



## APPOINTMENTS AND REMUNERATION COMMITTEE REPORT ON THE PROPOSED APPOINTMENT OF JAVIER HERNANI BURZAKO AS BME DIRECTOR

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The Appointments and Remuneration Committee, at its meeting on 27 February 2017, drew up this report in relation to the appointment of Javier Hernani Burzako 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.

As it is expected that the Board of Directors will appoint Javier Hernani Burzako as Chief Executive Officer, if his appointment as Director is approved by the Ordinary General Shareholders' Meeting, this report is also issued in relation to the former proposed appointment.

### I. Background

The directorships of Joan Hortalá i Arau, Executive Director, Ramiro Mato García-Ansorena, Proprietary Director, and Antonio J. Zoido Martínez, Board Chairman and Chief Executive Officer of the Company and therefore qualified as an Executive Director, will expire in 2017 as a result of their terms of office coming to an end.

In view of the foregoing, the Appointments and Remuneration Committee and the Board of Directors have reviewed and assessed the composition of the Board of Directors to decide whether it would be appropriate to fill the three (3) vacancies that would result if the aforesaid individuals are not re-elected.

The Appointments and Remuneration Committee concluded that it was advisable to re-elect the three (3) Directors whose term in office had expired for the reasons given in the reports submitted to the Ordinary General Shareholders' Meeting, and that the composition of the Board of Directors is balanced and fit for purpose, notwithstanding the existence of areas for improvement justifying the proposed appointment analysed in this report.

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

As a result of the aforesaid terms of office of the three (3) Directors coming to an end, the Working Group of Non-executive Directors, chaired by the Lead Director, considered whether it would be advisable for the Appointments and Remuneration Committee to analyse the chance of starting to transform the organisation of the Company's top executive functions 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.

The Lead Director gathered together the comments and opinions given during the Working Group and, as Chairman of the Appointments and Remuneration Committee, began work in this Committee to analyse whether the above proposal complies with the Company's internal regulations and best corporate governance practices, and analyse any shareholder assessments of this proposal. After this work, the Appointments and Remuneration Committee concluded that the new structure proposed would benefit the Company.

The Appointments and Remuneration Committee also assessed the size of the Board of Directors to determine whether the current number of members – twelve (12) – enables it to perform its duties or, in contrast, it should be increased in view of the new organisation planned of the Company's top executive functions, which would require the appointment of a new Executive Director to take on the role of Chief Executive Director, having determined that it is also advisable to re-elect the three (3) Directors whose terms of office have come to an end.

Given the appropriate composition of the Board of Directors, the diversity of knowledge, skills and experience therein, the fact that its members have a long background in national and international financial markets, and its composition that is balanced and fit for purpose, the Appointments and Remuneration Committee decided it was more appropriate to propose to the Board of Directors that the number of members be increased from twelve (12) to thirteen (13).

This increase in the number of Board members would ensure the current beneficial and 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.

In reaching this decision, the Appointments and Remuneration Committee also evaluated what effect appointing an Executive Director would have on the Board's functional structure, alongside re-electing the three (3) Directors whose terms of office ended in 2017. In this regard, it was confirmed that after this appointment, 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.

After decided to increase the number of Board members, the Appointments and Remuneration Committee began defining the Executive Director candidate profile and identifying suitable individuals, pursuant to the pertinent requirements established in the planning for the structure and composition of the Board of Directors.

For defining the profile for possible candidates, the Appointments and Remuneration Committee paid special attention to the highly specialised nature of the activities performed by group companies; the fact that most of them are regulated and are supervised by various Spanish and European authorities such as the National Securities Market Commission (CNMV), the Bank of Spain and the European Securities and Markets Authority (ESMA); the ongoing process to modify the regulatory environment at a national and European level, which affects the group companies' activities; and the gradual integration of financial markets.

In view of the aforesaid, the Appointments and Remuneration Committee considered that among the Executive Director profiles defined in the medium and long-term planning of the Board of Directors, the most appropriate profile for the new Director would be a top-level professional that had occupied a senior management position in BME or a Group company.

It was determined that in order to fill this role, candidates would need extensive knowledge of the Company and Group companies, their business, the legal framework in which they operate, and how they act and deal with the various supervisors and regulators.

The Appointments and Remuneration Committee also highlighted an additional requirement that the candidate should fulfil: personal and professional repute both in house among Group

companies, enabling the candidate to discharge their designated duties as a leader, and externally.

Given these criteria, the Appointments and Remuneration Committee concluded that the Company's serving General Manager, Javier Hernani Burzako, met the necessary conditions to be appointed as an Executive Director of the Company.

The Appointments and Remuneration Committee highlight that Mr. Hernani Burzako has in-depth knowledge of the Company, having served as Finance Director since 2003 and General Manager since December 2012. Given this long background in key positions in the Company practically since its incorporation, he is very familiar with the evolution of the Company and group companies; a process in which he has been actively and directly involved. This has also offered him a high level of professional development.

