







# Reserve Fund **SOCIAL SECURITY**

## **Report to Parliament**

Changes, actions in 2015  
and situation at 31  
December 2015



MINISTERIO  
DE EMPLEO  
Y SEGURIDAD SOCIAL

SECRETARÍA DE ESTADO  
DE LA SEGURIDAD SOCIAL

1. Introduction	6
2. Situation of the Reserve Fund as at 31/12/2015	7
3. Reserve Fund performance (Allocations, withdrawals and returns)	8
4. Actions in 2015	14
4.1. Investment and management criteria in 2015	14
4.2. Meetings of the Management Committee in 2015	15
4.2.1. First meeting of the Management Committee in 2015	16
4.2.2. Second meeting of the Management Committee in 2015	18
4.2.3. Third meeting of the Management Committee in 2015	21
4.2.4. Fourth meeting of the Management Committee in 2015	24
4.3. Summary of agreements in 2015	25
4.4. Repurchase transactions in 2015	27
5. Key figures for the Reserve Fund as at 31/12/2015	28
6. Analysis of the Reserve Fund as at 31/12/2015	30
6.1. Reserve Fund returns	30
6.2. Return on fixed-income assets: Public Debt	34
6.3. Return on the "General Treasury for Social Security Special Reserve Fund. Art. 91.1 T.R.L.G.S.S." account	35
6.4. Return on the Social Security Reserve Fund	36
6.5. Summary of returns	38
7. Forecasts	40
7.1. Year 2016	40
7.2. Years 2017 and 2018	42
8. Comparison of key Reserve Fund figures	45
<b>APPENDIX I.</b> Financial and management information regarding the annual accounts	48
<b>APPENDIX II.</b> Withdrawals from the Reserve Fund in 2015	50

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# 1 Introduction



In the 1990s it became clear that the Social Security system needed to establish stabilisation and reserve funds to meet future contributory benefits requirements whenever there is a mismatch between Social Security revenues and expenses.

Initial dialogue on this issue between the Government and various political and social bodies led to the so-called Toledo Agreement of April 1995, setting out a series of recommendations intended to ensure the sustainability of the system. The reforms and measures implemented as a result of these recommendations have guided the development of the Social Security system to this day. To protect the system in times of need, the Reserve Fund was formally constituted on the approval of Law 24/1997, of 15 July, on the consolidation and rationalisation of the Social Security system.

Some years later, Law 18/2001, of 12 December, General Budgetary Stability established that Social Security system surpluses are to be allocated to the Reserve Fund. Successive budgetary stability laws since that date have required that the surplus is allocated first to the Reserve Fund. This precept is currently defined in article 32 of Organic Law 2/2012 of 27 April, on Budgetary Stability and Financial Sustainability.

The Reserve Fund was constituted by the General Treasury for Social Security Law 24/2001, of 27 December, on Tax, Administrative and Social Order Measures, which empowered the Government to set the amount to be allocated to the Fund each financial year.

The legal rules governing the Reserve Fund were first established in a specific law when Law 28/2003, of 29 September, was approved. These rules are currently set out in Royal Legislative Decree 8/2015, of 30 October, approving the revised text of the General Social Security Law. This report on the performance and composition of the Reserve Fund in 2015 is presented in compliance with article 127 of said revised text.

The Social Security system has reported budgetary deficits in recent years, making the Reserve Fund a vital instrument for ensuring the financial viability of the pensions system.

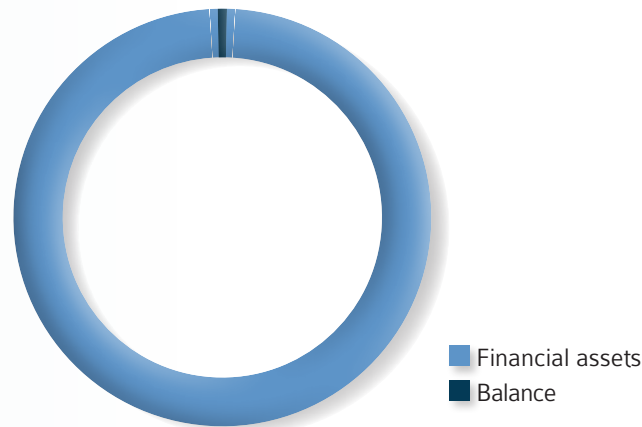


## 2 Situation of the Reserve Fund as at 31 December 2015

The situation and distribution of the Reserve Fund at 31 December 2015 is as follows:

<b>1. Financial assets</b>	<u>€ 32,481,023,271.26</u>
(At total acquisition price) <sup>1</sup>	
<b>2. Current account balance</b>	<u>€ 293,754.63</u>
(Deposited in the account held with the Bank of Spain)	
<b>RESERVE FUND TOTAL</b>	<u>€ 32,481,317,025.89</u>

These figures are shown in the following chart:



This Reserve Fund balance represents **3.00% of Gross Domestic Product (GDP)** (GDP for 2015 was € 1,081,190 million according to National Statistics Institute figures published on 25 February 2016, with CNE base year 2010).

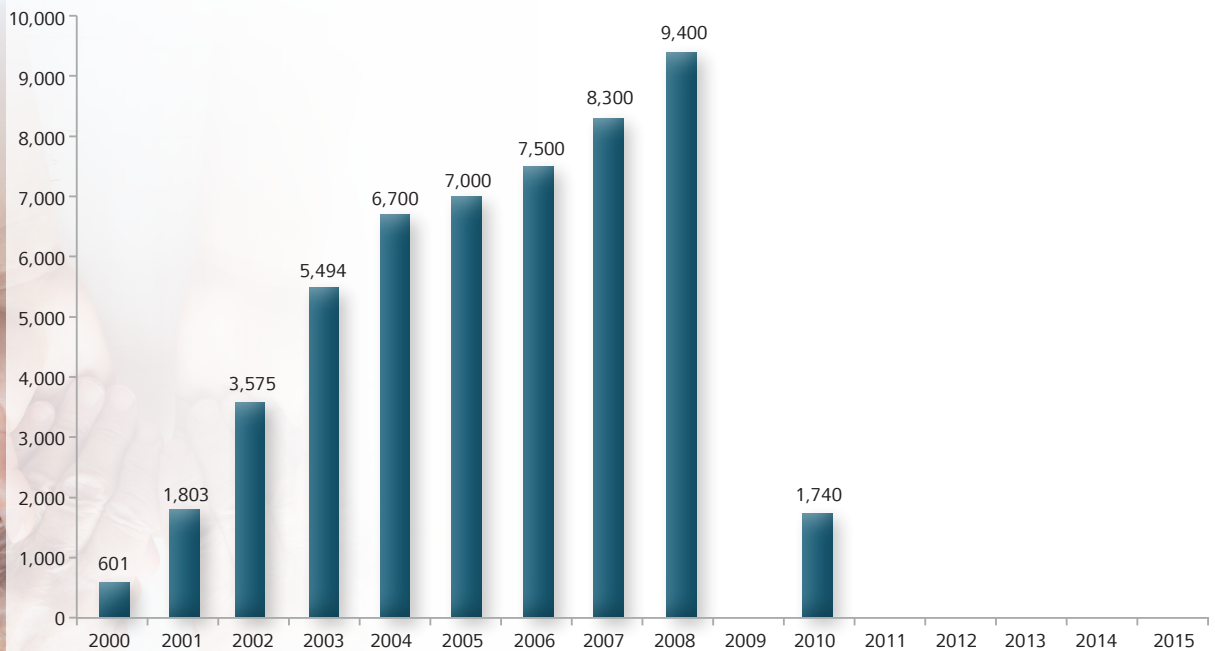
The **market value** of the Reserve Fund at 31 December 2015 was **€ 35,035.02 million**, representing **3.24% of GDP**.

1. Acquisition price is the so-called "dirty" price including any interest accrued but not paid included in the asset value. This means amounts received on the maturity or sale of the asset must be adjusted out to avoid double accounting. Nevertheless, in accounting terms, as the public debt assets of the Social Security Reserve Fund were classified as available for sale investments at 31 December 2015, at the reporting date the assets are carried at their subsequent value (€ 34,444,138,347.50).

## 3 Reserve Fund performance (Allocations, withdrawals and returns)

From the first **allocation** in 2000 to 31 December 2015, the amount allocated by the **Council of Ministers** to the Reserve Fund from the budget surpluses of the Social Security Management Agencies and Common Services totalled **€ 52,113 million**, as shown in the following chart:

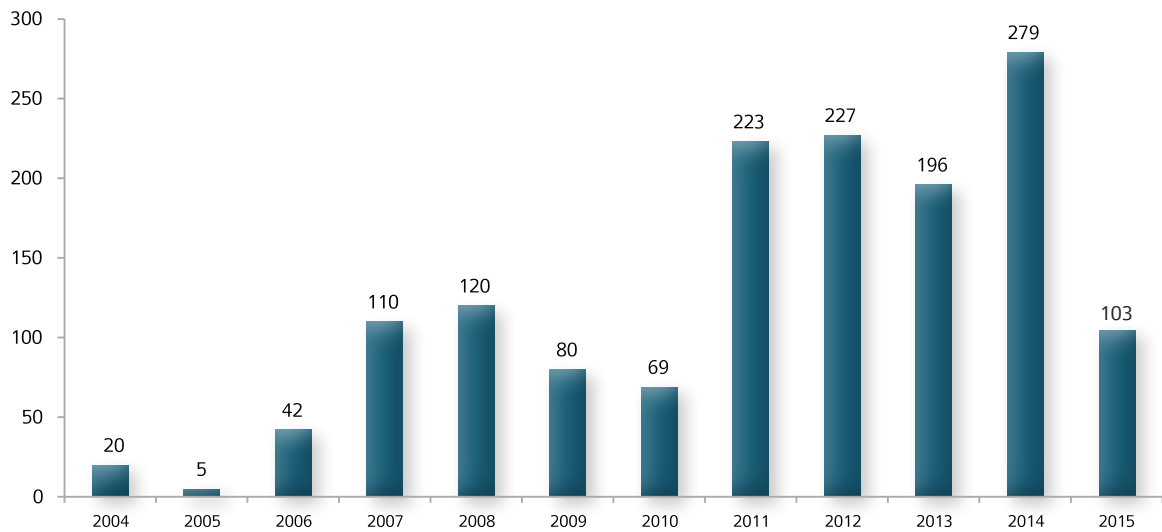
### ALLOCATIONS APPROVED BY THE COUNCIL OF MINISTERS AT 31 DECEMBER 2015 (from the budget surpluses of the Social Security Management Agencies and Common Services)



In millions of euros

The amount allocated from the surpluses generated by the **Mutual Insurance Companies that act as partner agents of the Social Security** system for the management of temporary incapacity benefits for non-work-related injury or illness totalled **€ 1,474 million** and was paid into the Reserve Fund's dedicated account. The following chart shows the amounts allocated in each year:

**ALLOCATED FROM SURPLUS OF SOCIAL SECURITY SYSTEM PARTNER MUTUAL INSURANCE COMPANIES AT 31 DECEMBER 2015** (from the surpluses generated by the Mutual Insurance Companies that manage temporary incapacity benefits for non-work-related injury or illness)



In millions of euros

**ALLOCATIONS TO THE SOCIAL SECURITY RESERVE FUND AT 31 DECEMBER 2015**

**APPROVED BY THE COUNCIL OF MINISTERS**

**FROM MUTUAL INSURANCE COMPANY SURPLUSES**

€ 52,113 million

€ 1,474 million

€ 53,587 million

**WITHDRAWALS FROM THE SOCIAL SECURITY RESERVE FUND AT 31 DECEMBER 2015**

**Withdrawals** from the Reserve Fund in 2012, 2013, 2014 and 2015 totalled **€ 47,201 million** and are shown in the following chart:



