



APPOINTMENTS AND REMUNERATION COMMITTEE REPORT ON THE RE-ELECTION OF JOAN HORTALÁ I ARAU 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 Joan Hortalá i Arau 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 Joan Hortalá i Arau'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 Markets and Systems Operating Procedures Committee, in which he shall continue to hold the position of 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

Joan Hortalá i Arau has been a member of the Board of Directors since the Company was incorporated, as formalised in a public deed dated 15 February 2002.

Joan Hortalá i Arau 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.

He has also been a member and Chairman of the Markets and Systems Operating Procedures Committee since it was established on 27 July 2006.

In all instances, at a subsequent meeting the Board of Directors approved Joan Hortalá i Arau's re-election as a member, and therefore Chairman, of the Markets and Systems Operating Procedures Committee.

Given the date of Mr. Hortalá i Arau'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 Joan Hortalá i Arau as Director for a new four-year (4) term 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 Joan Hortalá i Arau is appropriate, took into account that the terms in office of Antonio J. Zoido Martínez, 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. Hortalá i Arau, Executive Director, the Appointments and Remuneration Committee evaluated several points including: his academic record in the field of economics; his professional experience in both the public and private sector in which he has held and holds various posts; his active involvement in BME's incorporation and development; his knowledge of domestic and international financial markets; and his personal and professional repute.

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 of Directors 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 of Directors 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 order to pass this resolution, the Appointments and Remuneration Committee also evaluated what effect re-electing a Director qualified as Executive 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. Thus, the Appointments and Remuneration Committee concluded that with 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 members of the Board of Directors..

III. Mr. Hortalá i Arau's professional background

Professor of Economics Theory at Barcelona University.

Business professor, Graduated in Law and holds a degree and PhD in Economics, winning the Extraordinary Prize, from Barcelona University. He obtained diplomas from a number of foreign universities and is a Doctor in Economics from the London School of Economics and Political Science. Member of the Royal Academy of Economic and Financial Sciences.

Previously Dean of the Economics Faculty and has held various posts at Universidad de Barcelona and on Spain's Scientific Research Council. He is the author of various books covering his specialist subject and publishes works and articles in Spanish and foreign journals. He has overseen 46 PhD theses. He is Manager of "Cuadernos de Economía". He is member of the Advisory Board of the Autonomous University of Madrid.

Before he was Councillor at Barcelona City Council, member of the Catalan Parliament and Industry and Energy Director for the Catalan regional government.

Has held directorships at various public and private companies. Currently Chairman of Hacve Assets, S.L., and Beka Finance, S.V., S.A. Within the Group he has been Director of "Servicio de Compensación y Liquidación de Valores, S.A." and Iberclear and Deputy Chairman of MEFF. He currently chairs Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A.U., is Director of Sociedad de Bolsas, S.A. and of the Iberoamerican Federation of Exchanges (FIAB).

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'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 Joan Hortalá i Arau's compliance with the requirements laid down by law and under the Articles of Association for his re-election as Director

Mr. Joan Hortalá i Arau 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. Hortalá i Arau'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 Joan Hortalá i Arau 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

Joan Hortalá i Arau is classified as an Executive Director of the Company, as per point 1 of article 529 duodecies of the Companies Act, as a result of his position as a senior executive of a group company, specifically as Chairman of Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A.U.

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 positions end on 30 April 2017, irrespective of the appointment of a new Executive Director, submitted to the Ordinary General Shareholders' Meeting, Mr. Hortalá i Arau'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 number of Executive Directors would increase from two (2) to three (3). It should be noted that BME's new organisational structure, with an Executive Chairman and Chief Executive Officer, would mean there are two (2) Board members who are qualified as Executive Directors.

In view of foregoing, 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 favourable for 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 companies Group.

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 noted 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 (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 classified as "other external", taking the percentage of External Directors who are "non-proprietary" to over fifty (50) percent of all Directors.

VIII. Appraisal of services provided by Mr. Hortalá i Arau during his last term office

The quality of Mr. Hortalá i Arau's work and competencies as a member of the Board of Directors and the Markets and Systems Operating Procedures Committee is assessed annually as per article 10.3 of the Board of Directors Regulations, by way of the Board of Directors' approval of the Report on the performance of the Board of Directors and its Committees.

Based on these annual reports, the Appointments and Remuneration Committee approves Mr. Hortalá i Arau's performance as a member of the Board of Directors and as a member and Chairman of the Markets and Systems Operating Procedures Committee.

Concerning Mr. Hortalá i Arau's dedication during his last term office as a Board member, he attended all of the meetings held by the Board of Directors and the Markets and Systems Operating Procedures Committee, representing an attendance rate of 100 percent of the meetings held by these bodies.

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 Joan Hortalá i Arau as a member of the Board of Directors.

2.- Regarding his re-election as a member of the Markets and Systems Operating Procedures Committee

Should Joan Hortalá i Arau 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. Hortalá i Arau as a member of the Market and Systems Operating Procedures Committee, on which he would continue to serve as Chairman.