

Social Security Reserve Fund

Report to Parliament

Performance and actions in 2017
and situation at 31 December 2017





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Index

1. Introduction.....	6
2. 2017 in figures	8
3. Reserve Fund situation at 31 December 2017	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 the period 2017	18
5.1. Investment and management criteria applied in the period 2017	18
5.2. Management Committee Meetings in 2017.....	19
5.2.1. First meeting of the Management Committee in 2017.....	19
5.2.2. Second meeting of the Management Committee in 2017.....	20
5.3. Summary of agreements in the period 2017	24



6. Reserve Fund most representative data at 31 December 2017.....	25
7. Analysis of Reserve Fund profitability as at 31 December 2017	27
7.1. Reserve Fund Returns.....	27
7.2. Return of fixed income assets: Public Debt.....	33
7.3. Return of the «General Treasury of the Social Security Special Reserve Fund account. Art. 91.1 T.R.L.G.S.S.»	34
7.4. Profitability of the Social Security Reserve Fund.....	36
7.5. Summary of returns	39
8. Forecasts.....	41
8.1. Period 2018.....	41
8.2. Period 2019.....	43
9. Comparison of the Reserve Fund's key figures	45
Annex I. Annual accounts economic and financial informatio	49
Annex II. Information on withdrawals from the Reserve Fund in the year 2017.....	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", 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.

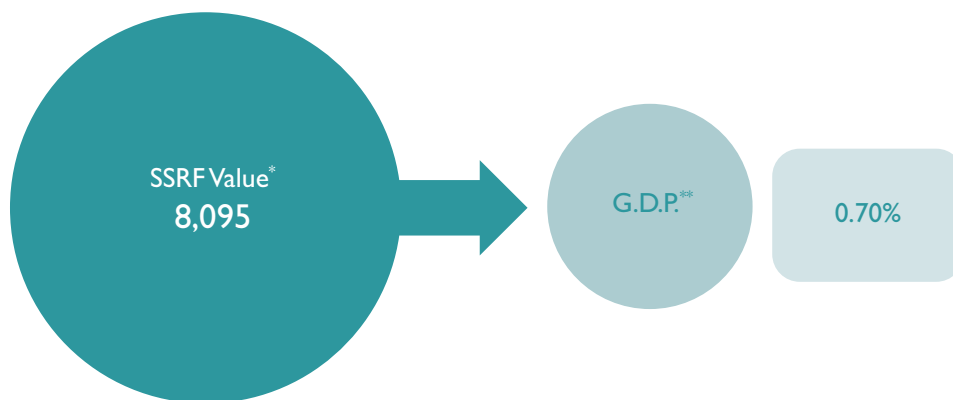
With the approval of Law 28/2003, of 29 September, the Reserve Fund's legal scheme was established for the first time in a specific law. Currently, this regulation is comprised in Royal Legislative Decree 8/2015, of 30 October, approving the consolidated text of the General Social Security Law. By virtue 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 2017.

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. 2017 in figures

Social Security Reserve Fund Situation at 31 December 2017



SSRF market value → 8,085 million euros (0.69% G.D.P.)

Amounts in millions of euros.

* At total acquisition price.

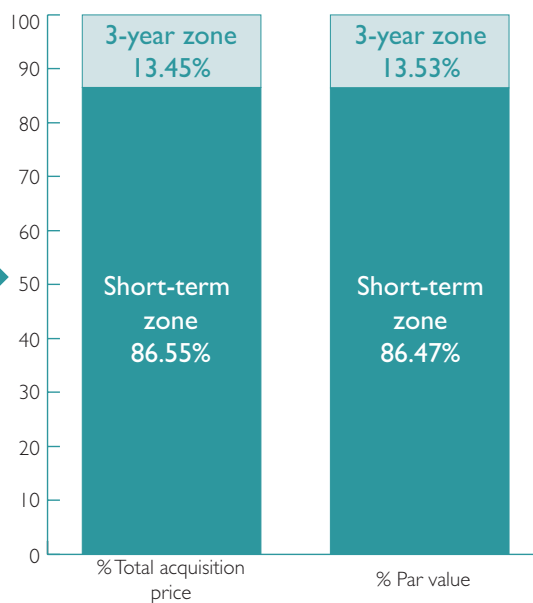
** G.D.P. for 2017, according to data of the National Statistics Institute (I.N.E.) published on 1 March 2018 based on Spanish National Accounts (CNE) - Base 2010, stood at 1,163,662 million euros.

Reserve Fund distribution

Financial assets – Current



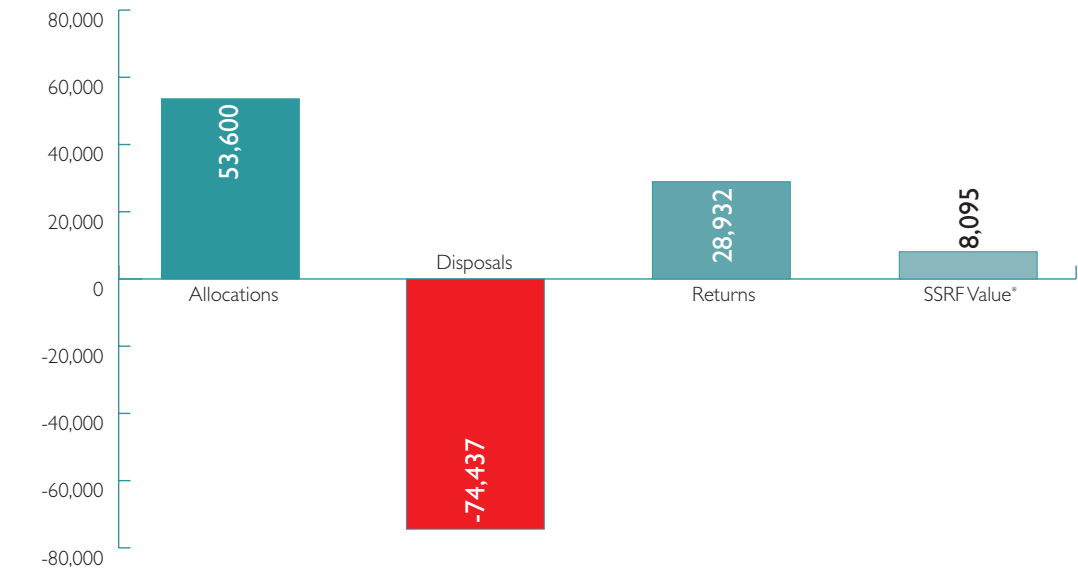
Portfolio by zones



Average annualised returns

15 years	10 years	5 years	3 years	1 year
4.27%	4.35%	4.45%	0.61%	-0.12%

Allocations, disposals and returns



Amounts in millions of euros.
 * At total acquisition price.

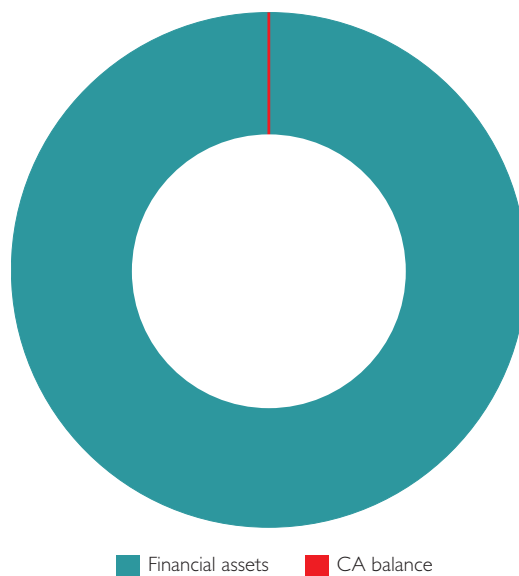


3. Reserve Fund situation at 31 December 2017

At 31 December 2017, the Reserve Fund presents the following situation and distribution:

1. Financial assets	€ 8,094,499,615.24
(At total acquisition price ¹)	
2. Current Account (CA) balance	€ 856,399.17
(Deposited in the account held with the Bank of Spain)	
Reserve Fund Total	€ 8,095,356,014.41

Reserve Fund distribution



The Reserve Fund's amount represents 0.70% 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 1 March 2018, stood at 1,163,662 million euros).

