	122,774	4,996	54	1	2	20,089					649,204
Gross - Proportional reinsurance accepted	**R0320**		-297	-650	-1,803	2,456	-243	3,343	-71	-4			1					2,732
Gross - Non-proportional reinsurance accepted	**R0330**																	
Reinsurers' share	**R0340**	174,883	7,106	1,159	3,129	442	-1,074	64,772	-3,004	25		0	13,289					260,727
Net	**R0400**	1,156	361	69,126	161,694	81,427	1,343	61,345	7,929	25	1	2	6,801					391,210
Changes in other technical provisions																		
Gross - Direct Business	**R0410**	-3,663	-126	-8,822	4,024	-2,697	-39	564	-609	-13	0	-541	31					-11,890
Gross - Proportional reinsurance accepted	**R0420**					366		590	-23				0					933
Gross - Non- proportional reinsurance accepted	**R0430**																	
Reinsurers'share	**R0440**																	
Net	**R0500**	-3,663	-126	-8,822	4,024	-2,330	-39	1,154	-632	-13	0	-541	31					-10,957
Expenses incurred	**R0550**	-443	8,005	45,947	78,716	41,249	3,079	65,804	13,767	212	1,477	8,218	8,991					275,022
Other expenses	**R1200**																	8,725
Total expenses	**R1300**																	283,747

S.05.01.02
Premiums, claims and expenses by line of business

		Line of Business for: **life insurance obligations**						**Life reinsurance obligations**		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**		173,521	36,101	2,240,341				61	2,450,025
Reinsurers' share	**R1420**		1,228		13,345					14,573
Net	**R1500**		172,293	36,101	2,226,996				61	2,435,452
Premiums earned										
Gross	**R1510**		173,504	36,101	2,240,588				61	2,450,255
Reinsurers' share	**R1520**		1,233		13,326					14,559
Net	**R1600**		172,271	36,101	2,227,262				61	2,435,696
Claims incurred										
Gross	**R1610**		186,277	95,354	2,018,814	73,089			0	2,373,535
Reinsurers' share	**R1620**		509		7,763					8,273
Net	**R1700**		185,768	95,354	2,011,051	73,089			0	2,365,262
Changes in other technical provisions										
Gross	**R1710**		6,109		3,108					9,217
Reinsurers' share	**R1720**		-63		-1,286					-1,349
Net	**R1800**		6,172		4,394					10,566
Expenses incurred	**R1900**		18,354	6,950	71,056	1,902			24	98,286
Other expenses	**R2500**									-70
Total expenses	**R2600**									98,216

S.12.01.02
Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	**Total (Life other than health insurance, incl. Unit-Linked)**		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**	**C0160**	**C0170**	**C0180**	**C0190**	**C0200**	**C0210**
Technical provisions calculated as a whole	**R0010**	0	137,743			0					137,743						
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole	**R0020**																
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	**R0030**	1,882,882		-2,642	373,812		-468,198	8,151,043			9,936,897				1,052,280		1,052,280
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	903					15,086				15,989						
Best estimate minus recoverables from reinsurance/SPV and Finite Re - total	**R0090**	1,881,979		-2,642	373,812		-483,284	8,151,043	0	0	9,920,908		0	0	1,052,280	0	1,052,280
Risk Margin	**R0100**	20,806	583			177,158					198,548				88,865		88,865
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	**R0110**		0			0					0	0					0
Best estimate	**R0120**	-205,508					-393,792				-599,300				-325,545		-325,545
Risk margin	**R0130**																
Technical provisions - total	**R0200**	1,698,180	509,496			7,466,211			0	0	9,673,887	0			815,600	0	815,600

