LORETO MUTUA

2018

ANNUAL ACCOUNTS

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Vice-Chairs	Mr. Alvaro Arizcun Sánchez-Morate
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	Mr. Luis Tapia Carrasco
	Mrs. Natalia Vasallo García
	Mr. Valentín Villa Crespo

Control Commission

Mrs. Rocío de Felipe Checa
Mr. Alfonso Raúl Gómez Isabel
Mr. José Miguel Martín Chapado

Annual accounts for the financial year ended 31 december 2018

The following documents form a single unit:

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AUDIT REPORT ON ANNUAL ACCOUNTS ISSUED BY AN INDEPENDENT AUDITOR

To the mutualists of
LORETO MUTUA, MUTUALIDAD DE PREVISIÓN SOCIAL:

Report on the Annual Accounts

Opinion

We have audited the financial statements of **LORETO MUTUA, MUTUALIDAD DE PREVISIÓN SOCIAL** (hereinafter, the Mutual Society), which include the balance sheet as of 31 December 2018, the profit and loss account, the statement of changes in equity, the cash flow statement and the annual report for the financial year ended 31 December 2018.

In our opinion, the attached annual accounts give a true and faithful view of the equity and financial situation of **LORETO MUTUA, MUTUALIDAD DE PREVISIÓN SOCIAL**, 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 carried out our audit according to the current Spanish regulations on audit activities. 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 the Mutual Society 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 independency has not been compromised by any event or circumstance, in accordance with the governing regulations.

We believe that the audit evidence we have obtained gives us a sufficient and solid basis for our opinion.

Key aspects of the audit

The key aspects of the audit are those that, in our professional opinion, have been more relevant for our audit on the annual accounts for the current period. These aspects have been considered as a whole in the context of our audit of the annual accounts, and when giving our opinion about them. Therefore, we do not give a separate opinion about each of them.

Key aspects of the audit	***How the question was addressed in the audit***

Assessment of the mathematical provision

Description

The Balance Sheet of the Mutual Society, as of 31 December 2018, shows an amount of 1,239,804.87 Thousand Euros in the section "Life Insurances Provision – Mathematical Provision", which represents the difference between the current value and the future liabilities of both the Mutual Society and the Mutualist. The regulations that apply to the provision are complex. Similarly, its determination requires the use of actuarial methods and calculations where we use hypotheses with a high degree of opinion and uncertainty, and a large amount of data, as well as the use of estimations on different assumptions at a national level.

The Mutual Society has externalized such calculations. Additionally, one of the main duties of the governance systems is the actuarial function, which reviews the calculation of the mathematical provisions, verifying the quality of the data, the main hypotheses and the methodology used in the calculation; comparing the results with the previous financial year, and analysing the sufficiency and adequacy of the mathematical provisions calculation.

In the light of the above, the reasonableness of the mathematical provision has been considered a key aspect of the audit.

Procedures applied in the audit

Our audit procedures to address this aspect have included:

– Sufficient understanding of the assessment process.
– Revision of the design and implementation of key controls set by the Society in the provision' estimation process.
– Validation of the assumptions and hypotheses used for the calculation.
– Assessment of any evidences of changes that could have affected the provision, and the adequacy of the actuarial criteria used in the estimation and calculation processes.

We have also applied consistent substantive procedures in the tests carried out on the integrity and accuracy of the databases used for the actuarial calculations; to replicate, on a selective basis, the value of the said mathematical provision and the collection of confirmation letters from the Mutual Mutual Society's external actuaries.

Finally, we have verified that in Notes 4.g), 11 and 20 of the attached report the information breakdown required by the applicable financial information regulations is included.

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Integrity and assessment of the financial assets

Description

The Mutual Society shows in its Balance Sheet as of 31 December 2018, an amount of 1,145,520.84 Thousand Euros corresponding to financial instruments, including shares in group companies and partners, which represent 92.28% of the Mutual Society's total asset value.

The Mutual Society's financial assets represent a very significant amount of the total assets. For assessment purposes, the classification of the financial instruments in the different portfolios of the current applicable regulations determines the criteria to be applied on its subsequent assessment.

Most of the Mutual Society's financial instruments are assessed using market prices in active markets. Nevertheless, as of 31 December 2018 the Mutual Society has an amount of 119,619 Thousand Euros (including shares in group companies and partners) which are not listed in an active market. The determination of the reasonable value of these assets is defined through assessment techniques that could take into consideration, among other aspects, unobservable market data or valuation models that require a high degree of judgement. Likewise, any change in the assumptions, market events or new regulations could have a significant impact on the assessment.

The financial assets portfolio (including shares in group companies and partners) has been considered as a key aspect for the audit, given its significant amount and the complexity inherent in its assessment.

Procedures applied in the audit

Our audit procedures have included:

- Assessment of the key controls linked to the procedures to evaluate the financial instruments.
- Understanding of the operational strategy of the financial markets where the Mutual Society operates (types of financial instruments portfolios, investment and divestment strategies, etc.).
- Governance: identification of the risk and control schemes within the market scope, starting from the understanding of the Mutual Society's risk appetite scheme.
- Transactions contracting process: understanding of the procedures stipulated by the Mutual Society to assess the fulfilment of strategies and guidelines, existing controls to guarantee compliance with exposure limits and transactions settlement processes, and custody by the custodians.
- Transactions classification process: assessment of the application of policies established by the Mutual Society and the procedures followed to identify and categorize the financial instruments.
- Assessment estimation procedure: assessment of the relevant controls of the different interim assessment models.
- Databases: assessment of the integrity, quality and updating of data and the set control and management process.

Additionally, we have carried out consistent substantive procedures for the selection of a representative sample of the Mutual Society's financial instruments, in order to contrast the adequacy of their assessment and classification. For those with no quoted price, we have analyzed the most representative assessment models. In the same way, we have obtained confirmations from the custodians of the total financial asset

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portfolio, with the purpose to assess their integrity.

Finally, we have verified that Notes 4.d) and 7 of the attached report include the information breakdowns required by the applicable financial information regulations.

Further information: Management Report

The complementary information consists only of the Management Report for financial year 2018, which is issued by the Mutual Society'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. According to the Spanish current regulations for auditing activities, our responsibility regarding the Management Report is limited to assess and inform on the consistency of the Management Report and the financial statements, based on the knowledge about the Mutual Society obtained from our audit, and without including as evidence any information other than the information we have obtained. 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.

Directors' and Audit Commission's responsibility on the annual accounts

Directors are responsible for preparing the attached annual accounts so that they give a true image of the Mutual Society's equity, financial situation and profit and loss account, in compliance with the applicable Spanish financial information regulations, and the internal control they deem necessary to allow the preparation of annual accounts that are free from material misstatements due to fraud or error.

In the preparation of the annual accounts, the Directors shall assess the Mutual Society's capacity to continue its activity, disclosing, when applicable, questions related to on-going companies, and using the on-going company's accounting principle, unless the Directors have the intention to dissolve the Mutual Society or cease its operations, or if there is no other realistic alternative.

The Audit Commission is responsible for supervising the preparation process and the presentation of the annual accounts.

Auditors' Responsibility on the audit of annual accounts

Our purpose is to obtain reasonable assurance of the annual

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AUDITORES

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 compliance with the current Spanish regulations on audit activities, we apply our professional judgement and maintain an attitude of professional skepticism throughout our audit. We also:

- Identify and assess the risks of material misstatements on the annual accounts, due to fraud or error; design and apply audit procedures to answer those risks and obtain sufficient and appropriate audit evidence to base 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.
- Understand the interim control that is relevant for the audit with the purpose of designing audit procedures that are adequate depending on the circumstances, and not with the purpose of giving an opinion on the efficiency of the Mutual Society's interim control.
- Assess if the accounting policies applied are adequate, as well as the reasonability of the accounting estimations and the related information disclosed by the Mutual Society's Directors.
- Decide if it is adequate that the Mutual Society's Directors use the accounting principle for on-going companies and, based on the audit evidence obtained, decide if there is material uncertainty related with facts or conditions that might create significant doubts on the Mutual Society's capacity to continue operating as an on-going company. 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 Society stop being an on-going company.
- Assess the annual accounts' global presentation, structure and content, including the disclosed information, and whether they show transactions and underlying facts in a way that they give a true image.

We communicate with the Mutual Society's Audit Commission in relation to the planned scope and time to carry out the audit and the significant findings obtained, as well as any other significant deficiency of the interim control that we might identify throughout the audit; among other questions.

We also give to the Mutual Society's Audit Commission a statement that we have met the applicable ethic requirements, including independency, and we have communicated with them to report those questions that could reasonably be a threat to our independency and, where appropriate, the respective safeguards.

Among the questions that have been object of communication with the Mutual Society's Audit Commission, we determine those that have been more relevant in the audit of annual accounts for the current period and which, therefore, are key aspects of the audit.

We describe these questions in our audit report, unless their public disclosure is forbidden by legal or statutory provisions.

Report on other legal and regulatory requirements

Additional Report for the Audit Commission

The opinion given in this report is consistent with the statements made in our additional report for the Mutual Society's Audit Commission on 2nd April 2019.

Engagement Period

We were appointed auditors for a one-year term by the Ordinary General Meeting of Loreto Mutua, Mutualidad de Previsión Social, which was held on 26th June 2018.

We had been previously appointed auditors by the Ordinary General Meeting for one-year term, and we have been continuously carrying out accounts audits since the year ended 31 December 2010.

GESCONTROL AUDITORES, S.A.
(ROAC Nº S0781)

Amparo Núñez Grañón
(ROAC Nº 11558)

2nd April 2019

REPORT OF THE PARTNERS MEMBERS OF THE CONTROL COMMISSION

Dear Partners:

We have examined the Balance Sheet, the Profit & Loss Account and the Notes to the Financial Statement for the financial year ended on the 31 December 2018 of Loreto Mutua, Mutualidad de Previsión Social, as well as any accounting and supporting documents that we deemed relevant at the said date; having been appointed for that purpose through agreement reached in the Ordinary General Meeting held on June 26th 2018, and sticking to the mandate that was then given to us in accordance with provisions in Article 44 of the Articles of Association.

Accordingly, we have reviewed the Audit Report drawn up by Gescontrol Auditores, S.A. for the financial year 2018.

We state that we have found all the abovementioned documents in compliance with legal provisions and, in consequence, we recommend the approval of the Board of Directors' proposals regarding the said financial year.

Madrid, April 1st 2018

Ms. Rocío de Felipe Checa	Mr. Alfonso Raúl Gómez Isabel	Mr. José Miguel Martín Chapado

Balance sheet as of 31 december 2018 and 2017

Notes 1, 2, 3 and 4

(Amounts in Euros)

Assets	2018	2017
Cash and other equivalent liquid assets (note 7)	97.839.140,52	214.072.213,60
Financial assets held for trading (note 7)		
Derivatives	17.920,05	64.898,91
Other financial assets at fair value with changes in profit and loss (note 7)		
Hybrid instruments	-	19.720.018,79
Financial assets available for sale (note 7)		
Equity Instruments	491.508.210,40	407.706.847,34
Debt Securities	168.455.273,84	210.150.060,35
	659.963.484,24	617.856.907,69
Loans and receivables (note 7)		
Debt Securities	11.350.526,15	14.031.123,67
Loans:		
Loans to group companies and associates	-	68.148,17
Deposits with credit institutions	80.469.106,40	80.441.539,67
Credits for insurance transactions:		
Policyholders	29.138,59	23.593,88
Other credits:		
Remaining credits	549.668,16	1.409.871,81
	92.398.439,30	95.974.277,20
Investments held-to-maturity (note 7)	263.127.246,46	268.917.064,02
Tangible fixed assets and investments in real estate (note 6)		
Tangible fixed assets	10.611.810,03	10.917.241,03
Real estate investments	62.371.902,78	33.123.206,58
	72.983.712,81	44.040.447,61

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Assets	2018	2017
Intangible fixed assets (note 5)		
Other intangible asset	223.227,05	312.974,21
Shareholdings in group and associated entities (note 7)		
Shares in associated companies	551.485,93	877.425,93
Shares in group companies	31.623.126,60	27.754.887,61
	32.174.612,53	28.632.313,54
Tax assets (note 14)		
Current tax assets	4.334.907,87	2.452.117,21
Deferred tax assets	8.692.804,98	8.584.292,18
	13.027.712,85	11.036.409,39
Other assets		
Assets and refund rights for long-term compensations to staff	138.000,00	103.500,00
Accruals (note 9)	9.474.387,74	10.361.568,30
	9.612.387,74	10.465.068,30
Total assets	1.241.367.883,55	1.311.092.593,26

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Liabilities and net equity	2018	2017
Liabilities		
Financial liabilities held for trading	-	687.270,00
Debts and payables (note 7)		
Other debts:		
Debts to Public Administrations (note 14)	3.751.053,61	1.703.284,88
Remaining debts	1.200.272,97	692.681,42
	4.951.326,58	2.395.966,30
Technical provisions (note 11)		
Life insurances provision:		
Mathematical provision	1.239.804.868,60	1.226.265.168,50
Provision for benefits	1.790.175,72	1.876.703,16
Provision for profit sharing and rebates	-30.562.739,33	27.814.724,92
	1.211.032.304,99	1.255.956.596,58
Non-technical provisions (note 13)		
Provision for Pensions and similar obligations	355.854,03	469.854,89
Other non-technical provisions	-	39.288,55
	355.854,03	509.143,44
Tax liabilities		
Deferred tax liabilities (note 14)	8.054.946,63	14.685.580,41
Remaining liabilities		
Accruals	23.775,42	12.698,06
Liabilities for accounting asymmetries (note 12)	1.056.975,01	863.408,90
	1.080.750,43	876.106,96
Total liabilities	1.225.475.182,66	1.275.110.663,69

Liabilities and net equity	2018	2017
Net equity		
Equity (note 10)		
Mutual fund	6.745.478,77	6.627.960,42
Reserves:		
Other reserves	-1.469.850,00	-1.469.850,00
Profit or loss carried forward:		
Retained earnings	1.501.450,54	1.490.800,31
Profit or loss for this financial year	99.499,22	99.456,75
Adjustments for changes in value		
Financial assets available for sale	9.472.091,77	31.977.086,70
Currency translation differences	336.761,85	-2.095.967,93
Correction of accounting asymmetries	-792.731,26	-647.556,68
	9.016.122,36	29.233.562,09
Total net equity	15.892.700,89	35.981.929,57
Total liabilities and net equity	1.241.367.883,55	1.311.092.593,26

Loss and profit account
For financial years ended on 31 december 2018 and 2017
Notes 1, 2, 3 and 4

(Amounts in Euros)

Technical account – Life insurances	2018	2017
Premiums earned in the financial year, net of reinsurance		
Premiums accrued:		
Direct insurance	37.746.329,45	36.548.624,74
Income from fixed assets and investments		
Income from real estate investments	2.162.008,17	2.077.516,99
Income from Financial investments	33.935.849,59	33.959.400,75
Valuation adjustments due to fixed assets and investments impairment		
Fixed assets and real estate investments	724.963,68	1.653.139,57
Financial investments	267.290,47	583.727,41
Profits on the realisation of fixed assets and investments		
Fixed assets and real estate investments	5.318.316,66	1.622.994,68
Financial investments	57.219.063,86	48.794.728,27
	99.627.492,43	88.691.507,67
Other technical income	8.279,83	-
Claims incurred in the financial year, net of reinsurance		
Benefits and expenses paid:		
Direct insurance	-87.436.918,20	-71.145.818,61
Variation in the Benefits provision:		
Direct insurance	86.527,44	-899.780,02
Expenses attributable to Benefits	-1.413.543,55	-1.443.659,70
	-88.763.934,31	-73.489.258,33
Variation in other technical provisions, net of reinsurance		
Life insurance provisions	-13.539.700,10	-15.200.181,02

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	2018	2017
Profit sharing and rebates		
Variation in the profit sharing and rebates provision	58.377.464,25	-14.056.222,74
Net operating costs		
Acquisition expenses	-1.009.094,78	-560.243,07
Administration expenses	-1.140.453,85	-1.592.472,94
	-2.149.548,63	-2.152.716,01
Other technical expenses	-148.500,86	-225.727,98
Fixed assets and investment expenses		
Fixed assets and investment management costs:		
Fixed assets and real estate investments expenses	-1.984.379,46	-1.681.772,75
Investment and financial accounts expenses	-6.411.991,55	-6.551.928,36
Fixed assets and investment impairment losses:		
Depreciation of fixed assets and real estate investments	-501.126,75	-507.717,86
Fixed assets and real estate investments impairment	-	-
Financial investments impairment	-819.035,07	-756.222,16
Losses from fixed assets and investments:		
Fixed assets and real estate investments	-602.502,64	-98.182,02
Financial investments	-81.228.717,53	-11.029.309,62
	-91.547.753,00	-20.625.132,77
Profit & loss of the technical account – life insurance	-92.869,22	-57.650,48

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Non-technical account	2018	2017
Other income		
Income from Pensions fund management	99.499,22	99.456,75
Other income	141.953,65	103.194,91
	241.452,87	202.651,66
Other expenses		
Expenses from Pensions fund management	-46.031,71	-45.544,43
Other expenses	-3.052,72	-
	-49.084,43	-45.544,43
Profit & loss of the non-technical account	192.368,44	157.107,23
Profit or loss before tax	99.499,22	99.456,75
Tx on profits	-	-
Profit or loss of the financial year	99.499,22	99.456,75

Statement of changes in equity
For financial years ended on 31 december 2018 and 2017
Notes 1, 2, 3 and 4

(Amounts in Euros)