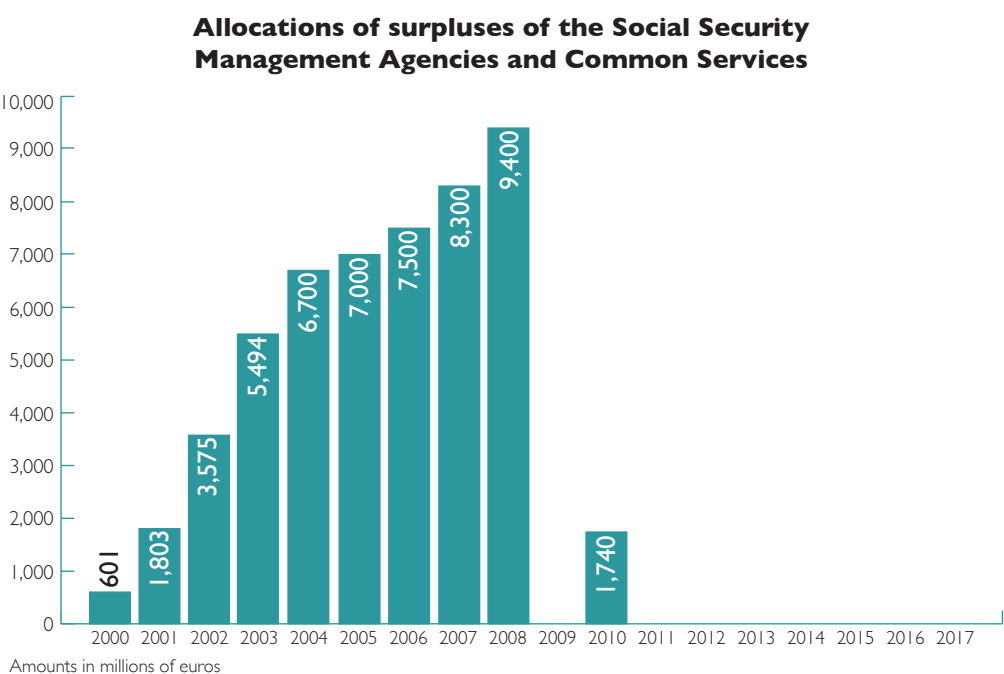
At 31 December 2017, the Reserve Fund's market value reached 8,085.37 million euros, representing 0.69% of Gross Domestic Product.

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 2017, 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 (8,010,358,538.43 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 2017, allocations have reached **52,113 million euros**, as presented in the following graph:

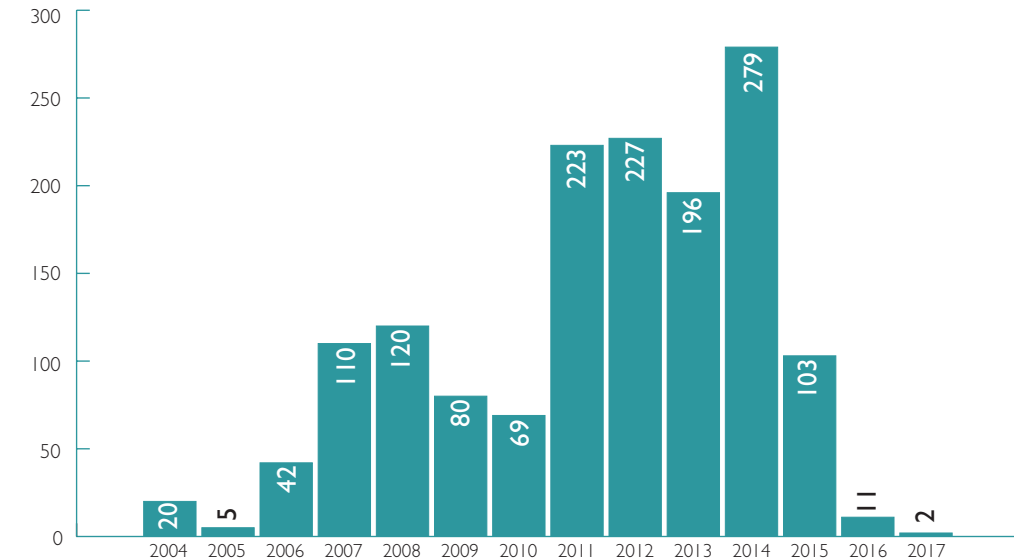


The amounts allocated in the form of surpluses deriving from the Mutual Societies that act as Social Security partner agencies managing temporary incapacity benefits for non work-related illness or injury reached **1,487 million euros** at 31 December 2017 and were paid into the Reserve Fund's dedicated account. They are presented in the following graph, based on date of payment:

² Allocations approved by the Council of Ministers.

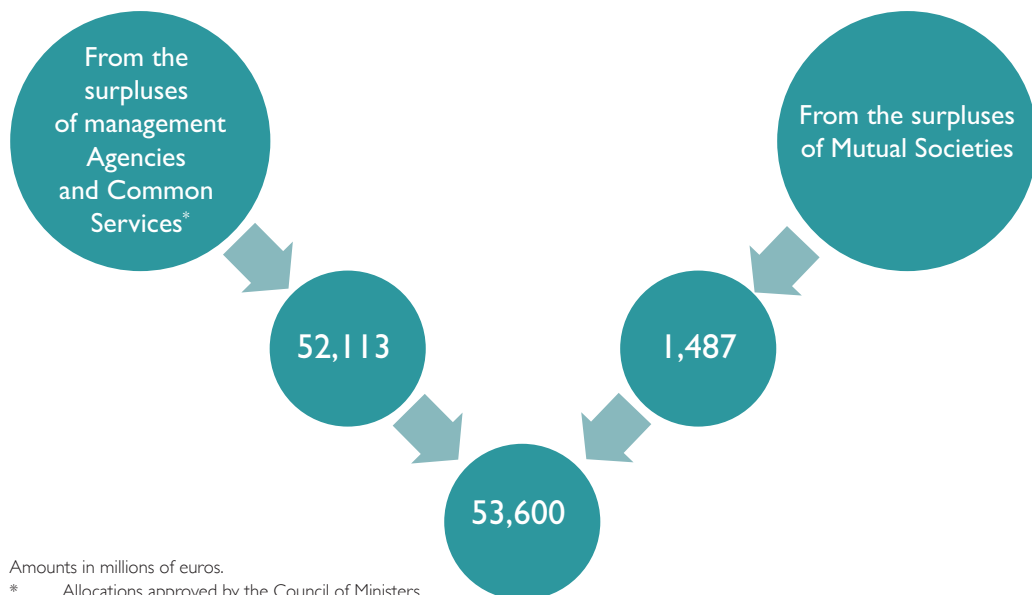
4. Reserve Fund Performance

Surplus allocations Social Security Partner Mutual Societies



Amounts in millions of euros.

Summary of Social Security Reserve Fund allocations

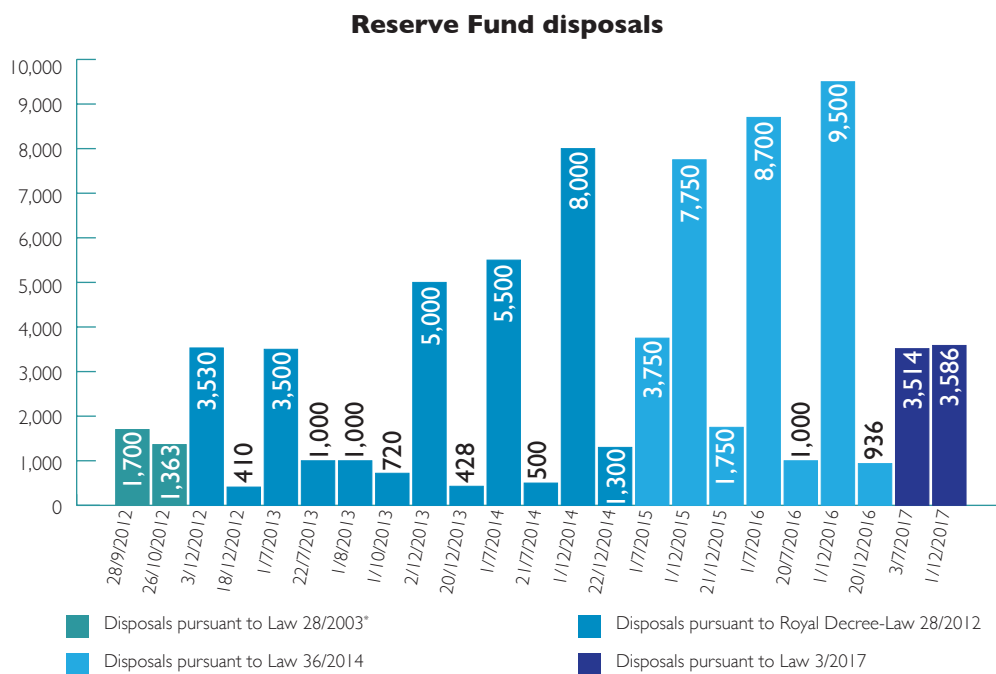


Amounts in millions of euros.

* Allocations approved by the Council of Ministers.