S.17.01.02
Non-life Technical Provisions

		Direct business and accepted proportional reinsurance												Accepted non-proportional reinsurance				
		Medical expense insurance	Income protection insurance	Workers' compensation insurance	Motor vehicle liability insurance	Other motor insurance	Marine, aviation and transport insurance	Fire and other damage to property insurance	General liability insurance	Credit and suretyship insurance	Legal expenses insurance	Assistance	Miscellaneous financial loss	Non-proportional health reinsurance	Non-proportional casualty reinsurance	Non-proportional marine, aviation and transport	Non-proportional property reinsurance	Total Non-Life obligation
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0110	C0120	C0130	C0140	C0150	C0160	C0170	C0180
Technical provisions calculated as a whole	**R0010**																	
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole	**R0050**																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	**R0060**	6,894	6,501	42,410	77,209	38,917	-750	46,240	5,372	118	295	-1,215	6,379	0	0	0	0	228,373
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	4,577	349	-587	0	253	-704	10,694	-267	1	-85	-4,682	1,362	0	0	0	0	10,911
Net Best Estimate of Premium Provisions	**R0150**	2,317	6,152	42,997	77,209	38,664	-46	35,546	5,639	117	380	3,467	5,017	0	0	0	0	217,459
Claims provisions																		
Gross	**R0160**	41,826	25,703	44,926	261,777	28,553	9,679	118,572	89,883	1,713	19	99	13,447	0	0	0	0	636,199
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	40,721	14,308	643	7,612	284	3,948	57,909	16,275	18	0	0	7,084	0	0	0	0	148,804
Net Best Estimate of Claims Provisions	**R0250**	1,105	11,395	44,283	254,165	28,269	5,731	60,663	73,608	1,695	19	99	6,363	0	0	0	0	487,395
Total Best estimate - gross	**R0260**	48,720	32,204	87,336	338,986	67,470	8,929	164,812	95,255	1,831	314	-1,116	19,826	0	0	0	0	864,572
Total Best estimate - net	**R0270**	3,422	17,547	87,280	331,374	66,933	5,685	96,209	79,247	1,812	399	3,566	11,380	0	0	0	0	704,854
Risk margin	**R0280**	36	525	2,836	9,392	3,141	534	3,491	2,541	86	33	22	774	0	0	0	0	23,412
Amount of the transitional on Technical Provisions																		
Technical Provisions calculated as a whole	**R0290**																	
Best estimate	**R0300**																	
Risk margin	**R0310**																	
Technical provisions - total																		
Technical provisions - total	**R0320**	48,756	32,729	90,172	348,378	70,611	9,463	168,303	97,796	1,917	347	-1,094	20,600	0	0	0	0	887,984
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	45,298	14,657	56	7,612	537	3,244	68,603	16,008	19	-85	-4,682	8,446	0	0	0	0	159,715
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	3,458	18,072	90,116	340,766	70,074	6,219	99,700	81,788	1,898	432	3,588	12,154	0	0	0	0	728,266

S.19.01.21
Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	**Z0010**	1

Gross Claims Paid (non-cumulative)
(absolute amount)

	Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**		**In Current year**	**Sum of years (cumulative)**
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**		**C0170**	**C0180**
Prior	**R0100**											12,614	**R0100**	12,614	12,614
N-9	**R0160**	311,790	163,115	42,255	19,880	11,550	6,478	6,501	2,624	3,010	1,612		**R0160**	1,612	568,815
N-8	**R0170**	474,143	199,130	34,802	15,896	6,043	5,215	3,630	3,200	2,198			**R0170**	2,198	744,257
N-7	**R0180**	440,171	188,705	59,282	24,791	22,976	7,147	9,054	4,610				**R0180**	4,610	756,738
N-6	**R0190**	424,760	176,926	27,767	13,411	9,555	5,626	3,039					**R0190**	3,039	661,084
N-5	**R0200**	410,969	147,369	22,362	16,260	5,075	5,214						**R0200**	5,214	607,248
N-4	**R0210**	387,157	155,535	18,702	10,779	8,272							**R0210**	8,272	580,445
N-3	**R0220**	401,327	149,235	25,063	16,949								**R0220**	16,949	592,574
N-2	**R0230**	385,547	147,663	31,652									**R0230**	31,652	564,862
N-1	**R0240**	398,873	167,494										**R0240**	167,494	566,366
N	**R0250**	448,252											**R0250**	448,252	448,252
												Total	**R0260**	701,905	6,103,255

