

# Social Security Reserve Fund

## Report to Parliament

Evolution, actions in 2019  
and situation as of 31 December 2019



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GOBIERNO  
DE ESPAÑA

MINISTERIO  
DE INCLUSIÓN, SEGURIDAD SOCIAL  
Y MIGRACIONES

SECRETARÍA DE ESTADO  
DE LA SEGURIDAD SOCIAL  
Y PENSIONES

# Social Security Reserve Fund

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Evolution, actions in 2019  
and situation as of 31 December 2019

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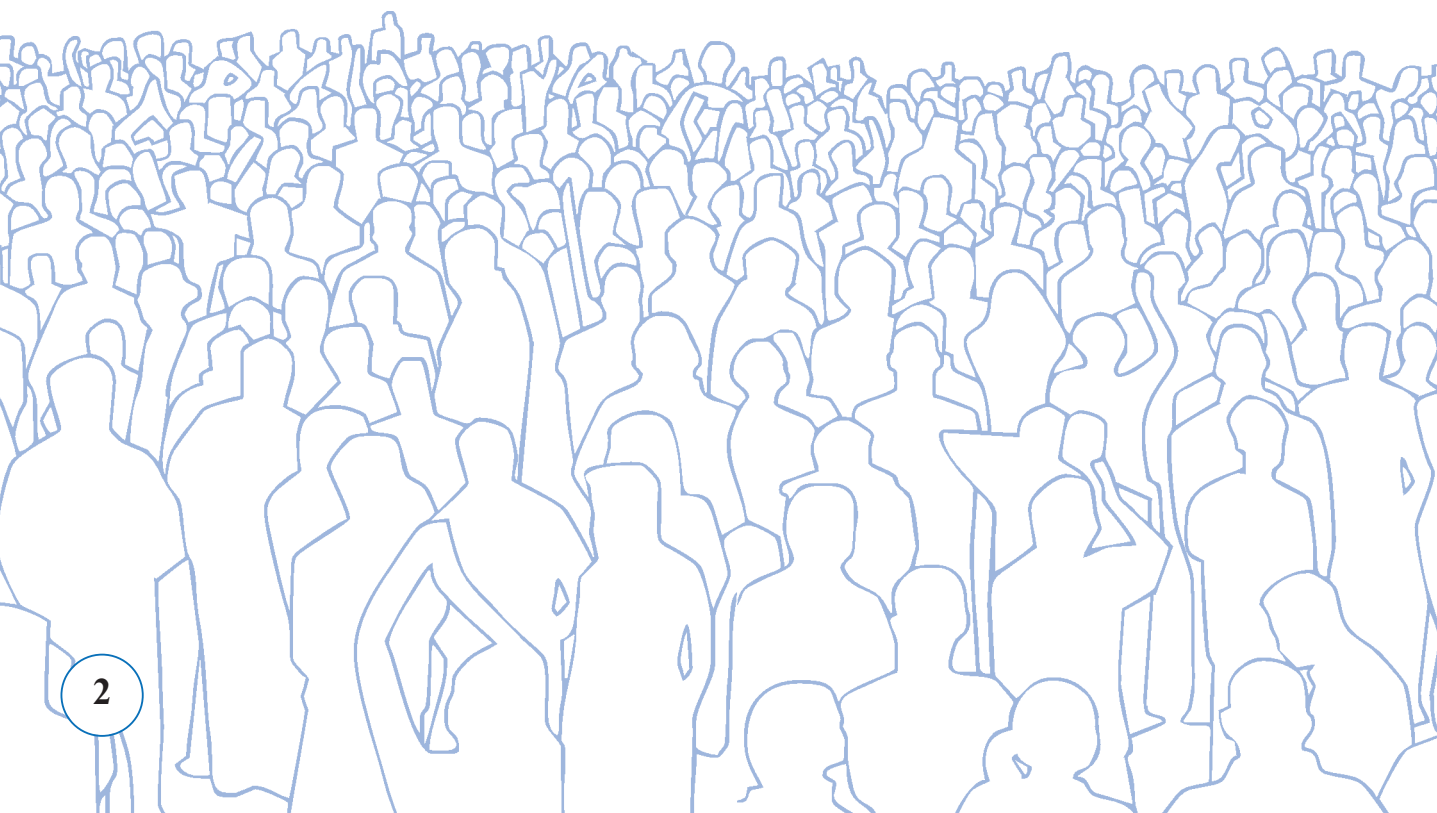


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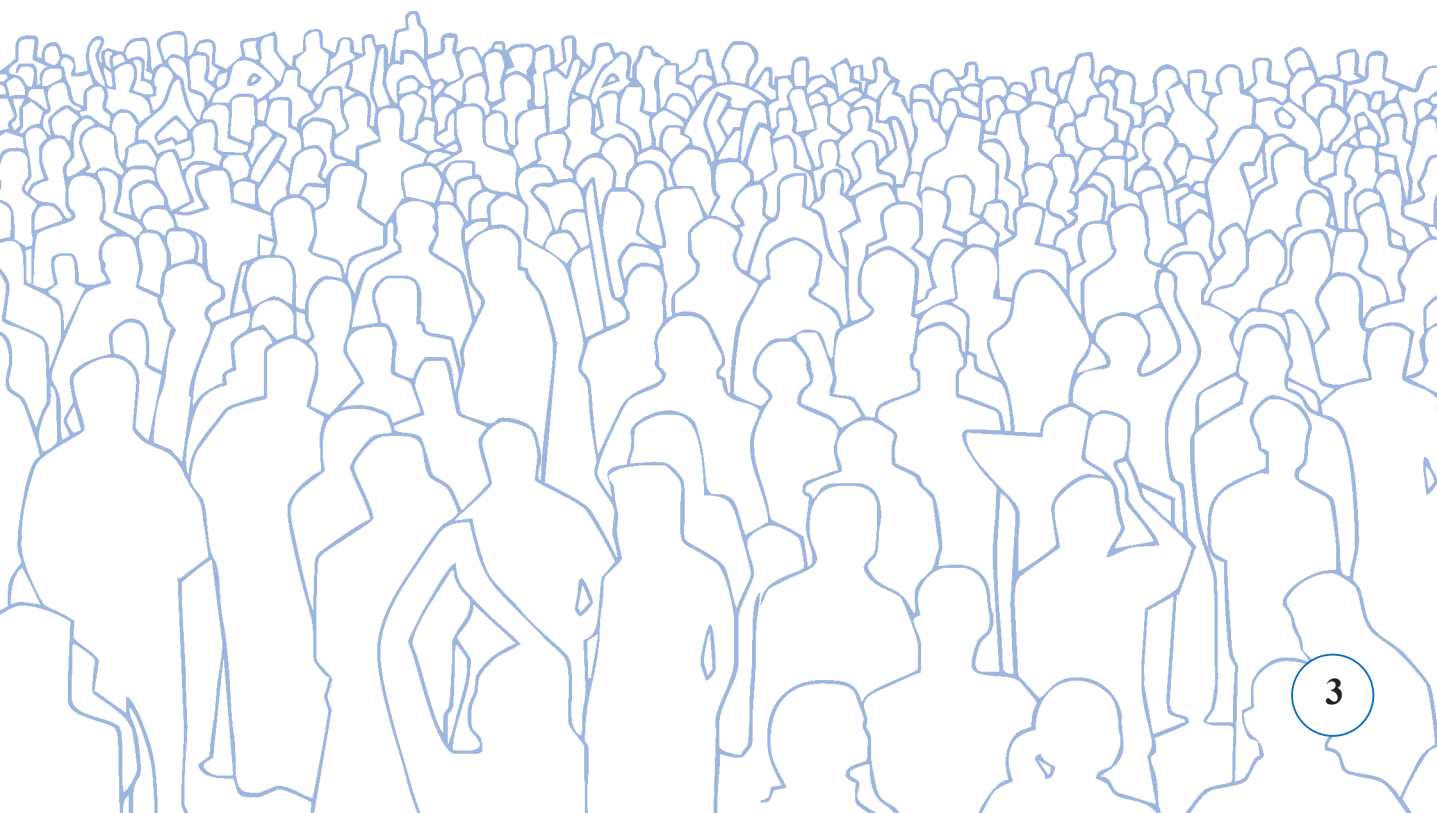
SECRETARÍA DE ESTADO  
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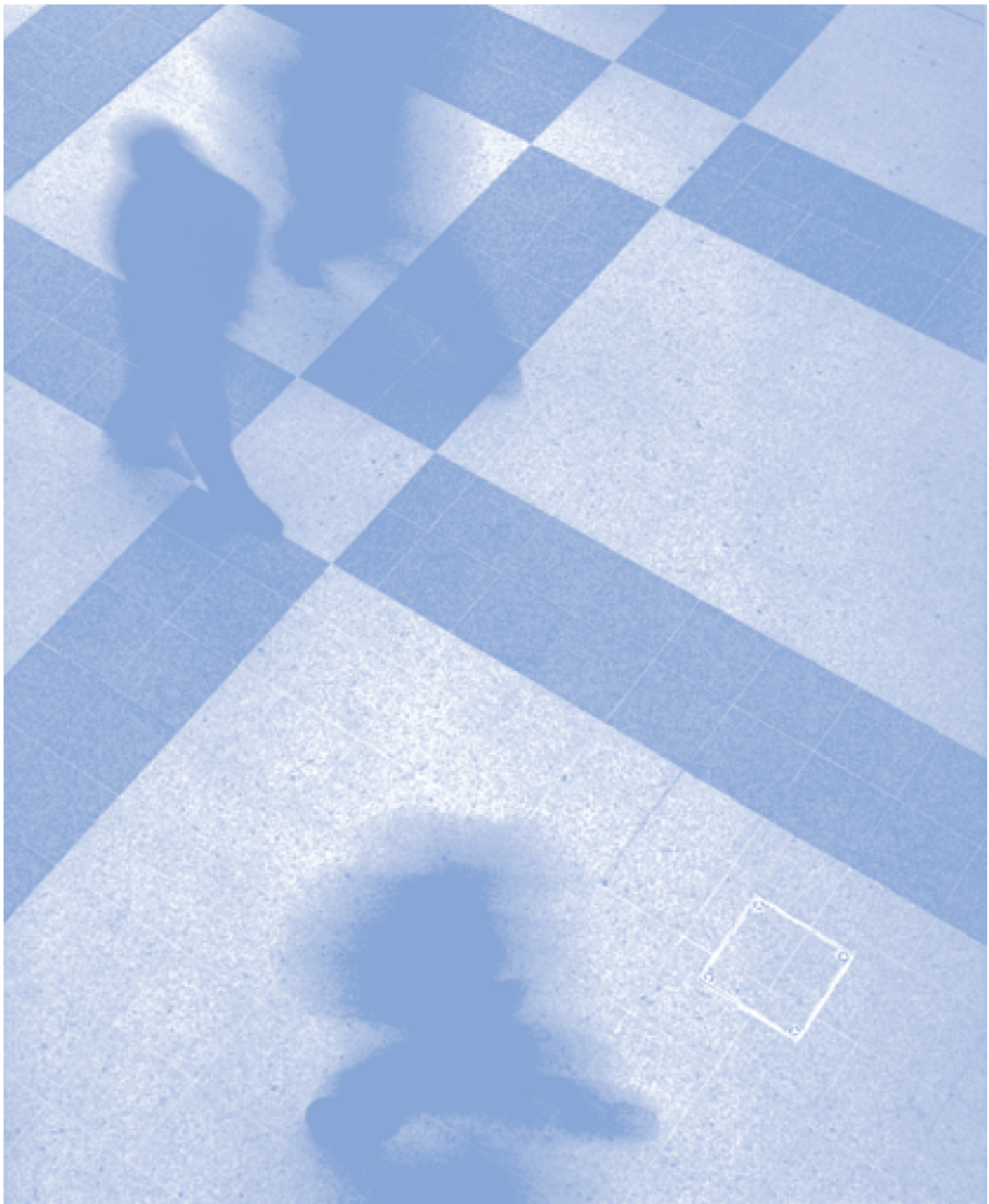
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# 1. Introduction

In the 1990s, it became an institutional requirement for the Social Security system to establish stabilisation and reserve funds to meet future needs in relation to contributory benefits, due to deviations between income and expenditure.

