LORETO MUTUA

FONDLORETO PENSIONES, FONDO DE PENSIONES

Annual Accounts and Management Report
2019

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GESCONTROL
AUDITORES

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

To the Unitholders of
FONDLORETO PENSIONES, FONDO DE PENSIONES:

Opinion

We have audited the financial statements of **FONDLORETO PENSIONES, FONDO DE PENSIONES** comprising the balance sheet as of 31 December 2019 and the related income statement, statement of changes in equity, statement of cash flows and notes to the report for the year then ended.

In our opinion, the attached annual accounts give, in all relevant aspects, a true and faithful view of the equity and financial situation of **FONDLORETO PENSIONES, FONDO DE PENSIONES**, in all significant aspects, as of 31 December 2019; as well as the profit and loss and cash flow for the year ended in the said date, in compliance with the applicable regulations on financial information (as stated in Note 2 of the Financial Statements) and, in particular, with the accounting principles and criteria stated therein.

Basis for the opinion

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

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

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

Most relevant aspects of the audit

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

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Most relevant aspects of the audit	How the issue was addressed in our audit
<u>Existence and valuation of financial investments</u> At 31 December 2019, the Fund held 83.96% of its assets in financial investments. We believe that determining the fair value of these investments is a significant aspect of our audit.	Our audit procedures have included the following: – Assessment of the key controls linked to the procedures to evaluate the financial investments. – Understanding of the operational strategy of the financial markets where the Fund operates (types of financial instruments portfolios, investment and divestment strategies, etc.). – Transaction contracting process: understanding of the procedures established by the Fund's Management Company to assess compliance with investment policies, existing controls over compliance with such policies, and processes for settlement of transactions and custody by depositaries. In addition, substantive procedures have been applied consisting of the selection of these investments, in order to verify the adequacy of their valuation, as well as obtaining the response of the depositary entity or the counterparty to confirm the positions. Finally, we have verified that in Notes 4 and 5 of the report the information breakdown required by the applicable financial information regulations is included.

Other information: Management Report

The complementary information consists only of the management report for financial year 2019, which is issued by the Pension Fund Management Company's Directors and is not an integral part of the annual accounts.

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

On the basis of the work conducted and as described in the previous paragraph, the information contained in the Management Report is consistent with the annual accounts for financial year 2019, and their content and presentation comply with the applicable regulations.

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

The Pension Fund Management Company's Directors are responsible for preparing the attached annual accounts in such a way that they express a true and fair view of the equity, financial position and results of the Pension Fund under the financial reporting framework applicable to the entity in Spain, and of the internal control they deem necessary to permit the financial statements to be prepared free of material misstatement due to fraud or error.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[Illegible signature]

Amparo Núñez Grañón (ROAC No. 11558)
2 April 2020

FONDLORETO PENSIONES, FONDO DE PENSIONES

ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2019

The following documents form a single unit:

- **Balance Sheet.**
- **Profit & Loss Account.**
- **Statement of Changes in Equity**
- **Cash Flow Statements.**
- **Notes to the Financial Statements**

BALANCE SHEETS AS OF 31 DECEMBER 2019 AND 2018 (NOTES 1, 2, 3 and 4)

(Amounts in Euros)

ASSETS	2019	2018
FINANCIAL INVESTMENTS (Note 5)		
Equity instruments	8.128.610,76	12.516.585,85
Debt securities	19.280.361,65	11.362.702,37
Interest	54.283,34	107.127,81
Deposits with banks and depositary entities	2.800.347,73	4.810.356,85
Revaluation of financial investments	627.240,64	202.717,91
Capital losses on financial investments	-550.088,60	-1.522.077,94
	30.340.755,52	27.441.412,85
RECEIVABLES		
Sundry accounts receivable	144.294,84	164.541,33
Public Administrations (Note 6)	120.394,95	81.263,29
	264.689,79	245.804,62
CASH (Note 7)		
Banks and credit institutions with sight account	5.532.673,05	5.285.364,01
OVERALL TOTAL	**36.138.118,36**	**32.972.581,48**

EQUITY AND LIABILITIES	2019	2018
EQUITY		
EQUITY (Note 8)		
Scheme's Standing Account- Loreto Optima Individual Pension Scheme	35.954.705,75	32.694.294,74
LIABILITIES		
PAYABLES		
Management Company (Note 9)	104.302,15	98.900,78
Depositary Entity (Note 7)	8.910,05	8.359,15
Public Administrations	70.192,21	171.013,08
Other payables	8,20	13,73
	183.412,61	278.286,74
OVERALL TOTAL	**36.138.118,36**	**32.972.581,48**

