

2017 IN REVIEW

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#BalanceBolsa

HIGHLIGHTS

- 1. Market-based financing of capital is making progress: The Spanish Stock Exchange is again among the leaders in the world in financing with €39 billion channelled to companies. The volume of capital increases has grown 31% (€29.47 billion).**
- 2. The attractiveness of being listed has intensified.** In total there have been **23 new companies admitted to the BME markets, bringing in €4.29 billion.** Five have been admitted on the stock exchange for the first time: Cash, Neinor Homes, Gestamp, Aedas Homes and Unicaja and 18 companies have been admitted to the MAB up until today.
- 3. Growth of debt financing through the market. This year has been the most active for the MARF.** Admissions to trading have exceeded **€3.7 billion with transactions of 28 companies** of considerable importance and in a variety of sectors. **The outstanding balance has increased 35% to €2.47 billion.**
- 4. Excluding SICAVs, 84 companies have already been admitted to the MAB since it began in 2009. In 2017, this market has channelled resources for more than €903 million** in 31 capital increase transactions.
- 5. The admission of REITs and their contribution to the recovery of the real estate sector has been particularly significant:** there are now 48 in the BME markets, with a **capitalisation totalling €20 billion.**

6. **The companies have distributed more than €25 billion in dividends to their shareholders.** The dividend yield of companies on the Spanish exchange continues to be over 4%, making it among the most attractive.
7. **Stock market performance rises 10% in 2017.** It has been the first year in positive territory since 2013. **Among the Spanish indices, the IBEX *Small Caps* has led the returns with gains greater than 26%.**
8. **Equity trading is similar to the previous year, at around €650 billion. Non-resident investors hold shares for around 45% of the value of the market, a new high.** The financial position of Spanish households has improved, which also reached record highs.
9. The **most significant event for the securities settlement sector and Iberclear in 2017 has been its migration to Target 2 Securities (T2S).** Both the testing process as well as the migration itself and subsequent stabilisation phase were a total success.
10. **The Spanish market is prepared, both in its organisational structure and the provision of services, for MiFID II. The operating costs for accessing listed securities is at a record low,** confirming a good execution of prices and a reduction in costs.

Good afternoon and welcome

Thank you everyone for joining us for this traditional Christmas lunch, which allows us to share a pleasant moment and have a look over what has happened this year.

In contrast to previous years, a certain optimism has dominated the economic and financial activity in 2017. Securities markets around the world have risen, company profits have increased, economies have grown, investment has reactivated and the macro forecasts are favourable, even in a market of significant uncertainty.

Throughout 2017, and with a different intensity depending on the countries or economic areas, the monetary policy of the main central banks has had a more restrictive trend mirroring the gradual improvement of the global economic data and the expectations for the coming years. At the same time, different political events of a global or local nature have had an impact on the debt and stock markets during 2017, although much more moderate than in 2016.

In Spain, the levels of growth have remained solid, in line with the good moment that the recovery in the Eurozone is experiencing. The GDP has risen for 16 consecutive quarters and is expected to close the year with an increase of 3.1%. For 2018, there is an anticipated outlook of restraint in the growth rate after three vigorous years, with varying GDP rates above 3%, a strong job creation, an acceleration in consumer spending and investment in spite of the wage restraint and fiscal austerity.

MARKET ACTIVITY

The Stock Exchanges around the world, taken as a whole, started December 2017 with annual gains ranging between 19% and 15%, in line with the main global indices.

However, the European Stock Exchanges have shown an unbalanced behaviour, between an increase in Portugal of 18% to another of 3% in London, the US markets have once more shown a very positive performance with the support of the good behaviour of the global and North American economy, in spite of the restrictive trend of the Fed's monetary policy. Their main indices up until December reached yields above the global average and record highs year-on-year. This development has given rise to cautions about its sustainability.

THE BEST RESULT FOR THE IBEX 35 IN FOUR YEARS

The IBEX 35 accumulated an increase of 10%, up until 15 December, the best result since 2013. It had a better performance in the first part of the year, reaching a gain of up to 21%. However, political tensions, particularly in Spain, and other global uncertainties have had a negative influence over recent months, worsening the comparison with the behaviour shown by other markets.

