



APPOINTMENTS AND REMUNERATION COMMITTEE REPORT ON THE RE-ELECTION OF ANTONIO J. ZOIDO MARTÍNEZ AS BME DIRECTOR

The Appointments and Remuneration Committee, at its meeting on 27 February 2017, drew up this report in relation to the re-election of Antonio J. Zoido Martínez as an Executive Director of the Company proposed by the Board of Directors in accordance with section 6 of article 529.decies of the Companies Act, and articles 20.2 and 22.1 of the Board of Directors Regulations.

This report also complies with article 22.2 of the Board of Directors Regulations on the content of reports on the re-election of Directors that the Appointments and Remuneration Committee is required to issue.

In the case of Antonio J. Zoido Martínez's re-election as Director is approved by the Ordinary General Shareholders' Meeting, the Appointments and Remunerations Committee has prepared this report on his re-election as a member of the Executive Committee, of which he would continue to be Chairman, pursuant to article 20.2.e) of the Board of Directors Regulations. This article stipulates that a prior report is required from this Committee regarding the appointment or re-election of members of the Board of Directors whose names are put forward to sit on any of the Board Committees, as well as, if appropriate, to hold any office thereon.

I. Background

Antonio J. Zoido Martínez has been a member and Chairman of the Board of Directors since the Company was incorporated, as formalised in a public deed dated 15 February 2002.

Likewise, he has been a member and Chairman of the Executive Committee since 30 October 2002: the date on which the Board of Directors resolved to establish this Committee, as per the Articles of Association.

Antonio J. Zoido Martínez was re-elected as a member of the Board of Directors at the extraordinary General Shareholders' Meeting of 24 November 2005 and at the ordinary General Shareholders' Meetings of 29 April 2009 and 30 April 2013.

In all instances, at a subsequent meeting the Board of Directors approved Antonio J. Zoido Martínez's re-election as a member, and therefore Chairman, of the Executive Committee.

Given the date of Mr. Zoido Martínez's last re-election as Director, the term for which he was appointed will end, and therefore his position as Director will expire, on 30 April 2017.

In view of the foregoing, and on reviewing and evaluating the composition of the Board of Directors, the Appointments and Remuneration Committee and the Board of Directors have decided it is in the Company's interests to submit the proposal to re-elect Antonio J. Zoido Martínez as Director for a new term of four (4) years at the Ordinary General Shareholders' Meeting.

II. Medium and long-term planning of the Board of Directors structure and composition

The analysis conducted by the Appointments and Remuneration Committee and the Board of Directors on the composition and structure of the latter corporate body in order to consider whether proposing the re-election of Antonio J. Zoido Martínez is appropriate took into account that the terms in office of Joan Hortalá i Arau, as Executive Director, and Ramiro Mato García-Ansorena, as Proprietary Director, will also come to an end on 30 April 2017.

Following this analysis, both corporate bodies concluded that the composition of the Board of Directors was balanced and fit for purpose, not overlooking the fact that a number of improvement points had been identified prompting the proposal to begin transforming the most senior executive functions at the Company from the current situation of a Chairman with executive functions to a model involving the coexistence of a Chairman, who will retain executive functions, and a Chief Executive Officer.

During this process, the Appointments and Remuneration Committee evaluated the size of the Board of Directors – twelve (12) members – and concluded that it was advisable to re-elect the three (3) Directors whose term in office had expired, to enable it to fulfil its duties, to retain the variety of existing knowledge, skills and experience of the Board, and to ensure it has members with a long background in national and international markets.

Regarding to Mr. Zoido Martínez, qualified as Executive Director, the Appointments and Remuneration Committee valued, inter alia, his long background as the Company's top executive, having occupied the position of Chairman since the Company's incorporation in 2002, and subsequent knowledge of the development of the Company and group companies, understanding of the strategic environment in which the Company operates during a period when financial markets are undergoing integration, and his personal and professional repute, in Spain and internationally.