Income statements for financial years ended on 31 December 2019 and 2018 **[Notes 1, 2, 3 and 4]**

(Amounts in Euros)

	2019	2018
FUND INCOME		
Financial investment income (Note 10)	472.963,64	551.677,15
FUND OPERATING EXPENSES		
Finance costs	-13.793,17	-8.330,29
Financial investment expenses	-26.342,98	-22.225,68
	-40.136,15	-30.555,97
OTHER OPERATING COSTS		
Management Company Fees (Note 9)	-104.302,15	-98.900,78
Depositary Entity Fees (Note 7)	-34.767,32	-32.966,93
External services	-39.813,29	-68.096,51
	-178.882,76	-199.964,22
GAIN (LOSSES) ON DISPOSAL OF INVESTMENTS		
Gains (losses) on disposal of financial investments (Note 11)	-349.932,60	-78.675,33
CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS		
Changes in the value of financial investments	1.483.676,18	-1.254.815,96
EXCHANGE DIFFERENCES	-7.970,29	88.023,59
PROFIT (LOSS) FOR THE YEAR (Note 3)	**1.379.718,02**	**-924.310,74**

Statements of changes in net equity for the years ended as of December 2018 and 2019 **[Notes 1, 2, 3 and 4]**

(Amounts in Euros)

	2019	2018
BALANCES AT THE BEGINNING OF YEAR	**32.694.294,74**	**31.402.902,08**
ADDITIONS		
Contributions:		
Contributions from unitholders	1.586.467,31	1.505.925,55
Returned contributions	-12.278,75	-5.879,15
	1.574.188,56	1.500.046,40
Mobilisations from other social welfare instruments:		
From other person schemes	2.300.746,60	3.122.005,24
Fund profits (losses) allocated to the Schemes:		
Fund profits allocated to the Schemes	1.379.718,02	-
	5.254.653,18	4.622.051,64
DISPOSALS		
Benefits, liquidity and mobilisation of vested rights:		
Benefits	1.313.430,03	2.125.684,39
Mobilisations for other social welfare instruments:		
For other pension schemes	680.812,14	280.663,85
Fund profits (losses) allocated to the Schemes:		
Fund losses allocated to the Scheme	-	924.310,74
	1.994.242,17	3.330.658,98
BALANCES AT YEAR-END	**35.954.705,75**	**32.694.294,74**

Cash flow statements for financial years ended on 31 December 2019 and 2018 **[Notes 1, 2, 3 and 4]**

(Amounts in Euros)

	2019	2018
A) CASH FLOWS FROM OPERATING ACTIVITIES:		
1. Profit/loss for the year	1.379.718,02	-924.310,74
2. Profit/loss adjustments	-1.445.388,58	834.000,01
Management company fees (+)	104.302,15	98.900,78
Depositary entity fees (+)	8.910,05	8.359,15
Gains/losses on derecognition and disposal of financial instruments (+/-)	349.932,60	78.675,33
Finance income (-)	-472.963,64	-551.677,15
Finance costs (+)	40.136,15	30.555,97
Exchange differences (+/-)	7.970,29	-88.023,59
Changes in the fair value of financial instruments (+/-)	-1.483.676,18	1.254.815,96
Other income and expenses (+/-)	-	2.393,56
3. Changes in accounts receivable and payable	-226.971,50	76.138,38
Trade and other receivables (+/-)	-39.131,66	-45.497,74
Trade and other payables (+/-)	-208.086,33	-6.298,59
Other assets and liabilities (+/-)	20.246,49	127.934,71
4. Other cash flows from operating activities	432.827,49	521.121,18
Dividends received (+)	245.135,56	245.135,56
Interest received (+)	227.828,08	306.541,59
Other amounts paid (received) (-/+)	-40.136,15	-30.555,97
5. Cash flows from operating activities (+/- 1 +/-2 +/- 3+/- 4)	**140.185,43**	**506.948,83**
B) CASH FLOWS FROM INVESTING ACTIVITIES:		
6. Payments due to investment (-)	-72.153.717,40	-57.560.508,86
Equity instruments	-14.599.724,97	-23.598.997,52
Debt securities	-54.408.006,78	-28.988.013,69
Bank deposits	-2.800.000,00	-4.808.956,32
Derivatives	-345.985,65	-164.541,33
7.Proceeds from disposal (+)	70.380.148,02	54.976.804,30
Equity instruments	18.747.218,28	19.972.465,16
Debt securities	46.822.920,62	31.301.374,59
Bank deposits	4.810.009,12	3.526.582,92
Derivatives	-	176.381,63
8. Cash flows from investing activities (7 - 6)	**-1.773.569,38**	**-2.583.704,56**
C) CASH FLOWS FROM TRANSACTIONS WITH UNITHOLDERS:		
9. Contributions, benefits, mobilisations	1.880.692,99	2.215.703,40
Contributions (+)	1.586.467,31	1.500.046,40
Benefits (-)	-1.325.708,78	-2.125.684,39
Mobilisations (+/-)	1.619.934,46	2.841.341,39
11. Cash flows from transactions with unitholders (+/- 9)	**1.880.692,99**	**2.215.703,40**
D) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (+/-5 +/-8 +/- 11)	**247.309,04**	**138.947,67**
Cash or cash equivalents at the start of the year	5.285.364,01	5.146.924,54
Cash or cash equivalents at the end of the year	5.532.673,05	5.285.364,01

