LORETO
MUTUA

2018

FONDLORETO PENSIONES, FONDO DE PENSIONES

Annual Accounts

Fondloreto Pensiones,
Fondo de Pensiones

The following documents form a single unit:

GESCONTROL
AUDITORES

AUDITOR'S REPORT ON THE ANNUAL ACCOUNTS ISSUED BY AN INDEPENDENT AUDITOR

To the Unitholders of
FONDLORETO PENSIONES, FONDO DE PENSIONES:

Opinion

We have audited the financial statements of **FONDLORETO PENSIONES, FONDO DE PENSIONES**, comprising the balance sheet as of 31 December 2018 and the related income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

In our opinion, the attached annual accounts give a true and faithful view of the equity and financial situation of **FONDLORETO PENSIONES, FONDO DE PENSIONES** in all significant aspects, as of 31 December 2018; as well as the profit and loss and cash flow for the year ended in the said date, in compliance with the applicable regulations on financial information (as stated in Note 2 of the Financial Statements) and, in particular, with the accounting principles and criteria stated therein.

Basis for the opinion

We have performed our audit work in accordance with the audit regulations in force in Spain. Our responsibilities regarding these regulations will be described later in the section called Auditor's Responsibility on the Audit of Annual Accounts of this Report.

We are independent to **FONDLORETO PENSIONES, FONDO DE PENSIONES** in compliance with the ethic requirements, including independency, which are applicable to our audits on financial statements in Spain, according to the current Spanish regulations. We have not provided any services other than auditing the financial statements, and our necessary independence has not been compromised by any event or circumstance, in accordance with the governing regulations.

We consider that the audit evidence that we have obtained provides us with a sufficient and adequate basis for our audit opinion.

Most relevant aspects of the audit

The most relevant aspects of the audit are those that, according to our professional judgment, have been considered as the most significant material misstatement risks in our audit of the financial statements of the current reporting period. These risks have been addressed in the context of our audit of the financial statements as a whole, and in the formation of our opinion on them, and we do not express a separate opinion on those risks.

Most relevant aspects of the audit	How the issue was addressed in our audit

Existence and valuation of financial investments

Description

At 31 December 2018, the Fund held 83.22% of its assets in financial investments. We believe that determining the fair value of these investments is a significant aspect of our audit.

Procedures applied in the audit

Our audit procedures have included the following:

– Assessment of the key controls linked to the procedures to evaluate the financial investments.

– Understanding of the operational strategy of the financial markets where the Fund operates (types of financial instruments portfolios, investment and divestment strategies, etc.).

– Transaction contracting process: understanding of the procedures established by the Fund’s Management Company to assess compliance with investment policies, existing controls over compliance with such policies, and processes for settlement of transactions and custody by depositaries.

In addition, substantive procedures have been applied consisting of the selection of these investments, in order to verify the adequacy of their valuation, as well as obtaining the response of the depositary entity or the counterparty to confirm the positions.

Finally, we have verified that in Notes 4 and 5 of the report the information breakdown required by the applicable financial information regulations is included.

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Further information: Management Report

The complementary information consists only of the Management Report for financial year 2018, which is issued by the Pension Fund Management Company's Directors and is not an integral part of the annual accounts.

Our audit opinion regarding the financial statements does not include the Management Report. Under the auditing legislation, our responsibility vis-à-vis the management report entails evaluating the consistency of the management report with the annual accounts, based on knowledge of the Pension Fund gathered in performing the audit of the aforementioned accounts without including information other than that gathered as evidence during that audit. Furthermore, our responsibility is to assess and inform if the Management Report's content and submission complies with the relevant regulations. Therefore, if we conclude that there are material misstatements based on the activities we have carried out, we are forced to report it.

On the basis of the work conducted and as described in the previous paragraph, the information contained in the Management Report is consistent with the annual accounts for financial year 2018, and their content and presentation comply with the applicable regulations.

Responsibility of the Directors of the Pension Fund Management Company in relation to the annual accounts

The Directors of the Pension Fund Management Company are responsible for preparing the attached annual accounts in such a way that they give a true and fair view of the assets, financial situation and results of the Pension Fund, in accordance with the financial reporting regulatory framework applicable to the entity in Spain, and such internal control as they consider necessary to enable the preparation of annual accounts free of material misstatement, due to fraud or error.

In preparing the annual accounts, the Directors of the Pension Fund Management Company are responsible for assessing the Pension Fund's capacity to continue as a going concern, disclosing, where appropriate, the issues related to the company as a going concern and using the going-concern accounting principle, unless the Directors of the Management Company intend to liquidate the Pension Fund or cease its operations, or if there is no other realistic alternative.

Auditors' responsibility in relation to the audit of the annual accounts

Our purpose is to obtain reasonable assurance of the annual accounts being free of material misstatement due to fraud or error, and issue an audit report with our opinion.

Reasonable assurance means a high degree of assurance, but it does not guarantee that an audit carried out according to the Spanish regulations on audit activities always detects a material misstatement when it exists. Misstatements may be caused by fraud or error, and they are deemed material if, either individually or in aggregate, they can reasonably affect the economic decisions taken by users based on the annual accounts.

As part of an audit, in accordance with current audit regulations in Spain, we apply our professional judgement and adopt an attitude of professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, due to fraud or error, we devise and apply audit procedures to address such risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting a material misstatement caused by fraud is higher than those caused by an error, since fraud could imply collusion, counterfeit, deliberate omissions, intentionally wrong statements or avoidance of interim controls.

- We gather knowledge about the relevant internal control for the audit in order to devise appropriate audit procedures based on the circumstances, not in order to express an opinion on the efficiency of the company's internal control.

- We evaluate the adequacy of the accounting policies applied as well as the fairness of the accounting estimates and the corresponding information disclosed by the Directors of the Pension Fund Management Company.

- We assess whether the Directors of the Pension Fund Management Company have used the going-concern accounting principle properly and, based on the audit evidence gathered, we assess whether or not there is material uncertainty related to events or conditions which could generate significant doubts about the capacity of the Pension Fund to continue as a going concern. If we decide that there is material uncertainty, we are required to draw attention in our report to the related information disclosed in the annual accounts or, if the said disclosure is not adequate, we are required to give a qualified opinion. Our conclusions are based on the audit evidence obtained from our audit report up to date. Nevertheless, future facts or conditions might cause the Pension Fund to cease its operations.

- We evaluate the overall presentation, the structure and the content of the annual accounts, including the information disclosed, and we evaluate whether the annual accounts represent the transactions and underlying facts in such a way as to offer a true and fair view.

We liaise with the Directors of the Pension Fund Management Company with regard to, among other matters, the planned scope and moment the audit is performed and its significant findings, as well as any significant weakness in the internal control which we identify in the course of the audit.

Among the significant risks that have been reported to the Directors of the Pension Fund Management Company, we have determined those that have been of the greatest significance in the audit of the annual accounts of the current reporting period, which are, consequently, the risks considered most significant.

We describe these risks in our audit report unless legal or regulatory provisions prohibit public disclosure of the matter.