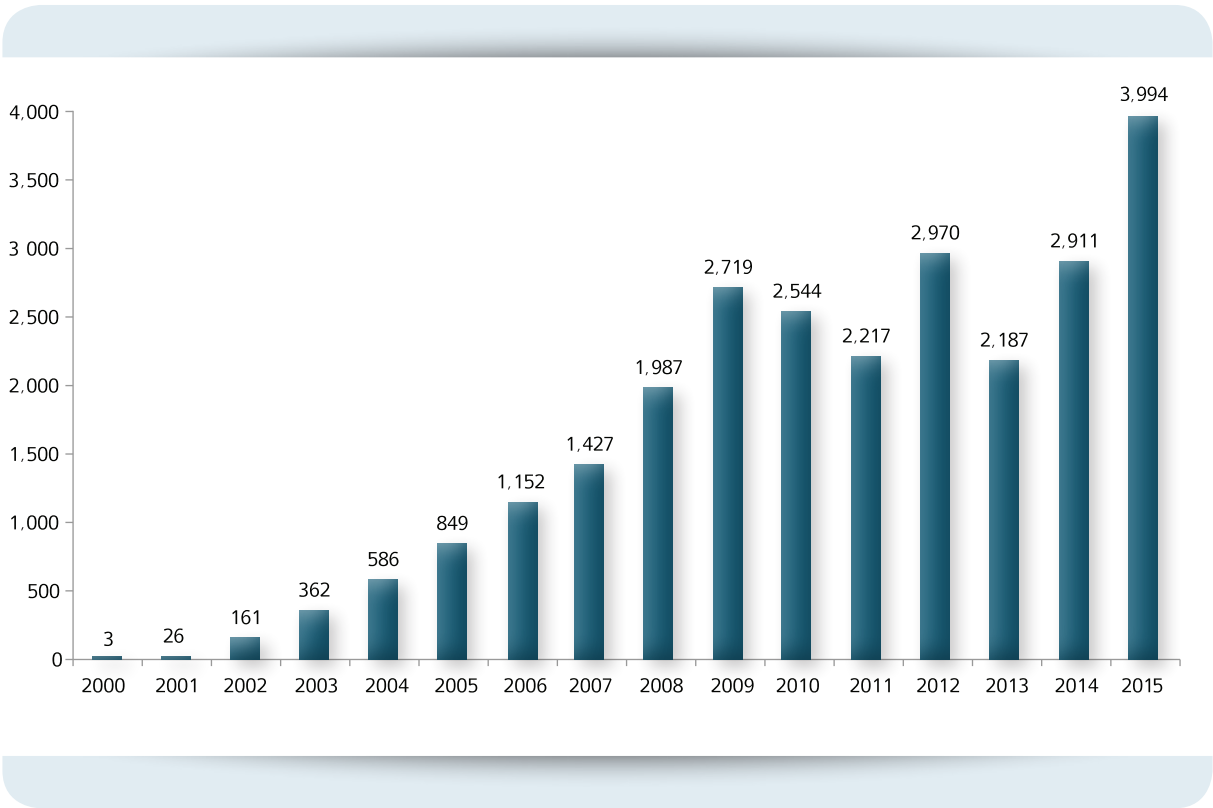
In millions of euros

**WITHDRAWALS FROM THE SOCIAL SECURITY RESERVE FUND AT 31 DECEMBER 2015**



**Net returns** since the first allocation to the Reserve Fund was approved in 2000 until 31 December 2015 totalled **€ 26,095 million, broken down by year** in the following chart:

**TOTAL NET RETURNS AT 31 DECEMBER 2015: € 26,095 million**



In millions of euros

Net returns include gains on disposals of € 4,578 million, of which € 2,374 million correspond to 2015.



**RESERVE FUND PERFORMANCE (ALLOCATIONS, WITHDRAWALS AND RETURNS)**

Situation at the end of the financial year

Cumulative figures	Years 2000 to 2007	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015
<b>1. ALLOCATIONS</b>	<b>41,150</b>	<b>50,670</b>	<b>50,750</b>	<b>52,559</b>	<b>52,782</b>	<b>53,008</b>	<b>53,205</b>	<b>53,484</b>	<b>53,587</b>
1.a Council of Ministers Agreement (*)	40,973	50,373	50,373	52,113	52,113	52,113	52,113	52,113	52,113
1.b Mutual Insurance Companies' surplus (**)	177	297	377	446	669	895	1,092	1,371	1,474
<b>2. WITHDRAWALS (***)</b>						<b>-7,003</b>	<b>-18,651</b>	<b>-33,951</b>	<b>-47,201</b>
<b>3. NET RETURNS GENERATED</b>	<b>4,566</b>	<b>6,553</b>	<b>9,272</b>	<b>11,816</b>	<b>14,033</b>	<b>17,003</b>	<b>19,190</b>	<b>22,101</b>	<b>26,095</b>
3.a. Returns generated (****)	4,729	6,787	9,690	12,352	14,718	17,922	20,233	23,377	27,584
3.b. Adjustments for redemption/ disposal of investments	-163	-234	-418	-536	-685	-919	-1,043	-1,276	-1,489
<b>TOTAL</b>	<b>45,716</b>	<b>57,223</b>	<b>60,022</b>	<b>64,375</b>	<b>66,815</b>	<b>63,008</b>	<b>53,744</b>	<b>41,634</b>	<b>32,481</b>

In millions of euros

(\*) From the budget surpluses of the Social Security Management Agencies and Common Services.

(\*\*) From the surpluses generated by the Mutual Insurance Companies that act as partner agents of the Social Security system for the management of temporary incapacity benefits for non-work-related injury or illness.

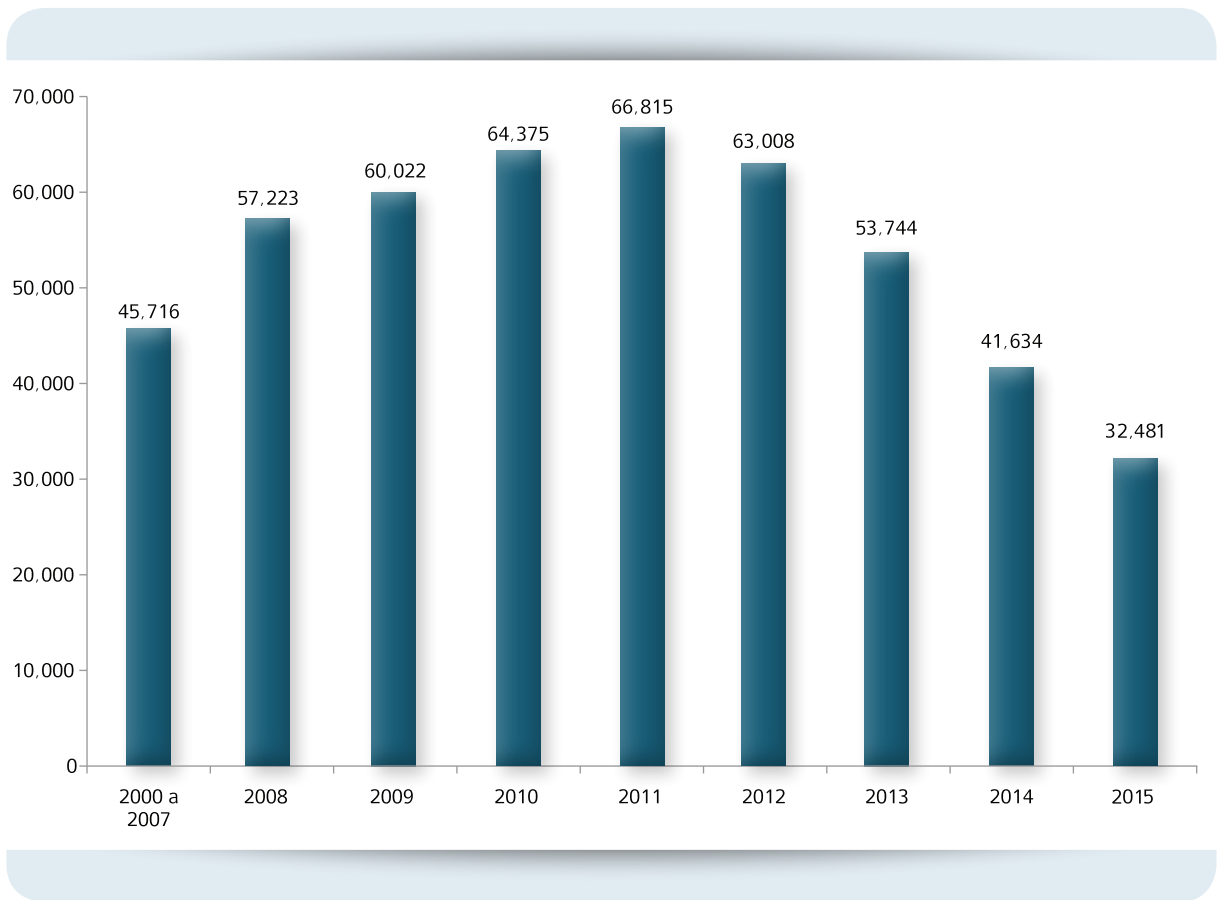
(\*\*\*) In accordance with Council of Ministers Agreement of 27 September 2012, the first additional provision of Royal Decree Law 28/2012, of 30 November, and the tenth additions provision of Law 36/2014, of 26 December.

(\*\*\*\*) Interest on the current account, returns on assets, gains on disposals and other income.

The Fund's performance by year is shown in the following chart:

**GENERAL PERFORMANCE OF THE RESERVE FUND (AT TOTAL ACQUISITION PRICE)**

At 31 December



In millions of euros

## 4 Actions in 2015

### 4.1. Investment and management criteria in 2015

- The Social Security Reserve Fund invests in Spanish Public Debt and may invest in the Public Debt of Germany, France and the Netherlands and in financial assets issued by the Official Credit Institute (ICO). The assets must be issued in euros, be of high credit quality and traded on regulated markets or organised trading systems.
- Investments in the Public Debt of non-Spanish issuers approved by the Social Security Reserve Fund Management Committee are restricted so that the total value of foreign debt in the portfolio may not exceed 55% of its total nominal value.
- If market conditions are favourable, assets may be disposed of subject to security, return and diversification criteria.
- The Social Security Reserve Fund must be managed taking into account the time frames established by the Secretariat of State for Social Security's schedule for future inflows and the availability of funds to cover contributory pensions.
- The required modified duration of the Social Security Reserve Fund will be between 3.5 and 5 years, although this will be achieved gradually and may vary depending on the economic and financial climate and the situation of the Social Security Reserve Fund. This criterion was in force in the first half of 2015 and was modified by the Management Committee at its July 24 meeting and set at 2.24 to 5 years for the second half of the year.
- The maturity structure for portfolio assets must be well-balanced and avoid any excessive concentration of maturity periods.
- The Social Security Reserve Fund's Spanish securities must be diversified, such that no single product in the portfolio accounts for more than 16%, in general terms, of the nominal outstanding balance. However, this maximum percentage of each issue will be increased from 16% to 35% for those issues where this is strictly necessary to comply with investment conditions. This is in addition to the issuer policies, which will not automatically shape the Fund's investment decisions. On an exceptional basis, exceeding this limit of 35% may be accepted in certain short-term products when investment is deemed appropriate.

- The nominal volume of all Spanish Treasury products in the Social Security Reserve Fund's portfolio shall not exceed 12% of the total Treasury debt in circulation (bills, bonds and debentures), excluding foreign currency issuances.
- At the time of investment, priority shall be given to purchases of Benchmark products in the portfolio.
- For the purpose of the assessment established in the General Public Accounting Plan, Public Debt assets comprising the Social Security Reserve Fund will be reclassified at the end of the year as "Available-for-sale financial assets".

## 4.2. Meetings of the Management Committee in 2015

The Social Security Reserve Fund's investment strategy in 2015, based on the agreements adopted at the meetings of the Management Committee, was affected by the following factors:

- The need to make withdrawals from the Reserve Fund.
- Historically low interest rates, including negative rates.
- Low returns on Spanish public debt, including negative returns in the very short-term.
- European Central Bank decisions concerning the yields on the accounts held by each country's central banks in the Deposit Facility (-0.2% in 2015 and -0.3% from 9 December).

Given these circumstances, in 2015 the Social Security Reserve Fund extended the scope of its investment policy to include financial assets issued by the Official Credit Institute and to prioritise the reinvestment of cash flows in the financial year in medium-term assets.

Meanwhile, in order to take advantage of the higher gains available on the disposal of assets with longer maturity schedules, certain high-value assets were disposed of in order to generate the liquidity needed to withdrawals from the Reserve Fund and to shorten the maturity profile of the portfolio through reinvesting in medium-term assets.

## 4.2.1. First meeting of the Management Committee in 2015

### 4.2.1.1. Agreements adopted

The forty-fifth meeting of the Reserve Fund Management Committee, the Fund's highest-level governing body, was held on 23 January 2015. Having reviewed the recommendations of the Investment Advisory Commission, the Committee adopted the following agreements:

- To approve for 2015 changes to the investment criteria in force in 2014 to extend the scope of Reserve Fund's investment policy to include financial assets issued by the Official Credit Institute.
- With regard to the expected account balance on 2 February 2015 of € 2,970,437,839.57:
  - To acquire Treasury Bills maturing on 20 November 2015 and 11 December 2015 on the primary or secondary market.
  - To acquire Government Bonds maturing on 30 April 2016, 31 October 2016, 30 April 2017 and 31 October 2017.
  - To authorise the General Treasury for Social Security to allow it, in coordination with the State Treasury, to amend the mandate issued to the Bank of Spain when changing market conditions make it advisable to do so.
- To perform repurchase transactions (the acquisition of assets with a resale agreement) using uninvested balances at any given time, provided the interest rate is higher than that of the Deposit Facility.
- The Bank of Spain will act as agent, effecting the transactions on the most suitable date.