Initial dialogue on this question between the different political and social forces and the Government led to the so-called “Pact of Toledo” of April 1995, which established a series of recommendations aimed at ensuring the sustainability of the system. The reforms and measures that followed these recommendations have mapped out the path our Social Security system has followed to date. Meanwhile, the institutionalisation of the Reserve Fund, for the purpose of protecting the system in situations of need, came with the approval of Law 24/1997, of 15 July, on the consolidation and rationalisation of the Social Security system.

Years later, Law 18/2001, of 12 December, the General Budgetary Stability Act, established the priority allocation of the surplus of the Social Security system to the Reserve Fund. Since then, the priority allocation of the surplus to the Reserve Fund has been provided for in successive budgetary stability legislation. At present, this provision is contained in Article 32 of Organic Law 2/2012, of 27 April, on Budgetary Stability and Financial Sustainability.

Law 24/2001, of 27 December, on fiscal, administrative and social order measures, set out the constitution of the Social Security Reserve Fund in the General Treasury of Social Security, giving the Government the power to set the allocation to the fund in each year.

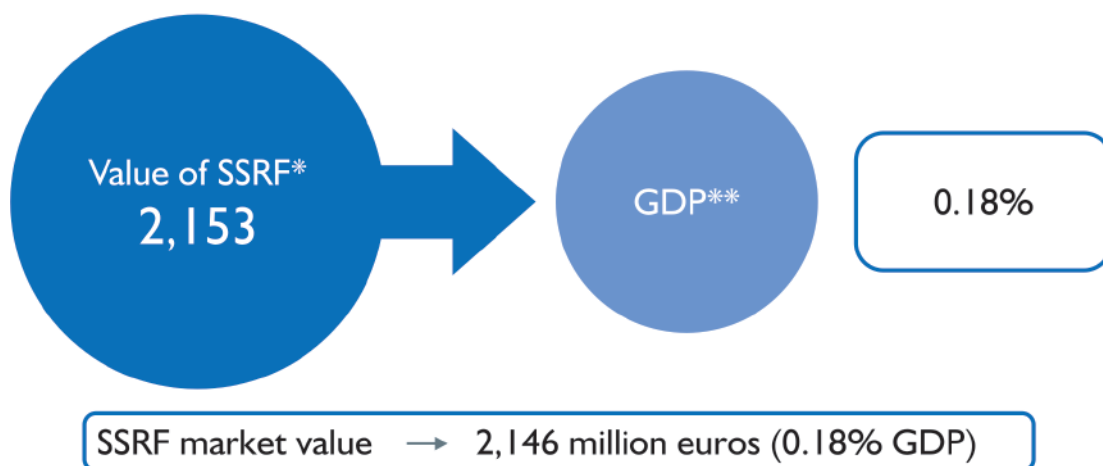
With the approval of Law 28/2003, of 29 September, the legal regime of the Reserve Fund was regulated in specific legislation for the first time. This regulation is currently contained in Royal Legislative Decree 8/2015, of 30 October, approving the Recast Text of the General Social Security Act. By virtue of Article 127 of the aforementioned recast text, this report is presented on the performance and composition of the Social Security Reserve Fund in the year 2019.

The economic situation of budgetary deficit over recent years has made the Reserve Fund an essential instrument to guarantee the financial viability of the pensions system.

## 2. 2019 in numbers

### Social Security Reserve Fund

Situation as of 31 December 2019

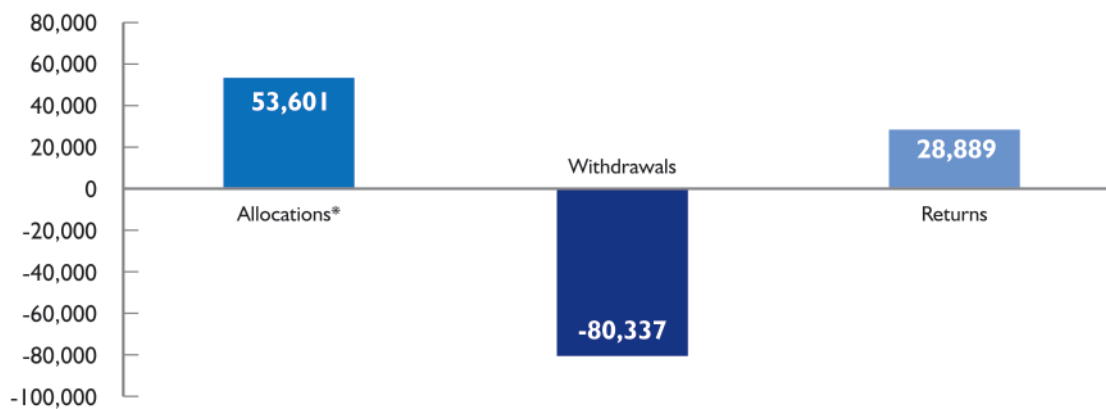


In millions of euros.

\* Total acquisition price.

\*\* According to data from the National Statistics Institute (INE as per the Spanish), published on 30 December 2019, based on CNE-2010, GDP for 2018 was 1,202,193 million euros.

### Allocations, withdrawals and returns

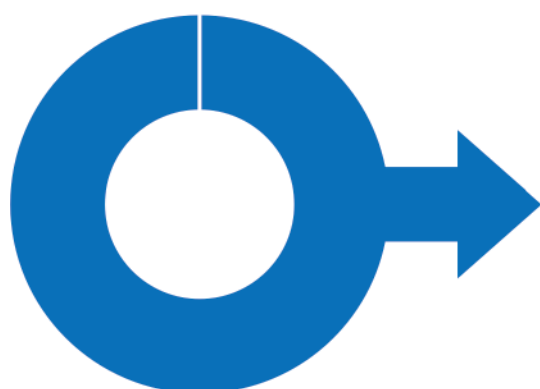


In millions of euros.

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

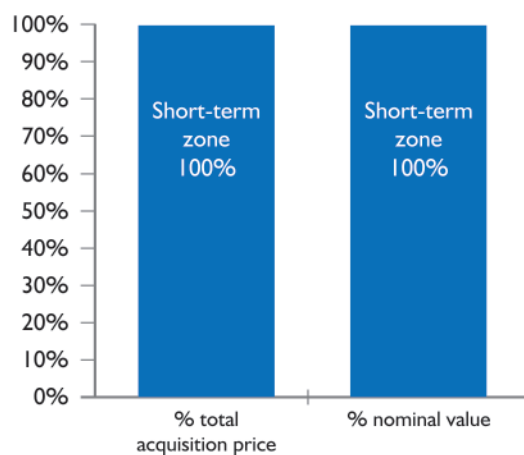
## Distribution of the Reserve Fund

Financial assets - C/A balance



● Financial Assets    ○ C/A balance

Portfolio by zones



## Average annualised returns \*

15 years	10 years	5 years	3 years	1 year
3.78%	3.03%	0.24%	-0.25%	-0.30%

\* On page 34, average annualised returns on the Reserve Fund are compared with private pension plans (individual system).

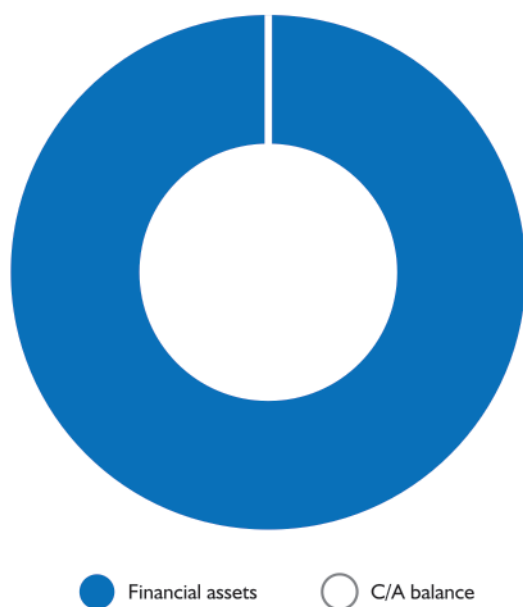


### 3. Financial situation of Reserve Fund as of 31 December 2019

As of 31 December 2019, the balance and distribution of the Reserve Fund was as follows:

1. Financial assets .....	2,153,451,040.02€
(At total acquisition price <sup>1</sup> )	
2. Current account balance (C/A) .....	6,375.06€
(Deposited in the account open with the Banco de España)	
Reserve Fund Total .....	2,153,457,415.08€

#### Distribution of the Reserve Fund



The Reserve Fund balance represented 0.18% of Gross Domestic Product (according to data from the INE based on CNE-2010, published on 30 December 2019, GDP for 2018 was 1,202,193 million euros).

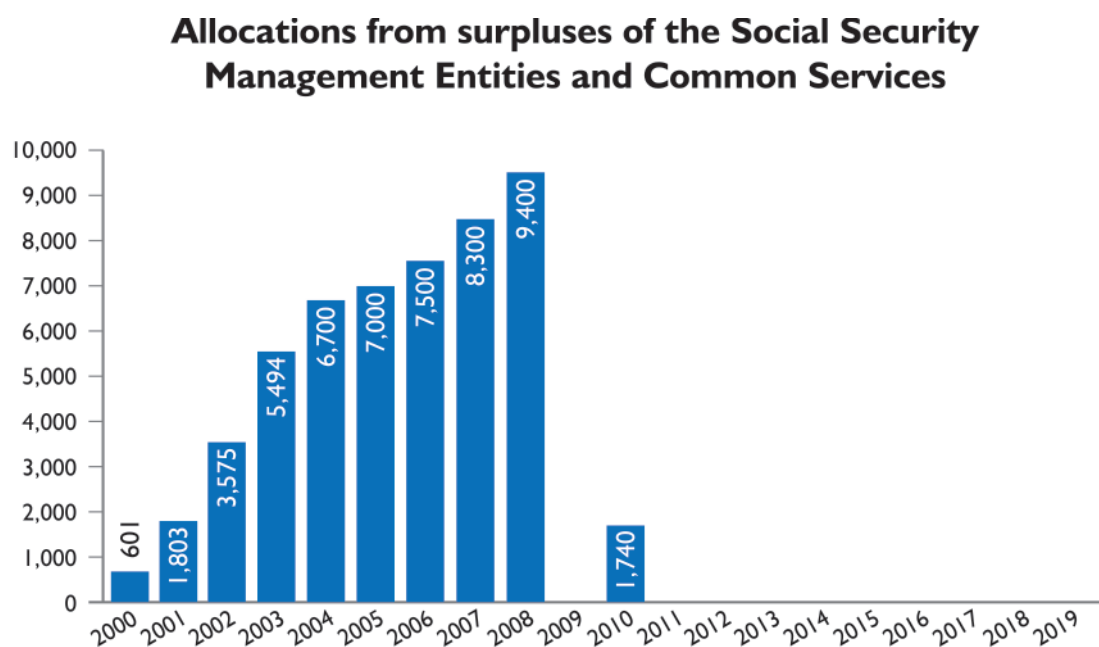
The market value of the Reserve Fund as of 31 December 2019 was 2,146.37 million euros, 0.18% of Gross Domestic Product.