GESCONTROL AUDITORES, S.A.
(ROAC (Official Register
of Account Auditors)
No. S0781)

Amparo Núñez Grañón
(ROAC No. 11558)
2 April 2019

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Balance Sheets as of 31 December 2018 and 2017

(Notes 1, 2, 3 and 4)

(Amounts in Euros)

Assets	2018	2017
Financial investments (Note 5)		
Equity instruments	12.516.585,85	9.159.474,81
Debt securities	11.326.702,37	13.608.511,25
Interest	107.127,81	109.521,37
Deposits with banks and depositary entities	4.810.356,85	3.527.983,45
Revaluation of financial investments	202.717,91	588.177,99
Capital losses on financial investments	-1.522.077,94	-724.066,19
	27.441.412,85	26.269.602,68
Receivables		
Sundry accounts receivable	164.541,33	127.934,71
Public Administrations (Note 6)	81.263,29	35.765,55
	245.804,62	163.700,26
Cash (Note 7)		
Banks and credit institutions with sight account	5.285.364,01	5.146.924,54
Overall total	**32.972.581,48**	**31.580.227,48**

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Equity and Liabilities	2018	2017
Equity		
Equity (Note 8)		
Scheme's Standing Account:		
Loreto Optima Individual Pension Scheme	32.694.294,74	31.402.902,08
Liabilities		
Payables		
Management Company (Note 9)	98.900,78	98.893,65
Depositary Entity (Note 7)	8.359,15	7.805,80
Public Administrations	171.013,08	64.385,95
Other payables	13,73	6.240,00
	278.286,74	177.325,40
Overall total	32.972.581,48	31.580.227,48

Income statements for financial years ended on 31 December 2018 and 2017

(Notes 1, 2, 3 and 4)

(Amounts in Euros)

	2018	2017
Fund income		
Investment income (Note 10)	551.677,15	550.863,97
Fund operating expenses		
Finance costs	-8.330,29	-
Financial investment expenses	-22.225,68	-9.877,78
	-30.555,97	-9.877,78
Other operating costs		
Management Company Fees (Note 9)	-98.900,78	-98.893,65
Depositary Entity Fees (Note 7)	-32.966,93	-30.032,05
External services	-68.096,51	-48.089,31
	-199.964,22	-177.015,01
Gains (losses) on disposal of investments		
Gains (losses) on disposal of financial investments (Note 11)	-78.675,33	813.059,75
Changes in the fair value of financial instruments		
Changes in the value of financial investments	-1.254.815,96	233.321,98
Exchange differences	88.023,59	-311.681,45
Profit (loss) for the year (Note 3)	-924.310,74	1.098.671,46

Statements of changes in net equity for the years ended 31 December 2018 and 2017

(Notes 1, 2, 3 and 4)

(Amounts in Euros)

	2018	2017
Balances at beginning of year	31.402.902,08	28.728.689,31
Additions		
Contributions:		
Contributions from unitholders	1.505.925,55	1.278.760,25
Returned contributions	-5.879,15	-10.335,21
	1.500.046,40	1.268.425,04
Mobilisations from other social welfare instruments:		
From other pension schemes	3.122.005,24	22.562.517,47
Fund profits (losses) allocated to the Schemes:		
Fund profits allocated to the Schemes	-	1.098.671,46
	4.622.051,64	24.929.613,97
Disposals		
Benefits, liquidity and mobilisation of vested rights:		
Benefits	2.125.684,39	1.350.520,66
Mobilisations for other social welfare instruments:		
For other pension schemes	280.663,85	20.904.880,54
Fund profits (losses) allocated to the Schemes:		
Fund losses allocated to the Scheme	924.310,74	-
	3.330.658,98	22.255.401,20
Balances at year-end	32.694.294,74	31.402.902,08

Statements of cash flow for the years ended 31 December 2018 and 2017

(Notes 1, 2, 3 and 4)

(Amounts in Euros)

	2018	2017
A) Cash Flows from Operating Activities:		
1. Profit/loss for the year	-924.310,74	1.098.671,46
2. Profit/loss adjustments	833.491,81	-1.168.987,02
Management company fees (+)	98.900,78	98.893,65
Depositary entity fees (+)	8.359,15	7.805,80
Gains/losses on derecognition and disposal of financial instruments (+/-)	78.167,13	-813.059,75
Finance income (-)	-551.677,15	-550.863,97
Finance costs (+)	30.555,97	9.877,78
Exchange differences (+/-)	-88.023,59	311.681,45
Changes in the fair value of financial instruments (+/-)	1.254.815,96	-233.321,98
Other income and expenses (+/-)	2.393,56	-
3. Changes in accounts receivable and payable	76.138,38	-165.995,27
Trade and other receivables (+/-)	-45.497,74	-221,81
Trade and other payables (+/-)	-6.298,59	-38.164,35
Other assets and liabilities (+/-)	127.934,71	-127.609,11
4. Other cash flows from operating activities	521.121,18	557.794,79
Dividends received (+)	245.135,56	148.208,64
Interest received (+)	306.541,59	419.463,93
Other amounts paid (received) (-/+)	-30.555,97	-9.877,78
5. Cash flows from operating activities (+/- 1 +/-2 +/- 3+/- 4)	506.440,63	321.483,96

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	2018	2017
B) Cash Flows From Investing Activities:		
6. Payments due to investment (-)	-57.560.508,86	-37.317.607,15
Equity instruments	-23.598.997,52	-11.305.804,54
Debt securities	-28.988.013,69	-19.706.436,02
Bank deposits	-4.808.956,32	-6.305.366,59
Derivatives	-164.541,33	-
7. Proceeds from disposal (+)	54.976.804,30	38.082.466,98
Equity instruments	19.972.465,16	8.868.581,92
Debt securities	31.301.374,59	22.154.063,85
Bank deposits	3.526.582,92	7.059.821,21
Derivatives	176.381,63	-
8. Cash flows from investing activities (7 - 6)	-2.583.704,56	764.859,83
C) Cash flows from Transactions with Unitholders:		
9. Contributions, benefits, mobilisations	2.215.703,40	1.575.541,31
Contributions (+)	1.500.046,40	1.268.425,04
Benefits (-)	-2.125.684,39	-1.350.520,66
Mobilisations (+/-)	2.841.341,39	1.657.636,93
11. Cash flows from transactions with unitholders (+/- 9)	2.215.703,40	1.575.541,31
D) Net increase/decrease in Cash and Cash Equivalents (+/-5 +/-8 +/- 11)	138.439,47	2.661.885,10
Cash or cash equivalents at the start of the year	5.146.924,54	2.485.039,44
Cash or cash equivalents at the end of the year	5.285.364,01	5.146.924,54

1) Activity of the Entity

FONDLORETO PENSIONES, Fondo de Pensiones (hereinafter, the Fund) was incorporated on 19 November 1998, for the sole purpose of fulfilling the Pension Schemes included therein. It lacks legal personality and its administration, representation and custody are carried out by Loreto Mutua, Mutualidad de Previsión Social and Banco BBVA, S.A. (as Management Companies and Depositary Entity, respectively). For these services, the Fund pays annual management and custody fees (see Notes 9 and 7, respectively). The Fund was entered on 3 September 1998 in the Register of Pension Funds under number F-0563.

The legal regime of the Fund is set forth in Spanish Royal Legislative Decree 1/2002, of 29 November, approving the Recast Text of the Law on the Regulation of Pension Schemes and Funds and its successive amendments, in Spanish Royal Decree 304/2004, of 20 February, approving the Regulations on Pension Schemes and Funds and their successive amendments and in the applicable additional legislation, as well as in the Articles of Association of the Fund.

In accordance with these regulations, the following obligations, among others, are established:

a) At least 70% of the assets of the Pension Fund shall be invested in securities and financial instruments susceptible to generalised and impersonal traffic that are admitted to trading on regulated markets, in derivative instruments traded on organised markets, in bank deposits, in mortgage-backed loans, in real estate and real estate collective investment schemes. The aforementioned percentage may also include shares and units of collective investment schemes subject to Law 35/2003, of 4 November, on collective investment schemes or to Council Directive 85/611/EEC, of 20 December 1985, provided that, in the case of investment funds, their units are either regarded as listed securities or are admitted to trading on regulated markets; and, in the case of investment firms, their shares are susceptible to generalised and impersonal traffic and are admitted to trading on regulated markets. The said percentage shall not include shares and units in free investment collective investment schemes or free investment collective investment schemes subject to Law 35/2003, of 4 November, and its implementing regulations.

b) Investment in securities or financial instruments issued by the same entity, plus credits granted to it or guaranteed by it, may not exceed 5% of the assets of the Fund. However, the above limit shall be 10% for each issuer, borrower or guarantor, provided that the Fund does not invest more than 40% of the assets in entities in which 5% of the assets of the Fund are exceeded. The Fund may invest in several companies in the same group, provided that the total investment in the group does not exceed 10% of its assets.

