FIDELIDADE
SEGUROS DESDE 1808

Solvency and financial condition report 2017

Certified by the Statutory Auditor and Responsible Actuary

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, amended and rectified by Commission Implementing Regulation (EU) No. 2017/2190, of 24 November 2017.

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.

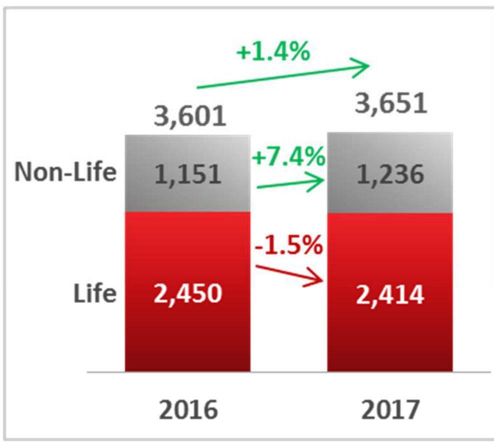
Key indicators in 2017 were:

€ 3,651 million **Total Premiums Written** **Life: € 2,414 million** **Non-Life: € 1,236 million**	**30.2%** **Market Share (PT)** **Life: 32.9%** **Non-Life: 26.0%**	**2,612** **Employees**
€ 15.9 billion **Net Assets**	**€ 187.8 million** **Net Profits**	**101.7%** **Non-Life** **Combined Ratio**

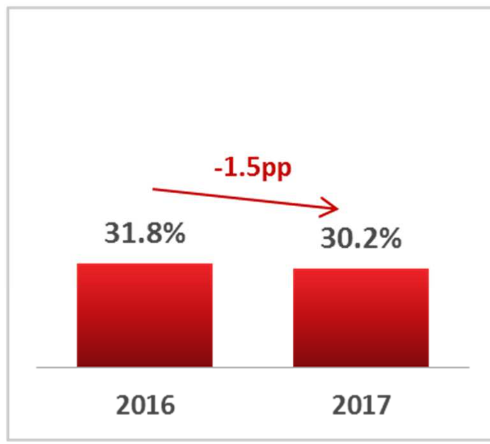
Fidelidade's international business is an important means of sustained growth and pursuit of its medium and long-term goals. The company currently operates in three continents (Europe, Africa and Asia), with several business units, in the form of branches or subsidiaries.

In 2017, Fidelidade had a very consistent performance, recording total premiums written of EUR 3,651 million. Regarding the activity in Portugal, Fidelidade registered EUR 3,511 million, achieving a total market share of 30.2%. The international business recorded growth of 0.9%, reflecting the strategies established for the different international operations.

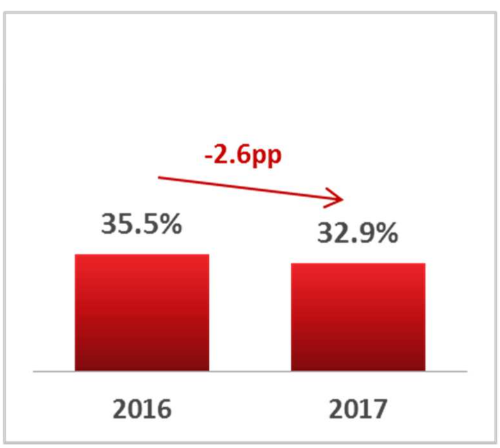
Total Premiums Written – Life and Non-Life *(M€)*



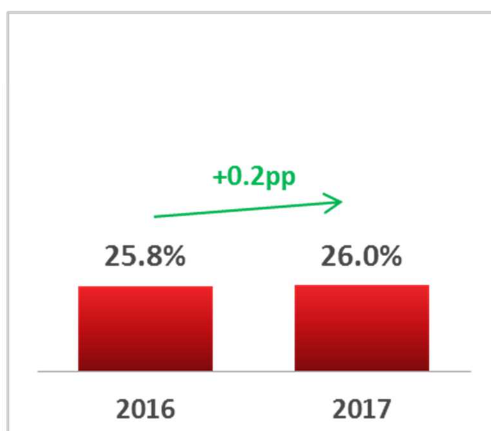
Total Market Share in Portugal *(%)*



Life Market Share in Portugal *(%)*

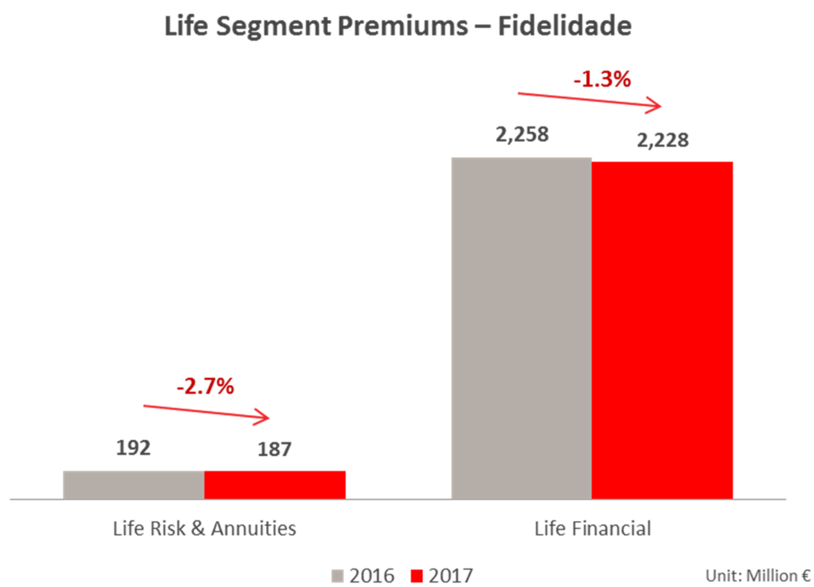


Non-Life Market Share in Portugal *(%)*

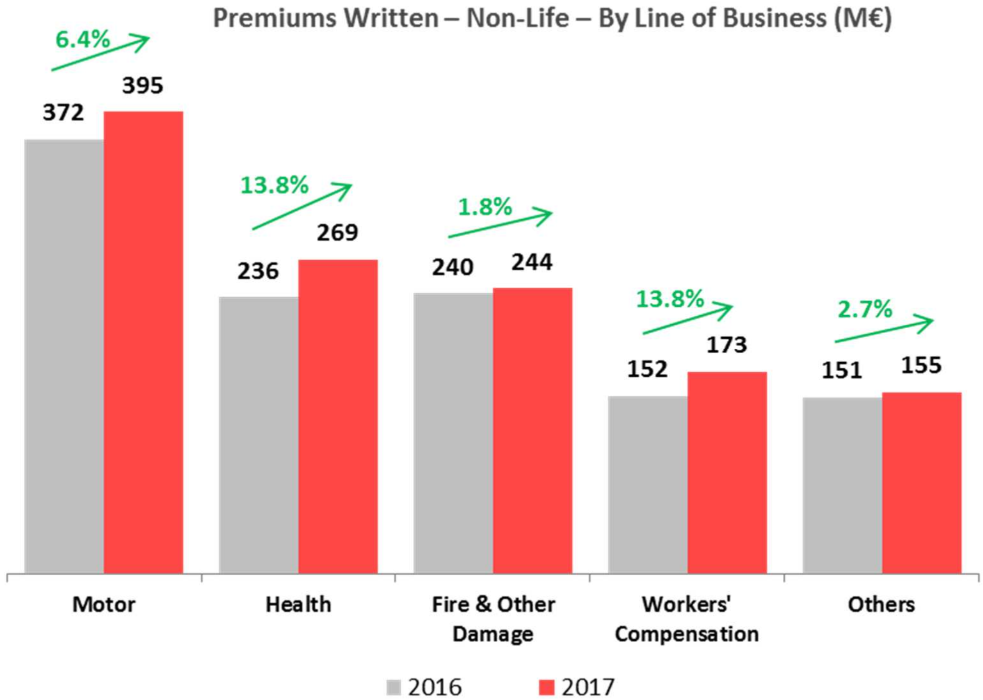


In 2017, Fidelidade maintained its leadership across both the Life and Non-Life segments.

In the Life segment, Fidelidade strengthened its market share in annuities products. In the case of retirement products, and as a result of continued emphasis in this area, Fidelidade holds a 50% market share, reflecting clients' great confidence in Fidelidade's robustness.



Fidelidade also grew more than most of its competitors in the Non-Life segment, increasing its market share by 0.2 pp to 26.0%. The 1.5 pp increase in the health products' market share (to 35.2%) was particularly significant.



Operational performance experienced a negative trend in 2017, with the combined ratio increasing from 97.8% to 101.7% (+3.9 pp).

This result was influenced by extraordinary claims, namely due to the forest fires in Portugal in June and October.

On the other hand, there was a 1.5 pp fall in the expense ratio, from 30.4% to 28.9% in 2017.

Fidelidade's Net Assets were EUR 15.9 billion in 2017, representing a rise of 8.3% compared to 2016.

Fidelidade's investment portfolio in 2017 (including Cash and Bank Deposits) was at EUR 15.0 billion, up from EUR 13.6 billion in 2016.

In 2017, 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 496 million (EUR 327 in 2016) and an investment yield of 3.5% (2.4% in 2016).

Lastly, no activities or other significant events with a material impact on the Company occurred during the period covered by this report.

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.

The Remuneration Policy applicable to Fidelidade's corporate bodies is based on principles which promote the Company's long-term sustainability, effective management and control of the risks assumed by it and alignment with the interests of Fidelidade, its shareholders and also policy holders, insured persons, participants and beneficiaries.

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.

The Company has implemented processes and procedures for managing risk by type of risk – strategic risk, underwriting risk (product design and pricing; underwriting; reserving; claims management processes; reinsurance and alternative risk transfer), market risk, counterparty default risk, concentration risk, liquidity risk and reputational 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 ORSA plays a critical role in company management, and the results obtained from it are taken into consideration in the company's Risk Management, in Capital Management and in Decision Making.

The rules and principles that the Company's internal audit function must comply with are established in the Internal Audit Regulation.

The internal audit function is performed with independence, impartiality and objectivity, and mechanisms have been set up to preserve these principles.

Due to the nature, complexity and scale of the Company's portfolios, the actuarial function is subdivided into life actuarial and non-life and health actuarial. These actuarial functions are independent in functional terms and report directly to the Company's Executive Committee.

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. Within the Fidelidade Group a range of outsourced functions or activities considered critical or important have been identified, most of which are outsourced intra-group, the service providers of these functions or activities mainly being located in Portugal.

Lastly, there were no material changes in the Company's governance during the period covered by this report.

However, the following aspects which are mentioned throughout this report should be highlighted:

- Taking into consideration the market changes seen in recent years and the new regulatory framework applicable to the insurance business since 2016, the Executive Committee approved a revision of the Company's Investments Policy, in September 2017;
- Following the revision of this Policy, in March 2018 the Executive Committee approved the Asset and Liability and Liquidity Risk Management Policy which, together with the Investments Policy, describes the strategy for managing financial risks, insurance risks and liquidity risks, in the short, medium and long term, in a context of asset and liability management;
- In 2017, the Company outsourced activities related with asset management regarding, on the one hand, a Senior Secured Loans portfolio and, on the other, two Investment Grade Fixed Income Securities portfolios.

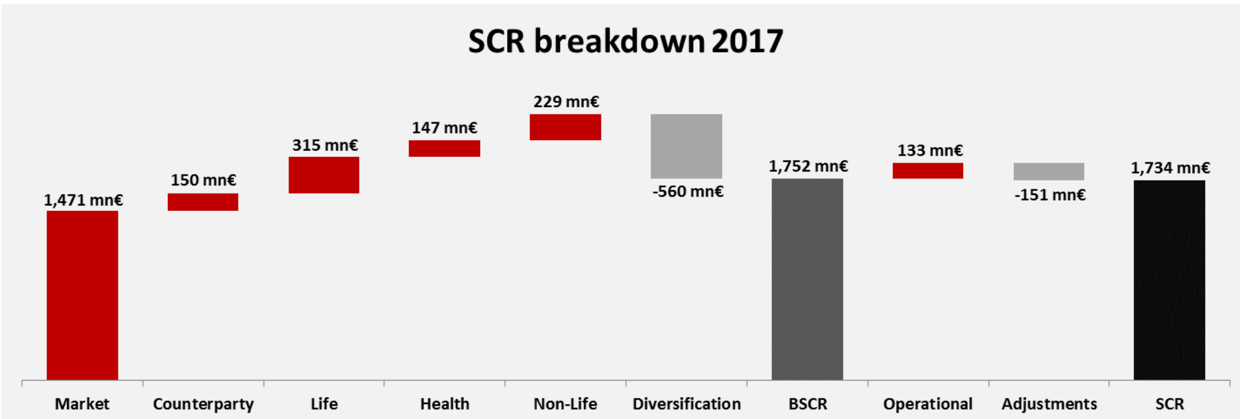
Risk profile

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 2017 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.

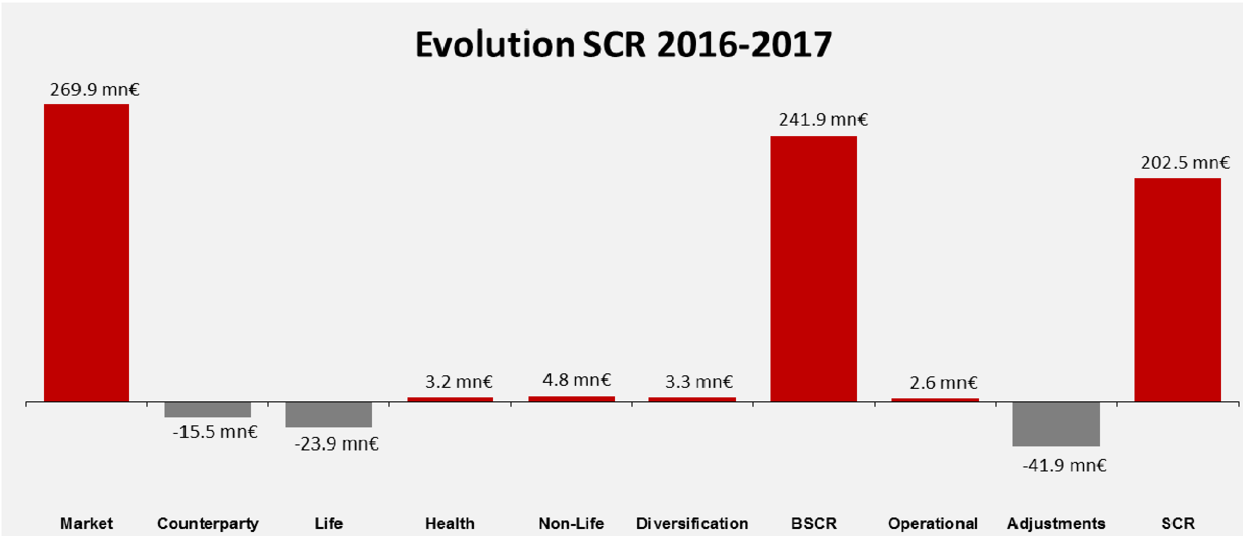
Various risk mitigation techniques are in use, or are being studied, for a set of risks to which the Company is exposed.

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 2017, the Company only recognised the adjustment relating to the decrease in deferred tax liabilities.

During the period covered by this report, there was an increase in the Company's risk profile, embodied in an increase in the solvency capital requirement (SCR) of around EUR 203 million, when compared with the figure at 31 December 2016.



This increase was largely a result of the evolution of the market risk, arising from increases in the sub-modules of equity risk, spread risk, interest rate risk and concentration risk, due to:

- the decrease in assets subject to the transitional measure on equity risk;
- the increase in exposure to corporate debt as against the decrease in exposure to debt where the shock to be applied to the spread risk is zero
- and the increase in exposure to the Fosun Group in concentration risk, essentially due to the participation the Company holds in Luz Saúde.

Valuation for solvency purposes

Concerning to the assets, a description is provided of the bases, methods and main assumptions used for the valuation 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.

Amounts in thousand euros

Assets	Solvency II	Financial statements	Difference[1]	Solvency II (previous year)
Financial assets	13,878,416	14,147,470	-269,054	12,052,696
Real estate assets	661,951	660,487	1,464	661,394
Other assets	763,223	818,236	-55,013	1,476,202
Reinsurance recoverables	258,125	331,908	-73,783	175,704
TOTAL	**15,561,715**	**15,958,101**	**-396,386**	**14,365,996**

The main differences are in the following classes of assets:

- 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), and from the recognition of the market value of Luz Saúde which is registered in the financial statements at acquisition cost.

- Deferred acquisition costs and Intangible Assets

  The difference is related to the fact that the value of these assets 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 technical provisions, given that its valuation for solvency purposes is net of these receivables.

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

- Cash and cash equivalents

  This results from the difference, when negative, between the balances of current accounts related with futures contracts and the components relating either to the valuation of unmatured contracts (recorded under the heading “Derivatives”) or to the initial margin (collateral), which was considered in the valuation for solvency purposes under the heading “Debts owed to credit institutions” in other liabilities.

- Reinsurance recoverables

  This results from the use of different bases, methods and main assumptions when valuing the assets for solvency purposes and in the financial statements.

The differences between the amounts for solvency purposes in 2016 and those in 2017 reflect the evolution of the Company’s activity in the period covered by this report, as no changes were made to the bases, methods and main assumptions used for the valuation of the assets for solvency purposes.

Concerning to the technical provisions, a description is provided of the bases, methods and main assumptions used for the valuation 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 “Savings products”, with and without profit-sharing, and “Health – SLT”, related with liabilities with workers’ compensation contracts.

Amounts in thousand euros

Line of Business	Solvency II	Financial statements	Difference[2]	Solvency II (previous year)
Life	10,064,354	10,620,226	-555,872	9,673,887
Non-Life	800,655	1,091,279	-290,624	716,326
Health – SLT	830,695	825,834	4,861	815,600
Health – NSLT	181,199	185,098	-3,899	171,658
TOTAL	**11,876,903**	**12,722,437**	**-845,534**	**11,377,471**

The main differences result, on the one hand, from the use of different bases, methods and main assumptions for the valuation of the technical provisions for solvency purposes and in the financial statements, and, on the other, from the application of the transitional measure mentioned above.

The differences between the amounts for solvency purposes in 2016 and those in 2017 reflect the evolution of the Company's activity in the period covered by this report, as no changes were made to the bases, methods and main assumptions used for the valuation of the technical provisions for solvency purposes.

Pursuant to Article 25 of Law No. 147/2015, of 9 September, the Company applied the transitional deduction on technical provisions on the first day of 2017. The table below shows the amount of that deduction at 31/12/2017:

Amounts in thousand euros

Lines of business/ Homogeneous risk groups		Transitional Deduction		
		Initial Amount	Decrease at 1/1/2017	Amount at 31/12/2017
29 and 33	Life insurance liabilities - Health – SLT	325,545	-20,347	305,198
30	Life insurance liabilities – Insurance with profit sharing – Savings products	205,508	-12,844	192,664
32	Life insurance liabilities – Other liabilities similar to life - Savings products	393,792	-24,612	369,180
Total		**924,845**	**-57,803**	**867,042**

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

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

Amounts in thousand euros

Liabilities	Solvency II	Financial statements	Difference[3]	Solvency II (previous year)
Other liabilities	1,042,468	788,542	**253,926**	**974,898**
TOTAL	**1,042,468**	**788,542**	**253,926**	**974,898**

The main differences are in the following classes of liabilities:

- 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;

- Debts owed to credit institutions

  This results from the difference, when negative, between the balances of current accounts related with futures contracts and the components relating either to the valuation of unmatured contracts (recorded under the heading "Derivatives") or to the initial margin (collateral), which was considered in the financial statements under the heading "Cash and cash equivalents" in other assets;

- Reinsurance payables

  The difference relates to reinsurance ceded payables for reimbursement of amounts paid out in direct insurance claims. For solvency purposes these payables are included in the technical provisions, the valuation of which was net of these.

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

The differences between the amounts for solvency purposes in 2016 and those in 2017 reflect the evolution of the Company's activity in the period covered by this report, as no changes were made to the bases, methods and main assumptions used for the valuation of other liabilities for solvency purposes.

Capital management

The table below presents a comparison 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:

Amounts in thousand euros

	Solvency II	Financial statements	Difference[4]	Solvency II (previous year)
Assets	15,561,715	15,958,101	-396,386	14,365,996
Technical Provisions	11,876,903	12,722,437	-845,534	11,377,471
Other liabilities	1,042,468	788,542	253,926	974,898
Excess Assets over Liabilities	**2,642,344**	**2,447,122**	**195,222**	**2,013,627**

Regarding the structure, amount and quality of basic own funds, the Company does not have any ancillary own funds and all the basic own funds are classified as Tier 1.

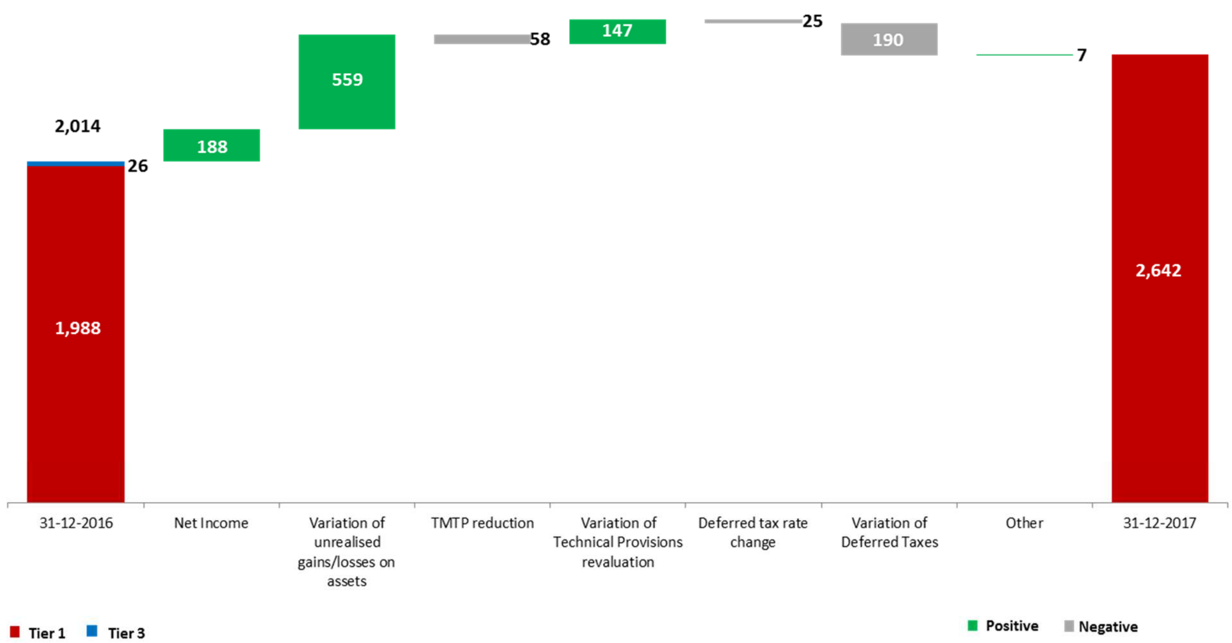
The table below shows the amounts of own funds available and eligible to meet the solvency capital requirement (SCR) and the minimum capital requirement (MCR), classified by tier, relating to 31/12/2017 and 31/12/2016:

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

Amounts in thousand euros

	Available own funds to meet				Eligible own funds to meet			
	SCR	SCR (previous year)	MCR	MCR (previous year)	SCR	SCR (previous year)	MCR	MCR (previous year)
Tier 1	2,642,195	1,987,712	2,642,195	1,987,712	2,642,195	1,987,712	2,642,195	1,987,712
Tier 2	0	0	0	0	0	0	0	0
Tier 3	0	25,766	0	0	0	25,766	0	0
Total	**2,642,195**	**2,013,478**	**2,642,195**	**1,987,712**	**2,642,195**	**2,013,478**	**2,642,195**	**1,987,712**

The graph below shows the main changes to the Company's available own funds during the period covered by this report (amounts in million euros):



TMTP – Transitional Measure on Technical Provisions

When calculating the Solvency Capital Requirement (SCR), the Company uses the standard formula and does not apply any internal model.