#### 4.2.1.2. Execution of agreements

The agreements adopted at this meeting were executed via the acquisition of the following Spanish financial assets on the secondary market:

#### ACQUISITION FINANCIAL ASSETS FEBRUARY 2015

DESCRIPTION OF FINANCIAL ASSET AND ISSUE NUMBER	REDEMPTION DATE	TOTAL ACQUISITION PRICE (including any interest accrued but not paid)	NOMINAL VALUE	AVERAGE IRR ON ACQUISITION %
Treasury Bills Issue number ES0L01511200	20/11/2015	249,999,500.49	250,242,000.00	0.120
Treasury Bills Issue number ES0L01512117	11/12/2015	249,999,334.09	250,281,000.00	0.130
Government Bonds (3.25%) Issue number ES00000122X5	30/04/2016	352,891,321.33	332,060,000.00	0.178
Government Bonds (4.25%) Issue number ES00000123J2	31/10/2016	647,961,643.85	600,000,000.00	0.276
Government Bonds (2.10%) Issue number ES00000124I2	30/04/2017	737,972,534.25	700,000,000.00	0.383
Government Bonds (0.50%) Issue number ES00000126V0	31/10/2017	731,594,168.34	729,930,000.00	0.466
<b>TOTAL PUBLIC FINANCIAL ASSETS ACQUIRED</b>		<b>2,970,418,502.35</b>	<b>2,862,513,000.00</b>	<b>0.313 (*)</b>

In euros

(\*) The weighted average IRR is calculated on the acquired nominal value

NOTE: Value dates of transactions 2 and 9 February 2015

## 4.2.2. Second meeting of the Management Committee in 2015

### 4.2.2.1. Agreements adopted

The forty-sixth meeting of the Reserve Fund Management Committee, the Fund's highest-level governing body, was held on 24 February 2015, at which the Committee adopted the following agreements:

- To use the expected account balance on 30 April 2015 of € 2,206.50 million<sup>2</sup> to acquire financial assets issued by the State Treasury maturing in 2016, 2017 and 2018, provided the yields on them are positive and preferably maturing close to the months of July and December.
- To authorise the disposal of assets on the grounds of improved gains, liquidity, demand and duration. The General Treasury for Social Security and the General Secretariat of the Treasury and Financial Policy, in cooperation with the agent (Bank of Spain), will determine the specific assets and the amounts to be disposed of and the most suitable dates to effect the transactions on the basis of the real withdrawal requirements of the Reserve Fund in July 2015. The cash amount to be obtained is to be in the region of:
  - € 4,000 million to obtain the liquidity needed to meet July 2015 withdrawal requirements.
  - Between € 3,000 million and € 3,500 million to reduce the duration of the portfolio and take advantage of significant gains. The cash thus obtained will be reinvested in assets maturing in 2016 and 2017, preferably in the months of July and December, through purchased on the secondary market or through "switch" operations, on the basis of which is most favourable for the Reserve Fund.
- To perform repurchase transactions using uninvested balances at any given time, provided the interest rate is higher than that of the Deposit Facility.
- The Bank of Spain will act as agent, effecting the transactions on the most suitable date in accordance with the prevailing market conditions.

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2. Expected value based on portfolio at 24 February 2015.



#### 4.2.2.2. Execution of agreements

The agreements adopted at this meeting were executed via the following operations:

- The acquisition of the following Spanish financial assets on the secondary market:

#### ACQUISITION FINANCIAL ASSETS APRIL 2015

DESCRIPTION OF FINANCIAL ASSET AND ISSUE NUMBER	REDEMPTION DATE	TOTAL ACQUISITION PRICE (including any interest accrued but not paid)	NOMINAL VALUE	AVERAGE IRR ON ACQUISITION %
Government Bonds (2.10%) Issue number ES00000124I2	30/04/2017	312,183,500.00	300,000,000.00	0.067
Government Debentures (5.50%) Issue number ES0000012783	30/07/2017	348,846,301.36	300,000,000.00	0.089
Government Bonds (0.50%) Issue number ES00000126V0	31/10/2017	347,977,131.51	344,000,000.00	0.137
Government Bonds (4.50%) Issue number ES00000123Q7	31/01/2018	452,176,041.11	400,000,000.00	0.153
Government Debentures (4.10%) Issue number ES00000121A5	30/07/2018	346,588,424.66	300,000,000.00	0.248
Government Bonds (3.75%) Issue number ES00000124B7	31/10/2018	398,705,061.64	350,000,000.00	0.287
<b>TOTAL PUBLIC FINANCIAL ASSETS ACQUIRED</b>		<b>2,206,476,460.28</b>	<b>1,994,000,000.00</b>	<b>0.165 (*)</b>

In euros

(\*) The weighted average IRR is calculated on the acquired nominal value

NOTE: Value date of transactions 30 April 2015

- The following operations to dispose of Spanish public financial assets to obtain liquidity in the month of July were carried out on the secondary market:

### DISPOSAL FINANCIAL ASSETS APRIL-JUNE 2015

DESCRIPTION OF FINANCIAL ASSET AND ISSUE NUMBER	REDEMPTION DATE	TOTAL DISPOSAL PRICE (including any interest accrued but not paid)	NOMINAL VALUE	GAINS ON DISPOSALS (*)	AVERAGE IRR ON DISPOSAL %
Government Debentures (4.65%) Issue number ES00000122E5	30/07/2025	70,428,780.37	52,364,000.00	19,937,587.29	1.382
Government Debentures (5.90%) Issue number ES00000123C7	30/07/2026	1,089,994,156.30	760,000,000.00	289,167,425.03	2.019
Government Debentures (5.75%) Issue number ES0000012411	30/07/2032	843,812,241.21	560,000,000.00	187,994,802.30	2.452
Government Debentures (4.20%) Issue number ES0000012932	31/01/2037	680,125,712.30	540,000,000.00	141,414,332.11	2.700
Government Debentures (4.90%) Issue number ES00000120N0	30/07/2040	980,535,914.13	692,000,000.00	279,226,195.79	2.810
<b>TOTAL DISPOSALS PUBLIC FINANCIAL ASSETS</b>		<b>3,664,896,804.31</b>	<b>2,604,364,000.00</b>	<b>917,740,342.52</b>	<b>2.451 (**)</b>

In euros

(\*) The difference between the ex coupon disposal price (€ 3,565,467,642.88) and the ex coupon acquisition price (€ 2,663,557,559.38) adjusted for accrued unearned interest (-€ 15,830,259.02), with total gains on the disposal of 33.86%.

(\*\*) The weighted average IRR is calculated on the nominal value on disposal

NOTE: Value dates of transactions 21 April and 23 June 2015

- Operations to acquire and dispose of financial assets for amounts between € 3,000 million and € 3,500 million to reduce the duration of the portfolio.
  - These operations are detailed in the following table:

### DISPOSAL FINANCIAL ASSETS JULY 2015

DESCRIPTION OF FINANCIAL ASSET AND ISSUE NUMBER	REDEMPTION DATE	TOTAL DISPOSAL PRICE (including any interest accrued but not paid)	NOMINAL VALUE	GAINS ON DISPOSALS (*)	AVERAGE IRR ON DISPOSAL %
Government Debentures (5.90%) Issue number ES00000123C7	30/07/2026	120,274,998.63	85,000,000.00	29,883,908.36	2.212
Government Debentures (5.75%) Issue number ES0000012411	30/07/2032	198,411,613.01	135,000,000.00	39,116,211.60	2.691
Government Debentures (4.20%) Issue number ES0000012932	31/01/2037	170,054,545.89	140,000,000.00	29,421,432.53	2.962
Government Debentures (4.90%) Issue number ES00000120N0	30/07/2040	101,593,438.36	75,000,000.00	24,997,510.29	3.118
<b>TOTAL DISPOSALS PUBLIC FINANCIAL ASSETS</b>		<b>590,334,595.89</b>	<b>435,000,000.00</b>	<b>123,419,062.78</b>	<b>2.758 (**)</b>

In euros

(\*) The difference between the ex coupon disposal price (€ 571,478,000.00) and the ex coupon acquisition price (€ 452,030,537.40) adjusted for accrued unearned interest (-€ 3,971,600.18), with total gains on the disposal of 26.42%.

(\*\*) The weighted average IRR is calculated on the nominal value on disposal.

NOTE: Value dates of transactions from 15 to 29 July 2015.

- These operations are detailed in the following table:

### ACQUISITION FINANCIAL ASSETS JULY 2015

DESCRIPTION OF FINANCIAL ASSET AND ISSUE NUMBER	REDEMPTION DATE	TOTAL ACQUISITION PRICE (including any interest accrued but not paid)	NOMINAL VALUE	AVERAGE IRR ON ACQUISITION %
Government Bonds (4.25%) Issue number ES00000123J2	31/10/2016	124,729,347.94	115,000,000.00	0.029
Government Bonds (2.10%) Issue number ES00000124I2	30/04/2017	142,907,364.79	137,363,000.00	0.090
Government Bonds (0.50%) Issue number ES00000126V0	31/10/2017	322,654,895.72	319,699,000.00	0.252
<b>TOTAL PUBLIC FINANCIAL ASSETS ASSETS ACQUIRED</b>		<b>590,291,608.45</b>	<b>572,062,000.00</b>	<b>0.168 (*)</b>

In euros

(\*) The weighted average IRR is calculated on the acquired nominal value

NOTE: Value dates of transactions from 15 to 29 July 2015

## 4.2.3. Third meeting of the Management Committee in 2015

### 4.2.3.1. Agreements adopted

The forty-seventh meeting of the Reserve Fund Management Committee, the Fund's highest-level governing body, was held on 24 July 2015. Having reviewed the recommendations of the Investment Advisory Commission, the Committee adopted the following agreements:

- To approve, for the second half of 2015, a change to the investment criteria concerning the modified duration of the Social Security Reserve Fund to establish it at between 2.24 and 5 years.
- To use the **account balance on 31 July** generated from the coupons and financial assets redeemed on 30 July, and the income obtained from the surpluses generated by the Mutual Insurance Companies that act as partner agents of the Social Security system for the management of temporary incapacity benefits for non-work-related injury or illness, to acquire Spanish Public Debt maturing in 2016 and 2018, provided the yields on them are positive and preferably maturing in 2016 and on dates close to those of expected withdrawals.
- To reinvest the **cash flows generated at 30 September 2015** in financial assets maturing before 21 December 2015 or to perform repurchase transactions until the December 2015 withdrawal from the Reserve Fund, in accordance with the yields thereon.
- To use **cash flows generated in November and December 2015** to perform repurchase transactions until the withdrawals from the Reserve Fund planned for the 1 and 21 December are effected, provided the yield is better than that of the Deposit Facility.
- To dispose of Spanish Public Debt with a nominal value sufficient to generate cash income of around **€ 6,500 million or € 7,000 million to meet withdrawal requirements in December 2015**, in accordance with the agreed strategy of obtaining greater gains, liquidity, demand and duration. This amount will be adjusted in accordance with real cash flow needs.

- With regard to the transactions pending execution to **reduce the duration of the Reserve Fund portfolio** approved at the 24 February 2015 meeting of the Management Committee, to amend the scope of its investment policy to include financial assets issued by the State Treasury maturing in 2016 and 2018, provided the yields on them are positive and preferably maturing close to the Fund's withdrawal dates.
- Disposal operations to reduce the duration of the portfolio were carried out in coordination with the disposals needed to meet withdrawal requirements in December, prioritising the latter. The basket of assets to be disposed of would comprise assets maturing between October 2020 and 2040.
- To authorise the General Treasury for Social Security to allow it, in coordination with the General Secretariat of the Treasury and Financial Policy, to amend the mandate issued to the Bank of Spain when changing market conditions make it advisable to do so, while respecting the general terms of the investment strategy.
- To perform repurchase transactions as part of the operations, provided the interest rate is higher than that of the Deposit Facility.
- The Bank of Spain will act as agent, effecting the transactions on the most suitable date in accordance with the prevailing market conditions. The disposals will be carried out gradually, avoiding periods of excess supply in the Public Debt market which would adversely affect the sale price received by the Reserve Fund.

#### 4.2.3.2. Execution of agreements

The agreements adopted at this meeting were executed via the following operations:

- The acquisition of the following Spanish financial assets on the secondary market, using cash flows generated in July:

#### ACQUISITION FINANCIAL ASSETS JULY-AUGUST 2015

DESCRIPTION OF FINANCIAL ASSET AND ISSUE NUMBER	REDEMPTION DATE	TOTAL ACQUISITION PRICE (including interest accrued but not paid)	NOMINAL VALUE	AVERAGE IRR ON ACQUISITION %
Government Bonds (4.25%) Issue number ES00000123J2	31/10/2016	705,137,301.38	650,000,000.00	0.013
Government Bonds (0.25%) Issue number ES00000127D6	30/04/2018	3,005,398.65	3,010,000.00	0.323
Government Debentures (4.10%) Issue number ES00000121A5	30/07/2018	570,446,686.66	513,460,000.00	0.373
Government Bonds (3.75%) Issue number ES00000124B7	31/10/2018	226,368,013.98	199,400,000.00	0.423
<b>TOTAL PUBLIC FINANCIAL ASSETS ACQUIRED</b>		<b>1,504,957,400.67</b>	<b>1,365,870,000.00</b>	<b>0.209 (*)</b>

In euros

(\*) The weighted average IRR is calculated on the acquired nominal value

NOTE: Value dates of transactions 30 July and 3 August 2015.