The Fund may not have invested more than 2% of its assets in securities or financial instruments not admitted to trading on regulated markets or in securities or financial instruments which, being admitted to trading on regulated markets, are not susceptible to generalised and impersonal traffic, when issued or guaranteed by the same entity.

The above limit shall be 4% for such securities or financial instruments when issued or guaranteed by entities belonging to the same group.

c) Investment in collective investment schemes of a financial nature shall be subject to the following limits:

Investment in a single collective investment scheme may amount to up to 20% of the assets of the Fund provided that, in the case of investment funds, their units are either regarded as listed securities or are admitted to trading on regulated markets; and, in the case of investment firms, their shares are susceptible to generalised and impersonal traffic and are admitted to trading on regulated markets.

Investment in a single free investment collective investment scheme, or collective investment scheme of free investment collective investment schemes, may not exceed 5% of the assets of the Fund.

The limits laid down in this section for investment in the same collective investment scheme shall apply to the investment of the Fund in several collective investment schemes, where these are managed by the same collective investment scheme management company or by several belonging to the same group.

d) Derivative instruments shall be subject to the limits of dispersion due to the market risk associated with the evolution of the underlying instrument, unless the underlying instrument consists of collective investment schemes, interest rates, foreign exchange rates or financial benchmarks which meet at least the following conditions:

- Have a sufficiently diversified composition.
- Have an adequate public circulation.
- Be widely used in financial markets.

e) The limits laid down in the preceding sections shall not apply where the comprehensive statement of the Fund's investment policy principles states that the purpose of the Fund is to implement an investment policy which either replicates or reproduces or takes as a reference a stock exchange index or a fixed-income index representative of one or more markets located in a Member State or in any other State, or of securities traded on those markets.

f) Investment in securities or financial instruments issued or guaranteed by the same entity, positions vis-à-vis it in derivative instruments and deposits held by the Fund with the same entity may not exceed 20% of the assets of the Fund. This limit shall also apply to several entities forming part of the same group.

g) The Fund may not invest more than 5% of its assets in securities issued by entities of the group to which the promoter or promoters of the employment schemes integrated therein belong.

h) The Fund's investment in securities issued or guaranteed by the same entity may not exceed 5%, in nominal terms, of the total outstanding securities of the same entity.

i) Investment in real estate, mortgage loans, real estate rights, shares and units in real estate collective investment schemes and in those shares in the share capital of companies whose exclusive corporate purpose is the holding and management of real estate and whose securities are not admitted to trading on regulated markets, may not exceed 30% of the assets of the Fund.

No more than 10% of the assets of the Fund may be invested in a single property, mortgage loan, real estate right or in shares or holdings in the share capital of a company or group of companies whose sole corporate purpose is the holding and management of real estate and whose securities are not admitted to trading on regulated markets. This limit shall also apply to property, rights in rem in immovable property, mortgage loans or companies that are sufficiently close and of a similar nature to be considered the same investment.

The Fund is considered closed for the sole purpose of fulfilling the Pension Schemes included therein.

The maximum applicable management fee is 1.30% per annum of the value of the standing account, in accordance with Spanish Royal Decree 62/2018, of 9 February, which amends the Regulations on Pension Schemes and Funds. Loreto Mutua, as the Fund Management Company, has entered into a contract with the collective investment scheme management company, Loreto Inversiones, S.G.I.I.C., SAU., delegating the management of the Fund's assets to the latter. On 18 June 2018, the agreements entered into under this contract enter into force.

The maximum applicable deposit fee is 0.20% per annum of the value of the standing account. Irrespective of this fee, depositary entities may receive fees for the liquidation of investment operations.

The ownership of the resources assigned to the Fund corresponds to the unitholders and beneficiaries of the Pension Schemes integrated therein.

On 26 April 2017, the Control Committee of the Associated Pension Scheme of Loreto Mutua, Mutualidad de Previsión Social (Loreto Associated Scheme), agreed to the termination of this Pension Scheme, following the total mobilisation of the standing account thereof to the Individual Loreto Optima Pension Scheme, integrating in the latter all the rights of the unitholders and beneficiaries.

On 17 July 2017, following such mobilisation and in accordance with Articles 37 and 38 of the Regulations of the Loreto Associated Scheme, the Control Committee of Fondloreto Pensiones, F.P. agreed to its total and definitive dissolution, appointing the representation of the management company, Loreto Mutua, Mutualidad de Previsión Social, to carry out any procedures or registrations related to the previous agreements. On 1 September 2017, these agreements were definitively registered in the Companies Register.

As of 31 December 2018, the Pension Scheme included in the Fund is as follows:

Scheme Name	Promoter	Type
Pension Scheme Loreto Optima Individual	Loreto Mutua, Mutualidad de Previsión Social (Individual Fund Company)	Management

The Scheme is defined contribution and its financial and actuarial regime is individual capitalisation. The benefits for the contingencies covered by it are the retirement of the unitholder, the disability of the unitholder, in the degrees of permanent absolute, total for the habitual profession or severe disability, long-term unemployment and death of both the unitholder and the beneficiary; and will be equal to the amount of the vested rights of the unitholder at the time of each of these contingencies.

2) Basis for Presentation of the Annual Accounts

A) TRUE AND FAIR VIEW

The annual accounts have been obtained from the Fund's accounting records and are presented in accordance with the formats established in Order EHA/251/2009, of 6 February, approving the system of statistical-accounting documentation of pension fund management companies and with the valuation criteria established by Spanish Royal Decree 1514/2007, of 16 November, approving the Spanish National Chart of Accounts, by the interpretations made by the Directorate General of Insurance and Pension Funds, and by the Regulations on Pension Schemes and Funds, so as to give a true and fair view of the net worth and financial position of the Fund at 31 December 2018 and 2017 and of the results of its operations and the cash flows generated during the year then ended, in accordance with the financial reporting framework defined in the applicable legislation in force.

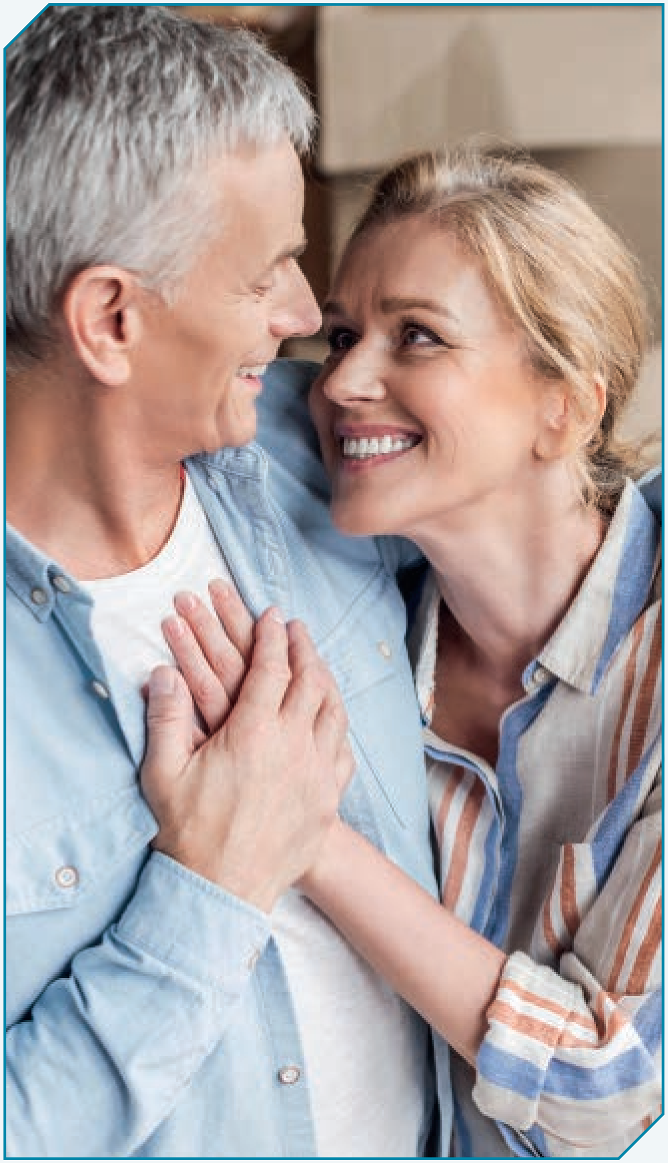
The Fund's annual accounts for fiscal year 2018 have been prepared by the Board of Directors of its Management Company.