A) Statement of recognised income and expenses	2018	2017
Profit or loss of the financial year	99.499,22	99.456,75
Other recognised income and expenses		
Financial assets available for sale:		
Profits and losses from valuation	-53.769.260,21	56.000.803,12
Amounts transferred to the profit and loss account	23.762.600,30	-38.060.098,65
Currency translation differences:		
Profits and losses from valuation	3.243.639,71	-9.517.081,23
Accounting asymmetries correction:		
Profits and losses from valuation	-193.566,11	465.336,15
Tax on profits	6.739.146,58	-2.222.239,85
	-20.217.439,73	6.666.719,54
Total recognised income and expenses	-20.117.940,51	6.766.176,29

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B) Statement of total changes in equity	Mutual Fund	Other reserves	Remaining	Financial Year P & L	Adjustments due to changes in value	Total
Adjusted balance, brought forward to 2017	6.501.782,47	-1.469.850,00	1.499.651,62	99.265,04	22.566.842,55	29.197.691,68
Total recognized incomes and expenses	-	-	-	99.456,75	6.666.719,54	6.766.176,29
Transactions with members or mutualists:						
Other transactions with members or mutualists	26.912,91	-	-26.912,91	-	-	-
Other equity transactions:						
Transfers between equity items	99.265,04	-	-	-99.265,04	-	-
Other variations	-	-	18.061,60	-	-	18.061,60
Balance, end of 2017	6.627.960,42	-1.469.850,00	1.490.800,31	99.456,75	29.233.562,09	35.981.929,57
Adjusted balance, brought forward to 2018	6.627.960,42	-1.469.850,00	1.490.800,31	99.456,75	29.233.562,09	35.981.929,57
Total recognized incomes and expenses	-	-	-	99.499,22	-20.217.439,73	-20.117.940,51
Transactions with members or mutualists:						
Other transactions with members or mutualists	18.061,60	-	-18.061,60	-	-	-
Other equity transactions:						
Transfers between equity items	99.456,75	-	-	-99.456,75	-	-
Other variations	-	-	28.711,83	-	-	-
Balance, end of 2018	6.745.478,77	-1.469.850,00	1.501.450,54	99.499,22	9.016.122,36	15.892.700,89

Cash flow statement
For financial years ended on 31 december 2018 and 2017
Notes 1, 2, 3 and 4

(Amounts in Euros)

	2018	2017
Cash flow from operating activities		
Insurance business		
Accepted direct insurance, coinsurance and reinsurance payments in	37.478.906,44	36.400.312,06
Accepted direct insurance, coinsurance and reinsurance payments out	85.184.941,36	69.962.206,54
Other operating payments	5.267.780,93	5.181.051,16
Total cash paid in from Insurance business	37.478.906,44	36.400.312,06
Total cash paid out from Insurance business	90.452.722,29	75.143.257,70
Other operating activities		
Payments in from Pension funds management	99.456,75	99.265,04
Payments in from other activities	14.593.731,08	14.227.750,37
Payments out for other activities	13.724.453,12	14.886.421,58
Total cash paid in from other operating activities	14.693.187,83	14.327.015,41
Total cash paid out for other operating activities	13.724.453,12	14.886.421,58
Payments in and out for tax on profits	-	992.214,25
Total net cash flow from operating activities	-52.005.081,14	-38.310.137,56

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	2018	2017
Cash flow from investment activities		
Cash paid in from Investment activities		
Real estate investments	12.997.914,68	4.745.127,08
Financial instruments	771.325.577,61	687.455.204,18
Shares in group companies, associates and jointly-controlled entities	798.779,22	39.383,60
Interest collected	12.321.378,60	15.609.919,54
Dividends collected	6.579.860,70	6.211.560,66
Total cash paid in from Investment activities	804.023.510,81	714.061.195,06
Cash paid out for Investment activities		
Fixed assets	68.330,95	124.959,05
Property investments	35.889.775,89	1.872.134,50
Intangible assets	65.343,75	35.247,31
Financial instruments	833.104.735,15	650.104.351,01
Shares in group companies, associates and jointly-controlled entities	158.866,38	153.400,57
Total cash paid out for Investment activities	869.287.052,12	652.290.092,44
Total cash flow from Investment activities	-65.263.541,31	61.771.102,62
Cash flow from funding activities		
Effect of currency exchange rates variations	1.035.549,37	-994.821,46
Total cash flow from Funding activities	1.035.549,37	-994.821,46
Increase in cash and cash equivalents	-116.233.073,08	22.466.143,60
Cash and cash equivalents at the beginning of the financial year	214.072.213,60	191.606.070,00
Cash and cash equivalents at the end of the financial year	97.839.140,52	214.072.213,60
Components of cash and cash equivalents at the end of the financial year		
Cash in hand and at banks	97.839.140,52	214.072.213,60
Total cash and cash equivalents at the end of the financial year	97.839.140,52	214.072.213,60

1) General Information about the Mutual Society and its Activity

LORETO MUTUA, MUTUALIDAD DE PREVISION SOCIAL (hereinafter referred to as the Mutual Society) was incorporated under the name of MONTEPIO LORETO, MUTUALIDAD DE PREVISION SOCIAL, in accordance with the provisions of Article 7-2 of the Order issued by the Ministry of Labour of 25th August 1970. It was set up as a Social Welfare Institution, whose purpose was to provide its members with social welfare means complementary to the public protection system. The Mutual Society is authorized to operate in the life insurance field, covering the relevant risks in accordance with the current regulations, and since 14th December 2001 (Spanish Official Gazette – BOE – of 11th January 2002) it is authorized to extend Benefits without the qualitative and quantitative limitations imposed under Sections 1 and 2, Article 44 of Act 20/2015 of 14th July on the Management, Supervision and Solvency of Insurance and Reinsurance Companies.

The Mutual Society's corporate purpose is to exercise a type of voluntary insurance complementary to the compulsory Social Security system, through the payment of contributions by its members and protecting companies, which are intended to cover foreseen people risks. The risks covered within the life insurance are those derived from the instrumentalization of pension commitments, that is, retirement, disability and decease; with the possibility of an early retirement pension and exceptional redemption for long-term unemployment, as described in the Mutual Society's Contributions and Benefits Regulations.

The Mutual Society carries out its activity within the Spanish territory exclusively.

On 13th July 2015, the company executed a Public Deed for converting into a public instruments the corporate resolutions adopted by the Extraordinary General Meeting held on 25th June 2015, which resolved to change the Mutual Society's name to Loreto Mutua, Mutualidad de Previsión Social, and amend the Articles of Association and the company purposes to include the conduction of activities related to pension funds management in accordance with the provisions of Article 20.2 of Royal Decree 1/2002 of 29th November, under which the Consolidated Text of the Regulatory Law on Pension Schemes and Funds, is approved, as well as the amendment of the Contributions and Benefits Regulations, introducing the long-term unemployment as a new liquidity case in certain scenarios which were left out from the applicable requirements for the lay-offs recovery.

The Mutual Society is governed by Act 20/2015 of 14th July and Royal Decree 1060/2015 of 20th November on the Management, Supervision and Solvency of Insurance and Reinsurance Companies, which are the basic legislation regulating, among others, the requirements of the Solvency Regime II; by the Mutual Provident Society Regulations, approved by Royal Decree 1430/2002 of 27th December; by Act 50/1980 of 8th October on Insurance Contracts, and its subsequent complementary legislative provisions, and by its own Articles of Association and Regulations.

The abovementioned regulations on the Solvency Regime II establish, among other aspects, the standard share capital requirement (SCR) and a minimum capital requirement (MCR), which shall be covered with sufficient equity capital. To determine the SCR and MCR, the risks actually assumed by the Company are considered, and to determine the equity, the assets and liabilities are valued, in general, at market value, with the purpose of creating what the regulation calls as "financial balance sheet". Therefore, the acknowledgement and assessment criteria for assets and liabilities, for the purposes of determining solvency, are substantively different to those used to show the company's financial and capital position in the attached annual accounts, which are prepared in accordance with the financial information regulations applicable to the Mutual Society.

The main purpose of the Regulation of Solvency II is to protect the policyholder through an improvement in the control and measurement of market, operational, credit and liquidity risks to which insurance companies are exposed through three pillars:

- *Pillar I:* Quantitative requirements aimed at establishing the compulsory solvency capital by previously determining the "financial balance sheet" focused on risks and valued at market prices.
- *Pillar II:* Qualitative requirements including requisites regarding companies' governance (supervision processes) that affects the organization and management of companies forced to face identification, measurement and active risks management, as well as the prospective assessment of risks and solvency capital.
- *Pillar III:* Transparency requirements for the information needed, on the one hand, by the supervisor (General Directorate of Insurances and Pension Funds) and, on the other hand, by the market, and whose aim is to encourage market's discipline and contribute to transparency and financial stability.

In certain areas, the Mutual Society's activities may be affected by the provisions of the Consolidated Text of the Regulatory Law on Pension Schemes and Funds, as approved by Royal Legislative Decree 1/2002 of 29th November, and its subsequent amendments; by Royal Decree 304/20014 of 20th February, which approves the Regulations on Pension Schemes and Funds and its subsequent amendments; and by the governing regulations on personal income tax and other provisions established by the Spanish General Directorate of Insurances and Pension Funds or other complementary regulations.

According to the Articles of Association, the members of the Society are employees belonging to the workforce of companies whose main and usual activity is related to the commercial operation of air traffic, and who have established their membership through collective negotiation. Any members who have left the Company may keep their membership upon request and by paying the respective contributions. Employees from other partners or spin-off companies may also become members upon request. The Society's employees could also become members upon request.

The Society is authorised since 29th May 1989, in compliance with the Pension Plans and Funds Regulations, to operate as management entity of the said funds, having set up the following Funds:

- **Fondloreto Pensiones, Pensions Fund**, incorporated on 19th November 1998. As of 31 December 2018 and 2017, the Fund's assets amount to 32,694,294.74 and 31,402,902.08 euros respectively; having 1,042 and 940 members as of 31 December 2018 and 2017 respectively. The Pension Plan integrated in the Fund is the Individual Pension Plan "Loreto Optima", which is promoted by the Society.
- **Fondloreto Empleo, Pensions Fund**, incorporated on 22nd November 2000 as Fondloreto Pensiones I, Pensions Fund, and whose name was changed on 20th February 2015. The Fund's assets as of 31 December 2018 and 2017 amount to 299,055.21 and 296,111.67 euros respectively; having 4 members as of 31 December 2018 and 2017. After the agreements reached on 24th February 2015, the Pension Plan integrated in the Fund is the Pension Plan "Loreto

Empresas", promoted by the Spanish Confederation of Mutual Provident Societies.

Since the Mutual Society's members are workers and employees of companies whose main and usual activity is the commercial operation of air traffic, and their membership is mainly established by collective agreements in each of them, there is no distribution channel.

2) Basis for the Presentation of the Annual Accounts

A) FINANCIAL INFORMATION LEGAL FRAMEWORK THAT APPLIES TO THE MUTUAL SOCIETY

The annual accounts for financial years 2018 and 2017 have been prepared by the Mutual Society's Board of Directors in accordance with the financial information legal framework that applies to the Mutual Society, which is the one established in:

- The Commercial Code and other commercial legislation.
- Royal Decree 1317/2008 of 24 July, which approves the Accounting Plan for Insurance and Reinsurance Companies and the Regulations on the Presentation of Consolidated Annual Accounts for Insurance and Reinsurance Companies, as amended by Royal Decrees 1736/2010 of 23 December and 583/2017 of 12 June; and on the general regulations for those companies.
- Regulatory provisions set forth by the General Directorate of Insurances and Pension Plans.
- Mandatory regulations approved by the Institute of Accounting and Accounts Audits.
- Any other Spanish regulation that might be applicable.

B) ACCOUNTING PRINCIPLES

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

C) CRITICAL ASPECTS OF THE UNCERTAINTY ASSESSMENT AND ESTIMATION

In the annual accounts, we have occasionally used estimations to quantify some of the assets, liabilities, incomes, expenses and obligations that are registered in them. These estimations refer to the assessment of potential losses for impairment of certain assets and the fair value of certain financial instruments.

Estimations are based on historical experience and other different factors that are considered fair in the current circumstances, and whose results are the basis for determining the book value of the assets and liabilities that are difficult to determine through other sources. Estimations are continuously revised. Nevertheless, the uncertainty inherent in estimations could lead to results that might require a future adjustment of book values for the affected assets and liabilities.

Main assumptions related to future facts and other uncertain estimation sources at the time of preparing these annual accounts, which may cause any corrections in assets and liabilities in the next financial year, are the following:

Lease obligations

Lessor

The Mutual Society has lease contracts on properties the Mutual Society rents out, as stated in Note 8. The Mutual Society has determined that, based on the assessment of the terms and conditions of these contracts, the Mutual Society retains all risks and benefits from the investment properties, recognizing therefore these contracts as operating leases.

Taxation

In accordance with the current legislation, taxes cannot be considered finally settled until the filed tax returns have been reviewed by tax authorities, or until the prescribed four-year period to do so has expired. In the Board of Directors' opinion, there are no contingencies that could result in significant additional liabilities for the Mutual Society in case of tax inspection.

Pensions

The cost of pension commitments to its workers assumed by the Mutual Society is determined through actuarial valuations.

Actuarial valuations require the use of hypotheses on discount rates, salary increases, mortality tables, increases in Social Security contribution bases and increases in the Consumer Price Index. These estimations are subject to uncertainty due to the long settlement period of these commitments. Liabilities corresponding to these commitments as of 31 December 2018 amounted to 218 thousand euros, compared to 366 thousand euros for financial year 2017 (Note 13).

Impairment of Non-Financial Assets

The Mutual Society puts these assets to the impairment test when there is evidence for it.

Deferred Tax Assets

The recognition of deferred tax assets is carried out on the grounds of future estimations done by the Mutual Society on the eventual availability of future taxable profits.

Other Non-Technical Provisions

The Mutual Society recognizes risks provisions, according to the accounting policy stated in Note 13 of the Financial Statements. The Mutual Society has made judgements and estimations on the probability that those risk events will occur, as well as on their amount, and it has registered a provision when the risk has been deemed likely to occur, estimating the cost such commitment would imply.

Calculation of Fair Values, Values in Use and Present Values

The calculation of fair values, values in use and present values implies the calculation of future cash flows and the assumption of hypotheses relating to future flows values and discount rates applicable to them. The related estimations and assumptions are based on historical experience and other factors that are considered fair according to the circumstances.

In any event, the Mutual Society's investments, whatever its investment policy might be, are subject to market fluctuations and other risks inherent to security investments.

D) COMPARABILITY OF INFORMATION

In compliance with the provisions of Royal Decree 1317/2008, which approves the Accounting Plan for Insurance Companies, apart from the figures for financial year 2018, the balance sheet, the Profit & Loss account, the statement of changes in equity and the cash flow statement for financial year 2017 are shown for comparison purposes, except when any accounting rule specifically states that this is not necessary.

E) EXPENSE AND INCOME ALLOCATION CRITERIA

The Mutual Society only operates in the life insurance field, so expenses and incomes have been allocated to that field. Likewise, since all suitable investments are affected by technical provisions, their full returns have been included in the life insurance technical account.

F) GROUPING OF ITEMS

Certain items in the balance sheet, profit and loss account, 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.

3) Profit or Loss Distribution

In accordance with Article 10 of the Society's Contributions and Benefits Regulations, net accumulated gains are distributed to mutualists as profit sharing.

Fees received by the Society as Pension Funds Manager for financial years 2018 and 2017, which amount to 99,499.22 and 99,456.75 euros respectively, are not subject to distribution, but used to increase the Mutual Fund.

4) Registration and Valuation Standards

The most significant registration and valuation standards that have been applied to the preparation of these annual accounts are the following:

A) INTANGIBLE FIXED ASSETS

The intangible fixed assets include software applications, which are accounted for by the amount paid for the property or right of use thereof, provided that their use is intended for several years. They are presented in the Balance Sheet at their cost value less depreciations.

Recurring expenses arising from the amendment or updating of software applications or computer systems, staff training, system review and maintenance are registered in the profit and loss account, as more expenses in the financial year in which they occur. Software applications are amortised on a straight-line basis over their service life, estimated at 4 years.

B) TANGIBLE FIXED ASSETS AND REAL ESTATE INVESTMENTS

Tangible Fixed Assets

Tangible fixed assets include furniture, facilities, computer hardware, buildings and premises for the Mutual Society's own use. Furniture, facilities and computer hardware are valued at their cost of acquisition less depreciation.

Acquisition costs include any additional expenses incurred until the operation of the good. Any financial expenses that may arise are not part of those costs.

Real Estate Investments

Real Estate investments appear in the balance sheet at their acquisition cost less depreciation. The fair value of real estates corresponds to the appraisal value given by an appraisal company with license to assess property in the real estate market.

All major improvements that extend lifespan are accounted for in the account of technical facilities or in the building constructions, whatever is appropriate. Repair and maintenance expenses are charged to the outcome account of the period in which they occur.

Impairment of Non-Financial Assets

An impairment loss in the value of any fixed asset and real estate investment will take place when its book value exceeds its recoverable amount, being this the higher of its fair value less the costs of disposal and its value in use. The value in use of any asset is the present value of expected future cash flows updated at a market interest rate with no risk, adjusted by the specific risks of the asset that have not been adjusted by estimations of future cash flows. Cash flow forecasts will be based on reasonable and founded assumptions.

Impairment losses of fixed assets or real estate investments, as well as their reversal upon ceasing the circumstances that caused them, will be recognized as an expense or an income, respectively, in the profit and loss account. The limit for the impairment reversal will be the asset book value that would be recognized in the reversal date, in case the impairment value was not registered.

