

Social Security Reserve Fund

Report to Parliament

Evolution, actions in 2018
and situation at 31 December 2018



GOBIERNO
DE ESPAÑA

MINISTERIO
DE TRABAJO, MIGRACIONES
Y SEGURIDAD SOCIAL

SECRETARÍA DE ESTADO
DE LA SEGURIDAD SOCIAL

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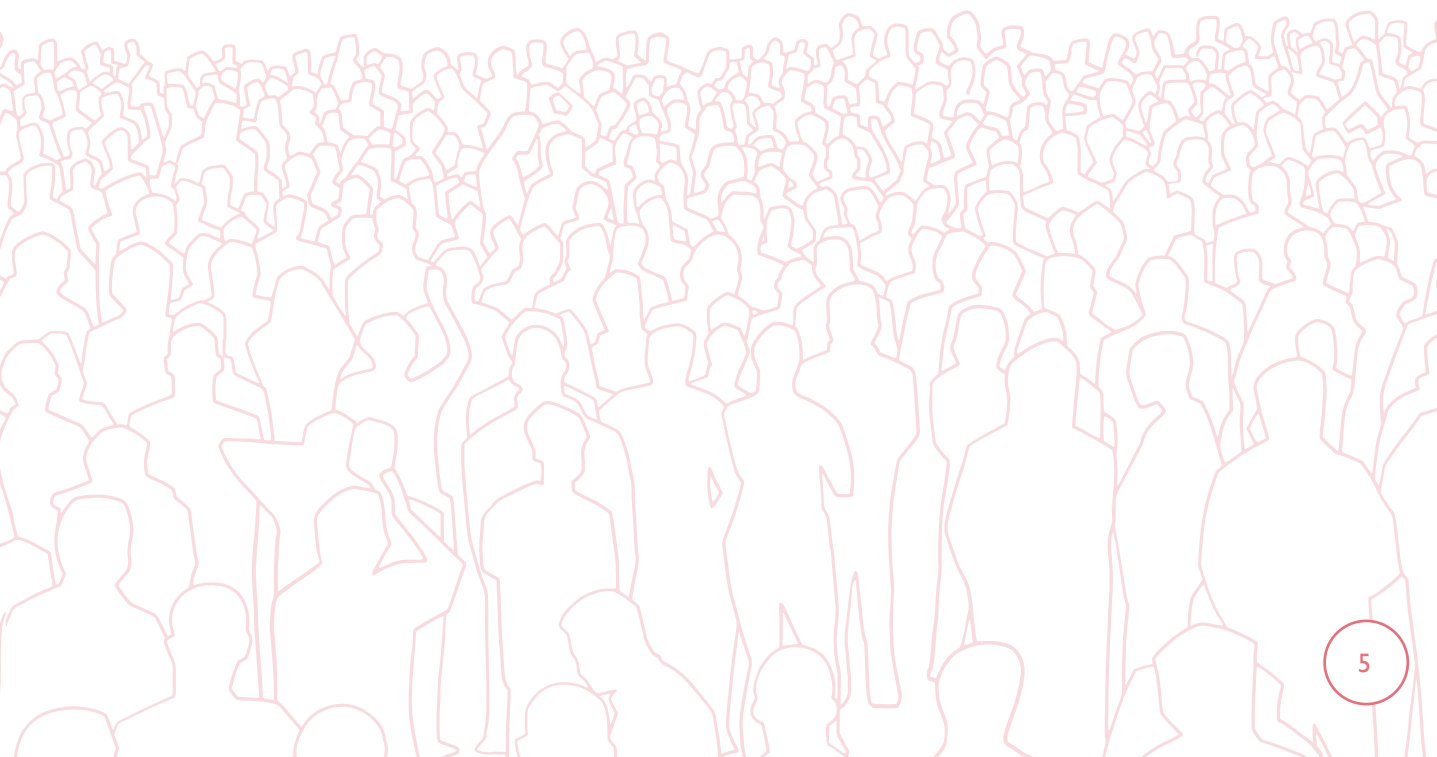
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Index

1. Introduction.....	6
2. 2018 in figures	8
3. Reserve Fund situation at 31 December 2018	10
4. Reserve Fund Performance	11
4.1. Allocations.....	11
4.2. Disposals	13
4.3. Returns.....	15
4.4. Performance.....	16
5. Actions in 2018.....	18
5.1. Investment and management criteria applied in the period 2018.....	18
5.2. Management Committee Meetings in 2018.....	19
5.2.1. First meeting of the Management Committee in 2018.....	19
5.2.2. Second meeting of the Management Committee in 2018.....	20
5.2.3. Third meeting of the Management Committee in 2018.....	24



5.3. Summary of agreements in the period 2018	25
6. Reserve Fund most representative data at 31 December 2018.....	26
7. Analysis of Reserve Fund profitability as at 31 December 2018	28
7.1. Reserve Fund Returns.....	28
7.2. Return of fixed income assets: Public Debt.....	35
7.3. Return of the «General Treasury of the Social Security Special Reserve Fund account. Art. 91.I T.R.L.G.S.S.».....	36
7.4. Profitability of the Social Security Reserve Fund.....	38
7.5. Summary of returns	41
8. Forecasts.....	43
8.1. Period 2019.....	43
9. Comparison of the Reserve Fund's key figures	45
Annex I. Annual accounts economic and financial information	49
Annex II. Information on withdrawals from the Reserve Fund in the year 2018.....	51



1. Introduction

In the 1990s, it was an institutional requirement for the Social Security system to establish stabilisation and reserve funds to cater to future needs in terms of contributory benefits, arising from deviations between the Social Security's income and expenditure.

Initial dialogue regarding this matter and involving the different political and social forces and the Government, resulted in the so-called "Toledo Pact" in April 1995, which established a series of recommendations aimed at guaranteeing the system's sustainability. The reforms and measures that followed said recommendations have shaped the path travelled by our Social Security system to date. Meanwhile, the institutionalisation of the Reserve Fund, aimed at protecting the system against situations of need, arrived with the approval of Law 24/1997, of 15 July, on the consolidation and rationalisation of the Social Security System.

Years later, General Law 18/2001, of 12 December, on Budgetary Stability, established that the Social Security system's surplus would be applied as a priority to the Reserve Fund. Since then, priority application of the surplus to the Reserve Fund has been stipulated in successive budgetary stability regulations. At present, this requirement is set out in article 32 of Organic Law 2/2012 of 27 April, on Budgetary Stability and Financial Sustainability.

At the same time, Law 24/2001, of 27 December, on fiscal, administrative and social measures, determined that the Social Security Reserve Fund was constituted under the General Treasury of the Social Security, empowering the Government to establish the allocation made to the Fund in each financial period.

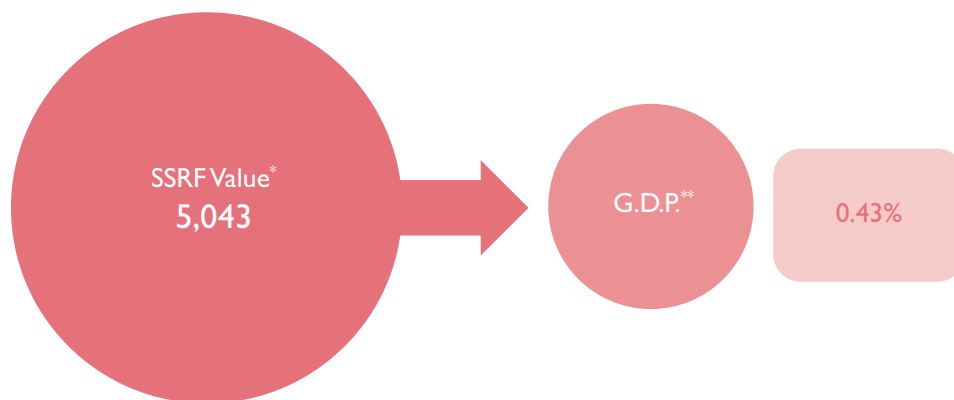
With the approval of Law 28/2003, of 29 September, the Reserve Fund's legal scheme was established for the first time in a specific law. Currently, this regulation is comprised in Royal Legislative Decree 8/2015, of 30 October, approving the consolidated text of the General Social Security Law. By virtue of article 127 of said consolidated text, this report is presented on the evolution and composition of the Social Security Reserve Fund in the period 2018.

The Social Security's financial situation in recent years of budgetary deficit has made the Reserve Fund an essential tool for guaranteeing the financial viability of the pensions system.



2. 2018 in figures

Social Security Reserve Fund Situation at 31 December 2018



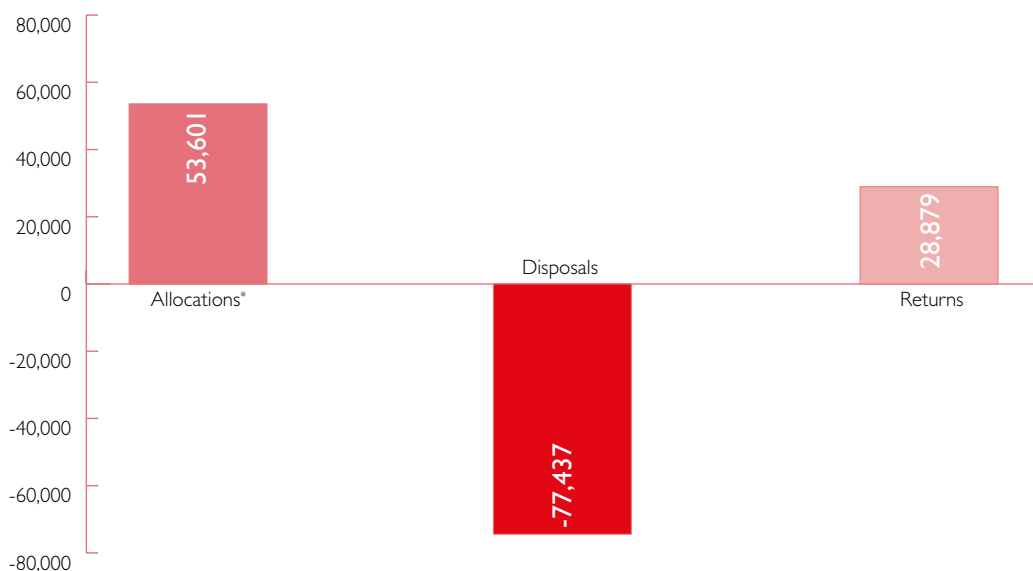
SSRF market value → 5,060 millones de euros (0.43% G.D.P.)

Amount in millions of euros.

* At total acquisition price.

** GDP for 2017, according to data of the National Statistics Institute (I.N.E.) published on 28 December 2018 based on Spanish National Accounts (CNE) - Base 2010, stood at 1,166,319 million euros.

