



**LORETO MUTUA,  
MUTUALIDAD  
DE PREVISIÓN SOCIAL**

**Annual Accounts and Management Report  
2019**





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## GESCONTROL

AUDITORES

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 2019, 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 2019.

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 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 Report) 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.



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Most relevant aspects of the audit	How the issue was addressed in our audit
<p>Description</p> <p>The Balance Sheet of the Mutual Society, as of 31 December 2019, shows an amount of 1,204,936.74 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.</p> <p>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.</p> <p>In the light of the above, the reasonableness of the mathematical provision has been considered a key aspect of the audit</p>	<p>Procedures applied in the audit</p> <p>Our audit procedures to address this aspect have included:</p> <ul style="list-style-type: none"> <li>• Sufficient understanding of the assessment process.</li> <li>• Revision of the design and implementation of key controls set by the Society in the provision' estimation process.</li> <li>• Validation of the assumptions and hypotheses used for the calculation.</li> <li>• 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.</li> </ul> <p>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 Society's external actuaries.</p> <p>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.</p>
<p><u><i>Integrity and assessment of the financial assets</i></u></p> <p>Description</p> <p>The Mutual Society shows in its Balance Sheet as of 31 December 2019, an amount of 1,173,401.78 Thousand Euros corresponding to financial instruments, including shares in group companies and partners, which represent 92.32% of the Mutual Society's total asset value.</p> <p>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</p> <p>Most of the Mutual Society's financial instruments are assessed using market prices in active markets. Nevertheless, as of 31 December 2019 the Mutual Society has an amount of 58,545.47 Thousand Euros (including shares in group companies and partners) which are not listed in an active market.</p>	<p>Procedures applied in the audit</p> <p>Our audit procedures have included:</p> <ul style="list-style-type: none"> <li>• Assessment of the key controls linked to the procedures to evaluate the financial instruments.</li> <li>• Understanding of the operational strategy of the financial markets where the Mutual Society operates (types of financial instruments portfolios, investment and divestment strategies, etc.).</li> <li>• Governance: identification of the risk and control schemes within the market scope, starting from the understanding of the Mutual Society's risk appetite scheme.</li> <li>• 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</li> </ul>



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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.

- 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 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 2019, 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 2019, 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.



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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 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.





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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 2<sup>nd</sup> April 2020.

##### ***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 27<sup>th</sup> June 2019.

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 N° S0781)

Amparo Nuñez Grañon

(ROAC N° 11558)

**2<sup>nd</sup> April 2020**



## **LORETO MUTUA, MUTUALIDAD DE PREVISIÓN SOCIAL**

### **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
<b>CASH AND OTHER EQUIVALENT LIQUID ASSETS (Note 7)</b>	209.704.883,55	97.839.140,52
<b>FINANCIAL ASSETS HELD FOR TRADING (Note 7)</b>	-	17.920,05
Derivatives		
<b>OTHER FINANCIAL ASSETS AT FAIR VALUE WITH CHANGES IN PROFIT AND LOSS (Note 7)</b>		
Equity instruments	105.702.361,78	-
<b>FINANCIAL ASSETS AVAILABLE FOR SALE (Note 7)</b>		
Equity instruments	345.214.035,51	491.508.210,40
Debt securities	205.212.360,64	168.455.273,84
	550.426.396,15	659.963.484,24
<b>LOANS AND RECEIVABLES (Note 7)</b>		
Debt securities	9.044.292,17	11.350.526,15
Loans-		
Loans to group companies and associates	30.654,97	-
Deposits with credit institutions	26.166.284,49	80.469.106,40
Credits for insurance transactions		
Policyholders	13.457,39	29.138,59
Other credits-		
Remaining credits	754.170,21	549.668,16
	36.008.859,23	92.398.439,30
<b>INVESTMENTS HELD-TO-MATURITY (Note 7)</b>	259.578.856,01	263.127.246,46
<b>TANGIBLE FIXED ASSETS AND INVESTMENTS IN REAL ESTATE (Note 6)</b>		
Tangible fixed assets	12.187.619,73	10.611.810,03
Real estate investments	65.612.285,34	62.371.902,78
	77.799.905,07	72.983.712,81
<b>INTANGIBLE FIXED ASSETS (Note 5)</b>		
Other intangible asset	164.600,78	223.227,05
<b>SHAREHOLDINGS IN GROUP AND ASSOCIATED ENTITIES (Note 7)</b>		
Shares in associated companies	424.201,38	551.485,93
Shares in group companies	11.556.218,75	31.623.126,60
	11.980.420,13	32.174.612,53
<b>TAX ASSETS (Note 14)</b>		
Current tax assets	2.312.070,92	4.334.907,87
Deferred tax assets	7.646.198,02	8.692.804,98
	9.958.268,94	13.027.712,85
<b>OTHER ASSETS:</b>		
Assets and refund rights for long-term compensations to staff	172.500,00	138.000,00
Accruals (Note 9)	9.448.124,65	9.474.387,74
	9.620.624,65	9.612.387,74
<b>TOTAL ASSETS</b>	<b>1.270.945.176,29</b>	<b>1.241.367.883,55</b>





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

(Amounts in Euros)

	2019	2018
<b>LIABILITIES</b>		
<b>LOANS AND RECEIVABLES (Note 7)</b>		
Other payables-		
Public Administrations payables (Note 14)	3.648.867,93	3.751.053,61
Remaining payables	1.445.388,40	1.200.272,97
	5.094.256,33	4.951.326,58
<b>TECHNICAL PROVISIONS (Note 11):</b>		
Life insurance provision-		
Mathematical provision	1.204.936.735,48	1.239.804.868,60
Provision for benefits	1.810.902,67	1.790.175,72
Profit sharing and rebates provision	22.399.186,05	-30.562.739,33
	1.229.146.824,20	1.211.032.304,99
<b>NON-TECHNICAL PROVISIONS (Note 13):</b>		
Provisions for pensions and similar obligations	287.829,93	355.854,03
<b>TAX LIABILITIES:</b>		
Deferred tax liabilities (Note 14)	9.926.353,55	8.054.946,63
<b>REMAINING LIABILITIES:</b>		
Accrual Calculations	91.820,39	23.775,42
Accounting asymmetry liabilities (Note 12)	1.610.836,96	1.056.975,01
	1.702.657,35	1.080.750,43
<b>TOTAL LIABILITIES</b>	1.246.157.921,36	1.225.475.182,66
<b>EQUITY</b>		
<b>EQUITY (Note 10):</b>		
Mutual fund	6.873.689,82	6.745.478,77
Reserves-		
Other reserves	-1.469.850,00	-1.469.850,00
Profit or loss carried forward-		
Retained Earnings	1.508.336,66	1.501.450,54
Profit/loss for the year	104.914,43	99.499,22
<b>ADJUSTMENTS FOR CHANGE IN VALUE:</b>		
Financial assets available for sale	18.501.374,48	9.472.091,77
Currency translation differences	476.917,26	336.761,85
Correction of accounting asymmetries	-1.208.127,72	-792.731,26
	17.770.164,02	9.016.122,36
<b>TOTAL NET EQUITY</b>	24.787.254,93	15.892.700,89
<b>TOTAL LIABILITIES AND NET EQUITY</b>	1.270.945.176,29	1.241.367.883,55



# INCOME STATEMENTS FOR FINANCIAL YEARS ENDED ON 31 DECEMBER 2019 AND 2018

## (NOTES 1, 2, 3 and 4)

(Amounts in Euros)

### TECHNICAL ACCOUNT – LIFE INSURANCES

	2019	2018
<b>PREMIUMS EARNED IN THE FINANCIAL YEAR, NET OF REINSURANCE:</b>		
Premiums accrued-		
Direct insurance	37.634.486,00	37.746.329,45
<b>INCOME FROM FIXED ASSETS AND INVESTMENTS:</b>		
Income from real estate investments	4.006.345,64	2.162.008,17
Income from Financial investments	32.889.633,24	33.935.849,59
Valuation adjustments due to fixed assets and investments impairment-		
Fixed assets and real estate investments	4.331.722,86	724.963,68
Financial investments	182.862,83	267.290,47
Profits on the realisation of fixed assets and investments		
Fixed assets and real estate investments	4.154,92	5.318.316,66
Financial investments	66.455.697,19	57.219.063,86
	107.870.416,68	99.627.492,43
<b>OTHER TECHNICAL INCOME</b>	83,76	8.279,83
<b>CLAIMS INCURRED IN THE FINANCIAL YEAR, NET OF REINSURANCE:</b>		
Benefits and expenses paid-		
Direct insurance	-75.339.250,82	-87.436.918,20
Variation in the Benefits provision-		
Direct insurance	-20.726,95	86.527,44
Expenses attributable to Benefits	-1.541.148,35	-1.413.543,55
	-76.901.126,12	-88.763.934,31
<b>VARIATION IN OTHER TECHNICAL PROVISIONS, NET OF REINSURANCE:</b>		
Life insurance provisions	34.868.133,12	-13.539.700,10
<b>PROFIT SHARING AND REBATES:</b>		
Variation in the profit sharing and rebates provision	-52.961.925,38	58.377.464,25
<b>NET OPERATING COSTS:</b>		
Acquisition costs	-1.030.539,56	-1.009.094,78
Administration expenses	-1.243.406,00	-1.140.453,85
	-2.273.945,56	-2.149.548,63
<b>OTHER TECHNICAL EXPENSES</b>	-78.484,06	-148.500,86
<b>EXPENSES FROM FIXED ASSETS AND INVESTMENTS:</b>		
Fixed assets and investment management costs		
Fixed assets and real estate investments	-2.570.248,61	-1.984.379,46
Investment and financial accounts expenses	-7.311.792,48	-6.411.991,55
Fixed assets and investment impairment losses		
Fixed assets and real estate investments	-756.026,09	-501.126,75
Financial investments impairment	-1.058.539,92	-819.035,07
Losses from fixed assets and investments-		
Fixed assets and real estate investments	-71.124,49	-602.502,64
Financial investments	-36.678.151,44	-81.228.717,53
	-48.445.883,03	-91.547.753,00
<b>PROFIT &amp; LOSS OF THE TECHNICAL ACCOUNT - LIFE INSURANCE</b>	-131.276,47	-92.869,22
<b>NON-TECHNICAL ACCOUNT</b>		
<b>OTHER INCOME:</b>		
Income from Pensions fund management	104.914,43	99.499,22
Other income	186.779,57	141.953,65
	291.694,00	241.452,87
<b>OTHER EXPENSES:</b>		
Income from Pensions fund management	-50.187,10	-46.031,71
Other expenses	-5.316,00	-3.052,72
	-55.503,10	-49.084,43
<b>PROFIT &amp; LOSS OF THE NON-TECHNICAL ACCOUNT</b>	236.190,90	192.368,44
<b>PROFIT &amp; LOSS BEFORE TAX</b>	104.914,43	99.499,22
Tax on profits	-	-
<b>PROFIT/LOSS FOR THE YEAR</b>	104.914,43	99.499,22



## STATEMENTS OF CHANGES IN EQUITY CORRESPONDING TO YEARS ENDED ON 31 DECEMBER 2019 AND 2018 (NOTES 1, 2, 3 and 4)

(Amounts in Euros)