Impairment losses are recognized for all those assets, or cash-generating units that include them, and they are reverted if there are changes in the estimations used for determining the recoverable amount.

Annual depreciation is calculated on a straight-line basis according to the estimated service life, as detailed below:

	Estimated service life (years)
Real estate (excluding land value)	75
Furniture	10
Facilities	10
Computer hardware	5

C) LEASES

All leases signed by the Mutual Society are operating leases.

The operating lease is an agreement where lessor and lessee agree on the right to use an asset during a certain period of time upon paying monthly instalments. Collections and payments made under operating leases are registered as income or expenses in the profit and loss account of the financial year in which they are accrued.

D) FINANCIAL INSTRUMENTS

d.1) Classification and valuation of financial assets

In general, a financial asset is any asset that is: ready money, an equity instrument issued by another entity or an asset implying a right to get cash or another financial asset, or to exchange financial assets or liabilities with third parties under potentially favourable conditions.

The initial valuation of financial assets is made at their fair value. Unless there is evidence to the contrary, the fair value is the transaction price, which is equal to the fair value of the consideration provided plus any transaction costs that are directly attributable, with the exception of financial assets held-for-trading and other financial assets at fair value with change in the profit and loss account, for which transaction costs are charged to the profit and loss account of the financial year in which the acquisition of the financial asset occurs. Additionally, for financial assets held-for-trading and held-for-sale, the amount of any preferential subscription rights and similar rights that have been acquired, if any, is part of the initial valuation.

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

Cash and other cash equivalent assets

This group comprises the cash in hand, bank deposits available on demand and financial instruments that can be converted into cash and whose maturity at the acquisition time was not longer than three months, provided that there is no significant risk of change in value and they are part of the general management policy of the Mutual Society's liquid assets.

Loans and receivables

This category includes trade and non-trade receivables, debt securities and certain or pre-determined flows swap, which had not been classified when they were first recognised in the category of financial assets available for sale.

Loans for non-commercial transactions are those financial assets that, not being equity or derivative instruments, do not have a commercial origin, have fixed or determinable payments and are not traded in an active market. This category does not include those financial assets for which the Mutual Society cannot recover the initial investment, for any reason other than credit impairment.

After initial recognition at their fair value, the financial assets included in this category are valued at their depreciated cost. Interests accrued are accounted for in the profit and loss account, applying the effective interest rate method.

Nevertheless, those credits from commercial transactions with a maturity of no more than one year and with no contractual interest rate, as well as credits and advances to staff, dividends receivable and payments required on equity instruments, whose amount is expected to be received in the short-term, are valuated at their nominal value, both in the initial and subsequent valuations, provided that the effect of not updating the cash flows is not relevant.

Impairment losses recognised and reversed are registered at the end of the financial year by recognizing an expense or income, respectively, in the profit and loss account.

Investments held-to-maturity

These are financial assets such as debt securities, with a fixed maturity date, whose collections are a determined or ascertainable amount, that are traded in an active market, and there is positive intention and ability to hold them to maturity.

After the initial recognition of financial assets included in this category, they are valued at their depreciated cost. Interests accrued are registered in the profit and loss, applying the effective interest rate method.

Financial assets held-to-trade

It is considered that a financial asset is held to trade when:

a) It is originated or acquired with the purpose of selling it in the short term.

b) It is a derivative financial instrument, provided that it is not a financial guarantee contract or is designated as a hedging instrument.

After their initial recognition, these assets are valued at their fair value, without any deduction for transaction costs they may incur on disposal. Changes in their fair value are charged to the profit and loss account.

Other financial assets at fair value with changes in profit and loss

This category includes hybrid financial instruments when their features and financial risks inherent to the implicit derivative are not closely linked to those of the main contract.

After their initial recognition, these assets are valued at their fair value, without any deduction for transaction costs that may be incurred on sale. Changes in their fair value are charged to the profit and loss account.

Equity investments in group companies, associates and jointly-controlled entities

After the initial recognition, these assets are valued at their cost, less any accumulated impairment losses.

When a value needs to be assigned to these assets, because they have been removed from the balance sheet or for any other reason, the method applied is the average weighted price by homogeneous group. In the event of selling any preferential subscription rights and similar rights, or in case of segregation to exercise them, the book value of the said assets is decreased by the amount of such rights.

Financial assets available for sale

This category includes other company's debt securities and equity instruments that have not been included in any of the previous categories.

After the initial recognition, these assets are valued at their fair cost, without any deduction for transaction costs that may be incurred upon their disposal. Changes in fair value will be recorded directly in the equity, until the financial asset is removed from the balance sheet or depreciates, when the recognized amount is charged to the profit and loss account. However, impairment losses and variations in exchange rates for monetary financial assets in a foreign currency will be registered in the profit and loss account. Interests, calculated by the effective interest rate method, and accrued dividends are also registered in the profit and loss account.

Investments in equity instruments whose fair value cannot be reliably determined are valued at their cost, less any accumulated impairment losses. When a value needs to be assigned to these assets, because they have been removed from the balance sheet or for any other reason, the method applied is the average weighted price by homogeneous group. In the event of selling any preferential subscription rights and similar rights, or in case of segregation to exercise them, the book value of the said assets will be decreased by the amount of the rights. This amount is equal to the fair value or the cost of such rights, in a consistent way with the valuation of associated financial assets.

At least at year-end, value adjustments are carried out, whose amount is recognized in the profit and loss account. Their reversal is added to the profit and loss account.

d.2) Impairment of financial assets

The Mutual Society assesses at year end if any financial assets or group of financial assets are impaired.

Financial assets carried at depreciated cost (receivables and investments held to maturity)

Value adjustments will be carried out if there is any objective evidence showing that the value of a financial asset, or group of financial assets, carried at depreciated cost, is impaired as a result of one or more events that might have happened after their initial recognition and which might cause an increase or delay in the estimated future cash flow.

The impairment loss of these financial assets is the difference between their book value and the present value of future cash flow that is expected to be generated, discounted at the effective interest rate at the moment of their initial recognition. As of 31 December 2018 and 2017, the Mutual Society has not registered any impairment for this concept.

For financial assets at variable interest rate, the interest rate effective on the annual accounts closing date, in accordance with contractual terms, will be used. In the calculation of impairment losses for a group of assets, statistics methods or methods based in formulas are used. For the category of investments held-to-maturity as a substitute of the present value of future cash flow, the instrument market value might be used, provided that it is reliable enough to be considered representative of the value that could be recovered by the Mutual Society.

Impairment losses, and their reversal when the amount of such loss is reduced for any reasons related to any subsequent event, are recognised as an expense or income, respectively, in the profit and loss account. The limit for impairment reversal is the book value of the credit that would be recognised at the reversal date, if the impairment has not been recorded.

Financial assets available for sale

In the case of debt instruments, the impairment would be identified by a reduction or delay in the estimated future cash flows, which could be caused by the debtor's insolvency.

In the case of equity instruments, there is evidence that these have been impaired when, after their initial recognition, an event or series of events occur involving that their book value is not going to be recovered, because of a significant or long-lasting reduction in their fair value. As of 31 December 2018 and 2017, the Mutual Society has not registered any impairment for this concept.

Impairment losses will be the difference between their cost or depreciated cost less their fair value at year end.

Investments in the equity of group companies, associates and jointly controlled entities

Investments in the equity of group companies, associates and jointly controlled entities are valued after initial recognition at their cost, less accumulated impairment losses, where appropriate.

The amount of the impairment losses is the difference between their book value and the recoverable amount, being the latter the highest of their fair value less costs of disposal, and the present value of future cash flows derived from the investment. Unless there is better evidence of the recoverable investments, in the impairment estimation of these assets, the equity of the investee, as amended by the unrealised gains or losses that might exist at the valuation date, has been taken into consideration.

On the other hand, the Mutual Society has accounted for the investment in “Instituto Esphenial Fomento Inmobiliario, SL”, as a whole, both the investments in group companies and the loans granted to them, according to the substance of the transaction rather than to the investment legal form. In this sense, in Article 1, section I of Act 16/2007 of 4th July on the Reform and Adaptation of Commercial Legislation regarding Accounting Affairs in order to Harmonise it with the European Union Regulations, Article 34 of the Commercial Code is amended, leaving Section 2 as follows:

“Annual accounts should be clearly prepared and should give a true and fair view of the Mutual Society’s equity, financial situation and profit or loss, in compliance with legal provisions. In respect thereof, the accounting of transactions shall be based on their economic reality and not only on their legal form”.

Based on that economic reality and not only on the legal form, the Mutual Society considers this investment as a real estate investment, and as such, it has been valued according to 2nd Valuation Standard “Tangible Fixed Assets and Real Estate Investments”, which states as follows: “An impairment loss of a tangible fixed asset and real estate investments will occur when its book value exceeds its recoverable amount, being the latter the highest of its fair value less the costs of disposal and its value in use (flows discount)”.

Impairment losses, and their reversal when the loss amount has been reduced for reasons related to a subsequent event, are recognised as an expense or income, respectively, in the profit and loss account. The limit for impairment reversal is the book value of the credit that would be recognised on the reversal date, if the impairment has not been recorded.

d.3) Interests and dividends accrued from financial assets

Interest and dividends from financial assets accrued after their acquisition are registered as incomes in the profit and loss account. Interests shall be registered using the effective interest rate method, and dividends shall be registered when the right to accrue them is declared.

To this effect, in the initial valuation of financial assets, explicit interests accrued but not due and payable at that time, and dividends resolved by the relevant body at the time of the acquisition, are registered independently, depending on their maturity date. For this purpose, we understand explicit interests as those that are obtained after applying the contractual interest rate of the financial instrument.

Likewise, when distributed dividends come unequivocally from results generated prior to the acquisition date, because any amounts distributed exceed the profits generated by the investee from the acquisition date, these will not be recorded as incomes, but these will reduce the book value of the investment.

d.4) Derecognition of financial assets

The Mutual Society derecognises a financial asset, or part of it, when contractual rights over such financial asset’s cash flows expire or are transferred. Risks and profits inherent to the holding thereof shall be substantially transferred under circumstances that shall be assessed by comparing the Mutual Society’s exposure before and after the transfer, to the variation in the amounts and the net cash-flow calendar of the transferred asset.

Legal Notice: Official version of the documents is the one written in spanish

d.5) Classification and valuation of financial liabilities

For valuation purposes, the Mutual Society has classified all its financial liabilities as “Debts and payables”, which are initially valued at their fair value (transaction price including transaction costs that are directly attributable). In subsequent valuations, financial liabilities included within this category are valuated at their depreciated cost. Interest accrued are accounted for in the profit and loss account, by applying the effective interest rate method.

However, debts derived of commercial transactions with a maturity of no more than one year and with no contractual interest rate, as well as payments called by third parties on any shares or stock, whose amount is expected to be paid in the short term, are valuated, both in the initial and subsequent valuations, at their nominal value, when the effect of not updating cash flows is not relevant.

d.6) Derecognition of financial liabilities

The Mutual Society derecognises financial liabilities when the obligation inherent to them expires.

The difference between the book value of the financial liabilities, or of the part that has been derecognised, and the consideration paid, including attributable transaction costs, and which also includes any asset transferred other than cash or assumed liability, is recorded in the profit and loss account of the year when it occurs.

E) FOREIGN CURRENCY TRANSACTIONS

Monetary items

Foreign currency transactions are initially recorded at the exchange rate in force on the date of the transaction.

Assets and liabilities in foreign currency will be converted at the exchange rate in force on the date of the balance sheet. Exchange differences, both negative and positive, that may arise in this process, as well as those caused by the liquidation of those assets and liabilities, are recorded in the profit and loss account of the tax year in which they occur. Exchange differences, both positive and negative, that may arise from valuations subsequent to the purchase of financial assets available for sale are recorded in the Mutual Society’s Equity.

Non-monetary items

- *Non-monetary items valued at historical cost:* these are valued by applying the exchange rate in force on the date of the transaction.
- *Non-monetary items valued at fair cost:* they are valued by applying the exchange rate in force on the date of determining the fair cost, recognizing the loss or profit arising from such valuation in the net equity or the profit and loss account, depending on the nature of the relevant item.

F) CREDITS FOR INSURANCE AND REINSURANCE TRANSACTIONS

The Mutual Society's credits for insurance transactions are valued at the outstanding nominal amount. There are no reinsurance transactions in the Mutual Society.

G) TECHNICAL PROVISIONS

For life insurances

They represent the value of the Mutual Society's obligations, net after discounting mutualists' obligations, at the end of the year.

Mathematical provisions

This section includes the mathematical provisions, which represent the surplus of the present value of the Mutual Society's future obligations over the present value of future estimated contributions that should be paid by mutualists. These provisions have been determined by the Mutual Society for each allowance category separately, through adequate actuarial calculations made by independent professionals, in accordance with the relevant techniques.

Provision for benefits

For benefits to be settled or paid

These provisions represent the estimated valuation of outstanding obligations at the year end, as a consequence of claims which have not been settled or paid yet, that were declared until the year end.

As of 31 December 2018 and 2017, the valuation of these provisions has been made taking into account the expected or final amounts of each claim individually, applying the most prudent valuation criteria and considering any kind of liability arising from claims to be paid or settled from the said date.

For benefits pending declaration

The provision for benefits pending declaration includes the estimated amount for claims that happened before the year end and that were notified to the Mutual Society after the 31 December. It is calculated by determining the costs and the average claims pending declaration of the three last years which were known by the Mutual Society before the date of this provision is calculated.

For internal expenses of claims settlements

This provision shall have sufficient funds to cover internal expenses required to settle the claims that have to be included in the provision for benefits.

In order to quantify it, the relation between internal expenses attributable to benefits and their amount is taken into account, considering the reclassification of expenses by destination established in the Insurance Companies Accounting Plan.

For profit sharing and rebates

It represents the accumulated net incomes as surplus or shortage over technical provisions as of 31 December 2018 and 2017, provided that these have not been individually allocated to mutualists.

H) PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The provision for pensions and obligations includes the amount of future obligations of the Mutual Society towards its own employees who are in early retirement, as regulated by the Mutual Society's collective agreement. Its amount, that is to say, the liability for definite benefits registered in the balance sheet is calculated actuarially and corresponds to the present value of the commitments acquired by the end of the year. The Mutual Society would register as recognised incomes and expenses, where appropriate, any actuarial profit and losses in the tax year when they occur.

I) CORRECTION OF ACCOUNTING ASYMMETRIES

When the financial instruments assigned to insurance transactions are valuated at their fair value, in accordance with the provisions on the recording and valuation standards for financial instruments, and the changes are recorded in the net equity or in the profit and loss account, in order to give a true and faithful view of the Mutual Society's net equity and profit and loss account, the said variation shall be symmetrically recognised through the net equity or the profit and loss account, in a liability account, even if its balance is negative, for the change in value attributable to policyholders and not registered as life insurance provision. Financial instruments assigned to insurance transactions are those that the Mutual Society deems appropriate to cover the commitments it has with its liabilities, always complying with the relevant regulations in force.

The correction of accounting asymmetries shall be consistently applied to the financial instruments assigned to the different insurance transactions.

J) TAX ON PROFIT

The income tax expense for the tax year is calculated by adding the current tax, which results from the application of the corresponding tax rate to the taxable base for the year after applying any relevant reliefs and credits, and the variation of assets and liabilities for any accounted deferred taxes. It is recognised in the profit and loss account, except in those cases where this tax is directly related to items stated in the net equity. In this case, the tax is recognised in that section.

Assets and liabilities for current taxes are the estimated amounts to be paid to or collected from the Public Administration, according to the tax rates in force at the balance sheet data and including any other tax adjustment corresponding to previous tax years.

The deferred income tax is accounted for following the liability registry method, for all temporary differences between the taxable base of the assets and liabilities and their book value in the annual accounts.

The Mutual Society recognises a deferred tax liability for all temporary differences and recognises deferred tax assets for all deductible temporary differences, unused tax credits and non-applied tax losses, to the extent that it is probable that the Mutual Society holds future tax incomes allowing the application of these assets.

At the end of each year, the Mutual Society assesses the recognised deferred tax assets and those that have not been previously recognised. According to that assessment, the Mutual Society derecognises an asset that was previously recognised if its recovery is not likely to happen or records any previously unrecognised deferred tax assets if it is probable that the Mutual Society holds tax incomes that allow their application.

Deferred tax assets and liabilities are valuated at the expected tax rates upon reversal, in accordance with the approved current regulations, and according to the way in which it is reasonably forecast to recover or pay the deferred tax asset or liability. Adjustments to deferred tax assets and liabilities are charged to the profit and loss account, unless the affected deferred tax assets or liabilities have been charged or paid directly to the net equity.

Deferred tax assets and liabilities are valued without having into account the effect of financial discount.

K) INCOMES AND EXPENSES

The most significant criteria used by the Mutual Society to recognise its incomes and expenses are summarized below:

Income from interests and dividends

Interests and dividends from financial assets accrued after the acquisition date are recognised as incomes in the profit and loss account. Interests are recognised using the effective tax rate method and the dividends are registered when the right to receive them is declared.

To this effect, in the initial valuation of financial assets, the amounts of explicit interests accrued but not due and payable then, are registered independently according to their maturity, as well as the amount of dividends resolved by the competent body at the time of acquisition. For this purpose, “explicit interests” will be understood as those that are obtained after applying the contractual interest rate of the financial instrument.

Likewise, when allocated dividends come unequivocally from results generated prior to the acquisition date, because any amounts distributed exceed the profits generated by the investee from the acquisition date, these will not be recorded as incomes, but these will reduce the book value of the investment.