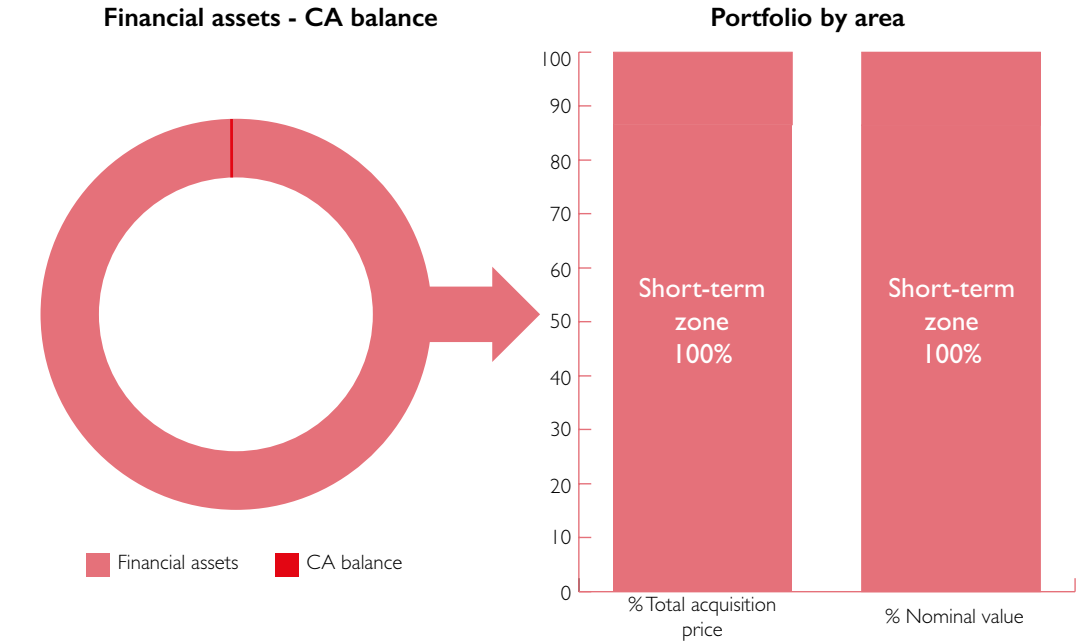
Allocations, disposals and returns



Amount in millions of euros.

* In agreement with the Council of Ministers and Partner Mutual Societies.

Reserve Fund distribution



Average annualised returns*

15 years	10 years	5 years	3 years	1 years
4.01 %	3.44 %	2.57 %	0.15 %	-0.33 %

* Page 40 compares the average annualised returns of the Reserve Fund with the private pension schemes (individual system).

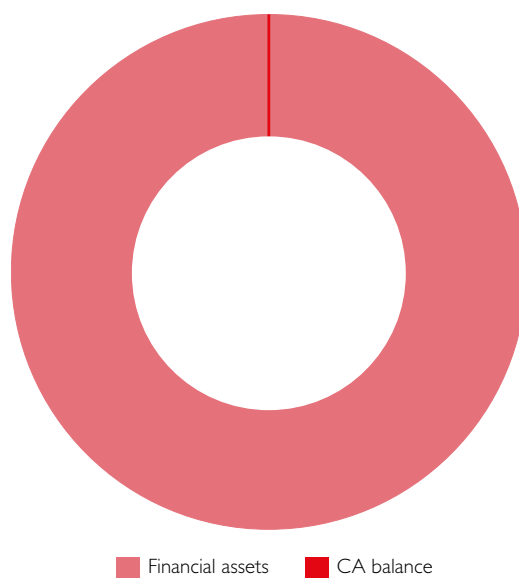


3. Reserve Fund situation at 31 December 2018

At 31 December 2018, the Reserve Fund presents the following situation and distribution:

1. Financial assets	5,042,778,923.11 €
(At total acquisition price ¹)	
2. Current Account (CA) balance	367,388.58 €
(Deposited in the account held with the Bank of Spain)	
Total Reserve Fund	5,043,146,311.69 €

Reserve Fund distribution



The Reserve Fund's amount represents 0.43% of Gross Domestic Product (GDP for 2017 according to the National Statistics Institute (I.N.E.) based on Spanish National Accounts (CNE) Base 2010 published on 28 December 2018, stood at 1,166,319 million euros).

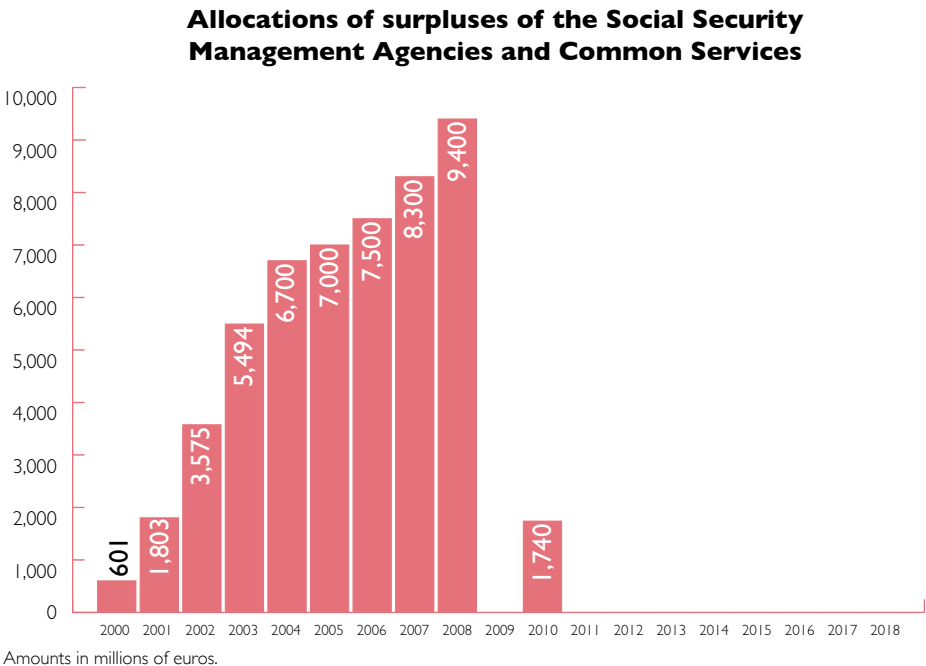
At 31 December 2018, the Reserve Fund's market value reached 5,059.74 million euros, representing 0.43% of Gross Domestic Product.

¹ The total acquisition price is known as the «dirty» price, in other words, it comprises the amount paid for accrued interest - i.e. earned but not cashed - which the asset may include. Inclusion of this amount is associated with a downwards adjustment of the amounts received when the asset reaches maturity or is sold in order to avoid double accounting. Nonetheless, in accounting terms, at 31 December 2018, Public Debt assets that make up the SSRF are classified as "Financial assets available for sale" and therefore, at the end of the period are recorded at their subsequent value (5,042,451,951.52 euros).

4. Reserve Fund Performance

4.1. Allocations

Reserve Fund allocations agreed by the Council of Ministers are charged to budgetary surpluses of the Social Security Management Agencies and Common Services². Since the first allocation approved in the year 2000 and up until 31 December 2018, allocations have reached 52,113 million euros, as presented in the following graph:

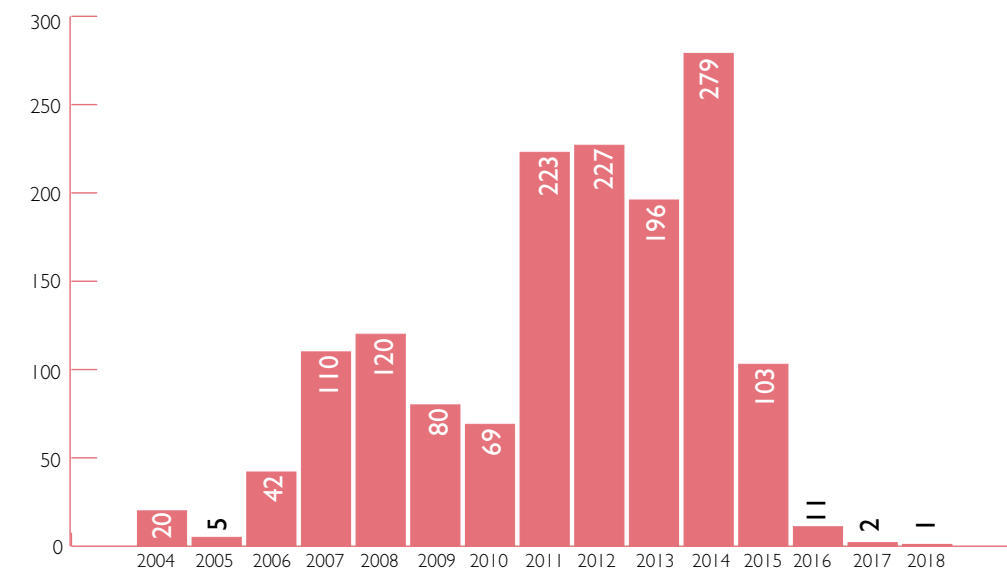


The amounts allocated in the form of surpluses deriving from the Mutual Societies that act as Social Security partner agencies managing temporary incapacity benefits for non-work-related illness or injury reached 1,488 million euros at 31 December 2018 and were paid into the Reserve Fund's dedicated account. They are presented in the following graph, based on date of payment:

² Allocations approved by the Council of Ministers.

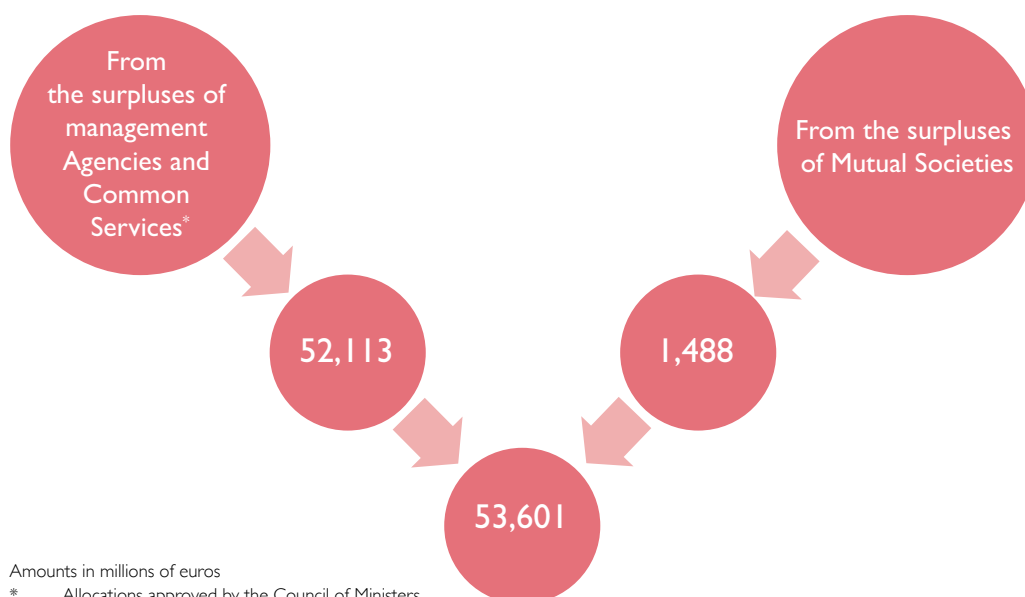
4. Reserve Fund Performance

Surplus allocations Social Security Partner Mutual Societies



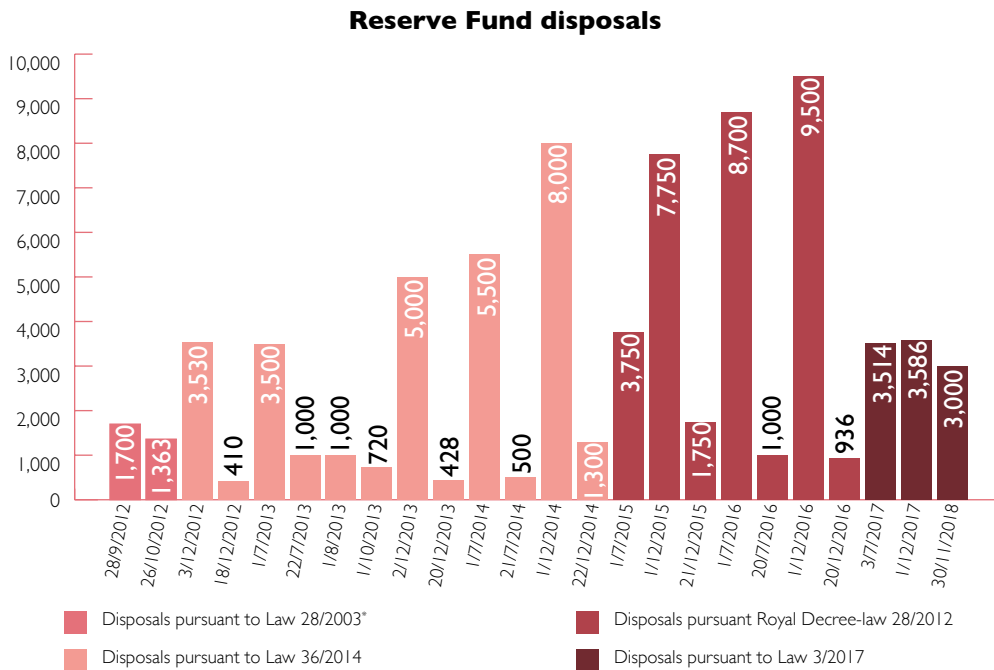
Amounts in millions of euros.