B) ACCOUNTING PRINCIPLES

In preparing these annual accounts we have followed the accounting principles and measurement bases stated in Note 4. There are no mandatory accounting principles nor any measurement bases which, having a significant effect on the annual accounts, have not been applied in their preparation.

The results and the determination of equity are sensitive to the accounting principles and policies, valuation criteria and estimates used in the preparation of the annual accounts.

In any event, the Fund's investments, whatever its investment policy might be, are subject to market fluctuations and other risks inherent to security investments (see Note 5), which may cause the value of the unit of account to fluctuate both upwards and downwards.



C) COMPARISON OF INFORMATION

The Fund has appropriately adapted the structure and amounts of the balance sheets, income statements, statements of changes in equity and statements of cash flow for the previous year for presentation in the current year in order to facilitate comparison.

D) GROUPING OF ITEMS

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together to facilitate their understanding; however, whenever the amounts involved are material, the information is broken down in the related Notes to the Financial Statements.

E) CORRECTION OF ERRORS

In preparing the financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the financial statements for 2017.

3) Appropriation of Profit (Loss)

The results obtained during the year are not, under any circumstances, distributed, but are allocated proportionally to the Scheme attached to the Fund.

4) Accounting Policies and Measurement Bases

The most significant accounting policies and measurement bases applied by the Fund in preparing the financial statements for 2018 and 2017, pursuant to Spanish Royal Decree 1514/2007, of 16 November, approving the Spanish National Chart of Accounts, are as follows:

A) CLASSIFICATION OF FINANCIAL INSTRUMENTS

a.1) Classification of Financial Assets

For the purposes of presentation and valuation, financial assets are broken down in the following balance sheet headings:

Cash: this heading includes, where appropriate, the account opened with the Depositary Entity and other financial institutions, as well as the Fund’s investments with a maturity of less than 90 days, and the current account with intermediaries for financial investments.

Financial investments: these are classified in their entirety for valuation purposes as “Other financial assets at fair value through profit or loss” and are comprised of the following headings:

- *Equity instruments:* financial instruments issued by other entities, such as shares and equity units, shares and units held in collective investment schemes and venture capital entities, as well as structured equity products.
- *Debt securities:* bonds and other securities which involve debt for the issuer, which earn a remuneration consisting of interest, implicit or explicit, contractually established, and instrumented in securities or in book entries, whichever the issuer is.
- *Deposits with banks and depositary entities:* deposits held by the Fund with credit institutions, except for the balances recorded under the “Cash” heading.
- *Interest on debt securities:* includes the accrual of explicit interest on the portfolio of financial investments using the effective interest rate.

Receivables: includes, where appropriate, the total collection rights and accounts receivable held by the Fund vis-à-vis third parties for any reason other than the foregoing. All debtors are classified for valuation purposes as “Loans and receivables”.

a.2) Classification of Financial Liabilities

For the purposes of presentation and valuation, financial liabilities are broken down in the following balance sheet heading:

Payables: includes, where appropriate, accounts payable, which should not be classified under other headings, including accounts with Public Administrations and amounts pending payment for management and deposit fees. They are classified for valuation purposes as “Accounts payable”.

B) RECOGNITION AND VALUATION OF FINANCIAL ASSETS AND LIABILITIES

b.1) Recognition and Valuation of Financial Assets

Financial assets classified for valuation purposes as “Loans and receivables” and assets classified under “Cash” are initially measured at fair value which, unless there is evidence to the contrary, will be the transaction price, including transaction costs directly attributable to the transaction. Subsequently, assets are measured at amortised cost and accrued interest is recognised under “Finance income” in the income statement using the effective interest method. However, if the effect of not discounting cash flows is not significant, items expected to be received within less than one year are measured at their nominal value.

Financial assets classified for valuation purposes as “Other financial assets at fair value through profit or loss” are initially measured at fair value which, unless there is evidence to the contrary, will be the price of the transaction and the transaction costs directly attributable to them are recognised in the income statement for the year. The explicit interest accrued since the last settlement is recorded under “Interest on debt securities” on the asset side of the balance sheet. Subsequently, assets are measured at fair value. Changes in their fair value are charged to the profit and loss account.

In any case, the following shall be taken into account in determining the fair value of financial assets:

Listed securities and financial instruments: their fair value is the market value resulting from applying the official closing exchange rate of the reference day, if any, or the value of the immediately preceding business day, or the weighted average exchange rate if there was no official closing price, using the most representative market by trading volume.

Unlisted equity instruments: their fair value is calculated taking as a reference the underlying book value corresponding to these investments in the adjusted equity of the investee, adjusted by the amount of the unrealised gains or losses, net of taxes, that still exist at the time of valuation.

Unlisted debt securities: their fair value is the price that equals the internal return on the investment at the market interest rates prevailing at any given time of the public debt, increased by a premium or margin determined at the time of the acquisition of the securities.

Loans and advances to credit institutions and reverse repurchase agreements: their fair value is generally calculated on the basis of the price that equals the internal return on the investment at the market rates prevailing at any given time, without prejudice to other considerations, such as the institution's early repayment or credit risk conditions.

Shares or units in collective investment schemes: their fair value is the net asset value of the reference day. If this does not exist, the last available net asset value is used. If they are admitted to trading on a market or multilateral trading system, they shall be valued at their quotation value on the reference day, provided that it is representative.

Derivative financial instruments: if they are traded on regulated markets, their fair value is that resulting from applying the official closing exchange rate of the reference day. If the market is not liquid enough, or if the derivative instruments are not traded on regulated markets or multilateral trading systems, they shall be valued using appropriate and recognised valuation methods or models.

b.2) Recognition and Measurement of Financial Liabilities

Financial liabilities classified for valuation purposes as "Accounts payable" are initially measured at fair value which, unless there is evidence to the contrary, will be the transaction price, integrating transaction costs directly attributable to the transaction. Subsequently, liabilities are measured at amortised cost and accrued interest is recognised under "Finance costs" in the income statement using the effective interest method. However, if the effect of not discounting cash flows is not significant, items expected to be received within less than one year are measured at their nominal value.

C) RECOGNITION IN THE ACCOUNTS OF TRANSACTIONS

Spot securities purchase and sale

When there are transactions in derivatives, equity instruments and transactions in debt securities, these are recorded on the trading day, while foreign exchange transactions are recorded on the settlement day. Purchases are recorded under the "Financial investments" heading on the asset side of the balance sheet based on their nature. The gains or losses on sales transactions are recorded under the "Gains (losses) on disposal of financial investments" heading in the income statement.

Forward purchase and sale of securities

The "Changes in fair value of financial instruments" heading includes the differences resulting from changes in the fair value of these contracts. The balancing entry for these accounts is recorded under “Derivatives” on the asset side of the balance sheet until the date of their settlement.

Reverse repurchase agreement

When there are reverse repurchase agreements, they are recorded under the “Debt instruments” heading in the balance sheet, regardless of the underlying instruments to which they refer.

Fair value differences arising on reverse repurchase agreements are recognised in the income statement under “Changes in fair value of financial instruments”.

D) CURRENT PREPAYMENTS AND ACCRUED INCOME AND CURRENT ACCRUALS AND DEFERRED INCOME

If they exist, they relate mainly to prepaid expenses and income that will accrue in the following year. They do not include accrued interest on the portfolio, which is included under the “Interest on debt instruments” heading on the asset side of the balance sheet.