### A) STATEMENT OF RECOGNISED INCOME AND EXPENSES

	2019	2018
<b>YEAR PROFIT &amp; LOSS</b>	104.914,43	99.499,22
<b>OTHER RECOGNISED INCOME AND EXPENSES -</b>		
Financial assets available for sale-		
Valuation gains and losses	40.091.587,66	-53.769.260,21
Amounts transferred to the profit and loss account	-28.052.544,05	23.762.600,30
Currency translation differences-		
Valuation gains and losses	186.873,88	3.243.639,71
Correction of accounting asymmetries-		
Valuation gains and losses	-553.861,95	-193.566,11
Tax on profits	-2.918.013,89	6.739.146,58
	8.754.041,66	-20.217.439,73
<b>TOTAL RECOGNISED INCOME AND EXPENSES</b>	<b>8.858.956,09</b>	<b>-20.117.940,51</b>

### B) STATEMENT OF TOTAL CHANGES IN EQUITY

	Mutual fund	Other reserves	Retained Earnings	Profit/loss for the year	Adjustments for change of value	Total
<b>ADJUSTED BALANCE, BROUGHT FORWARD TO 2018</b>	6.627.960,42	-1.469.850,00	1.490.800,31	99.456,75	29.233.562,09	35.981.929,57
<b>Total recognized incomes and expenses</b>	-	-		99.499,22	-20.217.439,73	-20.117.940,51
<b>Transactions with members or mutualists</b>						
Other transactions with members or mutualists	18.061,60	-	-18.061,60	-	-	-
<b>Other equity transactions -</b>						
Transfers between equity items	99.456,75	-	-	-99.456,75	-	-
Other variations	-	-	28.711,83	-		28.711,83
<b>BALANCE, END OF 2018</b>	6.745.478,77	-1.469.850,00	1.501.450,54	99.499,22	9.016.122,36	15.892.700,89
<b>ADJUSTED BALANCE, BROUGHT FORWARD TO 2019</b>	6.745.478,77	-1.469.850,00	1.501.450,54	99.499,22	9.016.122,36	15.892.700,89
<b>Total recognized incomes and expenses</b>	-	-	-	104.914,43	8.754.041,66	8.858.956,09
<b>Transactions with members or mutualists</b>						
Other transactions with members or mutualists	28.711,83	-	-28.711,83	-	-	-
<b>Other equity transactions -</b>						
Transfers between equity items	99.499,22	-	-	-99.499,22	-	-
Other variations	-	-	35.597,95	-	-	35.597,95
<b>BALANCE, END OF 2019</b>	<b>6.873.689,82</b>	<b>-1.469.850,00</b>	<b>1.508.336,66</b>	<b>104.914,43</b>	<b>17.770.164,02</b>	<b>24.787.254,93</b>



## CASH FLOW STATEMENTS FOR FINANCIAL YEARS ENDED ON 31 DECEMBER 2019 AND 2018 (NOTES 1, 2, 3 and 4)

(Amounts in Euros)

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES -</b>		
<b>Insurance activity:</b>		
Direct insurance, co-insurance and accepted reinsurance (received)	37.470.787,60	37.478.906,44
Direct insurance, co-insurance and accepted reinsurance (paid)	75.413.547,82	85.184.941,36
Other operating payments	5.616.940,92	5.267.780,93
Total receipts from insurance activity	37.470.787,60	37.478.906,44
Total payments from insurance activity	81.030.488,74	90.452.722,29
<b>Other operating activities:</b>		
Receipts from pension fund management activities	99.499,22	99.456,75
Receipts from other activities	14.064.686,28	14.593.731,08
Payments of other activities	13.955.936,41	13.724.453,12
Total receipts from other operating activities	14.164.185,50	14.693.187,83
Total payments from other operating activities	13.955.936,41	13.724.453,12
Income tax receipts and payments	4.110.770,39	-
<b>Total net cash flows from operating activities</b>	<b>-39.240.681,66</b>	<b>-52.005.081,14</b>
<b>CASH FLOWS FROM INVESTMENT ACTIVITIES -</b>		
<b>Receipts from investment activities:</b>		
Real estate investments	4.711.873,93	12.997.914,68
Financial Instruments	854.724.426,01	771.325.577,61
Shareholdings in group and multigroup companies and associates	5.339.536,83	798.779,22
Interests received	9.764.852,48	12.321.378,60
Dividends received	6.038.513,52	6.579.860,70
Total receipts of investment activities	880.579.202,77	804.023.510,81
<b>Investment activities payments:</b>		
Tangible fixed assets	176.419,14	68.330,95
Real estate investments	2.602.304,42	35.889.775,89
Intangible assets	82.542,61	65.343,75
Financial Instruments	724.028.868,37	833.104.735,15
Shareholdings in group and multigroup companies and associates	3.338.557,94	158.866,38
Total receipts of investment activities	730.228.692,48	869.287.052,12
<b>Total cash flows of investment activities</b>	<b>150.350.510,29</b>	<b>-65.263.541,31</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES -</b>		
Effect of exchange rate changes	755.914,40	1.035.549,37
<b>Total cash flows of financing activities</b>	<b>755.914,40</b>	<b>1.035.549,37</b>
<b>Total increases in cash and cash equivalents</b>	<b>111.865.743,03</b>	<b>-116.233.073,08</b>
<b>Cash and equivalents by the beginning of the period</b>	<b>97.839.140,52</b>	<b>214.072.213,60</b>
<b>Cash and equivalents by period-end</b>	<b>209.704.883,55</b>	<b>97.839.140,52</b>
Cash components and equivalents by period-end:		
Depository and banks	209.704.883,55	97.839.140,52
<b>Total cash and equivalents by period-end</b>	<b>209.704.883,55</b>	<b>97.839.140,52</b>



## REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

### **(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 MONTEPÍO 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.

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 carries out its activity within the Spanish territory exclusively.



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. Likewise, 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.

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.

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, FONDO DE PENSIONES, incorporated on 19th November 1998. As of 31 December 2019 and 2018, the Fund's assets amount to 35,954,705.75 and 32,694,294.74 euros respectively; having 1,089 and 1,042 members as of 31 December 2019 and 2018 respectively. The Pension Plan integrated in the Fund is the Individual Pension Plan "Loreto Óptima", which is promoted by the Society.
- FONDLORETO EMPLEO, FONDO DE PENSIONES, incorporated on 22nd November 2000 as Fondloreto Pensiones I, Fondo de Pensiones, and whose name was changed on 20th February 2015. As of 31 December 2019 and 2018, the Fund's assets amount to 319,880.83 and 299,055.21 euros respectively; having 4 members as of 31 December 2019 and 2018. 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.

## **(2) Basis for Presentation of the Annual Accounts:**

### **a) Financial Information Legal Framework that applies to the Mutual Society**

The annual accounts for financial years 2019 and 2018 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 2019 amounted to 115 thousand euros, compared to 218 thousand euros for financial year 2018 (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) Comparison 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 2019, 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.

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 November 26th, 2019. As a result of this liquidation, Prius Inversiones Generales, S.L., assigns and transfers to Loreto Mutua, as sole member, all of its assets amounting to 23,145,617.61 euros; the Mutualidad includes in its accounts for the financial year 2019 the following items, whose corresponding amount for the financial year 2018 was included in the item "Holdings in group companies":



	Euros
<b>A-1) Cash and other cash equivalent assets</b>	4.854.691,06
<b>A-5) Loans and receivables</b>	
Deposits with credit institutions	17.175.596,89
Remaining credits	1.981,47
<b>A-9) Tangible Fixed Assets and Real Estate Investments</b>	
Real estate investments	1.108.652,12
<b>A-12) Tax assets</b>	
Current tax assets	4.696,07
	<b>23.145.617,61</b>

#### 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, 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.

### (3) Profit & 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 2019 and 2018, which amount to 104,914.43 and 99,499.22 euros respectively, are not subject to distribution, but used to increase the Mutual Fund.

### (4) Accounting Policies and Measurement Bases:

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 state 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:



	Years of estimated service life
Real estate (excluding land value)	75
Furniture	10
Facilities	10
Information processing equipment	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. Interest accrued are accounted for in the profit and loss account, by 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 valued 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. Interest accrued are accounted for in the profit and loss account, by 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 they may incur on disposal. 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 their initial recognition, these assets are valued at their fair value, without any deduction for transaction costs they may incur on 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 is decreased by the amount of such 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 Non-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 2019 and 2018, 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 2019 and 2018, 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.



#### Equity investments in 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.

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 at 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, 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, 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 Non-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.

#### 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 valued 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 valued, 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.

There are currently no non-monetary items in foreign currency on the Mutual Society balance sheet.

### 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 provision

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 2019 and 2018, 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 2019 and 2018, 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 valued 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 Profits**

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 valued 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) Income 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:

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, 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, 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.

##### 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
Acquisition costs	17,17%
Expenses attributable to benefits	27,33%
Expenses attributable to financial investments	17,61%
Expenses attributable to material investments	14,95%
Administration expenses	22,05%
Other non-technical expenses	0,89%

During financial year 2018, these percentages were modified to adequate them to the current Mutual Society's personnel costs structure. This amendment had 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 2019 and 2018 refers to the purchase of software applications, and the movements during financial years 2019 and 2018 have been as follows:

COST:	Euros
Balances at 31 December 2017	612.263,88
Additions	65.003,53
Withdrawals	-73.892,23
Balances at 31 December 2018	603.375,18
Additions	84.550,07
Withdrawals	-181.332,53
Balances at 31 December 2019	506.592,72



#### **ACCUMULATED AMORTIZATION:**

Balances at 31 December 2017	-299.289,67
Provisions	-154.750,69
Drawdowns	73.892,23
Balances at 31 December 2018	-380.148,13
Provisions	-143.176,34
Drawdowns	181.332,53
Balances at 31 December 2019	-341.991,94

#### **NET VALUE:**

At 31 December 2018	223.227,05
At 31 December 2019	164.600,78

### **(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 2019 and 2018 is as follows:



## Euros

	Land and Natural Assets	Constructions	Technical Facilities	Other Material Investments	Ongoing investments	Total
<b>COSTS:</b>						
Balances at 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
Balances at 31 December 2018	21.339.951,24	41.506.405,94	1.238.292,86	16.011.539,00	-	80.096.189,04
Additions	221.730,42	1.003.887,77	154.210,20	-	-	1.379.828,39
Withdrawals	-	-116.966,07	-37.061,18	-	-	-154.027,25
Balances at 31 December 2019	21.561.681,66	42.393.327,64	1.355.441,88	16.011.539,00	-	81.321.990,18
<b>ACCUMULATED AMORTIZATION:</b>						
Balances at 31 December 2017	-	-4.192.510,21	-284.125,60	-	-	-4.476.635,81
Provisions	-	-315.985,87	-211.747,12	-	-	-527.732,99
Drawdowns	-	1.564.320,61	146.084,57	-	-	1.710.405,18
Balances at 31 December 2018	-	-2.944.175,47	-349.788,15	-	-	-3.293.963,62
Provisions	-	-555.978,09	-128.731,21	-	-	-684.709,30
Drawdowns	-	64.981,15	37.061,18	-	-	102.042,33
Balances at 31 December 2019	-	-3.435.172,41	-441.458,18	-	-	-3.876.630,59
<b>DETERIORATIONS:</b>						
Balances at 31 December 2017	-	-3.573.869,42	-	-11.551.229,27	-	-15.125.098,69
Provisions	-	-	-	-	-	0,00
Drawdowns	-	-30.187,63	-	724.963,68	-	694.776,05
Balances at 31 December 2018	-	-3.604.057,05	-	-10.826.265,59	-	-14.430.322,64
Drawdowns	-	2.597.248,39	-	-	-	2.597.248,39
Balances at 31 December 2019	-	-1.006.808,66	-	-10.826.265,59	-	-11.833.074,25
<b>NET VALUES:</b>						
At 31 December 2018	21.339.951,24	34.958.173,42	888.504,71	5.185.273,41	-	62.371.902,78
AAAt 31 December 2019	21.561.681,66	37.951.346,57	913.983,70	5.185.273,41	-	65.612.285,34

As of 31 December 2019 and 2018, 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 the Mutual Society. Loreto Mutua, Mutualidad de Previsión Social sells and transfers the properties to Mrs. Maria de la Concepcion Pequeño Bobo, in the amount of 2,350,000 euros.