Other Income and Expenses

They are recognised for accounting purposes according to accrual criteria.

L) RELATED PARTY TRANSACTIONS

Related party transactions are linked to the Mutual Society’s normal operation, and they are carried out in market conditions and registered according to the abovementioned valuation standards.

M) RECLASSIFICATION OF EXPENSES BY DESTINATION CRITERIA

The Mutual Society has reclassified expenses by nature, taking into account their own organization and the internal distribution costs structure.

The criterion followed for this reclassification is the following:

- Community fees, maintenance, consultancy, utilities, insurance premiums, real estate taxes, depreciations, etc. incurred by each building are reclassified to expenses from material investments.
- Securities consultants, bank charges, custody fees, etc. are reclassified to expenses from financial investments.
- All other expenses that are not included in the above sections and expenses incurred by the offices in Paseo de la Castellana no. 40, the Mutual Society’s headquarters, are reclassified by the relevant percentage depending on the staff allocated to each area and each specific activity, as detailed below:

	Percentage	
	2018	2017
Acquisition costs	17,17%	9,93%
Expenses attributable to benefits	27,33%	27,26%
Expenses attributable to financial investments	17,61%	20,91%
Expenses attributable to material investments	14,95%	10,97%
Administration expenses	22,05%	30,07%
Other non-technical expenses	0,89%	0,86%

During financial year 2018, these percentages have been modified to adequate them to the current Mutual Society’s personnel costs structure. This amendment has no effect on the Mutual Society’s profit and loss account.

- "Other non-technical expenses" are the Pension Fund Administration Expenses.

5) Intangible Fixed Assets

The balance of this section as of 31 December 2018 and 2017 refers to the purchase of software applications, and the movements during financial years 2018 and 2017 have been as follows:

	Euros
Cost	
Balance as of 31 December 2016	590.366,59
Additions	35.145,96
Withdrawals	-13.248,67
Balance as of 31 December 2017	612.263,88
Additions	65.003,53
Withdrawals	-73.892,23
Balance as of 31 December 2018	**603.375,18**
Accumulated depreciation	
Balance as of 31 December 2016	-163.480,38
Allocations	-149.057,96
Drawdowns	13.248,67
Balance as of 31 December 2017	-299.289,67
Allocations	-154.750,69
Drawdowns	73.892,23
Balance as of 31 December 2018	**-380.148,13**
Net value	
As of 31 December 2017	**312.974,21**
As of 31 December 2018	**223.227,05**

6) Real Estate Investments and Tangible Fixed Assets

The Mutual Society has classified the lands and constructions it holds as tangible fixed assets if these are for private use and as real estate investments if their purpose is to get income and capital.

A) REAL ESTATE INVESTMENTS

Detail and movements for financial years 2018 and 2017 is as follows:

	Euros					
	Natural land and goods	Constructions	Technical facilities	Other material investment	Existing investments	Total
Costs						
Balance as of 31 December 2016	17.295.044,37	18.743.887,29	1.863.815,50	16.011.539,00	-	53.914.286,16
Additions	-	11.892,34	290.553,39	-	102.000,00	404.445,73
Withdrawals	-282.739,13	-397.908,37	-913.143,31	-	-	-1.593.790,81
Balance as of 31 December 2017	17.012.305,24	18.357.871,26	1.241.225,58	16.011.539,00	102.000,00	52.724.941,08
Additions	6.748.633,03	27.316.578,81	145.485,17	-	118.413,95	34.329.110,96
Withdrawals	-2.420.987,03	-4.168.044,13	-148.417,89	-	-220.413,95	-6.957.863,00
Balance as of 31 December 2018	21.339.951,24	41.506.405,94	1.238.292,86	16.011.539,00	-	80.096.189,04
Accumulated depreciation						
Balance as of 31 December 2016	-	-4.064.514,81	-999.856,96	-	-	-5.064.371,77
Allocations	-	-256.950,90	-197.411,95	-	-	-454.362,85
Drawdowns	-	128.955,50	913.143,31	-	-	1.042.098,81
Balance of 31 December 2017	-	-4.192.510,21	-284.125,60	-	-	-4.476.635,81
Allocations	-	-315.985,87	-211,747,12	-	-	-527.732,99
Drawdowns	-	1.564.320,61	146,084,57	-	-	1.710.405,18
Balance as of 31 December 2018	-	-2.944.175,47	-349.788,15	-	-	-3.293.963,62
Impairments						
Balance as of 31 December 2016	-	-4.666.914,71	-	-11.551.229,27	-	-16.218.143,98
Allocations	-	-8.101,63	-	-	-	-8.101,63
Drawdowns	-	1.101.146,92	-	-	-	1.101.146,92
Balance of 31 December 2017	-	-3.573.869,42	-	-11.551.229,27	-	-15.125.098,69
Drawdowns	-	-30.187,63	-	724.963,68	-	694.776,05
Balance as of 31 December 2018	-	-3.604.057,05	-	-10.826.265,59	-	-14.430.322,64
Net values						
As of 31 December 2017	17.012.305,24	10.591.491,63	957.099,98	4.460.309,73	102.000,00	33.123.206,58
As of 31 December 2018	21.339.951,24	34.958.173,42	888.504,71	5.185.273,41	-	62.371.902,78

As of 31 December 2018 and 2017, there are fully depreciated items registered as real estate investments in the amount of 120,293.45 euros.

On April 26th 2018, a deed of sale was signed for premises no. 1, 2, 3A and 3B, located in numbers 9, 11 and 13 of the largest building and number 15 of minor building of the Residential Complex in C/ Fray Bernardino Sahagun, Madrid; which is property of Loreto Mutua, Mutualidad de Previsión Social; who sells and transfers the properties to Mrs. Maria de la Concepcion Pequeño Bobo, in the amount of 2,350,000 euros.

On July 16th 2018, a deed of sale was signed for the property 32D, with a parking space and a storage room, in Fuente Aloha Residential Complex, located in Urbanizacion Nueva Andalucia, Marbella (Malaga); owned by Loreto Mutua, Mutualidad de Previsión Social; who sells and transfers the property to the Company Estandarte Proyectos de Inversion y Desarrollos Patrimoniales, S,L., for 258,000 euros.

On October 16th 2018, a deed of sale was signed for the premises no.1 bis – with six parking spaces -, no. 2 bis – with five parking spaces-, and no. 3bis – with one parking space, located in C/ Santa Cruz de Marcenado, 4, Madrid; owned by Loreto Mutua, Mutualidad de Previsión Social; who sells and transfers the property to Caixabank S.A., for 4,950,000 euros.

On December 11th, a deed of sale was signed for the premises no.1, 4th floor and an indivisible 6/255 shares in the parking space, located in C/ Quintana, 2, Madrid, owned by Loreto Mutua, Mutual Mutualidad de Previsión Social; who sells and transfers the property to Society Transvia Madrid, S.L, for 2,500,000 euros.

On December 1st 2017, a deed of sale was signed for the Estate, and an indivisible share in Urban estate no.46, office no.2, 4th floor, in the building located in C/ Quintana, 2, Madrid, owned by Loreto Mutua, Mutualidad de Previsión Social who sells and transfers the Estate to Eridu Inversiones, S.L. for 1,500,000 euros and the indivisible share in the Estate, corresponding to 10 parking spaces, for 400,000 euros.

On October 2nd 2018, a deed of sale was signed for Edificio Alameda, located in Valencia, whose façades faces Camino de Sement (also called Senda Senent), owned by InZriser Senda de Senenet Real Estate, S.L.U, who sends and transfers 100% of the property to Loreto Mutua, Mutualidad de Previsión Social, for 33,000,000 euros.

On September 5th 2018, a deed was signed for the dissolution of the society Instituto Esphenial Fomento Inmobiliario, SL, as resolved by the Extraordinary General Meeting of Shareholders held on August 30th 2018. The dissolution was registered with the Companies Registry on October 1st 2018.

From that settlement, several parking spaces were transferred to Loreto Mutua, Mutualidad de Previsión Social as "real estate investments", for 71,200 euros.

The details of impairments as of 31 December 2018 and 2017, for the amounts of 14,430,322.64 and 15,125,098.69 euros respectively, are as follows:

	Euros	
Location	**2018**	**2017**
Paseo de la Castellana, no. 40, Madrid	3.544.048,02	3.544.048,02
Avenida del Prado, Residential Complex Fuente Aloha, s/n, Marbella (Malaga)	60.009,03	29.821,40
Perales del Rio	10.826.265,59	11.551.229,27
	14.430.322,64	15.125.098,69

B) TANGIBLE FIXED ASSETS

Details and movements for financial year 2018 are as follows:

	Euros			
	Balance as of 31/12/2017	Acquisitions	Derecognitions	Balance as of 31/12/2018
Costs				
Furniture	740.705,05	76.143,90	-111.910,01	704.938,94
Technical facilities	579.334,39	-	-	579.334,39
Other facilities	126.079,95	-	-5.138,45	120.941,50
Computer hardware	565.853,07	2.128,39	-28.238,29	539.743,17
Lands in Paseo de la Castellana 40	6.792.584,40	-	-	6.792.584,40
Buildings in Paseo de la Castellana 40	5.751.151,27	-	-	5.751.151,27
	14.555.708,13	78.272,29	-145.286,75	14.488.693,67
Accumulated depreciation				
Furniture	-195.145,91	-72.998,82	111.910,02	-156.234,71
Technical facilities	-143.211,62	-114.404,97	-	-257.616,59
Other facilities	-66.076,88	-12.565,17	5.138,45	-73.503,60
Computer hardware	-203.271,12	-109.942,53	28.238,29	-284.975,36
Buildings in Paseo de la Castellana 40	-665.512,99	-75.180,54	1.388,73	-739.304,80
	-1.273.218,52	-385.092,03	146.675,49	-1.511.635,06
Impairments				
Buildings	-2.365.248,58	-	-	-2.365.248,58
Net values	10.917.241,03	-306.819,74	1.388,74	10.611.810,03

For financial year 2017, details and movements are as follows:

	Euros			
	Balance as of 31/12/2016	Acquisitions	Derecognitions	Balance as of 31/12/2017
Costs				
Furniture	830.587,11	34.727,04	-124.609,10	740.705,05
Technical facilities	574.616,38	4.718,01	-	579.334,39
Other facilities	126.079,95	-	-	126.079,95
Computer hardware	609.661,76	75.520,41	-119.329,10	565.853,07
Lands in Paseo de la Castellana 40	6.792.584,40	-	-	6.792.584,40
Buildings in Paseo de la Castellana 40	5.741.591,42	9.559,85	-	5.751.151,27
	14.675.121,02	124.525,31	-243.938,20	14.555.708,13
Accumulated depreciation				
Furniture	-176.085,10	-76.148,80	57.087,99	-195.145,91
Technical facilities	-83.294,15	-59.917,47	-	-143.211,62
Other facilities	-55.217,09	-10.859,79	-	-66.076,88
Computer hardware	-209.519,57	-113.080,65	119.329,10	-203.271,12
Buildings in Paseo de la Castellana 40	-588.205,41	-77.307,58	-	-665.512,99
	-1.112.321,32	-337.314,29	176.417,09	-1.273.218,52
Impairments				
Buildings	-2.917.241,23	-	551.992,65	-2.365.248,58
Net values	10.645.558,47	-212.788,98	484.471,54	10.917.241,03

As of 31 December 2017, there were fully depreciated items registered as fixed items for the amount of 93,884.82 euros.

Appraisal values of properties owned by the Mutual Society as of 31 December 2018 and 2017 are as follows:

	Euros	
Location	**2018**	**2017**
Paseo de la Castellana, nº 40, Madrid	14.951.610,17	14.991.082,77
Paseo de la Castellana, nº 40, Madrid (Headquarters)	9.965.505,14	9.991.820,20
Glorieta de Quevedo, nº 9, Madrid	16.887.812,44	16.956.989,85
C/ Isaac Peral, 4, ground floor, Madrid	2.283.850,72	2.289.438,55
C/Fray Bernardino Sahagún, nº 9, Madrid	-	2.300.661,39
Av. del Prado, Residential Complex Fuente Aloha, s/n, Marbella (Malaga)	4.078.146,31	4.362.997,26
C/ Santa Cruz de Marcenado, 1, Premises A-4, A-5 and A-6, Madrid	-	5.245.748,64
C/ Alberto Aguilera, 1 and c/ Santa Cruz de Marcenado, nº 2, Premises C-1, B-4, B-5 and C-8, Madrid	5.371.575,52	5.392.268,25
C/ Quintana, 2, 4th floor, Madrid	-	1.924.580,49
Parking spaces obtained from the settlement of the Company Instituto Esphenial Fomento Inmobiliario, S. L	118.342,91	-
C/ Antigua Senda de Senent, 11, Edificio Alameda (Valencia)	33.890.433,96	-
	87.547.277,17	63.455.587,40

On the other hand, the Mutual Society owns planning rights in Perales del Rio, which are valued at 5,185,273.41 and 4,460,309.73 euros in 2018 and 2017 respectively.

7) Financial Instruments

Information about the relevance of financial instruments regarding the Mutual Society's financial situation and profit and loss is given below

7.1) Balance-related information

A) FINANCIAL ASSETS CATEGORIES

As of 31 December 2018 and 2017, the composition and classification of the Mutual Society's financial assets is as follows:

As of 31 December 2018

	Euros							
	Cash and cash equivalents	Financial assets held-to-trade	Financial assets available for sale		Loans and receivables	Investment portfolio held-to-maturity	Shares in group companies and associates	Total
			Fair value	Cost				
Equity instruments								
Capital financial investments	-	-	247.329.781,28	250.276.388,99	-	-	31.739.927,25	279.069.708,53
Shares in investment funds	-	-	192.272.477,06	197.724.799,99	-	-	-	192.272.477,06
Shares in venture capital funds	-	-	51.905.952,06	40.211.897,29	-	-	434.685,28	52.340.637,34
Debt securities								
Fixed income securities	-	-	168.455.273,84	158.671.926,47	11.350.526,15	263.127.246,46	-	442.933.046,45
Derivatives	-	17.920,05	-	-	-	-	-	17.920,05
Bank deposits	-	-	-	-	80.469.106,40	-	-	80.469.106,40
Credit for direct insurance transactions								
Policyholders:								
Outstanding bills	-	-	-	-	29.138,59	-	-	29.138,59
Other credits								
Other credits	-	-	-	-	549.668,16	-	-	549.668,16
Cash in hands and at banks	97.839.140,52	-	-	-		-	-	97.839.140,52
	97.839.140,52	17.920,05	659.963.484,24	646.885.012,74	92.398.439,30	263.127.246,46	32.174.612,53	1.145,520.143,10

As of 31 December 2017

	Euros								
	Cash and cash equivalents	Financial assets held-to-trade	Other financial assets at fair value with changes in the loss and profit account	Financial assets available for sale		Loans and receivables	Investment portfolio held-to-maturity	Shares in group companies and associates	Total
				Fair value	Cost				
Equity instruments									
Capital financial investments	-	-	-	275.545.020,63	264.264.046,67	-	-	27.871.688,26	303.416.708,89
Shares in investment funds	-	-	-	94.435.043,46	89.154.930,31	-	-	-	94.435.043,46
Shares in venture capital funds	-	-	-	37.726.783,25	30.588.654,24	-	-	760.625,28	38.487.408,53
Debt securities									
Fixed income securities	-	-	19.720.018,79	210.150.060,35	194.007.784,77	14.031.123,67	268.917.064,02	-	512.818.266,83
Derivatives	-	64.898,91	-	-	-	-	-	-	64.898,91
Loans									
Loans to group companies	-	-	-	-	-	68.148,17	-	-	68.148,17
Bank deposits	-	-	-	-	-	80.441.539,67	-	-	80.441.539,67
Credit for direct insurance transactions									
Policyholders:									
Outstanding bills	-	-	-	-	-	23.593,88	-	-	23.593,88
Other credits									
Remaining credits	-	-	-	-	-	1.409.871,81	-	-	1.409.871,81
Cash/Banks	214.072.213,60	-	-	-	-	-	-	-	214.072.213,60
	214.072.213,60	64.898,91	19.720.018,79	617.856.907,69	578.015.415,99	95.974.277,20	268.917.064,02	28.632.313,54	1.245.237.693,75

B) CATEGORIES OF FINANCIAL LIABILITIES

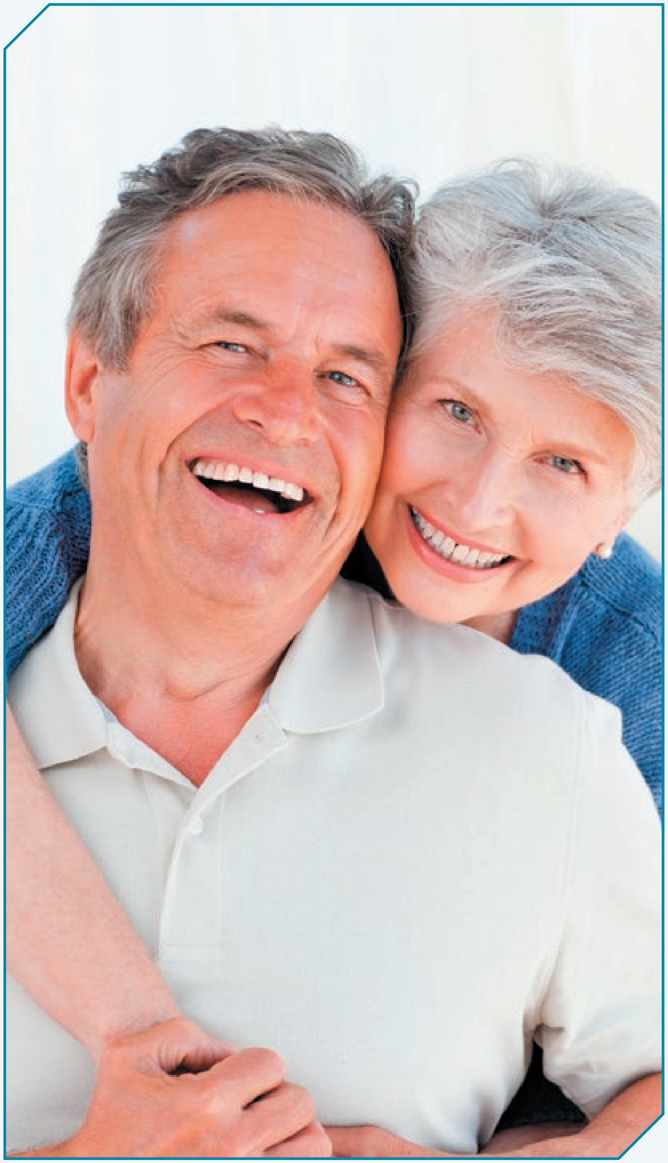
As of 31 December 2018 and 2017, the composition of the Mutual Society's financial liabilities, classified as "Financial liabilities held-to-trade" and "Debts and payables", is the following:

	Euros	
	2018	2017
Financial liabilities held-to-trade	-	687.270,00
Debts and payables	1.200.272,97	692.681,42
	1.200.272,97	1.379.951,42

As of 31 December 2017, the amount of 687,270.00 registered as "Financial liabilities held-to-trade", corresponded to the mandatory conversion at July 17th 2017 of the issuance convertible into Liberbank's shares with a 7% coupon.