E) INCOME AND EXPENSES

Income and expenses are recognised in the income statement on an accrual basis. The most significant criteria used by the Fund for the purposes of the recognition thereof are summarised below:

Income from Interests and Dividends

Interest on financial assets accrued subsequent to acquisition is recognised on an accrual basis, using the effective interest method, except for interest on doubtful, nonperforming or litigious investments, which is recognised when collected. The accrual of interest is recorded under the “Interest on debt instruments” heading on the asset side of the balance sheet.

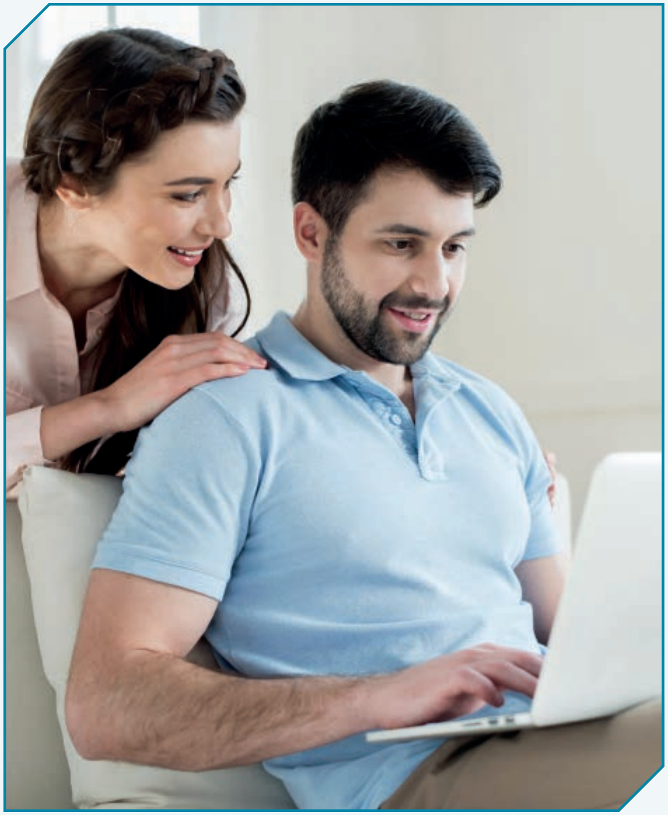
Dividends, if any, are recognised as income under “Investment income” in the income statement when the right to receive them by the Fund arises.

Changes in Fair Value of Financial Instruments

The gain or loss arising from changes in the fair value of financial assets and liabilities is recognised under “Changes in the fair value of financial instruments” in the income statement of the Fund.

Other Income and Expenses

All other income and expenses relating to a period are accrued on a straight-line basis over the period.



F) FOREIGN CURRENCY TRANSACTIONS

The Fund's functional currency is the euro. Consequently, all balances and transactions denominated in currencies other than the euro are considered denominated in "foreign currency".

When there are transactions denominated in foreign currency, they are converted into euros using the spot exchange rates of the date of the transaction, the spot exchange rate being taken to be the most representative of the reference market on the date or, failing that, on the last working day preceding that date.

Exchange differences arising on the translation of balances denominated in foreign currencies to the functional currency are recognised at their net amount under "Exchange differences" in the income statement.

G) ASSET VALUE OF THE FUND

Pension Schemes maintain a standing account with the Fund, which represents their economic interest in the Fund and is included under the heading "Equity – Scheme Standing Accounts" (see Note 8). The assets of the Pension Schemes integrated in the Fund are divided into units of account.

The units of account of the Pension Schemes are valued, for the purposes of contributions and benefits, according to the value of the unit of account on the day that they are requested. The value of the unit of account of the Schemes is calculated daily as the result of dividing the equity of the Schemes, calculated in accordance with the valuation criteria described in the preceding sections, by the number of units of account existing at the date of their determination, after taking into account the movements in the Schemes that give rise to inflows or outflows of resources.

The payments of the benefits provided for in the Regulations on the Pension Schemes integrated into the Fund, as well as the contributions of the unitholders and, where applicable, of the promoters and the result for the financial year attributable to the Pension Schemes, whether a profit or loss, are made with a charge or a credit to their standing account.

H) RELATED-PARTY TRANSACTIONS

Transactions carried out by a Pension Fund with its Management Company as a result of the functions assumed by the latter are not considered to be related transactions.

During 2018 and 2017, the Fund did not carry out any related transactions other than ordinary trading or under conditions other than market conditions.

5) Financial Investments

The detail of the balances of the Fund's financial investment portfolios as of 31 December 2018 and 2017 is as follows:

	Euros	
	2018	2017
Instrumentos de patrimonio	12.516.585,85	9.159.474,81
Valores representativos de deuda	11.326.702,37	13.608.511,25
Intereses de valores representativos de deuda	107.127,81	109.521,37
Depósitos en bancos y entidades de depósito	4.810.356,85	3.527.983,45
Revalorización de inversiones financieras	202.717,91	588.177,99
Minusvalías de inversiones financieras	-1.522.077,94	-724.066,19
	27.441.412,85	26.269.602,68

As of 31 December 2018 and 2017, the detail, by maturity, of the debt securities is as follows:

	Euros	
	2018	2017
Less than 1 year	3.454.959,14	5.991.771,85
Between 1 and 2 years	197.929,73	1.894.760,73
Between 2 and 3 years	1.756.248,10	1.556.751,04
Between 3 and 4 years	782.725,01	1.271.767,91
Between 4 and 5 years	1.617.077,96	1.100.843,90
Over 5 years	3.517.762,43	1.792.615,82
	11.326.702,37	13.608.511,25

As of 31 December 2018 and 2017, the unmatured accrued interest is recorded under "Interest on debt instruments" in the accompanying balance sheets.

As of 31 December 2018, the Fund holds open positions in financial derivatives corresponding to futures contracts, which are detailed below:

Contract	Detail					
	Net position	Currency	Number of contracts	Latest expiration	Committed Nominal	Benefit /Lost
Eurodollar future March 2019	Long	USD	17	7/3/19	2.435.993,75	12.537,50
Eurostoxx bank futures Mar 2019	Long	EUR	100	7/3/19	438.000,00	-6.500,00
Euro bund futures March 19	Short	EUR	30	7/3/19	4.900.100,00	-6.100,00
					7.774.093,75	-62,50

The "Revaluation of financial investments" heading in the balance sheets includes the differences obtained from the comparison between the fair value of the financial instruments and their carrying amount, provided that the comparison is positive. Otherwise, these differences are recorded under "Capital losses on financial investments". Both entries are made with a credit or charge, respectively, to the income statements.

The detail of the statement of the Fund's securities portfolio is as follows:

At 31 December 2018

	Euros				
	Initial Valuation	Fair Value without Interest	Interest	Capital Losses for the Year	Capital Gains for the Year
Debt securities	11.326.702,37	11.335.494,13	107.127,81	-147.339,44	156.131,20
Equity instruments	12.516.585,85	11.188.434,06	-	-1.374.738,50	46.586,71
Deposits	4.808.956,32	4.808.956,32	1.400,53	-	-
	28.652.244,54	27.332.884,51	108.528,34	-1.522.077,94	202.717,91

At 31 December 2017

	Euros				
	Initial Valuation	Fair Value without Interest	Interest	Capital Losses for the Year	Capital Gains for the Year
Debt securities	13.608.511,25	13.780.834,15	109.521,37	-126.393,16	298.716,06
Equity instruments	9.159.474,81	8.851.263,71	-	-597.673,03	289.461,93
Deposits	3.526.295,95	3.526.295,95	1.687,50	-	-
	26.294.282,01	26.158.393,81	111.208,87	-724.066,19	588.177,99

Risk Management

The Fund's financial risk management is aimed at establishing the mechanisms required to control exposure to interest rate and exchange rate fluctuations and credit and liquidity risk. In this regard, Spanish Royal Decree 1684/2007, of 14 December, Articles 69.5, 70, 72 and 73 establish a series of regulatory coefficients that limit this exposure and are controlled by the Fund Management Company (see Note 1). These coefficients mitigate the following risks to which the Fund is exposed and which are monitored by the Management Company:

Credit risk: Credit risk represents the losses that the Fund would suffer in the event that any counterparty defaults on its contractual payment obligations. This risk would be mitigated by the limits on investment and risk concentration described in Note 1.