<sup>1</sup> Total acquisition price is known as the "dirty" price because it includes the amount paid for any accrued - but not collected - coupon interest for the asset. The inclusion of this amount means that the amounts received when the asset matures or is disposed of have to be adjusted in the opposite direction to prevent them from being calculated twice. Nevertheless, from an accounting perspective, as of 31 December 2019, Public Debt assets comprising the Social Security Reserve Fund are classified as "Financial assets available for sale" and, therefore, at the end of the year their value was booked at the subsequent value (2,142,234,140.50 euros).

## 4. Performance of the Reserve Fund

### 4.1. Allocations

The allocation to the Reserve Fund agreed by the Council of Ministers, charged to the budgetary surpluses of the Social Security Management Entities and Common Services<sup>2</sup>, from the first allocation approved in the year 2000 up to 31 December 2019, stand at 52,113 million euros, and are presented in the chart below:



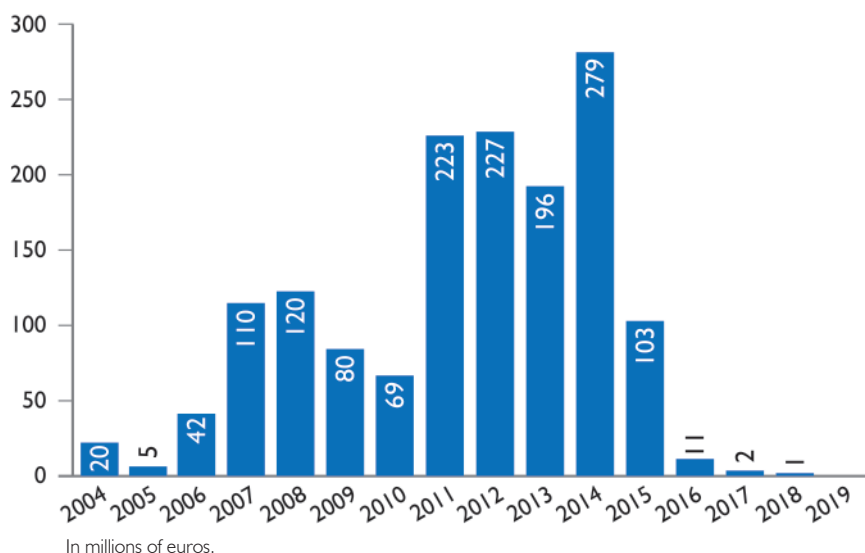
In millions of euros.

The amounts allocated in the form of surpluses arising from the management on the part of the Mutual Societies collaborating with Social Security in the provision of temporary incapacitation benefits for non-work-related illness or injury stand at 1,488 million euros as of 31 December 2019 and were lodged into the Reserve Fund's exclusive account. They are presented in the chart overleaf, according to day of lodgement:

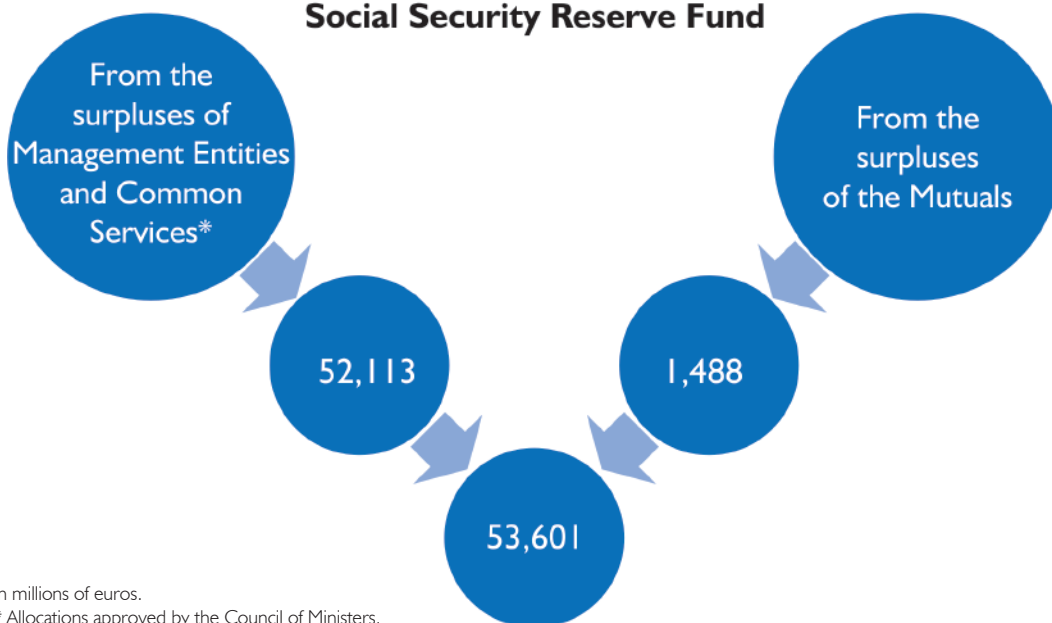
<sup>2</sup> Allocations approved by the Council of Ministers.

#### 4. Performance of the Reserve Fund

##### Allocations from surpluses Mutual Societies collaborating with the Social Security

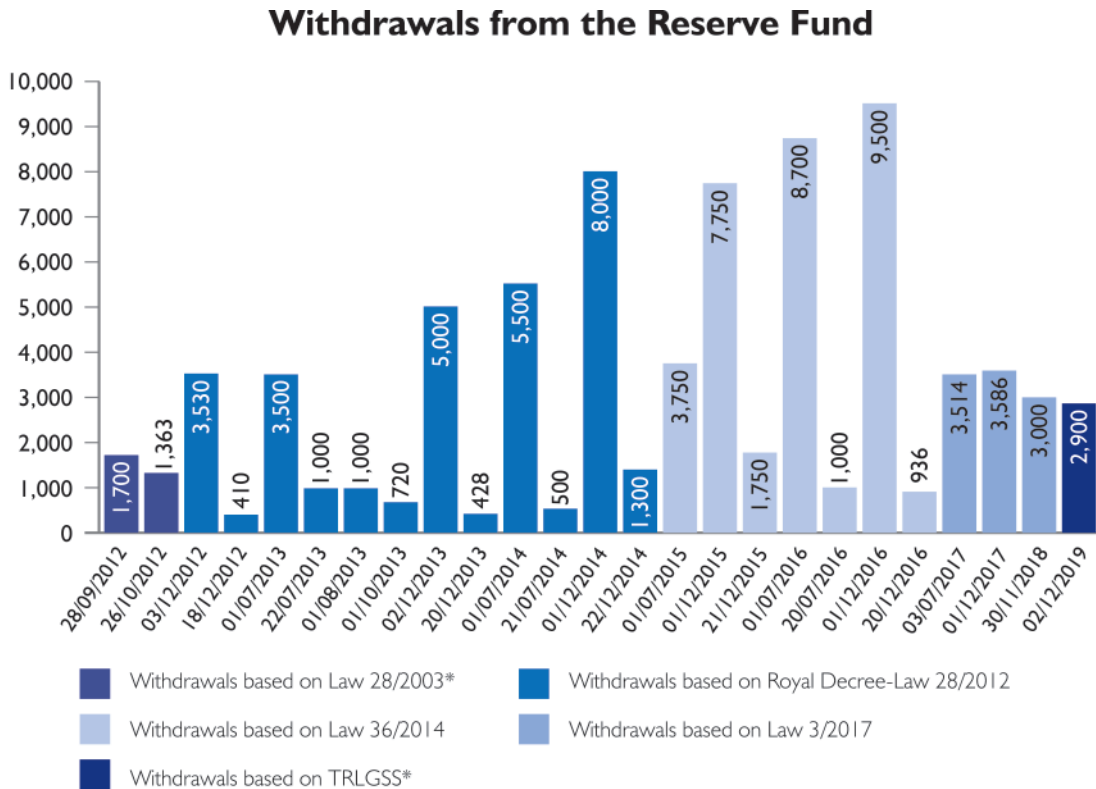


##### Summary of allocations to the Social Security Reserve Fund



### 4.2. Disposals

The withdrawals from the Reserve Fund in the years 2012 to 2019 amount to 80,337 million euros and are presented in the chart below:



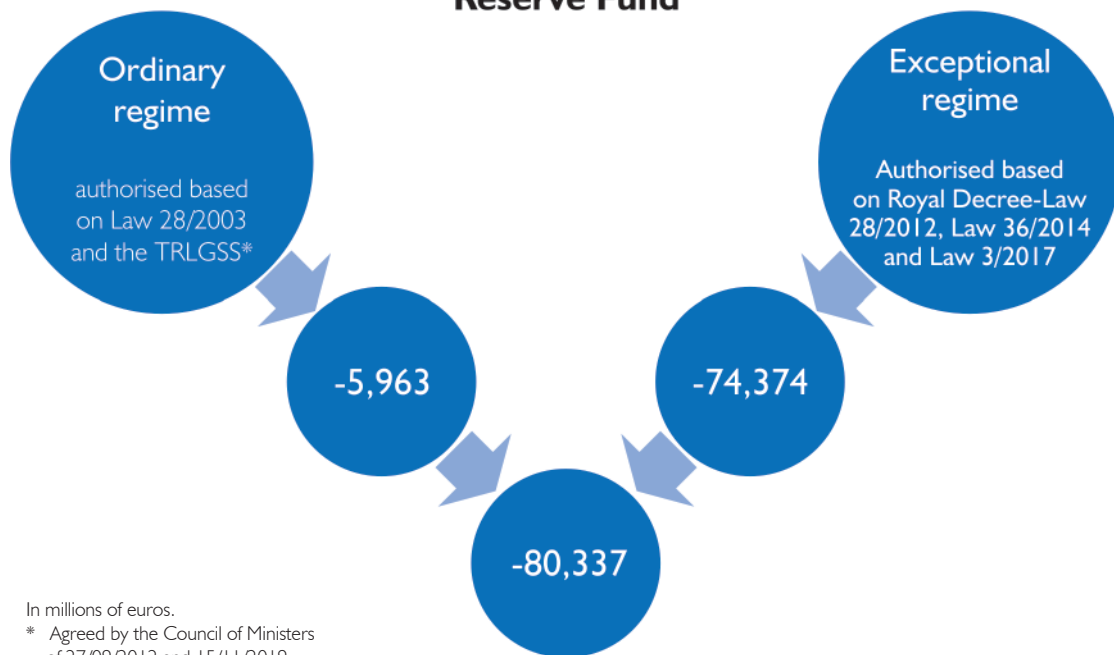
In millions of euros.

\* Agreed by the Council of Ministers of 27/09/2012 and 15/11/2019.



#### 4. Performance of the Reserve Fund

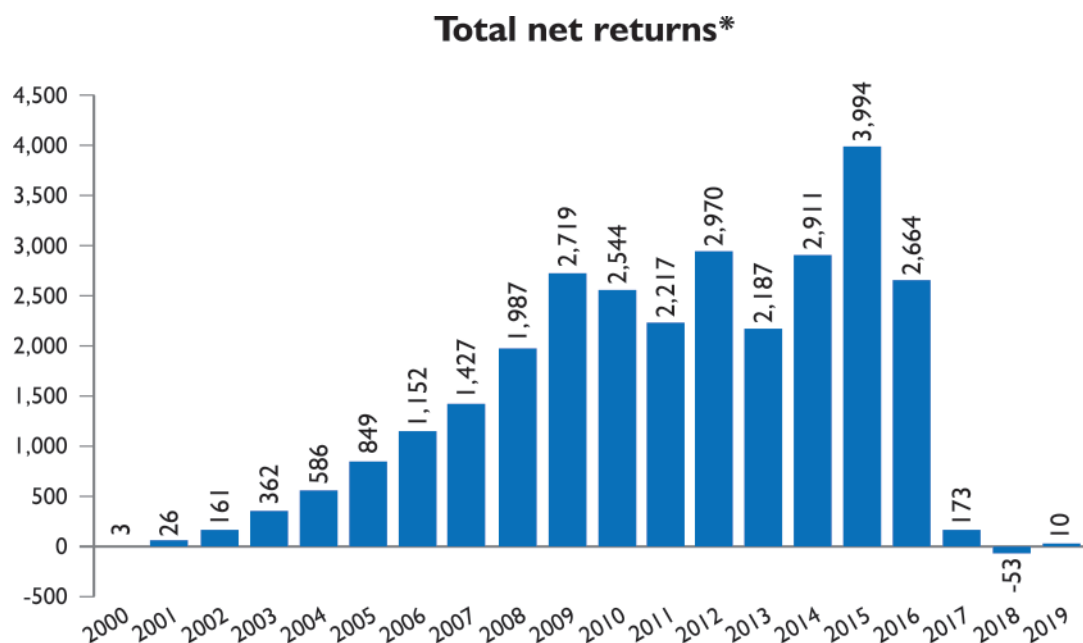
##### Summary of withdrawals from the Social Security Reserve Fund



## 4. Performance of the Reserve Fund

### 4.3. Returns

Net returns from the first allocation to the Reserve Fund, approved in the year 2000, up to 31 December 2019, stand at 28,889 million euros. The breakdown by years is shown in the chart below:



In millions of euros.