Development year

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	**0**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10 & +**		**Year end (discounted**
		C0200	**C0210**	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0290**	**C0300**		**C0360**
Prior	**R0100**											78,744	**R0100**	78,693
N-9	**R0160**	-	-	-	-	-	-	-	-	-	9,145		**R0160**	9,185
N-8	**R0170**	-	-	-	-	-	-	-	-	10,935			**R0170**	10,986
N-7	**R0180**	-	-	-	-	-	-	-	12,267				**R0180**	12,315
N-6	**R0190**	-	-	-	-	-	-	17,149					**R0190**	17,191
N-5	**R0200**	-	-	-	-	-	18,834						**R0200**	18,851
N-4	**R0210**	-	-	-	-	24,150							**R0210**	24,131
N-3	**R0220**	-	-	-	36,466								**R0220**	36,413
N-2	**R0230**	-	-	51,269									**R0230**	51,180
N-1	**R0240**	-	80,636										**R0240**	80,503
N	**R0250**	296,736											**R0250**	296,751
												Total	**R0260**	636,199

Development year

S.22.01.21

Impact of long term guarantees and transitional measures

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Technical provisions	R0010	10,489,487	-924,845	0	0	0
Basic own funds	R0020	0	0	0	0	0
Eligible own funds to meet Solvency Capital Requirement	R0050	2,013,478	720,839	0	0	0
Solvency Capital Requirement	R0090	1,531,813	0			
Eligible own funds to meet Minimum Capital Requirement	R0100	1,987,712	924,845	0	0	0
Minimum Capital Requirement	R0110	390,654	-19,844	0	0	0

S.23.01.01
Own funds

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35						
Ordinary share capital (gross of own shares)	**R0010**	381,150	381,150		0	
Share premium account related to ordinary share capital	**R0030**	115,103	115,103		0	
Iinitial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	**R0040**	0	0		0	
Subordinated mutual member accounts	**R0050**	0		0	0	0
Surplus funds	**R0070**	0	0			
Preference shares	**R0090**	0		0	0	0
Share premium account related to preference shares	**R0110**	0		0	0	0
Reconciliation reserve	**R0130**	969,928	969,928			
Subordinated liabilities	**R0140**	0		0	0	0
An amount equal to the value of net deferred tax assets	**R0160**	25,766				25,766
Other own fund items approved by the supervisory authority as basic own funds not specified above	**R0180**	521,531	521,531	0	0	0
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds						
Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**R0220**					
Deductions						
Deductions for participations in financial and credit institutions	**R0230**	0	0	0	0	0
Total basic own funds after deductions	**R0290**	2,013,478	1,987,712	0	0	25,766
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	**R0300**	0			0	
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	**R0310**	0			0	
Unpaid and uncalled preference shares callable on demand	**R0320**	0			0	0
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**R0330**	0			0	0
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**R0340**	0			0	
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**R0350**	0			0	0
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0360**	0			0	
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**R0370**	0			0	0
Other ancillary own funds	**R0390**	0			0	0

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	**R0400**	0			0	0
Available and eligible own funds						
Total available own funds to meet the SCR	**R0500**	2,013,478	1,987,712	0	0	25,766
Total available own funds to meet the MCR	**R0510**	1,987,712	1,987,712	0	0	
Total eligible own funds to meet the SCR	**R0540**	2,013,478	1,987,712	0	0	25,766
Total eligible own funds to meet the MCR	**R0550**	1,987,712	1,987,712	0	0	
SCR	**R0580**	1,531,813				
MCR	**R0600**	390,654				
Ratio of Eligible own funds to SCR	**R0620**	131.4400%				
Ratio of Eligible own funds to MCR	**R0640**	508.8200%				

S.23.01.01
Own funds

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	**R0700**	2,013,627	
Own shares (held directly and indirectly)	**R0710**	149	
Foreseeable dividends, distributions and charges	**R0720**		
Other basic own fund items	**R0730**	1,043,550	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**R0740**		
Reconciliation reserve	**R0760**	969,928	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	**R0770**	654,614	
Expected profits included in future premiums (EPIFP) - Non- life business	**R0780**		
Total Expected profits included in future premiums (EPIFP)	**R0790**	654,614	