Additionally, on July 16, 2018, the deed of sale was signed for the residing home number 32D with parking space and storage room, in the Fuente Aloha residential complex, located in Urbanización Nueva Andalucía, in Marbella (Málaga), owned by the Mutual Society. Loreto Mutua, Mutualidad de Previsión Social, sells and transfers to Sociedad Estandarte Proyectos de Inversión y Desarrollos Patrimoniales, S.L., for 285,000 euros.

On the other hand, 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, 2018, 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 the Mutual Society. Loreto Mutua, Mutual Mutualidad de Previsión Social sells and transfers the property to Society Transvia Madrid, S.L, for 2,500,000 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 InZrizer Senda de Senent 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 settlement was registered with the Companies Registry on October 1st, 2018.

Of this settlement, several parking spaces up to 71,200 euros were transferred as “Real Estate Investments” to Loreto Mutua, Mutualidad de Previsión Social.

On October 29, 2019, a deed was signed for the dissolution of the company Prius Inversiones Generales, S.L., in accordance with a resolution adopted by the General Extraordinary Meeting of Shareholders, of universal nature, held on October 25th 2019, in which the settlement was approved. The settlement was registered with the Companies Registry on November 26th, 2019.

Of this settlement, 4 business premises and 11 parking spaces (8 for car and 3 for motorbike) of a total amount of 1,108,652.12 euros were transferred as “Real Estate Investments” to Loreto Mutua, Mutualidad de Previsión Social.

The detail of impairment at 31 December 2019 and 2018, amounting to 11,833,074.25 and 14,430,322.64 euros respectively, is as follows:

Location	Euros	
	2019	2018
Paseo de la Castellana, nº 40, Madrid	1.006.808,66	3.544.048,02
Avenida del Prado, Residential Fuente Aloha, s/n, Marbella (Málaga)	-	60.009,03
Perales del Río	10.826.265,59	10.826.265,59
	<b>11.833.074,25</b>	<b>14.430.322,64</b>



## b) Tangible fixed assets

Details and movements for financial year 2019 are as follows:

	Euros			
	Balances at 31/12/2018	Registrations	Leaves	Balances at 31/12/2019
<b>COSTS:</b>				
Furniture	704.938,94	5.625,05	-	710.563,99
Technical Facilities	579.334,39	3.419,97	-76.986,04	505.768,32
Other facilities	120.941,50	-	-8.506,93	112.434,57
Information processing equipment	539.743,17	166.149,39	-52.551,37	653.341,19
Sites Paseo de la Castellana 40	6.792.584,40	-	-	6.792.584,40
Constructions Paseo de la Castellana 40	5.751.151,27	-	-	5.751.151,27
	14.488.693,67	175.194,41	-138.044,34	14.525.843,74
<b>ACCUMULATED AMORTIZATION:</b>				
Furniture	-156.234,71	-70.608,75	-	-226.843,46
Technical Facilities	-257.616,59	-52.530,83	76.986,04	-233.161,38
Other facilities	-73.503,60	-11.901,83	8.506,93	-76.898,50
Information processing equipment	-284.975,36	-123.898,17	52.551,37	-356.322,16
Constructions Paseo de la Castellana 40	-739.304,80	-74.919,60	-	-814.224,40
	-1.511.635,06	-333.859,18	138.044,34	-1.707.449,90
<b>DETERIORATIONS:</b>				
Constructions	-2.365.248,58	-	1.734.474,47	-630.774,11
<b>NET VALUES</b>	<b>10.611.810,03</b>	<b>-158.664,77</b>	<b>1.734.474,47</b>	<b>12.187.619,73</b>

Details and movements for financial year 2018 are as follows:

	Euros			
	Balances at 31/12/2017	Registrations	Leaves	Balances at 31/12/2018
<b>COSTS:</b>				
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
Information processing equipment	565.853,07	2.128,39	-28.238,29	539.743,17
Sites Paseo de la Castellana 40	6.792.584,40	-	-	6.792.584,40
Constructions 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
<b>ACCUMULATED AMORTIZATION:</b>				
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
Information processing equipment	-203.271,12	-109.942,53	28.238,29	-284.975,36
Constructions 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
<b>DETERIORATIONS:</b>				
Constructions	-2.365.248,58	-	-	-2.365.248,58
<b>NET VALUES</b>	<b>10.917.241,03</b>	<b>-306.819,74</b>	<b>1.388,74</b>	<b>10.611.810,03</b>



Appraisal values of properties owned by the Mutual Society as of 31 December 2019 and 2018 are as follows:

Location	Euros	
	2019	2018
Paseo de la Castellana, nº 40, Madrid	17.115.874,70	14.951.610,17
Paseo de la Castellana, nº 40, Madrid (Headquarters)	11.410.583,13	9.965.505,14
Glorieta de Quevedo, nº 9, Madrid	18.009.527,47	16.887.812,44
Calle Isaac Peral, nº 4, planta baja, Madrid	2.501.555,33	2.283.850,72
Avenida del Prado, Fuente Aloha Residential Complex, s/n, Marbella (Málaga)	5.383.164,53	4.078.146,31
Calle Alberto Aguilera, nº 1 and calle Santa Cruz de Marcenado, nº 2, Premises C-1, B-4, B-5 y C-8, Madrid	5.981.065,01	5.371.575,52
Parking spaces from Company Settlement Instituto Esphenial Fomento Inmobiliario, S.L.	90.929,94	118.342,91
Commercial premises and parking spaces from the settlement of Prius Inversiones Generales, S.L.	1.106.251,29	-
Calle Antigua Senda de Senent, nº 11, Edificio Alameda (Valencia)	33.531.384,68	33.890.433,96
	<b>95.130.336,08</b>	<b>87.547.277,17</b>

On the other hand, the Mutual Society owns planning rights in Perales del Rio, which are valued at 5,185,273.41 euros in 2019 and 2018, 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 2019 and 2018, the composition and classification of the Mutual Society's financial assets is as follows:

At 31 December 2019





## Euros

	Cash and other cash equivalent means	Other financial assets at fair value with changes in profit and loss	Financial assets available for sale		Loans and receivables	Held-to-maturity investment portfolio	Shareholdings in group and multigroup companies and associates	Total
			Fair value	Cost				
Equity instruments								
Financial capital investments	-	105.702.361,78	117.804.498,60	120.392.818,62	-	-	11.610.922,85	235.117.783,23
Units in investment funds	-	-	180.844.514,17	180.207.276,93	-	-	-	180.844.514,17
Sharing in Venture capital funds	-	-	46.565.022,74	33.160.352,10	-	-	369.497,28	46.934.520,02
Debt securities								
Fixed Income Securities	-	-	205.212.360,64	191.361.559,51	9.044.292,17	259.578.856,01	-	473.835.508,82
Loans -								
Loans to group companies and associates	-	-	-	-	30.654,97	-	-	30.654,97
Deposits in credit institutions	-	-	-	-	26.166.284,49	-	-	26.166.284,49
Credits for direct insurances activities								
Policyholders:								
Receipts pending	-	-	-	-	13.457,39	-	-	13.457,39
Other credits								
Remaining credits	-	-	-	-	754.170,21	-	-	754.170,21
Cash	209.704.883,55	-	-	-	-	-	-	209.704.883,55
	209.704.883,55	105.702.361,78	550.426.396,15	525.122.007,16	36.008.859,23	259.578.856,01	11.980.420,13	1.173.401.776,85

At 31 December 2018

## Euros

	Euros							
	Cash and other cash equivalent means	Financial assets held-to-trade	Financial assets available for sale		Loans and receivables	Held-to-maturity investment portfolio	Shareholdings in group and multigroup companies and associates	Total
			Fair value	Cost				
Equity instruments -								
Financial capital investments	-	-	247.329.781,28	250.276.388,99	-	-	31.739.927,25	279.069.708,53
Sharing in investment funds	-	-	192.272.477,06	197.724.799,99	-	-	-	192.272.477,06
Sharing in risk 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
Deposits with credit institutions	-	-	-	-	80.469.106,40	-	-	80.469.106,40
Credits for direct insurance transactions -								
Policyholders:								
Pending receipts	-		-	-	29.138,59	-	-	29.138,59
Other credits								
Remaining credits	-	-	-	-	549.668,16	-	-	549.668,16
Cash	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	1.145.520.843,10



## B. Financial Liabilities categories

As of December 31st, 2019 and 2018, the composition of the financial liabilities of the Mutual Society, classified as “Accounts Payable”, for amounts respectively of 1,445,388.40 and 1,200,272.97 euros, corresponds to other debts.