\* The amounts reflected in the chart include the accounting adjustments made in each year in the redemption and disposal of assets (implicit returns and accrued interest). In 2019, coupons for the amount of 58 million euros were collected, although the final net return figure (10 million euros) includes the accounting adjustments applied at the time of redemption of the assets; the amount of these adjustments was lower than the coupons collected, hence the positive value (see detail on page 29).

## 4. Performance of the Reserve Fund

### 4.4. Performance

#### General performance of the Reserve Fund (Allocations, withdrawals and returns)

Accumulated data	Years 2000 to 2011	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019
<b>1. Allocations</b>	<b>52,782</b>	<b>53,008</b>	<b>53,205</b>	<b>53,484</b>	<b>53,587</b>	<b>53,598</b>	<b>53,600</b>	<b>53,601</b>	<b>53,601</b>
1.a Agreement of the Council of Ministers*	52,113	52,113	52,113	52,113	52,113	52,113	52,113	52,113	52,113
1.b Surplus of Mutuals **	669	895	1,092	1,371	1,474	1,485	1,487	1,488	1,488
<b>2. Withdrawals***</b>		<b>-7,003</b>	<b>-18,651</b>	<b>-33,951</b>	<b>-47,201</b>	<b>-67,337</b>	<b>-74,437</b>	<b>-77,437</b>	<b>-80,337</b>
<b>3. Net returns generated</b>	<b>14,033</b>	<b>17,003</b>	<b>19,190</b>	<b>22,101</b>	<b>26,095</b>	<b>28,759</b>	<b>28,932</b>	<b>28,879</b>	<b>28,889</b>
3.a Returns generated****	14,718	17,922	20,233	23,377	27,584	30,510	30,802	30,793	30,818
3.b Adjustments for redemption/ disposal of assets	-685	-919	-1,043	-1,276	-1,489	-1,751	-1,870	-1,914	-1,929
<b>Total</b>	<b>66,815</b>	<b>63,008</b>	<b>53,744</b>	<b>41,634</b>	<b>32,481</b>	<b>15,020</b>	<b>8,095</b>	<b>5,043</b>	<b>2,153</b>

In millions of euros.

Situation as of 31 December each year.

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

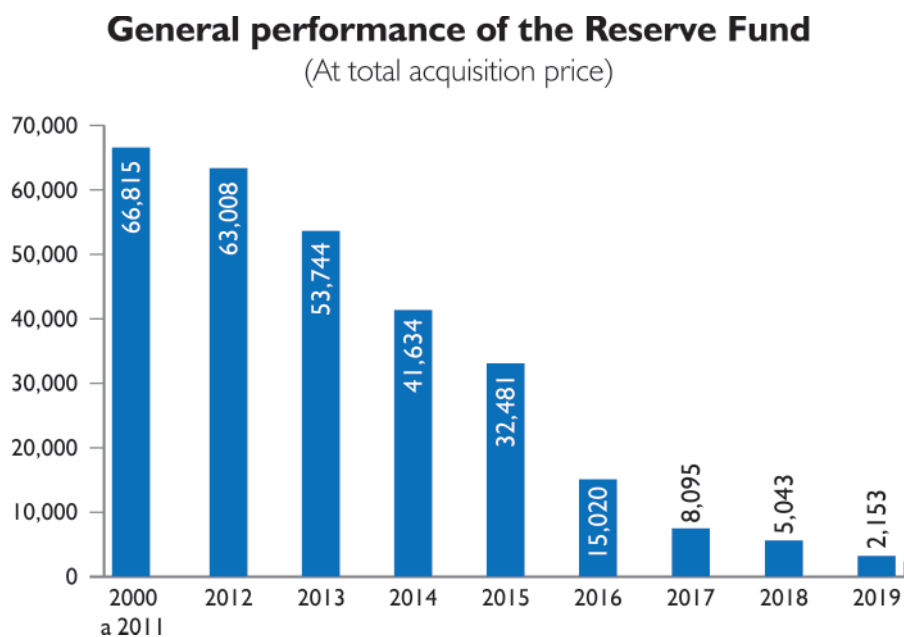
\*\* Derived from management by the Mutual Societies collaborating with the Social Security in the provision of the temporary incapacitation benefit for non-work-related illness or injury.

\*\*\* By Agreement of the Council of Ministers of 27/09/2012, First additional provision of Royal Decree-Law 28/2012 of 30 November, Tenth additional provision of Law 36/2014 of 26 December, One hundred and twelfth additional provision of Law 3/2017 of 27 June and the Agreement of the Council of Ministers of 15/11/2019

\*\*\*\* Interest on current account, assets returns, results of disposal transactions and other income.

## 4. Performance of the Reserve Fund

The chart below shows the performance of the Reserve Fund by year:



In millions of euros.  
Situation as of 31 December each year.



# 5. Actions in 2019

## 5.1. Investment and management criteria applied in 2019

- The Social Security Reserve Fund will invest in Spanish Public Debt and may invest in the Public Debt of Germany, France and the Netherlands and in assets issued by the ICO (Instituto de Crédito Oficial). All assets must be issued in euros, be of high credit quality and be traded on regulated markets or organised trading systems.
- Investment in the Public Debt of non-Spanish issuers approved by the Management Committee of the Social Security Reserve Fund will be limited to ensure that the total amount of foreign debt in the portfolio does not exceed the limit of 55% at par value
- Where market conditions are favourable, assets may be disposed of subject to security, return and diversification criteria.
- The Social Security Reserve Fund will be managed in a manner that takes into account the time frame determined by the planning of the State Secretariat of the Social Security (now State Secretariat of Social Security and Pensions) in relation to future incoming cash flows and the withdrawal of funds to cover contributory pensions.
- The structuring of the maturity dates of the portfolio's securities must be balanced in such a way to avoid excessive concentrations of maturity dates per period.
- The Spanish securities of the Social Security Reserve Fund will be diversified to avoid any concentrations of a single product in the portfolio, whose weighting with respect to the nominal live balance must not exceed 16% as a general rule. However, this maximum percentage of each product may increase from 16% to 35% for those products where strictly necessary to comply with investment conditions. All of the above without prejudice to the issuer's policy, which will not automatically condition the investment decisions of the Fund. Moreover, this 35% limit may be exceeded in exceptional cases for specific short-term products considered appropriate for investment.
- The nominal volume of the total of Spanish Public Treasury products in the portfolio of the Social Security Reserve Fund with respect to total Treasury debt in circulation (bills, short and long-term bonds), excluding foreign currency issuances, must not exceed 12%.
- At the time of investment, priority will be given to the purchase of Benchmark products in the portfolio.
- For the purpose of the valuation established in the General Public Accounting Plan, Public Debt assets comprising the Social Security Reserve Fund will be reclassified as "Investments held to maturity" to "Financial assets available for sale".

### 5.2. Agreements of the Management Committee in the year 2019

In 2019, the management actions of the Social Security Reserve Fund were based on two Agreements adopted by the members of the Management Committee. The investment strategy of the Social Security Reserve Fund has been conditioned by the following factors:

- Reserve Fund withdrawal needs.
- Historically low interest rates, including negative values.
- Minimal returns on Spanish debt, including negative returns on the shortest terms.
- European Central Bank Decisions of June 2014 establishing the negative remuneration of Public Administration accounts held with the central banks of each country, at the rate applicable to the Deposit Facility (reduced by 10 basis points on 18 September 2019 to -0.50%).

#### 5.2.1 Agreement adopted by the Management Committee in March 2019

##### 5.2.1.1. Agreements adopted

In March 2019, by unanimous agreement of all members of the Social Security Reserve Fund Management Committee, the following Agreement was adopted:

- With respect to the cashflows generated over the course of the year 2019:
  - To reinvest in Spanish Public Debt assets with maturity dates prior to 2 December 2019, with preference for products maturing closest to the month of December, provided their returns are better than the deposit facility rate.
  - Execute “repo” transactions maturing before 2 December 2019 provided that the interest rate differs from the Deposit Facility rate by at least 5 basis points (that is, the interest rate must be at least -0.35%).
  - In the event that the conditions to execute the aforementioned investments do not arise, the amount shall remain in the current account.

On 12 September 2019, the European Central Bank announced a reduction of the Deposit Facility rate by 10 basis points, to -0.50 %, coming into effect on 18 September 2019.

On 2 October 2019, as a consequence of this change in the Deposit Facility, the members of the Management Committee and the Banco de España (agent bank) were informed of the change in investment conditions and, therefore, all products in the purchase orders issued at the Deposit Facility rate should be understood to be subject to the rate in force upon initiation of the transaction.

## 5. Actions in 2019

### 5.2.1.2. Execution of the agreements

In relation to cash flows generated over the course of 2019 and in order to have the full amount available before 2 December 2019, the following acquisitions of Spanish financial assets were carried out:

- Transactions for the acquisition of Spanish financial assets, executed on the secondary market, with a value date of 5 April 2019:

### Financial asset acquisitions April 2019

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR on acquisition %	Deposit facility rate %
Government Long-term Bonds (4.30%) ES0000012106	31/10/2019	25,232,771.50	24,140,000.00	-0.379	-0.40
Treasury Bills ES0L01911152	15/11/2019	50,115,689.29	50,000,000.00	-0.371	-0.40
<b>Total</b>		<b>75,348,460.79</b>	<b>74,140,000.00</b>	<b>-0.373*</b>	

In euros.

\* Weighted average IRR calculated on acquired par value

- “Repo” transactions between 4 and 6 November 2019 for the effective amount of 923,414,999.12 euros with a maturity date of 29/11/2019 at an interest rate of -0.45%.
- The total amount of the flows could not be invested as there were no conditions establish in the purchase orders.

### 5.2.2. Agreement adopted by the Management Committee in October 2019

#### 5.2.2.1 Agreements adopted

The amount withdrawn from the Reserve Fund in 2019 in accordance with Article 121 of the Recast Text of the General Social Security Act, cannot exceed the limit of 3% of the initial credit of expenditure on contributory pension and other costs necessary for management. Said limit was set at 3,598 million euros, therefore, after if the maximum permitted withdrawal were to be made from the Reserve Fund, there would be a non-invested account balance. For this reason, for the purpose of minimising the impact of negative remuneration of flows not allocated to the December withdrawal, by unanimous agreement of the members of the Social Security Reserve Fund Management Committee in October 2019, the following Agreement was approved:

## 5. Actions in 2019

- With regard to cash flows generated over the course of the year 2019 not allocated to the December withdrawal, and for the purpose of minimising the effect of negative interest rates:
  - To reinvest in Spanish Public Debt assets with maturity dates prior to December 2020, with preference for products maturing closest to the month of December, provided their returns are better than the deposit facility rate.
  - In the event that the conditions to execute the aforementioned investments do not arise, the amount shall remain in the current account.
- With regard to the rest of the cash flows arising over the course of 2019, eligible for the December withdrawal, the investment proposal approved by the members of the Social Security Reserve Fund Management Committee in March of 2019 remains in force.