4.2. Disposals

Reserve Fund disposals in the periods 2012 to 2017 totalled **74,437 million euros** and are presented in the graph below:



Summary of the Social Security Reserve Fund disposals

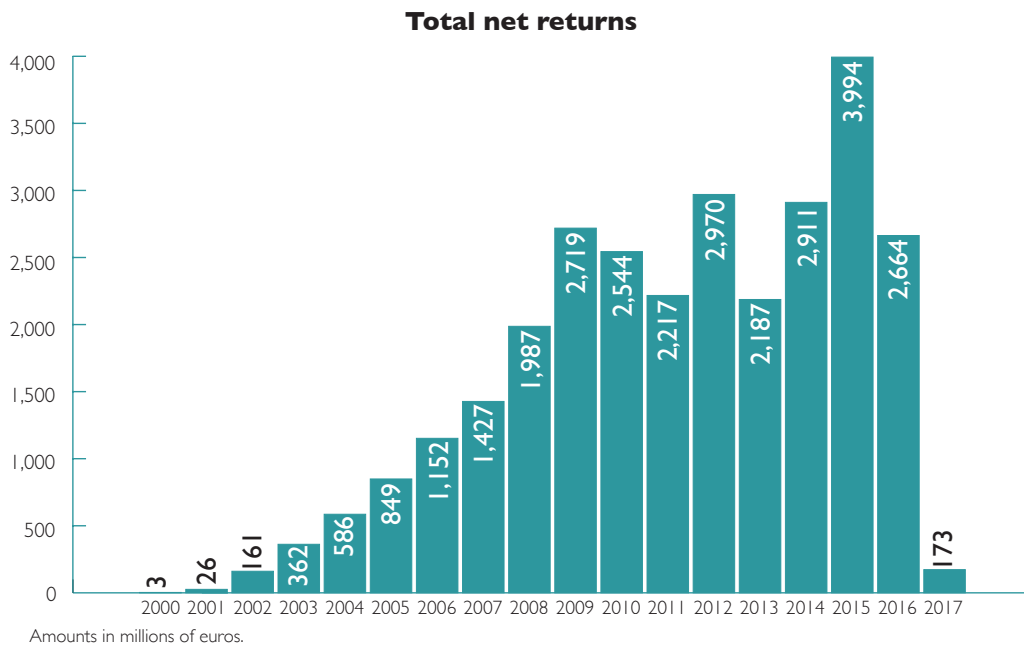
Amounts in millions of euros.

* 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 2017 amount to **28,932 million euros**. Their breakdown by year is presented in the following graph:



Net return figures include the result of divestiture transactions worth a total of 6,119 million euros.



4.4. Performance

Reserve Fund general performance
(Allocations, disposals and returns)

Cumulative data	Years 2000 to 2009	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
1. Allocations	50,750	52,559	52,782	53,008	53,205	53,484	53,587	53,598	53,600
1. a. Agreement of the Council of Ministers*	50,373	52,113	52,113	52,113	52,113	52,113	52,113	52,113	52,113
1. b. Mutual Societies Surplus**	377	446	669	895	1,092	1,371	1,474	1,485	1,487
2. Disposals***				-7,003	-18,651	-33,951	-47,201	-67,337	-74,437
3. Net returns generated	9,272	11,816	14,033	17,003	19,190	22,101	26,095	28,759	28,932
3. a. Returns generated****	9,690	12,352	14,718	17,922	20,233	23,377	27,584	30,510	30,802
3. b. Adjustments for redemption/divestiture of assets	-418	-536	-685	-919	-1,043	-1,276	-1,489	-1,751	-1,870
Total	60,022	64,375	66,815	63,008	53,744	41,634	32,481	15,020	8,095

Amounts in millions of euros.

Situation at 31 December of each period.

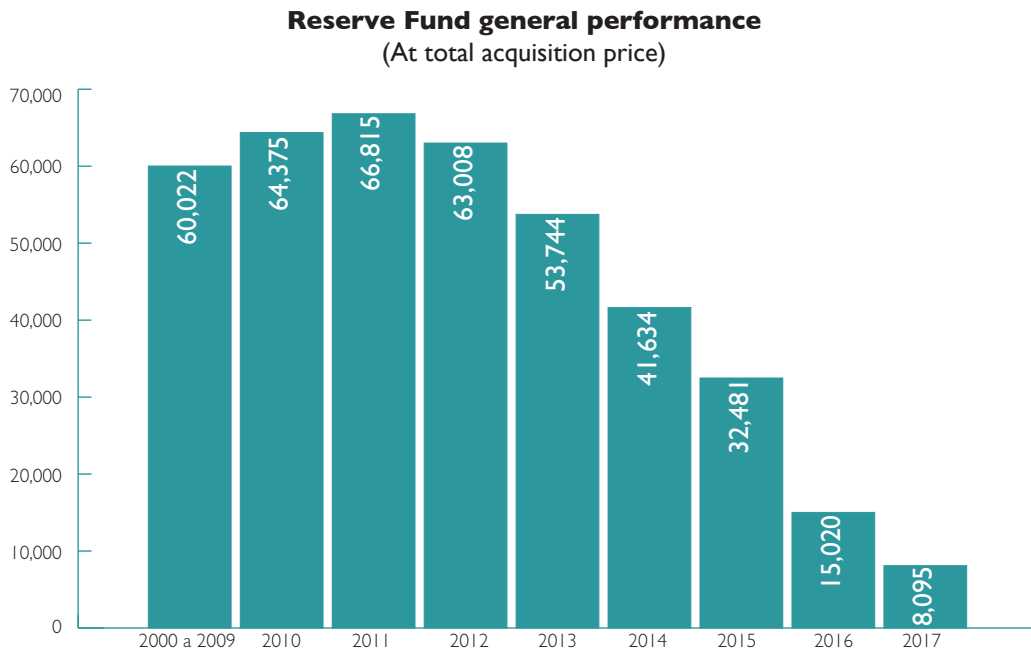
* Chargeable to budgetary surpluses of the Social Security's Management Agencies and Common Services.

** 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 the period 2017

5.1. Investment and management criteria applied in the period 2017

- The Social Security's Reserve Fund will invest in Spanish Public Debt and is allowed to invest in the Public Debt of the German, French, and Dutch States and in assets issued by the Official Credit Institute (ICO - Instituto de Crédito Oficial). All assets must be issued in euros, have a high credit rating and be traded in 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 2017

In 2017, 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 2017

5.2.1.1. Agreements reached

On 24 January 2017, the Social Security Reserve Fund's Management Committee held its fifty first meeting, and as the Reserve Fund's senior management body, after analysing the proposal made by the Investment Advisory Committee which had met on the same date, adopted the following agreements:

- To approve for the year 2017, ratification of the investment and management criteria in effect for the period 2016.
- Regarding cash flows for the first semester of 2017, according to the best return:

5. Actions in the period 2017

- * To reinvest in Spanish Public Debt assets with very short-term maturities, before 1 July 2017.
- * To carry out «repo» transactions, with maturities before 1 July 2017.

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

- To authorise the General Treasury of the Social Security so that, in coordination with the General Directorate of the Treasury, it would be able to modify the mandate in the light of any changes in market conditions justified by the Bank of Spain, while respecting the general conditions of the investment strategy.
- The Bank of Spain would act as the agent, carrying out the transactions on the most appropriate dates. The distribution of the transactions would have a general framework that would allow 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 would state the specific assets for potential acquisition.

5.2.1.2. Execution of the agreements

On account of the market conditions, these transactions were not carried out, and the cash flow amount was maintained in the account in the first semester of 2017 until its withdrawal in the month of July.

5.2.2. Second meeting of the Management Committee in 2017

5.2.2.1. Agreements reached

On 5 May 2017, the Social Security Reserve Fund's Management Committee held its fifty second meeting and, as the Reserve Fund's senior management body, after analysing the proposal put forward by the Investment Advisory Committee which had met on the same date, adopted the following agreements:

- Regarding cash flows for the second semester of 2017 intended for the withdrawal in December, according to the best return:
 - * To reinvest in Spanish Public Debt assets with very short-term maturities, before 1 December 2017.
 - * To carry out «repo» transactions with maturities before 1 December 2017.

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

- Regarding all other cash flows for the second semester of 2017, based on the best returns:
 - * To reinvest in Spanish Public Debt assets with maturity in 2018.
 - * To carry out «repo» transactions.

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

The General Treasury of the Social Security in coordination with the General Directorate of the Treasury would determine the specific assets in which to reinvest, reporting on the same to the Reserve Fund's Management Committee.