- The following operations to dispose of Spanish public securities to obtain liquidity in the month of December were carried out on the secondary market:

### DISPOSAL FINANCIAL ASSETS AUGUST-DECEMBER 2015

DESCRIPTION AND ISSUE NUMBER OF FINANCIAL ASSET	REDEMPTION DATE	TOTAL DISPOSAL PRICE (including any interest accrued but not paid)	NOMINAL VALUE	GAINS ON DISPOSALS (*)	AVERAGE IRR ON DISPOSAL %
Government Debentures (4.85%) Issue number ES00000122T3	31/10/2020	262,362,425.80	215,000,000.00	45,434,779.78	0.681
Government Debentures (5.50%) Issue number ES00000123B9	30/04/2021	121,994,498.66	96,989,000.00	23,010,474.59	1.108
Government Debentures (5.85%) Issue number ES00000123K0	31/01/2022	77,344,602.41	58,980,000.00	17,732,142.59	1.305
Government Debentures (4.80%) Issue number ES00000121G2	31/01/2024	1,293,344,737.24	1,011,000,000.00	226,587,489.86	1.614
Government Debentures (5.90%) Issue number ES00000123C7	30/07/2026	204,105,046.69	148,353,000.00	54,567,718.55	2.059
Government Debentures (6.00%) Issue number ES0000011868	31/01/2029	1,583,240,100.66	1,085,000,000.00	330,552,376.94	2.314
Government Debentures (5.75%) Issue number ES0000012411	30/07/2032	1,184,724,377.41	819,350,000.00	256,838,616.32	2.535
Government Debentures (4.20%) Issue number ES0000012932	31/01/2037	1,065,001,515.18	849,027,000.00	205,368,846.46	2.779
Government Debentures (4.90%) Issue number ES00000120N0	30/07/2040	637,156,719.25	474,013,000.00	172,731,226.43	2.962
<b>TOTAL DISPOSALS PUBLIC FINANCIAL ASSETS</b>		<b>6,429,274,023.30</b>	<b>4,757,712,000.00</b>	<b>1,332,823,671.52</b>	<b>2.232 (**)</b>

In euros

(\*) The difference between the ex coupon disposal price (€ 6,308,511,346.48) and the ex coupon acquisition price (€ 5,052,490,424.36) adjusted for accrued unearned interest (-€ 76,802,749.40), with total gains on the disposal of 24.86%.

(\*\*) The weighted average IRR is calculated on the nominal value on disposal.

NOTE: Value dates of transactions 16 August and 17 December 2015

## 4.2.4. Fourth meeting of the Management Committee in 2015

### 4.2.4.1. Agreements adopted

The forty-eighth meeting of the Reserve Fund Management Committee, the Fund's highest-level governing body, was held on 2 December 2015, at which the Committee adopted the following agreements:

- Of the disposals approved at the 24 July 2015 meeting of the Management Committee, at the date of this meeting only those intended to ensure sufficient liquidity for the December withdrawals had been effected. As these disposals had resulted in a significant reduction in the duration of the Reserve Fund portfolio, the mandate issued to the Bank of Spain to reduce the duration portfolio was postponed for further review in 2016.
- To use the expected **account balance on 1 February 2016** of € 2,771.76 million<sup>3</sup> generated from the coupons and financial assets redeemed on 31 January to reinvest in Spanish Public Debt maturing in the very short term, to perform repurchase operations or to leave said amount in the current account, in accordance with the yields thereon, at least until the expected Reserve Fund withdrawal dates in 2016.
- The Bank of Spain will act as agent, effecting the transactions on the most suitable date. The transactions are distributed according to a general framework that allows the Bank of Spain the flexibility needed to react to market conditions at any time and select the option that returns the highest yields. The orders will indicate the specific financial assets that may be acquired.

The agreements adopted in this meeting will be executed in 2016 and the transactions effected will be reported on in the report for that year.

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3. Expected value based on portfolio at 30 November 2015

### 4.3. Summary of agreements in 2015

Financial assets with a total value of € 7,272,143,971.75 were acquired in 2015, all of them on the secondary market.

The acquisitions are detailed below:

#### TOTAL ACQUISITIONS OF FINANCIAL ASSETS

DESCRIPTION OF FINANCIAL ASSET AND ISSUE NUMBER	REDEMPTION DATE	TOTAL ACQUISITION PRICE (including any interest accrued but not paid)	NOMINAL VALUE	AVERAGE IRR ON ACQUISITION %
Treasury Bills Issue number ES0L01511200	20/11/2015	249,999,500.49	250,242,000.00	0.120
Treasury Bills Issue number ES0L01512117	11/12/2015	249,999,334.09	250,281,000.00	0.130
Government Bonds (3.25%) Issue number ES00000122X5	30/04/2016	352,891,321.33	332,060,000.00	0.178
Government Bonds (4.25%) Issue number ES00000123J2	31/10/2016	1,477,828,293.17	1,365,000,000.00	0.130
Government Bonds (2.10%) Issue number ES00000124I2	30/04/2017	1,193,063,399.04	1,137,363,000.00	0.264
Government Debentures (5.50%) Issue number ES0000012783	30/07/2017	348,846,301.36	300,000,000.00	0.089
Government Bonds (0.50%) Issue number ES00000126V0	31/10/2017	1,402,226,195.57	1,393,629,000.00	0.335
Government Bonds (4.50%) Issue number ES00000123Q7	31/01/2018	452,176,041.11	400,000,000.00	0.153
Government Bonds (0.25%) Issue number ES00000127D6	30/04/2018	3,005,398.65	3,010,000.00	0.323
Government Debentures (4.10%) Issue number ES00000121A5	30/07/2018	917,035,111.32	813,460,000.00	0.327
Government Bonds (3.75%) Issue number ES00000124B7	31/10/2018	625,073,075.62	549,400,000.00	0.336
<b>TOTAL PUBLIC FINANCIAL ASSETS ACQUIRED</b>		<b>7,272,143,971.75</b>	<b>6,794,445,000.00</b>	<b>0.236 (*)</b>

In euros

(\*) The weighted average IRR is calculated on the acquired nominal value.



Disposals of financial assets in the year amounted to € 10,684,505,423.50, all of them Spanish.

The disposals are detailed below:

### TOTAL DISPOSALS OF FINANCIAL ASSETS

DESCRIPTION OF FINANCIAL ASSET AND ISSUE NUMBER	REDEMPTION DATE	TOTAL DISPOSAL PRICE (including any interest accrued but not paid)	NOMINAL VALUE	GAINS ON DISPOSALS (*)	AVERAGE IRR ON DISPOSAL %
Government Debentures (4.85%) Issue number ES00000122T3	31/10/2020	262,362,425.80	215,000,000.00	45,434,779.78	0.681
Government Debentures (5.50%) Issue number ES00000123B9	30/04/2021	121,994,498.66	96,989,000.00	23,010,474.59	1.108
Government Debentures (5.85%) Issue number ES00000123K0	31/01/2022	77,344,602.41	58,980,000.00	17,732,142.59	1.305
Government Debentures (4.80%) Issue number ES00000121G2	31/01/2024	1,293,344,737.24	1,011,000,000.00	226,587,489.86	1.614
Government Debentures (4.65%) Issue number ES00000122E5	30/07/2025	70,428,780.37	52,364,000.00	19,937,587.29	1.382
Government Debentures (5.90%) Issue number ES00000123C7	30/07/2026	1,414,374,201.62	993,353,000.00	373,619,051.94	2.041
Government Debentures (6.00%) Issue number ES0000011868	31/01/2029	1,583,240,100.66	1,085,000,000.00	330,552,376.94	2.314
Government Debentures (5.75%) Issue number ES0000012411	30/07/2032	2,226,948,231.63	1,514,350,000.00	483,949,630.22	2.518
Government Debentures (4.20%) Issue number ES0000012932	31/01/2037	1,915,181,773.37	1,529,027,000.00	376,204,611.10	2.768
Government Debentures (4.90%) Issue number ES00000120N0	30/07/2040	1,719,286,071.74	1,241,013,000.00	476,954,932.51	2.887
<b>TOTAL DISPOSALS PUBLIC FINANCIAL ASSETS</b>		<b>10,684,505,423.50</b>	<b>7,797,076,000.00</b>	<b>2,373,983,076.82</b>	<b>2.334(**)</b>

In euros

(\*) The difference between the ex coupon disposal price (€ 10,455,456,989.36) and the ex coupon acquisition price (€ 8,168,078,521.14) adjusted for accrued unearned interest (-€ 96,604,608.60), with total gains on the disposal of 27.88%.

(\*\*) The weighted average IRR is calculated on the nominal value on disposal.

## 4.4. Repurchase transactions in 2015

On 18 July 2014 the Reserve Fund Management Committee authorised the establishment of a procedure for the performance of repurchase transactions. Only Spanish Public Debt assets issued by the State Treasury included in the scope of the Reserve Fund's investment policy may be used as collateral and only the Bank of Spain may act as agent.

The measures to make it possible to perform repurchase transactions through the Bank of Spain culminated with the signing on 30 January 2015 of an Addendum to the Agreement between the General Treasury for Social Security and the Bank of Spain authorising the temporary acquisition of financial assets issued by public legal entities with the aim of minimising the Reserve Fund's account balances with the Bank of Spain.

This Addendum establishes that the terms of the transactions must be previously established in a framework agreement signed by the parties, using the European Master Agreement (EMA) as the reference document governing the terms and conditions of repurchase transactions in the European market. At 31 December 2015 framework agreements had been signed with 7 entities.

Within the scope of this Addendum, and in accordance with the agreements adopted at the meetings of the Reserve Fund Management Committee held in 2015, repurchase transactions were performed throughout the year using uninvested balances available at the time.

This has helped minimise the impact of the new negative remuneration measures established by the European Central Bank (with a negative interest rate of -0.2% to 8 December 2015) on the Reserve Fund's cash balances held with the Bank of Spain.

## 5 Key figures for the Reserve Fund as at 31/12/2015

At 31 December 2015 the total acquisition<sup>4</sup> cost of the Social Security Reserve Fund asset portfolio was € 32,481,023,271.26.

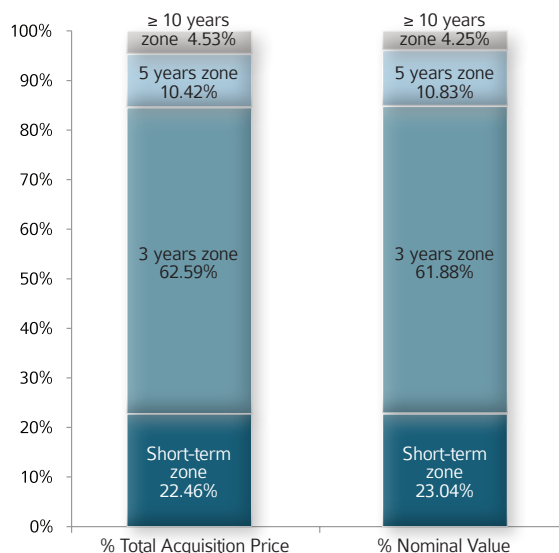
The portfolio contains only Spanish Public Debt, classified by zone as detailed below:

ASSETS	TOTAL ACQUISITION PRICE (In euros)	%	NOMINAL VALUE (In euros)	%
Short-term zone	7,295,932,141.82	22.46	7,280,795,000.00	23.04
3 years zone	20,330,990,988.62	62.59	19,556,915,000.00	61.88
5 years zone	3,384,396,994.25	10.42	3,424,279,000.00	10.83
10 or more years zone	1,469,703,146.57	4.53	1,344,112,000.00	4.25
<b>TOTAL</b>	<b>32,481,023,271.26</b>	<b>100.00</b>	<b>31,606,101,000.00</b>	<b>100.00</b>

### Zone distribution criteria:

- Short-term: maturing in the 12 months from 31/12/15 in accordance with accounting criteria
- 3 years zone: maturing after 12 months and up to 4 years from 31/12/15
- 5 years zone: maturing after 4 years and up to 7 years from 31/12/15
- 10 or more years zone: maturing after 7 years from 31/12/15.