On the other hand, 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 held directly or indirectly and 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 held directly or indirectly in Yens (JPY) and Australian dollars (AUD), the Company used exchange rate forwards, and the effect of these was also reflected in those capital requirements.

The solvency capital requirement (SCR) and the minimum capital requirement (MCR), and the respective coverage ratios, relating to 31/12/2017 and 31/12/2016, were:

Amounts in thousand euros

	Capital Requirements	Capital Requirements (previous year)	Coverage Ratio	Coverage Ratio (previous year)
SCR	1,734,353	1,531,813	152.34%	131.44%
MCR	433,588	390,654	609.38%	508.82%

This improvement in the coverage ratios is the result of significant growth in the Company's own funds, which considerably exceeded the increase in its risk profile as described above.

Lastly, it should be highlighted that if the Company did not apply the transitional deduction to the technical provisions, the solvency capital requirement (SCR) and the minimum capital requirement (MCR) would be 118.10% and 454.43%, respectively.

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Contents

1. Business and performance

No activities or other significant events with a material impact on the Company occurred during the period covered by this report.

Notwithstanding, comparisons with the information included in the 2016 report are presented throughout this chapter.

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 87.5% and 86.9% of total non-life premiums written during 2017 and 2016, 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 2017, is Ernst & Young Audit & Associados – SROC, S.A., with its head office at Avenida da República, 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.

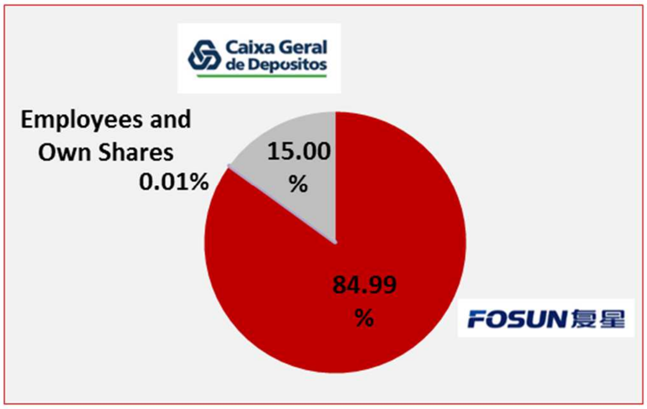
The Statutory Auditor was appointed on 15 May 2014.

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.

Shareholder Structure



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 2017, 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 2017, Fidelidade held 13,300 own shares, corresponding to 0.0110% of the share capital and percentage of votes.

At 31 December 2017, the members of the management and supervisory bodies did not hold shares in the Company.

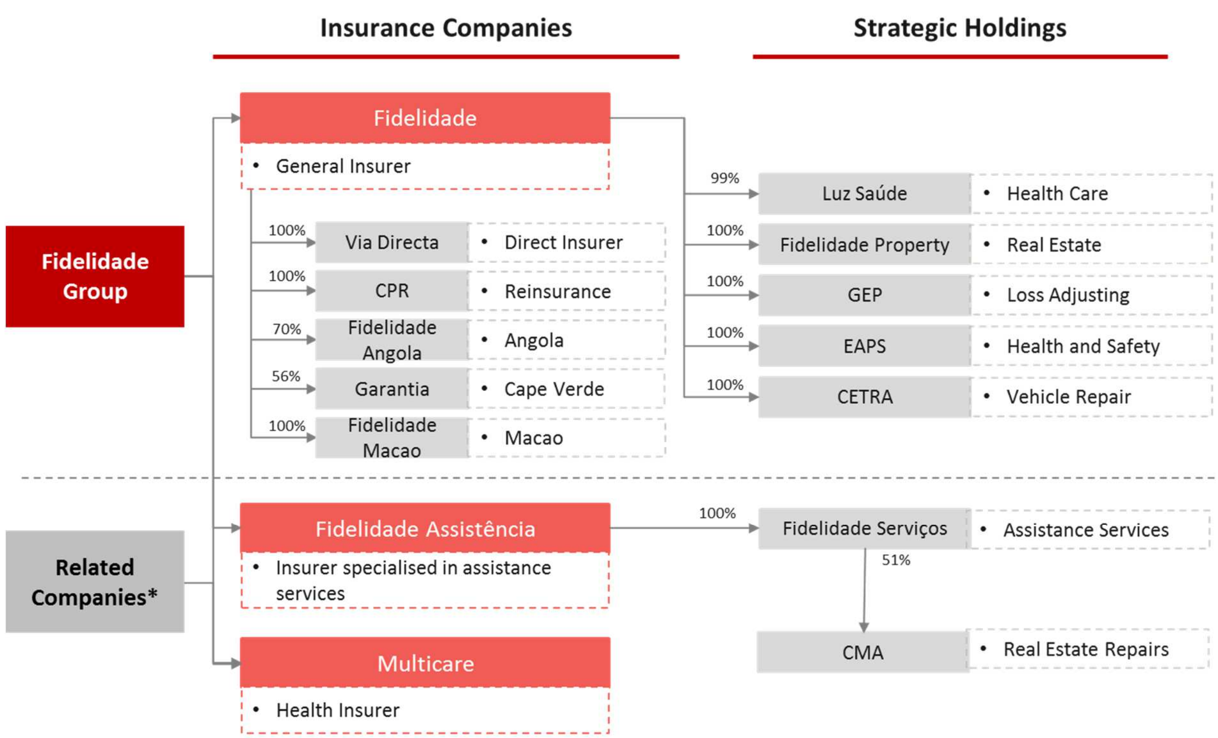
1.1.5. Position of the Company within the insurance group structure to which it belongs

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, Macao-Life Segment, and Mozambique) and through its insurance subsidiaries, Fidelidade Angola, Garantia (Cape Verde) and Fidelidade Macao (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

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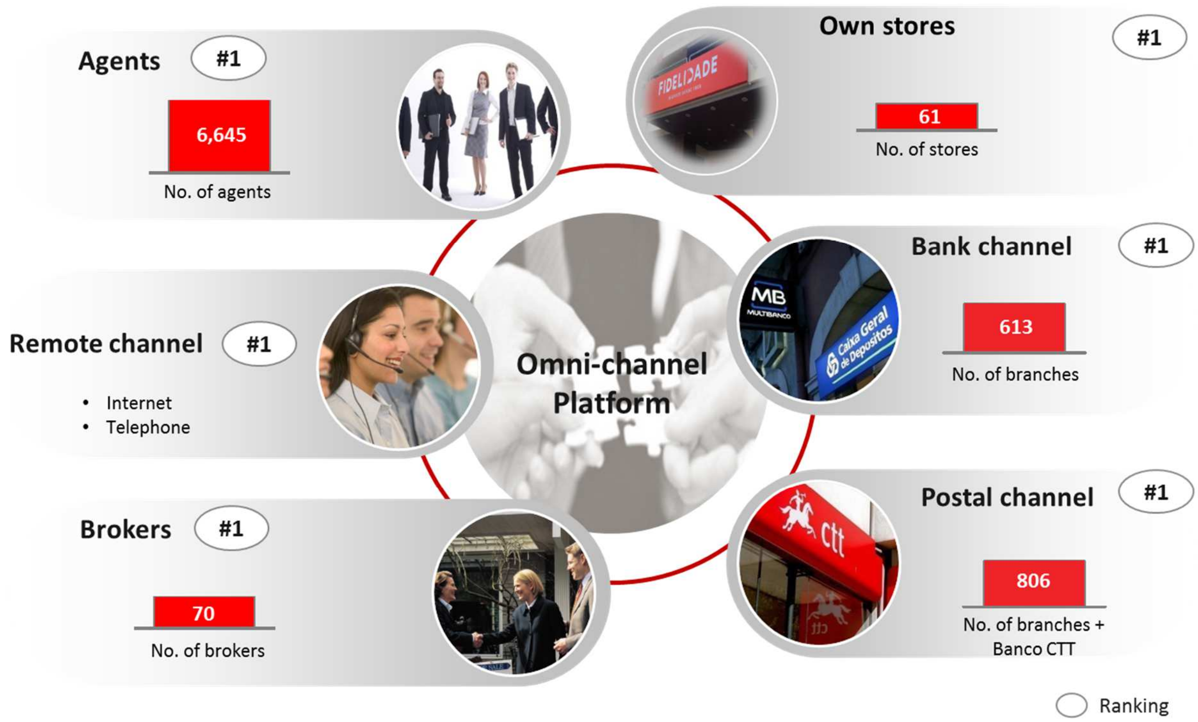
1.1.6. Company Business

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 2017 were:

€ 3,651 million **Total Premiums Written** Life: € 2,414 million Non-Life: € 1,236 million	**30.2%** **Market Share (PT)** Life: 32.9% Non-Life: 26.0%	**2,612** **Employees**
€ 15.9 billion **Net Assets**	**€ 187.8 million** **Net Profits**	**101.7%** **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.

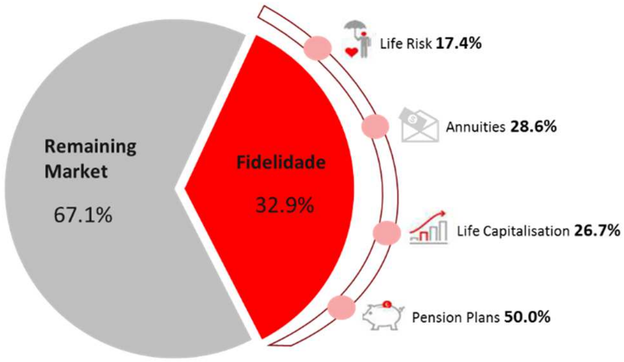


Fidelidade's offer includes Life insurance (Risk, Annuities and Financial) and Non-Life insurance, which includes products such as Motor Insurance, Workers' Compensation, Health, and Home Insurance, among others. Fidelidade's insurance offer also provides a unique range of assistance in the different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

In 2017, Fidelidade maintained its leadership across both the Life and Non-Life segments, recording an overall market share of 30.2%, which corresponds, nevertheless, to a decrease of 1.5 pp compared to the previous year.

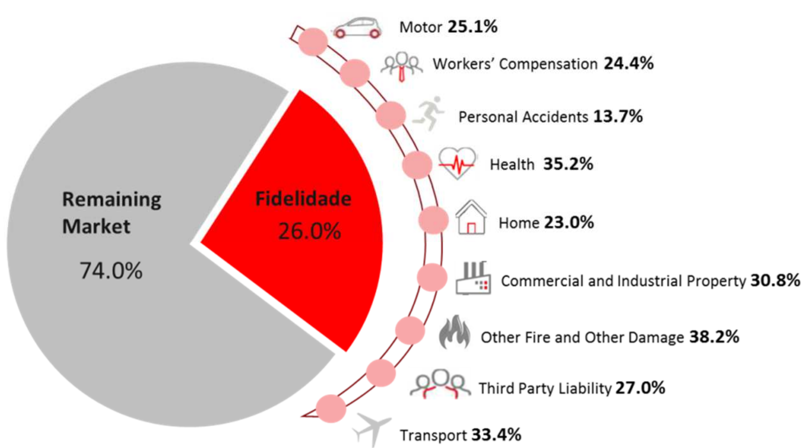
In the Life segment, Fidelidade strengthened its market share in annuities products. In the case of retirement products, and as a result of continued emphasis in this area, Fidelidade holds a 50% market share, reflecting clients' great confidence in Fidelidade's robustness.

Life Segment – Market Share

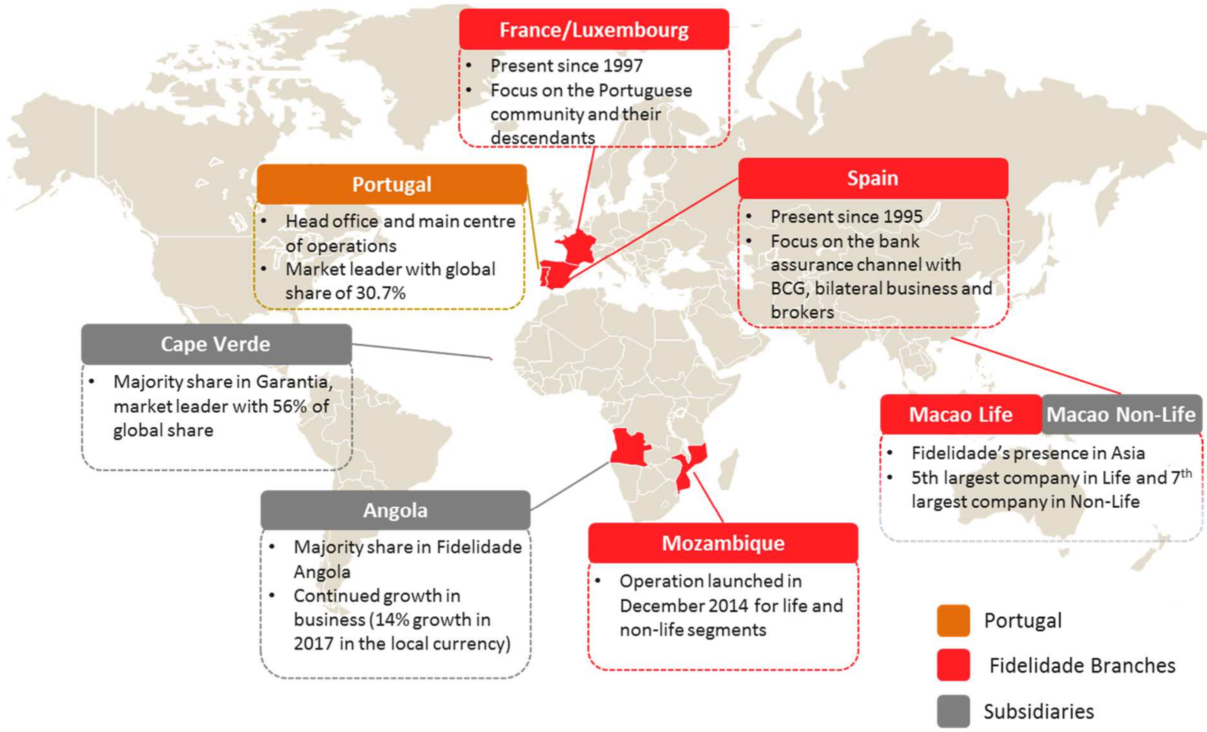


Fidelidade also grew more than most of its competitors in the Non-Life segment, increasing its market share by 0.2 pp to 26.0%. The 1.5 pp increase in the health products' market share (to 35.2%) was particularly significant.

Non-Life Segment – Market Share

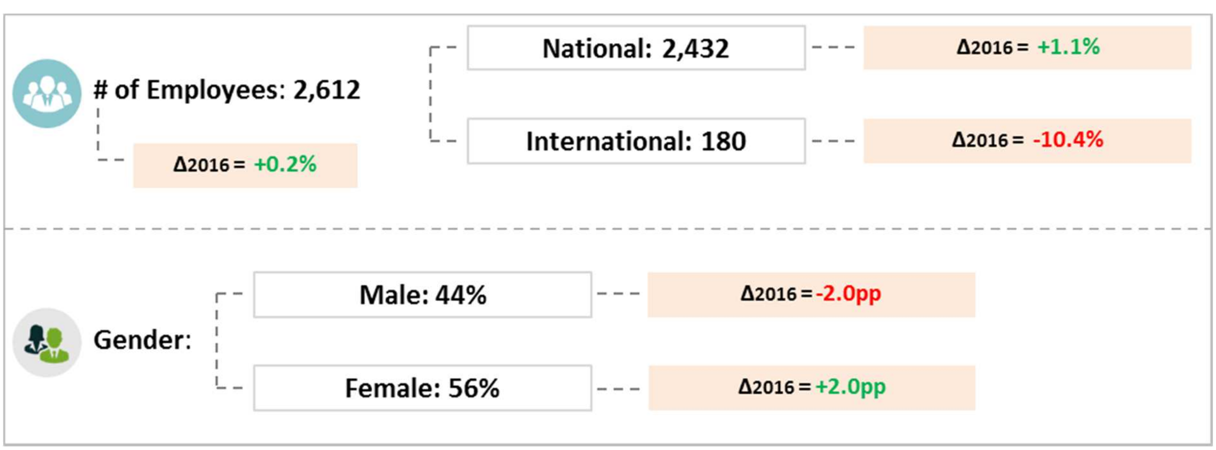


Fidelidade's international insurance business is an important means of sustained growth and pursuit of its medium and long-term goals. The company currently operates in three continents (Europe, Africa and Asia), with several business units, in the form of branches or subsidiaries.



At the end of 2017, Fidelidade had 2,612 employees, 93% based in Portugal and the remaining 7% in international operations that Fidelidade carries on through its branches.

In comparison with 2016, the number of employees rose by 0.2%, reflecting the evolution of the workforce in Portugal (+1.1%) due to the increase in business activity.



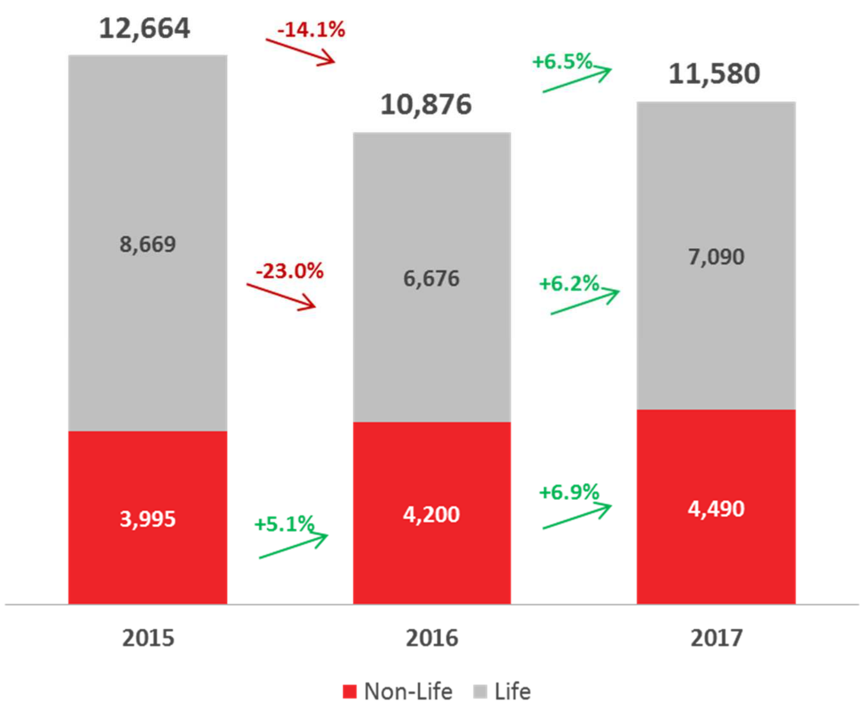
1.1.7. Events Summary 2017

January	Health – launch of Multicare's new service *Orientação Médica Online*, an innovative service in the Portuguese market. The service operates 24 hours a day, 7 days a week, and medical advice is given by telephone or email**.**
February	*Pensar Maior* – an event held at MEO Arena with Fidelidade's stakeholders, which provided a platform not only to look at the results from 2016, but also to plan for the coming years, with a clear focus on technological innovation, based on people. "MyFidelidade"App – launch of a mobile application that allows clients to manage their motor, health and home insurance on a single site. It also allows them to request motor assistance and to follow claims procedures and requests for medical expense reimbursements in real time.
March	"*A Nova Fidelidade de Sempre*" Campaign – new campaign based on repositioning the brand, by adapting to the digital world, building a path which seeks to put technology to work for people and promote innovation as a means of simplifying interactions. "*Fidelidade Casa*" – launch of a disruptive product presenting greater simplicity and offering new plans and additional covers and, therefore, better suited to clients' needs and possibilities.
April	Fidelidade Challenge 2017 – initiative to enable innovation through direct contact between society and the Fidelidade Group. Consists of a contest for university students which seeks to showcase and reward innovative projects designed in response to a specific challenge.
May	Digital Lab – creation, in partnership with Deloitte Digital, of a digital laboratory, aiming to enable the creation and generation of new ideas. The Lab studies and explores concepts with a strong technological component: IoT for Homes and Assistance for Seniors.
June	"*Proteção Vital da Família*" – launch of an innovative life insurance product which accompanies the family throughout its lifecycle, guaranteeing protection for the different needs that may arise during the various stages of that cycle.
July	Protechting 2.0 – Completion of the final stage of the new edition of this start-ups accelerator with the support of Fidelidade and in cooperation with Beta-i, promoting innovation in the areas of health and assistance.
September	*Fidelidade Comunidade* Award – As part of its social responsibility programme, Fidelidade launched this award totalling €500,000 which seeks to support projects in the areas of Employability and Support for the Disabled, Healthy Lifestyles and Active Ageing.
October	"Fidelidade GO" – launch of a Personal Accidents product, designed to meet the needs of students studying abroad, in particular as part of the Erasmus programme. It guarantees assistance and capital payments and/or indemnities for property damage or bodily injury, as a result of an accident.
November	Multicare *Medicina Online* Campaign – Launch of Multicare's new corporate image, which has been updated and brought more in line with the Fidelidade Group, and launch of the new *Medicina Online* service, which enables clients to obtain medical advice at a distance 24 hours a day by telephone and video consults.
December	Bancassurance Agreement with CGD – conclusion of negotiations to reformulate the current agreement, strengthening the partnership conditions and expanding it to new geographies.

1.2. Underwriting performance

1.2.1. Evolution of the Portuguese Insurance Market

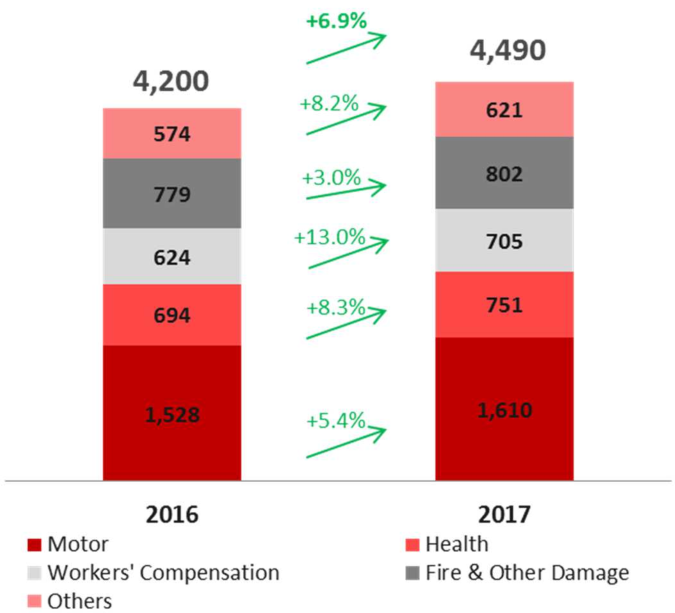
In 2017, direct insurance premiums totalled around EUR 11,580 million, which represented an annual growth of 6.5%. This growth was influenced by the positive performance of both the Non-Life and Life segments.



Unit: Million Euros
Source: APS "Direct Insurance Production 2017"

In the Life Segment, after a significant fall in 2016 (-23%), total premiums registered growth of 6.2% compared to 2016, totalling EUR 7,090 million in 2017. This growth contrasts with the negative trend recorded in recent years and reflects the performance of financial products.

The Non-Life segment performed excellently across the main lines of business, as a result of improvements in the Portuguese economy. Analysing by line of business, the segments that recorded the main growth were Workers' Compensation (+13.0%) and Health (+8.3%).