Liquidity risk: In the event that the Fund invests in small-cap securities or in markets with a small size and limited trading volume, or in collective investment schemes with lower liquidity than the Fund, the investments could be deprived of liquidity. Therefore, the Fund's Management Company manages the liquidity risk inherent in the activity to ensure compliance with liquidity ratios, ensuring the Fund's ability to meet the requirements of its unitholders and beneficiaries.

The following table shows the liquidity ratio at 31 December 2018 and 2017:

	Euros	
	2018	2017
Cash- Depositary and other accounts	5.278.430,05	5.146.924,54
Equity	32.694.294,74	31.402.902,08
Liquidity ratio	16,14%	16,39%

Market risk: Market risk represents the loss in net asset value as a result of adverse movements in market prices.

Risks management is carried out through the appropriate asset allocation and the analysis of the expected maximum loss, by using risk statistics measurements: VAR (Value At Risk), although management does not follow a VAR criterion.

The most significant risk factors could be grouped into the following:

- *Interest rate risk:* Investment in fixed-income assets carries an interest-rate risk, the fluctuation of which is low for short-term assets and high for long-term assets.

  The information on the level of exposure to interest-rate risk of debt instruments is as follows:

	Euros	
	2018	2017
Debt securities:		
Fixed interest rate	11.026.163,26	12.105.841,88
Variable interest rate	300.539,11	1.502.669,37
	11.326.702,37	13.608.511,25

Interest rate risk includes the probability of incurring losses due to changes in interest rates. The concept of modified duration is used, which reflects the sensitivity of the value of debt instruments to interest rate changes, and represents the percentage change in the value of financial assets for each percentage point of change in interest rates.

The average duration of the debt instrument portfolio as of 31 December 2018 is 2.34 and as of 31 December 2017 is 1.93.

- *Foreign currency risk:* Investment in assets denominated in currencies other than the euro carries a risk due to exchange rate fluctuations.

The Fund has instrumented some of its financial investments in currencies other than the euro. The detail, by currency, of the assets measured at acquisition cost at 2018 and 2017 year-end is as follows:

	Euros	
	2018	2017
Dollar (USD)	1.666.389,04	1.251.343,60
Swedish Krona (SEK)	-	300.833,15
	1.666.389,04	1.552.176,75

- *Risk of stock price or stock market indices:* Investment in equity instruments means that the Fund's performance is affected by the volatility of the markets in which it invests.

The credit rating of issuers of debt instruments (amounts expressed at fair value without interest), excluding deposits, is detailed below:

	Euros	
	2018	2017
AA	438.753,24	438.108,21
A	1.482.034,30	1.701.554,94
BBB	3.632.771,08	6.292.758,01
BB	1.164.150,58	1.000.534,92
B	-	305.384,88
No rating	4.608.993,17	3.870.170,29
	11.326.702,37	13.608.511,25

As a result of the carrying on of activities and associated operations, exposure to market risk is mitigated through the Fund's own investment vocation and its investment policy defined and known by the unitholders.

6) Tax Situation

The Fund is governed by the provisions of Article 30 of the Recast Text of the Law on the Regulation of Pension Schemes and Funds, approved by Spanish Royal Legislative Decree 1/2002, of 29 November, which establishes:

1. VAT: The management services of pension funds provided by their Management Companies and Depositary Entities are exempt from this tax.
2. Corporate Income Tax: Pension funds are subject to this tax at a zero tax rate and are therefore entitled to a refund of the withholdings applied to their income from movable capital. Pension funds must comply with the formal corporate income tax obligations applicable to taxpayers subject to the General Regime.
3. Property Transfer and Stamp Duty Tax: The incorporation, dissolution and modifications consisting of increases and decreases of pension funds are exempt from this tax.

he "Public Administrations" heading on the asset side of the accompanying balance sheets reflects withholdings on income from movable capital, current accounts and bank deposits applied to the Fund which are pending repayment.

E11,326,702.37 13,608,511.25 The Fund has open to tax inspection the fiscal years not provided for by law, for all taxes that apply to it. No additional material liabilities are expected to accrue as a result of the review of these years.

7) Cash

The detail of the balances of this heading in the accompanying balance sheets as of 31 December 2018 and 2017 is as follows:

	Euros	
	2018	2017
Depositary accounts	4.736.877,48	4.187.652,93
Depositary accounts – foreign currency	538.974,44	959.271,61
Gain on foreign currency	2.578,13	-
Interest on current accounts	6.933,96	-
	5.285.364,01	5.146.924,54

The balances of the "Cash" heading are freely available and the interest accrued on the balances of the depositary accounts and other cash accounts at 31 December 2018 and 2017 amounted to 23,847.67 euros and 4,591.50 euros, respectively, which are recorded in the "Income from financial investments" heading in the income statements (see Note 10).

Also, as indicated in Note 1, the Bank BBVA, S.A. performs the functions of Depositary Entity of the Fund, accruing daily for this reason a fee, which is applied to the net worth of each Scheme and amounts to 0.10% per annum for the financial years 2018 and 2017.

The amounts accrued under this heading in 2018 and 2017 amounted to 32,966.93 euros and 30,032.05 euros, respectively, and were recorded under the heading "Depositary Entity Fees" in the accompanying income statements.

At 31 December 2018 and 2017, of the aforementioned amounts, 8,359.15 euros and 7,805.80 euros, respectively, were pending payment and are reflected under the "Payables - Depositary Entity" heading on the liability side of the accompanying balance sheets. These amounts were paid in the first months of the following year.

8) Equity

On 26 April 2017, it was agreed to terminate the Associated Pension Scheme of Loreto Mutua, Mutualidad de Previsión Social (Loreto Associated Scheme), after total mobilisation of the standing account thereof to the Individual Loreto Optima Pension Scheme, integrating in the latter all the rights of the unitholders and beneficiaries (see Note 1). As of 31 December 2018 and 2017, the Fund is comprised solely of the Loreto Optima Individual Pension Scheme (Loreto Optima) promoted by Loreto Mutua, Mutualidad de Previsión Social (the Fund Management Company).

The contributions are made only by the unitholders and are instrumented through a strictly financial individual capitalisation system, based on the accumulation of contributions and investment income, deducting the corresponding expenses, with the unitholders of the Scheme themselves assuming the capital gains and losses that the investments may generate, without any minimum interest being guaranteed in relation to the return to be obtained on the contributions made. Likewise, the amount of the benefits is determined exclusively by the value of the vested rights of the unitholder at the time when the contingency giving rise to the benefit arises, regardless of the method of collection of such benefits.

Contingencies covered by the Scheme are as follows:

- *Retirement.*
- *Death.*
- *Disability of the unitholder, in the degrees of permanent absolute, total for the habitual profession or severe disability.*
- *Long-term unemployment.*

The beneficiaries are the unitholder himself and the natural persons specifically designated by the unitholder in the event of death.

The benefits of each Scheme are allocated to the standing account held in the Fund.