## C. Maturity Classification

The breakdown by year of maturity of the Mutual Society’s financial assets and liabilities at December 31 is as follows:

### Financial Assets

	Euros						
	2020	2021	2022	2023	2024	Posteriores	Total
Fixed Income Securities	64.985.065,40	50.100.975,88	42.643.658,81	54.200.563,73	38.313.195,27	223.592.049,73	473.835.508,82
Loans to group companies and associates	30.654,97	-	-	-	-	-	30.654,97
Deposits in credit institutions	26.166.284,49	-	-	-	-	-	26.166.284,49
Policyholders	13.457,39	-	-	-	-	-	13.457,39
Remaining Cash	754.170,21	-	-	-	-	-	754.170,21
Credits	209.704.883,55	-	-	-	-	-	209.704.883,55
	<b>301.654.516,01</b>	<b>50.100.975,88</b>	<b>42.643.658,81</b>	<b>54.200.563,73</b>	<b>38.313.195,27</b>	<b>223.592.049,73</b>	<b>710.504.959,43</b>

### Financial liabilities

	Euros						
	2020	2021	2022	2023	2024	Posteriores	Total
Deposits	99.671,98	92.882,55	19.908,00	159.453,76	17.637,27	146.303,09	535.856,65
Sundry payables	909.531,75	-	-	-	-	-	909.531,75
	<b>1.009.203,73</b>	<b>92.882,55</b>	<b>19.908,00</b>	<b>159.453,76</b>	<b>17.637,27</b>	<b>146.303,09</b>	<b>1.445.388,40</b>

The breakdown by year of maturity of the Mutual Society’s financial assets and liabilities at December 3, 2018, is as follows:

### 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
Deposits in credit institutions	80.469.106,40	-	-	-	-	-	80.469.106,40
Policyholders	29.138,59	-	-	-	-	-	29.138,59
Remaining Cash	549.668,16	-	-	-	-	-	549.668,16
Credits	97.839.140,52	-	-	-	-	-	97.839.140,52
	<b>243.237.638,45</b>	<b>26.627.168,49</b>	<b>45.460.626,87</b>	<b>32.562.841,78</b>	<b>33.833.612,76</b>	<b>240.116.131,82</b>	<b>621.838.020,17</b>



## Financial liabilities

	Euros						Total
	2019	2020	2021	2022	2023	Further	
Deposits	35.476,00	143.675,82	121.119,82	68.551,30	44.420,62	115.295,09	528.538,65
Sundry payables	671.734,32	-	-	-	-	-	671.734,32
	<b>707.210,32</b>	<b>143.675,82</b>	<b>121.119,82</b>	<b>68.551,30</b>	<b>44.420,62</b>	<b>115.295,09</b>	<b>1.200.272,97</b>

### D. Assets assigned as a guarantee

At 31 December 2019, Loreto Mutua had within its assets for an amount of 1,903,351.40 fixed-term deposits in Banco Santander, which were pledged in favour of this bank to guarantee payment of up to 20% of the amount of the mortgages taken out by various owners to purchase property in a building developed by Prius Inversiones Generales, S.L.U., which was dissolved and settled in October 2019. As a result of this settlement, Loreto Mutua was awarded, among other assets, the amounts of these fixed-term deposits. These deposits are fully impaired at year-end. In 2018, there were no assets pledged as security by the Mutual Society.

### E. Corrections for impairment due to credit risk

During the years 2019 and 2018, impairment losses from credit risk have been recorded as follows:

	Euros	
	2019	2018
Loans to group companies and associates		
Provisions	-	9.354,81
Reversals	-148.873,89	-54.533,53
Investments in group companies and associates-		
Provisions	1.058.539,92	809.680,26
Reversals	-33.988,94	-212.756,94
Traffic activities		
Provisions	30.333,61	-
Reversals	-6.293,57	-
	<b>-2.234.540,82</b>	<b>551.744,60</b>



## 7.2) Information Related to the Profit and Loss Account:

The detail of information relating to the profit and loss account for financial instruments during the financial year 2019 is as follows:

	Euros		
	Profits or net losses	Financial income or expense	Impairments and impairment applications
Financial Assets-			
Fixed income	1.810.540,81	19.972.163,90	-
Loans to group companies and associates	-	56.581,81	148.873,89
Equity/IICC	32.454.919,87	7.398.915,95	-
Equity instruments of group companies and associates	-	7.507,22	-1.024.550,98
Deposits	-	797.770,86	-
Other Assets	-	-61.268,22	-
Derivatives	-4.487.914,93	-1.922,90	-
Reclassified expenses	-	-2.591.907,86	-
	<b>29.777.545,75</b>	<b>25.577.840,76</b>	<b>-875.677,09</b>

The detail of information relating to the profit and loss account for financial instruments during the financial year 2018 is as follows:

	Euros		
	Profits or net losses	Financial income or expense	Impairments and impairment applications
Financial Assets-			
Fixed income	2.903.129,84	20.934.027,28	-
Loans to group companies and associates	-	30.026,59	45.178,72
Equity/IICC	-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	-
	<b>-24.009.653,67</b>	<b>27.523.858,04</b>	<b>-551.744,60</b>



### 7.3) Group entities and associates:

The detail of Group's companies and associates in 2019 is as follows:

Euros								
BUSINESS NAME	REGISTERED ADDRESS	CORPORATE PURPOSE	DIRECT SHARE	CAPITAL	RESERVES	PROFIT/LOSS FOR THE YEAR	NET BOOK BALANCE	SHARE VALUE
Activos en Renta Capital, S.L.	Serrano, 81 28006 Madrid	Asset Management	93,13%	6.115.470,00	-127.173,63	-86.923,13	5.495.980,54	5.495.980,54
Arcalia Private Equity, SCR	María de Molina,39 28006 Madrid	Venture capital company	17,81%	1.464.008,00	762.543,34	-	369.497,28	1.045.653,98
Piscina La Piovera, S.A.	Academos, s/n 28042 Madrid	Administración Piscina La Piovera	12,89%	424.326,57	-48.517,82	-	54.704,10	54.704,11
Loreto Inversiones SGIIC, S.A.	Paseo de la Castellana 40- 5ª Planta 28046 Madrid	SGIIC	100,00%	5.000.000,00	-469.937,05	-669.824,74	3.860.238,21	3.860.238,21
Haize Energías Renovables, S.L.	Paseo de la Castellana 40- 1ª Planta 28046 Madrid	Asset Management	100,00%	2.200.000,00	-	-1.667,89	2.200.000,00	2.200.000,00
							<b>11.980.420,13</b>	<b>12.656.576,84</b>

The detail of Group's companies and associates in 2018 is as follows:

Euros								
BUSINESS NAME	REGISTERED ADDRESS	CORPORATE PURPOSE	DIRECT SHARE	CAPITAL	RESERVES	PROFIT/LOSS FOR THE YEAR	NET BOOK BALANCE	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	-197.643,90	5.577.365,65	5.577.365,65
Arcalia Private Equity, SCR	María de Molina,39 28006 Madrid	Venture Capital	17,81%	1.830.010,00	762.543,34	1.311.640,38	434.685,28	1.307.548,30
Piscina La Piovera, S.A.	Academos, s/n 28042 Madrid	Administration Piscina La Piovera	27,53%	424.326,57	-57.586,32	9.068,50	116.800,65	116.800,66
Loreto Inversiones SGIIC, S.A.	Paseo de la Castellana 40- 5ª Planta 28046 - Madrid	SGIIC	100,00%	5.000.000,00	-	-469.937,05	4.530.062,95	4.530.062,95
							<b>32.174.612,53</b>	<b>33.047.475,56</b>



On October 29, 2019, a deed was signed for the dissolution of the company Prius Inversiones Generales, S.L., in accordance with a resolution adopted by the General Extraordinary Meeting of Shareholders, of universal nature, held on October 25th, 2019, in which the settlement was approved. The settlement was registered with the Companies Registry on November 26th, 2019.

Likewise, on November 21st, 2019, the Memorandum of Association of the Sole-Shareholder Company "Haize Energías Renovables, S.L." was signed. Loreto Mutua, Mutualidad de Previsión Social, by virtue of the agreements adopted by the Board of Directors of said Mutual Society, in its ordinary meeting held on October 22, 2019, elevated to public, as sole member, constitutes said Company. On 12 December 2019, it was registered in the Companies Register.

On January 31st, 2018, the Memorandum of Association of a Collective Investment Institution Management Company, called Loreto Inversiones SGIC, 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, S.G.I.I.C., 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, S.G.I.I.C., 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, SL, as resolved by the Extraordinary General 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 of 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 2019, at book value, is the following:

Credit rating of issuers	Portfolios (Euros)		
	Available for sale	Maturity	Total
AAA	-	67.092.316,74	67.092.316,74
AA	-	50.018.566,13	50.018.566,13
A *	72.797.504,50	111.660.081,77	184.457.586,27
BBB	72.719.022,17	20.292.357,26	93.011.379,43
BB	8.537.386,35	10.515.534,11	19.052.920,46
NR	51.158.447,62	-	156.860.809,40
<b>Total</b>	<b>205.212.360,64</b>	<b>259.578.856,01</b>	<b>570.493.578,43</b>

\* Current rating of Spanish public debt.



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:

Credit rating of issuers	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	<b>168.455.273,84</b>	<b>263.127.246,46</b>	<b>431.582.520,30</b>

\*Current rating of Spanish public debt.

### c) Liquidity risk

Likelihood of incurring losses by not being able to unwind the position in time without impacting the market price or not being able to unwind the positions to meet liquidity needs.

It is managed through the diversification of assets and an adequate management of cash forecasts. The liquidity ratio as of 31 December 2019 and 2018 is the following:

	Total portfolio (Thousands of Euros)	
	2019	2018
Liquid assets (*)	209.705	97.839
Financial investments at market value	1.056.852	1.128.382
Total investments and banks	<b>1.266.556</b>	<b>1.226.221</b>
% of liquidity at closing date	<b>16,56%</b>	<b>7,98%</b>

(\*) Includes cash and money market assets

### d) Interest rate risk

The probability of incurring losses due to interest rate movements uses the concept of modified duration, 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.





Information as of 31 December 2019 is as follows:

	Maturity (Thousands of Euros)			
	< 1 year	2 to 5 years	> 5 years	Modified duration
Available for sale	41.581	107.132	56.499	3,298

Information as of 31 December 2018 is as follows:

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

#### 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:

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 Valencià d'Administració Tributària (IV/AT) for leases in Madrid and Valencia, respectively.

At the end of 2019 and 2018, the minimum amounts of future collections for subsequent years for non-cancellable operating leases are the following:

	Euros		
	Up to one year	Between one and five years	More than five years
Financial year 2019	3.145.372,11	4.457.763,17	603.285,87
Financial year 2018	3.236.336,07	5.253.567,98	655.885,31



During financial years 2019 and 2018, the Mutual Society has received incomes from operating leases of real estate investments for the amounts of 4,006,345.64 and 2,162,008.17 euros respectively; out of which contingent rents amount to 703,798.60 and 229,858.32, and operating expenses amount to 3,326,274.70 and 2,485,506.21 respectively.

## (9) Accrual Calculations:

The detail for this section as of 31 December 2019 and 2018 is the following:

	Euros	
	2019	2018
Foreseen expenses	191.487,95	211.085,45
Accrued and uncollected interest	5.486.760,79	5.522.486,03
Unissued earned premiums	3.769.875,91	3.740.816,26
	<b>9.448.124,65</b>	<b>9.474.387,74</b>

## (10) Net Equity:

The composition of the balances under this section of the balance sheet, as of 31 December 2019 and 2018, as well as the movements for those financial years, are disclosed in the statement of changes in equity.

### Issued Mutual Fund

As of December 31st, 2019 and 2018, 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 2019 and 2018, 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 781,372.93 and 764,966.75 respectively.

On July 10th 2019, a public deed was executed recording the Resolutions adopted by the Mutual Society's Ordinary General Meeting held on June 27th 2019, which resolved to increase the mutual fund up to 6,873,689.82 euros, from the application of the results of financial year 2018 and the outstanding contributions paid by new members, for the amount of 28,711.83 euros. Such resolution was registered with the Companies Registry on August 5th, 2019.

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 18,061.60 euros. Such resolution was registered with the Companies Registry on August 22nd, 2018.



## Retained Earnings

Balances of this item as of 31 December 2019 and 2018 amount to 1,508,336.66 and 1,501,450.54 euros, respectively.