FONDLORETO PENSIONES, FONDO DE PENSIONES

REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

(1) Activity of the Entity:

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

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

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

a) At least 70% of the assets of the Pension Fund shall be invested in securities and financial instruments susceptible to generalised and impersonal traffic that are admitted to trading on regulated markets, in derivative instruments traded on organised markets, in bank deposits, in mortgage-backed loans, in real estate and in real estate collective investment schemes. The aforementioned percentage may also include shares and units of collective investment schemes subject to Law 35/2003, of 4 November, on collective investment schemes or to Council Directive 85/611/EEC, of 20 December 1985, provided that, in the case of investment funds, their units are either regarded as listed securities or are admitted to trading on regulated markets; and, in the case of investment firms, their shares are susceptible to generalised and impersonal traffic and are admitted to trading on regulated markets..

   The said percentage shall not include shares and units in free investment collective investment schemes or free investment collective investment schemes subject to Law 35/2003, of 4 November, and its implementing regulations.

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

   The Fund may invest in several companies in the same group, provided that the total investment in the group does not exceed 10% of its assets.

   The Fund may not have invested more than 2% of its assets in securities or financial instruments not admitted to trading on regulated markets or in securities or financial instruments which, being admitted to trading on regulated markets, are not susceptible to generalised and impersonal traffic, when issued or guaranteed by the same entity. The above limit shall be 4% for such securities or financial instruments when issued or guaranteed by entities belonging to the same group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of 31 December 2019, the Pension Scheme included in the Fund is as follows:

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

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

(2) Basis for Presentation of the Annual Accounts:

a) True and fair view

The annual accounts have been obtained from the Fund's accounting records and are presented in accordance with the formats established in Order EHA/251/2009, of 6 February, approving the system of statistical-accounting documentation of pension fund management companies and with the valuation criteria established by Spanish Royal Decree 1514/2007, of 16 November, approving the Spanish National Chart of Accounts, by the interpretations made by the Directorate General of Insurance and Pension Funds, and by the Regulations on Pension Schemes and Funds, so as to give a true and fair view of the net worth and financial position of the Fund at 31 December 2019 and 2018 and of the results of its operations and the cash flows generated during the year then ended, in accordance with the financial reporting framework defined in the applicable legislation in force.

The Fund's annual accounts for fiscal year 2019 have been prepared by the Board of Directors of its Management Company.

b) Accounting principles

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

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

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

c) Comparison of information

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

d) Grouping of items

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

e) Correction of errors

In preparing the financial statements no significant errors were detected that would have made it necessary to restate the amounts included in the financial statements for 2018.

(3) Appropriation of Profit (Loss):

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

(4) Accounting Policies and Measurement Bases:

The most significant accounting policies and measurement bases applied by the Fund in preparing the financial statements for 2019 and 2018, pursuant to Spanish Royal Decree 1514/2007, of 16 November, approving the Spanish National Chart of Accounts, are as follows:

a) Classification of Financial Instruments

a.1) Classification of Financial Assets:

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

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

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

- Equity instruments: financial instruments issued by other entities, such as shares and equity units, shares and units held in collective investment schemes and venture capital entities, as well as structured equity products..