### 5.2.2.2. Execution of the agreements

With regard to cash flows arising over the course of 2019 not allocated to the December withdrawal, the following transactions for the acquisition of Spanish financial assets were carried out:

- Transactions for the acquisition of Spanish financial assets, executed on the secondary market, with a value date of 16 October to 16 December 2019:

### Financial asset acquisitions October-December 2019

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value	Average IRR on acquisition %	Deposit facility rate %
Treasury Bills ES0L02009113	11/09/2020	549,356,521.68	547,238,000.00	-0.463	-0.50
Treasury Bills ES0L02010095	09/10/2020	452,136,482.10	450,000,000.00	-0.479	-0.50
Government Long-term Bonds (4.85%) ES00000122T3	31/10/2020	544,193,362.39	510,900,000.00	-0.482	-0.50
Letras del Tesoro ES0L02011135	13/11/2020	607,764,673.85	605,000,000.00	-0.452	-0.50
<b>Total</b>		<b>2,153,451,040.02</b>	<b>2,113,138,000.00</b>	<b>-0.468*</b>	

In euros.

\* Weighted average IRR calculated on acquired par value



## 5. Actions in 2019

### 5.3. Summary of agreements in year 2019

During the year 2019, Spanish financial assets were acquired for a total acquisition price of 2,228,799,500.81 euros, through transactions in the secondary market. The details of the acquisitions carried out are presented 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 %	Deposit facility rate %
Government Long-term Bonds (4.30%) ES0000012106	31/10/2019	25,232,771.50	24,140,000.00	-0.379	-0.40
Treasury Bills ES0L01911152	15/11/2019	50,115,689.29	50,000,000.00	-0.371	-0.40
Treasury Bills ES0L02009113	11/09/2020	549,356,521.68	547,238,000.00	-0.463	-0.50
Treasury Bills ES0L02010095	09/10/2020	452,136,482.10	450,000,000.00	-0.479	-0.50
Government Long-term Bonds (4.85%) ES00000122T3	31/10/2020	544,193,362.39	510,900,000.00	-0.482	-0.50
Treasury Bills ES0L02011135	13/11/2020	607,764,673.85	605,000,000.00	-0.452	-0.50
<b>Total</b>		<b>2,228,799,500.81</b>	<b>2,187,278,000.00</b>	<b>-0.465*</b>	

In euros.

\* Weighted average IRR calculated on acquired par value.

## 6. Key data for Reserve Fund as of 31 December 2019

As of 31 December 2019 the total acquisition price<sup>3</sup> of the portfolio of assets that comprise the Social Security Reserve Fund stands at 2,153,451,040.02 euros.

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

### Portfolio distribution by zones

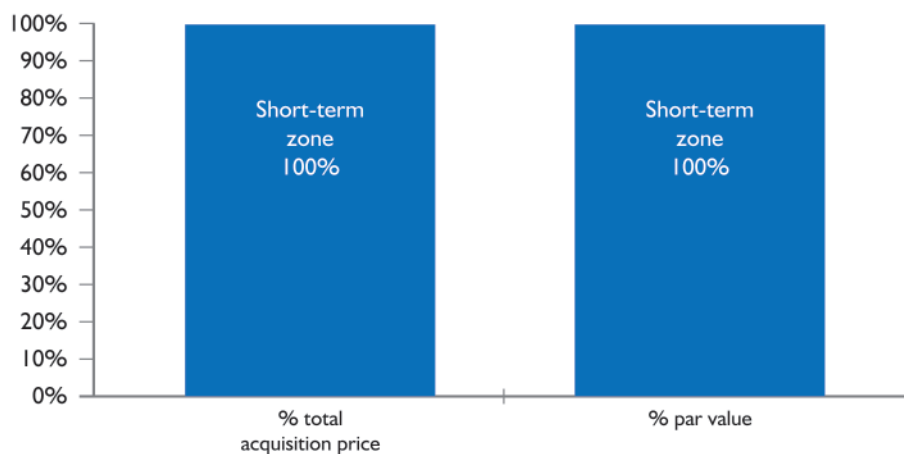
Assets	Total acquisition price	%	Par value	%
Short-term zone	2,153,451,040.02	100	2,113,138,000.00	100
<b>Total</b>	<b>2,153,451,040.02</b>	<b>100</b>	<b>2,113,138,000.00</b>	<b>100</b>

In euros.

**Zone distribution criteria:**

Short term: maturity up to 12 months in relation to 31/12/19 for harmonisation with the accounting criterion.

### Portfolio distribution by zones



<sup>3</sup> To repeat the observation made in note 1 (page 8) on the consideration of the coupon collected at total acquisition price.

## 6. Key data for Reserve Fund as of 31 December 2019

The following table provides an itemisation by type of asset and references of the portfolio's composition at 31 December 2019:

### Reserve Fund portfolio composition

Financial asset description and issue reference	Redemption date	Total acquisition price	Par value
<b>I) SHORT-TERM ZONE</b>			
Treasury Bills ESOL02009113	11/09/2020	549,356,521.68	547,238,000.00
Treasury Bills ESOL02010095	09/10/2020	452,136,482.10	450,000,000.00
Government Long-term Bonds (4.85%) ES00000122T3	31/10/2020	544,193,362.39	510,900,000.00
Treasury Bills ESOL02011135	13/11/2020	607,764,673.85	605,000,000.00
<b>Total</b>		<b>2,153,451,040.02</b>	<b>2,113,138,000.00</b>
<b>(I) Total public financial assets as of 31/12/2019</b>		<b>2,153,451,040.02</b>	<b>2,113,138,000.00</b>

In euros.

See zone distribution criteria on page 21

# 7. Analysis of Reserve Fund profitability as of 31 December 2019

## 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 to 31 December 2019, the returns obtained can be broken down into coupons, implied net returns, results of divestiture transactions, other income and interest obtained on the Fund's current account. The net returns include the adjustments made when the assets are redeemed or disposed of for accrued interest paid upon acquisition.

With respect to coupons, a total of 26,385,171,655.66 euros has been collected, distinguishing between interest collected on the maturity date of 25,533,679,381.76 euros, and interest obtained at the time of asset divestiture of 851,492,273.90 euros, broken down as follows:

### Coupons collected at 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			573,667,848.00
2018			183,329,300.00
2019	30/04/2019	3,437,500.00	57,828,185.00
	30/07/2019	26,341,210.00	
	31/10/2019	28,049,475.00	
<b>Total</b>			<b>25,533,679,381.76</b>

In euros.

## 7. Analysis of Reserve Fund profitability as of 31 December 2019

### Coupons collected upon divestiture of assets

Year	Amount
2009	156,913,647.84
2010	91,216,232.39
2011	
2012	58,802,906.46
2013	
2014	147,071,866.64
2015	239,048,434.14
2016	158,439,186.43
2017	
2018	
2019	
<b>Total</b>	<b>851,492,273.90</b>

In euros.

## 7. Analysis of Reserve Fund profitability as of 31 December 2019

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

### Implied net returns

Year	Of securities redeemed	Of securities divested	Total amount
2002	6,714,260.00		6,714,260.00
2003	17,220,919.74		17,220,919.74
2004	-14,800,848.92		-14,800,848.92
2005	7,627,818.36		7,627,818.36
2006	-14,445,823.13		-14,445,823.13
2007	-100,368,613.40		-100,368,613.40
2008	-70,394,705.16		-70,394,705.16
2009	-144,330,440.02	32,526,580.28	-111,803,859.74
2010	-65,155,129.73	-32,623,033.13	-97,778,162.86
2011	-352,313,679.93		-352,313,679.93
2012	-193,164,725.87	90,528,546.56	-102,636,179.31
2013	-251,607,366.30		-251,607,366.30
2014	-199,697,478.25	-89,181,162.29	-288,878,640.54
2015	-98,723,767.46	-96,604,608.60	-195,328,376.06
2016	105,013,436.76	-35,531,397.33	69,482,039.43
2017	-281,342,264.90		-281,342,264.90
2018	-192,464,934.27		-192,464,934.27
2019	-32,096,564.27		-32,096,564.27
<b>Total</b>	<b>-1,874,329,906.75</b>	<b>-130,885,074.51</b>	<b>-2,005,214,981.26</b>

In euros.

## 7. Analysis of Reserve Fund profitability as of 31 December 2019

The result from divestiture transactions stands at 6,118,911,481.05 euros and is broken down as follows:

### Result of divestiture transactions

Year	Amount
2009	498,913,390.60
2010	185,377,136.85
2011	
2012	478,199,906.83
2013	
2014	1,041,120,454.32
2015	2,373,983,076.82
2016	1,541,317,515.63
2017	
2018	
2019	
<b>Total</b>	<b>6,118,911,481.05</b>

In euros.

With regard to other incomes, these are broken down by year and item below:

### Other income

Year	Dual security based swap transactions	"Repo" transactions	Compensation for Mutual Societies' late income (1)	Interest for counterpart failure (2)	Total
2007	44,755.52				44,755.52
2008	45,023.25		78,017.23		123,040.48
2009	11,269.09				11,269.09
2010					
2011	53,087.31				53,087.31
2012	40,254.17				40,254.17
2013	27,607.08				27,607.08
2014	24,001.92	22,183.54			46,185.46
2015		-1,947,508.57			-1,947,508.57
2016		-2,799,470.39			-2,799,470.39
2017					
2018				5,168.94	5,168.94
2019		-281,196.55		5,498.84	-275,697.71
<b>Total</b>	<b>245,998.34</b>	<b>-5,005,991.97</b>	<b>78,017.23</b>	<b>10,667.78</b>	<b>-4,671,308.62</b>

In euros.

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

(2) Interest paid for counterpart failure in financial assets acquisition transactions.

## 7. Analysis of Reserve Fund profitability as of 31 December 2019

In terms of interest accrued and paid on the current account held in the Banco de España, from the year 2000 up to 31 December 2019, the following amounts have been obtained:

### Interest on current account

Year	Amount
2000	2,779,240.69
2001	7,500,828.26
2002	33,507,299.15
2003	16,991,616.34
2004	35,243,455.27
2005	24,341,090.96
2006	33,743,035.77
2007	38,559,185.51
2008	93,906,295.36
2009	18,618,272.71
2010	4,359,772.06
2011	9,664,584.45
2012	3,160,265.51
2013	1,404,582.21
2014*	454,059.59
2015*	
2016*	
2017*	
2018*	
2019*	
<b>Total</b>	<b>324,233,583.84</b>

In euros.

\* The data for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). In the periods 2015 to 2019, the account has ceased to be remunerated at positive rates.



## 7. Analysis of Reserve Fund profitability as of 31 December 2019

Finally, with respect to the adjustments for redemption and divestiture of assets, the following amounts were obtained:

### Adjustments for redemption/disposal of assets

Year	Adjustments for redemption of assets	Adjustments for divestiture of assets	Amount
2003	-10,127,671.24		-10,127,671.24
2004	-27,994,229.11		-27,994,229.11
2005	-40,342,926.12		-40,342,926.12
2006	-37,745,774.46		-37,745,774.46
2007	-46,818,106.24		-46,818,106.24
2008	-71,255,374.93		-71,255,374.93
2009	-86,417,563.25	-96,846,522.35	-183,264,085.60
2010	-86,764,239.58	-31,432,533.89	-118,196,773.47
2011	-149,585,272.90		-149,585,272.90
2012	-174,890,719.20	-58,398,804.46	-233,289,523.66
2013	-124,194,336.56		-124,194,336.56
2014	-110,321,460.64	-122,180,770.35	-232,502,230.99
2015	-56,834,529.01	-156,350,039.60	-213,184,568.61
2016	-125,743,980.33	-136,317,009.62	-262,060,989.95
2017	-119,418,296.60		-119,418,296.60
2018	-43,833,617.03		-43,833,617.03
2019	-15,144,819.63		-15,144,819.63
<b>Total</b>	<b>-1,327,432,916.83</b>	<b>-601,525,680.27</b>	<b>-1,928,958,597.10</b>

In euros.