S.25.01.21

Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0100
Market risk	R0010	1,200,694		
Counterparty default risk	R0020	165,890		
Life underwriting risk	R0030	338,866	None	
Health underwriting risk	R0040	143,978	None	
Non-life underwriting risk	R0050	224,329	None	
Diversification	R0060	-563,502		
Intangible asset risk	R0070	0		
Basic Solvency Capital Requirement	R0100	1,510,254		

Calculation of Solvency Capital Requirement		C0100
Operational risk	R0130	130,658
Loss-absorbing capacity of technical provisions	R0140	-5,430
Loss-absorbing capacity of deferred taxes	R0150	-103,669
Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	R0160	0
Solvency capital requirement excluding capital add-on	R0200	1,531,813
Capital add-on already set	R0210	
Solvency capital requirement	R0220	1,531,813
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	R0400	0
Total amount of Notional Solvency Capital Requirement for remaining part	R0410	0
Total amount of Notional Solvency Capital Requirements for ring fenced funds	R0420	0
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	R0430	0
Diversification effects due to RFF nSCR aggregation for article 304	R0440	0

S.28.02.01

Minimum Capital Requirement - Both life and non-life insurance activity

		Non-life activities $MCR_{(NL,NL)}$ Result	Life activities $MCR_{(NL,L)}$ Result
		C0010	**C0020**
Linear formula component for non-life insurance and reinsurance obligations	**R0010**	128,299	0

		Non-life activities		Life activities	
		Net (of reinsurance/ SPV) best estimate and TP calculated as a whole	**Net (of reinsurance) written premiums in the last 12 months**	**Net (of reinsurance/SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance) written premiums in the last 12 months**
		C0030	**C0040**	**C0050**	**C0060**
Medical expense insurance and proportional reinsurance	**R0020**	3,422	1,935		
Income protection insurance and proportional reinsurance	**R0030**	17,548	16,581		
Workers' compensation insurance and proportional reinsurance	**R0040**	87,281	146,243	0	0
Motor vehicle liability insurance and proportional reinsurance	**R0050**	331,375	232,409		
Other motor insurance and proportional reinsurance	**R0060**	66,933	137,407		
Marine, aviation and transport insurance and proportional reinsurance	**R0070**	5,685	7,389		
Fire and other damage to property insurance and proportional reinsurance	**R0080**	96,210	147,325		
General liability insurance and proportional reinsurance	**R0090**	79,247	24,515		
Credit and suretyship insurance and proportional reinsurance	**R0100**	1,811	165		
Legal expenses insurance and proportional reinsurance	**R0110**	400	1,654		
Assistance and proportional reinsurance	**R0120**	3,567	339		
Miscellaneous financial loss insurance and proportional reinsurance	**R0130**	11,380	18,885		
Non-proportional health reinsurance	**R0140**				
Non-proportional casualty reinsurance	**R0150**				
Non-proportional marine, aviation and transport reinsurance	**R0160**				
Non-proportional property reinsurance	**R0170**				

		Non-life activities $MCR_{(L,NL)}$ Result	Life activities $MCR_{(L,L)}$ Result
		C0070	**C0080**
Linear formula component for life insurance and reinsurance obligations	**R0200**	25,305	237,049

		Non-life activities		Life activities	
		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	**Net (of reinsurance/SPV) total capital at risk**	**Net (of reinsurance/SPV) best estimate and TP calculated as a whole**	**Net (of reinsurance/SPV) total capital at risk**
		C0090	**C0100**	**C0110**	**C0120**
Obligations with profit participation - guaranteed benefits	**R0210**			1,666,060	
Obligations with profit participation - future discretionary benefits	**R0220**			23,456	
Index-linked and unit-linked insurance obligations	**R0230**			508,913	
Other life (re)insurance and health (re)insurance obligations	**R0240**	815,601		7,290,700	
Total capital at risk for all life (re)insurance obligations	**R0250**		11,682,039		28,510,948

Overall MCR calculation

		C0130
Linear MCR	**R0300**	390,654
SCR	**R0310**	1,531,813
MCR cap	**R0320**	689,316
MCR floor	**R0330**	382,953
Combined MCR	**R0340**	390,654
Absolute floor of the MCR	**R0350**	7,400
		C0130
Minimum Capital Requirement	**R0400**	390,654