- The General Treasury of the Social Security in coordination with the General Directorate of the Treasury would be able to modify the mandate in the light of changes in market conditions, justified by the Bank of Spain, while respecting the general conditions of the investment strategy.
- The Bank of Spain would act as the agent, carrying out the transactions on the most appropriate dates. The distribution of the transactions would have a general framework that would allow 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 would state the specific assets for potential acquisition.



5. Actions in the period 2017

5.2.2.2. Execution of the agreements

With respect to the cash flows for the second semester of 2017 intended for the withdrawal in December, it was not possible to carry out the transactions on account of the market conditions, and the amount was kept in the account until its withdrawal in the month of December.

With respect to all other cash flows for the second semester of 2017 the following transactions were made for the acquisition of Spanish financial assets at three moments in time:

- Operation for the acquisition of Spanish financial assets, carried out in the secondary market, with value dates 31 July to 28 August 2017:

Financial asset acquisitions in July - August 2017

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR% on acquisition value
Treasury Bills ES0L01804068	6/4/2018	350,898,711.50	350,000,000.00	-0.371
Government Bonds (0.25%) ES00000127D6	30/4/2018	150,803,520.55	150,000,000.00	-0.380
Treasury Bills ES0L01805115	11/5/2018	210,600,038.80	210,000,000.00	-0.379
Treasury Bills ES0L01807137	13/7/2018	953,364,554.73	950,000,000.00	-0.367
Government Long-Term Bonds (4.10%) ES00000121A5	30/7/2018	632,143,241.12	605,000,000.00	-0.379
Treasury Bills ES0L01808176	17/8/2018	675,188,734.09	672,650,000.00	-0.379
Total		2,972,998,800.79	2,937,650,000.00	-0.374*

Amounts in euros.

* Average weighted IRR calculated on the acquired par value.

- Transactions for the acquisition of Spanish financial assets, carried out in the secondary market, with value dates 2 and 3 October 2017:

Financial asset acquisitions in October 2017

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR% on acquisition value
Government Long-Term Bonds (4.10%) ES00000121A5	30/7/2018	75,296,754.89	72,115,000.00	-0.364
Treasury Bills ESOL01808176	17/8/2018	250,801,148.14	250,000,000.00	-0.361
Treasury Bills ESOL01809141	14/9/2018	551,901,914.55	550,000,000.00	-0.358
Total		877,999,817.58	872,115,000.00	-0.359*

Amounts in euros.

* Average weighted IRR calculated on the acquired par value.

- Transactions for the acquisition of Spanish financial assets, carried out in the secondary market, with value dates 27 and 28 November 2017:

Financial asset acquisitions in November 2017

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR% on acquisition value
Treasury Bills ESOL01811162	16/11/2018	413,999,036.81	412,439,000.00	-0.384
Total		413,999,036.81	412,439,000.00	-0.384*

Amounts in euros.

* Average weighted IRR calculated on the acquired par value.

5. Actions in the period 2017

5.3. Summary of agreements in the period 2017

In the period 2017, Spanish financial assets were acquired for a total acquisition price of 4,264,997,655.18 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
Treasury Bills ES0L01804068	6/4/2018	350,898,711.50	350,000,000.00	-0.371
Government Bonds (0.25%) ES00000127D6	30/4/2018	150,803,520.55	150,000,000.00	-0.380
Treasury Bills ES0L01805115	11/5/2018	210,600,038.80	210,000,000.00	-0.379
Treasury Bills ES0L01807137	13/7/2018	953,364,554.73	950,000,000.00	-0.367
Government Long-Term Bonds (4.10%) ES00000121A5	30/7/2018	707,439,996.01	677,115,000.00	-0.377
Treasury Bills ES0L01808176	17/8/2018	925,989,882.23	922,650,000.00	-0.375
Treasury Bills ES0L01809141	14/9/2018	551,901,914.55	550,000,000.00	-0.358
Treasury Bills ES0L01811162	16/11/2018	413,999,036.81	412,439,000.00	-0.384
Total		4,264,997,655.18	4,222,204,000.00	-0.372*

Amounts in euros

* Average weighted IRR calculated on the acquired par value.

6. Reserve Fund most representative data at 31 December 2017

At 31 December 2017, the total acquisition price³ of the portfolio of assets comprising the Social Security Reserve Fund reached 8,094,499,615.24 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	7,005,706,465.84	86.55	6,773,209,000.00	86.47
3-year zone	1,088,793,149.40	13.45	1,059,820,000.00	13.53
Total	8,094,499,615.24	100.00	7,833,029,000.00	100.00

Amounts in euros

Zone distribution criteria:

Short-term: maturity up to 12 months in relation to 31/12/17 for harmonisation with the accounting criterion.

3-year zone: maturity beyond 12 months up to 4 years in relation to 31/12/17.

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.

6. Reserve Fund most representative data at 31 December 2017

The following table provides an itemisation by type of asset and references of the portfolio's composition at 31 December 2017:

Reserve Fund portfolio composition

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value
I. Short-term zone			
Bonos del Estado (4.50%) ES00000123Q7	31/1/2018	452,176,041.11	400,000,000.00
Treasury Bills ES0L01804068	6/4/2018	350,898,711.50	350,000,000.00
Government Bonds (0.25%) ES00000127D6	30/4/2018	153,808,919.20	153,010,000.00
Treasury Bills ES0L01805115	11/5/2018	210,600,038.80	210,000,000.00
Treasury Bills ES0L01807137	13/7/2018	953,364,554.73	950,000,000.00
Government Long-Term Bonds (4.10%) ES00000121A5	30/7/2018	2,367,894,291.29	2,275,710,000.00
Treasury Bills ES0L01808176	17/8/2018	925,989,882.23	922,650,000.00
Treasury Bills ES0L01809141	14/9/2018	551,901,914.55	550,000,000.00
Government Bonds (3.75%) ES00000124B7	31/10/2018	625,073,075.62	549,400,000.00
Treasury Bills ES0L01811162	16/11/2018	413,999,036.81	412,439,000.00
Total		7,005,706,465.84	6,773,209,000.00
II. 3-year zone			
Government Long-Term Bonds (4.60%) ES00000121L2	30/7/2019	595,464,740.49	572,635,000.00
Government Long-Term Bonds (4.30%) ES00000121O6	31/10/2019	493,328,408.91	487,185,000.00
Total		1,088,793,149.40	1,059,820,000.00
(I+II)			
Total public financial assets at 31/12/2017		8,094,499,615.24	7,833,029,000.00

Amounts in euros.

See zone distribution criteria on page 25.

7. Analysis of Reserve Fund profitability as at 31 December 2017

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 2017, 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.

With respect to coupons, a total of 26,144,014,170.66 euros has been collected, distinguishing between interest collected on the maturity date of 25,292,521,896.76 euros, and interest obtained at the time of asset divestiture, of 851.492.273,90, broken down as follows:

Interest collected on maturity

Year	Date	Partial 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	31/1/2017	103,478,910.00	573,667,848.00
	30/4/2017	23,892,148.00	
	30/7/2017	241,942,800.00	
	30/9/2017	155,834,390.00	
	31/10/2017	48,519,600.00	
Total			25,292,521,896.76

Amounts in euros.

7. Analysis of Reserve Fund profitability as at 31 December 2017

Interest 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	
Total	851,492,273.90

Amounts in euros.



Implied net returns since the first allocation approved in 2000, are itemised below:

Implied net returns

Year	Description	Partial amount	Total amount
2001	Of securities redeemed		
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
Total			-1,780,653,482.72

Amounts in euros.

7. Analysis of Reserve Fund profitability as at 31 December 2017

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	1,041,120,454.32
2014	2,373,983,076.82
2015	1,541,317,515.63
2016	
2017	
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*	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				
Total	245,998.34	-4,724,795.42	78,017.23	-4,400,779.85

Amounts in euros.

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

Finally, regarding interest accrued and collected on the current account held with the Bank of Spain, since the year 2000 and up until 31 December 2017, the following amounts have been obtained:

Current account interest

Año	Importe
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*	
Total	324,233,583.84

Amounts in euros.

* The datum for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). In the periods 2015, 2016 and 2017 the account has ceased to be remunerated with positive rates.