Summary of Social Security Reserve Fund allocations



4.2. Disposals

Reserve Fund disposals in the periods 2012 to 2018 totalled 77,437 million euros and are presented in the graph below:



4. Reserve Fund Performance

Summary of the Social Security Reserve Fund disposals



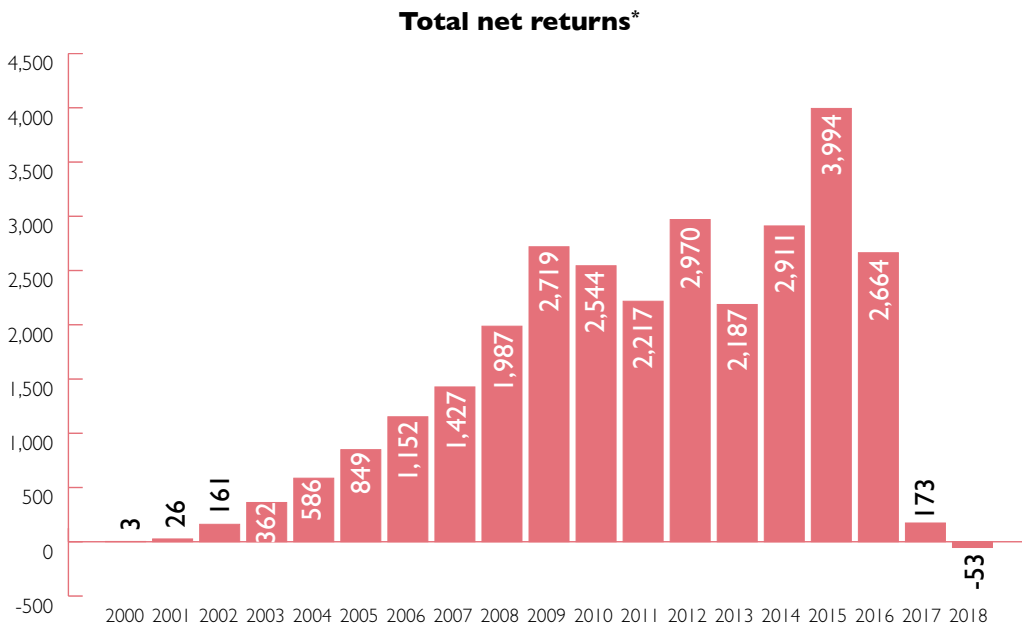
Amounts in millions of euros.

* Approved by the Council of Ministers on 27/9/2012..



4.3. Returns

Net returns since the first Reserve Fund allocation approved in 2000 up until 31 December 2018 amount to **28,879 million euros**. Their breakdown by year is presented in the following graph:



Amounts in millions of euros.

* The amounts reflected in the chart include the accounting adjustments made in each year in the amortisation and disposal of assets (implicit returns and accrued interest). In 2018, coupons for 183.33 million euros were collected, although the final net return figure (-53 million euros) includes the accounting adjustments applied at the time of amortising the assets; the amount of these adjustments was higher than the coupons charged, hence the negative value (see detail on page 34).



4. Reserve Fund Performance

4.4. Performance

Reserve Fund general performance (Allocations, disposals and returns)

Cumulative data	Years 2000 to 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Allocations	52,559	52,782	53,008	53,205	53,484	53,587	53,598	53,600	53,601
1. a. Agreement of the Council of Ministers*	52,113	52,113	52,113	52,113	52,113	52,113	52,113	52,113	52,113
1. b. Surpluses of Mutual Societies**	446	669	895	1,092	1,371	1,474	1,485	1,487	1,488
2. Withdrawals***			-7,003	-18,651	-33,951	-47,201	-67,337	-74,437	-77,437
3. Net returns generated	11,816	14,033	17,003	19,190	22,101	26,095	28,759	28,932	28,879
3. a. Returns generated****	12,352	14,718	17,922	20,233	23,377	27,584	30,510	30,802	30,793
3. b. Adjustments for redemption/divestiture of assets	-536	-685	-919	-1,043	-1,276	-1,489	-1,751	-1,870	-1,914
Total	64,375	66,815	63,008	53,744	41,634	32,481	15,020	8,095	5,043

Amounts in millions of euros.

Situation at 31 December of each period.

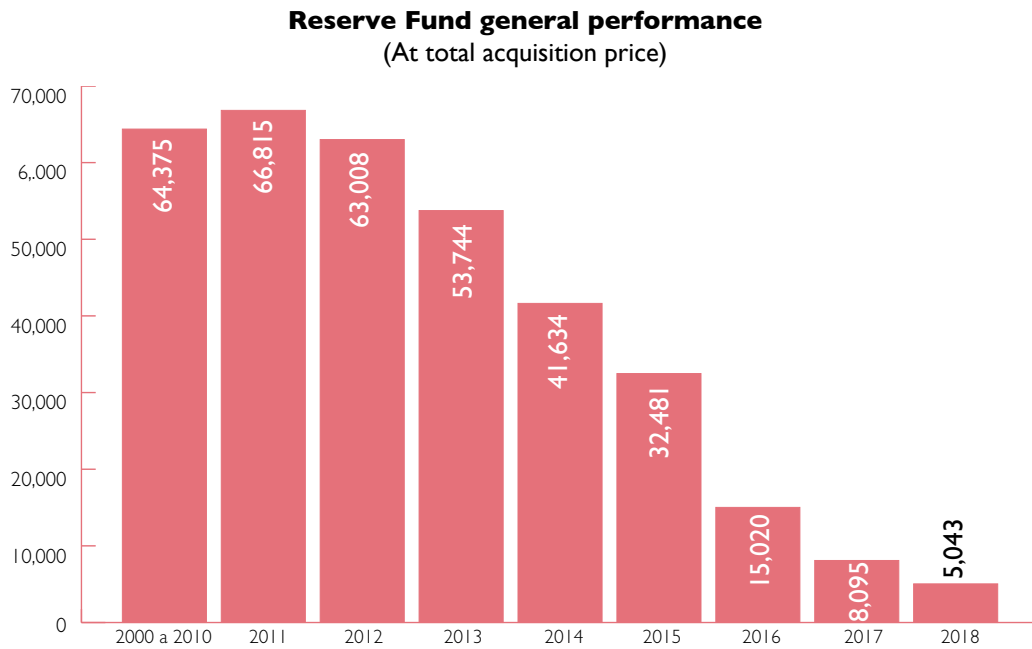
* Chargeable to budgetary surpluses of the Social Security's Management Agencies and Common Services..

** Derived from management by the Social Security's Partner Mutual Societies of the temporary incapacity benefit for non-work-related illness or injury.

*** By Agreement of the Council of Ministers of 27/09/2012, additional provision one of Royal Decree-Law 28/2012 of 30 November; additional provision ten of Law 36/2014 of 26 December and additional provision one hundred and twelve of Law 3/2017 of 27 June.

**** Interest on the current account, assets returns, results of divestiture transactions and other income.

Next, we present a graph of the Reserve Fund's performance by financial periods:



Amounts in millions of euros.
Situation at 31 December of each period.



5. Actions in 2018

5.1. Investment and management criteria applied in the period 2018

- The Social Security Reserve Fund will invest in Spanish Public Debt and may invest in Public Debt of Germany, France and the Netherlands and in assets issued by the ICO (Instituto de Crédito Oficial). All assets must be issued in euros, be of high credit quality and be traded on regulated markets or organised trading systems.
- Investment in the Public Debt of non-Spanish issuers approved by the Social Security Reserve Fund's Management Committee will be limited to the total amount of foreign debt in the total portfolio not exceeding the limit of 55% at par value.
- If market conditions should make it advisable, asset divestiture is contemplated pursuant to the criteria of safety, profitability and diversification.
- The Social Security Reserve Fund will be managed taking into account the time horizon determined by the planning of future incoming cash flows and the disposal of funds to cover contributory pensions, which is carried out by the State Secretariat of the Social Security.
- There must be a balanced structure of the maturity dates of the portfolio's securities to avoid excessive concentrations of maturity dates by periods.
- The Spanish securities of the Social Security Reserve Fund will be diversified avoiding concentrations of a single reference in the portfolio, whose weighting with respect to the nominal outstanding balance will not exceed 16% as a general rule. However, this maximum percentage of each reference may increase from 16% to 35% for references where it may be strictly necessary in order to meet the conditions of the investment. All of the above without prejudice to the issuer's policy, which will not automatically condition the Fund's investment decisions. Moreover, this 35% limit may be exceeded in exceptional cases for specific short-term references in which it is considered appropriate to invest.
- The nominal volume of the set of Spanish Public Treasury references in the Social Security Reserve Fund's portfolio with respect to the overall Treasury debt in circulation (bills, short and long-term bonds), excluding foreign currency issuances, will not exceed 12%.
- When investments are made, priority will be given to the purchase of *Benchmark* references in the portfolio.

- For the valuation purposes established in the General Public Accounting Plan, Public Debt assets that make up the Social Security Reserve Fund are classified as «Financial assets available for sale».

5.2. Management Committee Meetings in 2018

In 2018, the Social Security Reserve Fund's investment strategy, which derives from the agreements reached at the various meetings of its Management Committee, has been conditioned by the following aspects:

- Reserve Fund withdrawal needs.
- Historically low interest rates, including negative values.
- Minimal returns of Spanish debt, including negative returns in the shortest terms.
- European Central Bank Decisions of June 2014 which established the remuneration of Public Administration accounts held with the central banks of each country at the rate applicable to the Deposit Facility (currently, -0.40%).

5.2.1. First meeting of the Management Committee in 2018

5.2.1.1. Agreements reached

On 13 February 2018, the fifty-third meeting of the Social Security Reserve Fund's Management Committee was held which, as the senior management body of the Reserve Fund, and based on the situation of budget extension and uncertainty existing on the date of the meeting regarding the approval of a new State Budget Law for 2018, agreed:

- Leave the flows that occurred in the first half of 2018 in cash.
- Convene the Management Committee again before July 2018.
- Ratify for 2018, the investment and management criteria in effect for 2017.