One of the significant factors of the securities markets in 2017 has been the near absence of volatility during the whole year. The fact that the central banks have cooperated for years with regard to regulation to ensure a more secure and harmonised financial system, or that they have shown determination to reduce the unforeseen negative financial or economic events seems to have breathed life into the current moment of the economic cycle.

The annual values are so anomalous that, for example, in the case of such an important benchmark as the Dow Jones, price volatility is 8%, the lowest value of the last 30 years and 11 points below the average for this period, which is 19%.

The Spanish Stock Exchange also shows very low levels of volatility for the year, 15.7% in the General Index of the Madrid Stock Market (IGBM). A

figure that is half that of 2016 and nine points below the 24.5% of its historic annual average.

EXCELLENT BEHAVIOUR IN SMALL CAPS

In Spain, of particular note is the diversification process that is occurring with investors in relation to the selection of securities. Once again, the most-heavily traded securities are not the ones leading the way: the *Ibex Small Cap* has gained more than 26% up until 15 December, the highest gain among the IBEX family indices.

CAPITALISATION GROWS

Turning to prices, some companies have set records and the Exchange has reached a capitalisation of over €1.15 trillion. Without a doubt, this is an element of confidence for the Spanish market and its listed companies, and of strength for BME with regard to the reliability of its platforms.

STOCK EXCHANGE ACTIVITY

The overall equity trading will remain in line with the previous year, at over €650 billion. The trend that the market has followed with regard to volume allows us to be optimistic for 2018.

The trading in smaller listed companies now represents 53% of the Stock Exchange. This trend provides greater stability to the market and has a positive effect on the investors.

LEADERS IN FINANCING

The Spanish stock exchange once again in 2017 holds a noteworthy position on the international scene in the area of new financing flows channelled to its listed companies. Up until November this amounted to €39 billion and is placed as one of the most important in the world.

Once again, the Spanish Stock Exchange and listed companies have played an important role in 2017 within the context of the growing importance of the securities markets in the financing processes of the economy and the sweeping changes to the financial structure of companies, particularly European, towards a scenario of less debt and, within this, a higher proportion of securities rather than bank loans.

ADMISSIONS TO TRADING: THREE TIMES AS MUCH AS IN 2016

Up until mid-December, 23 companies had been admitted for the first time to the markets operated by BME, bringing in funds of €4.29 billion, three times the funds brought in for the same period in 2016, making this the fourth best year of the decade.

Of these companies, five did so on the stock exchange, with a total amount of €4.01 billion. The rest did so on the MAB: three in the Growth Companies segment and 15 in the REITS segment. In the last few days of the year, new companies are going to be admitted.

Also of particular note is the fact that two companies have changed segment and begun trading on the main market (Borges and MásMóvil). These processes are very satisfactory as the securities markets play an essential role in the development and accompaniment of these companies, from an SME to a listed company of significant size.

CAPITAL INCREASES

Capital increases form one of the main stock exchange activities of listed companies where the main objective is to gain financing through the issue of new shares. Up until December and through 98 capital increases, the listed companies raised €29.47 billion, 31% more than during the same period in 2016.

THE MAB HAS FACILITATED 903 MILLION IN 2017

In 2017, 18 companies were admitted to the MAB and by mid-December the total number had reached 84 companies. During this year the companies have raised €903 million in new capital.

The OECD considers that in order to strengthen the productivity in the future, financing should flow towards recently created, innovative and fast-growing companies, which quite often face additional difficulties when accessing financing due to their lack of guarantors or credit history. It is for this reason that all the measures implemented by the public authorities aimed at making these SMEs bigger and fiscally favouring investment in these types of companies is very important.

PRE-MARKET ENVIRONMENT

In this regard, aware of the needs of our business sector, mostly made up of SMEs, and the necessary drive for the expansion of the economy itself, we have continued to develop projects to contribute to this growth. This year, we created the first Pre-market Environment for *start-ups*, an initiative by BME and the National *Business Angels Association, Big Ban Angels*.

THE REITS ARE REACTIVATING THE REAL ESTATE MARKET

The listing of new REITs on the market has been particularly relevant, with these becoming an investment vehicle which is reactivating the real estate sector after the hard correction suffered during the crisis.