7. Analysis of Reserve Fund profitability as at 31 December 2017

In summary, the global amounts obtained by the Reserve Fund, since the first contribution approved in the year 2000 up until 31 December 2017, are presented in the following table:

Net returns summary

Item	Amount
Coupons	26,144,014,170.66
Implied net return	-1,780,653,482.72
Result of divestiture transactions	6,118,911,481.05
Other income	-4,400,779.85
Adjustments for redemption/divestiture of assets*	-1,869,980,160.44
Current account interests	324,233,583.84
Total	28,932,124,812.54

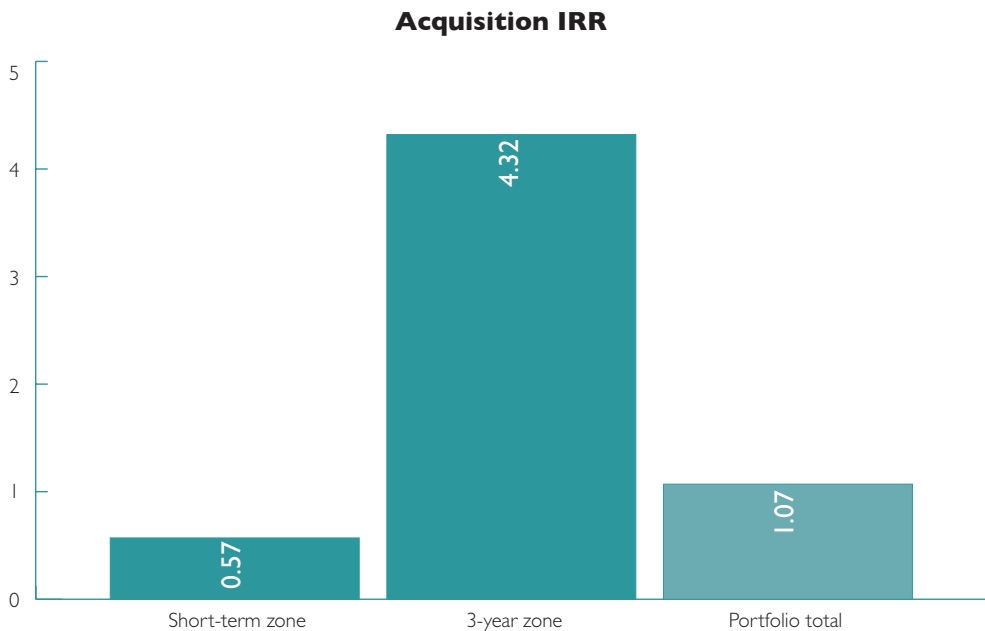
Amounts in euros.

* 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

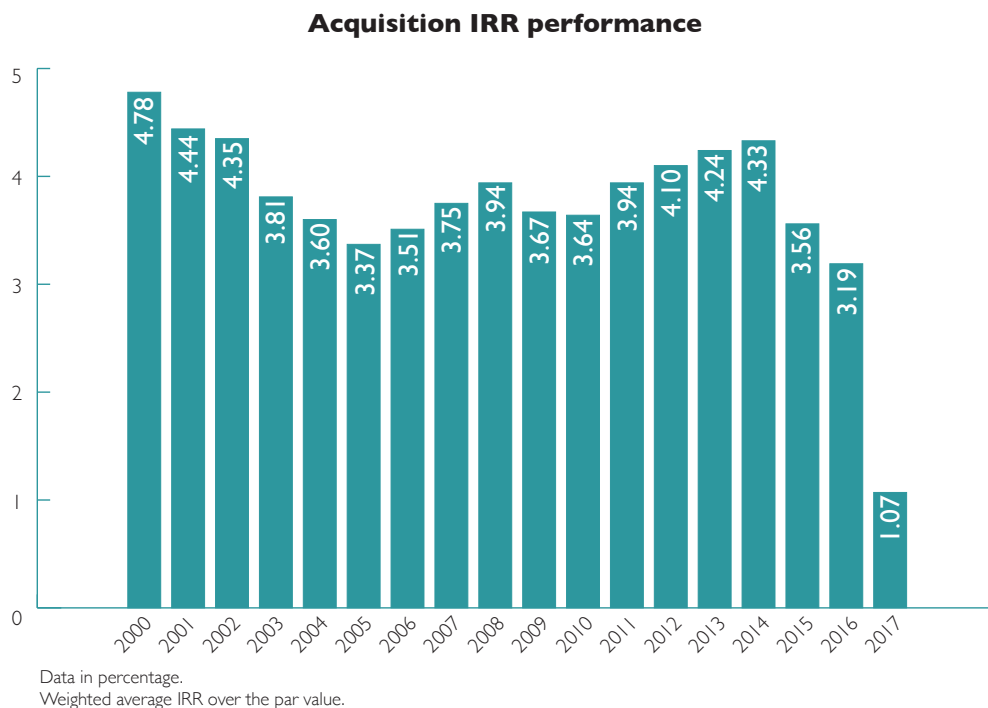
The return of assets comprising the Fund's portfolio is defined by the IRR (internal rate of return) of each security at the time of purchase. The acquisition IRR of the current portfolio, made up of the securities acquired since December 2000 and which form part of the portfolio as at 31 December 2017, is calculated as a weighted average over the par value and is situated at 1.07%, with the following breakdown:



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

7. Analysis of Reserve Fund profitability as at 31 December 2017

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



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

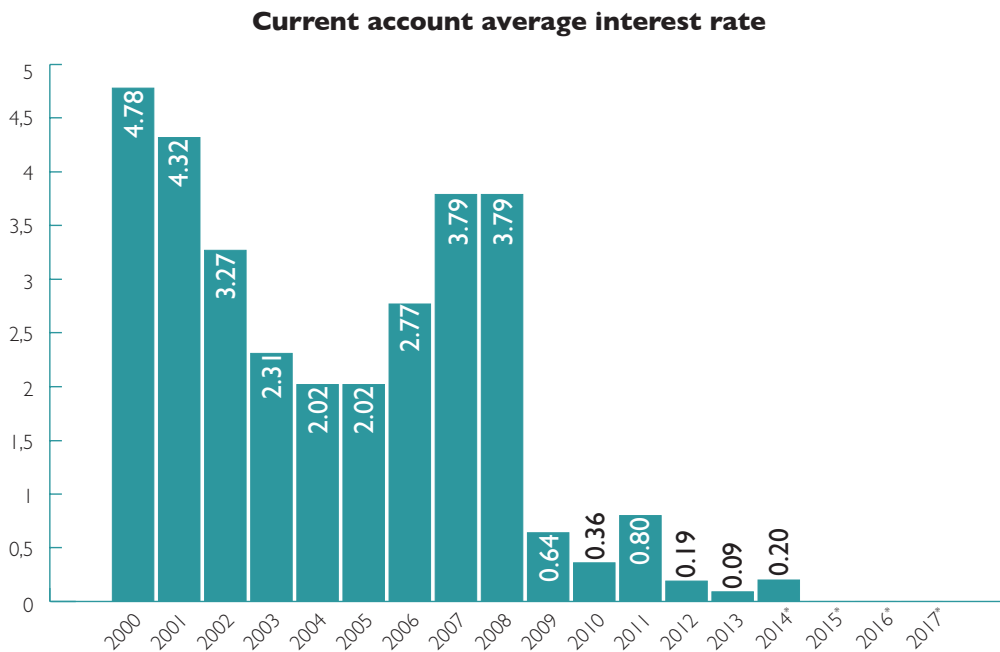
On 11 June 2014, the conditions for the remuneration of the accounts held by the Reserve Fund with the Bank of Spain were modified. During the meeting of the Governing Board of the European Central Bank on 5 de June 2014, it was agreed that the applicable interest rate would be zero per cent, or the 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:



Data in percentage.

* The datum for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). In the periods 2015, 2016 and 2017 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 2017 (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 comparison between the net asset value of a share at the present moment and the value when the Fund was created, subsequently annualising said cumulative return. The net asset value of the unitary share is adjusted every time a new allocation or disposal is made with a view to discriminating between the return provided by each cash flow to the Fund's total by sub-periods.

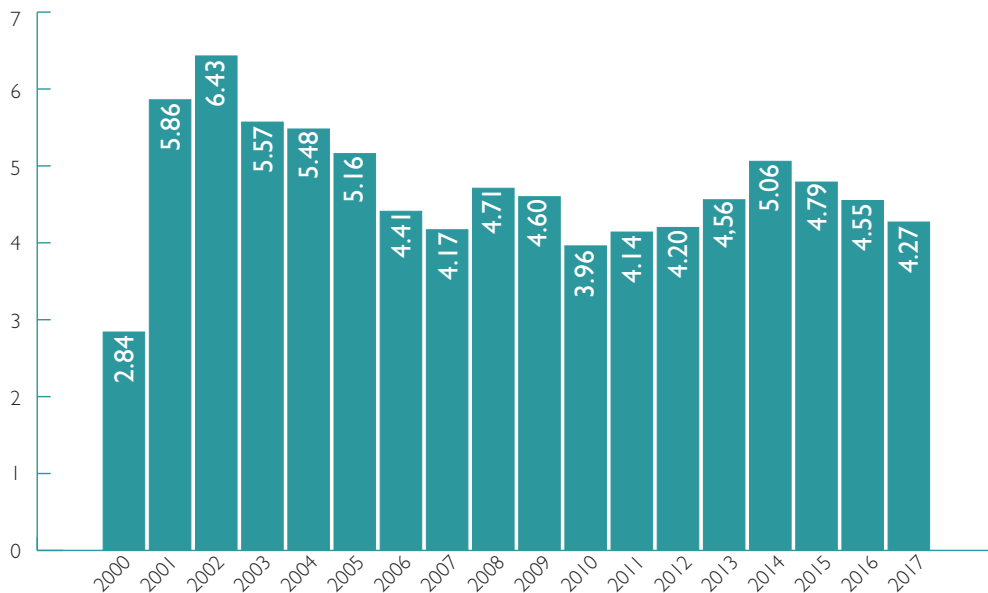


For calculation purposes, the portfolio's market value at 31 December 2017 has been taken into consideration based on the closing price of each security according to the Bloomberg source, with the net asset value of the Reserve Fund at 31 December 2017 amounting to 8,085.37 million euros (8,084.51 million euros of portfolio and 0.86 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 2017 stands at 105.44%, which in annualised terms represents 4.27%.