5.2.2. Second meeting of the Management Committee in 2018

5.2.2.1. Agreements reached

On 25 May 2018, the fifty-fourth meeting of the Social Security Reserve Fund Management Committee was held, at which the following agreements were adopted:

- With regard to the account balance on the date of the Reserve Fund's Management Committee meeting (1,132 million euros):
 - * To reinvest in Spanish Public Debt assets with maturity in 2019 before 1 July, provided their return is higher than the deposit facility.

Otherwise, to leave the amounts in question in the current account.

- Regarding cash flows for the second semester of 2018 (July to November) intended for the withdrawal in December 2018, according to the best return:
 - * To reinvest in Spanish Public Debt assets with very short-term maturities, before 1 December 2018, provided their return is higher than the deposit facility.
 - * To carry out «repo» operations with maturities before 1 December 2018, provided that they differ by 5 basis points from the deposit facility.

Otherwise, to leave the amounts in question in the current account.

- * Regarding cash flows for the second semester not intended for withdrawal, they may be reinvested in Spanish public debt assets due with maturity in 2019 (before 1 July or 1 December, depending on the withdrawal provisions) provided that their return is higher than the deposit facility.
- The Bank of Spain would act as the agent, carrying out the transactions on the most appropriate dates. The distribution of the transactions is a general framework that allows the Bank of Spain flexibility to act when necessary based on the specific conditions of the market at each moment, choosing the most profitable option. The orders will state the specific assets for potential acquisition.

5.2.2.2. Execution of the agreements

In relation to the account balance on the date of the Reserve Fund's Management Committee meeting on 25 May 2018 (1,132 million euros), the following Spanish financial assets acquisitions were carried out:

- Transactions for the acquisition of Spanish financial assets, carried out in the secondary market, with value dates 5 to 15 June 2018:

Financial asset acquisitions in June 2018

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR% on acquisition value	Deposit facility rate %
Treasury Bills ESOL01904058	5/4/2019	75,226,563.73	75,000,000.00	-0.359	
Government Bonds (2.75%) ES00000124V5	30/4/2019	128,776,575.34	125,000,000.00	-0.293	
Treasury Bills ESOL01905105	10/5/2019	601,900,392.02	600,000,000.00	-0.337	
Treasury Bills ESOL01906145	14/6/2019	326,091,028.92	324,970,000.00	-0.340	
Total		1,131,994,560.01	1,124,970,000.00	-0.334*	-0.40

Amounts in euros.

* Average weighted IRR calculated on the acquired par value.



5. Actions in 2018

Regarding cash flows for the second semester of 2018 not intended for withdrawal in December, the following operations to acquire Spanish financial assets are taken:

- Operation for the acquisition of Spanish financial assets with maturity in 2019, carried out in the secondary market, with value dates 13 July to 12 September 2018:

Financial asset acquisitions in July - September 2018

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR% on acquisition value	Deposit facility rate %
Treasury Bills ESOL01906145	14/6/2019	50,162,431.55	50,000,000.00	-0.386	
Treasury Bills ESOL01907127	12/7/2019	1,110,566,480.22	1,106,560,000.00	-0.363	
Treasury Bills ESOL01908166	16/8/2019	1,159,263,429.75	1,154,900,000.00	-0.379	
Total		2,319,992,341.52	2,311,460,000.00	-0.371*	-0.40

Amounts in euros.

* Average weighted IRR calculated on the acquired par value.

In relation to cash flows for the second semester of 2018 intended for withdrawal in December, the following operations to acquire Spanish financial assets are taken:

- Operation for the acquisition of Spanish financial assets with maturity in 2018, carried out in the secondary market, with value dates 10 July to 4 October 2018:

Financial asset acquisitions in August-October 2018

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR% on acquisition value	Deposit facility rate %
Treasury Bills ES0L01808176	17/8/2018	362,022,119.71	362,000,000.00	-0.380	
Government Bonds (3.75%) ES00000124B7	31/10/2018	103,778,965.75	100,000,000.00	-0.370	
Total		465,801,085.46	462,000,000.00	-0.378*	-0.40

Amounts in euros.

* Average weighted IRR calculated on the acquired par value.

5. Actions in 2018

5.2.3. Third meeting of the Management Committee in 2018

5.2.3.1. Agreements reached

On 28 September 2018, the fifty-fifth meeting of the Social Security Reserve Fund Management Committee was held. Based on this meeting, and once the definitive needs for the Reserve Fund's withdrawal in 2018 are known, finally estimated at 3,000 million euros (an amount lower than originally estimated due to an improvement in collections), on 17 December, the members of the Committee authorised the acquisition of Spanish Public Debt assets for an amount of 502 million euros with maturity in 2019, with those maturities closer to December being preferable.

5.2.3.2. Execution of the agreements

In relation to the account balance, once the withdrawal was made on 30 November, the following acquisitions of Spanish financial assets were made:

- Transactions for the acquisition of Spanish financial assets, carried out in the secondary market, with value dates 20 and 21 December 2018:

Financial asset acquisitions in December 2018

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR% on acquisition value	Deposit facility rate %
Treasury Bills ES0L01911152	15/11/2019	501,998,872.18	500,496,000.00	-0.327	
Total		501,998,872.18	500,496,000.00	-0.327*	-0.40

Amounts in euros.

* Average weighted IRR calculated on the acquired par value.

5.3. Summary of agreements in the period 2018

In the period 2018, Spanish financial assets were acquired for a total acquisition price of 4,419,786,859.17 euros, through secondary market transactions. The details of these acquisitions are provided in the table:

Summary of financial asset acquisitions

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR% on acquisition value	Deposit facility rate %
Treasury Bills ESOL01808176	17/8/2018	362,022,119.71	362,000,000.00	-0.380	
Government Bonds (3.75%) ES00000124B7	31/10/2018	103,778,965.75	100,000,000.00	-0.370	
Treasury Bills ESOL01904058	5/4/2019	75,226,563.73	75,000,000.00	-0.359	
Government Bonds (2.75%) ES00000124V5	30/4/2019	128,776,575.34	125,000,000.00	-0.293	
Treasury Bills ESOL01905105	10/5/2019	601,900,392.02	600,000,000.00	-0.337	
Treasury Bills ESOL01906145	14/6/2019	376,253,460.47	374,970,000.00	-0.346	
Treasury Bills ESOL01907127	12/7/2019	1,110,566,480.22	1,106,560,000.00	-0.363	
Treasury Bills ESOL01908166	16/8/2019	1,159,263,429.75	1,154,900,000.00	-0.379	
Treasury Bills ESOL01911152	15/11/2019	501,998,872.18	500,496,000.00	-0.327	
Total		4,419,786,859.17	4,398,926,000.00	-0.357*	-0.40

Amounts in euros.

* Average weighted IRR calculated on the acquired par value.

6. Reserve Fund most representative data at 31 December 2018

At 31 December 2018, the total acquisition price³ of the portfolio of assets comprising the Social Security Reserve Fund reached 5,042,778,923.11 euros.

The portfolio is made up exclusively of Spanish Public Debt and its classification by zones presents the following distribution:

Portfolio distribution by zones

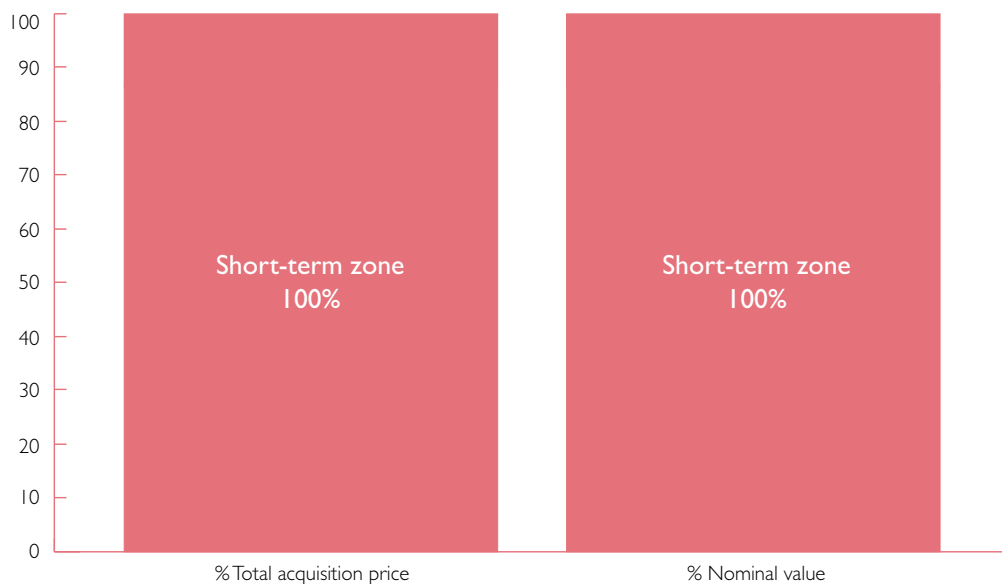
Assets	Total acquisition price	%	Par value	%
Short-term zone	5,042,778,923.11	100	4,996,746,000.00	100
Total	5,042,778,923.11	100	4,996,746,000.00	100

Amounts in euros.

Zone distribution criteria:

Short-term: maturity up to 12 months in relation to 31-12-18 for harmonisation with the accounting criterion.

Portfolio distribution by zones



³ The observation made in note 1 (page 10) is repeated here regarding the consideration made for accrued interest in the total acquisition price.

The following table provides an itemisation by type of asset and references of the portfolio's composition at 31 December 2018:

Reserve Fund portfolio composition

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value
I. Short-term zone			
Treasury Bills ESOL01904058	5/4/2019	75,226,563.73	75,000,000.00
Government Bonds (2.75%) ES000000124V5	30/4/2019	128,776,575.34	125,000,000.00
Treasury Bills ESOL01905105	10/5/2019	601,900,392.02	600,000,000.00
Treasury Bills ESOL01906145	14/6/2019	376,253,460.47	374,970,000.00
Treasury Bills ESOL01907127	12/7/2019	1,110,566,480.22	1,106,560,000.00
Government Long-term Bonds (4.60%) ES000000121L2	30/7/2019	595,464,740.49	572,635,000.00
Treasury Bills ESOL01908166	16/8/2019	1,159,263,429.75	1,154,900,000.00
Government Long-term Bonds (4.30%) ES000000121O6	31/10/2019	493,328,408.91	487,185,000.00
Treasury Bills ESOL01911152	15/11/2019	501,998,872.18	500,496,000.00
Total		5,042,778,923.11	4,996,746,000.00
(I) Total public financial assets at 31/12/2018		5,042,778,923.11	4,996,746,000.00

Amounts in euros.
See zone distribution criteria on page 26.



7. Analysis of Reserve Fund profitability as at 31 December 2018

7.1. Reserve Fund Returns

Since the first allocation made to the Reserve Fund in the period 2000 approved by Agreement of the Council of Ministers and up until 31 December 2018, the returns obtained can be broken down into coupons, implied net returns, results of divestiture transactions, other income and interest obtained from the Fund's current account. The net returns include the adjustments made when the assets are redeemed or disposed of for accrued interest paid at the time of the acquisition.