These figures are shown in percentage terms in the following chart:



4. Acquisition price includes any interest accrued but not paid included in the asset value as per note 1 (page 7).

The composition of the portfolio at 31 December 2015 is itemised by asset type and issue number in the table below:

	DESCRIPTION OF FINANCIAL ASSET AND ISSUE NUMBER	REDEMPTION DATE	TOTAL ACQUISITION PRICE (including any interest accrued but not paid)	NOMINAL VALUE
<b>I</b>	<b>SHORT-TERM ZONE</b>			
	Government Debentures (3.15%) issue number ES00000120G4	31/01/2016	2,439,830,307.82	2,519,102,000.00
	Government Bonds (3.25%) issue number ES00000122X5	30/04/2016	1,452,889,064.76	1,491,240,000.00
	Government Bonds (4.25%) issue number ES00000123J2	31/10/2016	3,403,212,769.24	3,270,453,000.00
	<b>TOTAL</b>		<b>7,295,932,141.82</b>	<b>7,280,795,000.00</b>
<b>II</b>	<b>3 YEARS ZONE</b>			
	Government Debentures (3.80%) issue number ES00000120J8	31/01/2017	2,224,994,840.02	2,249,445,000.00
	Government Bonds (2.10%) issue number ES00000124I2	30/04/2017	1,193,063,399.04	1,137,363,000.00
	Government Debentures (5.50%) issue number ES0000012783	30/07/2017	3,095,298,659.03	2,728,349,000.00
	Government Bonds (4.75%) issue number ES00000123R5	30/09/2017	3,274,687,467.84	3,280,724,000.00
	Government Bonds (0.50%) issue number ES00000126V0	31/10/2017	1,402,226,195.57	1,393,629,000.00
	Government Bonds (4.50%) issue number ES00000123Q7	31/01/2018	452,176,041.11	400,000,000.00
	Government Bonds (0.25%) issue number ES00000127D6	30/04/2018	3,005,398.65	3,010,000.00
	Government Debentures (4.10%) issue number ES00000121A5	30/07/2018	3,447,011,483.41	3,318,595,000.00
	Government Bonds (3.75%) issue number ES00000124B7	31/10/2018	625,073,075.62	549,400,000.00
	Government Debentures (4.60%) issue number ES00000121L2	30/07/2019	2,302,491,045.76	2,214,215,000.00
	Government Debentures (4.30%) issue number ES00000121O6	31/10/2019	2,310,963,382.57	2,282,185,000.00
	<b>TOTAL</b>		<b>20,330,990,988.62</b>	<b>19,556,915,000.00</b>
<b>III</b>	<b>5 YEARS ZONE</b>			
	Government Debentures (4.00%) issue number ES00000122D7	30/04/2020	1,904,038,909.67	1,949,569,000.00
	Government Debentures (4.85%) issue number ES00000122T3	31/10/2020	1,480,358,084.58	1,474,710,000.00
	<b>TOTAL</b>		<b>3,384,396,994.25</b>	<b>3,424,279,000.00</b>
<b>IV</b>	<b>10 OR MORE YEARS ZONE</b>			
	Government Debentures (4.80%) issue number ES00000121G2	31/01/2024	879,516,315.69	841,433,000.00
	Government Debentures (6.00%) issue number ES0000011868	31/01/2029	576,058,698.12	490,715,000.00
	Government Debentures (5.75%) issue number ES0000012411	30/07/2032	14,128,132.76	11,964,000.00
	<b>TOTAL</b>		<b>1,469,703,146.57</b>	<b>1,344,112,000.00</b>
	<b>TOTAL PUBLIC FINANCIAL ASSETS AT 31/12/15 (I+II+III+IV)</b>		<b>32,481,023,271.26</b>	<b>31,606,101,000.00</b>

In euros

Note: See page 26 for zone distribution criteria.

## 6 Analysis of the Reserve Fund return as at 31/12/2015

### 6.1 Reserve Fund returns

From the first allocation to the Reserve Fund by the Council of Ministers in 2000, up to 31 December 2015, the returns obtained **include coupons, imputed net returns, returns on disposals and other revenues and interest** on the Fund's current account.

A total of **€ 24,252,183,933.31** was collected in **coupons**; this can be further broken down into coupons collected on the maturity date, € 23,559,130,845.84, and coupons collected on disposal of the assets, € 693,053,087.47, as follows:

Coupons collected at maturity date:

COUPONS	PARTIAL AMOUNT (€)	TOTAL AMOUNT (€)
YEAR 2001		18,699,000.00
YEAR 2002		120,425,190.08
YEAR 2003		338,265,455.84
YEAR 2004		592,924,827.64
YEAR 2005		857,615,313.37
YEAR 2006		1,171,273,841.45
YEAR 2007		1,535,058,217.03
YEAR 2008		2,034,850,211.79
YEAR 2009		2,339,694,054.23
YEAR 2010		2,478,598,524.41
YEAR 2011		2,709,616,791.70
YEAR 2012		2,765,822,459.74
YEAR 2013		2,561,622,105.56
YEAR 2014		2,243,846,346.50
YEAR 2015		1,790,818,506.50
31/01/2015	523,617,695.00	
30 /04/2015	206,482,995.00	
30/07/2015	486,703,639.00	
30/09/2015	155,834,390.00	
31/10/2015	418,179,787.50	
<b>TOTAL</b>		<b>23,559,130,845.84</b>

Coupons collected on disposal of the assets:

COUPONS	TOTAL AMOUNT (€)
YEAR 2009	156,913,647.84
YEAR 2010	91,216,232.39
YEAR 2011	
YEAR 2012	58,802,906.46
YEAR 2013	
YEAR 2014	147,071,866.64
YEAR 2015	239,048,434.14
<b>TOTAL</b>	<b>693,053,087.47</b>

**Imputed net returns** since the first allocation approved in 2000 are detailed below:

Redemption/disposal	DESCRIPTION	PARTIAL AMOUNT (€)	TOTAL AMOUNT (€)
YEAR 2001	- From redeemed assets		
YEAR 2002	- From redeemed assets		6,714,260.00
YEAR 2003	- From redeemed assets		17,220,919.74
YEAR 2004	- From redeemed assets		-14,800,848.92
YEAR 2005	- From redeemed assets		7,627,818.36
YEAR 2006	- From redeemed assets		-14,445,823.13
YEAR 2007	- From redeemed assets		-100,368,613.40
YEAR 2008	- From redeemed assets		-70,394,705.16
YEAR 2009			-111,803,859.74
	- From redeemed assets	-144,330,440.02	
	- From assets sold	32,526,580.28	
YEAR 2010			-97,778,162.86
	- From redeemed assets	-65,155,129.73	
	- From assets sold	-32,623,033.13	
YEAR 2011			-352,313,679.93
	- From redeemed assets	-352,313,679.93	
YEAR 2012			-102,636,179.31
	- From redeemed assets	-193,164,725.87	
	- From assets sold	90,528,546.56	
YEAR 2013			-251,607,366.30
	- From redeemed assets	-251,607,366.30	
YEAR 2014			-288,878,640.54
	- From redeemed assets	-199,697,478.25	
	- From assets sold	-89,181,162.29	
YEAR 2015			-195,328,376.06
	- From redeemed assets	-98,723,767.46	
	- From assets sold	-96,604,608.60	
<b>TOTAL</b>			<b>-1,568,793,257.25</b>

Gains on **disposals** amounted to **€ 4,577,593,965.42**, as follows:

<b>GAINS ON DISPOSALS</b>	<b>TOTAL AMOUNT (€)</b>
YEAR 2009	498,913,390.60
YEAR 2010	185,377,136.85
YEAR 2011	
YEAR 2012	478,199,906.83
YEAR 2013	
YEAR 2014	1,041,120,454.32
YEAR 2015	2,373,983,076.82
<b>TOTAL</b>	<b>4,577,593,965.42</b>

**Other income** is detailed by year and type as follows:

<b>OTHER INCOME</b>	<b>AMOUNT (€)</b>
<b>SECURITY SWAPS</b>	<b>245,998.34</b>
YEAR 2007	44,755.52
YEAR 2008	45,023.25
YEAR 2009	11,269.09
YEAR 2010	
YEAR 2011	53,087.31
YEAR 2012	40,254.17
YEAR 2013	27,607.08
YEAR 2014	24,001.92
YEAR 2015	
<b>REPURCHASE TRANSACTIONS</b>	<b>-1,925,325.03</b>
YEAR 2014	22,183.54
YEAR 2015	-1,947,508.57
<b>COMPENSATION FOR LOST INTEREST ON LATE PAYMENTS OF INCOME BY PARTNER MUTUAL INSURANCE COMPANIES</b>	<b>78,017.23</b>
YEAR 2008	78,017.23
<b>TOTAL</b>	<b>-1,601,309.46</b>



Finally, **regarding interest accrued and paid by the current account held with the Bank of Spain**, in 2000 until 31 December 2015, the following amounts have been obtained:

INTEREST C/C	AMOUNT (€)
YEAR 2000	2,779,240.69
YEAR 2001	7,500,828.26
YEAR 2002	33,507,299.15
YEAR 2003	16,991,616.34
YEAR 2004	35,243,455.27
YEAR 2005	24,341,090.96
YEAR 2006	33,743,035.77
YEAR 2007	38,559,185.51
YEAR 2008	93,906,295.36
YEAR 2009	18,618,272.71
YEAR 2010	4,359,772.06
YEAR 2011	9,664,584.45
YEAR 2012	3,160,265.51
YEAR 2013	1,404,582.21
YEAR 2014 (January to 10 June) (*)	454,059.59
YEAR 2015 (*)	
<b>TOTAL</b>	<b>324,233,583.84</b>

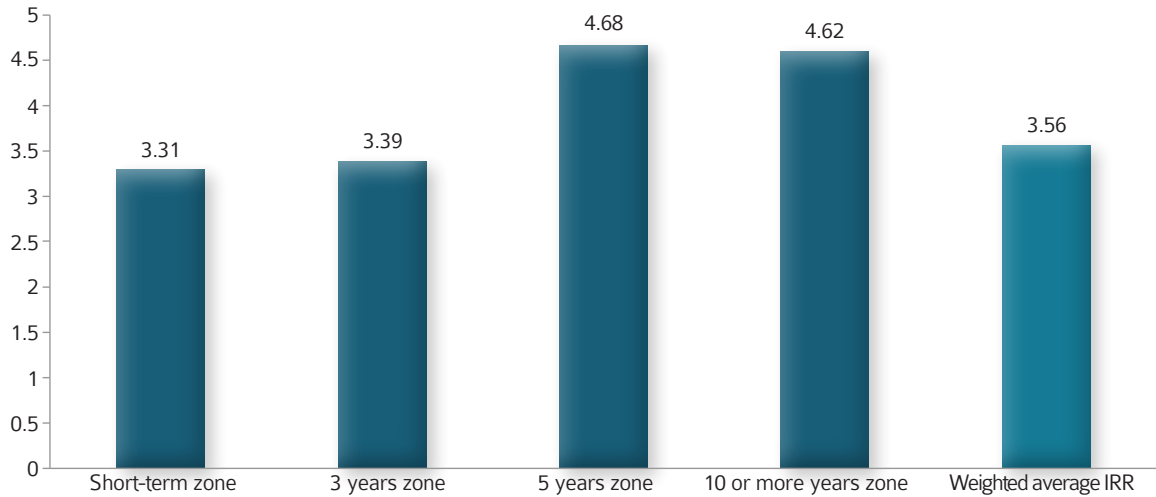
(\*) The 2014 figure refers to amounts earned in the period in which the Eonia rate remained in force (1 January to 10 June). This account did not bear interest at a positive rate in 2015.

The total amounts received by the Reserve Fund from the first allocation approved in 2000 until 31 December 2015 are summarised in the following table:

NET RETURNS GENERATED BY RESERVE FUND UNTIL 31/12/2015	
In euros	
Coupons	24,252,183,933.31
Imputed net returns	-1,568,793,257.25
Gains on disposals	4,577,593,965.42
Other income	-1,601,309.46
Adjustments on redemption/disposal of the asset (for interest accrued but not paid)	-1,488,500,873.89
Current account interest	324,233,583.84
<b>TOTAL NET RETURNS</b>	<b>26,095,116,041.97</b>

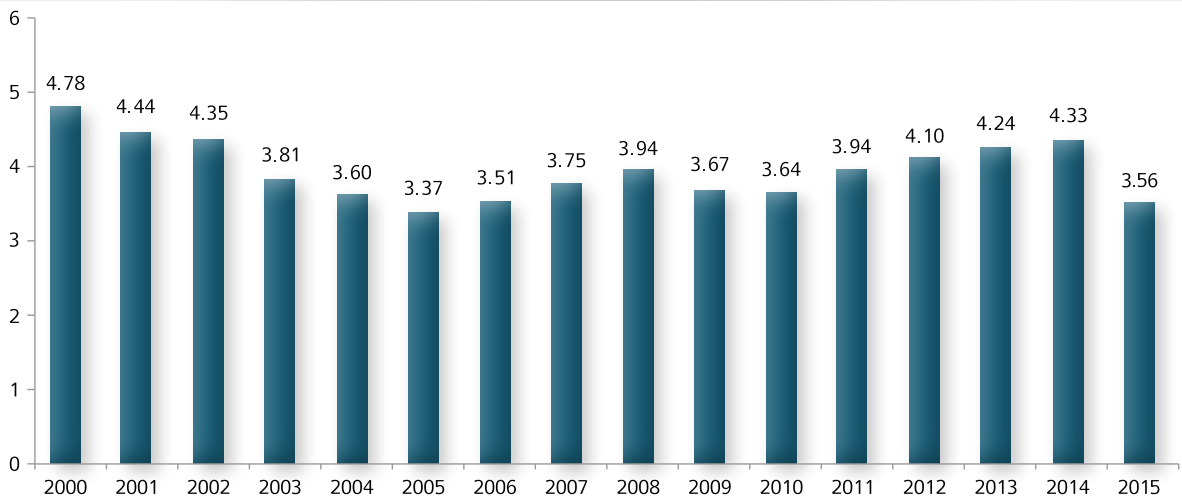
## 6.2. Return on fixed-income assets: Public Debt