On the other hand, beginning the transformation of the structure of the Company's highest executive functions requires submitting a proposal to the Ordinary General Shareholders' Meeting to increase the number of Board members from twelve (12) to thirteen (13), to be able to appoint a new Executive Director.

The Appointments and Remuneration Committee and the Board of Directors consider this increase in the number of Board members would ensure the current adequate composition of the Board is retained, while improving the functional structure of the Company's senior executives by appointing an individual who fulfils requirements to be appointed as an Executive Director and then as Chief Executive Officer.

For adopting this resolution, the Appointments and Remuneration Committee also evaluated what effect re-electing an Executive Director would have on the Board's functional structure, as well as the effect of re-electing the two (2) Directors whose terms of office ended in 2017 and appointing a new Executive Director. It concluded that following this re-election, External Directors – of which there are ten (10) – would continue to comprise a large majority of the Board of Directors, and that the number of Independent Directors would represent over a third of all Board members.

III. Mr. Zoido Martínez's professional background

Graduated in Law from Madrid's Complutense University. Furthered his studies in other European and American institutions.

He has been Chairman of the World Federation of Exchanges (WFE) from 2001 to 2002 and the Federation of European Stock Exchanges (FESE) from 1996-1998. Chairman of Servicio de Compensación y Liquidación de Valores, S.A. (2000 to 2002). Chairman of Sociedad de Bolsas, S.A., (1994-2002). MEFF Vice-Chairman (1991-2004). Director of the International Accounting Standards Committee (IASC). Trustee of the International Financial Reporting Standards Foundation (IFRS), supervisor of the International Accounting Standards Board (IASB). Chairman of the European Capital Markets Institute. Board member of Santander Investment Finance, S.V., S.A. and of Santander Consumer Finance, S.A.

He is currently Chairman of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A., a member and Chairman of its Executive Committee; and Chairman of Sociedad Rectora de la Bolsa de Valores de Madrid, S.A. and Director of Sociedad de Bolsas, S.A.

He is a member of the Advisory Board of Clearstream International, Director of Operador del Mercado Ibérico de Energía-Polo Español, S.A. (OMEL), representative of BME as member of the Board of Directors of Operador do Mercado Ibérico (Portugal) SGPS, S.A. (OMIP).

He is also Chairman of the Social Council of the University of Extremadura.

IV. Appointment procedure

Pursuant to section 6 of article 529.decies of the Companies Act, and articles 22.1 and 20.2 of the Board of Directors Regulations, the Appointments and Remuneration Committee is responsible for reporting on the proposals for the appointment of proprietary or executive Directors by the Board of Directors to be submitted for approval by the Ordinary General Shareholders' Meeting.

Moreover, pursuant to article 6.3 of the Board of Directors Regulations, the category of each Director shall be explained at the Ordinary General Shareholders' Meeting where the appointment is to be made.

V. Analysis of Antonio J. Zoido Martínez's compliance with the requirements laid down by law and under the Articles of Association for re-election as Director

Mr. Antonio J. Zoido Martínez is currently a Director at the Company and, therefore, compliance with the requirements of experience, expertise and integrity required to perform his duties is considered to have been already proven.

Nevertheless, the Appointments and Remuneration Committee has evaluated Mr. Zoido Martínez's professional background and confirmed that he fulfils the requirements of article 152.1.f) of the Securities Market Act, referred to in section 3 of the sixth additional provision of the same Act, stipulating that members of BME's Board of Directors have the integrity knowledge and experience necessary for the appropriate discharge of their functions and the time available to exercise good governance of the Company.

The Appointments and Remuneration Committee also confirmed that Antonio J. Zoido Martínez is not involved in any of the circumstances of legal incompatibility or limitations which, to hold this position, are set out in prevailing legislation or included in article 23 of the Board of Directors Regulations.

VI. Director category into which the candidate would be classified

Antonio J. Zoido Martínez is qualified as an Executive Director of the Company, as per section 1 of article 529 duodecies of the Companies Act, as a result of being Board Chairman, which is responsible for the Company's top-level management, pursuant to article 13.2 of the Board of Directors Regulations.