With respect to coupons, a total of 26,327,343,470.66 euros has been collected, distinguishing between interest collected on the maturity date of 25,475,851,196.76 euros, and interest obtained at the time of asset divestiture, of 851,492,273.90, broken down as follows:

Coupons collected at maturity

Year	Date	Parcial amount	Total amount
2001			18,699,000.00
2002			120,425,190.08
2003			338,265,455.84
2004			592,924,827.64
2005			857,615,313.37
2006			1,171,273,841.45
2007			1,535,058,217.03
2008			2,034,850,211.79
2009			2,339,694,054.23
2010			2,478,598,524.41
2011			2,709,616,791.70
2012			2,765,822,459.74
2013			2,561,622,105.56
2014			2,243,846,346.50
2015			1,790,818,506.50
2016			1,159,723,202.92
2017			573,667,848.00
2018	31/1/2018	18,000,000.00	183,329,300.00
	30/4/2018	382,525.00	
	30/7/2018	119,645,320.00	
	31/10/2018	45,301,455.00	
Total			25,475,851,196.76

Amounts in euros.

Coupons collected on disposal of assets

Year	Amount
2009	156,913,647.84
2010	91,216,232.39
2011	
2012	58,802,906.46
2013	
2014	147,071,866.64
2015	239,048,434.14
2016	158,439,186.43
2017	
2018	
Total	851,492,273.90

Amounts in euros.



7. Analysis of Reserve Fund profitability as at 31 December 2018

The implied net returns (obtained as the difference between the nominal value and the ex-coupon acquisition price, which are recognised in full at the time of the asset's amortisation or disposal) are detailed below:

Implied net return

Year	Description	Partial amount	Total amount
2002	Of securities redeemed		6,714,260.00
2003	Of securities redeemed		17,220,919.74
2004	Of securities redeemed		-14,800,848.92
2005	Of securities redeemed		7,627,818.36
2006	Of securities redeemed		-14,445,823.13
2007	Of securities redeemed		-100,368,613.40
2008	Of securities redeemed		-70,394,705.16
2009	Of securities redeemed	-144,330,440.02	-111,803,859.74
	Of securities divested	32,526,580.28	
2010	Of securities redeemed	-65,155,129.73	-97,778,162.86
	Of securities divested	-32,623,033.13	
2011	Of securities redeemed		-352,313,679.93
2012	Of securities redeemed	-193,164,725.87	-102,636,179.31
	Of securities divested	90,528,546.56	
2013	Of securities redeemed		-251,607,366.30
2014	Of securities redeemed	-199,697,478.25	-288,878,640.54
	Of securities divested	-89,181,162.29	
2015	Of securities redeemed	-98,723,767.46	-195,328,376.06
	Of securities divested	-96,604,608.60	
2016	Of securities redeemed	105,013,436.76	69,482,039.43
	Of securities divested	-35,531,397.33	
2017	Of securities redeemed		-281,342,264.90
2018	Of securities redeemed		-192,464,934.27
Total			-1,973,118,416.99

Amounts in euros.

The result from divestiture transactions amounts to 6,118,911,481.05 euros and presents the following breakdown:

Result of divestiture transactions

Year	Amount
2009	498,913,390.60
2010	185,377,136.85
2011	
2012	478,199,906.83
2013	
2014	1,041,120,454.32
2015	2,373,983,076.82
2016	1,541,317,515.63
2017	
2018	
Total	6,118,911,481.05

Amounts in euros.

With respect to other income, it is specified below by year and item:

Other income

Year	Dual security-based swap transactions	Repo transactions	Compensation for mutual societies' late income ¹	Interest for counterpart failure ²	Total
2007	44,755.52				44,755.52
2008	45,023.25		78,017.23		123,040.48
2009	11,269.09				11,269.09
2010					
2011	53,087.31				53,087.31
2012	40,254.17				40,254.17
2013	27,607.08				27,607.08
2014	24,001.92	22,183.54			46,185.46
2015		-1,947,508.57			-1,947,508.57
2016		-2,799,470.39			-2,799,470.39
2017					
2018				5,168.94	5,168.94
Total	245,998.34	-4,724,795.42	78,017.23	5,168.94	-4,395,610.91

Amounts in euros.

1 Compensation for interest not earned due to late income from Partner Mutual Societies.

2 Interest paid for failures in the counterparty in financial assets acquisition operations.

7. Analysis of Reserve Fund profitability as at 31 December 2018

Regarding interest accrued and collected on the current account held with the Bank of Spain, since the year 2000 and up until 31 December 2018, the following amounts have been obtained:

Current account interest

Year	Amount
2000	2,779,240.69
2001	7,500,828.26
2002	33,507,299.15
2003	16,991,616.34
2004	35,243,455.27
2005	24,341,090.96
2006	33,743,035.77
2007	38,559,185.51
2008	93,906,295.36
2009	18,618,272.71
2010	4,359,772.06
2011	9,664,584.45
2012	3,160,265.51
2013	1,404,582.21
2014*	454,059.59
2015*	
2016*	
2017*	
2018*	
Total	324,233,583.84

Amounts in euros.

* The data for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). In the periods 2015 to 2018, the account has ceased to be remunerated at positive rates.

Finally, with regard to adjustments for the asset's amortisation and disposal, the following amounts have been obtained:

Adjustments for redemption/divestiture of assets

Year	Adjustments for redemption of assets	Adjustments for divestiture of assets	Amount
2003	-10,127,671.24		-10,127,671.24
2004	-27,994,229.11		-27,994,229.11
2005	-40,342,926.12		-40,342,926.12
2006	-37,745,774.46		-37,745,774.46
2007	-46,818,106.24		-46,818,106.24
2008	-71,255,374.93		-71,255,374.93
2009	-86,417,563.25	-96,846,522.35	-183,264,085.60
2010	-86,764,239.58	-31,432,533.89	-118,196,773.47
2011	-149,585,272.90		-149,585,272.90
2012	-174,890,719.20	-58,398,804.46	-233,289,523.66
2013	-124,194,336.56		-124,194,336.56
2014	-110,321,460.64	-122,180,770.35	-232,502,230.99
2015	-56,834,529.01	-156,350,039.60	-213,184,568.61
2016	-125,743,980.33	-136,317,009.62	-262,060,989.95
2017	-119,418,296.60		-119,418,296.60
2018	-43,833,617.03		-43,833,617.03
Total	-1,312,288,097.20	-601,525,680.27	-1,913,813,777.47

Amounts in euros.



7. Analysis of Reserve Fund profitability as at 31 December 2018

In summary, the global amounts obtained by the Reserve Fund, since the first contribution approved in the year 2000 up until 31 December 2018, are presented in the following table:

Summary of net returns generated

Concept	Amount
Coupons	26,327,343,470.66
Implied net return ¹	-1,973,118,416.99
Result of divestiture transactions	6,118,911,481.05
Other income	-4,395,610.91
Adjustments for redemption/divestiture of assets ²	-1,913,813,777.47
Current account interests	324,233,583.84
Total net returns	28,879,160,730.18

Amounts in euros.

- 1 Difference between the nominal value and the ex-coupon acquisition price, which are recognised in full at the time of the asset's amortisation or disposal.
- 2 Adjustment made when the asset is redeemed or disposed of for accrued interest paid at the time of the acquisition.

The breakdown of net returns generated in 2018 is as follows:

Summary of net returns generated in 2018

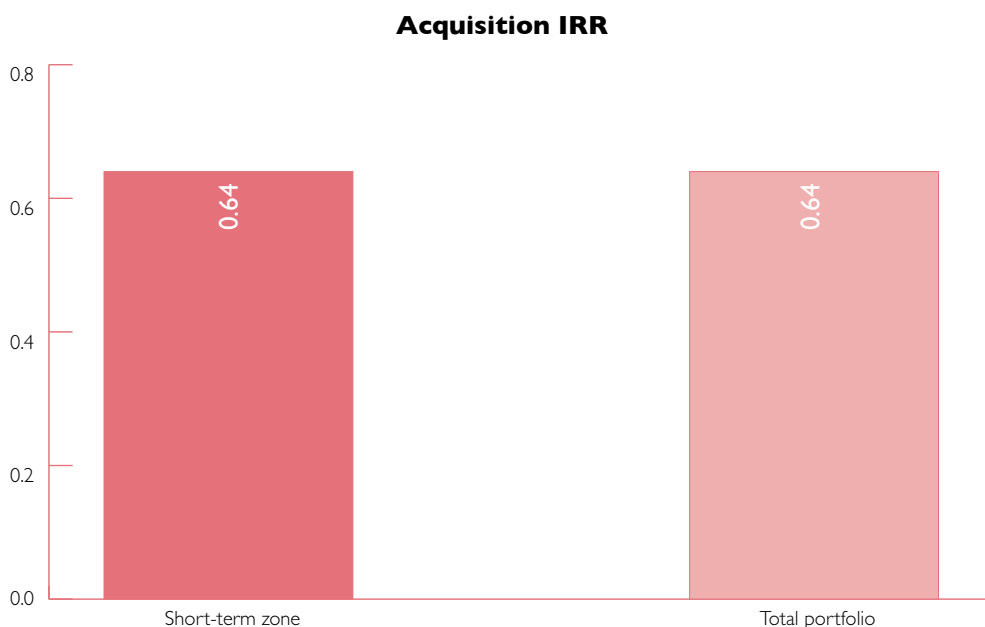
Concept	Amount
Coupons	183,329,300.00
Implied net return ¹	-192,464,934.27
Result of divestiture transactions	0.00
Other income	5,168.94
Adjustments for redemption/divestiture of assets ²	-43,833,617.03
Current account interests	0.00
Total net returns 2018	-52,964,082.36

Amounts in euros.

- 1 Difference between the nominal value and the ex-coupon acquisition price, which are recognised in full at the time of the asset's amortisation or disposal.
- 2 Adjustment made when the asset is redeemed or disposed of for accrued interest paid at the time of the acquisition.

7.2. Return of fixed income assets: Public Debt

The return of assets comprising the Fund's portfolio is defined by the IRR (internal rate of return) of each security at the time of purchase. The acquisition IRR of the current portfolio, made up of the securities acquired since December 2000 and which form part of the portfolio as at 31 December 2018, is calculated as a weighted average over the par value and is situated at 0.64%, with the following breakdown:

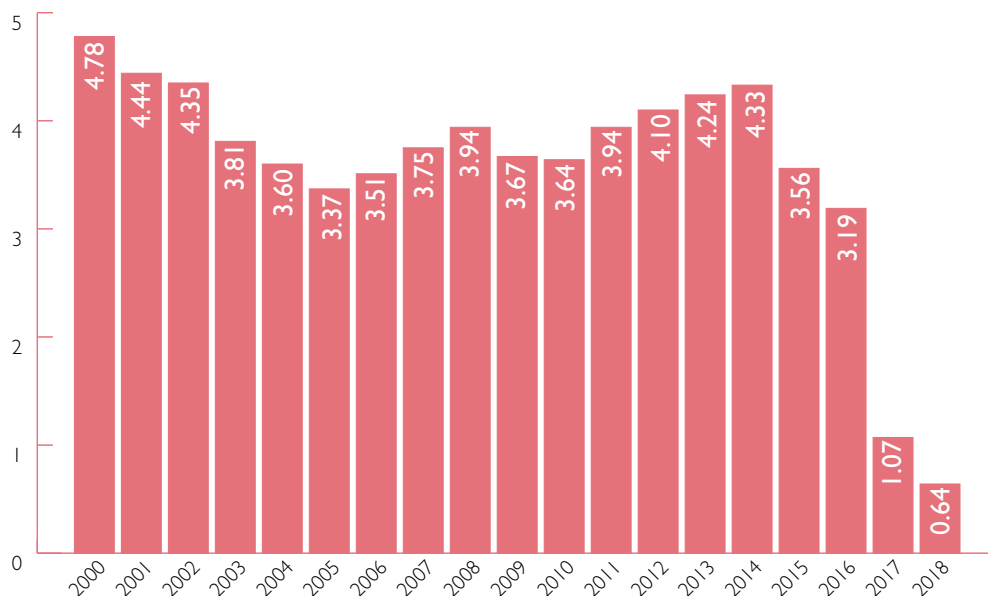


Data in percentages.
Weighted average IRR over the par value.