The following figures show the return on the assets contained in the Fund's portfolio, expressed as the IRR (Internal Rate of Return) on each security at its acquisition date. The **weighted average IRR** of the current portfolio, consisting of instruments acquired from December 2000 and held in the portfolio at 31 December 2015, based on the nominal value of each asset **on acquisition, is 3.56%**, broken down as follows:



Figures expressed as a percentage

The weighted average IRR by year, based on the nominal value of each asset on acquisition, is as follows:



Figures expressed as a percentage

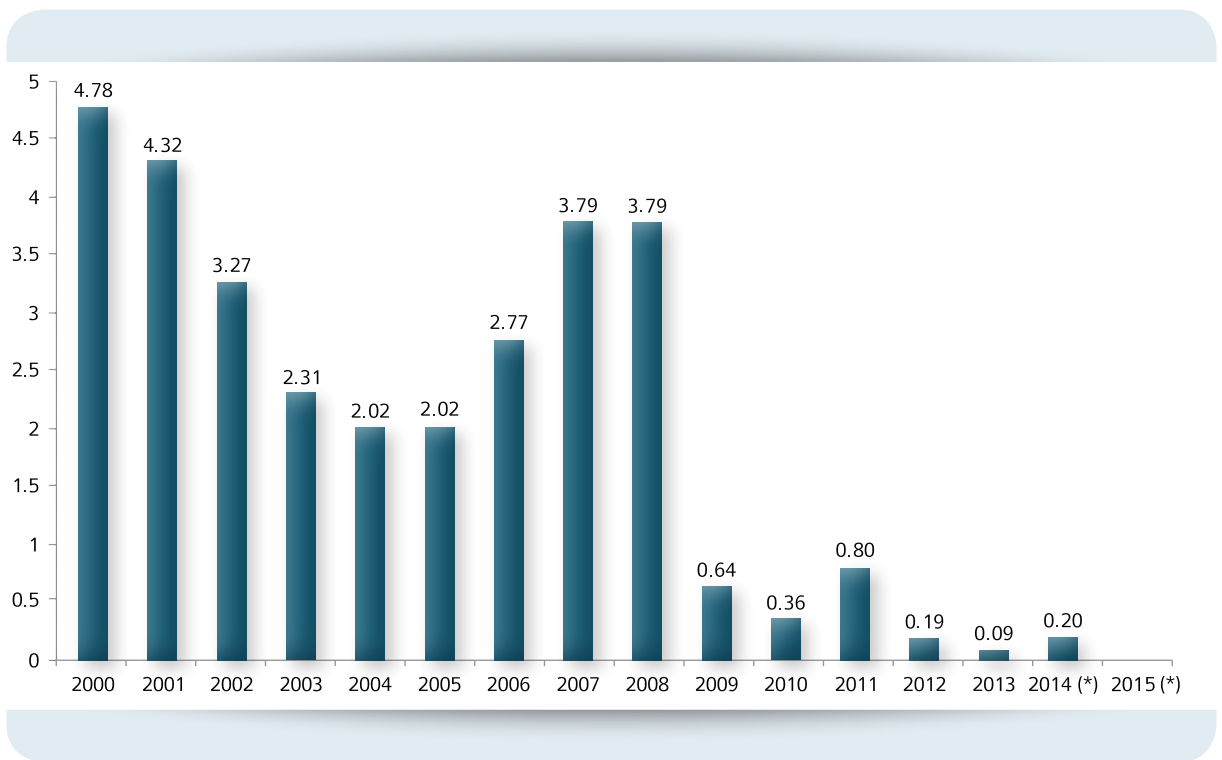
### 6.3. Return on the “General Treasury for Social Security Special Reserve Fund. Art. 91.1 T.R.L.G.S.S.” account

On 11 June 2014 the remuneration on the Reserve Fund’s accounts with the Bank of Spain was modified following the meeting of the European Central Bank’s Governing Council on 5 June 2014 at which the applicable interest rate was set at 0%, or the Deposit Facility rate if this is negative. From 11 June 2014 the Deposit Facility rate was set at -0.10% and is currently -0.30%.

This rate came into effect from that date for all accounts held by public sector entities, whether said accounts were interest-bearing or not. Nevertheless, given that interest is calculated on the accounts on the basis of natural months, the Bank of Spain has applied the Deposit Facility rate, provided said rate is negative, to interest payments made from 1 July 2014.

From 1 March 2015, in line with European Central Bank Guideline ECB/2014/9, the Eonia rate applied to the first € 20 million held by the Reserve Fund in its accounts with the Bank of Spain and the remaining balances bear interest at the Deposit Facility rate.

The average rate applied, by year, is shown below:



Figures expressed as a percentage

(\*) The 2014 figure refers to amounts earned in the period in which the Eonia rate remained in force (1 January to 10 June). This account did not bear interest at a positive rate in 2015.

## 6.4. Return on the Social Security Reserve Fund

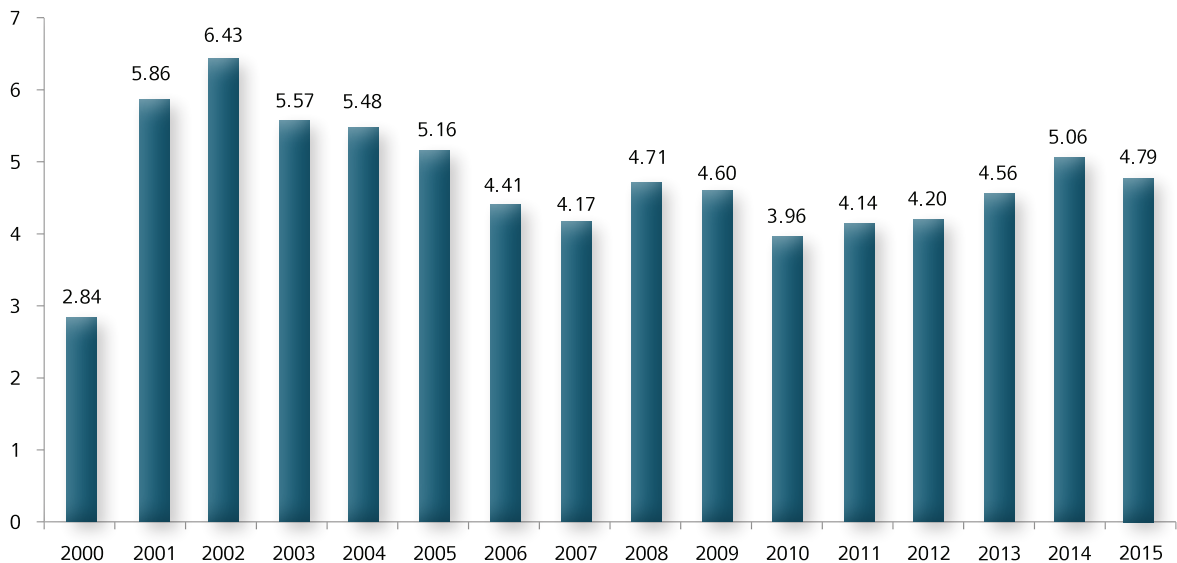
The **total cumulative return on the Reserve Fund at 31 December 2015** (securities portfolio plus the Reserve Fund current account balance) is calculated using the method approved by the Reserve Fund Management Committee at its meeting of 11 November 2005 introducing technical adjustments to the method previously applied in order to bring it in line with that used by other investment and private pension funds. The main feature of this method is that it considers the market value of the Fund at the time of each allocation or withdrawal, giving appropriate weighting to the contribution of each flow to the overall return of the Fund.

The cumulative Fund return figure is obtained by comparing the current net asset value of an instrument and its value at the time when the Fund was created, then annualising the cumulative return figure. The net asset value of each unit is adjusted each time a new allocation or withdrawal is made, so as to distinguish the return contributed by each flow to the total for the Fund for each sub-period.

For calculation purposes, the market value of the fund at 31 December 2015 is calculated using the closing prices for each instrument quoted by Bloomberg. On this basis, the net asset value of the Reserve Fund at 31 December 2015 was € 35,035.02 (€ 35,034.72 million for the portfolio and € 0.30 million deposited in the current account).

Based on this method, the accumulated return on the Reserve Fund from its inception in 2000 and 31 December 2015 was 103.86% or 4.79% in annualised terms.

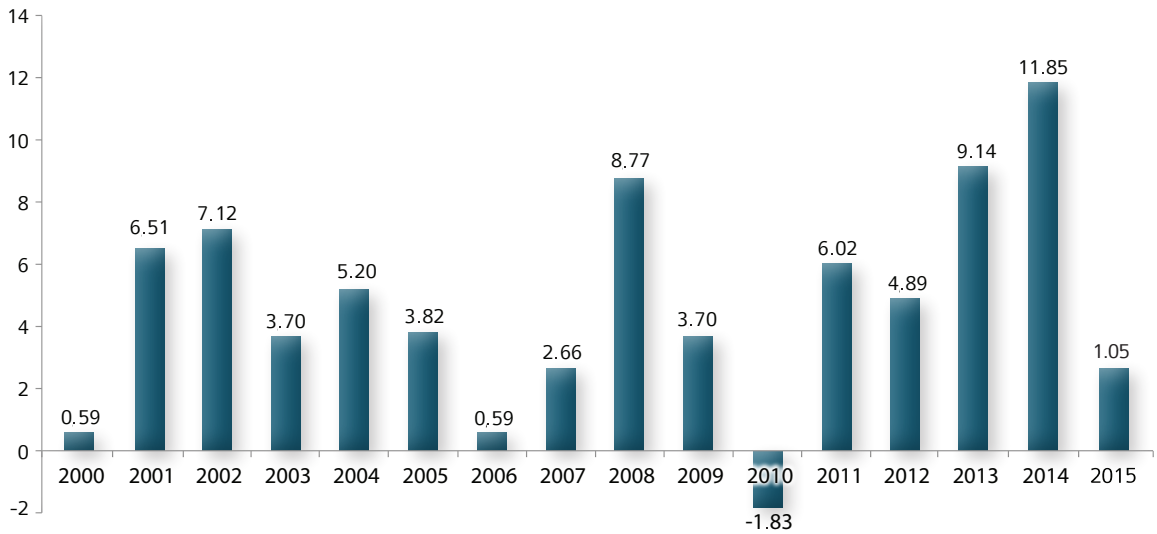
The following chart shows the annualised cumulative returns at the end of each financial year from the date of the first allocation to the Reserve Fund approved by the Council of Ministers in 2000:



Figures expressed as a percentage

The **annual return on the Reserve Fund** in 2015 was 1.05%.

The following chart shows the performance of the annual returns of the Reserve Fund:



Figures expressed as a percentage

The annualised average returns on the Reserve Fund at 31 December 2015 are summarised below.

ANNUALISED AVERAGE RETURNS ON THE SOCIAL SECURITY RESERVE FUND				
AT 15 YEARS	AT 10 YEARS	AT 5 YEARS	AT 3 YEARS	1 YEAR
4.79%	4.60%	6.52%	7.25%	1.05%

## 6.5. Summary of returns

The returns on the Fund are summarised in the table and chart below and analysed in further detail in the following sections:

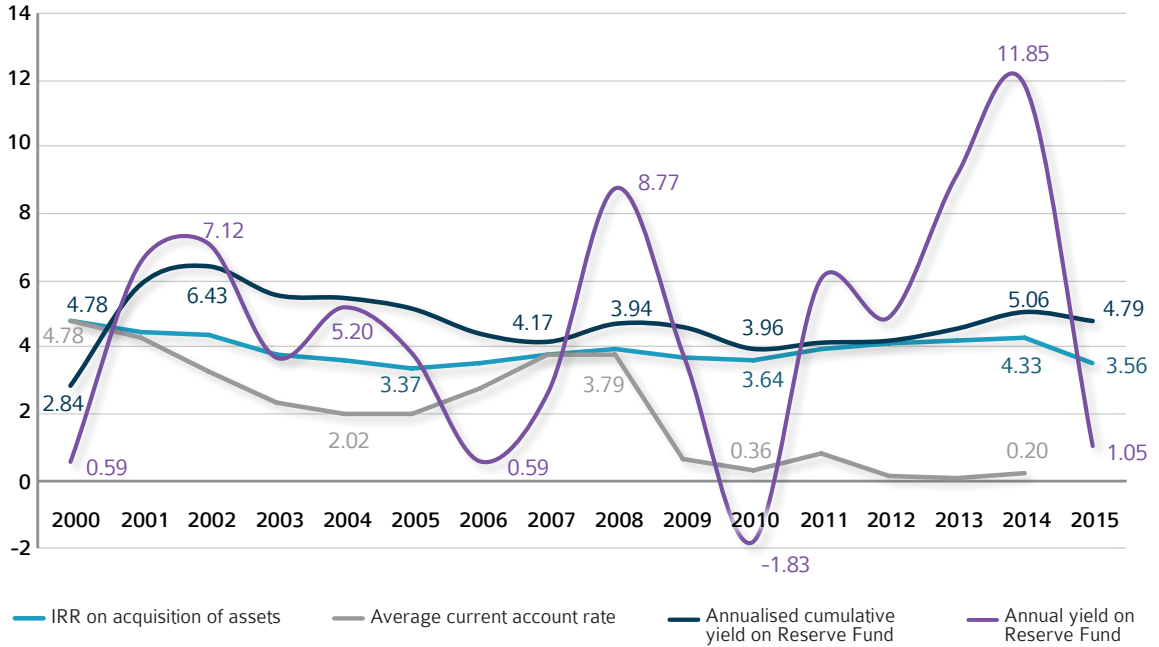
Year	IRR on acquisition of assets	Average current account rate	Annualised cumulative yield on Reserve Fund	Annual yield on Reserve Fund
2000	4.78	4.78	2.84	0.59
2001	4.44	4.32	5.86	6.51
2002	4.35	3.27	6.43	7.12
2003	3.81	2.31	5.57	3.70
2004	3.60	2.02	5.48	5.20
2005	3.37	2.02	5.16	3.82
2006	3.51	2.77	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

Figures expressed as a percentage

(\*) Refers to amounts earned in the period in which the Eonia rate remained in force (1 January to 10 June).