Unit: Million Euros

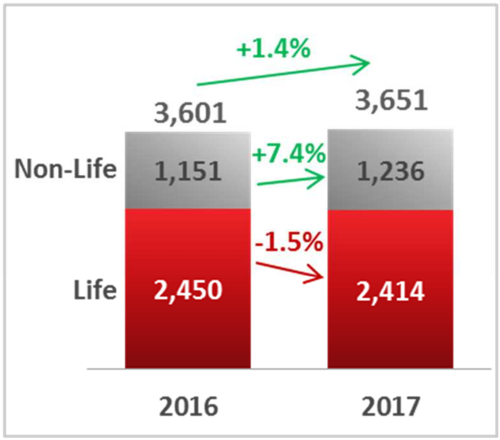
Source: APS "Direct Insurance Production 2017"

1.2.2. Fidelidade's performance

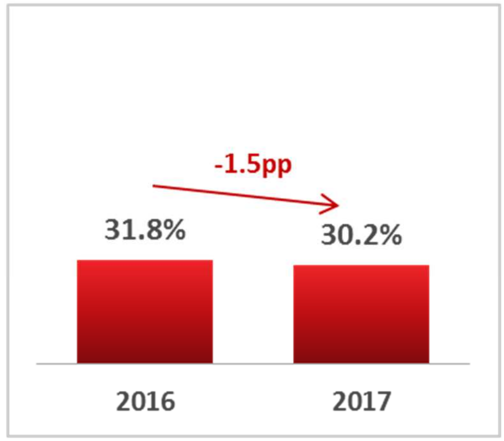
In 2017, in a year marked by the trends previously referred to, Fidelidade had a very consistent performance, recording total premiums written of EUR 3,651 million.

Regarding the activity in Portugal, Fidelidade registered EUR 3,511 million, achieving a total market share of 30.2%. The international business recorded growth of 0.9%, reflecting the strategies established for the different international operations.

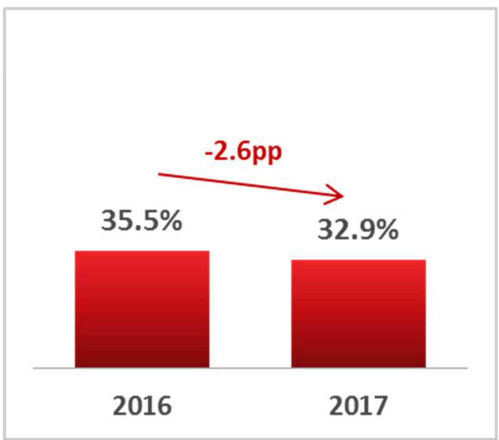
Total Premiums Written – Life and Non-Life *(M€)*



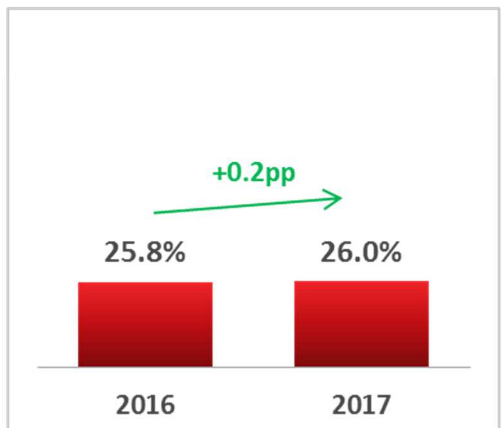
Total Market Share in Portugal *(%)*



Life Market Share in Portugal *(%)*



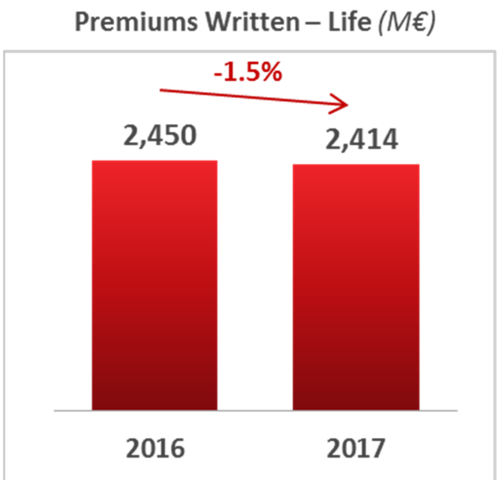
Non-Life Market Share in Portugal *(%)*

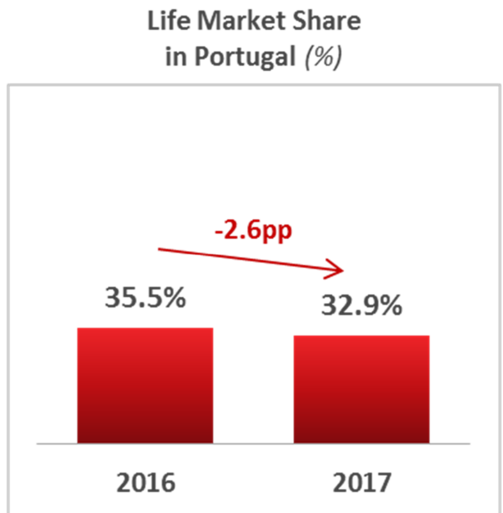


a) <u>Life Segment</u>

In 2017, Fidelidade saw a slight decrease in premiums in the Life segment, reflecting both the market conditions for financial products and the fact that the amount of premiums in 2016 was particularly high, enabling a market share of over 35%.

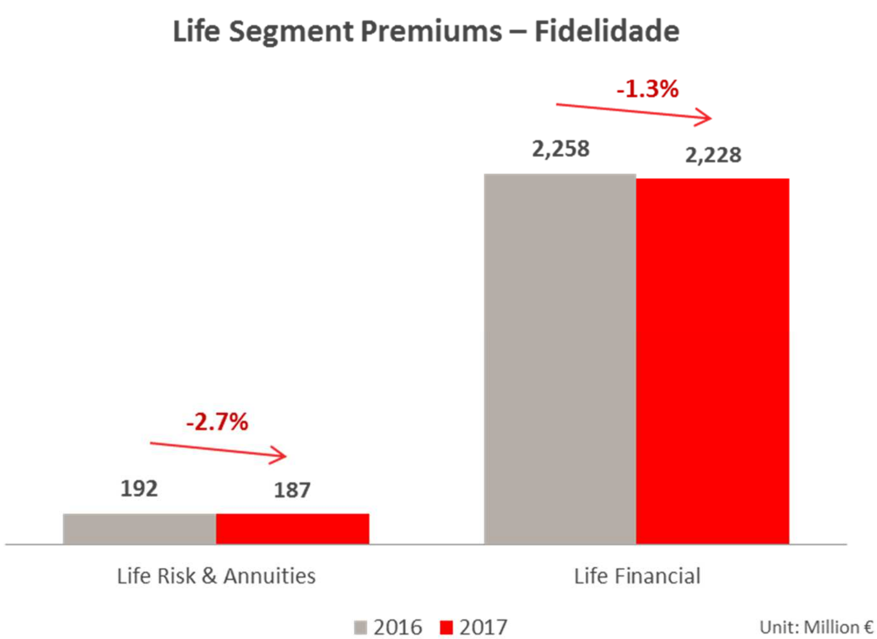
Fidelidade continues to be the clear market leader, with a 32.9% share.





The Life Risk and Annuities products recorded a decline of 2.7% to a total of EUR 187 million, due to the number of new contracts linked to mortgages being lower than the number of contracts which came to an end in the year in question.

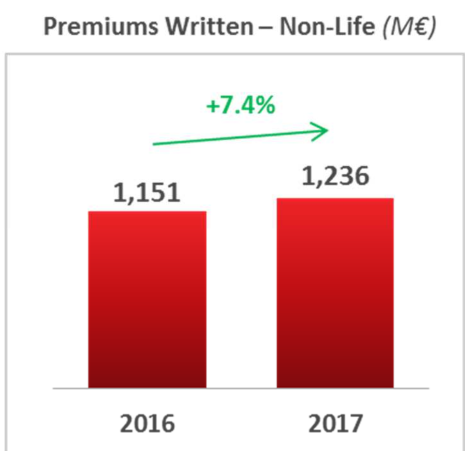
Life Financial premiums fell 1.3% to a total of EUR 2,228 million, reflecting the context of low interest rates, a low rate of saving by private individuals and high competition from new public debt products for individuals.

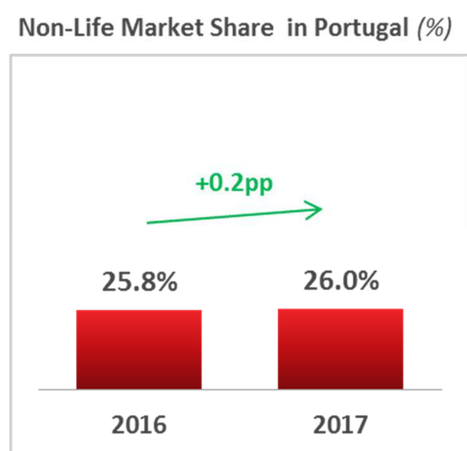


b) **<u>Non-Life Segment</u>**

Fidelidade's performance was clearly positive in the Non-Life segment, with the premiums written increasing 7.4% to EUR 1,236 million.

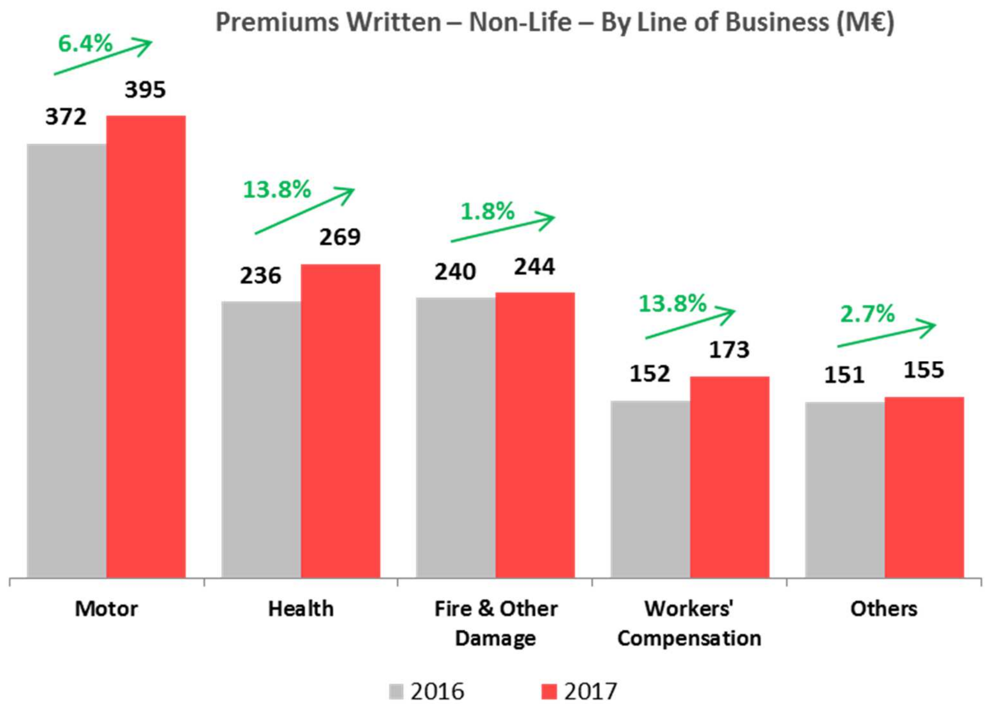
Fidelidade's commercial performance exceeded the positive trend of most of the market. In particular, in the Portuguese market, Fidelidade's premiums grew by 7.9% in comparison with an increase of 6.9% in the overall market. These results enabled Fidelidade to strengthen its leadership position, increasing its market share to 26.0%, which represents a 0.2 pp increase over 2016.





All the Non-Life lines of business displayed positive performance throughout 2017, but particularly significant was the performance of Health and Workers' Compensation, both with 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 segment total. The performance of this line of business was particularly solid, with premiums increasing 6.4%.



c) International Activity

In 2017, the total direct insurance premiums of the Fidelidade branches reached EUR 139.7 million, up 0.9% compared to the previous year. This evolution was mainly due to the performance of Life Financial products in the Spain branch, which made up for the fall in premiums in the same line of business in France, resulting from regulatory and fiscal uncertainty regarding these products in France. In addition, there was strong growth in Life and Non-Life premiums at the Mozambique branch, although the contribution of these to the overall international activity is still low.

The table below shows the recent evolution of premiums in the branches:

INTERNATIONAL ACTIVITY (Direct Insurance Premiums)	2017		2016	
	Value (M€)	Change (%)	Value (M€)	Change (%)
SPAIN				
Life (Insurance and Investment Contracts)	47.6	39.6%	34.1	20.7%
Non-Life	15.7	-14.3%	18.4	24.8%
Total	**63.3**	**20.8%**	**52.5**	**22.1%**
FRANCE				
Life (Insurance and Investment Contracts)	26.5	-24.5%	35.1	16.8%
Non-Life	39.1	1.6%	38.5	32.1%
Total	**65.6**	**-10.9%**	**73.6**	**24.3%**
LUXEMBOURG				
Life (Insurance and Investment Contracts)	0.2	-71.1%	0.5	-89.2%
Non-Life				
Total	**0.2**	**-71.1%**	**0.5**	**-89.2%**
MACAO				
Life (Insurance and Investment Contracts)	7.7	-26.7%	10.5	44.4%
Non-Life				
Total	**7.7**	**-26.7%**	**10.5**	**-43.5%**
MOZAMBIQUE				
Life (Insurance and Investment Contracts)	0.2	279.0%	0.0	378.8%
Non-Life	2.8	103.7%	1.4	421.9%
Total	**3.0**	**109.1%**	**1.4**	**418.9%**
INTERNATIONAL ACTIVITY - TOTAL				
Life (Insurance and Investment Contracts)	82.1	2.3%	80.2	13.7%
Non-Life	57.7	-1.0%	58.3	5.1%
Total	**139.7**	**0.9%**	**138.5**	**9.9%**

d) Operational performance

Operational performance experienced a negative trend in 2017, with the combined ratio increasing from 97.8% to 101.7% (+3.9 pp).

This result was influenced by extraordinary claims, namely due to the forest fires in Portugal in June and October, which led to a 5.4 pp increase in the claims ratio, including costs allocated to the claims function, which reached 72.8% in 2017.

On the other hand, there was a 1.5 pp fall in the expense ratio, from 30.4% to 28.9% in 2017. 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.

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 sharing	Index-linked and unit-linked insurance	Other life insurance	Life reinsurance	**Total**
Premiums written					
Gross	281,639	2,091	2,130,669	71	**2,414,470**
Reinsurers' share	1,120	0	12,058	0	**13,178**
Net	**280,519**	**2,091**	**2,118,611**	**71**	**2,401,292**
Premiums earned					
Gross	281,698	2,091	2,130,635	71	**2,414,495**
Reinsurers' share	1,134	0	12,051	0	**13,185**
Net	**280,564**	**2,091**	**2,118,584**	**71**	**2,401,310**
Claims incurred					
Gross	213,087	343,476	1,494,170	12	**2,050,745**
Reinsurers' share	78	0	6,931	0	**7,009**
Net	**213,009**	**343,476**	**1,487,239**	**12**	**2,043,736**
Changes in other technical provisions					
Gross	70,405	0	9,810	0	**80,215**
Reinsurers' share	-67	0	264	0	**197**
Net	**70,472**	**0**	**9,546**	**0**	**80,018**
Expenses incurred	**18,995**	**-1,600**	**78,287**	**19**	**95,701**

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	94,120	0	0	**94,120**
Reinsurers' share	0	0	0	0	**0**
Net	**0**	**94,120**	**0**	**0**	**94,120**
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**	**1,954**	**0**	**0**	**1,954**

Health – NSLT Line of business (amounts in thousand euros)	Medical expense insurance	Income protection insurance	Workers' compensation insurance	**Total**
Premiums written				
Gross – Direct business	269,020	29,548	172,101	**470,669**
Gross — Proportional reinsurance accepted	6	133	565	**704**
Gross — Non-proportional reinsurance accepted	0	0	0	**0**
Reinsurers' share	266,762	8,584	5,270	**280,616**
Net	**2,264**	**21,097**	**167,396**	**190,757**
Premiums earned				
Gross – Direct business	266,857	29,185	171,055	**467,097**
Gross — Proportional reinsurance accepted	6	168	566	**740**
Gross — Non-proportional reinsurance accepted	0	0	0	**0**
Reinsurers' share	264,874	8,988	5,385	**279,247**
Net	**1,989**	**20,365**	**166,236**	**188,590**
Claims incurred				
Gross – Direct business	205,551	15,560	71,779	**292,890**
Gross — Proportional reinsurance accepted	0	-58	857	**799**
Gross — Non-proportional reinsurance accepted	0	0	0	**0**
Reinsurers' share	203,647	4,216	2,663	**210,526**
Net	**1,904**	**11,286**	**69,973**	**83,163**
Changes in other technical provisions				
Gross – Direct business	193	-17	-10,165	**-9,989**
Gross — Proportional reinsurance accepted	0	0	0	**0**
Gross — Non-proportional reinsurance accepted	0	0	0	**0**
Reinsurers' share	0	0	0	**0**
Net	**193**	**-17**	**-10,165**	**-9,989**
Expenses incurred	**4,523**	**10,885**	**46,775**	**62,183**

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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	240,184	153,620	17,961	236,335	34,678	653	4,916	31,949	34,207	**754,503**
Gross — Proportional reinsurance accepted	710	971	310	7,866	541	0	0	0	22	**10,420**
Gross — Non-proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	**0**
Reinsurers' share	2,356	705	10,388	93,917	9,533	433	1,798	15,747	11,806	**146,683**
Net	**238,538**	**153,886**	**7,883**	**150,284**	**25,686**	**220**	**3,118**	**16,202**	**22,423**	**618,240**
Premiums earned										
Gross – Direct business	239,535	147,472	18,022	236,075	34,140	657	5,134	31,126	34,211	**746,372**
Gross — Proportional reinsurance accepted	668	1,101	320	7,374	428	0	0	0	18	**9,909**
Gross — Non-proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	**0**
Reinsurers' share	2,305	901	10,528	92,340	9,281	442	3,531	29,574	12,266	**161,168**
Net	**237,898**	**147,672**	**7,814**	**151,109**	**25,287**	**215**	**1,603**	**1,552**	**21,963**	**595,113**
Claims incurred										
Gross – Direct business	185,825	78,771	9,197	177,763	14,751	-145	-2	0	24,069	**490,229**
Gross — Proportional reinsurance accepted	456	116	-139	47,933	-5,418	1	0	0	-13	**42,936**
Gross — Non-proportional reinsurance accepted	0	0	0	0	0	0	0	0	0	**0**
Reinsurers' share	8,484	226	6,842	118,241	104	-9	0	0	15,720	**149,608**
Net	**177,797**	**78,661**	**2,216**	**107,455**	**9,229**	**-135**	**-2**	**0**	**8,336**	**383,557**

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	8,630	-1,401	9	7,034	558	46	0	-785	163	**14,254**
Gross — Proportional reinsurance accepted	0	-366	3	-744	-19	0	0	0	0	**-1,126**
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	**8,630**	**-1,767**	**12**	**6,290**	**539**	**46**	**0**	**-785**	**163**	**13,128**
Expenses incurred	**83,442**	**43,645**	**3,346**	**54,081**	**10,595**	**609**	**761**	**9,455**	**10,652**	**216,586**

1.3. Investment performance

Fidelidade's Net Assets were EUR 15.9 billion in 2017, representing a rise of 8.3% compared to 2016.

In its definition and application, Fidelidade'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) was at EUR 15.0 billion.

In 2017, 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 496 million and an investment yield of 3.5%

1.3.1. Income and expenses from investments

At 31 December 2017, 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	83,463	14,099	**97,562**
Property (other than for own use)	0	283,915	25,604	**309,519**
Holdings in related undertakings, including participations	1,552,864	98,098	44,499	**1,695,461**
Equities — listed	780,167	436,718	240	**1,217,125**
Equities — unlisted	1,282	0	334	**1,616**
Government bonds	5,155,469	443,472	4,961	**5,603,902**
Corporate bonds	3,191,936	756,584	51,931	**4,000,451**
Structured notes	30,990	367	6,166	**37,523**
Collateralised securities	0	0	0	**0**
Collective investment undertakings	221,400	120,308	1,068	**342,776**
Derivatives	47,727	13,930	20,168	**81,825**
Deposits other than cash equivalents	748,771	35,867	192,277	**976,915**
Assets held for index-linked and unit-linked contracts	175,692	0	0	**175,692**
Loans and mortgages	0	0	32,342	**32,342**
Cash and cash equivalents	0	0	165,388	**165,388**
Total	**11,906,298**	**2,272,722**	**559,077**	**14,738,097**

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	103
Public debt instrument – domestic issuers	89,496
Public debt instrument – foreign issuers	8,443
Debt instrument – other domestic issuers	309
Debt instrument – other foreign issuers	7,694
Equity instruments – domestic issuers	11,129
Equity instruments – foreign issuers	7,564
Transactions to be settled	-539
Derivatives	12
Sight deposits	42,441
Term deposits	9,040
Total	**175,692**

In 2017, 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	115,963	0	**115,963**
Corporate bonds	0	91,604	0	**91,604**
Equity securities	22,327	-1,018	0	**21,309**
Collective investment undertakings	13,674	0	0	**13,674**
Structured notes	0	1,112	0	**1,112**
Collateralised securities	0	5	0	**5**
Cash and cash equivalents	0	2,874	0	**2,874**
Loans and mortgages	0	0	0	**0**
Property	0	0	0	**0**
Derivatives	0	-1,534	0	**-1,534**
	36,001	**209,006**	**0**	**245,007**
Investments allocated to technical provisions – non-life segment				
Government bonds	0	5,875	0	**5,875**
Corporate bonds	0	21,519	0	**21,519**
Equity securities	15,671	0	0	**15,671**
Collective investment undertakings	4,346	0	0	**4,346**
Structured notes	0	22	0	**22**
Collateralised securities	0	0	0	**0**
Cash and cash equivalents	0	543	0	**543**
Loans and mortgages	0	0	0	**0**
Property	0	0	18,061	**18,061**
Derivatives	0	0	0	**0**
	20,017	**27,959**	**18,061**	**66,037**

Investments (amounts in thousand euros)	Dividends	Interest	Rents	Total
Investments not allocated				
Government bonds	0	430	0	**430**
Corporate bonds	0	990	0	**990**
Equity securities	12,441	0	0	**12,441**
Collective investment undertakings	50	0	0	**50**
Structured notes	0	234	0	**234**
Collateralised securities	0	0	0	**0**
Cash and cash equivalents	0	474	0	**474**
Loans and mortgages	0	1,925	0	**1,925**
Property	0	0	2,676	**2,676**
Derivatives	0	3	0	**3**
	12,491	**4,056**	**2,676**	**19,223**
Total	**68,509**	**241,021**	**20,737**	**330,267**

In 2017, the financial expenses resulting from investments were as follows:

Investment expenses (amounts in thousand euros)	Life	Non-Life	Not allocated	Total
Costs allocated	9,447	6,763	6,914	**23,124**
Other investment expenses	418	148	38	**604**
Total	**9,865**	**6,911**	**6,952**	**23,728**

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

In 2017, the net gains and losses in financial instruments were as follows:

Investments (amounts in thousand euros)	**As a charge to**		**Total**
	Income statement	Shareholders' Equity	
Investments allocated to technical provisions – life segment			
Government bonds	139,605	-17,695	**121,910**
Corporate bonds	83,757	-181,272	**-97,515**
Equity securities	130,015	-102,172	**27,843**
Collective investment undertakings	19,057	1,126	**20,183**
Structured notes	1,369	0	**1,369**
Collateralised securities	5	0	**5**
Cash and cash equivalents	3,032	-12,939	**-9,907**
Loans and mortgages	0	0	**0**
Property	0	0	**0**
Derivatives	-2,430	256,260	**253,830**
	374,410	**-56,692**	**317,718**
Investments allocated to technical provisions – non-life segment			
Government bonds	7,678	53	**7,731**
Corporate bonds	26,852	-46,372	**-19,520**
Equity securities	93,845	-45,768	**48,077**
Collective investment undertakings	6,481	640	**7,121**
Structured notes	23	0	**23**
Collateralised securities	0	0	**0**
Cash and cash equivalents	506	5,586	**6,092**
Loans and mortgages	0	0	**0**
Property	22,893	13,942	**36,835**
Derivatives	-298	73,834	**73,536**
	157,980	**1,915**	**159,895**

Investments (amounts in thousand euros)	As a charge to		Total
	Income statement	Shareholders' Equity	
Investments not allocated			
Government bonds	453	-16	**437**
Corporate bonds	871	-3,707	**-2,836**
Equity securities	19,655	-13,731	**5,924**
Collective investment undertakings	404	1	**405**
Structured notes	234	0	**234**
Collateralised securities	0	0	**0**
Cash and cash equivalents	-4,067	-19,416	**-23,483**
Loans and mortgages	1,912	0	**1,912**
Property	2,828	-394	**2,434**
Derivatives	-21,337	27,123	**5,786**
	953	**-10,140**	**-9,187**
Total	**533,343**	**-64,917**	**468,426**

1.3.3. Information on investment in securitisations

At 31 December 2017, 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

There were no material changes in the Company's governance system during the period covered by this report.