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

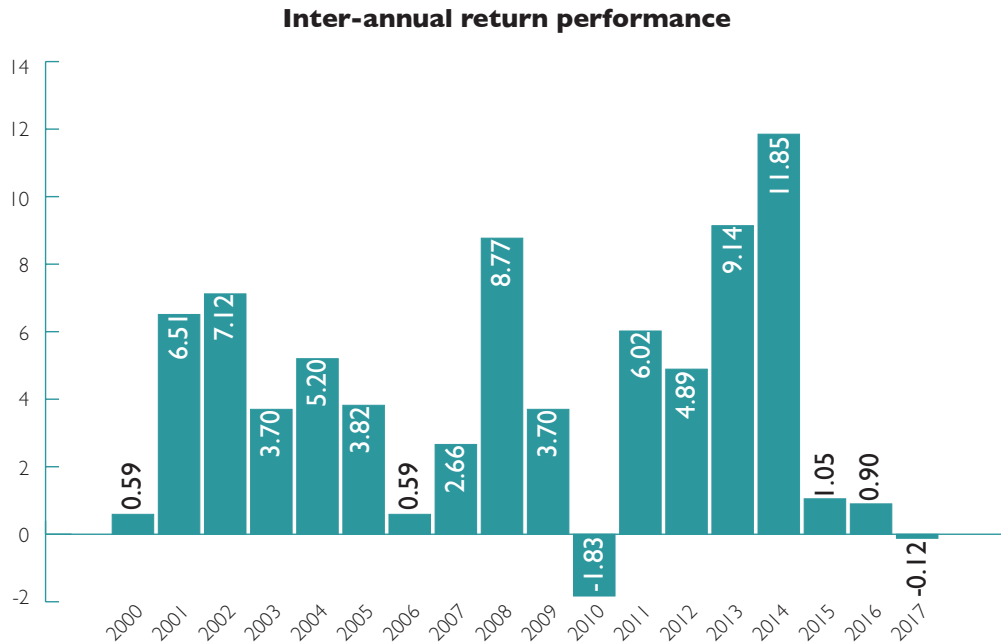


Data in percentage.

7. Analysis of Reserve Fund profitability as at 31 December 2017

The inter-annual return of the Reserve Fund in the year 2017 stands at -0.12%.

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



Data in percentage.

By way of a summary, the following table presents the average annualised returns of the Reserve Fund as at 31 December 2017:

Average annualised returns

15 years	10 years	5 years	3 years	1 year
4.27	4.35	4.45	0.61	-0.12

Data in percentage.

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

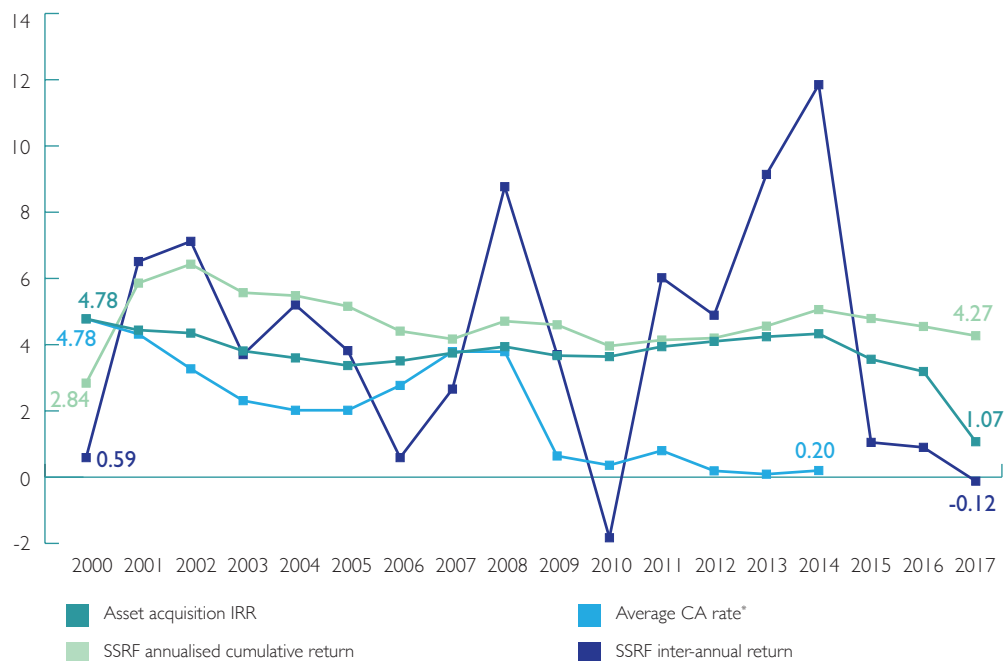
Year	Asset acquisition IRR	CA Average Rate	Annualised cumulative return	Inter-annual return
2000	4.78	4.78	2.84	0.59
2001	4.44	4.32	5.86	6.51
2002	4.35	3.27	6.43	7.12
2003	3.81	2.31	5.57	3.70
2004	3.60	2.02	5.48	5.20
2005	3.37	2.02	5.16	3.82
2006	3.51	2.77	4.41	0.59
2007	3.75	3.79	4.17	2.66
2008	3.94	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

Data in percentage.

* The datum for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). In the periods 2015, 2016 and 2017 the account has ceased to be remunerated at positive rates.

7. Analysis of Reserve Fund profitability as at 31 December 2017

Return performance



Data in percentage.

* The datum for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). In the periods 2015, 2016 and 2017 the account has ceased to be remunerated at positive rates.



8. Forecasts

8.1. Period 2018

In the year 2018, taking as reference the portfolio at 31 December 2017, coupons will reach maturity in the amount of 179,579,300 euros, with the following breakdown:

Coupon maturity in 2018

Maturity date	Amount
31/1/2018	18,000,000
30/4/2018	382,525
30/7/2018	119,645,320
31/10/2018	41,551,455
Total	179,579,300

Amounts in euros.

At the same time, in 2018 public financial assets will reach maturity in the amount of 6,773,209,000 euros, with the following breakdown:

Financial asset redemption in 2018

Redemption date	Asset description	Par value
31/1/2018	Government Bonds (4.50%) ES00000123Q7	400,000,000
6/4/2018	Treasury Bills ES0L01804068	350,000,000
30/4/2018	Government Bonds (0.25%) ES00000127D6	153,010,000
11/5/2018	Treasury Bills ES0L01805115	210,000,000
13/7/2018	Treasury Bills ES0L01807137	950,000,000
30/7/2018	Government Long-Term Bonds (4.10%) ES00000121A5	2,275,710,000
17/8/2018	Treasury Bills ES0L01808176	922,650,000
14/9/2018	Treasury Bills ES0L01809141	550,000,000
31/10/2018	Government Bonds (3.75%) ES00000124B7	549,400,000
16/11/2018	Treasury Bills ES0L01811162	412,439,000
Total		6,773,209,000

Amounts in euros.