(\*\*) This account does not currently bear interest at a positive rate

**ANNUAL RETURNS**



Figures expressed as a percentage

(\*) The 2014 figure refers to amounts earned in the period in which the Eonia rate remained in force (1 January to 10 June). This account does not currently bear interest at a positive rate.

## 7 Forecasts

### 7.1. Year 2016

In 2016 the following coupons held at 31 December 2015 will mature:

COUPON DATE	AMOUNT (€)
31/01/2016	252,662,307.00
30/04/2016	150,339,673.42
30/07/2016	388,663,410.00
30/09/2016	155,834,390.00
31/10/2016	336,222,287.50
<b>TOTAL</b>	<b>1,283,722,067.92</b>

Public financial assets amounting to € 7,280,795,000.00 will mature in 2016 (all of them Spanish financial assets), as follows:

REDEMPTION DATE	DESCRIPTION OF FINANCIAL ASSET	NOMINAL VALUE (€)
31/01/2016	Government Debentures (3.15%) issue number ES00000120G4	2,519,102,000.00
30/04/2016	Government Bonds (3.25%) issue number ES00000122X5	1,491,240,000.00
31/10/2016	Government Bonds (4.25%) issue number ES00000123J2	3,270,453,000.00
<b>TOTAL</b>		<b>7,280,795,000.00</b>



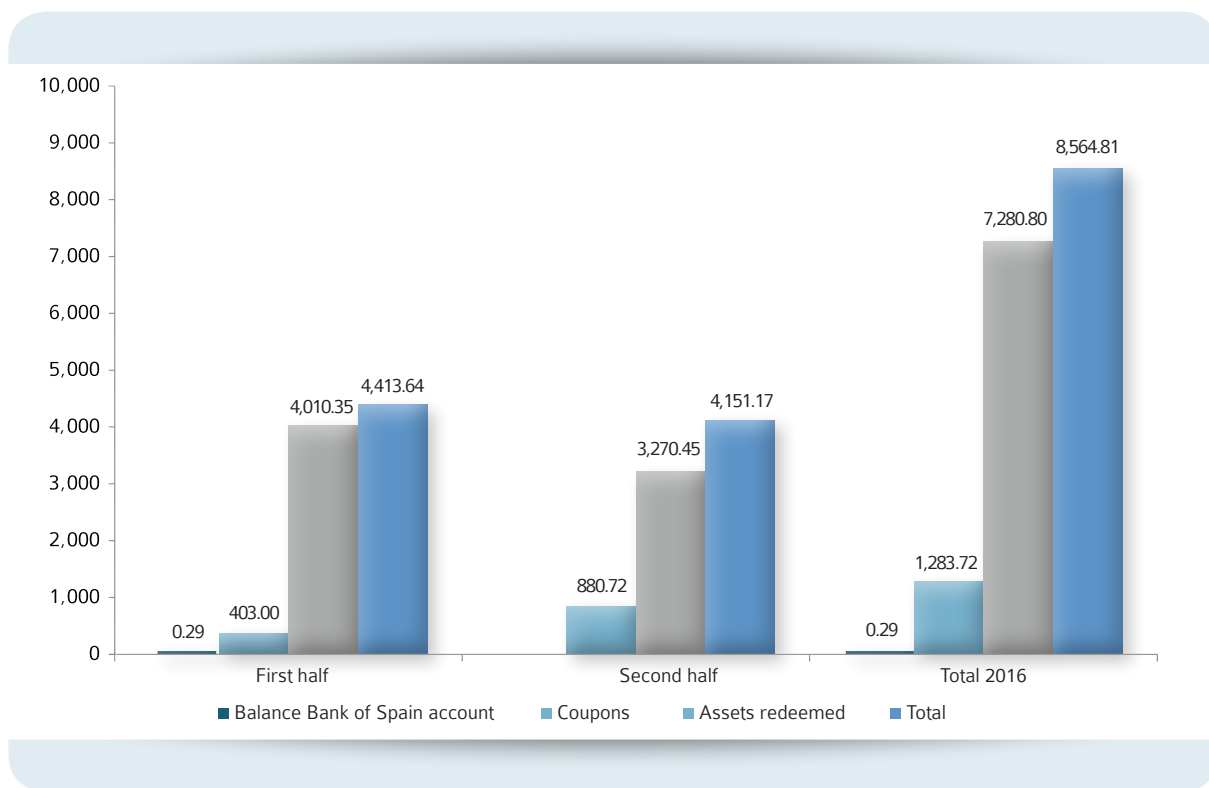
The following table and chart show the forecast cash flows for 2016:

**CASH FLOWS IN 2016**

<b>Account balance at 1 January 2016</b>		<b>293,754.63</b>
<b>2016 coupons</b>		<b>1,283,722,067.92</b>
First quarter	252,662,307.00	
Second quarter	150,339,673.42	
Third quarter	544,497,800.00	
Fourth quarter	336,222,287.50	
<b>Assets maturing in 2016</b>		<b>7,280,795,000.00</b>
First quarter	2,519,102,000.00	
Second quarter	1,491,240,000.00	
Third quarter		
Fourth quarter	3,270,453,000.00	
<b>TOTAL</b>		<b>8,564,810,822.55</b>

**CASH FLOWS IN 2016**

In euros



In millions of euros

## 7.2. Years 2017 and 2018

In 2017 the following coupons held at 31 December 2015 will mature:

COUPON DATE	AMOUNT (€)
31/01/2017	173,310,594.00
30/04/2017	101,874,908.00
30/07/2017	388,663,410.00
30/09/2017	155,834,390.00
31/10/2017	197,228,035.00
<b>TOTAL</b>	<b>1,016,911,337.00</b>

Public financial assets amounting to € 10,789,510,000.00 will mature in 2017, as follows:

REDEMPTION DATE	DESCRIPTION OF FINANCIAL ASSET	NOMINAL VALUE (€)
31/01/2017	Government Debentures (3.80%) issue number ES00000120J8	2,249,445,000.00
30/04/2017	Government Bonds (2.10%) issue number ES00000124I2	1,137,363,000.00
30/07/2017	Government Debentures (5.50%) issue number ES0000012783	2,728,349,000.00
30/09/2017	Government Bonds (4.75%) issue number ES00000123R5	3,280,724,000.00
31/10/2017	Government Bonds (0.50%) issue number ES00000126V0	1,393,629,000.00
<b>TOTAL</b>		<b>10,789,510,000.00</b>

This amounts to a total of € **11,806,421,337.00** in coupon payments and asset redemption.

In **2018** the following coupons held at 31 December 2015 will mature:

COUPON DATE	AMOUNT (€)
31/01/2018	87,831,684.00
30/04/2018	77,990,285.00
30/07/2018	238,604,215.00
31/10/2018	190,259,890.00
<b>TOTAL</b>	<b>594,686,074.00</b>

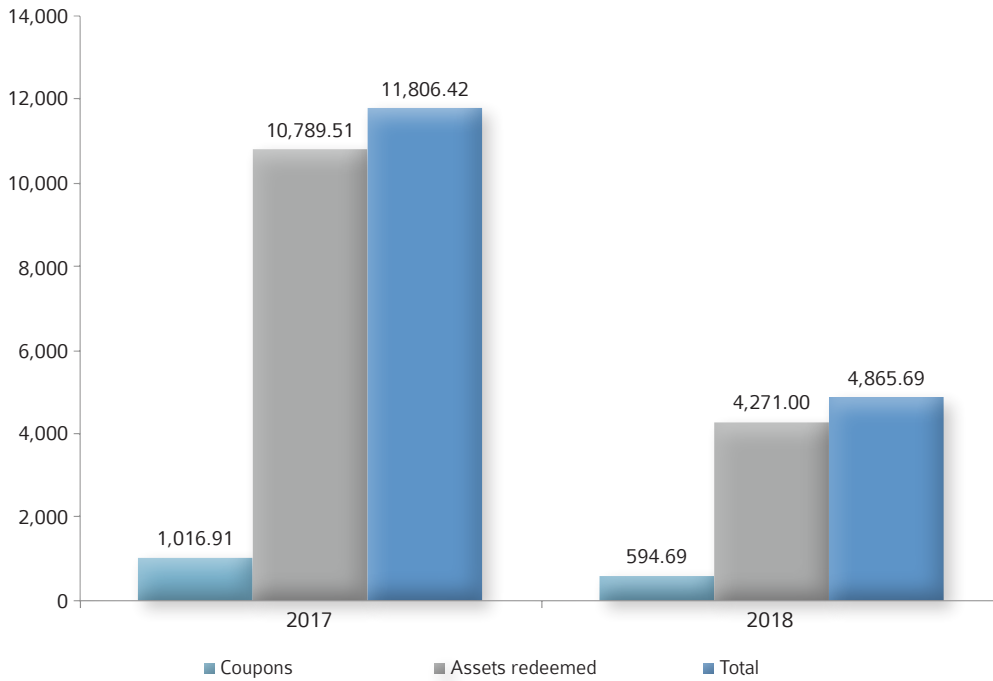
Public financial assets amounting to € 4,271,005,000.00 will mature in 2018, as follows:

REDEMPTION DATE	DESCRIPTION OF FINANCIAL ASSET	NOMINAL VALUE (€)
31/01/2018	Government Bonds (4.50%) issue number ES00000123Q7	400,000,000.00
30/04/2018	Government Bonds (0.25%) issue number ES00000127D6	3,010,000.00
30/07/2018	Government Debentures (4.10%) issue number ES00000121A5	3,318,595,000.00
31/10/2018	Government Bonds (3.75%) issue number ES00000124B7	549,400,000.00
<b>TOTAL</b>		<b>4,271,005,000.00</b>

This amounts to a total of **€ 4,865,691,074.00** in coupon payments and asset redemption.

Taking into account the above variables, the resulting cash flows in 2017 and 2018 will be as follows:

### CASH FLOWS IN 2017 AND 2018



In millions of euros

## 8 Comparison of key Reserve Fund figures

The value of the Reserve Fund, in terms of total acquisition price, market value and other major indicators compared with 2014 is shown below:

	YEAR 2014 (31/12/2014)	YEAR 2015 (31/12/2015)
RESERVE FUND TOTAL ACQUISITION PRICE (millions of euros)	41,634.23	32,481.32
RESERVE FUND MARKET VALUE (millions of euros)	47,721.32	35,035.02

### KEY FIGURES FOR THE SOCIAL SECURITY RESERVE FUND

	YEAR 2014 (31/12/2014)	YEAR 2015 (31/12/2015)
IRR ON FIXED INCOME SECURITIES - ACQUISITION	4.33%	3.56%
IRR ON FIXED INCOME SECURITIES - MARKET	0.85%	0.25%
AVERAGE CURRENT ACCOUNT INTEREST RATE (*)	0.20%	-
ANNUALISED CUMULATIVE RETURNS ON RESERVE FUND	5.06%	4.79%
ANNUAL RETURNS ON THE SOCIAL SECURITY RESERVE FUND	11.85%	1.05%
DEGREE OF CONCENTRATION	5.27%	3.82%
DURATION	4.85 years	2.34 years
MODIFIED DURATION	4.78	2.33
FOREIGN DEBT AS A % NOMINAL VALUE OF TOTAL PORTFOLIO	0.00%	0.00%
RESERVE FUND AS A % OF GDP (**)	4.00%	3.00%

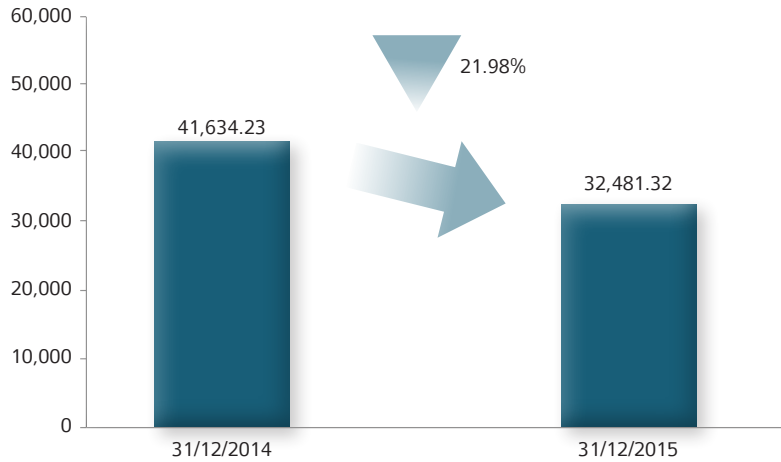
(\*) The 2014 figure refers to amounts earned in the period in which the Eonia rate remained in force (1 January to 10 June).