- Debt securities: bonds and other securities which involve debt for the issuer, which earn a remuneration consisting of interest, implicit or explicit, contractually established, and instrumented in securities or in book entries, whichever the issuer is.

- Deposits with banks and depositary entities: deposits held by the Fund with credit institutions, except for the balances recorded under the “Cash” heading.

- Interest on debt securities: includes the accrual of explicit interest on the financial investment portfolio using the effective interest rate.

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

a.2) Classification of Financial Liabilities::

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

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

b) Recognition and Valuation of Financial Assets and liabilities

b.1) Recognition and Valuation of Financial Assets:

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

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

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

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

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

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

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

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

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

b.2) Recognition and Valuation of Financial Liabilities:

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

c) Accounting of transactions

Spot securities purchase and sale:

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

Forward purchase and sale of securities:

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

Reverse repurchase agreement:

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

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

d) Accrual Accounts (Assets and Liabilities)

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

e) Income and Expenses

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

Income from Interests and Dividends:

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

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

Changes in Fair Value of Financial Instruments:

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

Other Income and Expenses:

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

f) Foreign Currency Transactions

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

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

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

g) Asset Value of the Fund

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

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

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

h) Related-party Transactions

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

During 2019 and 2018, the Fund did not carry out any related transactions other than ordinary trading or under conditions other than market conditions.

(5) Financial Investments:

The detail of the balances of the Fund's financial investment portfolios as of 31 December 2019 and 2018, is the following:

	Euros	
	2019	2018
Equity instruments	8.128.610,76	12.516.585,85
Debt securities	19.280.361,65	11.326.702,37
Interest on debt securities	54.283,34	107.127,81
Deposits with banks and depositary entities	2.800.347,73	4.810.356,85
Revaluation of financial investments	627.240,64	202.717,91
Capital losses on financial investments	-550.088,60	-1.522.077,94
	30.340.755,52	**27.441.412,85**

On 31 December 2019 and 2018, the detail, by maturity, of the debt securities is the following:

	Euros	
	2019	2018
Less than 1 year	6.967.238,53	3.454.959,14
Between 1 and 2 years	1.876.273,86	197.929,73
Between 2 and 3 years	1.734.099,89	1.756.248,10
Between 3 and 4 years	3.812.259,86	782.725,01
Between 4 and 5 years	1.561.368,24	1.617.077,96
Over 5 years	3.329.121,27	3.517.762,43
	19.280.361,65	**11.326.702,37**

As of 31 December 2019 and 2018, the unmatured accrued interest is recorded under "Interest on debt instruments" in the accompanying balance sheets.

As of 31 December 2019, the Fund holds open positions in financial derivatives corresponding to futures contracts, which are detailed below:

Contract	Detail					
	Net position	Currency	Number of contracts	Last due date	Nominal committed	Profit/ Loss
FUTURE BRAZ REAL FEBRUARY 2020	Long	USD	16	31/01/2020	352.842,16	5.211,28
FUTURE CURRENCIES CAD/USD MAR 20	Long	USD	26	17/03/2020	1.777.637,47	24.420,31
FUTURE EURDOLLAR MARCH 2020	Long	USD	17	16/03/2020	2.149.382,49	6.214,57
FUTURE BOBL MAR 20	Short	EUR	50	06/03/2020	5.000.000,00	39.000,00
					9.279.862,12	**74.846,16**

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

Contract	Detail					
	Net position	Currency	Number of contracts	Last due date	Nominal committed	Profit/ Loss
FUTURE EURDOLLAR MARCH 2019	Long	USD	17	07/03/2019	2.435.993,75	12.537,50
FUTURES EUROSTOXX BANK MAR 2019	Long	EUR	100	07/03/2019	438.000,00	-6.500,00
FUTURE EURO BUND MARCH 19	Short	EUR	30	07/03/2019	4.900.100,00	-6.100,00
					7.774.093,75	**-62,50**

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

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

At 31 December 2019

	Euros				
	Initial Assessment	Fair value without interest	Interest	Year Losses	Year Gains
Debt securities	19.280.361,65	19.408.599,74	54.283,34	-25.777,24	154.015,33
Equity instruments	8.128.610,76	8.077.524,71	-	-524.311,36	473.225,31
Deposits	2.800.000,00	2.800.000,00	347,73	-	-
	30.208.972,41	**30.286.124,45**	**54.631,07**	**-550.088,60**	**627.240,64**

At 31 December 2018:

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

Risk Management

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

Credit risk:

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

Liquidity risk:

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

The following table shows the liquidity ratio at 31 December 2019 and 2018:

	Euros	
	2019	2018
Cash-		
Depositary and other accounts	5.533.636,00	5.278.430,05
Equity	35.954.705,75	32.694.294,74
Liquidity ratio	**15,39%**	**16,14%**

Market risk:

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

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

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

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

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

	Euros	
	2019	2018
Debt securities--		
Fixed interest rate	16.481.991,10	11.026.163,26
Variable interest rate	2.798.370,55	300.539,11
	19.280.361,65	**11.326.702,37**

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

  The average duration of the debt instrument portfolio as of 31 December 2019 is 2.22 and as of December 31, 2018, it was 2.34.

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

  The Fund has instrumented some of its financial investments in currencies other than the euro. The detail, by currency, of the assets measured at acquisition cost at 2019 and 2018 year-end is as follows:

	Euros	
	2019	2018
Dollar (USD)	1.519.362,20	1.666.389,04
Pound (GBP)	208.337,85	-
	1.727.700,05	**1.666.389,04**

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

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

	Euros	
	2019	2018
AA	-	438.753,24
A	5.381.775,54	1.482.034,30
BBB	6.380.528,29	3.632.771,08
BB	1.879.406,64	1.164.150,58
No rating	5.638.651,18	4.608.993,17
	19.280.361,65	**11.326.702,37**

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

(6) Tax Situation:

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

1. VAT: The management services of pension funds provided by their Management Companies and Depositary Entities are exempt from this tax.

2. Corporate Income Tax: Pension funds are subject to this tax at a zero-tax rate and are therefore entitled to a refund of the withholdings applied to their income from movable capital. Pension funds must comply with the formal corporate income tax obligations applicable to taxpayers subject to the General Regime.

3. Property Transfer and Stamp Duty Tax: The incorporation, dissolution and modifications consisting of increases and decreases of pension funds are exempt from this tax..

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

The Fund has open for inspection by the tax authorities the years not legally prescribed for all taxes applicable to it. No additional material liabilities are expected to accrue as a result of the review of these years.

(7) Cash:

The detail of the balances of this heading in the accompanying balance sheets as of 31 December 2019 and 2018 is as follows:

	Euros	
	2019	2018
Depositary accounts	5.263.335,68	4.736.877,48
Depositary accounts – foreign currency	245.529,51	538.974,44
Gain on foreign currency	24.770,81	2.578,13
Interest on current accounts	-962,95	6.933,96
	5.532.673,05	**5.285.364,01**

The balances of the "Cash" heading are freely available and the interest accrued on the balances of the depositary accounts and other cash accounts at 31 December 2019 and 2018 amounted to 8,894.03 euros and 23,847.67 euros, respectively, which are recorded in the "Income from financial investments" heading in the income statements (see Note 10).

Likewise, as indicated in Note 1, the Bank BBVA, S.A. performs the functions of Depositary Entity of the Fund, accruing daily for this reason a fee, which is applied to the net worth of each Scheme and amounts to 0.10% per annum for the financial years 2019 and 2018.

The amounts accrued under this heading in 2019 and 2018 amounted to 34,767.32 euros and 32,966.93 euros, respectively, and were recorded under the heading "Depositary Entity Fees" in the accompanying income statements.

At 31 December 2019 and 2018, of the aforementioned amounts, 8,910.05 euros and 8,359.15 euros, respectively, were pending payment and are reflected under the "Payables- Depositary Entity" heading on the liability side of the accompanying balance sheets. These amounts were paid in the first months of the following year.

(8) Net Equity:

As of 31 December 2019 and 2018, the Fund is comprised solely of the Loreto Optima Individual Pension Scheme (Loreto Optima) promoted by Loreto Mutua, Mutualidad de Previsión Social (the Fund Management Company).

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

Contingencies covered by the Scheme are as follows:

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

The beneficiaries are the unitholder himself and the natural persons specifically designated by the unitholder in the event of death. The benefits of each Scheme are allocated to the standing account held in the Fund.