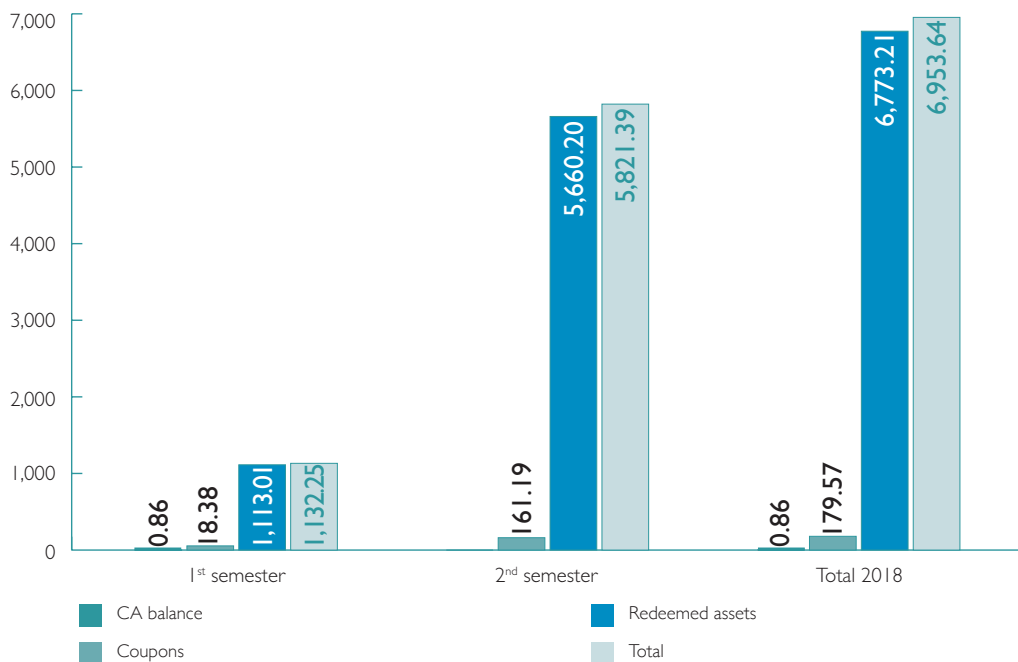
Cash flow forecasts throughout the period 2018 are as shown in the table below with its corresponding chart:

2018 cash flow forecast

Period	CA balance	Coupons	Redeemed assets	Total
First semester 2018	856,399.17	18,382,525.00	1,113,010,000.00	1,132,248,924.17
Second semester 2018		161,196,775.00	5,660,199,000.00	5,821,395,775.00
Total	856,399.17	179,579,300.00	6,773,209,000.00	6,953,644,699.17

Amounts in euros.

2018 cash flow forecast



Amounts in millions of euros.

8.2. Period 2019

Regarding the period 2019, and taking as reference the portfolio at 31 December 2017, bond coupons will reach maturity in the amount of 47,290,165 euros, as specified below:

Coupon maturity in 2019

Maturity date	Amount
30/07/2019	26,341,210
31/10/2019	20,948,955
Total	47,290,165

Amounts in euros.

Meanwhile, in the year 2019 Spanish public financial assets will reach maturity, in the amount of 1,059,820,000 euros, broken down as follows:

Financial asset redemption in 2019

Redemption date	Asset description	Par value
30/07/2019	Government Long-Term Bonds (4.60%) ES00000121L2	572,635,000
31/10/2019	Government Long-Term Bonds(4.30%) ES00000121O6	487,185,000
Total		1,059,820,000

Amounts in euros.



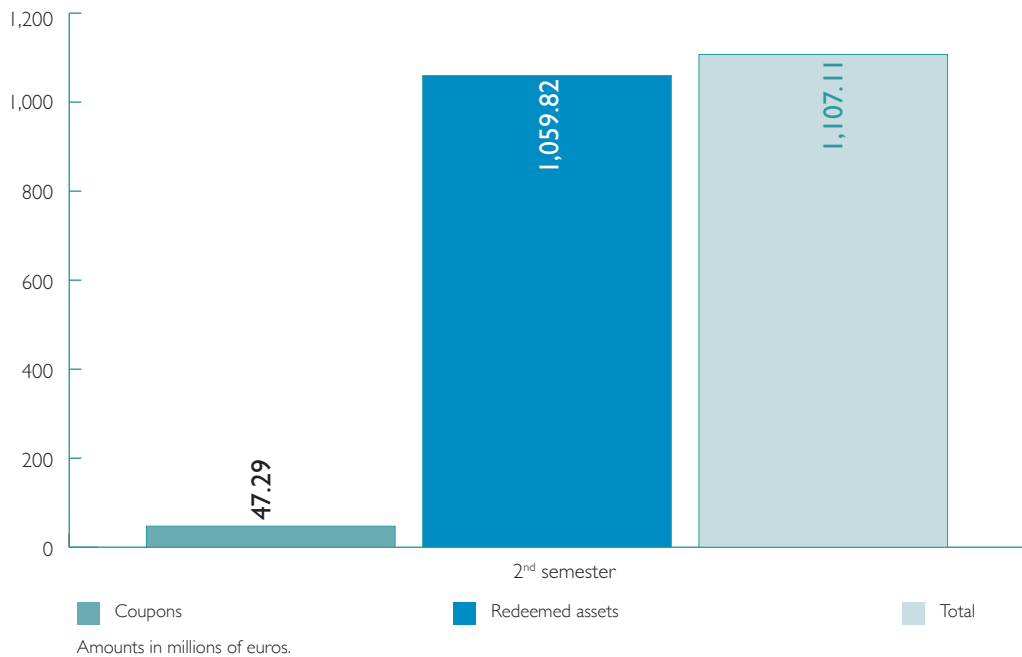
The cash flow forecast throughout the period 2019 is as shown in the following table with its corresponding chart, all of which correspond to the second half of the year:

2019 cash flow forecast

Period	Coupons	Redeemed assets	Total
Second semester 2019	47,290,165.00	1,059,820,000.00	1,107,110,165.00
Total	47,290,165.00	1,059,820,000.00	1,107,110,165.00

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 2017 compared to 2016, 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

Item	Year 2016	Year 2017
SSRF at total acquisition price	15,020.04	8,095.36
SSRF at market value	15,200.48	8,085.37

Amounts in millions of euros.

Data at 31 December of each period.

Comparison of the Reserve Fund's key figures

Item	Year 2016	Year 2017
Fixed income asset returns (IRR) acquisition	3.19%	1.07%
Fixed income asset returns (IRR) market	-0.28%	-0.49%
Current account average rate	-	-
SSRF annualised cumulative return	4.55%	4.27%
SSRF inter-annual return	0.90%	-0.12%
Level of concentration	1.66%	0.85%
Duration	0.87 years	0.72 years
Modified duration	0.87	0.72
% nominal value of foreign debt over portfolio total	0.00%	0.00%
% SSRF at total acquisition price over GDP*	1.34%	0.70%

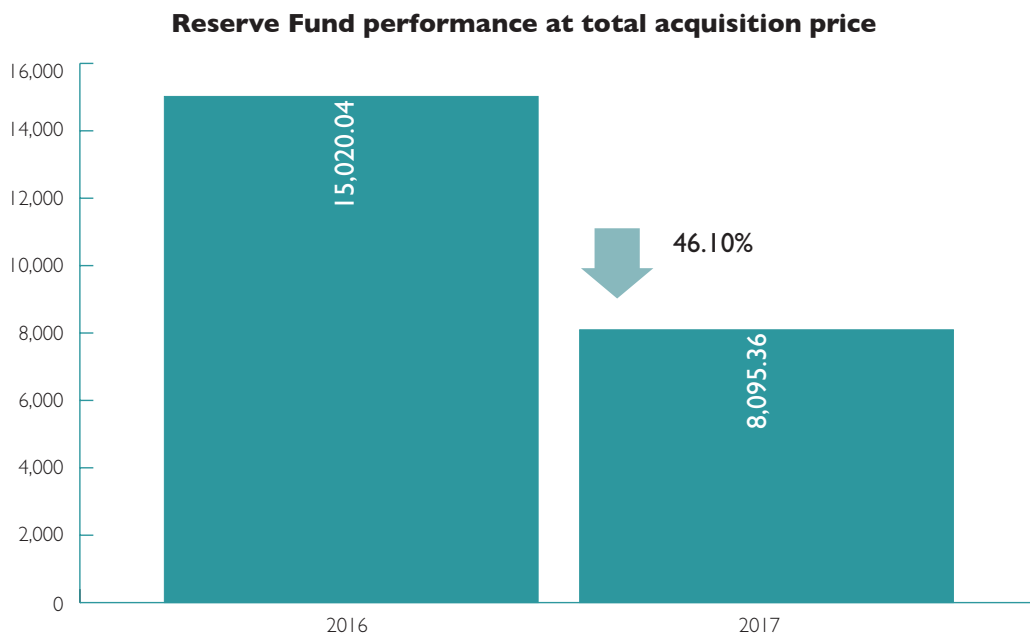
Data at 31 December of each period.

* The datum for the period 2016 is expressed in relation to 2016 GDP (1,118,522 million euros) and for the period 2017 in relation to 2017 GDP (1,163,662 million euros) according to data of the National Statistics Data based on Spanish National Accounts CNE-Base 2010 published on 1 March 2018.