Notional non-life and life MCR calculation

		Non-life activities	**Life activities**
		C0140	**C0150**
Notional linear MCR	**R0500**	153,604	237,049
Notional SCR excluding add-on (annual or latest calculation)	**R0510**	602,307	929,507
Notional MCR cap	**R0520**	271,038	418,278
Notional MCR floor	**R0530**	150,577	232,377
Notional Combined MCR	**R0540**	153,604	237,049
Absolute floor of the notional MCR	**R0550**	3,700	3,700
Notional MCR	**R0560**	153,604	237,049

Statutory auditor’s report

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

(Translation of a report originally issued in Portuguese)

Statutory Auditor's Opinion on solvency and financial condition annual report in the terms set out in subparagraph a) of no. 1 of article 3.º of Regulatory Standard No. 2/2017-R of 24 March issued by Supervisory Authority for Insurance and Pension Funds

To
The Board of Directors of
Fidelidade – Companhia de Seguros, S.A.

INTRODUCTION

Under the terms of subparagraph a) of No. 1 of article 3.º of Regulatory Standard No. 2/2017-R, of 24 March ("Regulatory Standard"), issued by Supervisory Authority for Insurance and Pension Funds ("ASF"), we examined the Solvency and Financial Condition Annual Report ("Report"), established in subparagraph a) of article 26.º from Regulatory Standard No. 8/2016-R, of 16 August, including the quantitative information to be disclosed with that Report ("Quantitative Information"), according to articles 4.º and 5.º of the Commission's Implementing Regulation (EU) No. 2015/2452, of 2 December 2015 of Fidelidade – Companhia de Seguros, S.A. (" The Company"), with reference to 31 December 2016.

Our report comprises the reporting of the following matters:

A. Report on the adjustments between the statement of financial position and the evaluation of the balance sheet for solvency purposes, the classification, availability and eligibility of own funds.
B. Report on the implementation and effective application of the governance system ; and
C. Report on the remaining information disclosed in the solvency and financial condition report and the jointly submitted quantitative information.

A. REPORT ON THE ADJUSTMENTS BETWEEN THE STATEMENT OF FINANCIAL POSITION AND THE EVALUATION OF THE BALANCE SHEET FOR SOLVENCY PURPOSES, THE CLASSIFICATION, AVALABILITY AND ELIGIBILITY OF OWN FUNDS

Responsibilities of the Management Board

It is the responsibility of the Company's Board of Directors the calculation of the adjustments between the statutory statement of financial position and the balance sheet evaluation for solvency purposes, the classification, availability and eligibility of own funds.

Auditor's responsibilities

Our responsibility, as defined in subparagraph a) of No.1 of article 4.º of Regulatory Standard, consists in expressing, based on the work performed, a reasonable assurance conclusion, as to whether the adjustments between the statutory statement of financial position and the balance sheet evaluation for solvency purposes, the classification, availability and eligibility of own funds, are free from material misstatements, are complete and reliable and, in all materially relevant respects, are presented in accordance the applicable legal and regulatory requirements.

According to No. 2 of article 3.º of Regulatory Standard, it is not our responsibility to verify the adequacy of legal requirements, applicable regulatory and calculation techniques of the elements included within the certification by the Company's responsible actuary, as established in the article 7.º of same Regulatory Standard.

Under the terms of subparagraph a) of No. 1 of article 15º of Regulatory Standard, in the transitory regime established for the financial year of 2016, the reporting of the calculation of the solvency capital requirement and the minimum capital requirement was replaced by a report of factual conclusions for ASF regarding the procedures specified in annex III of Regulatory Standard.

Scope of Work

Our procedures were carried out in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information ", and other applicable technical guidance and ethical standards of the Institute of Statutory Auditors (Ordem dos Revisores Oficiais de Contas - "OROC") and consists in obtaining sufficient and appropriate audit evidence to conclude, with reasonable assurance, as to whether the adjustments between the statutory financial position statement and the balance sheet for solvency purposes, the classification, availability and eligibility of of own funds, are free of material misstatements, are complete and reliable and, in all materially relevant respects, are presented in accordance with applicable legal and regulatory requirements.