The composition of the Mutual Society's financial liabilities classified as "Debts and payables" as of 31 December 2018 and 2017, is the following:

	Euros	
	2018	2017
Other debts:		
Other debts	1.200.272,97	692.681,42
	1.200.272,97	692.681,42



C) CLASSIFICATION BY MATURITY

The breakdown by maturity dates of the Mutual Society's financial assets and liabilities as of 31 December 2018 is the following:

Financial assets

	Euros						
	2019	2020	2021	2022	2023	Posteriores	Total
Fixed-income securities	64.350.584, 78	26.627.168,49	45.460.626,87	32.544.921, 73	33.833.612,76	240.116.131,82	442.933.046,45
Derivatives	-	-	-	17.920,05	-	-	17.920,05
Bank deposits	80.469.106,40	-	-	-	-	-	80.469.106,40
Policyholders	29.138,59	-	-	-	-	-	29.138,59
Other credits	549.668,16	-	-	-	-	-	549.668,16
Cash/Banks	97.839.140,52	-	-	-	-	-	97.839.140.52
	243.237.638,45	26.627.168,49	45.460.626,87	32.562.841,78	33.833.612,76	240.116.131,82	621.838.020,17

Financial liabilities

	Euros						
	2019	2020	2021	2022	2023	Posteriores	Total
Deposits	35.476,00	143.675,82	121,119,82	68.551,30	44.420,62	115,295,09	528.538,65
Sundry accounts payable	671.734,32	-	-	-	-	-	671.734,32
	707.210,32	143.675,82	121,119,82	68.551,30	44.420,62	115,295,09	1.200.272.97

The breakdown by maturity dates of the Mutual Society's financial assets and liabilities as of 31 December 2017 is the following:

Financial assets

	Euros						
	2018	2019	2020	2021	2022	Subsequent	Total
Fixed-income securities	77.017.072,78	47.178.060,35	30.995.697,57	43.453.998,23	36.868.475,66	277.304.962,24	512.818.266,83
Derivatives	-	14.898,87	-	-	50.000,04	-	64.898,91
Loans to group companies	68.148,17	-	-	-	-	-	68.148,17
Bank deposits	80.441.539,67	-	-	-	-	-	80.441.539,67
Policyholders	23.593,88	-	-	-	-	-	23.593,88
Remaining credits	1.409.871,81	-	-	-	-	-	1.409.871,81
Cash/Banks	214.072.213,6	-	-	-	-	-	214.072.213,60
	373.032.439,91	47.192.959,22	30.995.697,57	43.453.998,23	36.918.475,70	277.304.962,24	808.898.532,87

Financial liabilities

	Euros					
	2018	2019	2020	2021	Subsequent	Total
Financial liabilities held to trade	687.270,00	-	-	-	-	687.270,00
Deposits	-	30.072,00	18.704,00	60.500,00	106.301,76	215.577,76
Sundry accounts payable	477.103,66	-	-	-	-	477.103,66
	1.164.373,66	30.072,00	18.704,00	60.500,00	106.301,76	1.379.951,42

Assets pledged as security

As of 31 December 2018 and 2017, there are no assets pledged as security by the Mutual Society.

D) ADJUSTMENTS FOR VALUE IMPAIRMENTS CAUSED BY CREDIT RISK

For 2018 and 2017, impairment losses caused by credit risks have been registered according to the following detail:

	Euros	
	2018	2017
Loans to group companies and associates		
Allowances	9.354,81	16.779,80
Reversals	-54.533,53	-
Investments in group companies and associates		
Allowances	809.680,26	739.442,36
Reversals	-212.756,94	-13.715,83
Financial assets held to maturity		
Reversals	-	-570.011,58
	551.744,60	172.494,75

7.2) Information Related to the Profit and Loss Account

The detail of the information related to the profit and loss account of financial instruments for tax year 2018 is the following:

	Euros		
	Net profit or loss	Financial income or expenses	Impairments and impairments application
Financial assets			
Fixed income	2.903.129,84	20.934.027,28	-
Loans to group companies and associates	-	30.026,59	45.178,72
Variable income/Collective Invest.	-27.545.017,84	6.473.600,28	-
Equity instruments of group companies and associates	-	2.363,06	-596.923,32
Deposits	-	1.145.592,50	-
Other assets	-	-59.672,82	-
Derivatives	632.234,33	641.162,30	-
Reclassified expenses	-	-1.643.241,15	-
	-24.009.653,67	27.523.858,04	-551.744,60

The detail of the information related to the profit and loss account of financial instruments for tax year 2017 is the following:

	Euros		
	Net profit or loss	Financial income or expenses	Impairments and impairments application
Financial assets			
Fixed income	479.239,33	23.498.387,29	570.011,58
Loans to group companies and associates	-	13.373,26	-16.779,80
Variable income/Collective Invest.	37.272.559,32	6.851.725,35	-
Equity instruments of group companies and associates	-	1.680,00	-725.726,53
Deposits	-	851.818,50	-
Other assets	-	-54.243,30	-
Derivatives	13.620,00	-640.723,13	-
Reclassified expenses	-	-1.410.908,58	-
	37.765.418,65	27.407.472,39	-172.494,75

7.3) Group Companies and Associates

The detail of group companies and associates for the tax year 2018 is the following:

				Euros				
Company name	**Address**	**Activity**	**Direct share**	**Capital**	**Reserves**	**Year results**	**Net book value**	**Share value**
Prius Inversiones Generales, S.L	Quintana, 2 28008 Madrid	Assets management	100,00%	55.705.000,00	-23.400.025,51	-8.820.375,39	21.515.698,00	21.515.698,00
Activos en Renta Capital, S.L	Serrano, 81 28006 Madrid	Assets management	93,13%	6.115.470,00	70.470,27	-197.178,82	5.577.365,65	5.577.365,65
Arcalia Privative Equity, SCR	Maria de Molina, 39 28006 Madrid	Venture capital fund	17,81%	1.830.010,00	2.226.551,34	-	434.685,28	1.307.548,30
Piscina La Piovera, S.A	Academos, s/n 28042 Madrid	Sports Club	27,53%	424.326,57	-57.586,32	-	116.800,65	116.800,66
Loreto Inversiones SGIIC, S.A	Paseo de la Castellana, 40 – 5th floor 28023 Madrid	CIIMG	100,00%	5.000.000,00	-	-469.937,05	4.530.062,95	4.530.062,95
							32.174.612,53	33.047.475,56

The detail of group companies and associates for the tax year 2017 is the following:

				Euros				
Company name	**Address**	**Activity**	**Direct share**	**Capital**	**Reserves**	**Year results**	**Net book value**	**Share value**
Instituto Esphenial Fomento Inmobiliario, SL	Quintana, 2 28008 Madrid	Assets management	100,00%	2.381.162,00	-1.215.203,30	-420.520,89	546.037,95	546.037,95
Prius Inversiones Generales, S.L	Quintana, 2 28008 Madrid	Assets management	100,00%	55.705.000,00	-22.869.101,23	-530.924,28	21.447.850,32	21.447.850,32
Activos en Renta Capital, S.L.	Pza. de las Salesas, 11 28004 Madrid	Assets management	93,13%	6.115.470,00	159.913,07	-89.442,80	5.760.999,34	5.760.999,34
Arcalia Private Equity, SCR	Maria de Molina, 39 28006 Madrid	Venture capital fund	17,81%	3.660.020,00	2.434.580,90	-	760.625,28	1.814.013,69
Piscina La Piovera, S.A.	Academos, s/n 28042 Madrid	Sports Club	27,53%	424.326,57	-75.842,04	-	116.800,65	116.800,66
							28.632.313,54	29.685.701,96

On January 31st 2018, the Memorandum of Association of a Collective Investment Institution Management Company, called Loreto Inversiones SGIIC, S.A. was executed. It has been registered with the Companies Registry on February 5th 2018.

On June 18th 2018, the Mutual Society signed two agreements with the Collective Investment Institution Management Company Loreto Inversiones, SGIIC, S.A, to delegate to them the management of the Society's Pension Funds. The term of the agreements is three years.

Additionally, on July 10th 2018, the Mutual Society executed with Loreto Inversiones, SGIIC, S.A. a discretionary management agreement of the investment portfolio, which regulates the management services for the portfolio of securities, cash and other financial instruments, valid for three years

On September 5th 2018, a deed was signed for the dissolution of the society Instituto Esphenial Fomento Inmobiliario, S.L., in accordance with a resolution adopted by the General Extraordinary Meeting of Shareholders held on August 30th 2018. The settlement was registered with the Companies Registry on October 1st 2018.

7.4) Information about the Financial Instrument's Nature and Risk Level

The Mutual Society's Board of Directors reviews the investment risk management policy at least once a year. This policy meets the requirements of the Solvency II legal framework. Likewise, a responsible person has been appointed for the Mutual Society's investment risk management. This person shall update the policy every year and shall submit it to the Board of Directors, who would be the ultimate responsible for the efficiency of the established investment policy

The only purpose of the investment policy is to obtain an adequate complement to public allowances in accordance with the relevant contributions made by mutualists and the risk profile accepted. That is to say, to maximize profitability by minimizing the risks assumed and keeping the purchasing power of the contributions made throughout the mutualist's working life.

The Mutual Society's policy to reduce its exposure to these types of risks is based on a prudent investment management, with appropriate diversification, with the purpose of avoiding risk concentration and accumulation, establishing its own key risk indicators, which are adapted to the Investment Risk, Liquidity and Assets and Liabilities Management Policy (ALM).

Risks management is carried out as follows:

a) Market risk

It is the probability to suffer losses, whether total or relative, in the event of adverse movements in the prices of financial assets, including changes in exchange rates and prices or equity and debt instruments.

Risks management is carried out through the appropriate asset allocation and the analysis of the expected maximum monthly loss, by using risk statistics measurements, as the VaR (Value At Risk). The strategy followed in the Mutual Society's investments management is not limited to a VaR purpose of its portfolio, since it has a long-term nature. Risks measurement with VaR models, even though is useful, it has no reliable parameters to set investment strategies, whose results are used for pension payments, as it would render them procyclical and it would not allow the investment in any assets that would imply discounts on their ordinary value. The portfolio market risk (VaR), does not include real estate investments, since it does not offer a significant sample for its use to be consistent.

b) Credit risk

It is the probability to suffer losses because of any contractual breach by the counterpart as a consequence of any changes in its capacity or intention to comply with its obligations.

Credit risk is managed by controlling the credit ratings of the assets issuers that are part of the Mutual Society's investment portfolio and establishing concentration limits at issuer's level.

The Mutual Society's exposure to credit risk, by rating and type of issuer as of 31 December 2018, at book value, is the following:

Issuers' credit rating	Portfolios (Euros)		
	Available for sale	Maturity	Total
AAA	2.602.573,27	99.667.790,72	102.270.363,99
AA	12.241.169,19	66.086.329,21	78.327.498,40
A*	53.285.789,87	90.044.970,28	143.330.760,15
BBB	42.990.622,28	-	42.990.622,28
BB	5.302.676,98	7.328.156,25	12.630.833,23
B	1.477.095,00	-	1.477.095,00
NR	50.555.347,25	-	50.555.347,25
Total	**168.455.273,84**	**263.127.246,46**	**431.582.520,30**

** Current classification of Spanish public debt.*

The Mutual Society's exposure to credit risk, by rating and type of issuer as of 31 December 2017, at book value, is the following:

Issuers' credit rating	Portfolios (Euros)			
	Available for sale	Maturity	At fair value with changes in profit and loss	Total
AAA	2.494.254,98	99.540.212,27	-	102.034.467,25
AA	3.224.447,59	21.783.958,77	-	25.008.406,36
A	18.747.977,77	38.943.085,29	9.943.986,09	67.635.049,15
BBB*	118.669.584,16	101.335.047,49	9.776.032,70	229.780.664,35
BB	13.788.948,98	7.314.760,20	-	21.103.709,18
B	4.690.186,00	-	-	4.690.186,00
NR	48.534.660,87	-	-	48.534.660,87
Total	**210.150.060,35**	**268.917.064,02**	**19.720.018,79**	**498.787.143,16**

** Current classification of Spanish public debt.*

c) Liquidity risk

It is the probability to suffer losses for not being able to undo the position in time without causing an impact in the Market Price, or not being able to undo positions to meet the liquidity needs.

It is managed through assets diversification and an appropriate management of the cash flow forecasts.

The liquidity ratio as of 31 December 2018 and 2017 is the following:

	Total portfolio (Thousand Euros)	
	2018	2017
Liquid assets (*)	97.839	214.072
Financial investments at market value	1.128.382	1.115.132
Total banks and investments	1.226.221	1.329.204
Liquidity % at closing date	7,98%	16,11%

(*) It includes cash and monetary market assets

d) Interest rate risk

It is the probability to suffer losses due to movements in interest rates. It includes the concept of modified duration, which reflects the sensitiveness of debt instruments value regarding movements in interest rates, and it represents the percentage variation in the value of financial assets for each variation percentage point on interest rates.

The detail as of 31 December 2018 is the following:

	Maturity (Thousand Euros)			
	< 1 year	2 to 5 years	> 5 years	Modified duration
Available for sale	49.382	53.647	65.426	3,866

The detail as of 31 December 2017 is the following:

	Maturity (Thousand Euros)			
	< 1 year	2 to 5 years	> 5 years	Modified duration
Available for sale	44.793	71.064	94.293	4,327

e) Real estate investment value risk

Real estate investments entail the risk derived from the difficulty to diversify them, and the many economic-legal factors that affect them. To this end, each transaction is subject to several valuations by different methods and to specific planning analysis. On a general basis, before making the investments it is necessary to have a report issued by independent third parties including the investment market value, as well as the expected value increase. In this sense, the Mutual Society requests appraisals in accordance with the provisions of Order ECO 805/2003, which allows to obtain a correct valuation, applying at least two valuation methods.

8) Leases and transactions of similar nature

The Mutual Society holds several operating leases, as lessor, with terms providing for the annual increase in the rent in accordance with the increases in the Consumer Price Index.

Community fees incurred by lessees are usually paid by them. The deposits are lodged with the Housing Institute of Madrid (as per initials in Spanish, I.V.I.M.A) and with the Institut Valenciá d'Administració Tributária (IV/AT) for leases in Madrid and Valencia, respectively

At the end of 2018 and 2017, the minimum amounts of future collections for subsequent years for non-cancellable operating leases are the following:

	Euros		
	Up to a year	Between one and five years	More than five years
Financial year 2018	3.236.336,07	5.253.567,98	655.885,31
Financial year 2017	1.618.940,39	4.295.889,05	628.547,09

During financial years 2018 and 2017, the Mutual Society has received incomes from operating leases of real estate investments for the amounts of 2,162,008.17 and 2,077,516.99 euros respectively; out of which contingent rents amount to 229,858.32 and 186,920.92, and operating expenses amount to 2,485,506.21 and 2,189,490.61 respectively.

9) Accrual Calculations

The detail for this section as of 31 December 2018 and 2017 is the following:

	Euros	
	2018	2017
Prepaid expenses	211.085,45	207.817,44
Interests accrued but not collected	5.522.486,03	6.479.813,45
Premiums accrued but not issued	3.740.816,26	3.673.937,41
	9.474.387,74	10.361.568,30

10) Net Equity

The composition of the balances under this section of the balance sheet, as of 31 December 2018 and 2017, as well as the movements for those financial years, are disclosed in the statement of changes in equity.

Issued Mutual Fund

As of 31 December 2018 and 2017, the Mutual Society complies with current legal regulations on the minimum Mutual Fund required for Mutual Provident Societies, and it is authorised to extend benefits.

Additionally, as of 31 December 2018 and 2017, the Mutual Society as a Pension Funds Management Company, and in compliance with Article 20.1 a) of Royal Decree 1/2002 of 29th November, which approves the Consolidated Text of Pension Plans and Funds Regulation Act, has a paid-up capital of 764,966.75 and 758,495.09 respectively.