As of 31 December 2018, the detail of the standing account of the attached Loreto Optima Pension Scheme, after allocating the results for 2018, is as follows:

	Euros
Balances at 31 December 2017	31.402.902,08
Additions	
Contributions:	
Contributions from unitholders	1.505.925,55
Returned contributions	-5.879,15
Mobilisation of vested rights	3.122.005,24
	4.622.051,64
Fund profits (losses) allocated to the Schemes:	
Fund profits allocated to the Schemes	-924.310,74
	-924.310,74
Dispos	
Benefits	2.125.684,39
Mobilisation of vested rights	280.663,85
	2.406.348,24
Balances at 31 December 2018	32.694.294,74

The detail for the Scheme of the number of units of account, their value and the number of unitholders and beneficiaries at 31 December 2018, was as follows:

	Pension Scheme Loreto Óptima
Number of units of account	1.687.004,03977
Value per unit of account (Euros)	19,38009
Number of unitholders	1.042
Number of beneficiaries	143

As of 31 December 2017, the detail of the standing account of the attached Schemes, after allocating to them the results for 2017, detailed for each Scheme, is as follows:

	Euros		
	Pension Scheme		Total
	LSP	Loreto Óptima	
Balances at 31 December 2016	20.383.022,29	8.345.667,02	28.728.689,31
Additions			
Contributions:			
Contributions from unitholders	179.021,41	1.099.738,84	1.278.760,25
Returned contributions	-350,16	-9.985,05	-10.335,21
Mobilisation of vested rights	461.785,97	22.100.731,50	22.562.517,47
	640.457,22	23.190.485,29	23.830.942,51
Fund profits (losses) allocated to the Schemes:			
Fund profits allocated to the Schemes	-	1.098.671,46	1.098.671,46
	640.457,22	24.289.156,75	24.929.613,97
Disposals			
Benefits	467.157,16	883.363,50	1.350.520,66
Mobilisation of vested rights	20.556.322,35	348.558,19	20.904.880,54
	21.023.479,51	1.231.921,69	22.255.401,20
Balances at 31 December 2017	-	31.402.902,08	31.402.902,08

The detail for the Scheme of the number of units of account, their value and the number of unitholders and beneficiaries as of 31 December 2017, is as follows:

	Pension Scheme
	Loreto Óptima
Number of units of account	1.576.623,72677
Value per unit of account (Euros)	19,91782
Number of unitholders	940
Number of beneficiaries	107

9) Management Company Committee and Audit Fees

As indicated in Note 1, the management of the Fund is entrusted to Loreto Mutua, Mutualidad de Previsión Social, which pursuant to the Regulations on Pension Schemes and Funds, will receive as remuneration for the services rendered a fee that will not exceed 1.3%, in accordance with Spanish Royal Decree 62/2018, of 9 February, amending the Regulations on Pension Schemes and Funds.

The amounts recorded as expenses in this connection in the years 2018 and 2017 amounted to 98,900.78 euros and 98,893.65 euros, respectively.

The Management Company's commission, which accrues daily, is 0.3% per annum of the Scheme's total assets for 2018.

At 31 December 2018 and 2017, 98,900.78 euros and 98,893.65 euros of these amounts were pending payment and are reflected under the "Payables - Management Company" heading on the liability side of the accompanying balance sheets. These amounts were paid in the first months of the following year.

The fees agreed for the audit for 2018 and 2017 amounted to 2,398 euros and 2,346 euros, respectively, excluding the corresponding value added tax.

10) Income from Financial Investments

The detail of this heading in the income statement for 2018 and 2017 is set out as follows:

	Euros	
	2018	2017
On debt securities	279.283,10	380.586,71
In equity instruments	245.135,56	148.208,64
In short-term, highly liquid investments	3.410,82	17.477,12
Interest on bank current accounts (Note 7)	23.847,67	4.591,50
	551.677,15	550.863,97

11) Gains (Losses) on Disposal of Financial Investments

At 31 December 2018, the "Gains (losses) on disposal of financial investments" in the income statement, which amounted to a loss of 78,675.33 euros, included the following items:

	Euros	
	Profits	Losses
From debt securities	134.947,98	103.904,16
From equity instruments	1.089.438,26	1.375.539,04
From futures	2.146.729,76	1.970.348,13
	3.371.116,00	3.449.791,33

At 31 December 2017, the "Gains (losses) on disposal of financial investments" in the income statement, which amounted to a gain of 813,059.75 euros, included the following items:

	Euros	
	Profits	Losses
From debt securities	109.533,65	68.856,55
From equity instruments	1.004.357,71	308.209,56
From futures	1.411.600,00	1.335.365,50
	2.525.491,36	1.712.431,61

12) Other information

A) CONTRACTUAL CONTINGENCIES

The Board of Directors of the Management Company considers that at 31 December 2018 there were no significant unrecorded contingencies that could affect the net worth or results of the Fund.

B) INFORMATION ON DEFERRALS OF PAYMENTS MADE TO SUPPLIERS IN COMMERCIAL TRANSACTIONS

In relation to Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions (amended by Law 11/2013, of 26 July, on measures to support entrepreneurs and stimulate growth and job creation), it is reported that at 31 December 2018 and 2017 there were no outstanding balances payable to suppliers that exceeded the legal deadline for payment. Also, the significant payments made in 2018 and 2017 to these suppliers were made within the legal deferral limits.

C) EVENTS FOLLOWING THE CLOSURE OF THE ANNUAL ACCOUNTS

Subsequent to the close of fiscal year 2018, no other significant event not described in the foregoing notes has occurred.

Global environment

Global growth in 2018 has kept in line with the previous year, even though the tendency has gone from better to worse. The attention has been focused on global trade turbulences because of the dispute between the USA and China, and in the weakness of the euro area, which have caused the global growth to be slower than was expected at the beginning of the year.

The euro area has been the major disappointment for the developed economies. The deterioration of the foreign trade sector, added to internal problems of some of the biggest economies, have been reflected in a slow growth, which is far from the development expected at the beginning of the year.

Among intra-euro problems, we find the worrying Italian situation, which caused tensions in the markets after the events occurred at the end of May; the drop in German GDP in the third quarter and the French "yellow vests" at the end of the year, which according to the latest data available have caused a negative impact on the French economy. This scenario leaves the euro area with a year-on-year rate close to 1.8%. Only Spain has escaped from this situation, as it is still growing at high rates, even though it has shown a slowdown in 2018.

The European situation contrasts with the behaviour of American economy, which has been accelerated by the fiscal impulse and has ended the year with a year-on-year growth close to 3%, showing an improvement against initial forecasts. Interest rate hikes made by the Federal Reserve and the trade war with China do not offset the positive effect of the fiscal stimulus. The US closed the year with 2.6 million jobs created, a sharp rise in wages and very low unemployment (3.9% in December).

As regards central banks, the Fed's monetary policy decisions have not given rise to major surprises: four increases in tax rates throughout the year and a continued balance reduction. However, the effect of these increases in the tightening of both American and global financial conditions have resulted in a deterioration of global financial conditions.

The ECB did not clarify the guidelines that will lead the reinvestment program after completing the purchases in December, until the last meeting of the year. It is noteworthy the progressive deterioration of the economy, which has caused uncertainty throughout the year and has led the ECB to revalue growth and inflation downwards for next year.

Among emerging markets, China remains as the main uncertainty focus. The fear of an activity slowdown, caused by the deterioration of domestic activity and the trade conflict with the USA, is forcing the authorities to implement expansionary policies. Since the impact of the fiscal stimulus and the expansionary monetary policy are reflected behindhand in the economy, a stabilisation of Chinese growth is not likely to happen before mid-year. On the other hand, Brazil recovers the impulse of the economic cycle in the last months of the year, once the negative impact of strikes at the beginning of the year has been eliminated. Nevertheless, Brazil grew 1.1% in 2018, keeping growth constant with respect to 2017.

There are three elements that have influenced 2018 and that will be still present in 2019:

a) The tightening of financial conditions, which in 2018 was the highest since 2015-16 due to increases in interest rates made by the Federal Reserve and, to a lesser degree, to the withdrawal of support by the ECB. Even though the two central banks have room for manoeuvre, the FED could reduce the pace of increases and adequate them to an environment with a downward risk balance, and the ECB could keep shaping expectations with the forward guidance (informative advances of monetary policy decisions), as well as postpone increases in tax rates and go back to the stimulus that the ECB terminated in December.

b) The intensity of the Chinese slowdown will cause imbalances if it is eventually sharper than expected.

c) The continuity of trading disputes and the materialisation of the risks to which the Eurozone is exposed (Brexit, uncertainty regarding Italy, possible increase in the anti-European feeling).