The procedures carried out included, among other procedures, the following:

(i) the reconciliation of the base information used for the calculation of the adjustments with the Company's information systems and the respective statutory financial position statement as of 31 December of 2016, object of the Statutory Audit whose Report was issued on 13 March 2017 without qualifications or emphases;
(ii) the review of subsequent events that occurred between the date of the Statutory Audit Report and the date of this report;
(iii) an understanding of the adopted criteria;
(iv) the recalculation of the adjustments made by the Company, except for those referred to in the next paragraph that are excluded from the scope of this certification.

The procedures carried out did not include the examination of the adjustments to technical provisions and the amounts recoverable from reinsurance contracts which, according to article 7º of Regulatory Standard, were subject to actuarial certification by the Company's responsible actuary of the. Regarding the deferred taxes adjustments, as result of the adjustments referred to above, the procedures carried out only comprised the verification of the impact on deferred taxes, taking as the basis the referred adjustments made by the Company.

The selection of the procedures performed depends on our professional judgment, including the procedures related to risk assessment of material misstatement on the information subject to analysis, whether due to fraud or error. In making these risk assessments we considered the internal control relevant for the preparation and presentation of the referred information in order to plan and execute the appropriate procedures for the circumstances.

We applied the International Standard of Quality Control 1 (ISQC 1) and, as such, we maintain a quality system of including policies and documented procedures related to the compliance of ethical requirements, professional standards and applicable legal and regulatory requirements.

We believe that the audit evidence obtained is sufficient and appropriate to provide an acceptable basis for our conclusion.

Conclusion

Based on the procedures carried out and which are included in the previous section "Scope of Work", which were planned and performed in order to obtain a reasonable level of assurance, we concluded that the adjustments between the statement of financial position and the balance sheet for solvency purposes, the classification, availability and eligibility of own funds, are free from material misstatements, complete and reliable and, in all materially respects, are in accordance with the applicable legal and regulatory requirements.

B. REPORT ON THE IMPLEMENTATION AND EFECTIVE APPLICATION OF THE GOVERNANCE SYSTEM

Responsibilities of the Management Board

It is the responsibility of the Company´s Board of Directors to:

- Prepare the annual report of the solvency and financial condition and the information to report to ASF for regulatory purposes, under the terms of Regulatory Standard N.º 8/2016-R, of 16 August, issued by ASF; and
  - Define, approve, periodically review and document the main policies, strategies and processes that define and regulate the Company governance, management and control, including the risk management and internal control systems ("Governance System"), which should be described on chapter 2 of the report, under the terms of article 294º of Commission Implementing Regulation (EU) No. 2015/35 of 10 October 2014 (Regulation).

Auditor's responsibilities

Our responsibility, as defined in subparagraph a) of No. 1 of article 4º of Regulatory Standard, consists in expressing, based on the work performed, a limited assurance conclusion about the implementation and effective application of the governance system.

Scope of Work

Our procedures were carried out in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information ", and other applicable technical guidance and ethical standards of the Institute of Statutory Auditors (Ordem dos Revisores Oficiais de Contas - "OROC") consists in obtaining sufficient and appropriate audit evidence to conclude, with moderate assurance, as to whether the content of the "Governance System" chapter of the report about solvency and financial position reflects, in all materially respects, the description of the implementation and effective application of the Governance System of the Company at 31 December 2016.

The procedures were carried out included, among others procedures, the following:

(i) the assessment of the information included on Company's Report relating to the Governance System with respect to the following main aspects: general information; qualification and reputation requirements; risk management system with the inclusion of risk and solvency self-evaluation; internal control system; internal audit function; actuarial function; subcontracting and eventual additional information;
(ii) reading and assessing of the documents which sustain the main policies, strategies and processes described in the Report, which regulate how Company is governed, managed and controlled and obtaining supporting evidence of its implementation;
(iii) discussing the conclusions with the Company's management.

We applied the International Standard of Quality Control 1 (ISQC 1) and, as such, we maintain a system of quality control including policies and documented procedures related to the compliance of ethical requirements, professional standards and applicable legal and regulatory requirements.

We believe that the audit evidence obtained is sufficient and appropriate to provide an acceptable basis for our conclusion.