On July 25th 2018, a public deed was executed recording the Resolutions adopted by the Mutual Society's Ordinary General Meeting held on June 26th 2018, which resolved to increase the mutual fund up to 6,745,478.77 euros, from the application of the results of financial year 2017 and the outstanding contributions paid by new members, for the amount of 18,0613.60 euros. Such resolution was registered with the Companies Registry on August 22nd 2018.

On July 28th 2017, a public deed was executed recording the Resolutions adopted by the Mutual Society's Ordinary General Meeting held on June 27th 2017, which resolved to increase the mutual fund up to 6,627,960.42 euros, from the application of the results of financial year 2016 and the outstanding contributions paid by new members, for the amount of 26,912.91 euros. Such resolution was registered with the Companies Registry on September 20th 2017.

Retained Earnings

Balances of this item as of 31 December 2018 and 2017 amount to 1,501,450.54 and 1,490,800.31 euros respectively.

Other Reserves

This section registers an amount of -1,469,850 euros, derived from adjustments made by the first application of the Insurance Companies Accounting Plan in 2008.

11) Technical Provisions

Movements occurred during financial year 2018 in each technical provision stated in the balance sheet are shown below:

	Euros			
	Balance at 31-12-2017	Provisions	Applications	Balance at 31-12-2018
Mathematical provisions	1.226.265.168,50	1.239.804.868,60	-1.226.265.168,50	1.239.804.868,60
Provision for benefits				
Outstanding	410.165,42	-	-410.165,42	-
Pending declaration	1.443.685,56	1.772.799,56	-1.443.685,56	1.772.799,56
For internal expenses of claims settlement	22.852,18	17.376,16	-22.852,18	17.376,16
	1.876.703,16	1.790.175,72	-1.876.703,16	1.790.175,72
Provision for Profit sharing and rebates	27.814.724,92	-30.562.739,33	-27.814.724,92	-30.562.739,33
	1.255.956.596,58	1.211.032.304,99	-1.255.956.596,58	1.211.032.304,99

Movements occurred during financial year 2017 in each technical provision stated in the balance sheet are shown below:

	Euros			
	Balance at 31-12-2016	Provisions	Applications	Balance at 31-12-2017
Mathematical provisions	1.211.064.987,48	1.226.265.168,50	-1.211.064.987,48	1.226.265.168,50
Provision for benefits				
Outstanding	79.981,19	410.165,42	-79.981,19	410.165,42
Pending declaration	887.533,60	1.443.685,56	-887.533,60	1.443.685,56
For internal expenses of claims settlement	9.408,35	22.852,18	-9.408,35	22.852,18
	976.923,14	1.876.703,16	-976.923,14	1.876.703,16
Provision for Profit sharing and rebates	13.758.502,18	27.814.724,92	-13.758.502,18	27.814.724,92
	1.225.800.412,80	1.255.956.596,58	-1.225.800.412,80	1.255.956.596,58

Provisions for benefits created at the beginning of the financial year for outstanding claims at that date are equal to the amounts really paid. Similarly, the provisions calculated at the end of the tax year will be paid in the following financial year, if any. Most provisions for outstanding benefits and benefits pending declaration are compensated with the mathematical provision.

The profit sharing and rebates provision corresponds to the profitability obtained in the financial year over the technical interest rate – goal set in the Technical Basis. In accordance with the provisions of Article 10.1 e) of the Contributions and Benefits Regulation, this provision will be applied to each member's Regulatory Basis, on the 1st day of the month after the approval of the annual accounts by the Mutual Society General Meeting, which will be held in the month of June of the following year and which will have economic effects from January 1st.

It has not been necessary to have a provision for lack of profitability because the technical-financial profitability obtained has been higher.

The real performance obtained in the financial year of investments related to commitments with mutualists has been higher than the applicable interest rate used for the calculation of the mathematical provision.

The information related to the profitability sufficiency contrast for financial year 2018 is shown below:

Gdipf portfolio (*)	Book value (Euros)	RPCA	Term	% Excluded from term	AIMP	Mathematical provision (Euros)	Term
Art. 33.1.c)	71.234.740,41	4,58%	0,50	-	3,00%	80.890.729,64	0,50
Ant. 1999 DT	93.145.101,65	5,65%	6,84	-	5,58%	92.233.776,31	6,34
Art. 33.2	108.228.138,76	5,20%	4,72	-	5,19%	104.988.624,03	4,35

The information related to the profitability sufficiency contrast for financial year 2017 is shown below:

Gdipf portfolio (*)	Book value (Euros)	RPCA	Term	% Excluded from term	AIMP	Mathematical provision (Euros)	Term
Art. 33.1.c)	60.571.159,83	5,06%	0,50	-	3,00%	58.461.027,94	0,50
Ant. 1999 DT	98.286.136,46	5,66%	6,81	-	5,53%	100.520.303,95	6,44
Art. 33.2	96.020.600,86	5,22%	4,68	-	5,19%	95.790.353,15	4,29

(*) Portfolio classification according to internal inspection instruction 9/2009 of the General Directorate for Insurances and Pension Funds.

In Article 10 of the Mutual Society's Contributions and Benefits Regulations, it is stated that if the forecast profit in the Technical Basis is not achieved, the tax base will be adjusted according to the difference with the obtained profit, save for those who got the allowance in that year.

12) Accounting Asymmetries Liabilities

The accounting asymmetries liabilities resulting from the application of the Insurance Companies Accounting Plan, correspond entirely to gains and losses generated by financial assets available for sale, and as of 31 December 2018 and 2017, they show a balance in the attached balance sheet of 1,056,975.01 and 863,408.90 euros respectively.

13) Other non-technical provisions

Movements in the liabilities and expenses provision for tax year 2018 are shown below:

	Euros			
	Balance at 31-12-2017	Funding	Applications	Balance at 31-12-2018
Provisions				
Pensions	366.354,89	217.854,03	-366.354,89	217.854,03
Similar obligations	103.500,00	34.500,00	-	138.000,00
	469.854,89	252.354,03	-366.354,89	355.854,03
Other non-technical provisions				
Liabilities	39.288,55	-	-39.288,55	-
	509.143,44	252.354,03	-405.643,44	355.854,03

Movements in the provisions for liabilities and expenses for financial year 2017 are shown below:

	Euros			
	Balance at 31-12-2016	Funding	Applications	Balance at 31-12-2017
Provisions				
Pensions	592.082,87	366.354,89	-592.082,87	366.354,89
Similar obligations	68.500,00	35.000,00	-	103.500,00
	660.582,87	401.354,89	-592.082,87	469.854,89
Other non-technical provisions				
Liabilities	39.288,55	-	-	39.288,55
	699.871,42	401.354,89	-592.082,87	509.143,44

The provision for pensions and obligations includes the amount of the Mutual Society's future obligation as of 31 December 2018 and 2017, with two and three employees respectively in an early-retirement situation, derived from the collective agreement signed on March 12th 2009. Their amount is calculated on an actuarial basis. The financial-actuarial hypotheses used for their calculation are the following:

	2018	2017
Interest rate	Temporal structure of risk-free rates	1,09%
Consumer Price Index	1,8%	2,50%
Salary Revaluation Index	1,8%	2,50%
Increase in Social Security Contribution Bases	1,8%	2,50%
Assets mortality table	PER2000P	PER2000P

The balance of other non-technical provisions corresponds to the estimated amount needed to face probable or certain responsibilities coming from ongoing litigations. Likewise, this provision includes the amounts of any guarantees and deposits lodged with different courts, as a guarantee for claims filed by pensioners about pension differences.

14) Tax Situation

The detail of the balances appearing in the balance sheet under Public Administrations as of 31 December 2018 and 2017 is as follows:

	Euros	
	2018	2017
Assets		
Current tax asset	4.334.907,87	2.452.117,21
Deferred tax asset	8.692.804,98	8.584.292,18
	13.027.712,85	11.036.409,39
Liabilities		
Social Security	30.573,89	29.524,51
VAT payable to Public Treasury	93.508,26	23.426,70
Other taxes	3.626.971,46	1.650.333,67
Deferred tax liabilities	8.054.946,63	14.685.580,41
	11.806.000,24	16.388.865,29

Deferred tax assets and liabilities

The detail of deferred taxes assets and liabilities as of 31 December 2018 and 2017 is as follows:

Tax assets:

In 2018, the Mutual Society recognised deferred tax assets in the amount of 8,692,804.98 euros. Detail is as follows:

	Euros			
	Balance at 31-12-2017	Acquisitions	Derecognitions	Balance at 31-12-2018
Deferred tax due to the adjustment of accounting asymmetries caused by gains on financial investments	215.852,23	889.294,58	840.903,06	264.243,75
Deferred tax due to losses from the financial investment portfolio	4.725.207,47	71.124.712,85	71.064.591,57	4.785.328,75
Deferred tax coming from impairment provision	1.737.822,63	913.595,54	913.595,54	1.737.822,63
Deferred tax coming from retirement provision	354.565,62	37.125,22	37.125,22	354.565,62
Deferred tax on miscellaneous concepts	1.550.844,23	570.903,26	570.903,26	1.550.844,23
	8.584.292,18	73.535.631,45	73.427.118,65	8.692.804,98

In 2017, the Mutual Society recognised deferred tax assets on the amount of 8,584,292.18 euros. Detail is as follows:

	Euros			
	Balance at 31-12-2016	Acquisitions	Derecognitions	Balance at 31-12-2017
Deferred tax due to the adjustment of accounting asymmetries caused by gains on financial investments	332.186,12	1.047.615,27	1.163.949,16	215.852,23
Deferred tax due to losses from the financial investment portfolio	4.863.909,40	51.089.906,07	51.228.608,00	4.725.207,47
Deferred tax coming from impairment provision	1.737.822,63	1.116.158,40	1.116.158,40	1.737.822,63
Deferred tax coming from retirement provision	354.565,62	56.432,00	56.432,00	354.565,62
Deferred tax on miscellaneous concepts	1.479.321,16	840.231,45	768.708,38	1.550.844,23
	8.767.804,93	54.150.343,19	54.333.855,94	8.584.292,18

Tax liabilities:

In 2018, the Mutual Society recognised deferred tax liabilities in the amount of 8,054,946.63 euros. Detail is as follows:

	Euros			
	Balance at 31-12-2017	Acquisitions	Derecognitions	Balance at 31-12-2018
Deferred tax due to gains on the financial investment portfolio	14.685.580,41	153.412.231,59	146.781.597,81	8.054.946,63
	14.685.580,41	**153.412.231,59**	**146.781.597,81**	**8.054.946,63**

In 2017, the Mutual Society recognised deferred tax liabilities in the amount of 14,685,580.41 euros. Detail is as follows:

	Euros			
	Balance at 31-12-2016	Acquisitions	Derecognitions	Balance at 31-12-2017
Deferred tax due to gains on the financial investment portfolio	12.718.376,37	164.317.787,70	166.284.991,74	14.685.580,41
	12.718.376,37	**164.317.787,70**	**166.284.991,74**	**14.685.580,41**

The Society has deductions for double taxation pending application, accumulated as of 31 December 2018 and 2017 in the amount of 6,473 and 5,951 thousand euros respectively.

The Mutual Society's Directors consider that these debit balances with the Public Treasury are recoverable in the terms set by the regulations in force at the moment when they were generated.

Deductions for double international taxations for 2018 and 2017 amounted to 521,543.91 and 532,767.25 euros respectively.

Deferred tax assets and liabilities balances are determined by financial investments valuations according to the Insurance Companies Accounting Plan.

The returns filed for the various taxes cannot be considered final until they have been inspected by tax authorities or until the relevant term for inspecting them has expired. According to current tax regulations, this time limit is four years from the date the obligation to file each tax arises.

The Mutual Society believes that the applicable tax settlements have been properly carried out. However, in the event of an inspection, discrepancies could arise on the Mutual Society's interpretation of current regulations regarding the tax treatment given to certain transactions, thus additional tax liabilities could arise, although it is not expected that these liabilities actually arise, if materialised, these would significantly affect the Mutual Society's annual accounts.

Tax on profit

The conciliation of the Mutual Society's profit and loss and the tax base as of 31 December 2018 is the following:

	Euros	
Concept	**Increases**	**Total**
Accounting Profit and Loss for the financial year	-	99.499,22
Permanent differences		
Income tax- abroad	521.543,91	521.543,91
Others	-260.538,43	-260.538,43
	261.005,48	261.005,48
Temporary differences		
Arising in the tax year	34.500,00	34.500,00
Arising in previous years	-547.573,81	-547.573,81
	-513.073,81	-513.073,81
Previous tax base	-	-152.569,11
Compensation of tax bases carried from previous years	-	-
Tax base	-	-152.569,11
Gross tax payable 25%	-	-
Deductions applied	-	-
Net tax payable	-	-

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The conciliation of the Mutual Society's profit and loss account with the tax base as of 31 December 2017 is the following:

Concept	Euros Increases	Euros Total
Accounting Profit and Loss for the financial year	-	99.456,75
Permanent differences		
Income tax- abroad	552.076,27	552.076,27
Others	-293.346,00	-293.346,00
	258.730,27	258.730,27
Temporary differences		
Arising in the tax year	777.006,33	777.006,33
Arising in previous years	-2.034.089,60	-2.034.089,60
	-1.257.083,27	-1.257.083,27
Previous tax base	-	-898.896,25
Compensation of tax bases carried from previous years	-	-
Tax base	-	-898.896,25
Gross tax payable 25%	-	-
Deductions applied	-	-
Net tax payable	-	-

Act 27/2014 of 27th November on Companies Tax does not provide for any special tax regime for Mutual Provident Societies. Therefore, the Mutual Society's tax rate is 25%.

15) Personnel expenses

In financial years 2018 and 2017, the Mutual Society has registered personnel expenses as detailed below:

	Euros 2018	Euros 2017
Wages and salaries (*)	2.181.515,47	2.305.280,99
Social Security contributions payable by the Mutual Society (*)	351.396,75	337.340,84
Other social expenses	120.386,88	130.274,27
	2.653.299,10	2.772.896,10

(*) Included personnel expenses for the building in Glorieta de Quevedo, 9 – Madrid

The number of people employed by the Mutual Society throughout 2018 and 2017, classified by professional categories and gender according to the Collective Agreement, is the following:

	2018		2017	
	Male	Female	Male	Female
Economist level IV	2	2	3	2
Economist level III	1	1	-	1
Economist level II	1	-	-	2
Economist level I	-	-	1	-
Lawyer level IV	-	1	-	1
IT technician level IV	1	-	1	-
IT technician level III	2	-	1	-
IT technician level II	1	-	-	-
Office personnel level IV	2	1	2	1
Office personnel level III	-	1	-	1
Office personnel level II	1	6	1	7
Office personnel level I	-	-	-	1
Total	11	12	9	16

The Mutual Society has an accident insurance policy with Mapfre Vida, S.A., which covers part of the personnel and members of the Board when they attend Meetings, or when they travel on behalf of the Mutual Society. Annual Premiums for financial years 2018 and 2017 amount to 13,912.34 and 14,267.25 euros, respectively.

Likewise, the Society has a collective insurance policy with Mapfre Vida, S.A. covering death and permanent disability risks, as provided for by collective agreement; which constitutes a pension commitment regulated by First Additional Provision of Royal Decree-Law 1/2002 of 29th November, which approves the Consolidated Text of the Pension Plans and Funds Regulation Act, and Royal Decree 1588 of 15th October on the externalization of companies' pension commitments with employees.

16) Related-party transactions

A) RELATED PARTY BALANCES

The breakdown by category of the Mutual Society's balances as of 31 December 2018 and 2017 is as follows:

	Euros	
	2018	2017
Assets		
Loans to group companies (Note 7)	-	68.148,17
Other loans	48.811,94	-
Total Assets	**48.811,94**	**68.148,17**
Liabilities		
Fees (Note 7)	407.374,57	-
Deposits	13.552,00	-
Total Liabilitiesss	**420.926,57**	**-**

B) MUTUAL SOCIETY'S TRANSACTIONS WITH RELATED PARTIES

The amounts of transactions with related parties included in the profit and loss account for tax years 2018 and 2017 are the following:

	Euros	
	2018	2017
Expenses		
Fees (go to Note 7)	430.619,72	-
Total expenses	**430.619,72**	**-**
Income		
Income from leases	63.363,11	-
Income from loans	30.026,59	13.373,26
Total income	**93.389,70**	**13.373,26**

All transactions with related parties have been carried out in market conditions.

Balances with the Mutual Society's Board of Directors and High Executive Officers are detailed in Note 17.

17) Other information

A) INFORMATION RELATED TO THE BOARD OF DIRECTORS AND HIGH EXECUTIVE OFFICERS

In 2018 and 2017, the Mutual Society's gross expenses for allowances to attend Board Meetings or Working Committees amounted to 23,043.89 and 79,374.06 euros, respectively.

There is not any advance payment, nor any loan granted to the members of the Board, nor there is any other obligation regarding pensions or arising from the position held in the Board, save the applicable pension as members of the Mutual Society.

Amounts paid to High Executive Officers in 2018 and 2017 are the following:

	Euros	
	2018	2017
Total remuneration paid	497.669,19	437.565,92
Insurance premiums	37.256,99	36.244,20
Pension obligations	10.391,90	10.347,27

It has not been necessary to create any provision for the abovementioned concepts.

The Mutual Society has a liability insurance policy for insurance companies issued by Liberty Mutual Insurance Europe Limited. The annual premium paid amounts to 55,198 euros, and the insured period goes from December 1st 2018 to November 30th 2019.