However, the following aspects which are mentioned throughout this chapter should be highlighted:

- Taking into consideration the market changes seen in recent years and the new regulatory framework applicable to the insurance business since 2016, the Executive Committee approved a revision of the Company's Investments Policy, in September 2017;
- Following the revision of this Policy, in March 2018 the Executive Committee approved the Asset and Liability and Liquidity Risk Management Policy which, together with the Investments Policy, describes the strategy for managing financial risks, insurance risks and liquidity risks, in the short, medium and long term, in a context of asset and liability management;
- In 2017, the Company outsourced activities related with asset management regarding, on the one hand, a Senior Secured Loans portfolio and, on the other, two Investment Grade Fixed Income Securities portfolios.

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 2017:

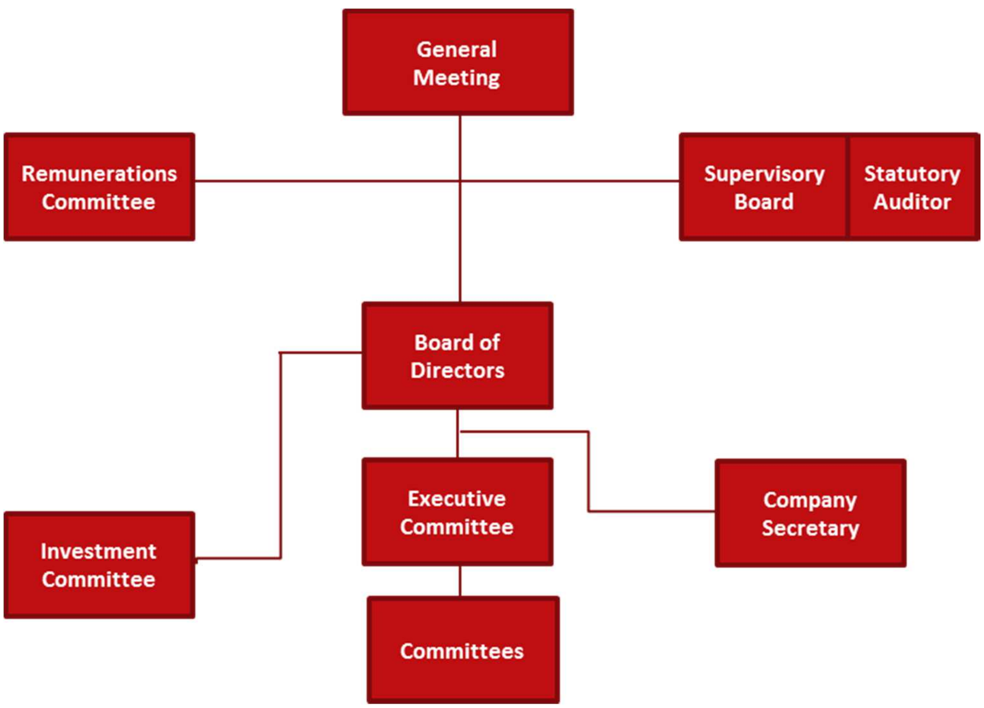


Figure 1 - Corporate governance structure

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) Investments Committee

The Company’s investment decisions are subject to supervision by the Investments Committee.

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

e) 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.

f) Supervisory Board and Statutory Auditor

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

g) 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.

h) 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 executive 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 based on a methodical analysis of risk, covering all significant activities and the governance system of the Insurers in the Fidelidade Portugal Group, including planned developments regarding activities and innovations;
- 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;
- Carrying out audit actions based on a specific methodology which, since it always has risk assessment in mind, can help to determine the probability of the risks occurring and the impact they may have on the Fidelidade Group;
- Planning and executing Continuous Audit Indicators, with a view to analysing potential situations of breach of rules, high risk procedural situations and/or atypical situations, on a frequent or continuous basis;
- By means of an IT application, presenting the Executive Committee with audit reports prepared by the Division;
- Drawing up the Annual Audit Report and presenting it to the Executive Committee and the Supervisory Bodies, with a summary of the main deficiencies detected in the audit actions and identifying recommendations that were followed;
- 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 audits, 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 compliance 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 Policy

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 of the organisation, in line with the achievement of specific objectives, which are quantifiable, based on the Company's long-term sustainability and on effective management and control of the risks assumed by it, 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.

The Remuneration Policy applicable to Fidelidade's employees, as defined by the Executive Committee, is based on the following guidelines:

- 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 each employee, which is adequately balanced with a short-term variable component, subject to the performance of the individual and of the organisation, in line with the achievement of specific individual objectives, which are quantifiable and aligned with Fidelidade's strategic objectives.

Accordingly, the employees' remuneration comprises a fixed component and a variable component, the former being defined in the salary model set out in the Professional Development System (PDL) and based on salary bands associated with the functions model, in force in 2017, identifying the minimum and maximum amounts for each function.

The short-term variable component seeks to remunerate individual performance. It is awarded after the accounts for each financial year have been approved and after fulfilment of the predefined objectives has been confirmed.

A range of general non-remuneratory benefits are provided for employees, such as family support mechanisms, meal tickets, special conditions for insurance, and protocols providing access to special conditions at several service providers.

The complementary pensions and early retirement rules in force in the Company are applicable to the all employees in general terms.

Besides those described above, there are no other remuneration mechanisms, and no other payments are provided for.

Employee resignation or termination of employment by the employer is subject to the regulatory mechanisms applicable at any given time.

The variable component of the remuneration of employees involved in performing tasks associated with key functions is determined in accordance with the objectives associated with their functions and not in relation to the Company's financial performance.

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 42) and Notes to the Consolidated Financial Statements (Note 47).

2.1.6. Assessment of the adequacy of the system of governance

The Company considers that its system of governance is adequate for the nature, scale and complexity of the risks to which it is exposed, and 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.

Pursuant to Article 64(5) of the RJASR, the policies set out in these rules must be revised at least once a year. Accordingly, the Fit & Proper Policy was revised in 2017, basically considering the amendments introduced by ASF Regulatory Standard No. 3/2017-R, of 18 May, and the revision was concluded in January 2018.

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 possess and demonstrate the capacity to at all times guarantee sound and prudent management of the insurance company, with a view, in particular, to safeguarding the interests of policyholders, insured persons and beneficiaries.

For this reason, they must comply with the requirements of qualifications (fit), integrity (proper), independence and availability.

Qualification requirement

Qualification are apparent in the appropriate connection between the person's skills and qualifications, acquired through academic education, specialised training and professional experience, and the functions allocated to him/her.

Integrity requirement

Integrity is expressed in the good reputation and uprightness that the person demonstrates in managing both professional and personal business, and in the exercise of his/her profession, via the capacity to take well-considered and wise decisions, the tendency to timely comply with his/her obligations, and the adoption of behaviour which is compatible with retaining the trust of the market.

Independence requirement

Independence is based on the absence of undue influence over the person, resulting from personal relationships or from the performance of roles in other entities, which impede the impartial exercise of his/her functions.

Availability requirement

Availability takes the form of a lack of obstacles, resulting from the person's performance of functions in other entities, which hinder adequate performance of the role allocated to him/her.

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 activities carried out by the Risk Management Division, in 2017, were 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 supervisory report;
- Preparing and sending annual information, with reference to 31 December 2016, incorporated in the Quantitative Report Templates (QRT), which has been subject to certification by the statutory auditor and the responsible actuary pursuant to the regulations issued by the ASF, and also the Regular Supervisory Report;
- Reporting to the ASF and publicly disclosing the Solvency and Financial Condition Report relating to 31 December 2016, accompanied by certification by the statutory auditor and the responsible actuary;
- Preparing and sending the quarterly quantitative reporting under Solvency II.

Among the activities performed by the Risk Management Division in 2017, it is also important to mention the activities related with the review of the governance system, namely, the review and maintenance of risk management policies and the review of processes, data and methodologies for validating the technical provisions, and those related with the implementation of capital optimisation measures, namely improvements in the ALM process and recognition of adjustment for the loss-absorbing capacity of deferred taxes.

The adoption of assessment cycles for operational risk and internal control contributes decisively to spreading a risk management culture throughout the Company, thereby strengthening the protection of its stakeholders, namely policyholders and beneficiaries.

The following sub-paragraphs describe the Company's processes and procedures for each category of risk, including how these are identified, monitored and managed:

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.

When a new product is launched, or when significant changes are made to the characteristics of existing products, training programmes and communication plans are scheduled with the aim of introducing the product to the commercial networks, emphasising, in particular, its characteristics and the underwriting policies that have been defined.

Analyses are periodically undertaken of products/prices, and also of the composition and behaviour of the respective portfolios, with the purpose of assessing 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.

There is also a process to monitor underwriting quality, which seeks, on one hand, to identify situations of false declarations or omission of declarations in the issue of contracts and, on the other, to rectify these situations, ensuring articulation between all those involved. This monitoring process, which seeks to assess irregular types of behaviour, is performed regularly and is mainly supported by cross-referencing with sources of external or internal historical data and identifying anomalous patterns.

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 constant analyses of the technical results by treaty. In order to study annual and multi-annual trends, these analyses include a comparison with the information relating to previous 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 Company's objectives, rules and procedures on market risk management are governed by means of its Investments Policy, which was approved in September 2017.

This Policy is reviewed annually, or whenever other reviews are necessary in the light of changes in the law, trends in assets markets or changes to the company's investment guidelines and/or risk profile. The Policy defines:

- the main guidelines for managing investments and how the Company assesses, approves, implements, controls and monitors its investment activities and the risks resulting from those activities;
- activities related to the Company's investment process, including Strategic Asset Allocation (SAA), Tactical Asset Allocation (TAA), the decision-making process and control and reporting activities;
- the duties and responsibilities of those involved in the investment process.

The Investments Policy aims to ensure alignment between the portfolio objectives and the investment strategy, and to encourage effective and continual monitoring. It is the cornerstone of the Company's investment process.

Considering these aspects, the Company's investment management cycle is composed of the following critical activities:

- **Defining** – Definition and approval of the general investment management cycle, including the global investment strategy, investment policies, asset and liability and liquidity management, and strategic asset allocation (SAA);
- **Investing** – Performance of all investment activities, in line with the strategies and policies defined (identification, assessment and approval of investment opportunities, and placing, settling and allocating investments);
- **Monitoring** – Monitoring the evolution of the assets portfolio in terms of performance, liquidity and credit quality;
- **Managing** – Reviewing the strategies, policies, benchmarks and limits in line with current and future market conditions/expectations and internal risk capacity;
- **Controlling** – Ensuring compliance with all the strategies, policies, procedures and responsibilities assigned.

2.3.1.8. Counterparty Default Risk

The Company is essentially exposed to Counterparty Default Risk when selecting and accompanying investments in the different classes of assets and also 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 class of asset, rating, duration, industry, geography and currency, 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 associated with investments, as previously stated, the Investments Policy in force defines different exposure limits namely by industry and geography. These limits are revised periodically and amended when necessary.

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.

The company's aim in terms of liquidity is a treasury capable of managing all of the Company's funding needs (cashout flows) in an appropriate timeframe, without resorting to credit or unplanned selling off of assets, and particularly the capacity to generate significant liquidity in a short space of time.

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.

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

This analysis also includes a comparison between the liquidity-generating capacity and the estimated cash flow.

As stated in point 2.3.1.7, the Company's Investments Policy was approved in 2017, and establishes the allocation of and articulation between functions related to investment, asset and liability management and liquidity.

In relation, specifically, to Asset and Liability and Liquidity Management processes, in 2018 the Company approved the Asset and Liability and Liquidity Risk Management Policy (the ALM and Liquidity Policy).

Together with the Investments Policy, this Policy describes the strategy for managing financial risks, insurance risks and liquidity risks, in the short, medium and long term, in a context of asset and liability management.

In this way, the ALM and Liquidity Policy seeks to guarantee alignment between assets and liabilities, with a particular focus on maximising return and minimising interest rate risk and liquidity risk.

Taking these aspects into consideration, asset and liability management must be performed, on the one hand, as a risk mitigation exercise and, on the other, as part of the Company's decision-making structure, formulating strategies related with its assets and liabilities. It is therefore composed of the following critical activities:

- **Defining** – Definition and approval of the asset and liability and liquidity management strategy;
- **Monitoring** – Monitoring the evolution of cash flow matching and different metrics associated with asset and liability management, producing monthly and annual reports;
- **Managing** – Reviewing the objectives and limits set out in the ALM and Liquidity Policy in line with current and future market conditions/expectations and internal risk capacity;
- **Controlling** – Ensuring compliance with the asset and liability management strategy, limits, procedures and responsibilities assigned.

2.3.1.11. Reputational Risk

Management of Reputational Risk is fundamentally based on:

a. The existence of external and internal communication areas;
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 and Sustainability programme.

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

On the other hand, considering the scale, the diversity of operating areas and the magnitude of the challenges of the Fidelidade Group, the communication area was reorganised in 2017, so as to guarantee articulation of all internal and external communication flows. Accordingly, and in order to obtain a greater degree of specialisation in the external and internal communication areas, a separate institutional corporate communication function was created, which now deals with corporate communication and media relations and provides support for the Group's institutional relations.

2.3.1.12. Operational Risk

Procedures are implemented specifically for managing both operational risk and internal control, namely:

- Documentation and classification of existing control activities, linking them to the risks previously identified in the business processes;
- Decentralised recording of 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 measuring 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 solvency capital requirement (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.

The ORSA plays a key role in company management, and the results obtained from it are taken into consideration in the company's Risk Management, in Capital Management and in Decision Making.

ORSA and Risk Management

One of the key elements of the ORSA is to identify and measure the risks to which the Company is exposed and project their evolution for the period under analysis.

Therefore, based on the results obtained, the Company defines possible actions to be taken:

- Assuming the risks;
- Taking additional mitigation measures (controls/ capital, etc.);
- Transferring the risks; or
- Eliminating activities which lead to risks which the Company is not willing to run.

ORSA and Capital Management

The ORSA provides support for the main activities related with Capital Management, 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;
- Monitoring capital adequacy.

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, the Company defines the corrective actions to be implemented, in order to restore the adequate/intended level of capital.

ORSA and Decision-Making Processes

The Company takes the results of the ORSA into account in its organisational and management processes.

Examples of processes which consider the ORSA results are:

- Product design and development
- Product launch, amendment or discontinuation
- Investment profile changes (Geographies, classes of assets, etc.)

- Changes to the risk underwriting policy
- Reinsurance

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:

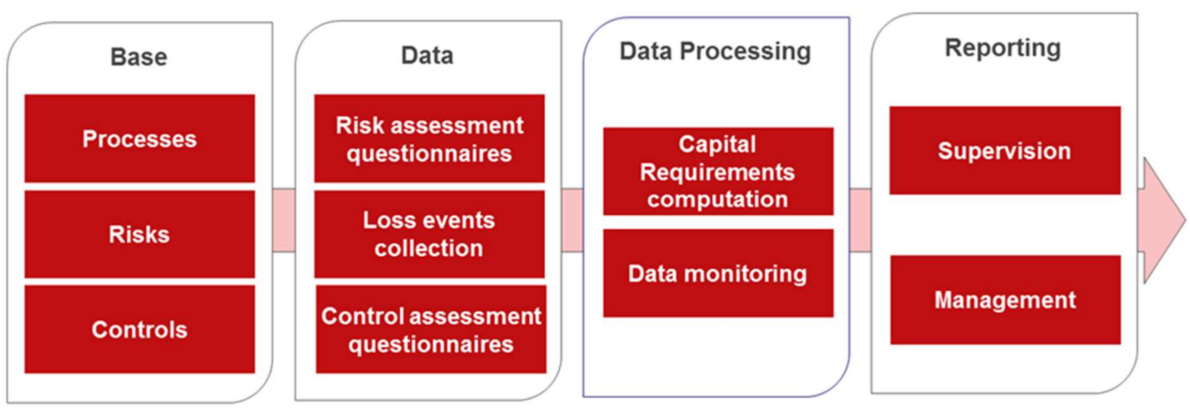


Figure 3 - Flow diagram of operational risk and internal control management

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.

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.

Among the compliance function's processes and controls, carried out by the GCO throughout 2017, the following can be highlighted:

a. Analysis of main changes to regulations

b. Recording of compliance incidents

c. Analysis of new products and advertising and marketing material

d. Analysis of internal processes

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.

Three mechanisms are used to preserve the independence, impartiality and objectivity of the internal audit function. Firstly, persons who perform the internal audit function are not responsible for any other operational functions. Secondly, the internal audit function communicates its conclusions directly and exclusively to the Chairman of the Executive Committee and of the Board of Directors. Lastly, all the audit work carried out, in particular the conclusions obtained and the recommendations issued, is duly documented and filed, and there is a specific IT application to send audit reports to the Directors and to the Heads of the Divisions audited, with no possibility of these being changed.

To perform its 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 on the reporting of conflicts 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

Due to the nature, complexity and scale of the Company's portfolios, the actuarial function is subdivided into life actuarial and non-life and health actuarial.

Despite being allocated, as previously stated, to the Risk Management Division, these actuarial functions are independent in functional terms and report directly to the Company's Executive Committee.

Accordingly, at least once a year these functions send the Executive Committee the report provided for in Article 272(8) of Commission Delegated Regulation (EU) 2015/35.

The persons responsible for these functions must also directly inform the Executive Committee of any matter which they or the Executive Committee consider important to analyse or monitor on a more regular basis.

Within the Company hierarchy, those responsible for the actuarial functions report to the head of the Risk Management Division, although only on matters related to the management of people and resources.

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 to 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

2.7.1. Outsourcing Policy

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 formalisation; (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 were established.

2.7.2. Outsourced critical or important functions or activities

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, most of which are outsourced intra-group, and which are 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.

In Fidelidade's specific case, of note are the activities related with asset management regarding, on the one hand, a Senior Secured Loans portfolio and, on the other, two Investment Grade Fixed Income Securities portfolios. The jurisdictions of the providers of these services are located in the United Kingdom, Luxembourg and Portugal.

The Contact Center management and operation services are provided at the Company's premises in Évora and Lisbon by a service provider with its headquarters in Portugal.

2.8. Any other information

The main changes related to the governance system which took place during the period covered by this report are outlined at the beginning of this chapter. Below is a summary of other facts which occurred in 2017:

- Abolition of the Advisory Board, which was part of the Company's corporate governance;
- Revision by the Remunerations Committee of the Remuneration Policy applicable to Fidelidade's corporate bodies, which, nonetheless, maintained its guiding principles, so there were no material changes;
- Revision of the Fit & Proper Policy, basically considering the amendments introduced by ASF Regulatory Standard No. 3/2017-R, of 18 May, with the revision being concluded in January 2018;
- The Company's communications area was reorganised. Accordingly, and in order to obtain a greater degree of specialisation in the external and internal communication areas, a separate institutional corporate communication function was created, which now deals with corporate communication and media relations and provides support for the Group's institutional relations.

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.

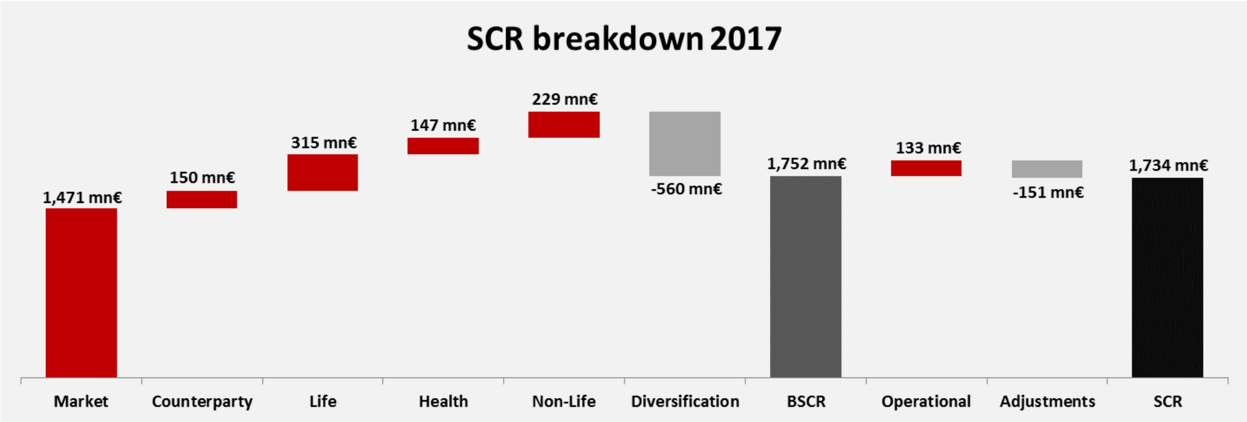
On the other hand, this integrated approach ensures value creation via the identification of adequate balance between risk and return, simultaneously guaranteeing the Company's obligations to its stakeholders.

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.

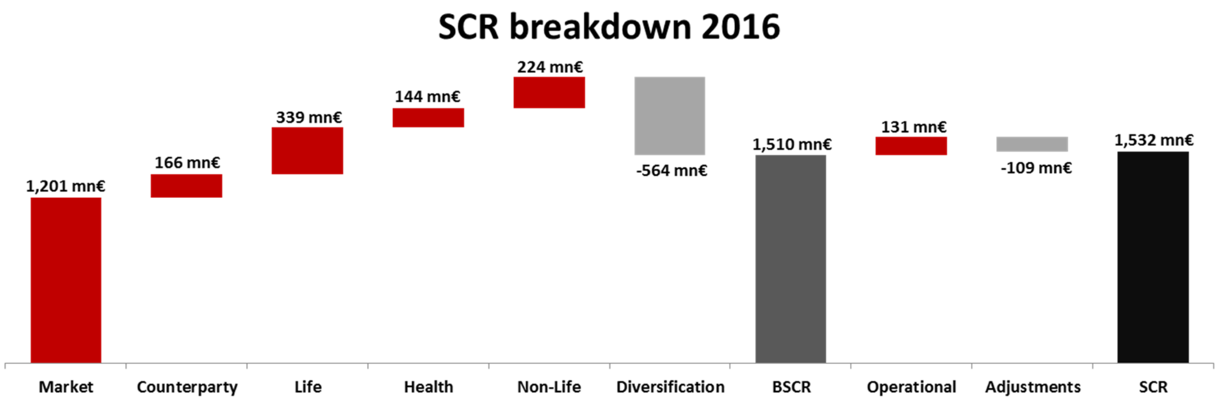
The risk assessment is based on a standard formula used to calculate the solvency capital requirement. For other risks, not included in that formula, the Company has opted to use a qualitative analysis to classify the foreseeable impact on its capital needs.