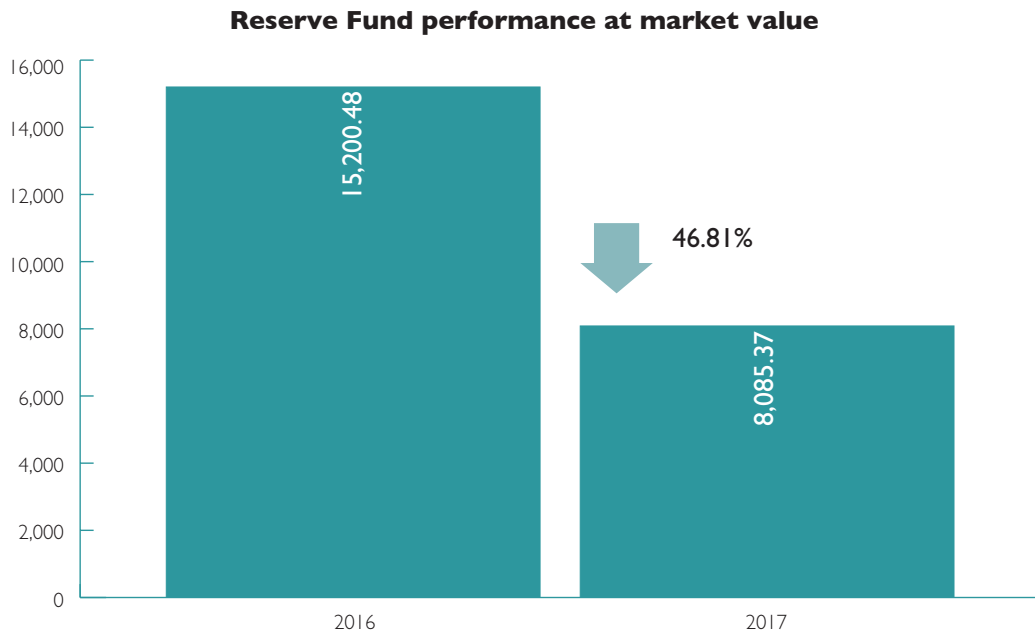
9. Comparison of the Reserve Fund's key figures

The total amount of the Social Security Reserve Fund, at the total acquisition price, presents at 31 December 2017 the following evolution with respect to the same date of the previous period:



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

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



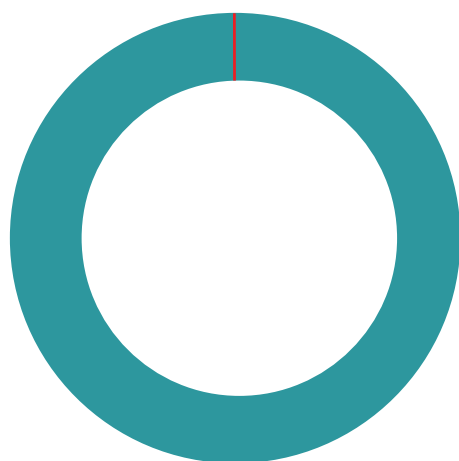
Amounts in millions of euros.
Data at 31 December of each period.



9. Comparison of the Reserve Fund's key figures

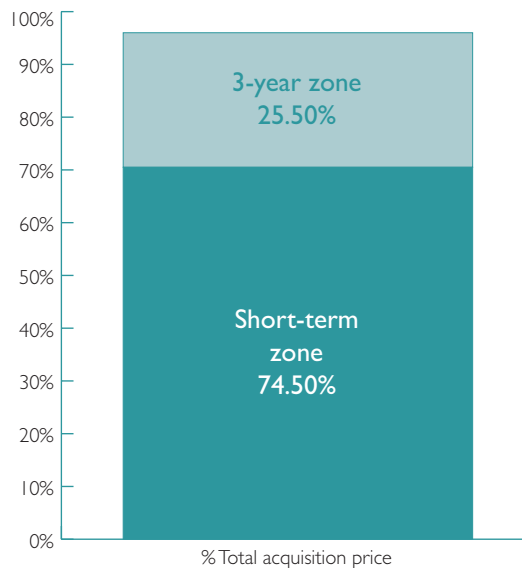
The Reserve Fund presents the following distribution at the total acquisition price:

2016

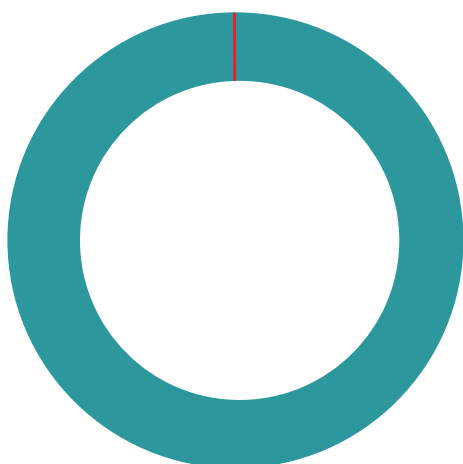


Financial assets CA balance

Data at 31 December.

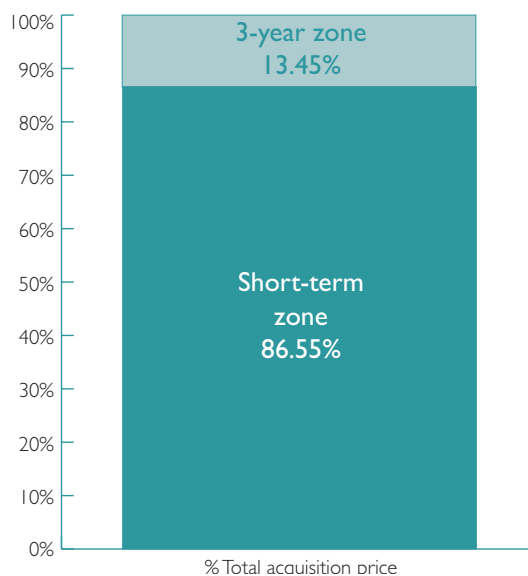


2017



Financial assets CA balance

Data at 31 December.



Annex I. Annual accounts economic and financial information

The present report on the actions taken in the year 2017 and situation of the Reserve Fund as at 31 December 2017, 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 2017, 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 two 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 2017, 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 2017.

Reserve Fund financial situation as at 31 December 2017

Item	Amount
Long-term debt securities available for sale	1,145,897,619.80
National portfolio	1,145,897,619.80
Eurozone portfolio	0.00
Short-term debt securities available for sale	6,864,460,918.63
National portfolio	6,864,460,918.63
Eurozone portfolio	0.00
Financial balance associated with the Social Security Reserve Fund	856,399.17
Short-term interest on debt securities	74,152,703.19
National portfolio	74,152,703.19
Eurozone portfolio	0.00
Other short-term payable interest	0.00
Total	8,085,367,640.79

Importes en euros.



Annex II. Information on withdrawals from the Reserve Fund in the year 2017

Withdrawals from the Reserve Fund in the period 2017 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, allowing for the withdrawal in said 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 amount of 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 6 November 2017, proceeded to determine the provisional deficit from non-financial transactions for the purposes of the Social Security Reserve Fund, presenting the following data:

2017 deficit for Reserve Fund purposes

Item	Amount
a) Total result of non-financial budgetary transactions in the year 2017	-18,651.51
b) Total adjustments made in 2017	-249.18
Provisional contributory budgetary result 2017 (a+b)	-18,900.69

Amounts in millions of euros.

As of July 2017 and during the period's third and fourth quarter, 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.

Annex II. Information on withdrawals from the Reserve Fund in the year 2017

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 out withdrawals from the Social Security Reserve Fund in the period 2017 for a global amount of 7,100 million euros.

Total withdrawals made up until 31 December 2017 are presented in the table below:

Regulations	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	01/12/2015	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	01/12/2017	3,586		
					7,100	74,437

Amounts in millions of euros.

In the year 2017, as of the second quarter and 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 a separate note, under additional provision nine of Law 3/2017, of 27 June, on Finance for 2017, the Government, after informing the General Secretary of the Treasury and Financial Policy, authorised a loan to the General Treasury of the Social Security in the amount of 10,192 million euros, for the purpose of providing adequate cover for Social Security obligations and to enable its budgetary balance. Said amount was released in two steps, the first on 3 July, for an amount of 5,986 million euros and the second, on 30 November, for an amount of 4,206 million euros.

Consequently, these quantities made it possible to cover the obligations related to contributory pensions, and all other expenses required for the management of the same.







GOBIERNO
DE ESPAÑA

MINISTERIO
DE EMPLEO
Y SEGURIDAD SOCIAL

SECRETARÍA DE ESTADO
DE LA SEGURIDAD SOCIAL