As of 31 December 2019, the detail of the standing account of the attached Loreto Optima Pension Scheme, after allocating the results for 2019, is as follows:

	Euros
Balances as of December 31, 2018	32.694.294,74
Contributions	
Additions:	
Contributions from unitholders	1.586.467,31
Returned contributions	-12.278,75
Mobilisation of vested rightss	2.300.746,60
	3.874.935,16
Fund profits (losses) allocated to the Schemes:	
Fund profits allocated to the Schemes	1.379.718,02
	1.379.718,02
Disposals	
Benefits	1.313.430,03
Mobilisation of vested rights	680.812,14
	1.994.242,17
Balances as of December 31, 2019	**35.954.705,75**

The detail for the Scheme of the number of units of account, their value and the number of unitholders and beneficiaries on December 31, 2019, is as follows:

	Loreto Optima Pension Scheme
Number of units of account	1.781.415,30259
Value per unit of account (Euros)	20,18322
Number of unitholders	1.089
Number of beneficiaries	151

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

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

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

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

(9) Management Company Committee and Audit Fees:

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

The amounts recorded as expenses in this connection in the years 2019 and 2018 amounted to 104,302 euros and 98,900.78 euros, respectively.

The Management Company's commission, which accrues daily, for 2019 and 2018 is 0.3% per annum of the total equity of the Scheme.

At 31 December 2019 and 2018, 104,302.15 euros and 98,900.78 euros of these amounts were pending payment and are reflected under the "Payables-Management Company" heading on the liability side of the accompanying balance sheets. These amounts were paid in the first months of the following year.

The agreed fees for the audit services for the years 2019 and 2018 amount to 2.398 EUR, not including the relevant value added tax.

(10) Income from Financial Investments:

The detail of this heading in the income statement for 2019 and 2018 is set out as follows:

	Euros	
	2019	2018
On debt securities	176.408,18	279.283,10
In equity instruments	285.058,80	245.135,56
In short-term, highly liquid investments	2.602,63	3.410,82
Interest on bank current accounts (Note 7)	8.894,03	23.847,67
	472.963,64	**551.677,15**

(11) Gains (Losses) on Disposal of Financial Investments:

At 31 December 2019, the "Gains (losses) on disposal of financial investments" in the income statement, which amounted to a loss of 349,932.60 euros, included the following items:

	Euros	
	Profits	Losses
From debt securities	355.447,71	39.719,06
From equity instruments	805.380,45	1.125.056,05
From futures	1.617.955,76	1.963.941,41
	2.778.783,92	**3.128.716,52**

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

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

(12) Other information:

a) Contractual Contingencies

The Board of Directors of the Management Company considers that at 31 December 2019 there were no significant unrecorded contingencies that could affect the net worth or results of the Fund.

b) Information on Deferrals of Payments Made to Suppliers in Commercial Transactions

In relation to Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions (amended by Law 11/2013, of 26 July, on measures to support entrepreneurs and stimulate growth and job creation), it is reported that at 31 December 2019 and 2018 there were no outstanding balances payable to suppliers that exceeded the legal deadline for payment. Also, the significant payments made in 2019 and 2018 to these suppliers were made within the legal deferral limits.

c) Events following the Closure of the Annual Accounts

On 5 February 2020, the amendments to Spanish Royal Legislative Decree 1/2002, the recast text of the Law on the Regulation of Pension Schemes and Funds, were published in the Spanish Official Gazette, incorporating Directive (EU) 2016/2341.

Some of the amendments addressed are directly applicable, while others have to wait for regulatory developments to be implemented effectively.

This amendment enhances the information to be received by unitholders and beneficiaries during the different phases of a pension scheme. General regulation of the system of governance is introduced, both for personal and employment funds, establishing key functions (risk, internal audit, actuarial). It is permitted to outsource key functions to another entity, without, under any circumstances, the Managing Company losing responsibility for compliance with its legal obligations.

A period of 6 months is established, to adapt the governance structure, and to develop written policies, as well as the appointment of key function holders.

With regard to market developments and growth prospects for 2020, we anticipate that growth will be particularly affected during the first half of the year as a result of the expansion of the coronavirus. We maintain that the impact of the virus will be temporary, creating some disruption in the activity and the markets during the first months of the year. The economic consequences of the spread of the epidemic are at present difficult to quantify, so the possibility of prolonged market uncertainty in the first half of the year is high. Fiscal and monetary stimuli will be critical in containing economic disruption and controlling the flow of credit.

Subsequent to the close of fiscal year 2019, no other significant event not described in the foregoing notes has occurred.