Hence, the calculation of the Company's solvency capital requirement (SCR) with reference to 31/12/2017 was as follows:

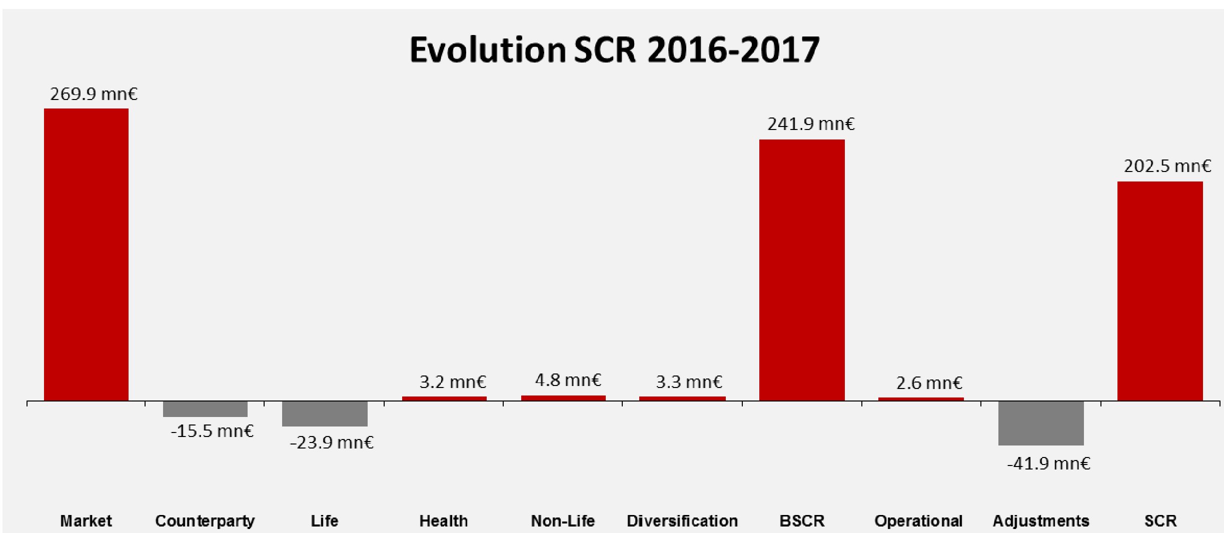


The market risk is clearly prominent in this requirement, followed by the Life and Non-Life underwriting risks, which are much lower.

The same calculation relating to 31/12/2016 was as follows:



The difference, of **EUR 202.5 million**, is shown in the graph below:



The following elements can be highlighted in this evolution:

- **the increase in market risk**, arising from increases in the sub-modules of equity risk, spread risk, interest rate risk and concentration risk, resulting, as stated in point 3.2, from:
  - the decrease in assets subject to the transitional measure on equity risk;
  - the increase in exposure to corporate debt as against the decrease in exposure to debt where the shock to be applied to the spread risk is zero;

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    - and the increase in exposure to the Fosun Group in concentration risk.

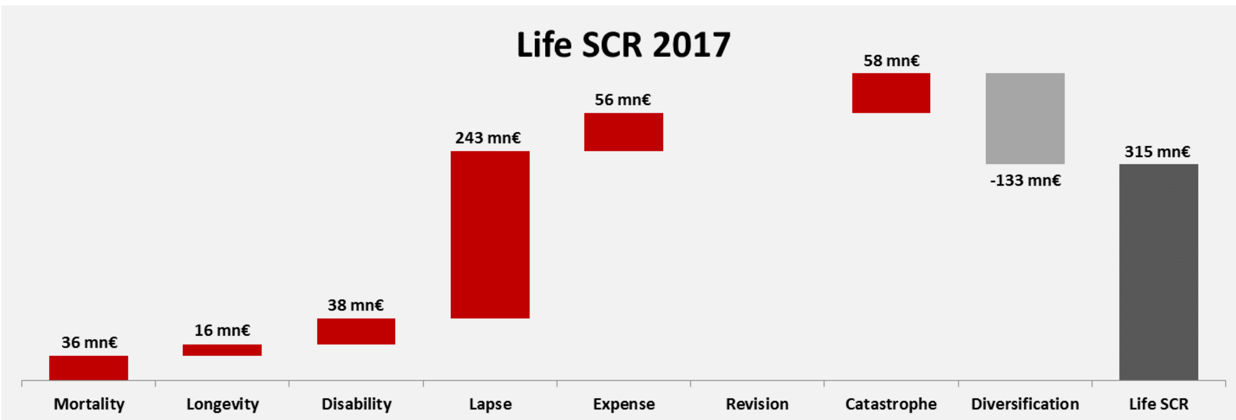
- **the increase in the adjustment amount,** as a consequence of the fact that, in 2017, the Company recognised adjustment for the loss-absorbing capacity of deferred taxes, as described in point 3.8.1.

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.

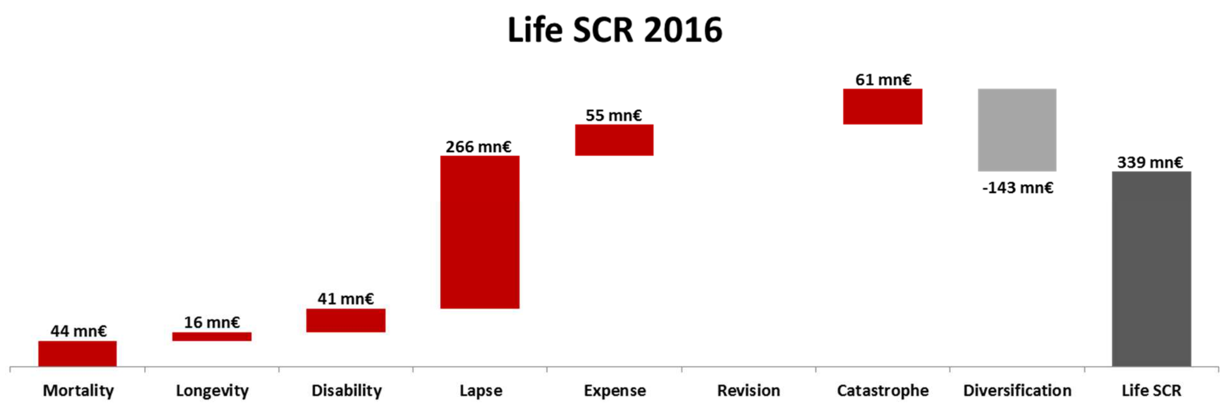
Following this is the **expense risk**, which basically results from the fact that, when calculating the capital requirements of this risk sub-module, the Company considered as expenses, for the total amount of the Life liabilities, as per the understanding of the ASF, the commissions to be paid for 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.

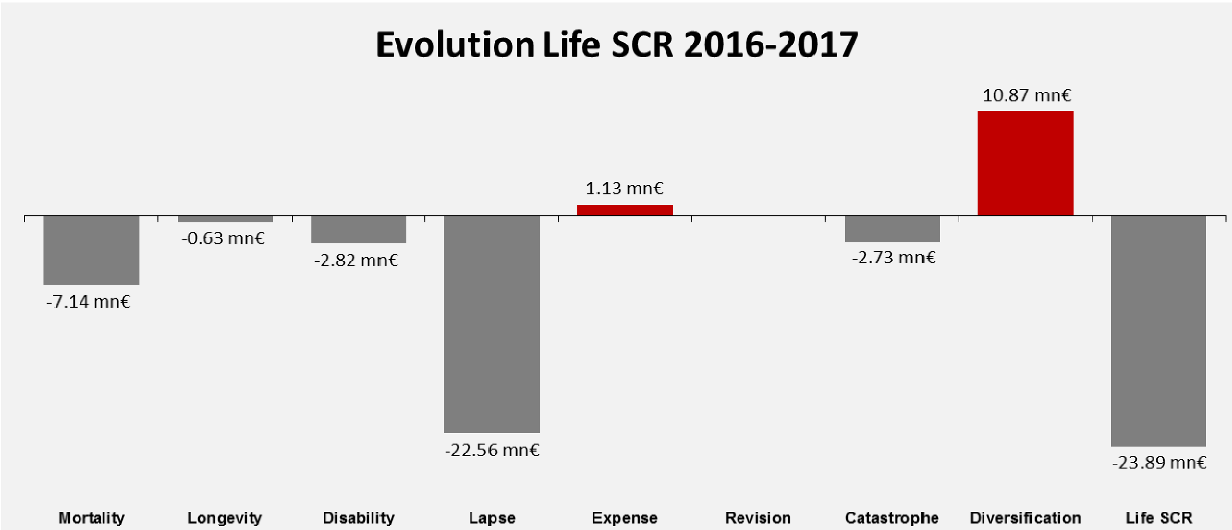
Lastly, there is the **longevity risk**, the significance of which is relatively low in this risk module, since the Companies' Annuities portfolio is small.

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

The Life SCR at 31/12/2016 was:



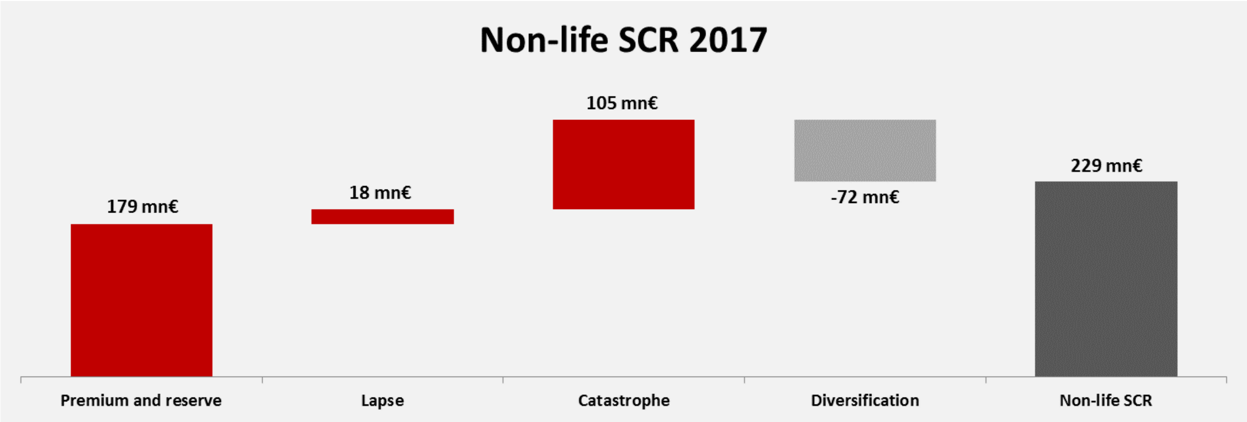
The difference, of **EUR 23.89 million**, is shown in the graph below:



As can be seen, there were no significant changes in the sub-modules composing this risk, and the overall difference is basically explained by the reduction in the lapse risk.

3.1.2. Non-Life underwriting risk

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



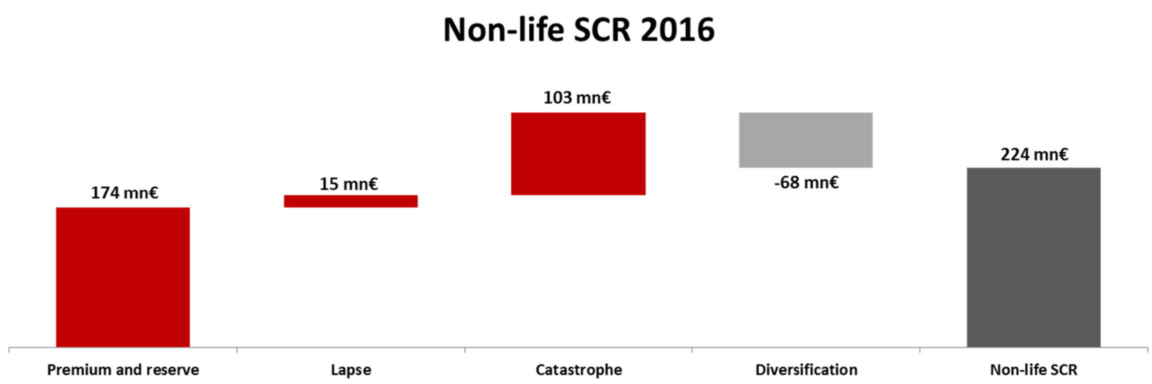
Within this sub-module, the **premium and reserve risk** is the most important.

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.

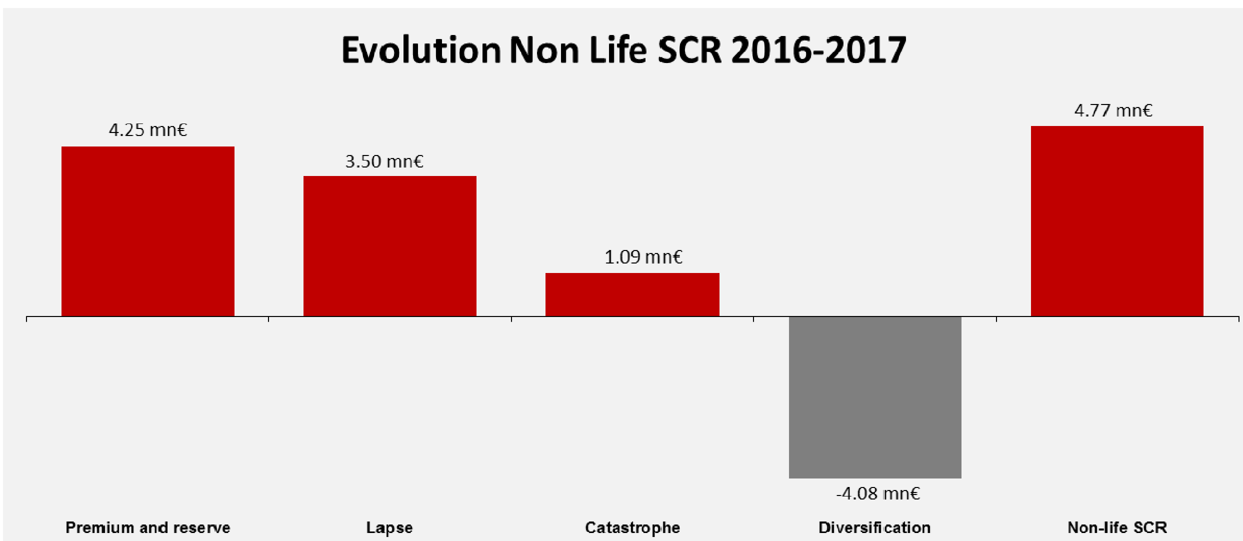
With a much lower figure, there is the **catastrophe risk**, which basically comes from the significant amount of sums insured with seismic phenomena coverage. However, in the event of a seismic phenomenon, because of the existing reinsurance contracts only a part of the liability will be assumed by 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 contract boundary up to the next renewal date and the operating margin is low.

The Non-Life SCR at 31/12/2016 was:



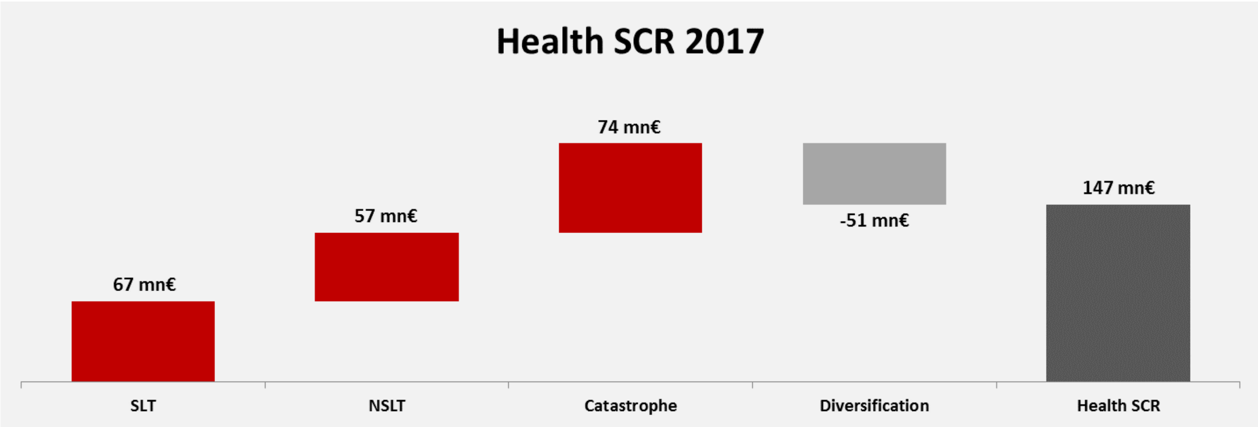
The difference, of **EUR 4.77 million**, is shown in the graph below:



As can be seen, there were no significant changes in the sub-modules composing this risk.

3.1.3. Health underwriting risk

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

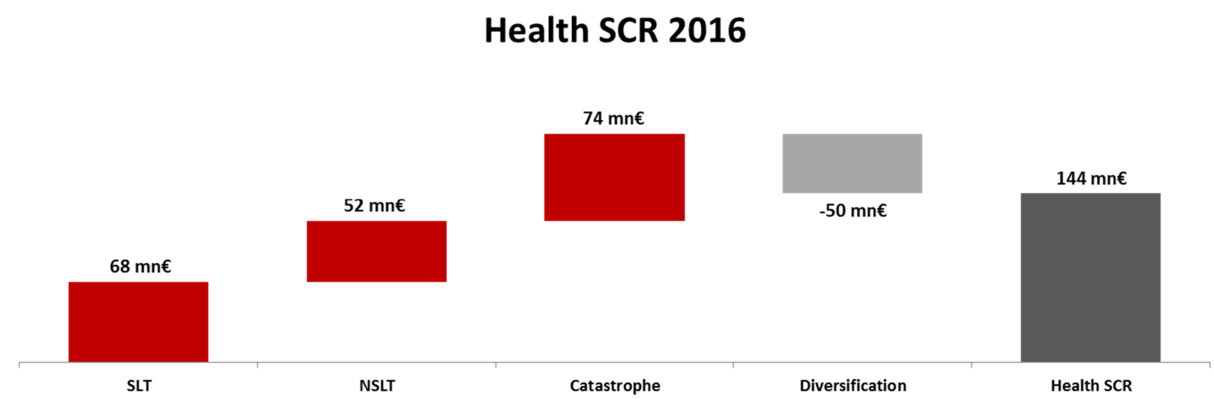


The **catastrophe risk** is the most significant sub-module, mainly as a result of the concentration of accidents, given the sums insured involved.

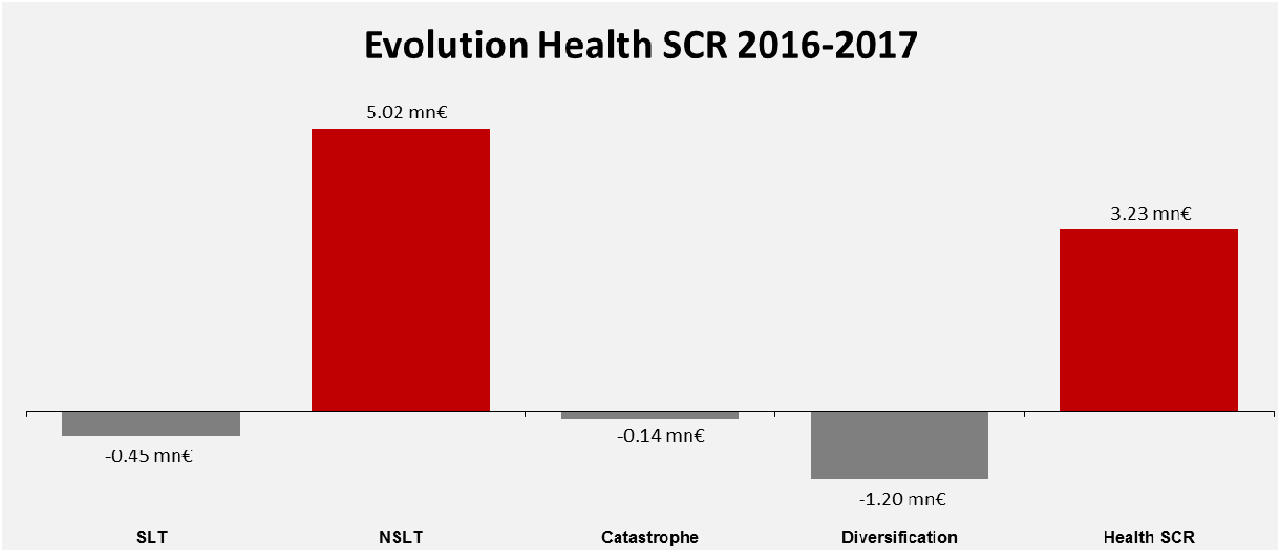
The **SLT** (similar to life techniques) **module of health** is basically composed of longevity risk resulting from pensions and permanent assistance expenses in the workers' compensation line of business.

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.

The Health SCR at 31/12/2016 was:



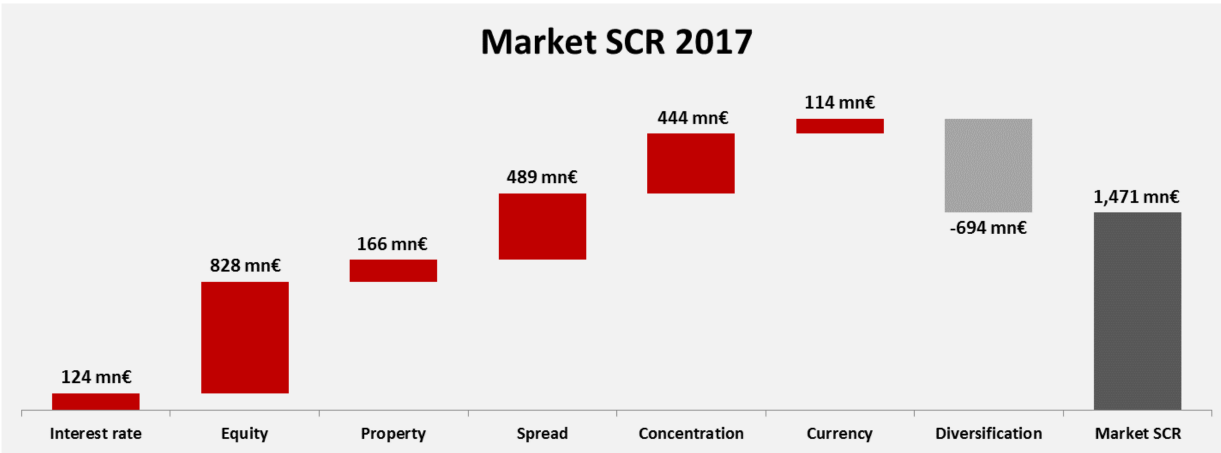
The difference, of **EUR 3.23 million**, is shown in the graph below:



As in the other underwriting risk modules, there were no significant changes in the sub-modules composing this risk.

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.

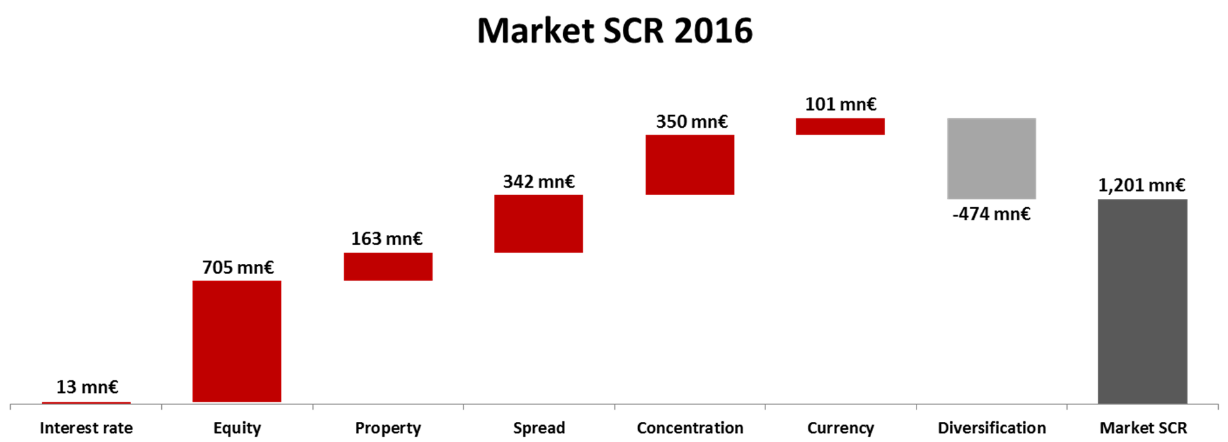
Reflecting the investment strategy that has been followed, the Company has increased its exposure to equity markets, although the participations that make up over half of this risk are two property investment vehicles which, in line with the specification of the standard formula, affect the equity risk, 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 **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.