Spanish Economic Background

2018 ended with a 2.5% increase in our GDP, which is in line with the forecasts but half a point under data from 2017. In this sense, the economy shows a solid expansion for the fifth year, but with a clear tendency to slowdown. This expected slowdown has been a bit larger than what was initially forecasted, due mainly to the less favourable external environment.

On the other hand, unemployment ends the year in 14.45%, which means a reduction in 2.1 points over 2017 (16.55%), due to a high performance of the labour market.

The GDP is now above pre-crisis levels, which ratifies the good moment of the Spanish economy, in spite of the European situation. Spain has been the only major economy that has managed to keep a growth rate above 2% for four consecutive years.

Nevertheless, the jarring note is the change in the growth composition, less favourable than in previous years, where the negative contribution of foreign demand plays a prominent role.

This behaviour responds to the weakness of foreign sales of goods and services, which has not come together with an equivalent moderation in the import's growth rate. The impact of the decrease in foreign demand is being materialised in a slowdown of the manufacturing sector and, to a lesser extent, of the tourist sector.

On the internal demand side, private consumption has remained solid. Household expenditure has been surprising because of its noticeable strength. Good records in the labour market, together with favourable financing conditions, have allowed keeping the household expenditure levels. However, this situation is not risk-free: the dynamic consumption is facing a saving depletion, which indicates that we are expending at a higher pace than what an improvement in the disposable income would allow.

Consumers' confidence has undergone a fast decline in the last months, which is added to the poor growth of household income, with a 1% progress in real terms that is supported by employment growth and salary increases. These could have a more prominent role in 2019, both for increases agreed in the collective agreement, and for measures taken by the Government, in particular the 22% increase of minimum salary. The saving rate is at historically low levels (4.7% gross disposable income), which reduces the families' room for manoeuvre.

The labour market has kept a really favourable behaviour in spite of the activity slowdown, mainly because the services and building sectors have kept the momentum.

On the public side, the deficit ends the year above the levels forecasted in the plans that were sent to Brussels in spring, close to -2.7% GDP. Incomes have increased at a good pace, especially direct incomes, and expenditure is still growing in relation to GDP. The more expansive tone of the fiscal policy is reflected in the acceleration of the consumption of Public Administrations (1.9% in 2017 vs. an estimated 2.3% in 2018), after years of remarkable containment marked by the need to correct the public deficit and reduce the sizeable debt.

Finally, it is noteworthy that the investment behaviour has been surprising because of its noticeable strength. By components, we should highlight the development of construction investments, which has kept a high dynamism. Investment in capital goods has also contributed to growth, showing the solidity of the companies' financial situations.

For 2019, the perspective of a light slowdown is maintained, with a 2.1% growth in GDP, held by domestic demand. The improvement in the labour market will be one of the pillars of growth in private consumption, and public consumption is expected to remain above 2%. On the other hand, bad news come from the foreign sector, which will affect growth, but to a lesser extent than in 2018. Exports are expected to increase by 2.3%, in line with this year, while imports will slightly decrease due to a slow-down in investment, which is expected to moderate their growth.

Prices will grow less, from 1.2% in 2018 to 1% in 2019. The reason for this situation is the easing in energy prices, which have drastically decreased in the last quarter of the year, added to the expected revaluation of the euro against the dollar. Sublying inflation is expected to increase slightly, from current 0.9% to 1.3%. That is partially explained by a higher growth in salaries, which will keep the upward trend of the last quarters.

Financial markets

The economic uncertainty that has marked the year has been reflected in the financial markets' development, with an increase in volatility that has affected the prices of main assets classes, placing 2018 as one of the worst years in the last decades. Impact has been greater in the euro area and emerging economies.

High valuations reached in the stock market in the first half of the year have been penalised by a sharp reduction in the last months of the year. Market drops are justified by an increase in risk premiums before concerns regarding the foundations that justified them (high profits and ample liquidity). Therefore, the majority of equity indexes have ended the year on a negative note, being the most intense divestments in Europe (14.34% EuroStoxx) and emerging economies (-16.6% MSCI Emerging Markets).

In the case of IBEX 35, after a positive start of the year, when it accumulated increases higher than 5%, the risk aversion movement started in February has weighed the index quotation throughout the year, in line with other European indexes. Therefore, it ends the year with a 14.97% drop.

Similarly, fixed corporate income spreads have increased throughout the year from historical minimums to levels close to the historical average, in a context of greater economic uncertainty and less support by main central banks. Thus, debt spreads in "speculative grade" growth 150bp in USD and 200bp in EUR, while those in "investment grade" have grown 50bp and 60bp respectively.

This situation has led to an increase in the price of assets considered safe havens: the Japanese yen appreciated by close to 3% against the USD in 2018, gold, although in the year as a whole it fell by 2.5%, in the last three months it appreciated by 8%, and the 10-year debt of Germany and the U.S., after reaching in 2018 maximum yields of 0.79% and 3.26%, respectively, closed the year at 0.16% and 2.58%, respectively.

However, in the short section of the curve we have seen an increase in interest rates in the USA 2-year bond, consistent with rates increases by the Federal Reserve, which reduced the difference between the 2-year and 10-year bonds barely up to 20bp.

On the other hand, in the exchange market, we have seen a revaluation of the USD against its main opposers due to the

feeling of greater strength in the USA's economy. In addition, emerging currencies have experienced the main movements, especially the Turkish Lira, which dropped 28% against the USD due to the crisis of confidence in Turkish Central Bank; and the Brazilian Real, which dropped 15% due to the economic uncertainty generated by the presidential elections in November.

For this 2019, the risk of possible impacts derived from commercial tensions between the USA and China is maintained, as well as the uncertainty about the continuity of the economic cycle. Nevertheless, we are more positive this year regarding risk assets, especially equity, after the strong cessions of last year, which have left valuations at the lowest level in the last 5 years.

Financial management of Fondloreto Pensions in 2018

The total assets of the fund, which amounted to 32,694,294.74 euros, increased by 1,291,392.66 euros compared with 2017. This increase was mainly due to the net balance of contributions, benefits, incoming and outgoing transfers, which was positive in the amount of 2,215,703.40 euros.

The profitability of the Loreto Optima Scheme in 2018 was -2.6997%, while the average of the individual one-year schemes was -4.48%.

According to data collected and offered by the Association of Collective Investment Schemes and Pension Funds, INVERCO; within the category of pension funds of the individual system, the Loreto Optima Pension Scheme ended the fiscal year as the first most profitable at 15 years and second most profitable at 3 years.

If we compared the performance at 15, 5, 3 and 1 years of Loreto Optima with that of the individual mixed fixed-income pension schemes (with an investment of their assets of up to 30% in variable income), our scheme would be considerably above average. For example, the average 15-year return on

Loreto Optima was 4.22%, while the average of the total number of individual schemes was 2.13%.

The structure of the pension fund portfolio has been distributed as follows, in accordance with management criteria: 38.35% is invested in the very short term, variable income has gone from 25.61% in 2017 to 27.04% in 2018 and fixed income has decreased from 36.65% in 2017 to 34.61% in 2018.

The fund maintains criteria of security, diversification, dispersion and liquidity, in accordance with the regulations applicable to the Pension Schemes, and therefore considers its price, liquidity and cash flow risks to be covered. The fund expects to achieve a level of return that will enable it to remain among the most profitable in its category.

Exercise of political rights

Loreto Mutua, as a Pension Fund Management Company, reserves the right to exercise the rights, depending on the relevance of the political representation available for the volume of units, or where appropriate for the existence of attendance or participation bonuses that could benefit the fund's assets. As none of these circumstances arose during 2018, none of the General Meetings called were attended.

The Annual Accounts and Management Report corresponding to fiscal year 2018 of FONDLORETO PENSIONES, PENSIONS FUND, contained in pages 1 to 35 above, all signed by the Secretary and endorsed by the Chairman, were prepared by the Management Company at its meeting held on 26 March 2019.

LORETO
MUTUA

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