On the other hand, the Mutual Society had a liability insurance policy for directors and high executive officers issued by Chubb Insurance Company of Europe SE (CHUBB). The annual premium paid amounts to 29,775.08 euros, and the insured period goes from December 1st 2017 to November 30th 2018. During financial year 2018, that policy was renewed for the period December 1st 2018 to November 30th 2019.

Likewise, the Mutual Society had an integral insurance policy for financial institutions issued by Liberty Mutual Insurance Europe Limited. The annual premium paid amounts to 27,996 euros, and the insured period goes from December 1st 2018 to November 30th 2019.

Finally, the Mutual Society had an insurance policy that covers cybernetic risks (CIBER) issued by Chubb Insurance Company of Europe SE (CHUBB). The annual premium paid amounts to 18,655.87 euros, and the insured period goes from December 1st 2017 to November 30th 2018. During financial year 2018, that policy was renewed for the period December 1st 2018 to November 20th 2019.

B) GUARANTEES COMMITTED TO THIRD PARTIES

As of 31 December 2018 and 2017, additionally to those mentioned in Note 13, the Mutual Society has been granted the following guarantees:

- *Bankia, S.A.,* contract to cover deposits, guarantees, letters of agreement or any other type of guarantee admitted in commercial transactions, up to a limit of 1,803,036.31 euros. As of 31 December 2018 and 2017, an amount of 21,000 has been drown dawn. As of 31 December 2017, this contract was expired and pending formal cancellation due to the maturity of both the guarantee and the obligation for which it was issued

- *Banco Santander, S.A.,* two guarantees issued in favour of the Company Espacios Urbanos S-21, S.L. up to a limit of 10,251.55 euros to cover an eventual payment obligation, which has expired while they were legally claimed and are now pending formal cancellation.

As of 31 December 2018 and 2017, the Mutual Society had been granted guarantees to cover any possible breach of any provision of the lease contracts. Details are shown below:

Properties	Lessee	Entity	Amount (Euros) 2018	Amount (Euros) 2017
Quevedo, floor 7A	Incotec, S.L.	Banco Sabadel, S.A.I	25.410,00	25.410,00
Quevedo, floor 7	Penguln Books, S.A.	Deutsche Bank, S.A.	15.047,80	15.246,00
Castellana, premise	Asana Way, S.L.	Banca March, S.A.	65.340,00	76.717,02
Alberto Aguilera, premise	Juguetrónlca, S.L.	Caja de Arquitectos, S.C.Cto	33.773,66	97.483,26
Castellana, floor 8	Alpanu CN, S.l.	Banco Caminos, S.A.	44.721,60	44.721,60
Castellana, floor 9	Gestlón de Actlvos C-40	Banco Popular Español, S.A.	-	51.429,84
Fray Bernardino Sahagún, premises 2 and 3-A	Supermercados Champion, S.A.	BBVA, S.A.	-	29.911,20
Quevedo, floor 3	AgloGlobal Servicios Centrales, S.A.	Banco Sabadell, S.A.	52.658,67	50.820,00
Quevedo, floor 6 and 7B	Tralnlng Servlces and Facilities, S.L.	Bankinter, S.A.	74.415,00	74.415,00
Fray Bernardino Sahagún, premise 9-15	Summun Madrid 2018, S.L.	Caixabank, S.A.	-	30.855,00
Quevedo, floor 5	La Fábrica Coworking, S.L.	Banca March	65.340,00	-
Quevedo, floor 1	Utopía 2013, S.L.	BBVA,S.A.	68.970,00	-
Castellana, floor 9	Globe Iberia, S.A.	Banco Sabadell, S.A.	57.020,04	-

C) AUDIT FEES

Fees agreed for auditing services for financial years 2018 and 2017 amount to 44,520 and 43,560 euros respectively, without including the applicable VAT.

D) ENVIRONMENTAL INFORMATION

The activities carried out by the Mutual Society do not have any negative impact on the environment. They comply with all applicable regulations, so we do not deem necessary to have any provision or extra expense for possible contingencies to this respect. Likewise, there are no equipment, facilities or any other significant systems incorporated to tangible assets aimed at environmental protection and improvement.

E) INFORMATION ON AVERAGE PAYMENT TERM TO SUPPLIERS. THIRD ADDITIONAL PROVISION. DUTY OF INFORMATION ON ACT 15/2010 OF 5TH JULY

The Final Second Provision of the Act 31/2014 of 3rd December, which amends the Limited Companies Law, also amends the Third Additional Provision of the Act 15/2010 of 5th July, which amended Act 3/2004 of 29th December. Such provision sets measures against arrearage in commercial transactions, and it states that all trading companies shall include in their Financial Statements their average payment term to suppliers.

The information regarding the average payment term to suppliers for financial year 2018 and 2017, according to Resolution of 29th January 2016 of the Accounting and Account Auditing Institute, is detailed as follows:

	Euros	
Concept	2018	2017
Average payment term to suppliers	15	15
Ratio of paid transactions	15	15
Ratio of outstanding transactions	24,23	35,41

	Euros	
Concept	2018	2017
Total payments made	3.774.523,10	3.151.289,22
Total outstanding payments	641.860,32	369.062,72

F) INSPECTION ACTIONS BY THE GENERAL DIRECTORATE FOR INSURANCES AND PENSION FUNDS

On October 8th 2018, it was notified to the Mutual Society the opening of an inspection file by the General Directorate for Insurances and Pension Funds as a Pension Funds Management Entity. The purpose of that inspection was to make the necessary checks on the activity of the Management Entity, the investments of the funds managed by them and any other aspects that, during the course of the inspection, were considered appropriate to check.

On December 21st 2018, the General Directorate for Insurances and Pension Funds issued the Final Inspection Report, and the relevant allegations were submitted on January 24th 2019. Subsequently, on February 5th 2019, additional documentary evidence was submitted to the General Directorate for Insurances and Pension Funds. A final Resolution has not been issued to date by the General Directorate for Insurances and Pension Funds.

G) CONTRACTUAL CONTINGENCIES

As of 31 December 2018, the following proceedings are in progress:

Three pending proceedings as a consequence of the Mutual Society's representation in the Bank of Valencia's Board of Directors. Two of them are court proceedings in pre-trial phase, and the third is a disciplinary file opened by the Bank of Spain, suspended for criminal prejudiciality.

Claim against Getafe City Council (Madrid) for the transfer of 12,213 square meters for construction within the Sectorisation Plan for Perales del Rio. In 2018, judgement was given partly upholding the complaint in the first instance, with the City Council being sentenced to pay damages. An appeal was then filed before the Madrid Provincial Court.

In 2018, a contract resolution proceeding was pending with the Company Unica Properties, S.L., for which a favourable sentence for the Mutual Society's claim was passed. This procedure is now on appeal before the Malaga Provincial Court.

18) Events occurring after the end of the year

From 31 December 2018 to the date of presenting the Society's annual accounts, there have been no events that could affect their faithful view.

19) Segment information

The Mutual Society fully develops its activity in the life insurance area, and it declares all its transactions in Spain.

20) Technical Information

Technical Conditions for the Main Life Insurance Types

The main contingencies and benefits covered by the Mutual Society are shown below (go to Note 1):

- *Retirement*
- *Total permanent disability*
- *Absolute permanent disability and severe disability*
- *Decease*
- *Exceptional settlement for long-term unemployment*

Provisions are calculated according to Technical Bases including realistic financial-actuarial hypotheses, and applying assets mortality tables recommended by external independent actuaries who provide technical advice services to the Mutual Society.

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 in 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 it 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 in 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. The increase in tax rates by the Federal Reserve and the trade war with China do not counteract the positive effect of the fiscal impulse, and the USA ends the year with 2.6 million jobs created, a sharp salary increase and a minimum unemployment rate (3.9% in December).

As to central banks, the monetary policy decisions of the FED have not produced any 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 BCE 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 BCE 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 impulse and the expansionary monetary policy are reflected behindhand in the economy, a stabilization 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 BCE. 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 BCE 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 BCE 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 most expansive tone of the tax policy is reflected in the consumption acceleration of Public Administrations (1.9% in 2017 vs. 2.3% estimated for 2018), after years of noticeable containment driven by the need of public deficit adjustment and debt relief.

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. Subsequent 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 penalized by a sharp reduction in the last months. 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 a price increase in assets considered haven: Japanese yen is appreciated close to 3% against USD in 2018; gold, even though it has decreased by 2.5% throughout the year, it has revalued by 8% in the last three months; and 10-years bonds from Germany and the USA, after reaching a maximum yield of 0.79% and 3.26% respectively in 2018, end the year in 0.16% and 2.58%.

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.

Loreto Mutua

2018 has first move forwards and then backwards in the year, and it has been characterised by a sharp adjustment in the prices of risk assets. The global economy has been weaker than expected after the monetary standardization started by Central Banks. In the first half of the year, emerging countries suffered, while developed countries did it in the last half.

The deterioration of global financial conditions has caused a generalised increased in risk premiums, which has led to a sharp drop in the stock market and credit prices at the end of the year. These drops leave attractive valuations for next year, despite growing perspectives are moderate.

In 2018 we have seen a deterioration in financial conditions and the perspective of the economic cycle, caused mainly by the tightening of financial conditions after the withdrawal of monetary stimuli, the intensity of the slowdown in emerging economies (especially China), and the uncertainty of commercial-political risk (cold war USA-China, Brexit, Italy, problems in the automotive and technology industries, political changes in Mexico and Brazil).

This increase in geopolitical uncertainty and uncertainty about the economic cycle has filtered to the confidence of economic agents, which has caused adverse market movements and has affected consumption and investment decisions.

Loreto Mutua started 2018 with an equity exposure of 26.65% and ended the year with 29.28%. Most equity indexes worldwide ended the year in red.

In Europe, we should highlight the drop by 18.26% in the DAX Index, 14.97% in Ibex35 and 14.34% in Eurostoxx50. In the USA, negative returns were lower: S&P ended in -6.24%, Dow Jones Indus in -5.63% and the technological Nasdaq in -3.88%. Asia has been no different; Hang Seng dropped by 13.61% and Chinese CSI 25.31%. In contrast to the 44.12 million euros given by the equity to the Mutual Society's Profit & Loss account in 2017, we now see a negative contribution of 21.07 million euros for 2018, as a consequence of the market behaviour.

As to fixed income, the American public debt in dollars has been the only asset that ended in positive in 2018, both in the long and short terms, mainly because of the currency development.

The remaining fixed income assets have ended the year in negative. Credit spreads have been generally extended, which caused big drops in prices.

At the end of 2018, Loreto Mutua had 46.91% of its equity invested in fixed income, 3.45% more than at the end of 2017 (43.46%).

In the real estate, the year started with 5.04% of the equity and ended with 7.08%, due mainly to the purchase of the building located in C/ Antigua de la Senda de Senent, 11, Valencia; which was executed on October 2nd for the amount of 33 million euros. This property was purchased with a 100% occupation rate, and annual rents foreseen are close to 1.9 million euros for the financial year 2019. This means doubling income from leases, since in 2018 they amounted to 2.16 million euros for all the Mutual Society's leased properties.

On the other hand, in 2018 three properties were sold in Madrid (Fray Bernardino Sahagun, 9; Sta. Cruz de Marcenado, 1; and 50% of the former headquarters of the Mutual Society in Quintana, 2, 4th floor). From these properties, only the one in Fray Bernardino Sahagun was leased with annual rents closed to 115 thousand euros. The total proceeds from these sales generated a net profit of about 5.20 million euros (0.43 Fray Bernardino; 2.55 Sta. Cruz de Marcenado and 2.22 Quintana).

The Market value of these tangible investments, according to appraisals carried out by an appraisal Company authorized by the Bank of Spain for this purpose, is 87.55 million euros, which gives rise to hidden reserves of 20.60 million euros. The Mutual Society has no real estate asset registered in its balance sheet in an amount higher than the current appraisals.

All properties were appraised in 2017 in compliance with Order ECC/371/2013 of the 4th March, which amended Order ECO/805/2003 of 27th March, on properties' appraisal standards and certain rights for financial purposes. That order reduced to two years the maximum deadline to carry out subsequent valuations of immovable properties.

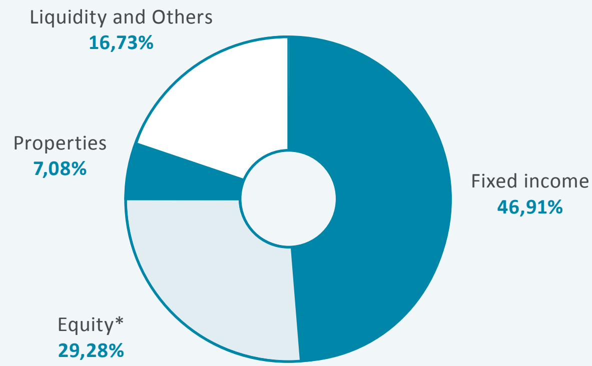
The annual variation of the Housing Price Index in Q318 is 7.2% against 6.7% in Q317, which shows the favourable evolution of the Spanish real estate market.

The liquidity kept by Loreto Mutua at the end of 2018 was 16.41% of the equity, which means a 8.5% reduction compared to the previous year (24.91%). At the end of 2018, other assets represented 0.32% of the Mutual Society's total equity.

Even though the risk of possible impacts coming from trade tensions between the USA and China persists, as well as the uncertainty regarding the continuity of the economic cycle, from the management point of view we end the year with a positive view regarding risk assets, especially equity.

Large disposals both in the stock exchange market and in credit at the end of 2018 left valuations under the levels seen in the last five years, and this situation was considered as a purchase opportunity. Finding attractive valuations is what led Loreto Mutua to increase its positions in equity and fixed income at the end of the year.

For the moment, 2019 is validating our investment strategy. In the first months, we are seeing a recovery of the markets and a good evolution in asset prices, without the support of macroeconomic data, but with the relief from central banks.



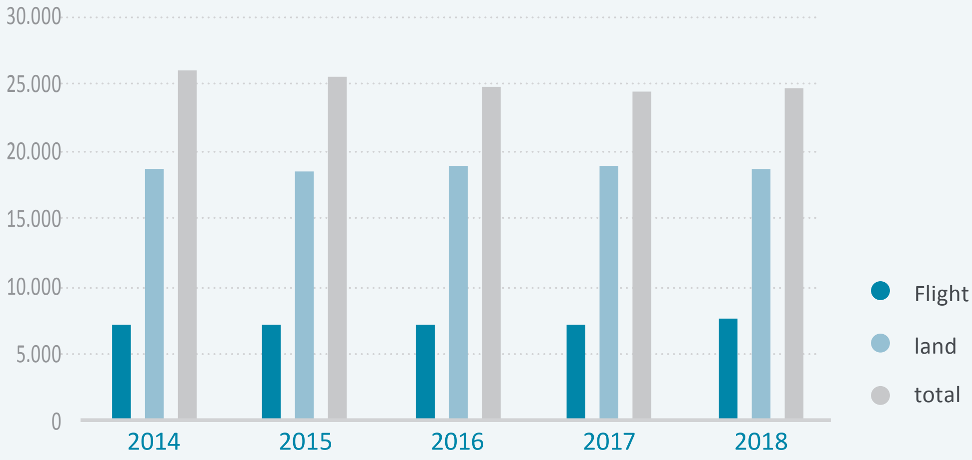
The investments breakdown is based in management criteria, not accounting.
**It includes equity funds, alternative investments and equity ETF.*

On the other hand, in 2018 two Protecting Companies have joined Loreto Mutua, Norwegian Air Resources Spain and OSM Aviation Air Resources, which represent in total 191 new members in the flight collective agreement at the end of 2018. Their incorporation explains the increase in members by 178 (0.73%) after going from 24,364 in 2017 to 24,542 in 2018.

All this has been translated, in addition to the good behaviour of extraordinary contributions, which are now more than 9% of the total (8.33% in 2017), into an increase in the contributions received by about 1.20 million euros, going from 36.55 million at the end of 2017 to 37.75 at the end of 2018.