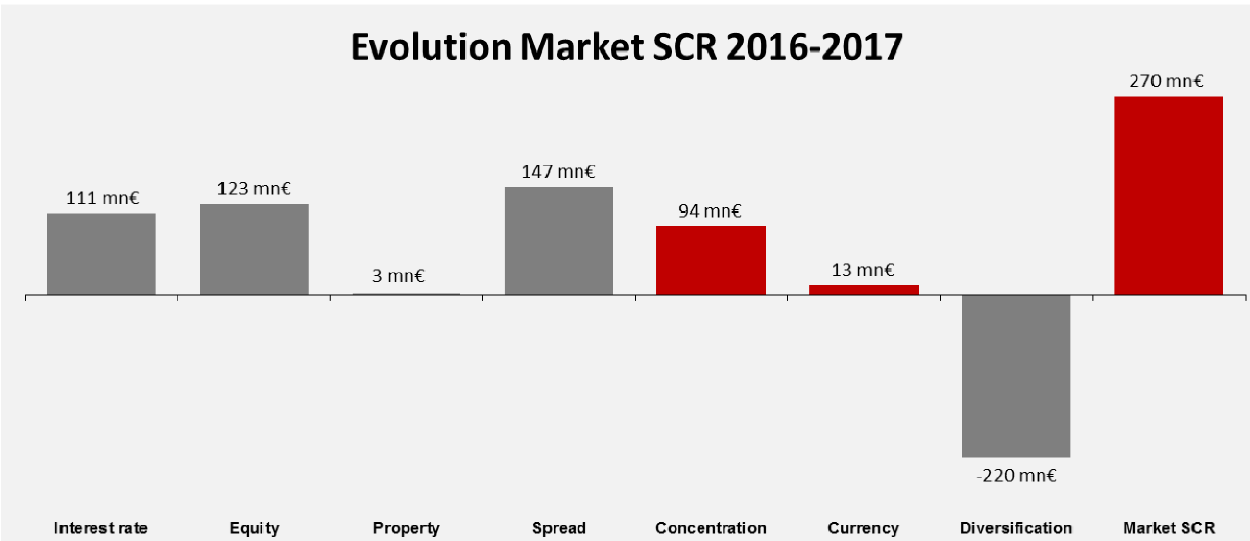
With a very similar figure, we have the **concentration risk**. The greatest exposure in this risk is to the Fosun International Limited economic group, and the global amount exposed is strongly influenced by direct participations of Fidelidade in insurers outside the Eurozone (Angola, Cape Verde and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

With clearly lower values are the **property risk, interest rate risk and currency risk**. The value of the currency risk reflects the hedging for the most significant exposures to foreign currency. In the case of interest rate risk, its low value is a result of the Asset and Liability management monitoring of the duration gap.

The Market Risk SCR at 31/12/2016 was:



The difference, of **EUR 270 million**, is shown in the graph below:



The increase in the **equity risk** is largely explained by the decrease in assets subject to application of the transitional measure on equity risk. The amount of assets subject to equity risk remained stable, while the amount of assets not subject to transitional measures rose significantly.

The Company's greater exposure to corporate debt, as against a lower exposure to sovereign debt of EU member states, and other similar debt, which has zero shock, largely explains the increase in **the spread risk**.

The rise in **concentration risk** is explained predominantly by the evolution in exposure to the Fosun Group and to Caixa Geral de Depósitos (CGD). The increase in exposure to the Fosun Group is basically the result of the increase in the market value of Luz Saúde and the participation in Fid Loans I, while the amount relating to Xingtao decreased. The exposure to CGD is basically the result of term deposits with the bank.

No significant changes occurred in the **currency risk**. In fact, although there was an increase in foreign currency investments, the currency risk exposure not covered by mitigation instruments remained relatively stable.

The Company's investment process, besides guaranteeing compliance with the prudent person principle, seeks to enable both rational and reasoned decisions when selecting assets and an adequate balance between risk and return.

The process, therefore, begins with the identification of investment opportunities, through tracking, identification and analysis of investment opportunities all over the world, which leads to investment proposals being presented. These are based, on the one hand, on qualitative aspects, such as a description of the investment, including different possibilities on how it can be made, and a description of the business rationale, and, on the other, quantitative aspects such as financial indicators or the expected return.

These proposals are analysed, including a preliminary study on capital consumption in the light of the Solvency II rules and calculation of the expected RORAC.

If the investment proposal is accepted, an investment case is prepared, containing a summary of the investment to be made, an analysis of compliance with the legal limits and the limits set out in the Company's Investments Policy, an analysis of the adequacy of the investment in ALM terms (cash flow matching), calculation of the capital consumption associated with the investment in line with the Solvency II rules and calculation of the respective expected RORAC.

This investment case includes an Internal Communication to the Executive Committee which contains the proposal and the grounds for making the investment, as well as other information. When securities transactions are performed, the traders responsible for these are subject to limits defined in the Investments Policy.

The entire process falls within the Company's general investment guidelines.

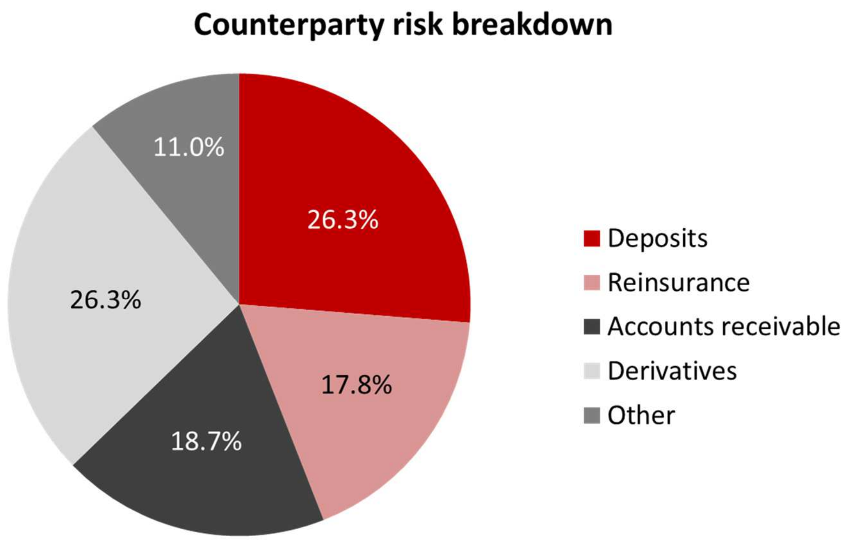
According to these guidelines, the main objective of the investment portfolio is to generate income for the Company, while considering the associated risks and other restrictions arising from the business strategy defined by the Executive Committee.

Assets are allocated to each investments portfolio in a way which enables the aggregate return from all portfolios and respective cumulative risk to meet the established investment objectives.

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:



This figure is the result, on the one hand, of the application of sight deposits, with Caixa Geral de Depósitos having a significant weight, and, on the other, the remaining types of exposure to other counterparties, in particular those relating to reinsurance (around 18%) and the risk hedging positions (around 26%).

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.

A sensitivity analysis is carried out monthly on different factors, such as changes in the interest rate structures, downturns in the stock market or default of some of the Company's major positions. These analyses lead to recommendations on the liquidity level of the assets held in portfolio.

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 2017, is:

	Amount in thousand euros
Expected profit included in future premiums	**595,949**

This figure only refers to the life risk line of business, and the methods and main assumptions described in point 4.2.1 of this report are used.

It is important to highlight that the premiums considered when calculating this profit are net of reinsurance liabilities.

Lastly, the valuation referred to in Article 260(1) d) ii) of Commission Delegated Regulation (EU) 2015/35, of 10 October 2014, is not adjusted to the characteristics of the products associated with this line of business.

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 Executive Committee), 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 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 various European rules mentioned above.

3.7. Mitigation measures

Various risk mitigation techniques are in use 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 directly or indirectly held 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 Australian Dollars (AUD) is mitigated by using forwards in AUD;
- 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 in the case of futures and exposure to the derivatives counterparties in the case of forwards.

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 contract 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.

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Underwriting risks

For a number of lines of business, the company uses reinsurance contracts which guarantee mitigation of underwriting risks for life, non-life and health. This mitigation is taken into account when calculating the respective capital requirements.

The effect of this mitigation on the calculation of the capital requirement associated with underwriting risks is also considered in the counterparty default risk module.

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 2017, 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 2017, 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%	-23.8	+9.5	-15.8
Value of property -10%	-2.6	+0.8	-1.8
Spread +100bps	-17.5	-0.03	-17.6
Interest rate - 100 bps increase	-3.6	-1.0	-4.6
Interest rate - 50 bps decrease	+1.2	+1.1	+2.4

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.
Interest rate	Parallel increase of 100 bps (basis points) along the whole curve
	Parallel decrease of 50 bps (basis points) along the whole curve

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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 same information, for solvency purposes, is presented in relation to 31 December 2016.

During the period covered by this report, there were no material changes, when compared with the period covered by the previous report, in the bases, methods and main assumptions used for the valuation of the Company's assets or in the relevant assumptions used to calculate its technical provisions.

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[5]	Solvency II (previous year)
Assets					
4.1	**Total Assets**	**15,561,715**	**15,958,101**	**-396,386**	**14,365,996**
Liabilities					
4.2	Technical Provisions	11,876,903	12,722,437	-845,534	11,377,471
4.3	Other liabilities	1,042,468	788,542	253,926	974,898
	Total Liabilities	**12,919,371**	**13,510,979**	**-591,608**	**12,352,369**
Excess Assets over Liabilities		**2,642,344**	**2,447,122**	**195,222**	**2,013,627**

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

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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[6]	Solvency II (previous year)
Financial assets	13,878,416	14,147,470	-269,054	12,052,696
Real estate assets	661,951	660,487	1,464	661,394
Other assets	763,223	818,236	-55,013	1,476,202
Reinsurance recoverables	258,125	331,908	-73,783	175,704
TOTAL	**15,561,715**	**15,958,101**	**-396,386**	**14,365,996**

Table 1 – Comparison of the valuation of assets for solvency purposes and their valuation in the financial statements at 31-12-2017

[6] 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

Assets	Solvency II	Solvency II (previous year)
Holdings in related undertakings, including participations	1,695,461	1,646,804
Equities — listed	1,217,125	1,207,406
Equities — unlisted	1,616	2,649
Government bonds	5,603,902	5,429,625
Corporate bonds	4,000,451	2,142,297
Structured notes	37,523	100,215
Collateralised securities	0	1,462
Collective investment undertakings	87,906	108,509
Derivatives	81,825	30,539
Deposits other than cash equivalents	976,915	870,213
Other investments	0	0
Assets held for index-linked and unit-linked contracts	175,692	512,977
TOTAL	**13,878,416**	**12,052,696**

Table 2 – Valuation of financial assets for solvency purposes at 31-12-2017 and 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:

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

In this category, the fair value is determined considering the bid price in the active market available on the electronic platform.

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, using the main market as defined by IFRS (*IFRS Appendix A*), that is, the market with the highest level of liquidity in the case of instruments listed in several markets. The criterion for defining the stock exchange 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 the CBBT (Composite Bloomberg Bond Trade), the BGN (Bloomberg Generic), other sources, subject, however, to an analysis of reasonableness, for example, the frequency of prices or, if none of the above can be used, the BVAL (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, use is made of 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 BVAL (*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 book 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	Solvency II	Financial statements	Difference[7]
Holdings in related undertakings, including participations	1,695,461	1,964,535	-269,074
Equities — listed	1,217,125	1,217,125	0
Equities — unlisted	1,616	1,613	3
Government bonds	5,603,902	5,603,902	0
Corporate bonds	4,000,451	4,000,451	0
Structured notes	37,523	37,523	0
Collateralised securities	0	0	0
Collective investment undertakings	87,906	87,906	0
Derivatives	81,825	81,825	0
Deposits other than cash equivalents	976,915	976,915	0
Other investments	0	0	0
Assets held for index-linked and unit-linked contracts	175,692	175,675	17
TOTAL	**13,878,416**	**14,147,470**	**-269,054**

Table 3 – Comparison of the valuation of financial assets for solvency purposes and their valuation in the financial statements at 31-12-2017

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€ 37,551).

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

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€ 306,625).

- Shares — unlisted

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

- Assets held for index-linked and unit-linked contracts

This results from the use of closing quoted prices at 31/12/2017, obtained, at the end of that day, at different times, either for solvency purposes or for financial statements purposes.

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	Solvency II	Solvency II (previous year)
Property, plant and equipment held for own use	97,562	100,620
Property (other than for own use)	309,519	293,879
Collective investment undertakings	254,870	266,895
TOTAL	**661,951**	**661,394**

Table 4 – Valuation of real estate assets for solvency purposes at 31-12-2017 and 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.

The Company determines the Property Value (i.e. the Market Value) in this way, by applying 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 properties 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 the Market Value of which 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.

Real estate owned by the Insurer, or its subsidiaries, is valued at least 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	Solvency II	Financial statements	Difference[8]
Property, plant and equipment held for own use	97,562	97,562	0
Property (other than for own use)	309,519	309,519	0
Collective investment undertakings	254,870	253,406	1,464
TOTAL	**661,951**	**660,487**	**1,464**

Table 5 - Comparison of real estate assets for solvency purposes and their valuation in the financial statements at 31-12-2017

The differences, by class of assets, are:

- Collective investment undertakings

  This results from the use of quoted prices obtained at different times, either for solvency purposes or for financial statements purposes.

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

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

Asset	Solvency II	Solvency II (previous year)
Goodwill	0	0
Deferred acquisition costs	0	0
Intangible assets	0	0
Deferred tax assets	307,427	438,166
Pension benefit surplus	12,132	8,531
Loans and mortgages to individuals	79	180
Other loans and mortgages	30,681	30,681
Loans on policies	1,582	1,318
Deposits to cedants	673	1,455
Insurance and intermediaries receivables	138,878	115,926
Reinsurance recoverables	49,226	20,506
Receivables (trade, not insurance)	35,474	251,672
Own shares (held directly)	149	149
Amounts due in respect of own fund items or initial fund called up but not yet paid in	0	0
Cash and cash equivalents	165,388	586,377
Any other assets, not elsewhere shown	21,534	21,241
TOTAL	**763,223**	**1,476,202**

Table 6 - Valuation of other assets for solvency purposes at 31-12-2017 and 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.

Amounts in thousand euros

Assets	Solvency II	Financial statements	Difference[9]
Goodwill	0	0	0
Deferred acquisition costs	0	61,899	-61,899
Intangible assets	0	16,541	-16,541
Deferred tax assets	307,427	269,124	38,303
Pension benefit surplus	12,132	12,132	0
Loans and mortgages to individuals	79	79	0
Other loans and mortgages	30,681	30,681	0
Loans on policies	1,582	1,582	0
Deposits to cedants	673	673	0
Insurance and intermediaries receivables	138,878	162,204	-23,326
Reinsurance recoverables	49,226	49,226	0
Receivables (trade, not insurance)	35,474	35,474	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	165,388	156,938	8,450
Any other assets, not elsewhere shown	21,534	21,534	0
TOTAL	**763,223**	**818,236**	**-55,013**

Table 7 - Comparison of the valuation of other assets for solvency purposes and their valuation in the financial statements at 31-12-2017

The differences, by class of asset, are:

- Deferred acquisition costs

  The value of these assets for solvency purposes is zero.

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

- 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 technical provisions, given that its valuation for solvency purposes is net of these receivables.

- Cash and cash equivalents

This results from the difference, when negative, between the balances of current accounts related with futures contracts and the components relating either to the valuation of unmatured contracts (recorded under the heading "Derivatives") or to the initial margin (collateral), which was considered in the valuation for solvency purposes under the heading "Debts owed to credit institutions" in other liabilities.

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	Solvency II	Financial statements	Difference[10]	Solvency II (previous year)
Life and accidents and health similar to life, excluding accidents and health insurance and index-linked and unit-linked	17,055	21,978	-4,923	15,989
Life, index-linked and unit-linked	0	0	0	0
Non-Life, excluding accidents and health insurance	171,472	208,312	-36,840	99,704
Accidents and health similar to life	0	0	0	0
Accidents and health similar to non-life	69,598	101,618	-32,020	60,011
TOTAL	**258,125**	**331,908**	**-73,783**	**175,704**

Table 8 - Comparison of the valuation of reinsurance recoverables for solvency purposes and their valuation in the financial statements at 31-12-2017

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

Recoverables in the Non-Life, Health SLT and Health NSLT lines of business were obtained based on the following assumptions:

- In the Non-Life, Health SLT and Health NSLT lines of business, with the exception of medical expenses, when calculating the claims provision, the value of the accounting provisions was assumed as the base value, which was distributed in annual future cash flows calculated on the basis of the future pattern of payments obtained for direct insurance in each of the lines of business;

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

- In the medical expenses component of the Health NSLT line of business, since there is a 100% ceding treaty, the weight that the value of the reinsurance ceded accounting provision represents in the direct insurance of the line of business was applied to the best estimate of claims direct insurance;

- The component of the provision for premiums in the Non-Life and Health NSLT lines of business was calculated as described in points 4.2.2 and 4.2.4.

Recoverables from the Life line of business were obtained based on the following assumptions:

- To calculate Life reinsurance recoverables, projections are obtained of future premiums cash flows, claims, commissions and expenses in line with the reinsurance contracts, considering the contractual limits of the direct insurance contracts. All liabilities cash flows are based on the concept of expected value, insofar as they are linked to probabilities of occurrence of events to which they are subject, taking into account the time value of cash.

The expected inflation and interest rate structures referred to in points 4.2.5 and 4.2.6, respectively, were applied to the cash flows in the Life, Non-Life, Health SLT and Health NSLT lines of business.

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[11]	Solvency II (previous year)
Life	10,064,354	10,620,226	-555,872	9,673,887
Non-Life	800,655	1,091,279	-290,624	716,326
Health – SLT	830,695	825,834	4,861	815,600
Health – NSLT	181,199	185,098	-3,899	171,658
TOTAL	**11,876,903**	**12,722,437**	**-845,534**	**11,377,471**

Table 9 - Comparison of the valuation of technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2017

The valuation of the technical provisions results from applying statistical methods which have a degree of uncertainty resulting from random factors which may not yet be reflected in the base information used, namely, market factors, legal changes and political factors.

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

However, this degree of uncertainty is lower due to the Company not using simplifications when calculating the technical provisions.

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[12]	Technical Provisions	Technical Provisions (previous year)
Index-linked and unit-linked insurance	Contracts without options and guarantees	87,634	237	0	87,871	135,539
	Contracts with options and guarantees	85,978	28	0	86,006	373,958
Savings	Contracts with profit sharing	1,773,736	13,850	-192,664	1,594,922	1,507,733
	Contracts without profit sharing	8,725,601	17,764	-369,180	8,374,185	7,773,985
Risk	Contracts with profit sharing	41,277	269	0	41,546	41,068
	Contracts without profit sharing	-486,925	132,429	0	-354,496	-396,823
Annuities	Contracts with profit sharing	132,082	6,669	0	138,751	149,379
	Contracts without profit sharing	92,407	3,162	0	95,569	89,048
Reinsurance accepted		0	0	0	0	0
TOTAL		**10,451,790**	**174,408**	**-561,844**	**10,064,354**	**9,673,887**

Table 10 - Valuation of Life technical provisions for solvency purposes at 31-12-2017 and 31-12-2016

[12] Transitional measure on technical provisions.

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.

Future cash-flow 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 value of the best estimate results from the sum of the claims provision and the value of the best estimate of future cash flows from policies held in portfolio.

The value of the claims provision corresponds to the value reported in the financial statements, at 31 December 2017, since the average payment time is very low so that any reduction caused by the discount effect would be minimal.

All liabilities cash flows are based on the concept of expected value, insofar as they are linked to probabilities of occurrence of events to which they are subject. These probabilities constitute second-order technical bases, and that expected value is therefore the Company's best estimate, following a historical analysis covering several years.

Income to calculate profit-sharing, included in the claims estimates, was determined on the basis of assets held in portfolio at 31 December 2017 and their potential gains at that date. For such purpose a "risk neutral" projection was made, in which different securities were subject to the reference interest rates curve (see point 4.2.6), added to the recognition of potential gains at that date.

Therefore, in the case of fixed income securities, in order to determine the cash flows default probabilities were calculated so that the current value of those cash flows, discounted at the reference curve, was the same as the market value.

Profit-sharing was calculated based on the minimum percentage of allocation, defined contractually.

For insurance with demographic risk, profit-sharing was calculated on the technical and financial results, and was distributed by payment in cash. In the case of annuities insurance, the profit-sharing calculation also comes from the technical and financial results, and was allocated by increase in future annuities. For savings products, profit-sharing was calculated on the financial results, and was allocated by addition to the mathematical provision, with the consequent increase in sums insured, that is, increase in the amounts paid at maturity, redemption or death.

The Monte Carlo method was used to determine the time value of the options and guarantees.

For unit-linked insurance without guarantees, the technical provision is calculated using the sum of the statutory technical provision (corresponding to the value of the assets) and the corresponding provision for expenses and risk margin. The provisions for expenses are calculated using the current value of the difference between the estimated expenses and the management costs charged at the end of each year.

For unit-linked insurance with guarantees, the best estimate is calculated using the current value of the best estimate of future cash flows, maturities, redemptions, claims, commissions, expenses and less any future premiums. When calculating the maturity cash flow, we consider the higher of the guaranteed value and the estimated value of the assets on the maturity date, with these figures being obtained based on their market value on the valuation date, on the reference curve (see point 4.2.6) and net of the products' management costs.

Expenses are estimated using the unit costs calculated based on the total costs charged to unit-linked products in the previous year. Commissions are estimated in line with the distribution agreements for each product. Redemption and death cash flows are estimated based on probabilities calculated in line with the Company's past history.

The following calculation assumptions were used:

a) Decreases by Death and Disability

Mortality was analysed by class of products, namely: products in the event of death, in the event of life and the financial component. The disability risk was treated in the same way as the risk of death.

b) Decreases by Redemption and Cancellation

Decreases by cancellations and decreases by redemption were determined according to the historical experience for each type.

c) Technical Management Costs

Since these come into play in determining the economic value of the existing business, the acquisition costs were removed from the total expenses charged to the Life Line of Business, at 31 December 2017. The total expenses were divided by the different classes of products.

Technical management costs were allocated to the classes of products in line with the following allocation criteria:

- Investment costs according to the average mathematical provisions;
- Claims costs according to the indemnities;
- Administrative costs according to the average number of insured persons.

The inflation rate described in point 4.2.5 was considered for the purposes of the expenses.

d) Premiums

For products with demographic risk all future premiums were considered, while for savings products it was assumed that, if the policy is in force, the policyholder will comply with the established premiums payment plan, provided that the product's general and specific conditions so permit. For products whose contracts allow for extraordinary payments, the average payments made was taken into account.

For temporary annual renewable insurance the duration assumed was up to the date of the next renewal, with the exception of a series of annual renewable group life insurance policies linked to mortgages for which the company has waived the right to termination.

e) Commissions

Commissions cash flows were calculated based on the provision of services/ commissioning agreements in force in the Company, defined in the technical specifications and notes of the different types.

f) Future management measures

Regarding future management measures, it was agreed to maintain the portfolio's asset mix at the valuation date. Thus, the proportion of each class of assets and the structure of securities within each class will tend to remain the same over time in the representation in the mathematical provisions.

Annually, potential gains on fixed income securities are recognised in proportion to the remaining duration of the liabilities.

The percentages of allocation of profit-sharing balances and management costs remained constant throughout the projection, in line with that set out in the contract conditions.

g) Policyholders' behaviour

Policyholders' behaviour in terms of redemptions and cancellations is that described in the point on Decreases by Redemption and Cancellation.

For savings products the payment plans are dealt with in line with that set out in the point on Premiums.

h) Risk margin

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[13]
Index-linked and unit-linked insurance	Contracts without options and guarantees	87,871	89,389	-1,518
	Contracts with options and guarantees	86,006	86,205	-199
Savings	Contracts with profit sharing	1,594,922	1,654,062	-59,140
	Contracts without profit sharing	8,374,185	8,411,105	-36,920
Risk	Contracts with profit sharing	41,546	42,259	-713
	Contracts without profit sharing	-354,496	145,540	-500,036
Annuities	Contracts with profit sharing	138,751	102,909	35,842
	Contracts without profit sharing	95,569	88,757	6,812
Reinsurance accepted		0	0	0
TOTAL		**10,064,354**	**10,620,226**	**-555,872**

Table 11 - Comparison of the valuation of the Life technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2017

For risk products the differences are justified, on one hand, by the use of more prudent technical bases (mortality table, discount rate, etc.) when calculating the technical provisions in the financial statements, so that the technical provisions for solvency purposes are lower.