Conclusion

Based on the procedures carried out and described in the previous section "Scope of Work", which were planned and performed t in order to obtain a moderate degree of assurance, nothing has come to our attention which causes us to believe that at the date to which solvency and financial condition report refers to (31 December 2016), the content of the chapter "Governance System", is not fairly present, in all materially respects, the description of the implementation and effective application of the Company`s Governance System.

C. REPORT ON THE REMAINING INFORMATION DISCLOSED IN THE SOLVENCY AND FINANCIAL CONDITION REPORT AND THE JOINTLY DISCLOSED QUANTITAVE INFORMATION

Responsibilities of the Management Board

It is the responsibility of the Board of Directors to prepare the Solvency and Financial condition annual Report and the information to report to ASF for supervisory purposes, under the terms of Regulatory Standard No. 8/2016-R, 16 de August, issued by ASF, including the quantitative information to be jointly disclosed with that report, as established in the articles 4.º e 5.º of the Commission's Implementing Regulation (UE) n.º 2015/2452, 2 December 2015.

Auditor's responsibilities

Our responsibility, as defined in subparagraph c) of No. 1 of article 4.º of Regulatory Standard, consists in expressing, based on the procedures carried out, a limited assurance conclusion as to whether the remaining disclosed information in the report and in the jointly disclosed quantitative information, is in agreement with the information subject to the work carried out and with the knowledge we obtained during its execution.

Scope of Work

Our procedures were carried out in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information ", and other applicable technical guidance and ethical standards of the Institute of Statutory Auditors (Ordem dos Revisores Oficiais de Contas - "OROC") and consists in obtaining sufficient and appropriate audit evidence to conclude, with moderate assurance, that the remaining disclosed information in Solvency and Financial condition report is in agreement with the information that was subject to auditor review and with the knowledge obtained during the certification.

The procedures carried out included, among others procedures, the complete reading of the referred report and the evaluation of the agreement as referred above.

We applied the International Standard of Quality Control 1 (ISQC 1) and, as such, we maintain a system of quality control including policies and documented procedures related to the compliance of ethical requirements, professional standards and applicable legal and regulatory requirements.

We believe that the audit evidence obtained is sufficient and appropriate to provide an acceptable basis for our conclusion.

Conclusion

Based on the procedures carried out and described in the previous section "Scope of Work", which were planned and performed in order to obtain a moderate degree of assurance, nothing has come to our attention which causes us to believe that the information disclosed in solvency and financial condition report is not in agreement with the information which was subject to the work carried out by us with the knowledge obtained during its execution.

D. OTHERS MATTERS

Considering the normal dynamics of any internal control system, the conclusions presented related to the governance system of the Company should not be used for any projection of future periods, since there could be changes of the processes and controls analyzed and their degree of efficiency. On the other hand, given the limitations of the internal control system, there could be undetected irregularities, frauds or mistakes.

Lisbon, 26 May, 2017

Ernst & Young Audit & Associados – SROC, S.A.

Sociedade de Revisores Oficiais de Contas (No. 178)

Represented by:

(Signed)

Ana Rosa Ribeiro Montes Pinto - (ROC No. 1230)

CMVM registered NO. 20170841

Responsible actuary's report

Fidelidade - Companhia de Seguros, S.A.

CERTIFICATION REPORT ON SOLVENCY AND FINANCIAL CONDITION AND INFORMATION TO BE DISCLOSED TO THE ASF FOR SUPERVISORY PURPOSES

CONDITION AT 31 DECEMBER 2016

Lisbon, 19-05-2017

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1. Introduction

This report was done by the Appointed Actuary certified by the Insurance and Pension Funds Supervisory Authority, aiming to provide an independent opinion on the solvency and financial condition of Fidelidade - Companhia de Seguros, S.A. at December 31, 2016.