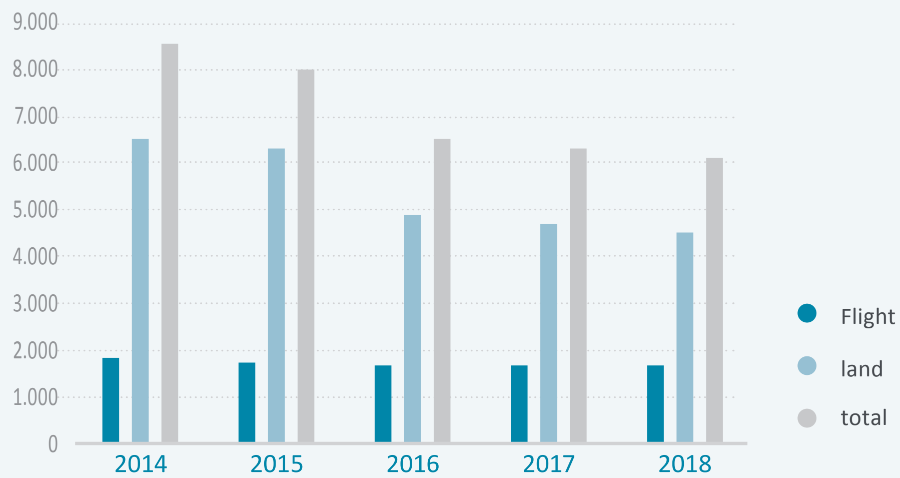
	Flight	Land	Total
2014	6.514	18.517	25.031
2015	6.395	18.507	24.902
2016	6.255	18.368	24.623
2017	6.093	18.271	24.364
2018	6.454	18.088	24.542

LAND AND FLIGHT FULL MEMBERS CENSUS



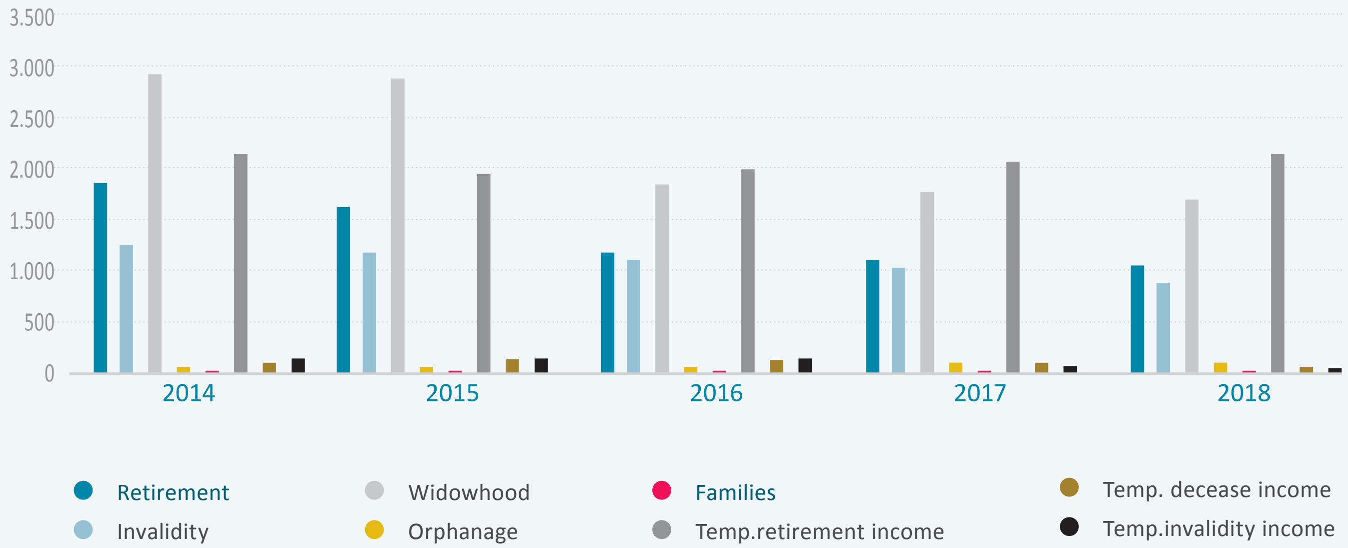
As of 31 December 2018						
Company	Land	Flight			Total Flight	Total
		Pilots	Technical Officer	Cabin Crew		
Iberia (L.A.E.) Operadora SU	11.177	1.296	0	3.378	4.674	15.851
Acciona Airport Services	39	-	-	-	-	39
Aerolíneas Argentinas	16	-	-	-	-	16
AGA Airlines	1	-	-	-	-	1
Air Europa Mallorca	1	-	-	-	-	1
Air France	57	-	-	-	-	57
Atlántica Handling SLU	339	-	-	-	-	339
Aviapartner	135	-	-	-	-	135
Easyjet Handling Spain	19	-	-	-	-	19
Eurotransmex	11	-	-	-	-	11
Ferronats Air Traf. Sercive	25	-	-	-	-	25
Groundforce	574	-	-	-	-	574
IAG cargo limited	61	-	-	-	-	61
KLM Holandesa de Aviación	47	-	-	-	-	47
Lesma	18	-	-	-	-	18
Loreto	26	-	-	-	-	26
Lufthansa	45	-	-	-	-	45
Menzies	40	-	-	-	-	40
Metssa	3	-	-	-	-	3
Red Handling Spain	56	-	-	-	-	56
Ryanair	35	-	-	-	-	35
S.A.S.	3	-	-	-	-	3
Swissport Handling	261	-	-	-	-	261
Worlwidw Flight Sercvice	149	-	-	-	-	149
Jet 2	3	-	-	-	-	3
OSM Aviation Spain ETT, S.L	0	65	-	-	65	65
Norwegian Air Resources Spain	0	126	-	-	126	126
Loreto Inversiones SGIIC, S.A.	8	-	-	-	-	8
Individual agreements	343	60	7	163	230	573
Suspended members	4.596	417	19	923	1.359	5.955
TOTALS	18.088	1.964	26	4.464	6.454	24.542

EVOLUTION OF TOTAL NUMBER OF BENEFICIARES INCOME 2014 - 2018



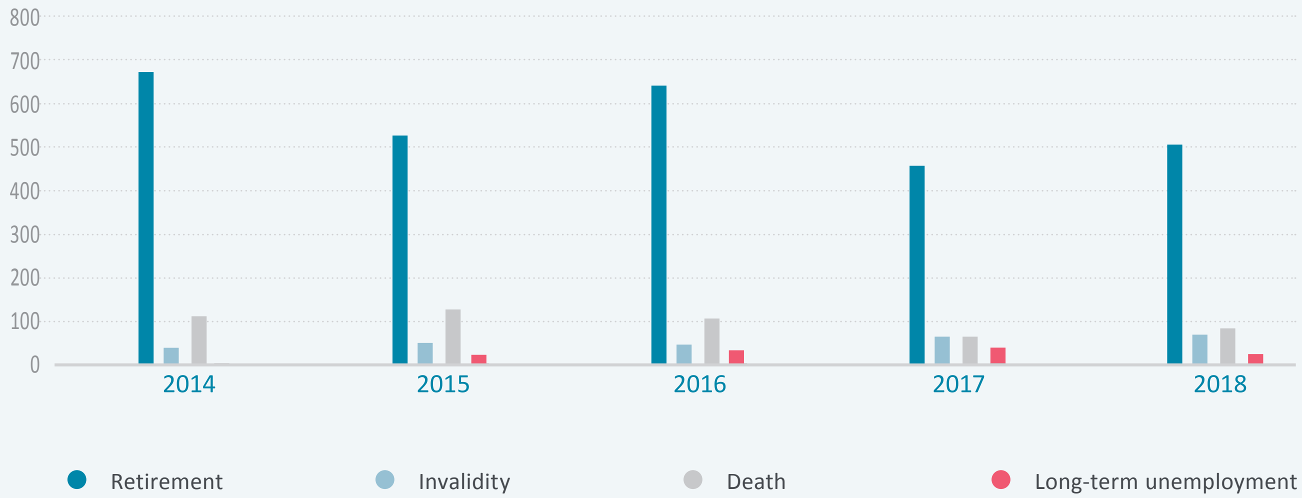
	Air	Land	Total
2014	1.926	6.436	8.362
2015	1.893	6.116	8.009
2016	1.627	4.749	6.376
2017	1.610	4.593	6.203
2018	1.595	4.423	6.018

EVOLUTION OF TOTAL BENEFICIARIES BY TYPE OF BENEFITS 2014 - 2018



	2014	2015	2016	2017	2018
Retirement	1.725	1.598	1.339	1.221	1.097
Invalidity	1.209	1.160	1.069	1.012	976
Widowhood	2.895	2.849	1.614	1.535	1.464
Orphanage	58	85	46	44	45
In favour of family	6	4	4	3	2
Temp. Income retirement	2.035	1.888	1.906	2.024	2.081
Temp. Income decease	141	287	286	254	244
Temp. Income Disability	293	138	112	110	109
Total	8.362	8.009	6.376	6.203	6.018

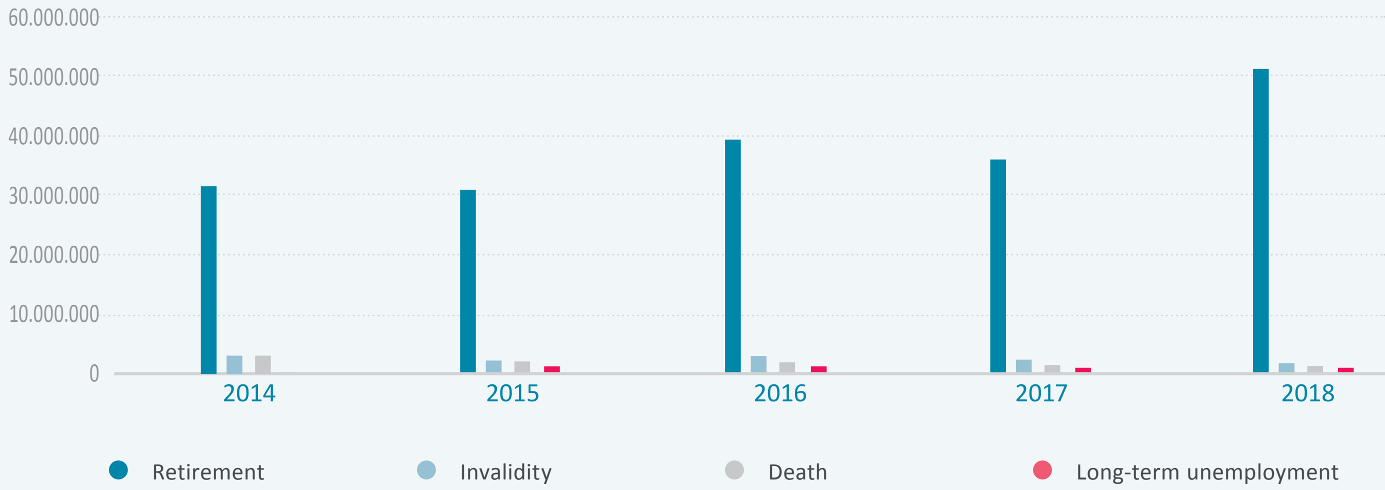
EVOLUTION IN THE NUMBER OF CAPITAL CONTRIBUTIONS 2014 - 2018



	2014	2015	2016	2017	2018
Retirement	675	526	648	464	508
Invalidity	48	55	54	69	75
Death	110	122	107	66	85
Long-term unemployment	-	24	45	47	37
Total	833	727	854	646	705

The number of capital beneficiaries has increased by 9.13% in 2018, against the 24.36% reduction in the previous year, going from 646 to 705 at the end of 2018. The amount of contributions paid in capital in 2018 has been 54.26 million euros, against 38.19 million euros paid in 2017. On the other hand, the number of beneficiaries of annuities decreased by 2.98% in 2018, going from 6,203 to 6,018 at the end of the year.

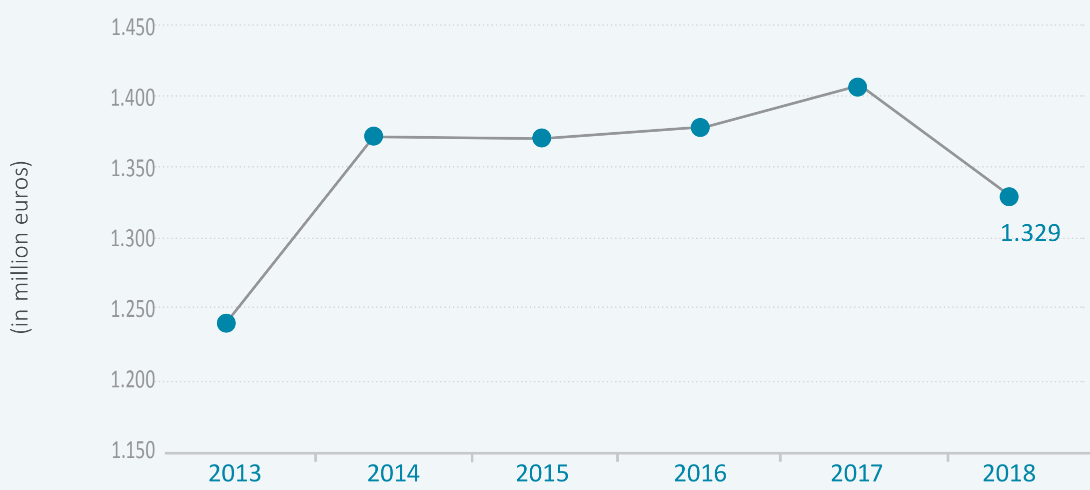
EVOLUTION IN CAPITAL CONTRIBUTIONS 2014 - 2018 (Amount in euros)



	Retirement	Invalidity	Death	Long-term unemployment
2014	32.356.183	2.029.915	1.940.484	-
2015	31.251.114	1.526.498	1.787.065	410.372
2016	39.329.179	2.022.715	1.165.214	936.725
2017	34.046.302	2.120.817	1.108.215	916.227
2018	50.357.713	1.312.608	1.719.008	873.061

Benefits paid in 2018 increased by 16.29 million euros, going from 71.14 to 87.44 million euros at the end of 2018. A key factor in the increase of benefits paid is the end of the 40% reduction for retirements that took place in 2010 or before, and the news regarding a possible increase in the personal income tax in the second half of 2018.

Market value 2013 - 2018



	2013	2014	2015	2016	2017	2018
Equity at market value	1.247	1.355	1.354	1.378	1.403	1.329

Equity at market value has gone from 1,403 million euros at the end of 2017 to 1,329 million euros at the end of 2018, which means a 5.30% decrease. This reduction breaks the upward trend of the last years, with the historical maximum being recorded in 2017. The variation compared to previous year is caused mainly by the bad behaviour of the markets, especially in equity, and the increase of the abovementioned benefits.

Throughout the individual capitalization period (since 2011), the Mutual Society has paid allowances to its members in the amount of 1,279.94 million euros.

Customer Service Department

The purpose of the Customer Service Department of Loreto Mutua is to receive and solve claims or complaints submitted by members and/or beneficiaries, or any concerned third parties, regarding services given by the Mutual Society; and those submitted by members and/or beneficiaries and concerned third parties regarding Pension Schemes managed by Loreto Mutua.

In compliance with Article 7 of Order ECO/734/2004 of 11th March on Customer Service Departments and Services and Customer's Ombudsman of Financial Institutions, an annual report has been issued stating that in 2018 there has been no complaint submitted to the Customer Service Department.

Regular Budget

In compliance with Art. 48 of the Articles of Association, we attach to this report the Regular Income and Expenses Budget for financial year 2018.

Regular Income and Expenses Budget for financial year 2019 of Loreto Mutua, Mutualidad de Previsión Social (Art.48 of Articles of Association)

	Euros	
Items	**Paid in**	**Paid out**
Contributions	37.500.000,00	-
Investments	51.200.000,00	-
Benefits	-	78.500.000,00
Administrative Expenses	-	4.949.700,00
Other Operating Expenses	-	4.790.500,00
	88.700.000,00	88.240.200,00

In the ordinary income and expenses Budget for financial year 2019, the debit and credit of technical provisions have not been included.

Administrative expenses budgeted for 2019 are over 3.5 times lower than the maximum allowed to pension funds management companies according to the current regulations in force at the end of 2018.

Socially Responsible Investing

Loreto Mutua is signatory to the Principles for Responsible Investment fostered by the United Nations.

It is the first Spanish Mutual Society to sign these investment principles, committed to include environmental, social and good corporate governance matters in its investment and asset management decision-making process.

Following international guidelines and the PRI, Loreto Mutua has a socially responsible investing policy. The goals are to improve investment analysis and long-term results, and meet the social responsibility inherent in mutual companies within the social economy area.

The Socially Responsible Investing Policy of Loreto Mutua gathers both financial and extra-financial criteria (environmental, social and of good governance), with the purpose of obtaining financial profitability for our members, as well as a positive impact in the society.

The socially responsible investing is not about solidarity and non-profit, it is about fostering the responsible management of the companies where we invest, considering the interest of parties involved (employees, customers, society), the long-term feasibility of the companies, and the efficient use of resources and environmental protection.

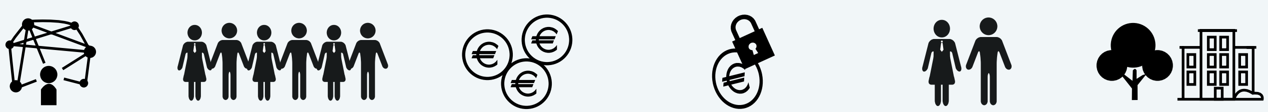
Currently, Loreto Mutua has a themed investment in microcredits (financial inclusion of micro-entrepreneurs), which in 2018 has shown a profitability of 2.91%. The instrumentalization is carried out through a risk capital fund that gives us annual data on the social impact of their investments.

The fund invested in South America, Central America and the Caribbean, Central Asia and Caucasus, and South and Southeast Asia. The investment was made through 42 financial institutions. It accessed to 8,246,684 customers, the average loan amounted to 4,484€ and the average deposit was 1,966€. Among customers, the percentage of women against men was 80% vs. 20%, and the investment in rural areas was 54% vs. 46% in urban areas.

Presentation Of Annual Accounts

The Board of Directors of **LORETO MUTUA, MUTUALIDAD DE PREVISIÓN SOCIAL,** in the meeting held on March 26th 2019, has presented the Annual Accounts, which include the Balance Sheet, the Profit & Loss Account, the Statement of Changes in Equity, the Cash Flow Statement and Notes to the Financial Statements, as well as the Management Report, all of them for financial year 2018.

The said Annual Accounts and Management Report, which are an integral part of this document, have been issued in 83 sheets consecutively numbered, and have been signed in all pages by the Secretary of the Board and countersigned by the President. To all effects, this one shall be valid and effective signature page by all and every person involved in the said Annual Accounts and Management Report.



42	**8,246,684**	**4,484 €**	**1,966 €**	**80% vs 20%**	**54% vs 46%**

LORETO
MUTUA

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