## 7. Analysis of Reserve Fund profitability as of 31 December 2019

In summary, the global amounts obtained by the Reserve Fund, from the first allocation approved in the year 2000 up to 31 December 2019, are presented in the following table:

### Summary of net returns generated

Item	Amount
Coupons	26,385,171,655.66
Implied net returns (1)	-2,005,214,981.26
Result of divestiture transactions	6,118,911,481.05
Other income	-4,671,308.62
Adjustments for redemption/divestiture of assets (2)	-1,928,958,597.10
Interest on current account	324,233,583.84
<b>Total net return</b>	<b>28,889,471,833.57</b>

In euros.

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

The breakdown of net returns generated in 2019 is as follows:

### Summary of net returns generated in 2019

Item	Amount
Coupons	57,828,185.00
Implied net returns (1)	-32,096,564.27
Result of divestiture transactions	0.00
Other income	-275,697.71
Adjustments for redemption/divestiture of assets (2)	-15,144,819.63
Interest on current account	0.00
<b>Total net return 2019</b>	<b>10,311,103.39</b>

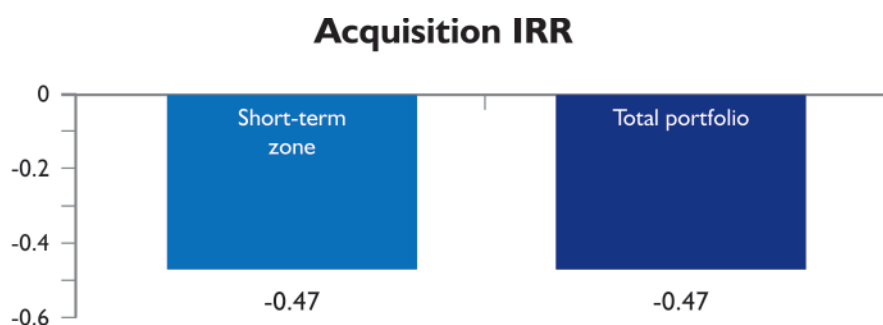
In euros.

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

## 7. Analysis of Reserve Fund profitability as of 31 December 2019

### 7.2. Return on fixed income assets: Public Debt

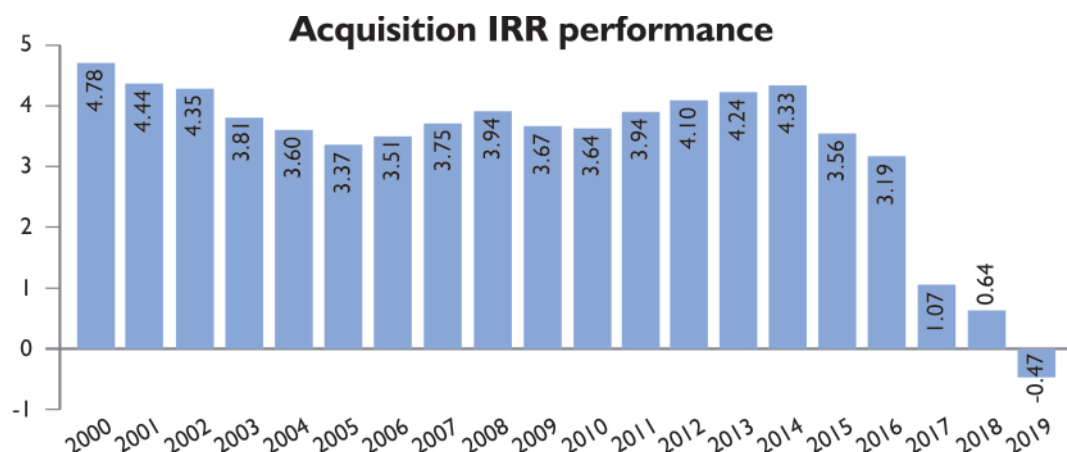
The profitability of the assets that comprise the Fund portfolio is defined in by the IRR (internal rate of return) of each security at the time of purchase. The acquisition IRR of the current portfolio, comprised of the securities acquired since December 2000 and which form part of the portfolio as of 31 December 2019, is calculated as a weighted average over the par value and stands at -0.47%, with the following breakdown:



Data in percentages.

Weighted average IRR calculated on acquired par value.

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



Data in percentages.

Weighted average IRR over acquired par value.

### 7.3. Return of the “General Treasury of the Social Security Special Reserve Fund” account. Art. 91.1 TRLGSS

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 Council of the European Central Bank of 5 June 2014, it was agreed that the applicable interest rate would be zero per cent, or the deposit facility rate if the latter were negative. Effective 11 June 2014, the Deposit Facility rate stood at -0.10% (currently, -0.50%).

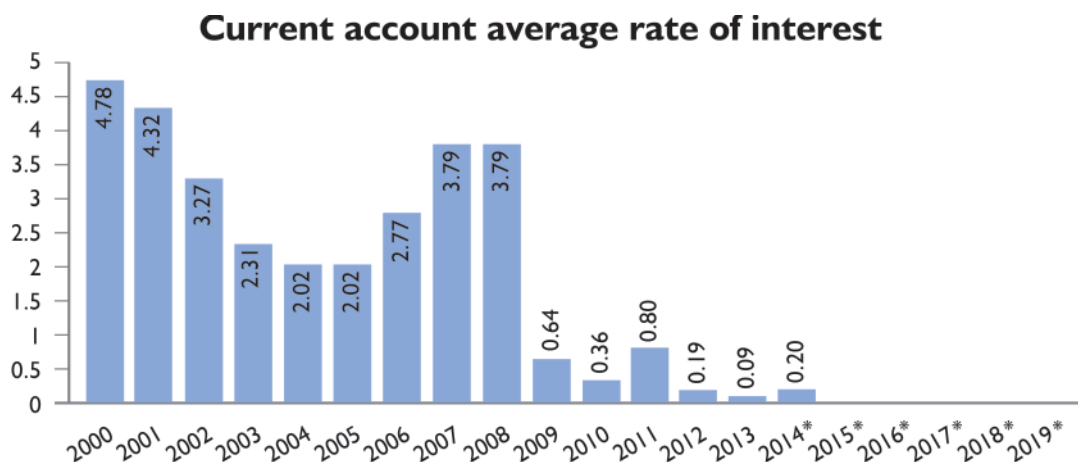
Since the above date, this measure would have been effective for all accounts owned by Public Sector entities, irrespective of whether or not they were remunerated. However, bearing in mind that the periods for calculation of the interest on the accounts coincide with calendar months, the Bank of Spain 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 Banco de España are remunerated at the Eonia interest rate whereas balances in excess of this amount are remunerated at the Deposit Facility rate.



## 7. Analysis of Reserve Fund profitability as of 31 December 2019

The annual averages of the rates applied are presented in the chart below:



Data in percentages.

\* The data for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). From July 2014 the Deposit Facility rate was applied, with the System assuming the negative interest generated. For this reason, the negative rates applied to the remuneration of accounts have not affected the balances of the Reserve Fund.

The performance of the Deposit Facility from June 2014 to 31 December 2019 is present in the table below:

### Deposit Facility rate 11 June 2014 to 31 December 2019

Date of change	Deposit Facility rate
11/06/2014	-0.10%
10/09/2014	-0.20%
09/12/2015	-0.30%
16/03/2016	-0.40%
18/09/2019	-0.50%

## 7.4. Profitability of the Social Security Reserve Fund

The cumulative return of the total Reserve Fund at 31 December 2019 (Reserve Fund securities portfolio plus current account balance) is calculated using the method approved by the Social Security Reserve Fund Management Committee at their meeting of 11 November 2005, which technically adjusts the method previously applied, by standardising it with that 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 divestiture, which makes it possible to adequately weight the contribution of each cash flow to the Fund's total return.

## 7. Analysis of Reserve Fund profitability as of 31 December 2019

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

For calculation purposes, the portfolio's market value as of 31 December 2019 has been taken into consideration based on the closing price of each security using Bloomberg, as a source, with the net asset value of the Reserve Fund as of 31 December 2019 standing at 2,146.37 million euros (2,146.36 million euros of portfolio and 0.01 million euros deposited in the current account).

Based on said method, the cumulative return of the Reserve Fund from its creation in 2000 up to 31 December 2019 stands at 104.16%, which in annualised terms represents 3.78%.

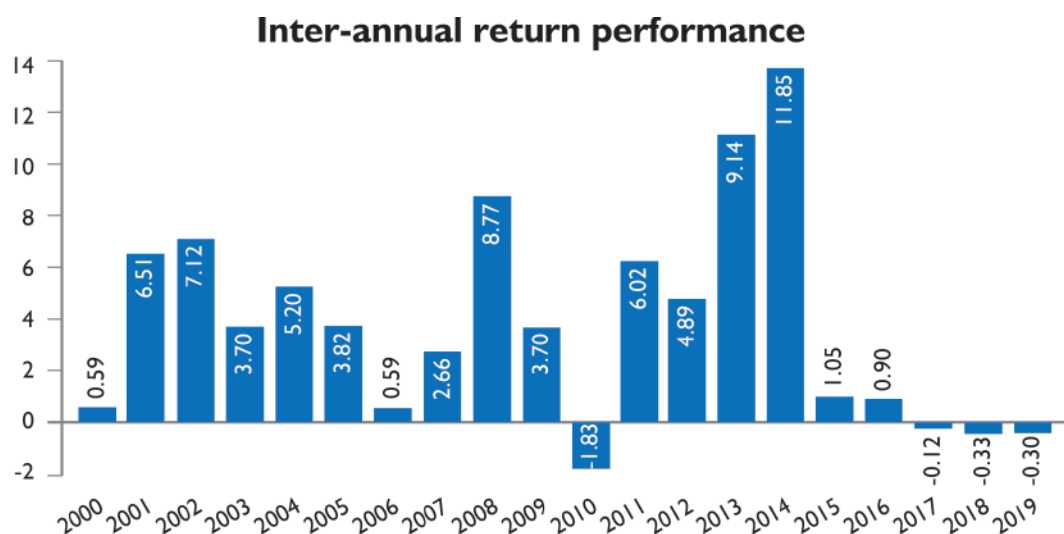
The performance of annualised cumulative return at the end of each period from the first allocation to the Reserve Fund approved by the Council of Ministers in the year 2000, is reflected in the chart below:



## 7. Analysis of Reserve Fund profitability as of 31 December 2019

The inter-annual return of the Reserve Fund in the year 2019 stands at -0.30%.

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



Data in percentages.

By way of summary, the following table presented average annualised returns for the Reserve Fund as of 31 December 2019, and how this compares with private pensions plans (individual system):

### Pension plan average annualised returns

	15 years	10 years	5 years	3 years	1 year
<b>SSRF</b>	3.78	3.03	0.24	-0.25	-0.30
<b>SHORT-TERM FIXED INCOME</b>	0.78	0.68	-0.18	-0.40	0.65
<b>LONG-TERM FIXED INCOME</b>	2.09	2.05	0.35	0.24	2.91
<b>TOTAL PENSION PLANS</b>	2.41	2.84	1.88	2.14	8.81

Data in percentages.