7. Analysis of Reserve Fund profitability as at 31 December 2018

The weighted average acquisition IRR over the par value of the assets in the portfolio presents the following performance by financial period:

Acquisition IRR performance



Data in percentages.
Weighted average IRR over the par value.

7.3. Return of the «General Treasury of the Social Security Special Reserve Fund account. Art. 91.1 T.R.L.G.S.S.»

On 11 June 2014, the conditions for the remuneration of the accounts held by the Reserve Fund with the Bank of Spain were modified. During the meeting of the Governing Board of the European Central Bank on 5 June 2014, it was agreed that the applicable interest rate would be zero per cent, or the deposit facility rate if the latter were negative. Effective 11 June 2014, the Deposit Facility rate stood at -0.10% (currently, -0.40%).

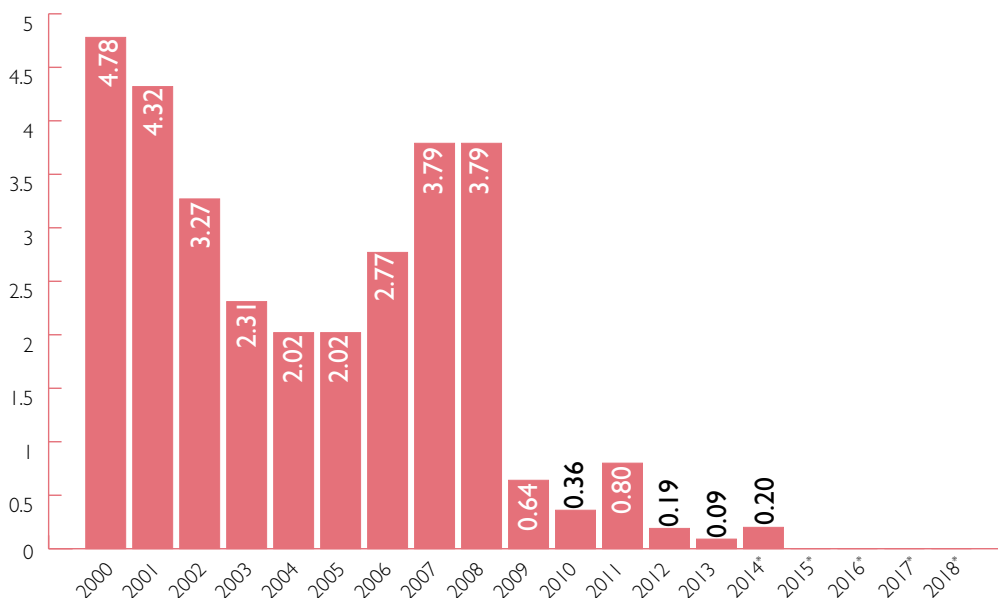
Since the above date, this measure would have been effective for all accounts owned by Public Sector entities, irrespective of whether or not they were remunerated. However, bearing in mind that the periods for calculation of the interest on the accounts coincide

with calendar months, the Bank of Spain applied the Deposit Facility rate, provided it remained at negative levels, to interest settlements made as of 1 July 2014.

Since 1 March 2015, based on European Central Bank guidelines ECB/2014/9, the first 20 million euros of balance held by the Reserve Fund with the Bank of Spain are remunerated at the Eonia interest rate whereas balances in excess of this amount are remunerated at the Deposit Facility rate.

The average, by years, of the rates applied, are presented in the graph below:

Current account average interest rate



Data in percentages.

* The data for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). In the periods 2015 to 2018, the account has ceased to be remunerated at positive rates.

7.4. Profitability of the Social Security Reserve Fund

The cumulative return of the total Reserve Fund at 31 December 2018 (Reserve Fund's securities portfolio plus current account balance) is calculated using the method approved by the Social Security Reserve Fund's Management Committee at their meeting of 11 November 2005, which technically adjusts the method previously applied, by standardising it with the one used by other private pension and investment funds. Its main feature is that it takes into account the market value of the Fund at the time of each allocation or disposal, which makes it possible to adequately weight the contribution of each cash flow to the Fund's total return.

The Fund's cumulative return is obtained by comparing the net asset value of a current shareholding with the value at the time the Fund was created and then annualising said cumulative return. The net asset value of the unitary shareholding is adjusted each time a new allocation or withdrawal is made to discriminate the profitability that each flow brings to the total of the Fund by sub-period.

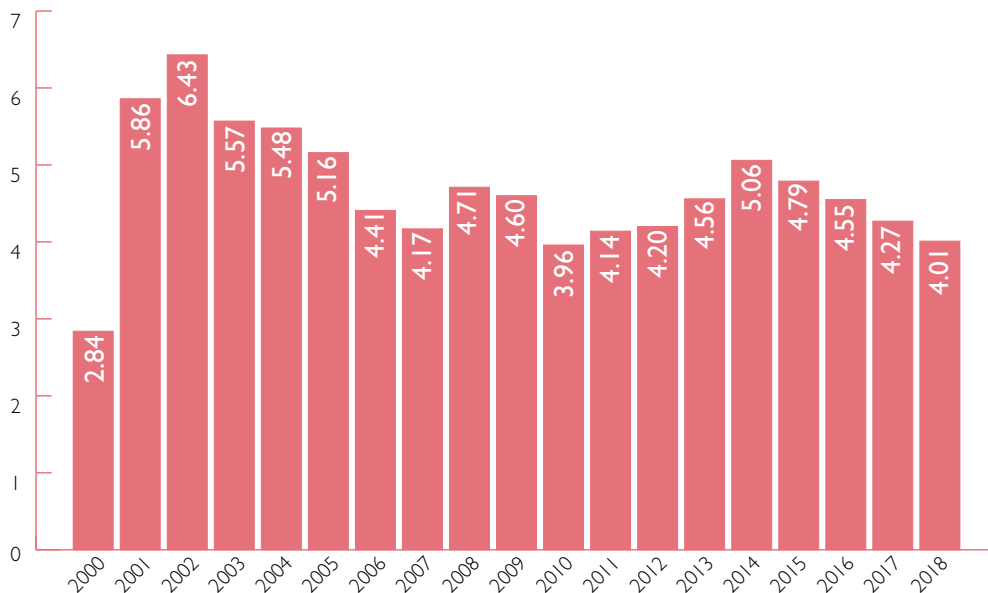


For calculation purposes, the portfolio's market value at 31 December 2018 has been taken into consideration based on the closing price of each security according to the *Bloomberg* source, with the net asset value of the Reserve Fund at 31 December 2018 amounting to 5,059.74 million euros (5,059.37 million euros of portfolio and 0.37 million euros deposited in the current account).

Based on said method, the cumulative return of the Reserve Fund since its creation in 2000 up until 31 December 2018 stands at 104.77%, which in annualised terms represents 4.01%.

The performance of annualised cumulative return at the end of each period since the first allocation to the Reserve Fund approved by the Council of Ministers in the year 2000, is reflected in the following graph:

Annualised cumulative return performance

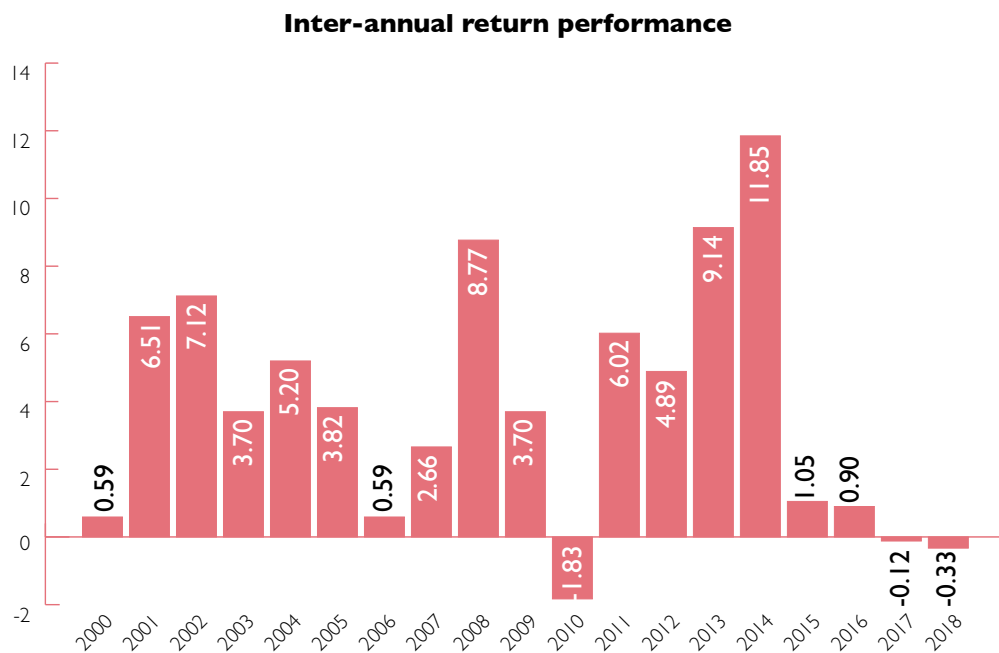


Data in percentages.

7. Analysis of Reserve Fund profitability as at 31 December 2018

The inter-annual return of the Reserve Fund in the year 2018 stands at -0.33%.

The performance of the Reserve Fund's inter-annual returns is reflected in the chart below:



Data in percentages.

As a summary, the following table shows the average annualised returns of the Reserve Fund at 31 December 2018, as well as its comparison with private pension plans (individual system):

Pension Plans average annualised returns

	15 years	10 years	5 years	3 years	1 year
S.S.R.F.	4.01	3.44	2.57	0.15	-0.33
Short-Term fixed income	0.84	0.78	-0.01	-0.47	-1.79
Long-Term fixed income	1.87	2.13	1.37	-0.31	-2.01
Total Pension Plans	2.13	2.85	1.44	0.04	-4.49

Data in percentages.

Annualised cumulative return at 31-12-2018 compared to 1, 3, 5 and 10 year periods.

Return at 15 years is assimilated to returns since the beginning of the Reserve Fund.

The total of pension plans refers to the total of the pension plans of the individual system including short-term fixed-income pension plans, long-term fixed-income, mixed fixed-income, mixed variable income, variable income and guaranteed pension funds.

Source: TGSS; INVERCO.

7.5. Summary of returns

Next, a summary table of percentages is presented along with the chart reflecting the performance of the Fund's returns, analysed in detail in the previous sections:

Summary of returns

Year	Asset acquisition IRR	CA Average Rate	Annualised cumulative return	Inter-annual return
2000	4.78	4.78	2.84	0.59
2001	4.44	4.32	5.86	6.51
2002	4.35	3.27	6.43	7.12
2003	3.81	2.31	5.57	3.70
2004	3.60	2.02	5.48	5.20
2005	3.37	2.02	5.16	3.82
2006	3.51	2.77	4.41	0.59
2007	3.75	3.79	4.17	2.66
2008	3.94	3.79	4.71	8.77
2009	3.67	0.64	4.60	3.70
2010	3.64	0.36	3.96	-1.83
2011	3.94	0.80	4.14	6.02
2012	4.10	0.19	4.20	4.89
2013	4.24	0.09	4.56	9.14
2014	4.33	0.20*	5.06	11.85
2015	3.56	*	4.79	1.05
2016	3.19	*	4.55	0.90
2017	1.07	*	4.27	-0.12
2018	0.64	*	4.01	-0.33

Data in percentages.