FONDLORETO PENSIONES, FONDO DE PENSIONES

MANAGEMENT REPORT FOR THE YEAR 2019

MANAGEMENT REPORT

FOR FINANCIAL YEAR 2019

Global environment

In 2019 the global economy had to cope with a series of high-intensity negative shocks, but the truce in the US-China trade war, together with the resilience of consumption, employment and the service sector, allayed fears of an abrupt end to the economic cycle. This was certainly not a vigorous recovery, but rather a reflection of a certain improvement in several of the economies that have suffered most recently (including some developed economies such as Germany and Italy, and emerging economies such as Turkey and Argentina). All of this, and any subsequent reflection, is currently conditioned by the evolution of the impact, on the growth of the global economy in 2020, of the coronavirus (COVID-19) that emerged at the end of 2019 in China, with its subsequent spread to the rest of the planet.

Several of the sources of weakness that have hampered growth and trade in 2019 will persist, in particular the decline in China's potential growth and the risk of secular stagnation (structural excess of supply over aggregate demand) in developed economies. Both weaknesses will add to two other forces of a far-reaching and structural nature: the ageing population and climate change. Both are, to some extent, undesirable consequences of progress and both will require a very considerable effort of transformation and adaptation in the productive systems.

But even the apparently more conjunctural events that have marked the pulse of the economy and the markets during the previous year will continue to occupy us in 2020. U.S. trade policy will not be the same as it was before 2016, and the current president will run for re-election with an economic balance sheet at least similar to that of his predecessor, President Obama (albeit after a major push for a very costly tax cut and with an enormously controversial and disruptive trade policy for the world economy). In the EU, with Brexit completed on 31 January, the time to negotiate the future relationship is short and uncertainty regarding its form which it will take will continue to hinder the normal development of activity both on the islands and on the continent.

After the Fed's and ECB's diligent reaction to the trials of 2019, growth for 2020 was already expected to be sluggish and inflation low, so the environment of extremely low real interest rates and lax monetary conditions would continue as a backdrop. This growth forecast has been modified even further downwards following the events we are experiencing, in the first quarter of 2020, and which will have a significant impact throughout the year.

The euro area has seen its still short expansionary cycle wither away in 2019 in the wake of the problems in Germany, where there has been a deep industrial recession, and Italy, which has fallen victim to attempts to escape from stagnant growth with fiscal flourishes. Despite progress, and the good performance of some southern economies, such as Portugal or Greece, the monetary union has continued to drag its feet, despite the efforts of the Commission and the EIB to prolong and extend the Juncker Plan for investments in strategic sectors for future growth. The outstanding reforms in the governance of the euro (deposit guarantee scheme, European Stability Mechanism Treaty amendment) have not yet been completed. And the situation in Italy could get worse again.

Germany and the surrounding countries have the fiscal capacity and the full employment situation to overcome the growth gap. The new European Green Deal advanced by the European Commission is guiding economic policy efforts in the right direction and may facilitate a rebound in public investment.

Spanish Economic Background

After seven years of robust growth, job creation and reduced unemployment, set in a more balanced and sustainable pattern, in 2019 some seams have been tightened again. The labour market has slowed down since June (although the Labour Force Survey for the fourth quarter of the year was exceptionally good and prevented the year from being considered a bad one) and the reduction in unemployment has been interrupted (this point is more worrying). Considering the road ahead for Spain to achieve a use of the labour factor (in terms of employment and unemployment rates) that is comparable to other advanced economies, this is not good news. The loss of momentum in the granting of new credit and in the real estate sector is also a reason for caution. Another pending issue is the definitive correction of the structural public deficit, as progress over the last four years reflects exclusively the positive effect of the business cycle on revenues and expenditures.

However, the fundamentals of the Spanish economy remain robust, or at least this was the vision at the end of 2019: the asset situation of households and non-financial companies was sound, the capacity for financing from abroad remained at around 2% of GDP and there were no significant pressures on prices and costs. If financial conditions remain lax and fiscal policy adopts a mildly restrictive bias, revenues will increase. The ability to prolong this period of expansion and reduction of unemployment will depend on the measures taken to correct the main remaining structural problems and to adapt to the requirements of energy transition and ageing population.

Financial markets

After 2018, which proved to be one of the worst years in financial markets in recent decades, 2019 has been a year of recovery in the major asset classes, although we have witnessed several episodes of increased uncertainty, mainly due to trade tensions between China and the US.