Annualized cumulative return as of 31/12/2019 compared to a 1, 3, 5 and 10 year period.

15-Year return is assimilated to returns since start of the Reserve Fund.

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

Source: TGSS; INVERCO.

## 7. Analysis of Reserve Fund profitability as of 31 December 2019

### 7.5. Summary of returns

The table below presents the percentages and the graphic representation of the performance of the Fund, analysed in detail in the previous sections:

#### Summary of returns

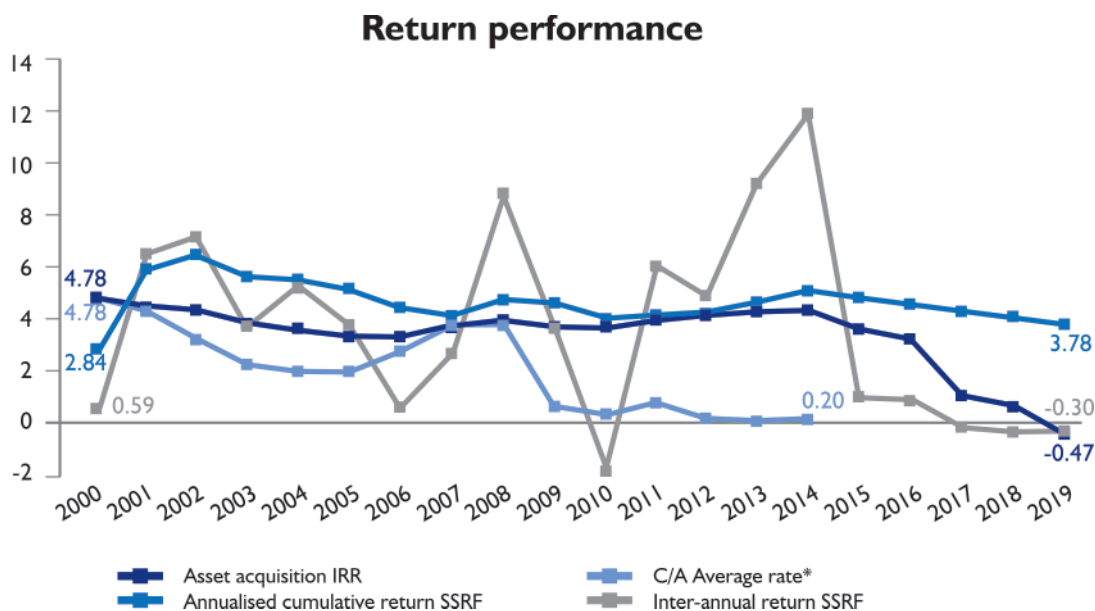
Year	Asset acquisition IRR	C/A Average rate	Annualised cumulative return	Inter-annual return
2000	4.78	4.78	2.84	0.59
2001	4.44	4.32	5.86	6.51
2002	4.35	3.27	6.43	7.12
2003	3.81	2.31	5.57	3.70
2004	3.60	2.02	5.48	5.20
2005	3.37	2.02	5.16	3.82
2006	3.51	2.77	4.41	0.59
2007	3.75	3.79	4.17	2.66
2008	3.94	3.79	4.71	8.77
2009	3.67	0.64	4.60	3.70
2010	3.64	0.36	3.96	-1.83
2011	3.94	0.80	4.14	6.02
2012	4.10	0.19	4.20	4.89
2013	4.24	0.09	4.56	9.14
2014	4.33	0.20*	5.06	11.85
2015	3.56	*	4.79	1.05
2016	3.19	*	4.55	0.90
2017	1.07	*	4.27	-0.12
2018	0.64	*	4.01	-0.33
2019	-0.47	*	3.78	-0.30

Data in percentages

\* The data for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). From July 2014 the Deposit Facility rate was applied, with the System assuming the negative interest generated. For this reason, the negative rates applied to the remuneration of accounts have not affected the balances of the Reserve Fund. See changes in Deposit Facility rate on page 32.



## 7. Analysis of Reserve Fund profitability as of 31 December 2019



Data in percentages.

\* The data for 2014 refers to the period during which the Eonia remuneration was in effect (from 1 January to 10 June). From July 2014 the Deposit Facility rate was applied, with the System assuming the negative interest generated. For this reason, the negative rates applied to the remuneration of accounts have not affected the balances of the Reserve Fund. See changes in Deposit Facility rate on page 32.



## 8. Forecasts

### 8.1. 2020

In the year 2020, taking the portfolio as of 31 December 2019 as a reference, coupons will reach maturity for an amount of 24,778,650 euros, broken down as follows:

#### Coupon maturity 2020

Maturity date	Amount
31/10/2020	24,778,650
<b>Total</b>	<b>24,778,650</b>

In euros.

2020 will also see maturity of public financial assets for the amount of 2,113,138,000 euros, broken down as follows:

#### Financial asset redemption 2020

Redemption date	Description of the asset	Par value
11/09/2020	Treasury Bills ES0L02009113	547,238,000
09/10/2020	Treasury Bills ES0L02010095	450,000,000
31/10/2020	Government Long-term Bonds (4.85%) ES00000122T3	510,900,000
13/11/2020	Treasury Bills ES0L02011135	605,000,000
<b>Total</b>		<b>2,113,138,000</b>

In euros.

## 8. Forecasts

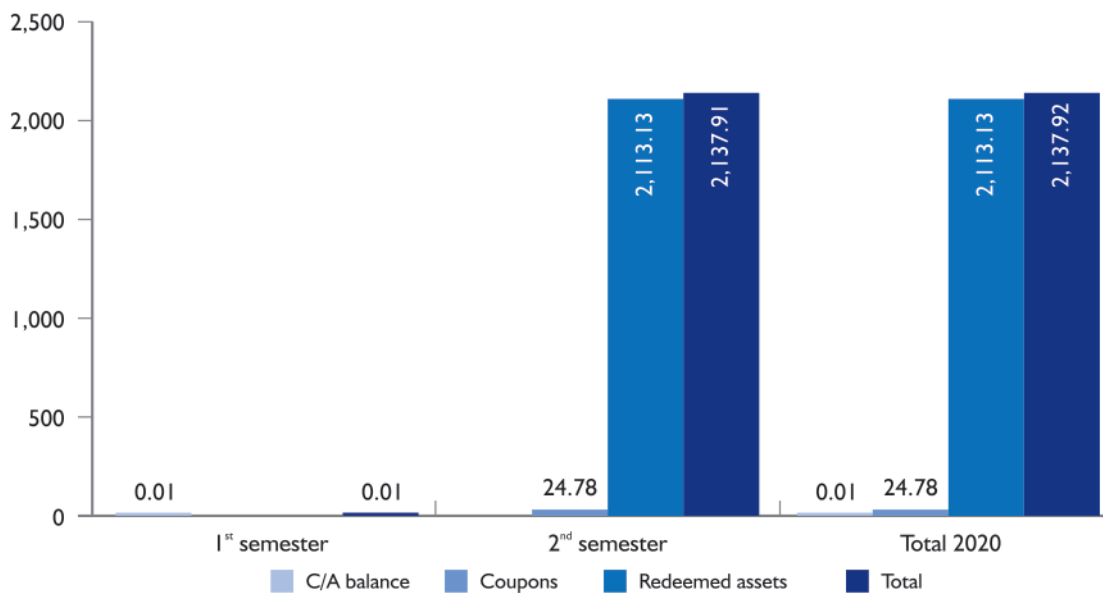
Projected cash flows for 2020 are shown in the table below with corresponding chart:

### Projected cash flows 2020

Period	C/A balance	Coupons	Redeemed assets	Total
First semester 2020	6,375.06			6,375.06
Second semester 2020		24,778,650.00	2,113,138,000.00	2,137,916,650.00
<b>Total</b>	<b>6,375.06</b>	<b>24,778,650.00</b>	<b>2,113,138,000.00</b>	<b>2,137,923,025.06</b>

In euros.

### Projected cash flows 2020



In millions of euros.

## 9. Comparison of key figures of Reserve Fund

This section presents a comparison of the Reserve Fund's value in 2019 compared to 2018, both in terms of the total acquisition price and market value, including its key figures. Finally, the evolution of its distribution at the total acquisition price is presented.

### Reserve Fund value comparison

Item	Year 2018	Year 2019
SSRF at total acquisition price	5,043.15	2,153.46
SSRF at market value	5,059.74	2,146.37

In millions of euros.

Data as of 31 December each year.

### Comparison of Reserve Fund's key figures

Item	Year 2018	Year 2019
Fixed income asset returns (IRR) acquisition	0.64%	-0.47%
Fixed income asset returns (IRR) market	-0.42%	-0.50%
Current account average rate	-	-
Annualised cumulative return SSRF	4.01%	3.78%
Inter-annual return SSRF	-0.33%	-0.30%
Level of concentration	0.52%	0.21%
Duration	0.58 years	0.80 years
Modified duration	0.59	0.80
% nominal value of foreign debt over portfolio total	0.00%	0.00%
% SSRF at total acquisition price over GDP*	0.42%	0.18%

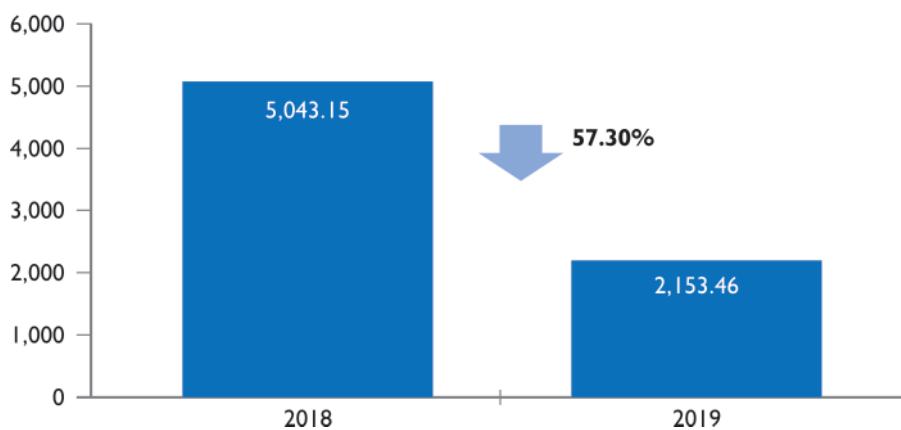
Data as of 31 December each year.

\* The data for 2018 and 2019 are expressed in relation to 2018 GDP (1,202,193 million euros) according to data from the INE, based on CNE-2010 published on 30 December 2019.

## 9. Comparison of key figures of Reserve Fund

The total sum for the Social Security Reserve Fund at total acquisition price as of 31 December 2019, shows the following performance with respect to the same date the previous year:

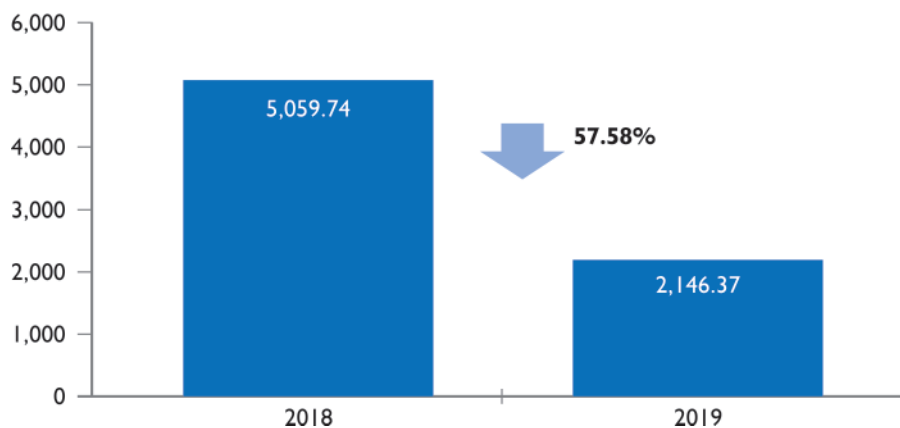
### Reserve Fund performance at total acquisition price



In millions of euros.  
Data as of 31 December each year.