## Other Reserves

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

## (11) Technical Provisions:

The movement during the year 2019 in each of the technical provisions included in the balance is as follows:

	Euros			
	Balances as of 31/12/2018	Provisions	Implementations	Balances as of 31/12/2019
Mathematical provision	1.239.804.868,60	1.204.936.735,48	-1.239.804.868,60	1.204.936.735,48
Provisions for benefits-				
Pending payment	-		-	-
Pending declaration	1.772.799,56	1.788.819,11	-1.772.799,56	1.788.819,11
For internal expenses of claims settlements	17.376,16	22.083,56	-17.376,16	22.083,56
	1.790.175,72	1.810.902,67	-1.790.175,72	1.810.902,67
Profit sharing and rebates provision	-30.562.739,33	22.399.186,05	30.562.739,33	22.399.186,05
	<b>1.211.032.304,99</b>	<b>1.229.146.824,20</b>	<b>-1.211.032.304,99</b>	<b>1.229.146.824,20</b>

The movement during the year 2018 in each of the technical provisions included in the balance is as follows:

	Euros			
	Balances as of 31/12/2017	Provisions	Implementations	Balances as of 31/12/2018
Mathematical provision	1.226.265.168,50	1.239.804.868,60	-1.226.265.168,50	1.239.804.868,60
Provisions for benefits-				
Pending payment	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 settlements	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
Profit sharing and rebates provision	27.814.724,92	-30.562.739,33	-27.814.724,92	-30.562.739,33
	<b>1.255.956.596,58</b>	<b>1.211.032.304,99</b>	<b>-1.255.956.596,58</b>	<b>1.211.032.304,99</b>



The provisions for benefits established at the beginning of the year for claims outstanding at that date coincide with the amounts actually made effective. Similarly, those calculated at the end of each year are paid in the following year, if applicable.

Both the provision for benefits pending declaration and the provision for benefits pending payment are mostly compensated by the mathematical provision.

The provision for profit-sharing and rebates corresponds to the profitability obtained in the year above the technical interest rate- objective established in the Technical Base. In accordance with the provisions of Article 10 of the Society's Contributions and Benefits Regulations, this provision will be applied to the Regulatory Base of each member once the returns are known.

It was not necessary to make a provision for insufficient profitability because the technical-financial profitability obtained was higher.

The actual return obtained in the year on the investments assigned to the commitments made to its members has been higher than the technical interest rate used for the calculation of the mathematical provision.

The information relating to the comparison of sufficient profitability for the year 2019 is as follows:

DGSFP PORTFOLIO (*)	BOOK BALANCE (Euros)	RACC	DURATION	% EXCLUDED FROM THE DURATION	IMPM	MATHEMATICAL PROVISION (Euros)	DURATION
Art. 33.1.c)	47.189.318,19	5,10%	0,50	-	3,00%	65.656.490,20	0,50
Ant. 1999 DT	84.119.597,44	5,58%	6,69	-	5,37%	83.850.859,03	6,45
Art. 33.2	110.684.363,01	5,53%	4,54	-	5,15%	109.972.843,91	4,34

The information relating to the comparison of sufficient profitability for the year 2018 is as follows:

DGSFP PORTFOLIO (*)	BOOK BALANCE (Euros)	RACC	DURATION	% EXCLUDED FROM THE DURATION	IMPM	MATHEMATICAL PROVISION (Euros)	DURATION
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

(\*) Classification of portfolios according to internal inspection instruction 9/2009 of the General Directorate of Insurance and Pension Funds (DGSFP).

Article 10 of the Society's Contributions and Benefits Regulations of the Mutual Society clarifies that if the returns provided for in the Technical Base are not obtained, the regulatory base will be adjusted by the difference in the returns actually obtained, except for those that in that year would have caused the benefit.



## (12) Liabilities for Accounting Asymmetries:

The liabilities due to accounting asymmetries, generated by the application of the Insurance Companies Accounting Plan, correspond in their entirety to losses and gains generated by the financial assets available for sale, and present balances in the attached balance sheets at December 31, 2019 and 2018, respectively, of 1,610,836.96 and 1,056,975.01 euros.

## (13) Other Non-Technical Provisions:

The movement in the provision for liabilities and charges during 2019 was as follows:

	Euros			
	Balances at 31/12/2018	Provisions	Implementations	Balances at 31/12/2019
Provisions-				
For pensions	217.854,03	115.329,93	-217.854,03	115.329,93
For similar obligations	138.000,00	34.500,00	-	172.500,00
	<b>355.854,03</b>	<b>149.829,93</b>	<b>-217.854,03</b>	<b>287.829,93</b>

The movement in the provision for liabilities and charges during 2019 was as follows:

	Euros			
	Balances at 31/12/2017	Provisions	Implementations	Balances at 31/12/2018
Provisions-				
For pensions	366.354,89	217.854,03	-366.354,89	217.854,03
For 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-				
For liabilities	39.288,55	-	-39.288,55	-
	509.143,44	252.354,03	-405.643,44	355.854,03

The provision for pensions and obligations includes the amount of future obligations of the Mutual Society as of 31 December 2019 and 2018 towards its own employees who are in early retirement, as regulated by the Mutual Society's collective agreement executed on March 12th, 2009. Its amount is calculated actuarially. The financial-actuarial assumptions for its calculation are as follows:



	2019	2018
Interest rate	Time structure risk-free rates	Time structure risk-free rates
Consumer Price Index	1,8%	1,8%
Salary revaluation index	1,8%	1,8%
Increase in social security contribution bases	1,8%	1,8%
Asset Mortality Table	PER2012 Col. 1st Order	PER2000P

The balance of other non-technical provisions corresponds to the amount estimated to meet probable or certain liabilities arising from ongoing litigation. The provision also includes the amount of the guarantees or deposits posted at various courts to secure claims by retirees for pension differences.

#### (14) Tax Situation:

The details balance sheets as of 31 December 2019 and 2018 with Public Administrations is the following:

	Euros	
	2019	2018
Assets-		
Current tax assets	2.312.070,92	4.334.907,87
Deferred Tax Assets	7.646.198,02	8.692.804,98
	<b>9.958.268,94</b>	<b>13.027.712,85</b>
Liabilities-		
Social Security	36.292,77	30.573,89
Tax authorities, VAT creditors	85.502,86	93.508,26
Remaining taxes	3.527.072,30	3.626.971,46
Deferred tax liabilities	9.926.353,55	8.054.946,63
	<b>13.575.221,48</b>	<b>11.806.000,24</b>



## Deferred Tax Assets and liabilities

The detail of deferred tax assets and liabilities at 31 December 2019 and 2018 is as follows:

### Tax assets:

In the year 2019, the Mutual Society has recognized deferred tax assets for an amount of 7,646,198.02 euros, with the following detail:

	Euros			
	Balances as of 31/12/2018	Registration	Leaves	Balances as of 31/12/2019
Deferred tax due to the correction of accounting asymmetries generated by capital gains on financial investments..	264.243,75	1.371.682,36	1.233.216,87	402.709,24
Deferred tax on losses of financial investments portfolio.	4.785.328,75	46.180.636,73	47.365.709,18	3.600.256,30
Deferred tax arising from impairment provisions.	1.737.822,63	7.213.627,57	7.213.627,57	1.737.822,63
Deferred tax arising from retirement provisions.	354.565,62	25.631,03	25.631,03	354.565,62
Deferred tax on miscellaneous items.	1.550.844,23	7.196.846,35	7.196.846,35	1.550.844,23
	8.692.804,98	61.988.424,04	63.035.031,00	7.646.198,02

In the year 2018, the Mutual Society has recognized deferred tax assets for an amount of 8,692,804.98 euros, with the following detail:

	Euros			
	Balances as of 31/12/2017	Registration	Leaves	Balances as of 31/12/2018
Deferred tax by accounting asymmetry corrections generated by capital gains on financial investments..	215.852,23	889.294,58	840.903,06	264.243,75
Deferred tax on portfolio losses of financial investments.	4.725.207,47	71.124.712,85	71.064.591,57	4.785.328,75
Deferred tax arising from impairment provisions.	1.737.822,63	913.595,54	913.595,54	1.737.822,63
Deferred tax arising from retirement provisions.	354.565,62	37.125,22	37.125,22	354.565,62
Deferred tax on miscellaneous items.	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



#### Tax liabilities:

In the year 2019, the Mutual Society has recognized deferred tax liabilities for an amount of 9,926,353.55 euros, with the following detail:

	Euros			
	Balances as of 31/12/2018	Registrations	Leaves	Balances as of 31/12/2019
Deferred tax on gains of financial investments	8.054.946,63	138.358.992,26	136.487.585,34	9.926.353,55
	8.054.946,63	138.358.992,26	136.487.585,34	9.926.353,55

In the year 2018, the Mutual Society has recognized deferred tax liabilities for an amount of 8,054,946.63 euros, with the following detail:

	Euros			
	Balances as of 31/12/2017	Registrations	Leaves	Balances as of 31/12/2018
Deferred tax on gains of portfolio financial investments	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

The Mutual Society has double taxation deductions pending for total amounts of 7.143 thousand and 6,473 thousand euros, respectively, accumulated at 31 December 2019 and 2018.

The Directors of the Mutual Society consider that these debit balances with the Treasury are recoverable within the time limits set by the regulations in force at the time of their generation.

The deductions for international double taxation for 2019 and 2018 amounted to 670,743.06 and 521,543.91 euros, respectively.

The balances of deferred tax assets and liabilities are determined by the valuation of the financial investments according to the Insurance Companies Accounting Plan.

Declarations submitted for the different taxes cannot be considered finally settled until the filed tax returns have been reviewed by tax authorities or until the prescribed period has expired. In accordance with current tax legislation, this period is four years from the date on which the obligation to submit each tax arises.

The Treasury, by means of a notification dated 23 July 2019, informed the Mutual Society of the commencement of the inspection procedure, with partial scope, in relation to the Corporate Tax for the year 2014, verification of the International Double Taxation Deduction, which is currently open. The Directors of the Mutual Society do not estimate significant quantitative effects derived from the final result of such inspection.





The Mutual Society considers that it has adequately practiced the tax settlements applicable to it. However, in the event of inspection, discrepancies could arise in the Mutual Society's interpretation of current regulations regarding the tax treatment of certain operations and, therefore, result in additional tax liabilities, although it is not expected that such liabilities, if they materialise, would significantly affect the Mutual Society's annual accounts.

### Tax on profits

The reconciliation between the result of the year of the Mutual Society and the taxable base of the tax at 31 December 2019, is as follows:

Concept	Euros	
	Increases	Total
Profit/Loss for the Accounting Year		104.914,43
Permanent Differences-		
Tax on foreign profits	670.743,06	670.743,06
Others	-2.868.969,03	-2.868.969,03
	-2.198.225,97	-2.198.225,97
Temporary Differences-		
Originating in the year	6.059.658,74	6.059.658,74
From previous years	-29.001.902,64	-29.001.902,64
	-22.942.243,90	-22.942.243,90
Pre-tax base		-25.035.555,44
Offsetting of taxable income from previous years Taxable income		-
Taxable income		-25.035.555,44
Total fee 25%		-
Deductions applied		-
Liquid fee		-



The reconciliation between the result of the year of the Mutual Society and the taxable base of the tax at 31 December 2018, is as follows:

Concept	Euros	
	Increases	Total
Profit/Loss for the Accounting Year		99.499,22
Permanent Differences-		
Tax on foreign profits	521.543,91	521.543,91
Others	-1.284.527,86	-1.284.527,86
	-762.983,95	-762.983,95
Temporary Differences-		
Arising in the year	3.334.677,47	3.334.677,47
From previous years	-3.847.751,26	-3.847.751,26
	-513.073,81	-513.073,81
Pre-tax base		-1.176.558,54
Offsetting of taxable income from previous years		-
Taxable income		-1.176.558,54
Total fee 25%		-
Deductions applied		-
Liquid fee		-

Law 27/2014, of 27 November, on Corporate Income Tax, does not provide for any special regime for Fund Management Companies, and they will be taxed at the rate of 25%.