The company's situation is summarised in the following tables:

Technical Provisions

Life	**9,673,886,397**
Best Estimate (after Transitional Deduction to the Technical Provisions)	9,475,338,858
Risk Margin	198,547,539
Non-Life	**716,325,708**
Best Estimate	696,310,487
Risk Margin	20,015,221
Health SLT	**815,600,643**
Best Estimate (after Transitional Deduction to the Technical Provisions)	726,735,315
Risk Margin	88,865,328
Health NSLT	**171,658,121**
Best Estimate	168,260,929
Risk Margin	3,397,192
Total Technical Provisions	**11,377,470,869**
Future Discretionary Benefits	23,456,397

U: Euros

Amounts Recoverable

Life	15,988,674
Non-Life	99,703,635
Health SLT	-
Health NSLT	60,010,984
Total Amounts Recoverable	**175,703,293**

U: Euros

Total own funds

Total available and eligible own funds	**-**
Total available own funds to meet the SCR	2,013,477,730
Total available own funds to meet the MCR	1,987,711,563
Total eligible own funds to meet the SCR	2,013,477,730
Total eligible own funds to meet the MCR	1,987,711,563
SCR	**1,531,813,196**
MCR	**390,653,661**
Ratio of eligible own funds to SCR	**131%**
Ratio of eligible own funds to MCR	**509%**

U: Euros

Underwriting Risks

	Net Capital Requirement	**Gross Capital Requirement**
Life Underwriting Risks	338,083,259	338,865,885
Non-life Underwriting Risks	224,328,832	224,328,832
Health Underwriting Risks	143,977,811	143,977,811
Technical Provisions Loss Adjustment	-782,626	

U: Euros

2. Scope

This report is the certification of the solvency and financial condition report and the information to be disclosed to the ASF for supervisory purposes, set out in Regulatory Standard No.2/2017-R, of 24th March, a key element in strengthening the quality and transparency of the report and disclosure of information, one of the pillars of the Solvency II regime.

This report has been done in accordance with the structure presented in Annex II of Regulatory Standard No.2/2017-R, of 24th March.

It is the function of the appointed actuary to certify the adequacy with the legal, regulatory and technical regulations applicable to the calculation of the technical provisions, the amounts recoverable from reinsurance contracts and special purpose vehicles for securitisation of insurance risks and the capital requirement components related with those items.

The elements to be certified by the appointed actuary are defined in a regulatory standard of the Insurance and Pension Funds Supervisory Authority (ASF), which must also establish the content, terms, frequency, principles and presentation methods of the certification report and the terms and methods of reporting and publishing, as per the regulations in no.1, 3 and lines a) to c) from no.11 of the cited Article 77.

The certification covers confirmation of the adequacy with the legal, regulatory and technical regulations applicable to calculating the following elements:

a) The technical provisions, including the application of the volatility adjustment, the matching adjustment and the transitional measures set out in Articles 24 and 25 of Law No. 147/2015, of 9th September;

b) The amounts recoverable from insurance contracts and special purpose vehicles for securitisation of insurance risks;

c) The categories of life insurance underwriting risk, non-life insurance underwriting risk, health underwriting risk, and adjustment for the loss-absorbing capacity of the technical provisions of the solvency capital requirement, disclosed in the solvency and financial condition report.

We have aimed to provide sufficient information in this report for another Actuary to be able to recognise the methodology and the assumptions used and to understand the reasons which form the opinion of the Appointed Actuary on the adequacy of the calculation of the elements subject to certification and on the level of underlying uncertainty.

This report may only be analysed as a whole and considering the context and purpose for which it has been drawn up, and its conclusions may not be used with other aims and/or within any other scope.

It must be understood that the results of after applying statistical methods always have an implicit degree of uncertainty due to random factors, structural changes not yet reflected in the Company's information system and possibly in the market, and legal, judicial and political changes which may have an impact on the models applied.

3. Responsibilities

This report has been done in line with the provisions of Regulatory Standard No. 2/2017-R, of 24th March.

Approval of the solvency and financial condition report is the responsibility of the company's administration.

The issue of an independent actuarial opinion on the elements mentioned in the previous chapter is the responsibility of the appointed actuary.

In the conclusions of this report was taken into account the conclusions of the certified official auditor, including, if applicable, any irregularities detected.

4. Opinion

The calculations of the technical provisions, amounts recoverable from reinsurance contracts, underwriting risks and solvency capital requirement components related with those risks are considered adequate, in line with the legal, regulatory and technical regulations applicable.

Lisbon, 19-05-2017