Similarly, the performance of the Social Security Reserve Fund at market value is presented below:

### Reserve Fund performance at market value

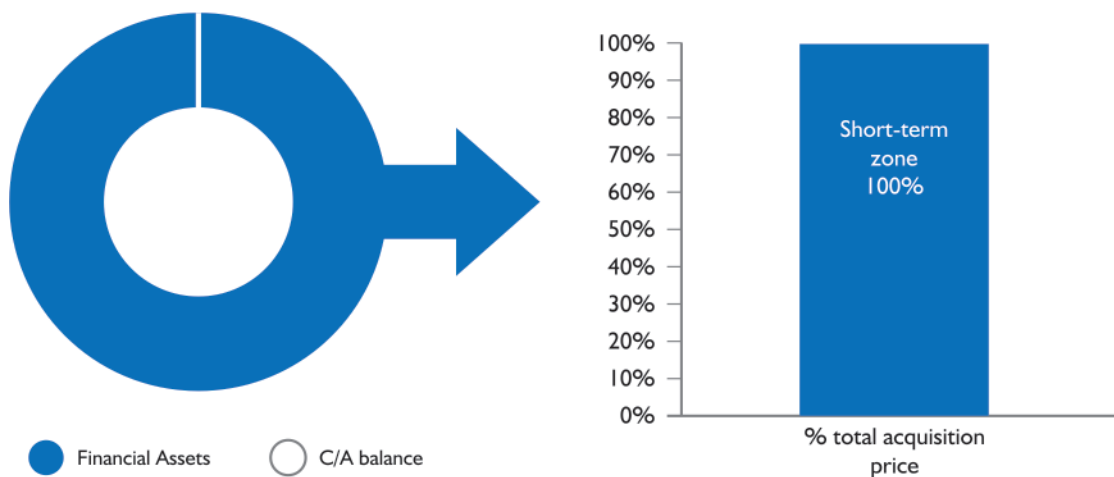


In millions of euros.  
Data as of 31 December each year.

## 9. Comparison of key figures of Reserve Fund

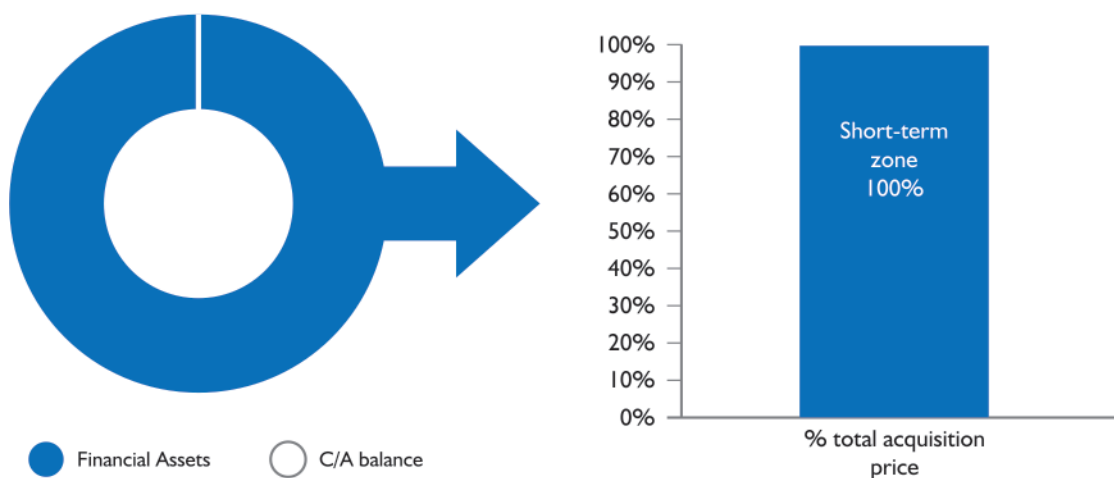
The Reserve Fund shows the following distribution at total acquisition price:

**2018**



Data as of 31 December.

**2019**



Data as of 31 December.

# Annex I. Economic and financial information on financial statements

The purpose of this report on actions in the year 2019 and the situation of the Reserve Fund as of 31 December 2019 which is presented to Parliament, pursuant to Article 127 of Royal Legislative Decree 8/2015, of 30 October, approving the recast text of the General Social Security Act, is to provide information on the management and actions taken throughout the year, which have been based on the decisions of the Management Committee as the senior management and control body. Specifically, it details the key data for the Reserve Fund as of 31 December 2019, such as its value, composition, distribution by portfolio, returns and market value. It also includes additional important information on the projected performance of the fund over the coming years, providing information on the cash flows of the Fund and allowing us to plan the corresponding management actions.

The aforementioned information is provided from a management perspective, with presentation of data, breakdown of information by terms and valuation at market prices, has a different focus, in specific sections, to the economic-financial information set out in the financial statements, in accordance with the applicable accounting principles.

Order EHA/I037/2010, of 13 April, approved the General Public Accounting Plan as a framework accounting plan for all Public Administrations.

Resolution of 1 July 2011 of the General Comptroller 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 Management Committee, based on the report of the Social Security General Audit Office, 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 comprise the Social Security Reserve Fund would be reclassified, effective from the 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 year 2019, 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 2019.

## Annex I. Economic and financial information on financial statements

### Financial situation of Reserve Fund as of 31 December 2019

Item	Amount
<b>Long-term debt securities available for sale</b>	0.00
• National Portfolio	0.00
• Eurozone Portfolio	0.00
<b>Short-term debt securities available for sale</b>	2,142,234,140.50
• National Portfolio	2,142,234,140.50
• Eurozone Portfolio	0.00
<b>Financial balance associated with the Social</b>	6,375.06
<b>Security Reserve Fund</b>	4,129,775.00
• National Portfolio	4,129,775.00
• Eurozone Portfolio	0.00
<b>Other short-term interest receivable</b>	0.00
<b>Total</b>	<b>2,146,370,290.56</b>

In euros.



## Annex II. Information on withdrawals from the Reserve Fund in the year 2019

The withdrawal from the Reserve Fund in the year 2019 has been carried out pursuant to the general provisions of Article 121 of Royal Legislative Decree 8/2015, of 30 October, approving the recast text of the General Social Security Act, which establishes that “The withdrawal of assets from the Reserve Fund shall be exclusively allocated to the financing of contributory pensions and other costs necessary for the management thereof, and shall only be possible in structural situations of deficit from non-financial transactions of the Social Security system and cannot in one year exceed three percent of the sum of both items and shall require the prior authorisation of the Council of Ministers, on the joint proposal of the heads of the Ministries of Employment and Social Security; Finance and Public Administration; and Economy and Competitiveness” (currently the Ministries of Inclusion, Social Security and Migration; Finance; and Economic Affairs and Digital Transformation).

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 may not exceed three percent of the amount of contributory pensions, requiring the prior authorisation of the Council of Ministers and must be allocated exclusively to the payment of contributory pensions and other costs necessary for the management thereof.

The Social Security General Audit Office, on 26 November 2019, proceeded to determine the provisional deficit for non-financial transactions for the purposes of the Social Security Reserve Fund for the year 2019, presenting the following data:



## Annex II. Information on withdrawals from the Reserve Fund in the year 2019

### 2019 deficit for Reserve Fund purposes

Item	Amount
<b>a) Total result from non-financial budgetary transactions year 2019</b>	-17,313.16
<b>b) Total adjustments made 2019</b>	-640.70
<b>Provisional budgetary result on the nature of contributory pensions 2019 (a+b)</b>	<b>-17,953.86</b>

In millions of euros.

As set out in Article 121 of the Recast Text of the General Social Security Act on the withdrawal of assets from the Fund, once a situation of structural deficit for non-financial transactions of the Social Security, the provision of assets of the Fund may not exceed 3% of the budgetary credit of the pensions of a contributory nature and other costs necessary for management. According to the calculations of the Social Security General Audit Office, this limit stands at an amount of 3,598.20 million euros.

On 15 November 2019, by Agreement of the Council of Ministers, the withdrawal from the Social Security Reserve Fund in the year 2019 was authorised for a maximum amount of 3,598.20 million euros, with the General Treasury for Social Security (TGSS as per the Spanish) responsible for determining the exact amount of the withdrawal from the fund on 2 December 2019. Said amount was established at 2,900 million euros and the Council of Ministers was duly informed.



## Annex II. Information on withdrawals from the Reserve Fund in the year 2019

The total withdrawals made, up to 31 December 2019, are presented in the table below:

### Total withdrawals from the Reserve Fund

Regulation	Year	Quarter	Date	Amount	Subtotal	Cumulative total
Council of Ministers Agreement of 27-09-2012	2012	3	28/09/2012	1,700		
		4	26/10/2012	1,363		
					3,063	3,063
Royal Decree-Law 28/2012 of 30 November	2012	4	03/12/2012	3,530		
			18/12/2012	410		
					3,940	7,003
	2013	3	01/07/2013	3,500		
			22/07/2013	1,000		
			01/08/2013	1,000		
		4	01/10/2013	720		
			02/12/2013	5,000		
			20/12/2013	428		
					11,648	18,651
	2014	3	01/07/2014	5,500		
			21/07/2014	500		
		4	01/12/2014	8,000		
			22/12/2014	1,300		
					15,300	33,951
Law 36/2014, of 26 December	2015	3	01/07/2015	3,750		
		4	01/12/2015	7,750		
			21/12/2015	1,750		
					13,250	47,201
	2016	3	01/07/2016	8,700		
			20/07/2016	1,000		
		4	01/12/2016	9,500		
			20/12/2016	936		
					20,136	67,337
Law 3/2017, of 27 June	2017	3	03/07/2017	3,514		
		4	01/12/2017	3,586		
					7,100	74,437
	2018	4	30/11/2018	3,000		
					3,000	77,437
Council of Ministers Agreement 15-11-2019	2019	4	02/12/2019	2,900		
					2,900	80,337

In millions of euros.

## **Annex II. Information on withdrawals from the Reserve Fund in the year 2019**

Furthermore, from the month of July on, significant financing needs arose to meet the payment of two monthly payments, ordinary and extraordinary, of Social Security pensions, and therefore, under the fourth additional provision of Law 6/2018, of 3 July, the General State Budgets Act for 2018, extended pursuant to Article 134.4 of the Spanish Constitution, a loan was granted to the General Treasury of the Social Security for the amount of 13,830.09 million euros. By Agreement of the Council of Ministers of 1 March 2019, the loan was granted to the General Treasury for the above amount, with a schedule of drawdowns agreed between the General Secretariat of the Treasury and International Financing and the General Treasury of the Social Security. Based on the schedule, in the first semester of 2019, the Treasury received 7,500 million euros and in the second semester of 2019 they received an amount of 6,330.09 million euros to meet ordinary and extraordinary pension payments which were paid in the months of July and December.

Finally, under Article 12 of Law 6/2018, of 3 July on General State Budgets for 2018, the State allocated 1,333.91 million euros to the Social Security to support its budgetary balance. This amount was received on 27 June 2019 (666 million euros) and 28 November 2019 (667.91 million euros).

Subsequently, Article 2 of Royal-Decree-Law 16/2019, of 18 November, adopting measures relating to the execution of the Budget of the Social Security, extended the credit of the transfer of the budgetary balance by 600 million euros, an amount which was received on 2 December 2019.

The above amounts allowed for the payment of the contributory pension obligations and other costs necessary the management thereof to be met.