On the other hand, the difference stems from the fact that the contract 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. This change to the contract boundaries has a positive impact on the Company's solvency capital requirement coverage ratio of around 13 pp.

13 Valuation for solvency purposes less financial statements valuation.

The differences in the index-linked and unit-linked class arise from the current value of the difference between the estimated technical management costs and the future management costs.

For savings products, with and without profit-sharing, the differences are a result, on the one hand, of the application of the transitional technical provisions measure and, on the other, of the difference between the rates guaranteed to clients and the rates contained in the reference interest rates curve (see point 4.2.6).

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	Technical Provisions (previous year)
Third party liability insurance - motor	329,231	8,833	338,064	348,379
Other motor vehicle insurance	63,960	3,283	67,243	70,611
Marine, aviation and transport insurance	12,750	391	13,141	9,464
Fire and other damage insurance	263,671	3,824	267,495	168,303
Third party liability - general	91,141	2,464	93,605	97,796
Credit and suretyship insurance	2,575	122	2,697	1,917
Legal protection insurance	207	28	235	348
Assistance	-1,284	39	-1,245	-1,093
Miscellaneous pecuniary losses	18,590	830	19,420	20,601
Non-proportional reinsurance accepted	0	0	0	0
TOTAL	**780,841**	**19,814**	**800,655**	**716,326**

Table 12 - Valuation of Non-Life technical provisions for solvency purposes at 31-12-2017 and 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 using the relevant interest rate term structures (see point 4.2.6).

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Future cash-flow 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[14]
Third party liability insurance - motor	338,064	497,690	-159,626
Other motor vehicle insurance	67,243	88,030	-20,787
Marine, aviation and transport insurance	13,141	14,349	-1,208
Fire and other damage insurance	267,495	311,651	-44,156
Third party liability - general	93,605	110,284	-16,679
Credit and suretyship insurance	2,697	647	2,050
Legal protection insurance	235	1,917	-1,682
Assistance	-1,245	16,866	-18,111
Miscellaneous pecuniary losses	19,420	24,281	-4,861
Non-proportional reinsurance accepted	0	0	0
Other technical provisions	0	25,564	-25,564
TOTAL	**800,655**	**1,091,279**	**-290,624**

Table 13 - Comparison of the valuation of Non-Life technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2017

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

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:
    - provision for premiums and provision for unexpired risks calculated using a different method to that applied to obtain the provision for premiums under Solvency II;
    - the estimate of payables not discounted.

The heading Other technical provisions, which only appears in the financial statements with the value of € 25,564 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	MTPT[15]	Technical Provisions	Technical Provisions (previous year)
Health insurance (direct insurance)	Contracts without options and guarantees	0	0	0	0	0
	Contracts with options and guarantees	0	0	0	0	0
Health insurance (reinsurance accepted)		0	0	0	0	0
Annual payments resulting from non-life insurance contracts related with accident and health insurance liabilities		1,048,021	87,872	-305,198	830,695	815,600
Annual payments resulting from non-life insurance contracts related with insurance liabilities other than accidents and health		0	0	0	0	0
TOTAL		**1,048,021**	**87,872**	**-305,198**	**830,695**	**815,600**

Table 14 - Valuation of Health - SLT technical provisions for solvency purposes at 31-12-2017 and 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 using the relevant interest rate term structures (see point 4.2.6).

[15] Transitional measure on technical provisions.

Future cash-flow 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

Line of Business		Technical Provisions	Financial statements	Difference[16]
Health insurance (direct insurance)	Contracts without options and guarantees	0	0	0
	Contracts with options and guarantees	0	0	0
Health insurance (reinsurance accepted)		0	0	0
Annual payments resulting from non-life insurance contracts related with accident and health insurance liabilities		830,695	825,834	4,861
Annual payments resulting from non-life insurance contracts related with insurance liabilities other than accidents and health		0	0	0
TOTAL		**830,695**	**825,834**	**4,861**

Table 15 - Comparison of the valuation of the Health-SLT technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2017

16 Valuation for solvency purposes less financial statements valuation.

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 point 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	Technical Provisions (previous year)
Medical expenses insurance	56,933	40	56,973	48,756
Income protection insurance	33,645	524	34,169	32,729
Workers' compensation insurance	87,024	3,033	90,057	90,173
TOTAL	**177,602**	**3,597**	**181,199**	**171,658**

Table 16 - Valuation of the Health - NSLT technical provisions for solvency purposes at 31-12-2017 and 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 using the relevant interest rates term structures (see point 4.2.6).

Future cash-flow 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[17]
Medical expenses insurance	56,973	80,172	-23,199
Income protection insurance	34,169	37,269	-3,100
Workers' compensation insurance	90,057	67,657	22,400
TOTAL	**181,199**	**185,098**	**-3,899**

Table 17 - Comparison of the valuation of the Health - NSLT technical provisions for solvency purposes and their valuation in the financial statements at 31-12-2017

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:
    - provision for premiums and provision for unexpired risks calculated using a different method to that applied to obtain the provision for premiums under Solvency II;
    - the estimate of payables not discounted.

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

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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.

The harmonised index of prices disclosed by Banco de Portugal in December 2017 has a timeframe of three years (2018-2020):

	Weights	Projections March 2018				EB December 2017			
	2017	2017	2018(p)	2019(p)	2020(p)	2017(p)	2018(p)	2019(p)	2020(p)
Gross domestic product	100.0	2.7	2.3	1.9	1.7	2.6	2.3	1.9	1.7
Private consumption	65.0	2.2	2.1	1.9	1.7	2.2	2.1	1.8	1.7
Public consumption	17.6	0.1	0.5	0.4	0.5	0.1	0.6	0.4	0.2
Gross fixed capital formation	16.1	9.0	6.5	5.6	5.4	8.3	6.1	5.9	5.4
Domestic demand	99.0	2.8	2.7	2.3	2.2	2.7	2.5	2.2	2.1
Exports	43.1	7.9	7.2	4.8	4.2	7.7	6.5	5.0	4.1
Imports	42.1	7.9	7.7	5.4	5.0	7.5	6.7	5.5	4.8
Contribution to GDP growth net of imports (in p.p.)									
Domestic demand		1.2	1.1	1.1	1.0	1.2	1.2	1.0	1.0
Exports		1.5	1.2	0.8	0.7	1.5	1.2	0.9	0.7
Employment		3.3	1.9	1.3	0.9	3.1	1.6	1.3	0.9
Unemployment rate		8.9	7.3	6.3	5.6	8.9	7.8	6.7	6.1
Current plus capital account (% of GDP)		1.4	2.1	2.1	1.9	1.5	2.3	2.2	2.2
Trade balance (% of GDP)		1.8	1.5	1.6	1.3	1.8	1.6	1.6	1.5
Harmonized index of consumer prices		1.6	1.2	1.4	1.5	1.6	1.5	1.4	1.6

Sources: Banco de Portugal and INE

Figure 4 - Banco de Portugal Projections 2018-2020 | Annual rate of change, percentage

In the best estimate projections, 1.5% was considered in 2018, 1.4% in 2019 and 1.6% 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) 2018/165, of 31 January 2018, without volatility adjustment.

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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	Solvency II	Financial statements	Difference[18]	Solvency II (previous year)
Contingent liabilities	0	0	0	0
Provisions other than technical provisions	102,092	102,092	0	81,618
Pension benefit obligations	83	83	0	72
Deposits from reinsurers	130,053	130,053	0	114,417
Deferred tax liabilities	502,626	250,815	251,811	412,399
Derivatives	19,677	19,677	0	41,905
Debts owed to credit institutions	8,450	0	8,450	0
Financial liabilities other than debts owed to credit institutions	0	0	0	0
Insurance and intermediaries payables	76,711	76,711	0	70,790
Reinsurance payables	33,911	40,246	-6,335	30,435
Payables (trade, not insurance)	80,684	80,684	0	141,781
Subordinated liabilities	0	0	0	0
Any other liabilities, not elsewhere shown	88,181	88,181	0	81,481
TOTAL	**1,042,468**	**788,542**	**253,926**	**974,898**

Table 18 - Comparison of the valuation of other liabilities for solvency purposes and their valuation in the financial statements at 31-12-2017

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

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

The differences, by class of liability, are:

- 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;

- Debts owed to credit institutions

  This results from the difference, when negative, between the balances of current accounts related with futures contracts and the components relating either to the valuation of unmatured contracts (recorded under the heading "Derivatives") or to the initial margin (collateral), which was considered in the financial statements under the heading "Cash and cash equivalents" in other assets;

- Reinsurance payables

  The difference relates to reinsurance ceded payables for reimbursement of amounts paid out in direct insurance claims. For solvency purposes these payables are included in the Non-Life (€160m) and Health – NSLT (€6,175m) 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 contract 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 contract 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 to technical provisions

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

- Savings 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 **initial 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 – Savings products	1,482,854	1,676,417	11,945	0	0	205,508
32	Life insurance liabilities – Other liabilities similar to life - Savings 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**

Table 19 – Initial amount of the transitional deduction applied to the technical provisions

Pursuant to Article 25 of Law No. 147/2015, of 9 September, the Company applied the **transitional deduction to the technical provisions on the first day of 2017**. The table below shows the amount of that deduction at 31/12/2017:

Amounts in thousand euros

Lines of business/ Homogeneous risk groups		Transitional Deduction		
		Initial Amount	Decrease at 1/1/2017	Amount at 31/12/2017
29 and 33	Life insurance liabilities - Health – SLT	325,545	-20,347	305,198
30	Life insurance liabilities – Insurance with profit sharing – Savings products	205,508	-12,844	192,664
32	Life insurance liabilities – Other liabilities similar to life - Savings products	393,792	-24,612	369,180
Total		**924,845**	**-57,803**	**867,042**

Table 20 – Decrease in the transitional deduction to the technical provisions in 2017

The following table quantifies the impact on the Company's financial condition, at 31/12/2017, 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	**11,876,903**	**12,743,945**	**-867,042**
Basic own funds Excess of assets over liabilities	2,642,344	2,048,420	593,924
Eligible own funds to meet SCR	**2,642,195**	**2,048,271**	**593,924**
Solvency Capital Requirement (SCR)	**1,734,353**	**1,734,353**	**0**
SCR coverage ratio	**152.34%**	**118.10%**	
Eligible own funds to meet MCR	**2,642,195**	**1,970,352**	**671,843**
Minimum Capital Requirement (MCR)	**433,588**	**433,588**	**0**
MCR coverage ratio	**609.38%**	**454.43%**	

Table 19 – Impact of not applying the transitional deduction to the technical provisions

The **impact of the decrease in the transitional deduction to technical provisions, on the first day of 2018,** is approximately 0.5% of the total amount of the Company's technical provisions and 2.2% of its SCR, 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

During the period covered by this report, there were no significant changes related to the objectives, policies and processes adopted by the Company to manage its own funds.

The changes which occurred in 2017, both in the Company's own funds and in its solvency capital requirement are explained in this chapter.

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:

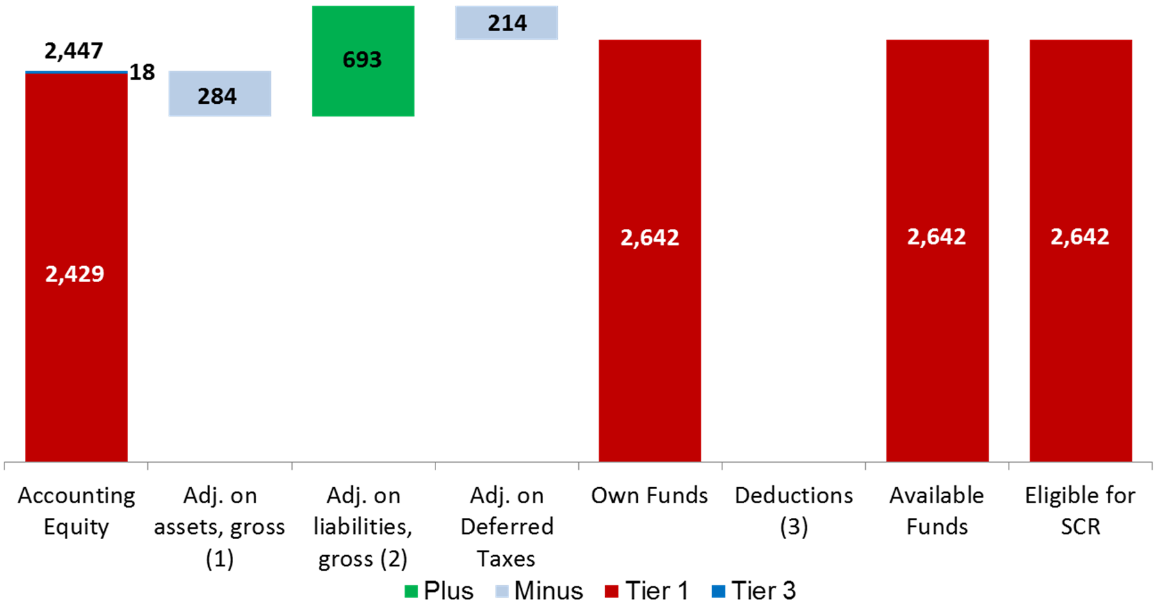
Amounts in thousand euros

	Solvency II	**Financial statements**	**Difference[19]**	**Solvency II** (previous year)
Assets	15,561,715	15,958,101	-396,386	14,365,996
Technical Provisions	11,876,903	12,722,437	-845,534	11,377,471
Other liabilities	1,042,468	788,542	253,926	974,898
Excess of assets over liabilities	**2,642,344**	**2,447,122**	**195,222**	**2,013,627**

Table 20: Comparison of the valuation of own funds for solvency purposes and their valuation in the financial statements at 31-12-2017

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

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



(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

Graph 1 – Explanation of the differences between equity for solvency purposes and its value in the financial statements

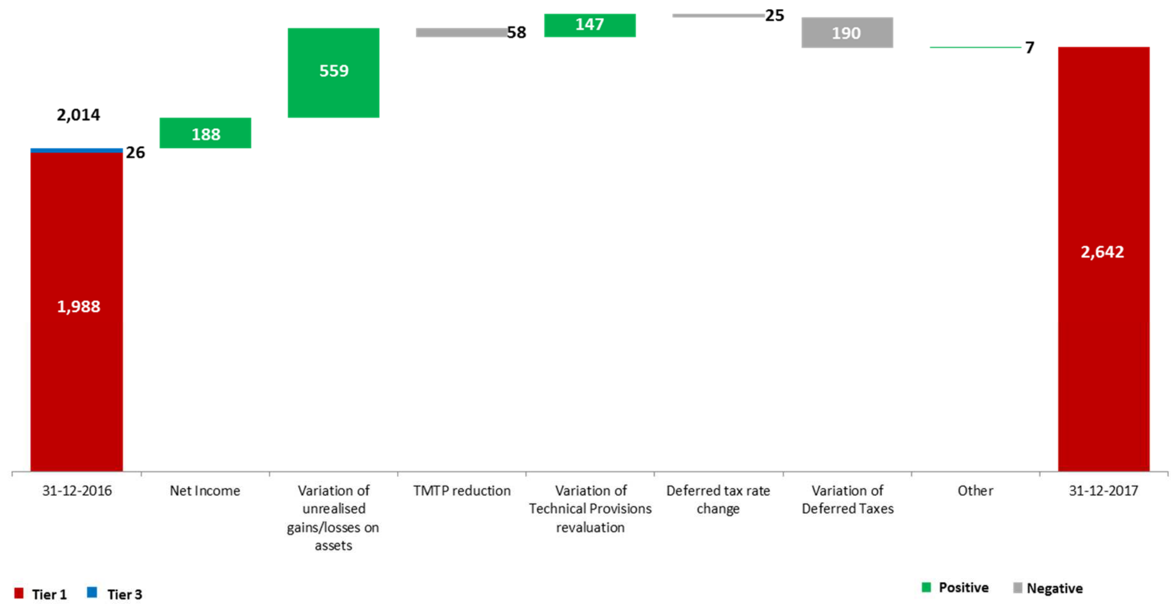
The following table provides information on the structure, amount and quality of the basic own funds and ancillary own funds, at 31/12/2017 and 31/12/2016

Amounts in thousand euros

	Own Funds - Structure	Amount	Tier	Amount (previous year)	Tier (previous year)
Basic own funds	Ordinary share capital (gross of own shares)	381,150	1	381,150	1
	Share premium account related to ordinary share capital	115,103	1	115,103	1
	Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	0		0	
	Subordinated mutual members accounts	0		0	
	Surplus funds	0		0	
	Preference shares	0		0	
	Share premium account related to preference shares	0		0	
	Reconciliation reserve	1,624,411	1	969,928	1
	Subordinated liabilities	0		0	
	An amount equal to the value of net deferred tax assets	0		25,766	3
	Other items approved by the supervisory authority as basic own funds not specified above	521,531	1	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		0	
	Deductions for participations in financial and credit institutions	0		0	
	TOTAL BASIC OWN FUNDS	**2,642,195**		**2,013,478**	
Ancillary own funds	Unpaid and uncalled ordinary share capital callable on demand	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	0		0	
	Unpaid and uncalled preference shares callable on demand	0		0	
	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0		0	
	Letters of credit and guarantees under Article 96(2) of Directive 2009/138/EC	0		0	
	Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC	0		0	
	Supplementary members calls under first subparagraph of Article 96(3) of Directive 2009/138/EC	0		0	
	Supplementary members calls - other than under first subparagraph of Article 96(3) of Directive 2009/138/EC	0		0	
	Other ancillary own funds	0		0	
	TOTAL ANCILLARY OWN FUNDS	**0**		**0**	
TOTAL AVAILABLE FUNDS		**2,642,195**		**2,013,478**	
Own shares (held directly and indirectly)		149		149	
EXCESS OF ASSETS OVER LIABILITIES		**2,642,344**		**2,013,627**	

Table 21 - Structure, amount and tiering of own funds at 31-12-2017 and 31-12-2016

The graph below shows the main changes to the Company's available own funds during the period covered by this report (amounts in million euros):



TMTP – Transitional Measure on Technical Provisions

Graph 2 – Explanation of the main changes to the Company's available own funds between 31-12-2016 and 31-12-2017

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, relating to 31/12/2017 and 31/12/2016:

Amounts in thousand euros

	Available own funds to meet				Eligible own funds to meet			
	SCR	**SCR** (previous year)	**MCR**	**MCR** (previous year)	**SCR**	**SCR** (previous year)	**MCR**	**MCR** (previous year)
Tier 1	2,642,195	1,987,712	2,642,195	1,987,712	2,642,195	1,987,712	2,642,195	1,987,712
Tier 2	0	0	0	0	0	0	0	0
Tier 3	0	25,766	0	0	0	25,766	0	0
Total	**2,642,195**	**2,013,478**	**2,642,195**	**1,987,712**	**2,642,195**	**2,013,478**	**2,642,195**	**1,987,712**

Table 22 – Amounts of own funds available and eligible to meet the SCR and MCR at 31-12-2017 and 31-12-2016

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

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, at 31/12/2017 and 31/12/2016.

Amounts in thousand euros

	Capital Requirements	Capital Requirements (previous year)	Coverage Ratio	Coverage Ratio (previous year)
SCR	1,734,353	1,531,813	152.34%	131.44%
MCR	433,588	390,654	609.38%	508.82%

Table 23 – SCR and MCR at 31-12-2017 and 31-12-2016

The table below provides a breakdown of the SCR into its major components, with reference to 31/12/2017 and 31/12/2016, 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	SCR Breakdown (previous year)
Market risk	1,470,588	1,200,694
Counterparty default risk	150,438	165,889
Life insurance specific risk	314,980	338,866
Accidents and health insurance specific risk	147,205	143,978
Non-Life insurance specific risk	229,094	224,329
Diversification	-560,179	-563,502
Intangible assets risk	0	0
Basic Solvency Capital Requirement	**1,752,126**	**1,510,254**
Operational risk	133,260	130,658
Loss-absorbing capacity of technical provisions	-6,532	-5,430
Loss-absorbing capacity of deferred taxes	-144,501	-103,669
Solvency Capital Requirement	**1,734,353**	**1,531,813**

Table 24 – SCR Breakdown at 31-12-2017 and 31-12-2016

Information on the main changes to the solvency capital requirement in the period covered by this report, and the reasons for those changes, is included in Chapter 3.

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 or the solvency capital requirement during the period covered by this report.

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**	307,427
Pension benefit surplus	**R0050**	12,132
Property, plant & equipment held for own use	**R0060**	97,562
Investments (other than assets held for index-linked and unit-linked contracts)	**R0070**	14,267,113
Property (other than for own use)	**R0080**	309,519
Holdings in related undertakings, including participations	**R0090**	1,695,461
Equities	**R0100**	1,218,741
Equities - listed	**R0110**	1,217,125
Equities - unlisted	**R0120**	1,616
Bonds	**R0130**	9,641,877
Government Bonds	**R0140**	5,603,902
Corporate Bonds	**R0150**	4,000,451
Structured notes	**R0160**	37,523
Collateralised securities	**R0170**	0
Collective Investments Undertakings	**R0180**	342,775
Derivatives	**R0190**	81,825
Deposits other than cash equivalents	**R0200**	976,915
Other investments	**R0210**	0
Assets held for index-linked and unit-linked contracts	**R0220**	175,692
Loans and mortgages	**R0230**	32,341
Loans on policies	**R0240**	1,582
Loans and mortgages to individuals	**R0250**	79
Other loans and mortgages	**R0260**	30,681
Reinsurance recoverables from:	**R0270**	258,125
Non-life and health similar to non-life	**R0280**	241,070
Non-life excluding health	**R0290**	171,472
Health similar to non-life	**R0300**	69,598
Life and health similar to life, excluding health and index-linked and unit-linked	**R0310**	17,056
Health similar to life	**R0320**	0
Life excluding health and index-linked and unit-linked	**R0330**	17,056
Life index-linked and unit-linked	**R0340**	
Deposits to cedants	**R0350**	673
Insurance and intermediaries receivables	**R0360**	138,879
Reinsurance receivables	**R0370**	49,226
Receivables (trade, not insurance)	**R0380**	35,474
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**	165,388
Any other assets, not elsewhere shown	**R0420**	21,534
Total assets	**R0500**	15,561,715

S.02.01.02
Balance sheet

		Solvency II value
Liabilities		**C0010**
Technical provisions – non-life	**R0510**	981,853
Technical provisions – non-life (excluding health)	**R0520**	800,655
Technical provisions calculated as a whole	**R0530**	
Best Estimate	**R0540**	780,840
Risk margin	**R0550**	19,815
Technical provisions - health (similar to non-life)	**R0560**	181,198
Technical provisions calculated as a whole	**R0570**	
Best Estimate	**R0580**	177,602
Risk margin	**R0590**	3,596
Technical provisions - life (excluding index-linked and unit-linked)	**R0600**	10,721,173
Technical provisions - health (similar to life)	**R0610**	830,695
Technical provisions calculated as a whole	**R0620**	
Best Estimate	**R0630**	742,823
Risk margin	**R0640**	87,872
Technical provisions – life (excluding health and index-linked and unit-linked)	**R0650**	9,890,478
Technical provisions calculated as a whole	**R0660**	
Best Estimate	**R0670**	9,716,334
Risk margin	**R0680**	174,144
Technical provisions – index-linked and unit-linked	**R0690**	173,876
Technical provisions calculated as a whole	**R0700**	89,388
Best Estimate	**R0710**	84,223
Risk margin	**R0720**	265
Other technical provisions	**R0730**	
Contingent liabilities	**R0740**	0
Provisions other than technical provisions	**R0750**	102,092
Pension benefit obligations	**R0760**	83
Deposits from reinsurers	**R0770**	130,053
Deferred tax liabilities	**R0780**	502,626
Derivatives	**R0790**	19,677
Debts owed to credit institutions	**R0800**	8,450
Financial liabilities other than debts owed to credit institutions	**R0810**	
Insurance & intermediaries payables	**R0820**	76,711
Reinsurance payables	**R0830**	33,911
Payables (trade, not insurance)	**R0840**	80,684
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**	88,181
Total liabilities	**R0900**	12,919,370
Excess of assets over liabilities	**R1000**	2,642,345