VII. Director's re-election effects on the composition of the Board of Directors

As at the date of this proposal, the Board of Directors is composed of twelve (12) Directors, of which ten (10) are external, three (3) are proprietary, six (6) are independent, one (1) is other external and the remaining two (2) are executive.

Given the proposal to re-elect the three (3) Directors whose tenures end on 30 April 2017, irrespective of the appointment of a new Executive Director, submitted to the Ordinary General Shareholders' Meeting, Mr. Zoido Martínez's re-election would not alter the structure of the Board of Directors.

Given the proposal to re-elect the three (3) Directors and appoint Javier Hernani Burzako, who would be qualified as Executive Director, submitted to the Ordinary General Shareholders' Meeting, the re-election would alter the structure of the Board of Directors.

In effect, the Executive Directors number would increase from two (2) to three (3). In this regard, it should be noted that Mr. Hortalá i Arau's classification as Executive Director derives from his position as a senior manager of a Group company, and because BME's new organisational structure, with an Executive Chairman and Chief Executing Officer, sees two (2) members of the Board of Directors being qualified as Executive Directors.

Given the aforesaid, the Appointments and Remuneration Committee supports the improvement in the corporate governance structure that would result from appointing a Chief Executive Officer, and concludes that it would be in the Company's interests, would help the business's long term performance and sustainability, and would maximise the Company's economic value. Consequently, it understands that the new number of Executive Directors – three (3) – is appropriate given the Company's new organisational structure, the Group's complexity, and the activities of the various group companies.

Irrespective of the abovementioned, it points out that said increase in the number of Executive Directors, External Directors – of which there are ten (10) – would continue to form a large majority of the Board of Directors.

It should be stressed that the Appointments and Remuneration Committee has considered the reduction in the share of Independent Directors as a proportion of the entire Board to below fifty percent, but has concluded that the number of Independent Directors would nevertheless be more than a third, which is stipulated in the Good Governance Code of listed companies as adequate for, inter alia, non-large cap companies such as BME. It has also

considered that the Board of Directors has one (1) Director qualified as "other external", taking the percentage of External Directors who are "non-proprietary" to over 50 percent of all Directors.

VIII. Appraisal of services provided by Mr. Zoido Martínez during his last term of office

Mr. Zoido Martínez's performance as Chairman of the Company's Board of Directors and Chief Executive is assessed annually by the Board of Directors, in accordance with the provisions of article 10.4 of the Board of Directors Regulations. It is determined that the appraisal of the Chairman will be overseen by the Lead Director.

This report evaluates the services provided by Mr. Zoido Martínez as Chairman of the Board of Directors and its Executive Committee, and as the Company's Chief Executive.

Since Mr. Zoido Martínez's last re-election as Director at the ordinary General Shareholders' Meeting of 30 April 2013, Mr Zoido Martínez's performance as the Company's Board Chairman and Chief Executive has been approved in the Board of Directors' annual appraisals.

Concerning Mr. Zoido Martínez's dedication during his last term of office as a Board member, he attended all meetings of the Board of Directors and the Executive Committee held over the period, representing 100 percent of all these bodies' meetings.

IX. Conclusion of the Appointments and Remuneration Committee

1.- Regarding his re-election as Director

In view of the aforesaid, the Appointments and Remuneration Committee, after deliberation, has resolved to issue a favourable report on the Board of Directors' proposal, which may be submitted to the General Shareholders' Meeting, to re-elect Antonio J. Zoido Martínez as a member of the Board of Directors. If his re-election is approved, Mr. Zoido Martínez would continue to serve as Chairman.

2.- Regarding his re-election as a member of the Executive Committee

Should Antonio J. Zoido Martínez be re-elected as a member of the Board of Directors by the Ordinary General Shareholders' Meeting, the Appointments and Remuneration Committee, in accordance with the powers granted thereto by article 20.2.b) of the Board of Directors Regulations, would support the re-election of Mr. Zoido Martínez as a member of the Executive Committee, on which he would continue to serve as Chairman.