(\*\*) The figure for 2014 is stated in relation to 2014 GDP (€ 1,041,160 million) and for 2015 in relation to 2015 GDP (€ 1,081,190 million), according to the National Statistics Institute figures published on 25 February 2016, with CNE base year 2010.



The following chart shows the total amount of the Social Security Reserve Fund at **total acquisition price** at 31 December 2014 and 2015:

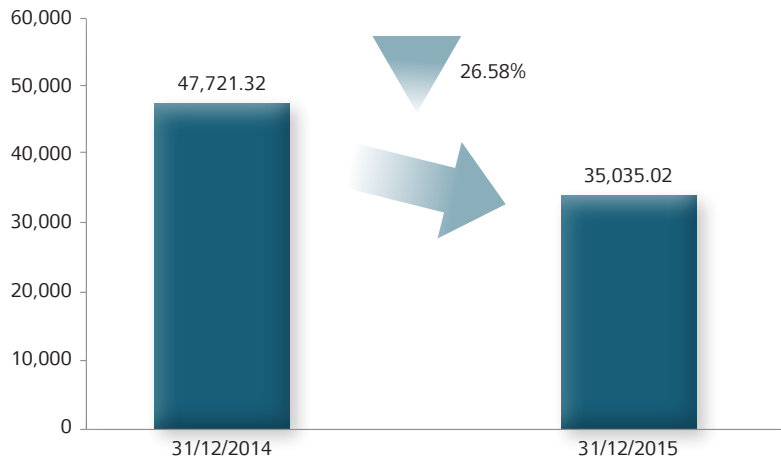
### RESERVE FUND AT 31/12/2014 AND 31/12/2015 AT TOTAL ACQUISITION PRICE



In millions of euros

The following chart shows the total amount of the Social Security Reserve Fund at **market value** at 31 December 2014 and 2015:

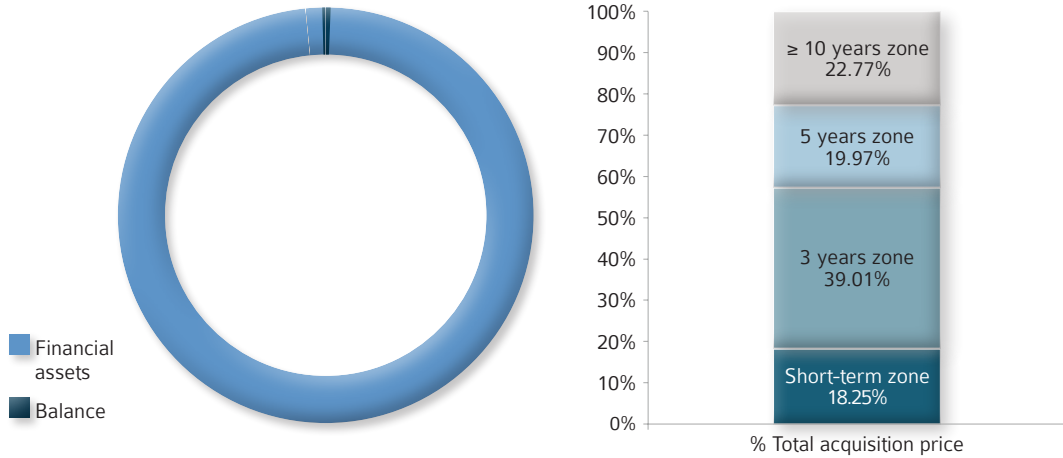
### RESERVE FUND AT 31/12/2014 AND 31/12/2015 AT MARKET VALUE



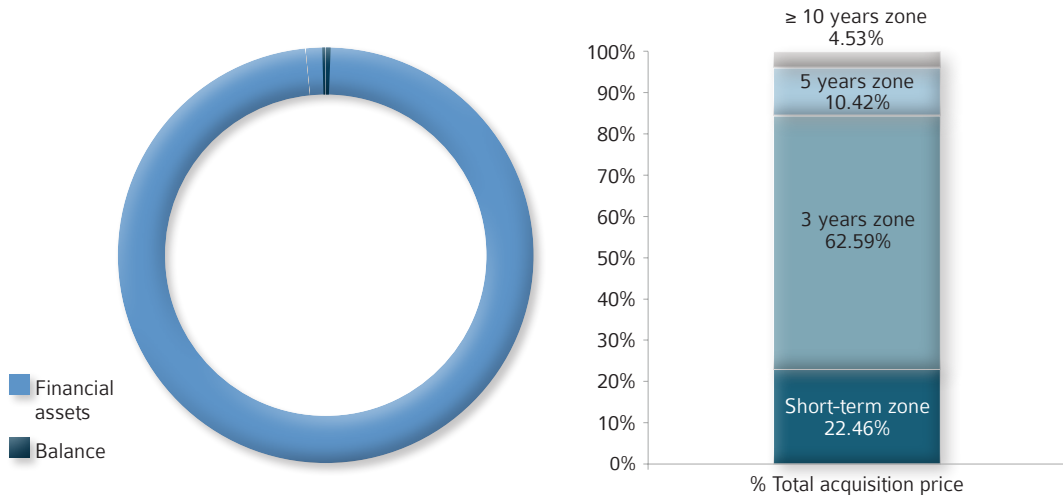
In millions of euros

This is distributed as follows based on **total acquisition price**:

**31/12/2014**



**31/12/2015**



## Appendix I Financial and management information regarding the annual accounts

This report on the actions taken in 2015 and the situation of the Reserve Fund at 31 December 2015 has been prepared for presentation to Parliament in compliance with the provisions of article 127 of Royal Legislative Decree 8/2015, of 30 October, approving the revised text of the General Social Security Law. Its purpose is to provide information on the administration and activities of the Reserve Fund during the year based on the decisions of its Management Committee, its highest governance and control body, and specifically to furnish details on the Reserve Fund at 31 December 2015, including its value, composition, portfolio distribution, returns and market value. It also contains details of how the Fund is expected to perform over the next three years, allowing its cash flows to be forecast in order to plan the corresponding actions required.

This information has been compiled from a management standpoint. The figures presented in certain sections, including the breakdown of investments by their maturity dates and market values, therefore differ from those presented in the annual financial statements in accordance with prevailing accounting standards.

Order EHA/1037/2010, of 13 April approved the General Public Accounting Plan applicable to all public authorities.

The adaptation of the General Public Accounting Plan for the entities forming the Social Security system was approved by Decision of 1 July 2011 of the Government Comptroller's Office.

Statutory limitations on the instruments in which the Social Security Reserve Fund can invest mean that these can only be classified as held-to-maturity investments or available-for-sale financial assets.

The Social Security Reserve Fund Management Committee, based on the report drafted by the Social Security Public Accounts Department, during the meeting held on 11 February 2014, determined for the purposes of the valuation established in the General Public Accounting Plan, that the Public Debt financial assets comprising the Social Security Reserve Fund should be reclassified at year-end from "Held-to-maturity investments" to "Financial assets available for sale" if over the course of the year there are any changes in the intention or financial means to preserve them in the category of held-to-maturity investments. The assets in the Reserve Fund portfolio at 31 December 2015 continue to be classified as "Financial assets available for sale".



Finally, additional information is provided on the **financial situation** of the **Social Security Reserve Fund** based on **accounting figures at the end of the 2015 reporting period**.

<b>FINANCIAL SITUATION AT 31 DECEMBER 2015</b>	<b>AMOUNT (euros)</b>
<b>Long-term debt securities available for sale</b>	<b>27,025,596,067.51</b>
- Domestic portfolio	27,025,596,067.51
- Eurozone portfolio	0.00
<b>Short-term debt securities available for sale</b>	<b>7,418,542,279.99</b>
- Domestic portfolio	7,418,542,279.99
- Eurozone portfolio	0.00
<b>Social Security Reserve Fund financial balance</b>	<b>293,754.63</b>
<b>Short-term interest on debt securities</b>	<b>590,584,857.19</b>
- Domestic portfolio	590,584,857.19
- Eurozone portfolio	0.00
<b>Other short-term interest receivable</b>	<b>0.00</b>
<b>TOTAL FINANCIAL SITUATION AT 31 DECEMBER 2015</b>	<b>35,035,016,959.32</b>

## Appendix II Withdrawals from the Reserve Fund in 2015

**Withdrawals from the Reserve Fund** in 2015 were made pursuant to Law 36/2014 of 26 December, on the 2015 general State Budget, the tenth additional provision of which removed for 2015 and 2016 the general 3% limit established by article 4 of Law 28/2003, of 29 September, regulating the Social Security Reserve Fund, allowing withdrawals, as necessary, up to a maximum amount equivalent to the deficit on non-financial transactions stated in the forecast budget settlement for the Social Security system's management agencies and common services.

An analysis of the statutory framework shows that withdrawals on the Reserve Fund are based on the following premises:

- A. The existence of a deficit on the non-financial transactions of the Social Security system, as calculated by the Social Security Public Accounts Department, for the purposes of the Reserve Fund.
- B. Withdrawals from the Social Security Reserve Fund are made as need arises up to a maximum amount equivalent to the deficit on non-financial transactions stated in the forecast budget settlement for the Social Security system's management agencies and common services and are used for payments related to contributory pensions and other costs necessary for their administration.

On 24 November 2015, the Social Security Public Accounts Department, in compliance with its duties pursuant to article 2 of Royal Decree 337/2004, of 27 February, determined the deficit on non-financial transactions for the Social Security Reserve Fund for 2015 as follows:

2015 DEFICIT CALCULATED BY THE SOCIAL SECURITY PUBLIC ACCOUNTS DEPARTMENT (24/11/2015)	AMOUNT million euros
A) Total budgeted non-financial transactions in 2015	-13,736.55
B) Total adjustments in 2015	-6,547.56
2015 forecast budget contribution (a+b) (per art. 1 Royal Decree 337/2004)	-20,284.11

From July 2015, and during the third and fourth quarters of the year, circumstances made it necessary to call on the Reserve Fund, principally to cover the double pension payments made in certain months.

In 2015, therefore, the General Treasury for Social Security, as the paying body for the system responsible for distributing funds at the appropriate time and place to meet the Social Security system's obligations and prevent financial shortfalls, effected withdrawals from the Social Security Reserve Fund totalling **€ 13,250 million**.

The following table shows the withdrawals effected to 31 December 2015:

YEAR	REGULATION	DATE	AMOUNT million euros	SUBTOTAL million euros	CUMULATIVE TOTAL million euros
2012	COUNCIL OF MINISTERS AGREEMENT 27/09/2012	28/09/2012	1,700.00		
		26/10/2012	1,363.00		
				<b>3,063.00</b>	<b>3,063.00</b>
	ROYAL DECREE LAW 28/2012, OF 30 NOVEMBER	03/12/2012	3,530.00		
		18/12/2012	410.00		
				<b>3,940.00</b>	<b>7,003.00</b>
2013	ROYAL DECREE LAW 28/2012, OF 30 NOVEMBER	01/07/2013	3,500.00		
		22/07/2013	1,000.00		
		01/08/2013	1,000.00		
		01/10/2013	720.00		
		02/12/2013	5,000.00		
		20/12/2013	428.00		
				<b>11,648.00</b>	<b>18,651.00</b>
2014	ROYAL DECREE LAW 28/2012, OF 30 NOVEMBER	01/07/2014	5,500.00		
		21/07/2014	500.00		
		01/12/2014	8,000.00		
		22/12/2014	1,300.00		
				<b>15,300.00</b>	<b>33,951.00</b>
2015	LAW 36/2014, OF 26 DECEMBER	01/07/2015	3,750.00		
		01/12/2015	7,750.00		
		21/12/2015	1,750.00		
				<b>13,250.00</b>	<b>47,201.00</b>

In accordance with the tenth additional provision of Law 36/2014, of 26 December, the Council of Ministers was informed on a quarterly basis in 2015 of the amounts withdrawn from the Social Security Reserve Fund.

NOTES







# Reserve Fund **SOCIAL SECURITY**

## **Report to Parliament**

Changes, actions in 2015  
and situation at 31  
December 2015



MINISTERIO  
DE EMPLEO  
Y SEGURIDAD SOCIAL

SECRETARÍA DE ESTADO  
DE LA SEGURIDAD SOCIAL



# Reserve Fund **SOCIAL SECURITY**

**Report to Parliament**  
Changes, actions in 2015  
and situation at 31  
December 2015