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**				Total
		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	
		C0010	**C0020**	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0110**	**C0120**	**C0130**	**C0140**	**C0150**	**C0160**	**C0200**
Premiums written																		
Gross - Direct Business	**R0110**	269,020	29,548	172,101	240,184	153,620	17,961	236,335	34,678	653	4,916	31,949	34,207					1,225,172
Gross - Proportional reinsurance accepted	**R0120**	6	133	565	710	971	310	7,866	541				22					11,124
Gross - Non-proportional reinsurance accepted	**R0130**																	
Reinsurers' share	**R0140**	266,762	8,584	5,270	2,356	705	10,388	93,917	9,533	433	1,798	15,747	11,806					427,297
Net	**R0200**	2,264	21,097	167,396	238,538	153,886	7,883	150,284	25,686	220	3,119	16,202	22,423					808,998
Premiums earned																		
Gross - Direct Business	**R0210**	266,857	29,185	171,055	239,535	147,472	18,022	236,075	34,140	657	5,134	31,126	34,211					1,213,468
Gross - Proportional reinsurance accepted	**R0220**	6	168	566	668	1,101	320	7,374	428	0	0	0	18					10,650
Gross - Non-proportional reinsurance accepted	**R0230**																	
Reinsurers' share	**R0240**	264,874	8,988	5,385	2,305	901	10,528	92,340	9,281	442	3,531	29,574	12,266					440,417
Net	**R0300**	1,988	20,364	166,235	237,898	147,672	7,814	151,109	25,287	215	1,603	1,552	21,964					783,701
Claims incurred																		
Gross - Direct Business	**R0310**	205,551	15,560	71,779	185,825	78,771	9,197	177,763	14,751	-145	-2	0	24,069					783,120
Gross - Proportional reinsurance accepted	**R0320**	0	-58	857	456	116	-139	47,933	-5,418	1			-13					43,734
Gross - Non-proportional reinsurance accepted	**R0330**																	
Reinsurers' share	**R0340**	203,647	4,216	2,663	8,484	226	6,842	118,241	104	-9		0	15,720					360,134
Net	**R0400**	1,905	11,286	69,973	177,796	78,661	2,217	107,455	9,229	-135	-2	0	8,335					466,720
Changes in other technical provisions																		
Gross - Direct Business	**R0410**	193	-17	-10,165	8,630	-1,401	9	7,034	558	46	0	-785	163					4,265
Gross - Proportional reinsurance accepted	**R0420**					-366	3	-744	-19		0	0	0					-1,127
Gross - Non- proportional reinsurance accepted	**R0430**																	
Reinsurers'share	**R0440**											0						0
Net	**R0500**	193	-17	-10,165	8,630	-1,768	12	6,289	539	46	0	-785	163					3,137
Expenses incurred	**R0550**	4,523	10,885	46,775	83,442	43,645	3,346	54,081	10,595	609	761	9,455	10,652					278,768
Other expenses	**R1200**																	9,335
Total expenses	**R1300**																	288,103

		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 reinsurance	Life reinsurance	
		C0210	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**	**C0300**
Premiums written										
Gross	**R1410**		281,639	2,091	2,130,669				71	2,414,469
Reinsurers' share	**R1420**		1,120		12,058					13,178
Net	**R1500**		280,519	2,091	2,118,611				71	2,401,292
Premiums earned										
Gross	**R1510**		281,698	2,091	2,130,635				71	2,414,494
Reinsurers' share	**R1520**		1,134		12,051					13,185
Net	**R1600**		280,564	2,091	2,118,584				71	2,401,309
Claims incurred										
Gross	**R1610**		213,087	343,476	1,494,170	94,120			12	2,144,864
Reinsurers' share	**R1620**		78		6,931					7,009
Net	**R1700**		213,009	343,476	1,487,238	94,120			12	2,137,855
Changes in other technical provisions										
Gross	**R1710**		70,405		9,810					80,215
Reinsurers' share	**R1720**		-67		264					197
Net	**R1800**		70,472		9,546					80,018
Expenses incurred	**R1900**		18,995	-1,600	78,287	1,954			19	97,655
Other expenses	**R2500**									-3
Total expenses	**R2600**									97,652

S.12.01.02
Life and Health SLT Technical Provisions

		Insurance with profit participation	Index-linked and unit-linked insurance			Other life insurance			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)**	Health insurance (direct business)			Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	**Total (Health similar to life insurance)**
				Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees					Contracts without options and guarantees	Contracts with options or guarantees			
		C0020	**C0030**	**C0040**	**C0050**	**C0060**	**C0070**	**C0080**	**C0090**	**C0100**	**C0150**	**C0160**	**C0170**	**C0180**	**C0190**	**C0200**	**C0210**
Technical provisions calculated as a whole	**R0010**	0	89,388			0			0	0	89,388	0			0	0	0
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**	0	0			0			0		0	0			0	0	0
Technical provisions calculated as a sum of BE and RM																	
Best Estimate																	
Gross Best Estimate	**R0030**	1,947,095		-1,754	85,978		-394,518	8,725,601	0		10,362,401		0	0	1,048,021	0	1,048,021
Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0080**	477		0	0		16,578	0	0		17,056		0	0	0	0	0
- total	**R0090**	1,946,618		-1,754	85,978		-411,096	8,725,601	0	0	10,345,345		0	0	1,048,021	0	1,048,021
Risk Margin	**R0100**	20,789	265			153355			0	0	174,409	0			87872	0	87872
Amount of the transitional on Technical Provisions																	
Technical Provisions calculated as a whole	**R0110**		0			0			0		0	0			0	0	0
Best estimate	**R0120**	-192,664		0	0		0	-369,180	0		-561,844		0	0	-305,198	0	-305,198
Risk margin	**R0130**	0	0			0			0	0	0	0			0	0	0
Technical provisions - total	**R0200**	1,775,220	173,877			8,115,258			0	0	10,064,355	0			830,695	0	830,695

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 reinsurance	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	**R0050**																	
Technical provisions calculated as a sum of BE and RM																		
Best estimate																		
Premium provisions																		
Gross	**R0060**	10,917	6,250	38,242	80,716	39,794	-790	47,526	4,060	29	183	-1,438	5,552					231,042
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0140**	4,818	448	13	111	155	-81	13,710	609	1	-1,823	-19,497	1,061					-474
Net Best Estimate of Premium Provisions	**R0150**	6,099	5,802	38,229	80,605	39,639	-709	33,816	3,451	28	2,006	18,059	4,491	0	0	0	0	231,516
Claims provisions																		
Gross	**R0160**	46,016	27,395	48,782	248,514	24,166	13,541	216,145	87,081	2,546	24	154	13,037					727,400
Total recoverable from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	**R0240**	44,492	16,712	3,115	9,213	133	7,858	137,788	13,412	11	0	1	8,809					241,544
Net Best Estimate of Claims Provisions	**R0250**	1,524	10,683	45,667	239,301	24,033	5,683	78,357	73,669	2,535	24	153	4,228	0	0	0	0	485,857
Total Best estimate - gross	**R0260**	56,933	33,645	87,024	329,230	63,960	12,751	263,671	91,141	2,575	207	-1,284	18,589	0	0	0	0	958,442
Total Best estimate - net	**R0270**	7,623	16,485	83,896	319,906	63,672	4,974	112,173	77,120	2,563	2,030	18,212	8,719	0	0	0	0	717,373
Risk margin	**R0280**	40	524	3,033	8,833	3,283	391	3,824	2,464	122	28	39	830					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**	56,973	34,169	90,057	338,063	67,243	13,142	267,495	93,605	2,697	235	-1,245	19,419	0	0	0	0	981,854
Recoverable from reinsurance contract/SPV and Finite Re after the adjustment for expected losses due to counterparty default - total	**R0330**	49,310	17,160	3,128	9,324	288	7,777	151,498	14,021	12	-1,823	-19,496	9,870	0	0	0	0	241,070
Technical provisions minus recoverables from reinsurance/SPV and Finite Re - total	**R0340**	7,663	17,009	86,929	328,739	66,955	5,365	115,997	79,584	2,685	2,058	18,251	9,549	0	0	0	0	740,785

S.19.01.21
Non-life Insurance Claims Information

Total Non-Life Business

Accident year / Underwriting year	Z0020	1

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

	Year	Development 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											18,344	18,344	18,344
N-9	R0160	476,220	200,299	35,023	15,747	6,047	5,222	3,637	3,204	2,203	1,159		1,159	748,761
N-8	R0170	441,002	189,728	59,593	24,793	22,979	7,142	9,050	4,618	1,686			1,686	760,590
N-7	R0180	425,459	177,294	27,767	13,411	9,559	5,641	3,063	2,939				2,939	665,134
N-6	R0190	411,504	147,373	22,294	16,250	5,069	5,212	5,116					5,116	612,818
N-5	R0200	387,157	155,538	18,702	10,787	8,302	5,749						5,749	586,235
N-4	R0210	401,326	149,235	25,063	16,960	9,617							9,617	602,201
N-3	R0220	385,547	147,663	31,670	14,600								14,600	579,480
N-2	R0230	398,873	167,655	30,993									30,993	597,521
N-1	R0240	450,539	181,255										181,255	631,793
N	R0250	494,920											494,920	494,920
Total	R0260												766,378	6,297,797

Gross undiscounted Best Estimate Claims Provisions
(absolute amount)

	Year	Development year 0	1	2	3	4	5	6	7	8	9	10 & +	Year end (discounted data)
		C0200	C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0290	C0300	C0360
Prior	R0100											89,567	89,268
N-9	R0160									10,935	8,230		8,250
N-8	R0170								12,267	10,467			10,469
N-7	R0180							17,149	9,338				9,322
N-6	R0190						18,834	17,580					17,468
N-5	R0200					24,150	18,149						18,029
N-4	R0210				36,466	27,648							27,431
N-3	R0220			51,269	36,414								36,154
N-2	R0230		80,636	45,476									45,180
N-1	R0240	296,736	150,302										149,660
N	R0250	316,643											316,170
Total	R0260												727,400

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	11,876,903	867,042	0	0	0
Basic own funds	R0020	2,642,195	-593,924	0	0	0
Eligible own funds to meet Solvency Capital Requirement	R0050	2,642,195	-593,924	0	0	0
Solvency Capital Requirement	R0090	1,734,353	0	0	0	0
Eligible own funds to meet Minimum Capital Requirement	R0100	2,642,195	-671,843	0	0	0
Minimum Capital Requirement	R0110	433,588	0	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			
Share premium account related to ordinary share capital	R0030	115,103	115,103			
Initial funds, members' contributions or the equivalent basic own - fund item for mutual and mutual-type undertakings	R0040					
Subordinated mutual member accounts	R0050					
Surplus funds	R0070					
Preference shares	R0090					
Share premium account related to preference shares	R0110					
Reconciliation reserve	R0130	1,624,412	1,624,412			
Subordinated liabilities	R0140					
An amount equal to the value of net deferred tax assets	R0160	0				0
Other own fund items approved by the supervisory authority as basic own funds not specified above	R0180	521,531	521,531			
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					
Total basic own funds after deductions	R0290	2,642,196	2,642,196	0	0	0
Ancillary own funds						
Unpaid and uncalled ordinary share capital callable on demand	R0300					
Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	R0310					
Unpaid and uncalled preference shares callable on demand	R0320					
A legally binding commitment to subscribe and pay for subordinated liabilities on demand	R0330					
Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	R0340					
Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	R0350					
Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0360					
Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	R0370					
Other ancillary own funds	R0390	0				

		Total	Tier 1 - unrestricted	Tier 1 - restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
Total ancillary own funds	R0400				0	0
Available and eligible own funds						
Total available own funds to meet the SCR	R0500	2,642,196	2,642,196	0	0	0
Total available own funds to meet the MCR	R0510	2,642,196	2,642,196	0	0	
Total eligible own funds to meet the SCR	R0540	2,642,196	2,642,196	0	0	0
Total eligible own funds to meet the MCR	R0550	2,642,196	2,642,196	0	0	
SCR	R0580	1,734,353				
MCR	R0600	433,588				
Ratio of Eligible own funds to SCR	R0620	152.34%				
Ratio of Eligible own funds to MCR	R0640	609.38%				

		C0060	
Reconciliation reserve			
Excess of assets over liabilities	R0700	2,642,345	
Own shares (held directly and indirectly)	R0710	149	
Foreseeable dividends, distributions and charges	R0720		
Other basic own fund items	R0730	1,017,784	
Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	R0740		
Reconciliation reserve	R0760	1,624,412	
Expected profits			
Expected profits included in future premiums (EPIFP) - Life business	R0770	595,949	
Expected profits included in future premiums (EPIFP) - Non- life business	R0780		
Total Expected profits included in future premiums (EPIFP)	R0790	595,949	

S.25.01.21
Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	**C0090**	**C0120**
Market risk	**R0010**	1,470,588		
Counterparty default risk	**R0020**	150,438		
Life underwriting risk	**R0030**	314,980	None	
Health underwriting risk	**R0040**	147,205	None	
Non-life underwriting risk	**R0050**	229,094	None	
Diversification	**R0060**	-560,179		
Intangible asset risk	**R0070**	0		
Basic Solvency Capital Requirement	**R0100**	1,752,127		

Calculation of Solvency Capital Requirement		**C0100**
Operational risk	**R0130**	133,260
Loss-absorbing capacity of technical provisions	**R0140**	-6,533
Loss-absorbing capacity of deferred taxes	**R0150**	-144,501
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**	1,734,353
Capital add-on already set	**R0210**	
Solvency capital requirement	**R0220**	1,734,353
Other information on SCR		
Capital requirement for duration-based equity risk sub-module	**R0400**	
Total amount of Notional Solvency Capital Requirement for remaining part	**R0410**	
Total amount of Notional Solvency Capital Requirements for ring fenced funds	**R0420**	
Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	**R0430**	
Diversification effects due to RFF nSCR aggregation for article 304	**R0440**	

S.28.02.01
Minimum Capital Requirement - Both life and non-life insurance activity

		Non-life activities	Life activities
		MCR(NL,NL) Result	MCR(NL,L) Result
		C0010	C0020
Linear formula component for non-life insurance and reinsurance obligations	R0010	136,656	

		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	7,624	2,264		
Income protection insurance and proportional reinsurance	R0030	16,485	21,097		
Workers' compensation insurance and proportional reinsurance	R0040	83,895	167,396		
Motor vehicle liability insurance and proportional reinsurance	R0050	319,906	238,538		
Other motor insurance and proportional reinsurance	R0060	63,672	153,886		
Marine, aviation and transport insurance and proportional reinsurance	R0070	4,973	7,883		
Fire and other damage to property insurance and proportional reinsurance	R0080	112,173	150,284		
General liability insurance and proportional reinsurance	R0090	77,120	25,686		
Credit and suretyship insurance and proportional reinsurance	R0100	2,563	220		
Legal expenses insurance and proportional reinsurance	R0110	2,030	3,119		
Assistance and proportional reinsurance	R0120	18,212	16,202		
Miscellaneous financial loss insurance and proportional reinsurance	R0130	8,720	22,423		
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	Life activities
		MCR(L,NL) Result	MCR(L,L) Result
		C0070	C0080
Linear formula component for life insurance and reinsurance obligations	R0200	24,785	251,996

		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			1,759,736	
Obligations with profit participation - future discretionary benefits	R0220			15,007	
Index-linked and unit-linked insurance obligations	R0230			173,612	
Other life (re)insurance and health (re)insurance obligations	R0240	810,348		7,963,088	
Total capital at risk for all life (re)insurance obligations	R0250		11,096,223		27,466,180

Overall MCR calculation

		C0130
Linear MCR	R0300	413,437
SCR	R0310	1,734,353
MCR cap	R0320	780,459
MCR floor	R0330	433,588
Combined MCR	R0340	433,588
Absolute floor of the MCR	R0350	7,400
		C0130
Minimum Capital Requirement	R0400	433,588

Notional non-life and life MCR calculation		Non-life activities	Life activities
		C0140	C0150
Notional linear MCR	R0500	161,441	251,996
Notional SCR excluding add-on (annual or latest calculation)	R0510	677,237	1,057,115
Notional MCR cap	R0520	304,757	475,702
Notional MCR floor	R0530	169,309	264,279
Notional Combined MCR	R0540	169,309	264,279
Absolute floor of the notional MCR	R0550	3,700	3,700
Notional MCR	R0560	169,309	264,279

Statutory auditor's report

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(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 3º 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 3º 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 26º from Regulatory Standard No. 8/2016-R, of 16 August (republished by Regulatory Standard No. 1/2018, of 11 January) including the quantitative information to be disclosed with that Report ("Quantitative Information"), according to articles 4º and 5º 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 2017.

Our report comprises the reporting of the following matters:

A. Report on the adjustments between the statutory statement of financial position and the balance sheet for solvency purposes and the classification, availability and eligibility of own funds;
B. Report on the calculation of the solvency capital requirement and minimum capital requirement;
C. Report on the implementation and effective application of the governance system ; and
D. 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 STATUTORY STATEMENT OF FINANCIAL POSITION AND THE BALANCE SHEET FOR SOLVENCY PURPOSES AND 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 for solvency purposes and the classification and the availability evaluation and eligibility of own funds.

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 reasonable assurance conclusion, as to whether the adjustments between the statutory statement of financial position and the balance sheet for solvency purposes and that 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 with the applicable legal and regulatory requirements.

According to No. 2 of article 3° of Regulatory Standard, it is not our responsibility to verify the adequacy of legal requirements, applicable regulatory and calculation techniques (i) of the elements included within the certification by the Company's responsible actuary, as established in the article 7° of same Regulatory Standard, and (ii) of the elements of solvency capital requirement included within the certification by the Company's responsible actuary, as established in the article 10° of same 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, and that the classification, availability and eligibility 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 2017, object of the Statutory Audit whose Report was issued on 12 March 2018 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; and
(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 7° of Regulatory Standard, were subject to actuarial certification by the Company's responsible actuary.

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, 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 an extensive quality control system which includes 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 statutory statement of financial position and the balance sheet for solvency purposes and that the classification, availability and eligibility of own funds, with reference to the report of the solvency and financial condition date (31 December 2017), 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 CALCULATION OF THE SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

Responsibilities of the Management Board

It is the responsibility of the Company's Board of Directors the calculation of the solvency capital requirement and minimum capital requirement submitted to ASF, under the terms of Commission Implementing Regulation (EU) No. 2015/35, of 10 October 2014, that completes the Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009, relating to the Taking-up and Pursuit of the Business of Insurance and Reinsurance ("Regulation").

Auditor's responsibilities

Our responsibility, as defined in subparagraph a) of No. 1 of article 4º of Regulatory Standard, and considering the transitional regime set out in subparagraph b) of No.1 of article 15º of Regulatory Standard, consists in expressing, based on the procedures carried out, a limited assurance conclusion as to whether the calculation of the solvency capital requirement and minimum capital requirement are presented in accordance with the applicable legal and regulatory requirements.

According to No. 2 of article 3º of Regulatory Standard, it is not our responsibility to verify the adequacy of legal requirements, applicable regulatory and calculation techniques (i) of the elements included within the certification by the Company's responsible actuary, as established in the article 7º of same Regulatory Standard, and (ii) of the elements of solvency capital requirement included within the certification by the Company's responsible actuary, as established in the article 10º of same 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 OROC and consists in obtaining sufficient and appropriate audit evidence to conclude, with moderate assurance, as to whether the calculation of the solvency capital requirement and minimum capital requirement, is not free of material misstatements, in accordance with applicable legal and regulatory requirements.

Our work consisted, mainly, in inquiries and analytical procedures and others applicable to the base information used for the calculation of the solvency capital requirement and minimum capital requirement as of 31 December 2017, including the following procedures:

- (i) the reconciliation of the base information used for the calculation of the solvency capital requirement and minimum capital requirement as of 31 December 2017, with the financial position statement for solvency purpose, with book records and other information maintained in the Company's systems with reference to the same date;
- (ii) the review, on a sample basis, of the correct classification and characterization of assets in accordance with regulation requirements;
- (iii) the review of the calculation of the solvency capital requirement and minimum capital requirement as of 31 December 2017, performed by the Company; and
- (iv) reading the documentation prepared by the Company under the regulation requirements.

The procedures carried out did not include the review (i) of the elements included within the certification by the Company's responsible actuary, as established in the article 7º of same Regulatory Standard, and

(ii) of the elements of solvency capital requirement included within the certification by the Company's responsible actuary, as established in the article 10º of same Regulatory Standard.

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, 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 an extensive quality control system which includes 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, with reference to the report of the solvency and financial condition date (31 December 2017), the calculation of the solvency capital requirement and minimum capital requirement, is not fairly present, in all materially respects, with the applicable legal and regulatory requirements.

C. 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 No. 8/2016-R, of 16 August, issued by ASF (republished in the Regulatory Standard No. 1/2018-R, of 11 January); andDefine, 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 B 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 2017.

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 integrity 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.

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, 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 an extensive system of quality control which includes 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 2017), 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.

D. 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, of 16 August, issued by ASF (republished by Regulatory Standard No. 1/2018, of 11 January), including the quantitative information to be jointly disclosed with that report, as established in the articles 4° e 5° of the Commission's Implementing Regulation (UE) No. 2015/2452, of 2 December 2015.

Auditor's responsibilities

Our responsibility, as defined in subparagraph c) of No. 1 of article 4° 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.

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, 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 an extensive system of quality control which includes 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, with reference to the report of the solvency and financial condition date (31 December 2017), 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.

E. 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, 7 May, 2018

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

FIDELIDADE
SEGUROS DESDE 1808

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 2017

Lisbon, 02-05-2018

Index

1. Introduction

This report was produced by the Appointed Actuary certified by the Insurance and Pension Funds Supervisory Authority (ASF), aiming to provide an independent opinion on the solvency and financial condition of Fidelidade - Companhia de Seguros, S.A. at December 31, 2017.

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

Technical Provisions

Life

Best Estimate (after Transitional Deduction to the Technical Provisions)	9,889,945,422
Risk Margin	174,409,076
Total	**10,064,354,498**

Non-Life

Best Estimate	780,839,559
Risk Margin	19,815,354
Total	**800,654,913**

Health SLT

Best Estimate	742,822,698
Risk Margin	87,872,308
Total	**830,695,006**

Health NSLT

Best Estimate	177,602,396
Risk Margin	3,596,468
Total	**181,198,864**

Total Technical Provisions	**11,876,903,281**

U: Euros

Amounts Recoverable

Life	17,055,559
Non-Life	171,471,690
Health SLT	-
Health NSLT	69,598,049
Total Amounts Recoverable	**258,125,298**

U: Euros

Future Discretionary Benefits

Future Discretionary Benefits	15,006,896

U: Euros

Underwriting Risks

	Net Capital Requirement	Gross Capital Requirement
Life Underwriting Risks	315,638,167	314,979,913
Non-Life Underwriting Risks	229,094,466	229,094,466
Health Underwriting Risks	147,205,346	147,205,346
Technical Provisions Loss Adjustment	658,254	

U: Euros

Total own funds

Solvency Capital Requirement (SCR)	1,734,352,645
Minimum Capital Requirement (MCR)	433,588,161
Ratio of eligible own funds to SCR	152%
Ratio of eligible own funds to MCR	609%
Total available own funds to meet the SCR	2,642,195,303
Total available own funds to meet the MCR	2,642,195,303
Total eligible own funds to meet the SCR	2,642,195,303
Total eligible own funds to meet the MCR	2,642,195,303

U: Euros

Scope

This report is the certification of the solvency and financial condition report and the information to be disclosed to the Insurance and Pension Funds Supervisory Authority (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 produced 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 paragraphs 1, 3 and 11 a) to c) of the cited Article 77.

The certification covers the confirmation of the adequacy with the legal, regulatory and technical regulations applicable to the calculation of 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.

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

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

It must be understood that the results 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.

2. Responsibilities

This report has been produced 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 Executive Committee.

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

On the date this statement is made, we do not have information from the external auditor on the conclusions it has reached on the risks for which certification it is responsible. Our conclusions have already been sent to the external auditors.

3. Opinion

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

Lisbon, 02-05-2018