* The data for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). In the periods 2015 to 2018, the account has ceased to be remunerated at positive rates.

7. Analysis of Reserve Fund profitability as at 31 December 2018



Data in percentages.

* The data for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). In the periods 2015 to 2018, the account has ceased to be remunerated at positive rates.

8. Forecasts

8.1. Period 2019

In 2019, taking as reference the portfolio at 31 December 2018, coupons will reach maturity in the amount of 50,727,665 euros, with the following breakdown:

Coupon maturity in 2019

Maturity date	Amount
30/4/2019	3,437,500
30/7/2019	26,341,210
31/10/2019	20,948,955
Total	50,727,665

Amounts in euros.

At the same time, in 2019 public financial assets will reach maturity in the amount of 4,996,746,000 euros, with the following breakdown:

Financial asset redemption in 2019

Redemption date	Asset description	Par value
5/4/2019	Treasury Bills ES0L01904058	75,000,000
30/4/2019	Government Bonds (2.75%) ES00000124V5	125,000,000
10/5/2019	Treasury Bills ES0L01905105	600,000,000
14/6/2019	Treasury Bills ES0L01906145	374,970,000
12/7/2019	Treasury Bills ES0L01907127	1,106,560,000
30/7/2019	Government Long-term Bonds (4.60%) ES00000121L2	572,635,000
16/8/2019	Treasury Bills ES0L01908166	1,154,900,000
31/10/2019	Government Long-Term Bonds (4.30%) ES00000121O6	487,185,000
15/11/2019	Treasury Bills ES0L01911152	500,496,000
Total		4,996,746,000

Amounts in euros.

8. Forecasts

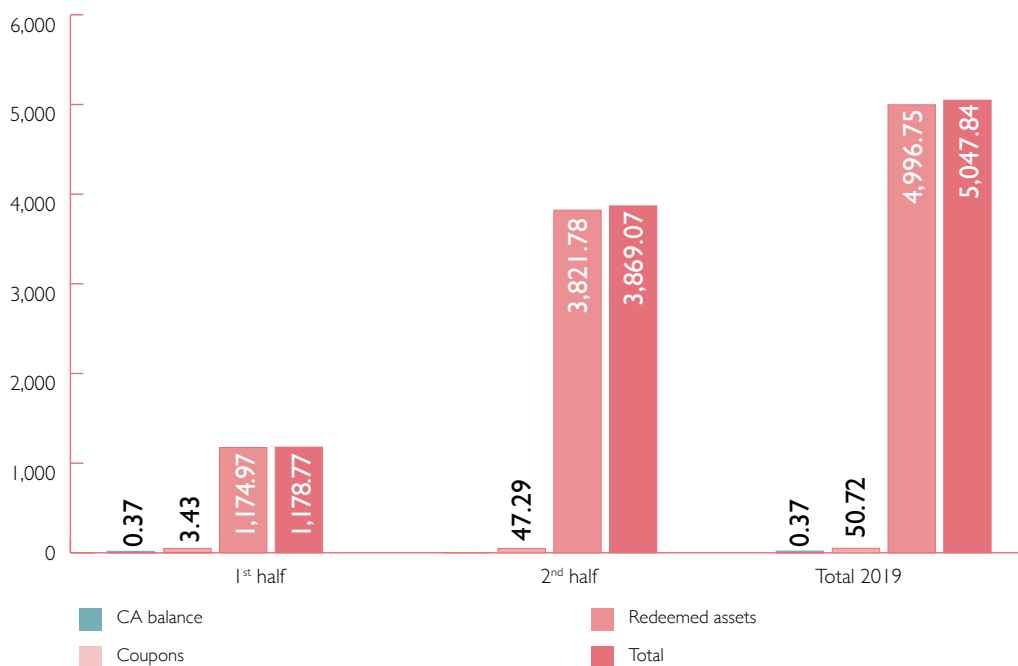
Cash flow forecasts throughout the period 2019 are as shown in the table below with its corresponding chart:

2019 cash flow forecast

Period	CA balance	Coupons	Redeemed assets	Total
First semester 2019	367,388.58	3,437,500.00	1,174,970,000.00	1,178,774,888.58
Second semester 2019		47,290,165.00	3,821,776,000.00	3,869,066,165.00
Total	367,388.58	50,727,665.00	4,996,746,000.00	5,047,841,053.58

Amounts in euros.

2019 cash flow forecast



9. Comparison of the Reserve Fund's key figures

In this section a comparison is made of the Reserve Fund's value in 2018 compared to 2017, both in terms of the total acquisition price and its market value, including its key figures. Finally, the evolution is shown of its distribution at the total acquisition price.

Reserve Fund value comparison

Concept	2017 Year	2018 Year
SSRF at Total acquisition price	8,095.36	5,043.15
SSRF at market value	8,085.37	5,059.74

Amounts in millions of euros.

Data at 31 December of each period.

Comparison of the Reserve Fund's key figures

Concept	2017 Year	2018 Year
Fixed income asset returns (IRR) acquisition	1.07%	0.64%
Fixed income asset returns (IRR) market	-0.49%	-0.42%
Average current account rate	-	-
S.S.R.F. Annualised cumulative return	4.27%	4.01%
S.S.R.F. Inter-annual return	-0.12%	-0.33%
Level of concentration	0.85%	0.52%
Duration	0.72 años	0.58 años
Modified duration	0.72	0.59
% Nominal value of foreign debt over portfolio total	0.00%	0.00%
% S.S.R.F. at total acquisition price over GDP*	0.69%	0.43%

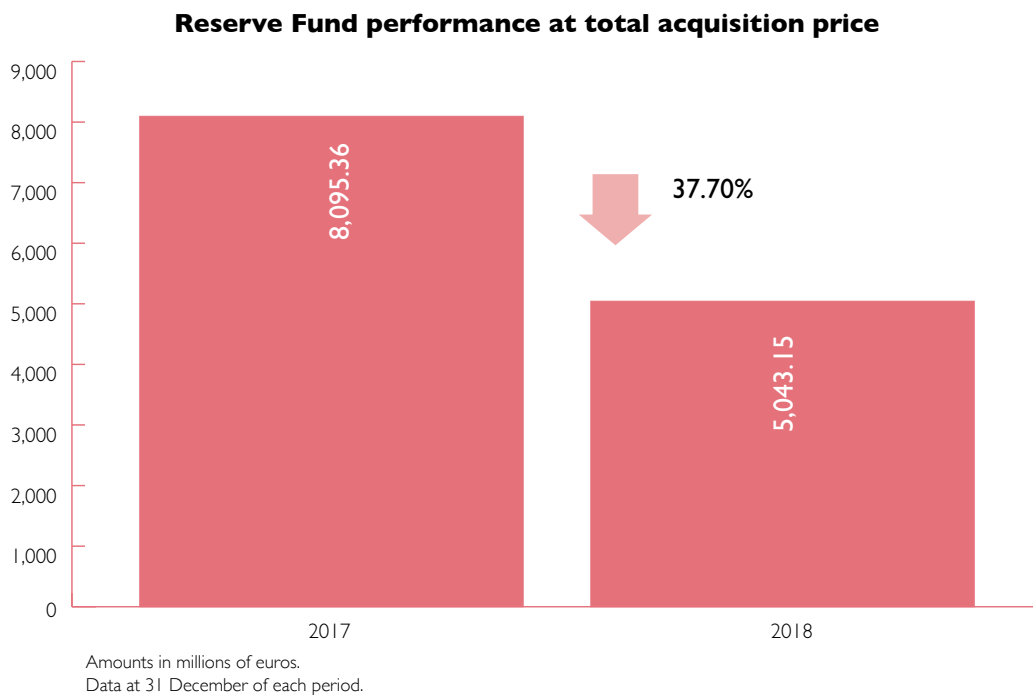
Data at 31 December of each period.

* The data for 2017 and 2018 is expressed in relation to 2017 GDP (1,166,319 million euros) according to data from the I.N.E. based on CNE-2010 published on 28 December 2018.

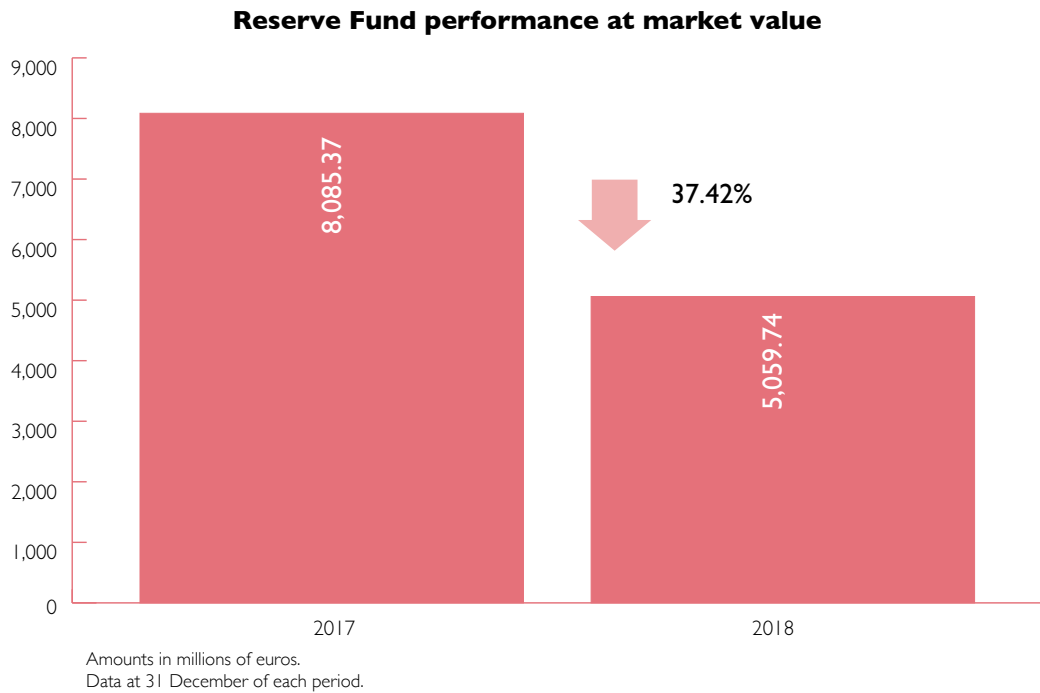


9. Comparison of the Reserve Fund's key figures

The total amount of the Social Security Reserve Fund, at the total acquisition price, presents at 31 December 2018 the following evolution with respect to the same date of the previous period:

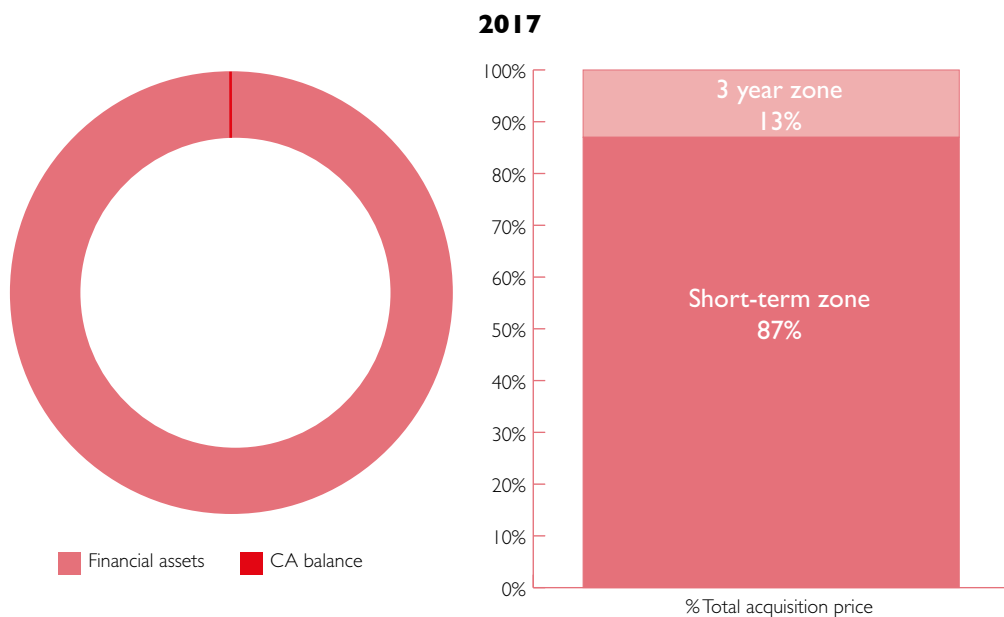


Similarly, the performance of the Social Security Reserve Fund is shown in terms of its market value:

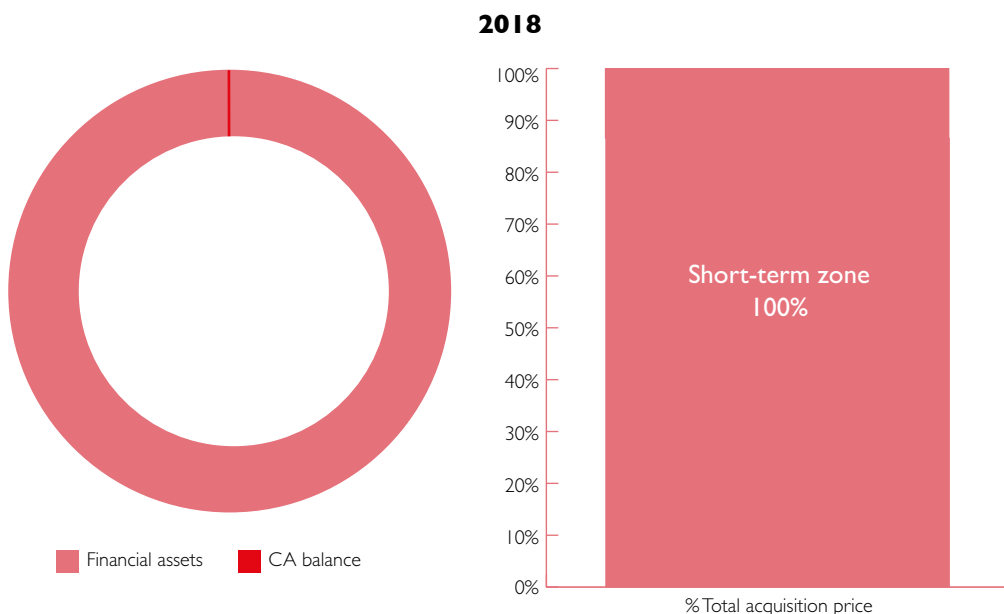


9. Comparison of the Reserve Fund's key figures

The Reserve Fund presents the following distribution at the total acquisition price:



Data at 31 December.



Data at 31 December.

Annex I. Annual accounts economic and financial information

The present report on the actions taken in the year 2018 and situation of the Reserve Fund as at 31 December 2018, which is presented to Parliament pursuant to article 127 of Royal Legislative Decree 8/2015, of 30 October, approving the consolidated text of the General Social Security Law, is intended to provide information on the management and actions taken throughout the year, which have been on the decisions of the Management Committee as the senior management and control body. Specifically, it presents the key data for the Reserve Fund as at 31 December 2018, such as its value, composition, distribution by portfolios, returns and market value. At the same time, it includes important additional information regarding the Fund's performance in the next years, providing information on the Fund's cash flow forecasts so as to be able to plan the corresponding management actions.

The aforesaid information, presented from a management perspective, in terms of data presentation, disaggregation of the information by periods and valuation at market prices, has a different approach, under specific headings, to the economic-financial information set out in the annual accounts, pursuant to applicable accounting principles.

Order EHA/1037/2010, of 13 April, approved the General Public Accounting Plan as a framework accounting plan for all Public Administrations.

Resolution of 1 July 2011 on the General Intervention of the State Administration, approved the adaptation of the General Public Accounting Plan for entities forming part of the Social Security system.

Given the nature of the securities that by legal imperative the Social Security Reserve Fund can materialise in, these for the purposes of their valuation, can only be classified under the categories of «Investments held to maturity» or «Financial assets available for sale.»

The Social Security Reserve Fund's Management Committee, based on the report of the General Intervention of the Social Security, at its meeting on 11 February 2014 determined, for the purposes of the valuation established in the General Public Accounting Plan, that the Public Debt financial assets that made up the Social Security Reserve Fund would be reclassified, effective end of the year, from «Investments held to maturity» to «Financial assets available for sale» if during the period there were changes in the intention or in the financial capacity for them to be maintained in the category of investments held to maturity. At the end of the period 2018, the assets forming part of the Reserve Fund's portfolio continue to be considered «Financial assets available for sale».

Finally, as additional information the financial situation of the Social Security Reserve Fund is presented based on the accounting data at the end of the period 2018.

Reserve Fund financial situation as at 31 December 2018

Concept	Amount
Long-term debt securities available for sale	0.00
National portfolio	0.00
Eurozone portfolio	0.00
Short-term debt securities available for sale	5,042,451,951.52
National portfolio	5,042,451,951.52
Eurozone portfolio	0.00
Financial balance associated with the Social Security Reserve Fund	367,388.58
Short-term interest on debt securities	16,922,246.82
National portfolio	16,922,246.82
Eurozone portfolio	0.00
Other short-term payable interest	0.00
Total	5,059,741,586.92

Amounts in euros.



Annex II. Information on withdrawals from the Reserve Fund in the year 2018

Withdrawals from the Reserve Fund in the period 2018 have been carried out pursuant to Law 3/2017 of 27 June, on Finance for the year 2017 which, in its additional provision one hundred and twelve leaves ineffective for the periods 2017 and 2018 the 3% limit established as a general rule in article 121 of Royal Legislative Decree 8/2015, of 30 October, approving the consolidated text of the General Social Security Law. In light of the foregoing, in the aforementioned periods, insofar as the need arises, of up to a maximum amount equivalent to the amount of the deficit from non-financial transactions revealed by the liquidity forecasts of the budgets of the Social Security management agencies and common services.

It can be inferred from an analysis of the regulation, that withdrawals from the Reserve Fund will be based on the following premises:

- A. Existence of a deficit from non-financial transactions of the Social Security system, calculated by the Social Security General Audit Office for Reserve Fund purposes.
- B. Withdrawals from the Social Security Reserve Fund will be made as and when the need arises, up to a maximum amount equivalent to the deficit from non-financial transactions revealed by the settlement forecasts of the budgets of the Social Security management agencies and common services, and will be used to pay obligations related to contributory pensions and all other expenses associated with the management of the same.

The Social Security General Audit Office, on 22 November 2018, proceeded to determine the provisional deficit from non-financial transactions for the purposes of the Social Security Reserve Fund for 2018, presenting the following data:

2018 deficit for Reserve Fund purposes

Concept	Amount
a) Total result of non-financial budgetary transactions in the year 2018	-18,165.87
b) Total adjustments made in 2018	-1,544.49
Provisional contributory budgetary result 2018 (a+b)	-19,710.36

Amounts in millions of euros.

In December 2018, circumstances arose that made it necessary to resort to the Reserve Fund, due to having to face extra pension payments related to the holiday months.

In the light of this situation, the General Treasury of the Social Security, in its capacity as the system's paying body authorised to distribute in time and throughout the country available monies to satisfy the Social Security's obligations at specific moments and avoid financial imbalances, carried

Annex II. Information on withdrawals from the Reserve Fund in the year 2018

out in 2018, on 30 November; a withdrawal from the Social Security Reserve Fund for an amount of 3,000 million euros.

Total withdrawals made up until 31 December 2018 are presented in the table below:

Rule	Year	Quarter	Date	Amount	Subtotal	Total Cumulative
Council of Ministers Agreement 27/09/2012	2012	3 rd	28/9/2012	1,700		
		4 th	26/10/2012	1,363		
					3,063	3,063
Royal Decree-law 28/2012, of 30 November	2012	4 th	3/12/2012	3,530		
			18/12/2012	410		
					3,940	7,003
	2013	3 rd	1/7/2013	3,500		
			22/7/2013	1,000		
			1/8/2013	1,000		
		4 th	1/10/2013	720		
			2/12/2013	5,000		
			20/12/2013	428		
					11,648	18,651
	2014	3 rd	1/7/2014	5,500		
			21/7/2014	500		
		4 th	1/12/2014	8,000		
			22/12/2014	1,300		
					15,300	33,951
Law 36/2014, of 26 December	2015	3 rd	1/7/2015	3,750		
		4 th	1/12/2015	7,750		
			21/12/2015	1,750		
					13,250	47,201
	2016	3 rd	1/7/2016	8,700		
			20/7/2016	1,000		
		4 th	1/12/2016	9,500		
			20/12/2016	936		
					20,136	67,337
Law 3/2017, of 27 June	2017	3 rd	3/7/2017	3,514		
		4 th	1/12/2017	3,586		
					7,100	74,437
	2018	4 th	30/11/2018	3,000		
					3,000	77,437

Amounts in millions of euros.

In 2018, on a quarterly basis, reporting has been made to the Council of Ministers of the amounts withdrawn from the Social Security Reserve Fund, pursuant to the provision of section four of additional provision one hundred and twelve of Law 3/2017, of 27 June.

On the other hand, starting in July, there were significant financing needs to meet the payment of two monthly payments, ordinary and extraordinary, of Social Security pensions, so, under the ninth additional provision of the Law on General State Budgets for 2017, extended pursuant to article 134.4 of the Spanish Constitution, a loan was granted to the General Treasury of the Social Security amounting to 10,192 million euros, with only 7,500 million euros released on 28 June to provide adequate coverage of Social Security obligations and enable the budget to balance.

Subsequently, once the Law on General State Budgets for 2018 was approved - Law 6/2018, of 3 July - and by virtue of the its fourth additional provision, the Government granted a loan to the General Treasury of Social Security amounting to 13,830.09 million euros. By agreement of the Council of Ministers of 16 November 2018 and previous report of the General Treasury of the Social Security and of the General Secretariat of the Treasury and International Financing, and given that funds of 7,500 million euros had already been paid in June, a withdrawal of funds limited to 6,330.09 million euros was agreed to meet the ordinary and extraordinary pensions paid in December.

Finally, under Article 12 of Law 6/2018, of 3 July on General State Budgets for 2018, the State contributed 1,333.91 million euros to the Social Security to support its budgetary balance. Throughout the second half of 2018, all the payments have been made.

The previous amounts made it possible to cover the obligations related to contributory pensions, and all other expenses required for the management of the same.



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DE ESPAÑA

MINISTERIO
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DE ESPAÑA

MINISTERIO
DE TRABAJO, MIGRACIONES
Y SEGURIDAD SOCIAL

SECRETARÍA DE ESTADO
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