### (15) Personnel expenses:

The Mutual Society has recorded personnel expenses in 2019 and 2018, as detailed below:

	Euros	
	2019	2018
Wages and salaries (*)	2.380.464,05	2.181.515,47
Social Security in charge of the company (*)	398.143,72	351.396,75
Other social expenses	135.552,50	120.386,88
	<b>2.914.160,27</b>	<b>2.653.299,10</b>

(\*) Including staff costs in the building at Glorieta de Quevedo, nº 9 in Madrid.



The number of people employed by the Mutual Society in the course of the financial years 2019 and 2018, respectively, distributed by professional categories and sexes in accordance with the Convention, was as follows:

	2019		2018	
	Men	Women	Men	Women
Economist Level IV	3	2	2	2
Economist Level III	1	1	1	1
Economist Level II	1	-	1	-
Economist Level I	1	-	-	-
Lawyer Level IV	-	1	-	1
Lawyer Level III	-	1	-	-
Computer Technician Level IV	1	-	1	-
Computer Technician Level III	2	-	2	-
Computer Technician Level II	1	-	1	-
Administrative Level IV	2	1	2	1
Administrative Level III	-	2	-	1
Administrative Level II	1	5	1	6
Administrative Level I	-	2	-	-
Total	<b>13</b>	<b>15</b>	<b>11</b>	<b>12</b>

The Mutual Society has an accident insurance policy with Mapfre Vida, S.A. that covers part of the staff and members of the Board of Directors when they attend the Meetings, or when they travel on behalf of the Mutual Society. The annual bonus in 2019 and 2018 amounts to 15,427.38 and 13,912.34 euros, respectively.

It has also taken out a collective insurance policy with Mapfre Vida, S.A. to cover the risks of death and permanent disability, as provided for in the collective agreement, which constitutes a pension commitment regulated by the First Additional Provision of Royal Legislative Decree 1/2002, of 29 November, approving the recast text of the Regulatory Law on Pension Schemes and Funds and Royal Decree 1588/1999, of 15 October, on the outsourcing of companies' pension commitments to employees.

## (16) Related-Party Operations:

### a) Related-Party Balances

The breakdown of balances by category in the Mutual Society's balance sheet at December 31, 2019 and 2018, is as follows:



	Euros	
	2019	2018
<b>Assets</b>		
Loans to group companies and associates (Note 7)	30.654,97	-
Other credits	50.834,97	48.811,94
<b>Total Assets</b>	<b>81.489,94</b>	<b>48.811,94</b>

	Euros	
	2019	2018
<b>Liabilities</b>		
Commissions (Note 7)	462.003,12	407.374,57
Deposits	13.552,00	13.552,00
<b>Total Liabilities</b>	<b>475.555,12</b>	<b>420.926,57</b>

## b) Transactions of the Mutual Society with Related Parties

The amounts of the transactions included in the profit and loss account for 2019 and 2018 with related parties are as follows:

	Euros	
	2019	2018
Expenses-		
Commissions (see Note 7)	923.164,20	430.619,72
<b>Total expenses</b>	<b>923.164,20</b>	<b>430.619,72</b>
Income-		
Income from leases	113.584,93	63.363,11
Income from loans	56.581,81	30.026,59
<b>Total income</b>	<b>170.166,74</b>	<b>93.389,70</b>

All transactions with related parties have been conducted under market conditions.

The balances with the Board of Directors and Senior Management of the Mutual Society are detailed in Note 17.

## (17) Other information:

### a) Information regarding the Board of Directors and Senior Management

The Mutual Society's expenses during the 2019 and 2018 financial years, in terms of allowances for attendance at Board meetings or working committees, amounted to total gross amounts of 83,234.96 and 82,043.89 euros, respectively.

There is no advance or credit granted to the members of the Board of Directors, nor is there any obligation contracted in the area of pensions, nor in respect of the position held in the same, except for the corresponding pension as a member of the Mutual Society.



The amounts paid to senior management personnel in the financial years 2019 and 2018 are as follows

	Euros	
	2019	2018
Total remuneration paid	(*) 574.468,80	497.669,19
Insurance bonus	37.903,40	37.256,99
Pension commitments	10.418,35	10.391,90

(\*) This amount includes a salary adjustment of amounts corresponding to the previous year

It has not been necessary to make any provision in relation to the above.

The Mutual Society has a professional liability insurance policy for insurance companies with the insurance company Liberty Mutual Insurance Europe Limited. The amount of the annual bonus paid is 55,198 euros, and the insurance period runs from 1 December 2019 to 30 November 2020.

On the other hand, the Mutual Society holds a civil liability insurance policy for directors and senior management with the insurance company Chubb Insurance Company of Europe SE (CHUBB). The amount of the annual bonus paid is 32,906.50 euros, and the insurance period runs from 1 December 2019 to 30 November 2019. During the 2018 financial year, the policy was renewed, covering the period insured from 1 December 2019 to 30 November 2020.

Likewise, the Mutual Society holds a full insurance policy for financial institutions with the insurance company Liberty Mutual Insurance Europe Limited. The amount of the annual bonus paid is 27,996 euros, and the insurance period runs from 1 December 2019 to 30 November 2020.

On the other hand, the Mutual Society holds an insurance policy for cyber-risks coverage (CIBER) with the insurance company Chubb Insurance Company of Europe SE (CHUBB). The amount of the annual bonus paid is 19,266.23 euros, and the insurance period runs from 01 December 2018 to 30 November 2019. During the 2019 financial year, the policy was renewed, covering the period insured from 1 December 2019 to 30 November 2020.

## **b) Third-Party Guarantees and Commitments**

At December 31, 2019 and 2018, in addition to those indicated in note 13, the Mutual Society has the following guarantees provided:

Guarantees granted by Bankia SA (EUR 21,000) and guarantee by Banco Santander SA (EUR 10,251.55), both of which are pending formal cancellation due to the expiry of the document and the guarantee obligations for which they were issued.



As of December 31st, 2019 and 2018, the Mutual Society has received guarantees that guarantee the alleged noncompliance of the lease contracts signed, in relation to any stipulation thereof, with the following detail:

Property	Lessee	Entity	Amount (Euro)	
			2019	2018
Quevedo, planta 7ªA	Incotec, S.L.	Banco Sabadell, S.A.	25.410,00	25.410,00
Quevedo, planta 7ª	Penguin Books, S.A.	Deutsche Bank, S.A.	15.972,00	15.047,80
Castellana, Local	Asana Way, S.L.	Caixabank, S.A.	68.970,00	65.340,00
Alberto Aguilera, Local	Juguetrónica, S.L.	Caja de Arquitectos, S.C.Cto	-	33.773,66
Castellana, planta 8ª	Alpanu CN, S.L.	Bankinter, S.A.	55.902,00	44.721,60
Alberto Aguilera C-1, C-8	Bernardofit, S.L.	Depósito.	87.500,00	-
Quevedo, planta 4ª	Click Naranja	Banco Santander, S.A.	67.216,00	-
Quevedo, planta 3ª	AgioGlobal Servicios Centrales, S.A.	Banco Sabadell, S.A.	52.658,67	52.658,67
Quevedo, planta 6ª y 7ªB	Learnlight Administration, S.L.	Bankinter, S.A.	77.040,07	74.415,00
Quevedo, planta 5ª	La Fábrica Coworking, S.L.	Avalmadrid, S.G.R.	65.340,00	65.340,00
Quevedo, planta 1ª	Utopía 2013, S.L.	BBVA, S.A.	68.970,00	68.970,00
Castellana, planta 9ª	Globe Iberia, S.A.	Banco Sabadell, S.A.	57.020,04	57.020,04

### c) Audit Fees

The fees agreed for the audit for 2019 and 2018 amounted to and 44,520 euros, excluding the corresponding value added tax.

### d) Environmental Information

The Mutual Society's activities do not generate negative environmental impacts, complying with all applicable regulations, and therefore it is not considered necessary to make any additional provisions or expenses for possible contingencies for this reason. Nor is there any significant equipment, facilities or other systems incorporated into property, intended to protect and improve the environment.



### **e) Information on the Average Period of Payment to Suppliers. Third Additional Provision. Information Obligation of Law 15/2010 of 5 July**

The Second Final Provision of Law 31/2014, of 3 December, which modifies the Law on Corporate Enterprises, modifies the Third Additional Provision of Law 15/2010, of 5 July, which modifies Law 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, requires all commercial companies to expressly include in the Annual Report their average period for payment to suppliers.

The information on the average period of payment to suppliers during the years 2019 and 2018, in accordance with the Resolution of January 29, 2016, of the Institute of Accounting and Accounts Audits, presents the following detail:

Concept	Days	
	2019	2018
Average period of payment to suppliers	15	15
Paid Transaction Ratio	15	15
Outstanding transactions ratio	23,95	24,23

Concept	Euros	
	2019	2018
Total payments made	4.998.497,52	3.774.523,10
Total pending payments	909.657,75	641.860,32

### **f) Inspection Actions of the General Directorate of Insurance and Pension Funds**

On October 8, 2018, the General Directorate of Insurance and Pension Funds was notified of the commencement of an inspection file on the Mutual Society as a Pension Fund Management Company. The purpose of this inspection was to carry out the necessary assessments on the activity of the Management Entity, the investments of the funds managed by it and other matters which it was deemed appropriate to examine during the inspection.

On December 21, 2018, the General Directorate of Insurance and Pension Funds issued the final inspection report, against which allegations and various documents were presented.

On May 27, 2019, a Resolution of a non-punitive nature was notified, in which, in order to follow up on the recommendations of the Minutes, additional information was requested and periodic verifications were made by the Minutes Analysis Section throughout 2019.



### **g) Contractual contingencies**

As of December 31, 2019, the following procedures are underway:

As a result of the Mutual Society's participation in Banco de Valencia's Board of Directors, two procedures are in progress:

On the one hand, a procedure before the criminal jurisdiction at the request of a group of the Bank's minority shareholders, in which Loreto Mutua and other financial entities are asked to declare subsidiary civil liability. In these proceedings, the pre-trial phase has been concluded and the order for the opening of the oral proceedings is pending, which will definitively determine the parties, their status and the requests of the procedure. In addition, as a result of the intervention of Banco de Valencia by the FROB (Fund for Orderly Bank Restructuring) in 2011, the Bank of Spain opened disciplinary proceedings, which have not been completed as they were suspended by criminal proceedings.

Claim against the Getafe City Council for failure to deliver 12,213 square meters of buildable area in the municipality. In 2018, the City Council was partially granted a sentence and must pay the amount of 4,441,323.80 euros as compensation for damages plus legal interest from May 2010. This ruling was appealed by both parties and the Madrid Provincial Court rejected the appeals, confirming the first instance ruling. Only Loreto Mutua has filed an appeal in cassation with the Supreme Court against this ruling, which is pending admission.