Investor optimism has been reflected, on the one hand, in the equity markets. Most of the indexes closed the year with gains, more intense in the U.S. with the S&P 500 accumulating a rise of nearly 30% for the year, while the European EuroStoxx index advanced just over 20%, due to the greater impact on European companies of increased tensions in international trade. This recovery in prices has led to a rise in valuations, which have reached levels far above the average of recent years, although indexes have continued to rise and even reached historic highs.

In the case of the IBEX 35, the high weight of the banking sector index weighed on its performance for the year as a whole, with an accumulated rise of “barely” 10%.

Similarly, corporate bond spreads showed a sharp widening throughout the year after the high rise of the previous year, supported by the context of greater confidence in the financial markets and, above all, the support of the main central banks that have shown a more accommodating policy. Thus, debt spreads in “speculative grade” yield 150bp in USD and 200bp in EUR, while those in “investment grade” have adjusted 50bp and 60bp respectively.

With regard to sovereign interest rates, the change in the message from the main central banks has enabled a continuity in the rate cession that began at the beginning of the year. Thus, September marked a turning point, after which the trend has been one of a general upturn supported by improved economic data and the dissipation of several sources of uncertainty (mainly trade tensions). Germany’s 10-year debt closed the year at 0.36% of 45bp, while the USA’s debt fell by 83bp to 1.83%.

The evolution of the exchange rates against the US dollar for the main emerging countries in 2019 has been characterized by a high dispersion. Similar to 2018, the Argentine peso and the Turkish lira have again been the worst performers, with depreciations of 37.1% and 10.6%, respectively, in their crossover against the US dollar. Joining this group is the Chilean peso, which has over 5% depreciation at the same crossing. In the rest of the junctions, with the exception of the rouble (+11% in the year) the movements are very moderate and on average, no more than 3% against the USD. On an aggregate level, the EMCI of emerging currencies depreciated by only 1.4% against the USD.

Financial management of Fondloreto Pensiones in 2019

The total assets of the fund, which amounted to 35,954,705.75 euros, increased by 3,260,411.01 euros compared with 2018, which means almost 10% over the amount of 2018. This increase was due both to the net balance of contributions, benefits, transfers added and disposed, which was positive in the amount of 1,880,692.99 euros, and to the reduction in benefits paid, which went from 2,125,684.39 at the closure of 2018 to 1,313,430.03 in 2019.

The profitability of the Loreto Optima Scheme in 2019 was 4.14%, while the average of the individual one-year schemes in this category, i.e. Mixed Fixed Income, was 5.14%.

According to data collected and offered by the Association of Collective Investment Schemes and Pension Funds, INVERCO; within the category of pension funds of the individual system, the Loreto Optima Pension Scheme ended the fiscal year as the second most profitable at 15 years and seventh most profitable at 5 years.

If we compared the performance at 15, 5 and 3 years of Loreto Optima with that of the individual mixed fixed-income pension schemes (with an investment of their assets of up to 30% in variable income), our scheme would be considerably above average. For example, the average 15-year return on Loreto Optima was 3.89%, while the average of the total number of individual schemes was 2.41% (1.56% the mixed fixed-income schemes).

The structure of the pension fund portfolio has been distributed as follows, in accordance with management criteria: 36.27% is invested in the very short term, variable income has gone from 27.04% in 2018 to 20.40% in 2019 and fixed income has increased from 34.61% in 2018 to 43.33% in 2019.

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

Exercise of political rights

Loreto Mutua, as a Pension Fund Management Company, reserves the right to exercise the rights, depending on the relevance of the political representation available for the volume of units, or where appropriate for the existence of attendance or participation bonuses that could benefit the fund's assets. As none of these circumstances arose during 2019, none of the General Meetings called were attended.

The Annual Accounts and the Management Report corresponding to the financial year 2019 of **FONDLORETO PENSIONES, FONDO DE PENSIONES**, contained in pages 1 to 35 above, all signed by the Secretary and endorsed by the Chairman, were prepared by the Management Company at its meeting held on 24 March 2020.

This document, signed electronically, serves for all purposes as a signature document for each and every one of those that make up the aforementioned Annual Accounts and Management Report.

This document is accompanied by a certificate issued by a qualified service provider (LLEIDANETWORKS Serveis Telemàtics S.A.), which guarantees the identification of the signatories and the integrity of the document and the signature process, in accordance with the regulations applicable to the electronic signature proces

Paseo de la Castellana, 40 • 28046 Madrid T. 91 758 96 50 • F. 91 548 44 41

info@loretomutua.com **www.loretomutua.com**

Information 900 844 855