The Appointments and Remuneration Committee also considered that Mr. Hernani Burzako has the capacity to manage strategic scenarios and contribute to shaping the Group's strategy.

It also underlines his communication skills, knowledge of institutional investors, credibility within the organisation, and ability to negotiate.

Given his career path and professional and personal characteristics, the Appointments and Remuneration Committee concluded that Mr. Hernani Burzako has the right profile for the position of Director. The Board of Directors passed a resolution ratifying this decision.

The Appointments and Remuneration Committee points out that when defining the profile and identifying the candidate, selection criteria related with each candidate's professional experience and profile were given priority, without hindering the selection of female candidates.

### **III. Mr. Hernani Burzako's professional background**

Mr. Hernani Burzako holds a Degree in Economics and Business Management from the University of Deusto; a Master's Degree in European Studies, specialising in Economics, from the College of Europe in Bruges (Belgium); and a Master's Degree in Advanced Management from the University of Deusto, where he completed his PhD.

Since December 2012, he has served as BME's General Manager, coordinating the business units and areas, and directly reporting to the Chairman.

Since March 2003, he has served as BME's Finance Director and a member of its Coordination Committee.

He is also Chairman of the Group's Risk Committee and Security Committee.

In the Group, he is Director of Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A.U. and of Bolsas y Mercados Españoles Market Data, S.A., and joint but not several Director of BME Innova S.A.U., Infobolsa, S.A.U. and Bolsas y Mercados Españoles, Servicios Corporativos, S.A.

Previously, he was Deputy General Manager of Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A.U., (December 1998-March 2003), which he represented as a member of the Board of Directors of Servicio de Compensación y Liquidación de Valores (SCLV) until it merged with Iberclear. He has sat on the Contracts and Supervisory Committee of MEFF until it merged with BME, and on various international forums such as the Federation of Ibero-American Stock Exchanges (FIABV) and the World Federation of Exchanges (WFE).

He also served as Finance Director at Norbolsa, S.V.B. between September 1989 and December 1988, and European financial sector consultant at Coopers & Lybrand (Brussels) between June 1988 and August 1989.

#### **IV. Appointment procedure**

Pursuant to section 6 of article 529.decies of the Companies Act, and articles 22.1 a and 20.2 of the Board of Directors Regulations, the Appointments and Remuneration Committee's is responsible for reporting on the proposals for the appointment of proprietary or executive Directors by the Board 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 Javier Hernani Burzako's compliance with the requirements laid down by law and under the Articles of Association for appointment as Director**

For the purposes of this report, the Appointments and Remuneration Committee analysed the professional background of Javier Hernani Burzako and checked that he has the integrity, knowledge and experience necessary for the appropriate discharge of his functions and the time available to exercise good governance of the Company, as required by law for appointment as Director of BME.

The Appointments and Remuneration Committee also confirmed that Javier Hernani Burzako is not involved in the 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**

Should Javier Hernani Burzako be appointed Director, he would be qualified as an Executive Director because as per section 1 of article 529 duodecies of the Securities Market Act, he currently performs management functions at the Company as General Manager.

This classification has also been given on the basis that he would be subsequently appointed as the Company's Chief Executive Officer by the Board of Directors.

#### **VII. Impact 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.

The appointment of Javier Hernani Burzako, submitted to the Ordinary General Shareholders' Meeting, and simultaneous re-election of Mr. Hortalá i Arau, as Executive Director, and Mr. Mato García-Ansorena, as Proprietary Director, would alter the structure of the Board of Directors.

The number of Executive Directors 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 the desired minimum given the Company's new organisational structure, the Group's complexity, and the activities of the various Group companies.

Despite this 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, on including the Director qualified as "other external".

It should be stressed that the Appointments and Remuneration Committee has evaluated the reduction in the share of Independent Directors as a proportion of the entire Board to below 50 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. Conclusions of the Appointments and Remuneration Committee**

### **1. On the proposed appointment as Director**

The Appointments and Remuneration Committee considers that the appointment of Javier Hernani Burzako as Director benefits BME given his profile, knowledge and professional experience.

The Appointments and Remuneration Committee, after deliberation, has therefore resolved to issue a favourable report on the Board of Directors' proposal, supporting the appointment of Javier Hernani Burzako as a member of the Board of Directors, which will be submitted to the Ordinary General Shareholders' Meeting.

### **2. On the possible subsequent appointment as Chief Executive Director**

The Appointments and Remuneration Committee is in favour of beginning the transformation of the structure of the Company's highest executive functions that would result from the appointment of a Chief Executive Officer who would co-exist with the Chairman with executive functions.

In this regard, given the knowledge and experience Mr. Hernani Burzako has demonstrated since being appointed as General Manager and positive appraisals of the functions he has performed as coordinator of the business areas and units since his appointment in December 2012, the Appointments and Remuneration Committee consider he has the necessary attributes to be appointed as Chief Executive Officer.

Given all of the aforesaid, the Appointments and Remuneration Committee supports the appointment of Javier Hernani Burzako as Chief Executive Officer, should his appointment as Director be approved at the Ordinary General Shareholders' Meeting.