On the closing date, a date was set for the resolution of a verbal eviction procedure due to non-payment by Juguetrónica, S.L., the lessee of a commercial premises owned by the Mutual Society.

### **(18) Post-Closing Events:**

From 31 December 2019 until the formulation of the Mutual Society's annual accounts, no event has occurred that could affect the true and fair view of the accounts on that date.

With regard to the procedure against Juguetrónica, there was no opposition from the lessee, so the release was executed on March 10, 2020.

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.





## (19) Segmented information:

The Mutual Society carries out all its activity in the life branch and declares all its operations in Spain.

## (20) Technical Information:

### Technical Conditions of the Main Modalities of Life Insurance

The main contingencies and benefits covered by the Mutual Society are as follows (see Note 1):

- Retirement.
- Total permanent disability.
- Absolute Permanent Disability and Severe Disability.
- Death.
- Exceptional settlement for long-term unemployment.

Provisions are calculated in accordance with Technical Bases that incorporate financial-actuarial hypotheses in line with reality and with the application of asset mortality tables recommended by the independent external actuaries that provide technical advisory services to the Mutual Society.

In order to calculate the actuarial present value of future contributions to the system, a financial adjustment was made at the time of valuing the probable contributions, in accordance with the corresponding collective agreements of the protection companies, projected according to the financial-actuarial assumptions. These assumptions for 2019 and 2018 are as follows:

- Collectives of assets

Consumer Price Index (CPI)	1,80%
Salary Revaluation Index (SRI)	2,60%
Retirement Age	63/65 years
Mortality Tables	PER2012 Col 1st order in 2019 and PER2000P in 2018
Disability Tables	SS-01 (Absolute)
Interest Rate on Assets	3%



- Collectives of liabilities

For the group of liabilities caused, a flow matching operation has been carried out, except for the Complementary Social Security group, in which the future flows of some determined financial assets are matched with the future flow of the probable payments of the group of liabilities taking into account the liability mortality tables exposed in the Technical Bases.

Liabilities Mortality Table

PER2012 Col 1st order in 2019 and PER2000P  
in 2018 SS-01 (Absolute)

Disability Mortality Table

PER2012 Col 1st order in 2019 and PER2000P  
in 2018 SS-01 (Absolute)

The unhedged portion of the future benefits of these liabilities are discounted at the measurement date at the interest rate published each year by the Directorate General of Insurance and Pension Funds, and for 2019 and 2018 the risk-free interest rate term structure with no volatility and 0.98%, respectively.

For beneficiaries known as Complementary Social Security, the curve of the temporary structure of risk-free interest rates, published by EIOPA (European Insurance and Occupational Pensions Authority) in 2019 and 2018, is used.

For the calculation of technical provisions, Loreto Mutua has adapted to the process of reviewing the biometric tables and has used the PER2012 Col 1st order tables for the accounting close and the PER2012 Col 2nd order tables in the calculation of the best estimate for 2019.



## **LORETO MUTUA, MUTUALIDAD DE PREVISIÓN SOCIAL**

### **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.



## Loreto Mutua

2019 is crowned as an excellent year from a stock market perspective.

The month of December 2019, which began with a tense calm in the financial market awaiting the UK elections and the possibility of a new tariff escalation by the US over China, closed with a double relief for risky assets, an election victory for the Conservative party and positive news from the trade front (US-China).

In the language of the financial markets, the decrease in uncertainty (risk aversion) led to a general rise in the prices of risky assets versus safe assets.

Despite the sharp rise in sovereign interest rates in the last quarter of the year, both sovereign and corporate fixed-income securities accumulated significant gains over the year.

Sovereign interest rates have been under downward pressure throughout the year because of the prospect of economic slowdown and geopolitical conflicts that kept investors in suspense. In turn, corporate income has also benefited from reduced credit spreads and the support of lax financial conditions in both Europe and the US.

The positive fixed-income returns obtained in 2019 are explained by the sharp fall in real interest rates while the inflation outlook has remained virtually unchanged over the year.

The Mutual Society ends 2019 with 46.02% of its assets invested in fixed income compared to 46.91% at the end of 2018 and a financial return of 5.52%.

The main equity indices reached new highs with advances of more than 20% in the main indices with a clear sector rotation. The European indexes are up 25% on average by 2019, with the exception of the IBEX, which is up nearly 12%, and which is weighted by the banking and telecommunications sector. The year's stock market performance was marked by an intense sector rotation in favour of defensive sectors until the end of August and since then the more cyclical sectors showed better performance.

Loreto Mutua's equity percentage at the end of 2018 was 29.28% ending 2019 with an exposure of 26.75% and a financial return of 10.23%.



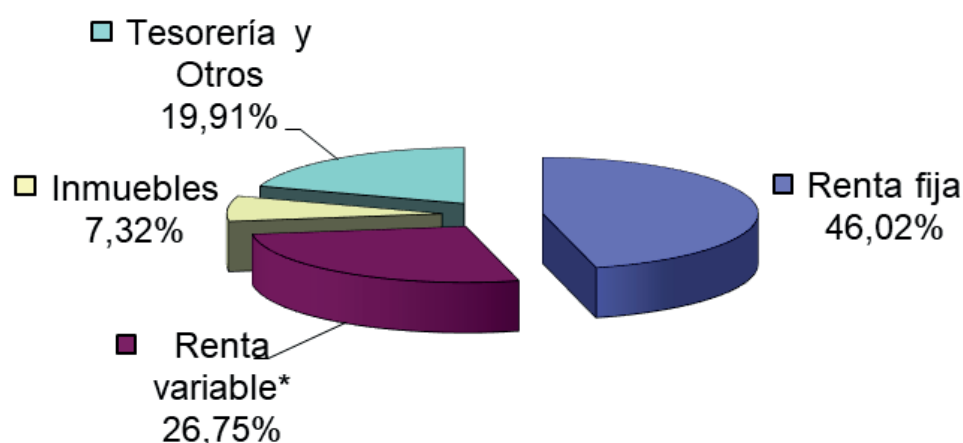
The rest of the entity's assets are invested in real estate and cash. Thus, real state at the end of 2019 accounted for 7.32% of assets compared to 7.08% at the end of 2018. It is worth noting the annual variation of the Housing Price Index in 3Q19 of 4.7% compared to 7.2% in 3Q18, as an indicator of the evolution of the Spanish real estate market during the year. This slight increase in the weight of the properties is due to two factors: The incorporation into the assets of the Mutual Society of several parking spaces and 4 commercial premises from the liquidation of Prius Inversiones Generales, S.L., on October 29, 2019; And on the other hand, that the appraisals made to the properties in 2019 meant an increase in the value of this type of assets by approximately 6.5 million euros.

All properties were appraised in 2019 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. Such order reduced to two years the maximum deadline to carry out subsequent valuations of immovable properties.

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 95.13 million euros, which gives rise to hidden reserves of 23.33 million euros, 2.73 million euros more than in the previous year. The Mutual Society has no real estate asset registered in its balance sheet in an amount higher than the current appraisals.

In regards to real state, Loreto Mutua at the end of 2018 accounted for 16.73% of assets compared to 19.91% at the end of 2019. The cash flow is materialized in fixed term deposits and in current account balances both in euro and in other currencies, in Spanish credit institutions.

Next year will be a year marked by several important events: the achievement of the Brexit, the final signing of a trade agreement between China and the United States and the American presidential elections, among others. For now, with the signing of a preliminary trade agreement, it seemed that the year was beginning positively, although this benevolent environment has been clouded by the appearance of the health alert in China. To be continued...



The breakdown of investments is based on management and not accounting criteria.

\*Includes equity funds, alternative investments and equity ETFs



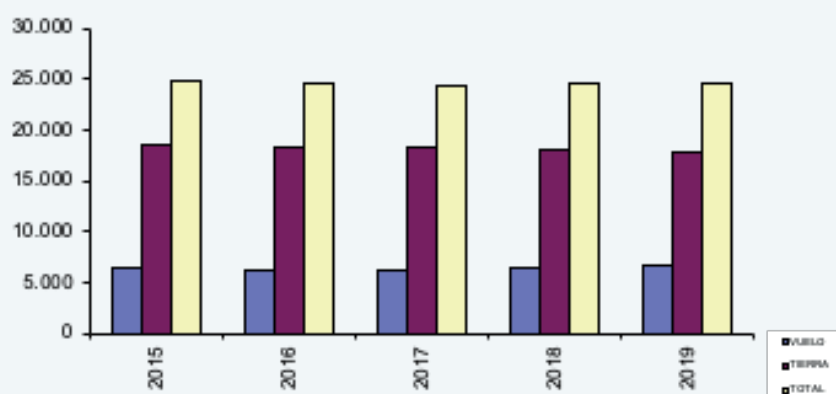


On a different note, two new Protection Companies have been incorporated during 2019: EasyJet Airline Company and S.A.S Ireland. We closed the year with practically the same number of members as the previous year, rising from 24,542 in 2018 to 24,525 in 2019.

Extraordinary contributions accounted for 8.92% of total contributions in 2019 compared to 9.23% in 2018, rising from 3.48 million euros of extraordinary contributions at the end of 2018 to 3.36 million euros in 2019.

	FLIGHT	LAND	TOTAL
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
2019	6.677	17.848	24.525

#### CENSO DE SOCIOS DE NÚMERO DE TIERRA Y VUELO

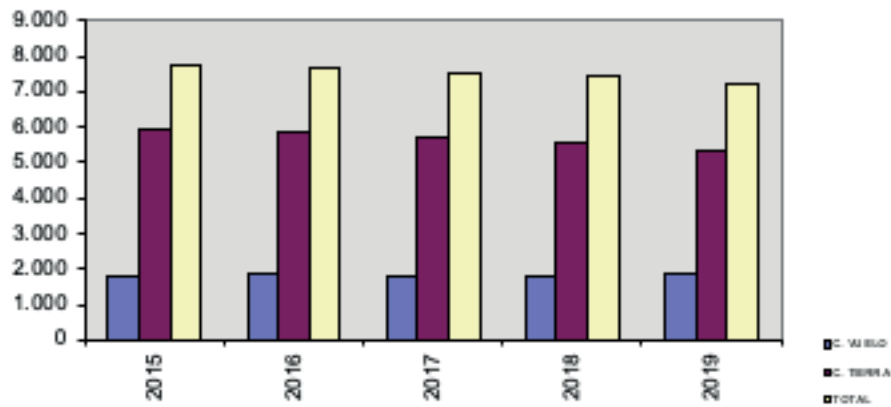




Company	Land	Flight			Total	Total
		Pilots	Flight Engineers	Cabin Crew	Flight	
Iberia (L.A.E.) Operadora SU	10.856	1.296	0	3.515	4.811	15.667
Acciona Airport Services	34					34
Aerolíneas Argentinas	14					14
AGA Airlines	1					1
Air Europa Mallorca	1					1
Air France	56					56
Atlántica Handling SLU	346					346
Aviapartner	127					127
Easyjet Handling Spain	18					18
Eurotransmex	11					11
Ferronats Air Traf. Service	37					37
Groundforce	525					525
IAG cargo limited	64					64
KLM Holandesa de Aviación	44					44
Lesma	23					23
Loreto	29					29
Lufthansa	41					41
Menzies	30					30
Metssa	3					3
Red Handling Spain	37					37
Ryanair	48					48
S.A.S.	3					3
Swissport Handling	253					253
Worldwide Flight Service	147					147
Yellow Handling	7					7
Jet 2	3					3
Norwegian Air Resources Spain	0	165			165	165
Loreto Inversiones SGIC, S.A.	8					8
S.A.S. Ireland	1	24			24	25
Easyjet Airline Company	0	36		2	38	38
Individual Contracts	351	69	7	155	231	582
Suspended members	4.730	461	18	930	1.408	6.138
<b>TOTALES</b>	<b>17.848</b>	<b>2.051</b>	<b>25</b>	<b>4.602</b>	<b>6.677</b>	<b>24.525</b>

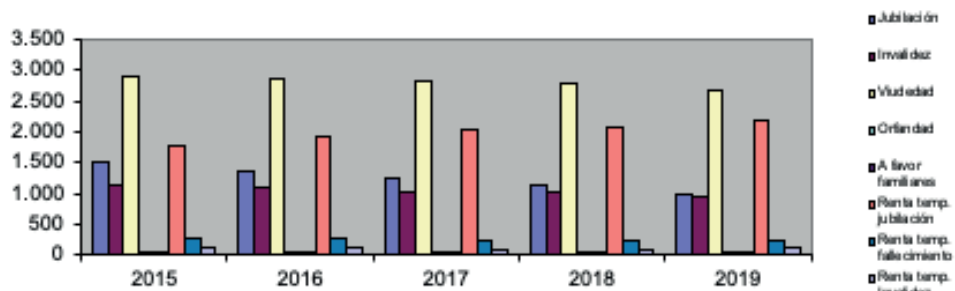


### EVOLUCIÓN CENSO TOTAL DE BENEFICIARIOS RENTAS 2015 - 2019



	FLIGHT	LAND	TOTAL
2015	1.833	5.935	7.768
2016	1.840	5.837	7.677
2017	1.825	5.723	7.548
2018	1.830	5.593	7.423
2019	1.847	5.352	7.199

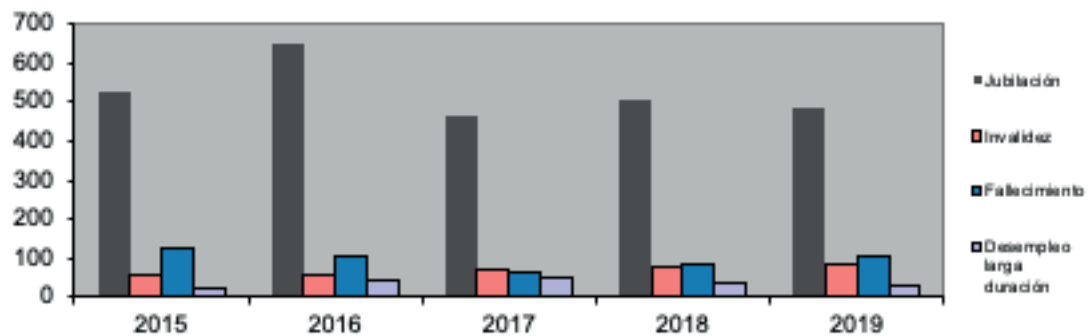
### EVOLUCIÓN TOTAL DE BENEFICIARIOS RENTAS POR TIPO DE PRESTACIÓN 2015 - 2019



	2015	2016	2017	2018	2019
Retirement.	1.514	1.381	1.255	1.142	1.000
Disability	1.140	1.089	1.038	1.012	939
Widowhood	2.909	2.844	2.812	2.780	2.653
Orphaned	50	48	47	47	45
In favour of family members	4	4	3	2	2
Temp. income for retirement	1.763	1.911	2.028	2.084	2.191
Temp. income decease	267	287	254	245	253
Temp. income Disability	121	113	111	111	116
<b>TOTAL</b>	<b>7.768</b>	<b>7.677</b>	<b>7.548</b>	<b>7.423</b>	<b>7.199</b>



### EVOLUCIÓN NÚMERO PRESTACIONES EN FORMA DE CAPITAL 2015 - 2019

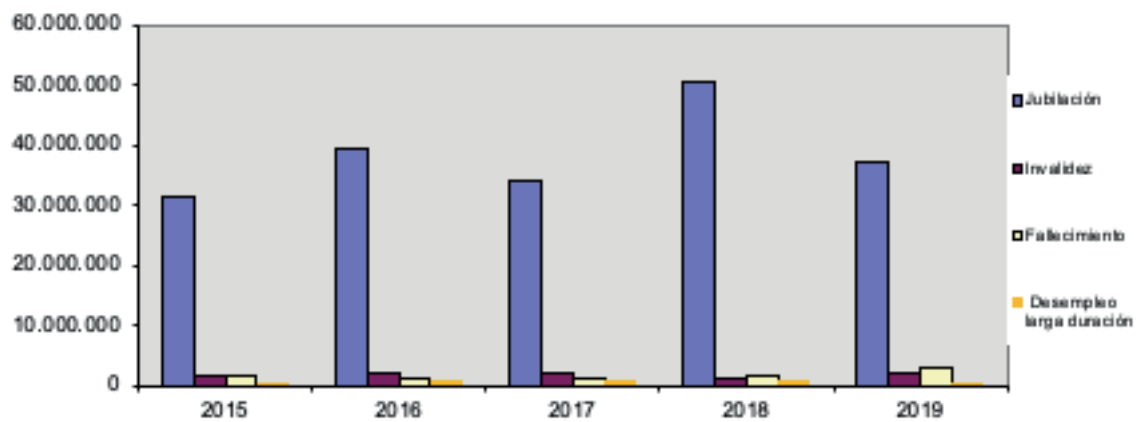


	2015	2016	2017	2018	2019
Retirement.	526	648	464	508	488
Disability	55	54	69	75	86
Decease	122	107	66	85	107
Long-term unemployment	24	45	47	37	27
<b>TOTAL</b>	<b>727</b>	<b>854</b>	<b>646</b>	<b>705</b>	<b>708</b>

The number of beneficiaries in the form of capital increased by 0.43% in 2019, compared to the 9.13% increase in the previous year, from 705 in 2018 to 708 at the end of 2019. The amount of benefits paid in the form of capital in 2019 was EUR 42.60 million compared to EUR 54.26 million paid in 2018. On the other hand, the number of beneficiaries in the form of income was reduced by 3.02% in 2019, from 7,423 at the end of 2018 to 7,199 in 2019.



### EVOLUCIÓN PRESTACIONES EN FORMA DE CAPITAL 2015 - 2019 ( importe en euros)



	Retirement	Disability	Decease	Long-term unemployment
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
2019	37.147.799	2.111.107	2.845.589	500.916

Benefits paid in 2019 have been reduced by 12.10 million euros, from 87.44 million euros in 2018 to 75.34 million euros at the end of 2019. A key element in the reduction in benefits paid is due to the completion of the 40 per cent reduction for retirements occurring in 2010 or earlier that ended in 2018, which logically led to an increase in benefits paid in that year 2018.



### Valor de Mercado años 2014 a 2019



	2014	2015	2016	2017	2018	2019
MARKET VALUE EQUITY	1.355	1.354	1.378	1.403	1.329	1.371

Assets at market value increased from 1,329 million at the end of the previous year to 1,371 million at the end of 2019, representing a percentage increase of 3.19%. This increase recovers much of what was lost last year and brings us back to 2016 levels, but still below the 2017 Loreto record closure. The increase in 2019 is mainly explained by the good performance of the financial markets and the reduction in benefits paid.

Throughout the individual capitalization period (since 2001), the Mutual Society has paid its members, by way of benefits, the amount of 1,355.28 million euros.

## MUTUALIST CUSTOMER SERVICE

The purpose of Loreto Mutua's Customer Service is to receive and resolve complaints or claims presented by the members and/or beneficiaries, or injured third parties, regarding the services provided by the Mutual Society, and those submitted by the members and/or beneficiaries and injured third parties regarding the Pension Schemes managed by Loreto Mutua.

In application of article 17 of Order ECO/734/2004, of 11 March, on Customer Service Departments and Services and the Financial Institutions' Customer Ombudsman, an annual report has been issued stating that six complaints have been submitted to the Customer Service Department during the 2019 financial year, five of which correspond to issues related to the Mutual Society's Services and one to Fondloreto Pensiones PF. All of them were resolved by the closing date.



## ORDINARY BUDGET

In accordance with Article 48 of the Articles of Association, we attach to this report the regular budget of Income and Expenses for the year 2020.

### Ordinary budget of income and expenses for the year 2020 of Loreto Mutua, Mutualidad de Previsión Social (Art. 48 of the Articles of Association)

ITEMS	EUROS	
	INCOME	EXPENSES
CONTRIBUTIONS	38.490.000,00	
INVESTMENTS	53.890.000,00	
BENEFITS		78.840.000,00
<b>ADMINISTRATIVE EXPENSES</b>		5.548.500,00
<b>OTHER OPERATING COSTS:</b>		4.590.500,00
	<b>92.380.000,00</b>	<b>88.979.000,00</b>

The ordinary budget for income and expenditure for the year 2020 does not include the debiting or crediting of technical provisions.

The administrative expenses budgeted for 2020 are more than 3.5 times lower than the maximum that pension fund managers can charge under the legislation in force at the end of 2019.

## SOCIALLY RESPONSIBLE INVESTING

Loreto Mutua adheres to the Principles for Socially Responsible Investment promoted by the United Nations, and as such produces the transparency report to which it is committed by its adherence.



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.

Loreto Mutua's Socially Responsible Investment policy focuses on extra-financial criteria (environmental, social and good governance) without losing sight of strictly financial criteria, in order to preserve the capital contributed by our mutualists, obtaining a good economic return and generating a positive impact on society.



The socially responsible investing is about fostering the responsible management of the companies where we invest, considering the interest of parties involved (employees, customers, stakeholders), the long-term feasibility of the companies, and the efficient use of resources and environmental protection.

Within the action plan for socially responsible investments, in 2019 Loreto Mutua has created a company through which it channels investments in renewable energies. The purpose of this partnership, and investment in renewables, is to contribute in the achievement of the Paris Agreements and climate change objectives.

Thematic investment in financial inclusion is maintained as in past years. The year also showed the transformation of an absolute return investment fund, in which Loreto Mutua is the promoter, into a fund managed with ASG, environmental, social and good governance criteria.

Loreto Mutua, as a company with a social purpose, has the mission of offering and managing pensions, making the company more equitable, without leaving aside the integration of ASG criteria in the investment and disinvestment decisions of the managed portfolio.

We reiterate the Mutual Society's commitment to the progressive integration of ASG criteria in the investment process of the managed portfolios, taking into account environmental, social and good governance issues of the companies in which it invests. On the other hand, there is also Loreto's commitment to achieving the Sustainable Development Goals through investments contributing to a fairer and more humane world.







The Board of Directors of **LORETO MUTUA, MUTUALIDAD DE PREVISIÓN SOCIAL**, in the meeting held on March 24th 2020, 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 2019. The aforementioned Annual Accounts and Management Report, which form an integral part of this document, are drawn up on 74 consecutively numbered pages.

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 process.



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