To date, 48 REITs have been admitted to trading in all segments of BME, 5 on the Stock Exchange and 43 on MAB, with a value already reaching €20 billion.

FIXED INCOME ISSUES

Fixed Income continues to be immersed in a setting of record low interest rates in Europe. The new admissions of Private Debt exceeded €103 billion at the close of November, an amount that was only 8% lower than in 2016.

As it is public, the CNMV has just announced measures to facilitate and promote that the registration of Fixed Income issues occur on the Spanish securities markets. At the same time, BME is going to amend its rates to encourage the registration of prospectuses. These two actions together will help shape the Spanish securities market as one of the most competitive in Europe in Fixed Income issues.

EXCELLENT YEAR FOR THE MARF

With the latest additions in November, there are already 40 companies belonging to 11 economic sectors of activity which have used the MARF to finance themselves since its creation, 28 of them in 2017. This figure shows the extent of the current demand and the versatility and usefulness that this market offers issuing companies.

2017 has been a very active year. Admissions have doubled, exceeding €3.7 billion with transactions by companies up until November. The outstanding balance has increased 35% to €2.47 billion.

ACTIVITY IN DERIVATIVES REMAINED STABLE

In an environment of very reduced volatility, the global trading activity has remained stable in 2017 in the derivatives markets: falling in Futures and rising in Options.

In MEFF, up until November, there were 38.7 million Futures and Options contracts traded with Equity, Indices and Shares as underlyings, practically the same as for the same period the previous year. Of all the products, the most noteworthy is the growth in trading in Stock Futures, 21% so far this year.

During this year, the trading timetable was extended for derivative products, and new volatility indices and a strategy based on products already traded on the market have been put into action. We hope that with the incorporation of these new indices as an expansion to the range of alternatives for monitoring and investment in the Stock Exchange, the activity increases a little and that the volatility conditions normalise compared to their historic values.

BME FONDOS

The funds platform launched this year is approved and fully developed. We continue to work with managers, market members and central securities depositories, once the changes in the settlement environment have been overcome as a result of the change to T2S, and awaiting the materialisation of MiFID II, which will involve significant changes for the funds industry. We are fully committed to this project which is in line with the spirit of the new regulations.

CLEARING BECOMES CONSOLIDATED IN SPAIN

Up until November, a daily average of 403,317 trades were registered in the clearing of Stock Exchange transactions in BME Clearing with an average daily traded net cash (on one side) value of €2.52 billion, up 24% on 2016. In the clearing of derivatives, of particular note is the increase of 14% in the open interest of IBEX 35 Futures compared to the previous year.

Other types of assets are also cleared, such as repos, *Interest Rate Swaps* and energy derivatives. The launch of a new central counterparty service for natural gas within the Energy segment is planned for the first quarter of

2018. The growing interest by the current participants, as well as new operators in the gas market, are causing favourable expectations in a market with volume growth prospects over the coming years.

SUCCESSFUL MIGRATION TO T2S IN THE SETTLEMENT OF SECURITIES

The most significant event for Iberclear in 2017 has been its migration to T2S. Both the testing process as well as the migration itself and subsequent stabilisation phase were a total success. Several of the main financial entities that have been carrying out their settlements on T2S since its implementation have confirmed that the incorporation has been the most successful of all.

This step has allowed the post-trade systems of the Spanish market to be aligned with those of the main European markets, increasing their efficiency, optimising costs and improving their competitiveness, a key aspect of an increasingly global environment.

REGIS-TR CONSOLIDATES ITSELF AS THE LEADING TRADE REPOSITORY IN THE EUROZONE

REGIS-TR consolidates its position as the second largest repository in Europe, processing more than 8 million messages a day. During the year, REGIS-TR has headed the list of European trade repositories in the number of transactions received, with 828.3 million trades up until the third quarter. REGIS-TR has maintained its strategy to act as a single regulatory reporting platform for European businesses.

THE MARKET INFORMATION DISSEMINATION SERVICES GROW

In 2017, BME Market Data continued to add new content to its offering. During this year, the monthly average of delivery points where real-time information about more than 79,000 Equity, Fixed Income and Derivatives Instruments and Indices managed by BME group exceeds 100,000.

During this year, the Stock Exchange has continued to create indices and at the end of November the group of indicators totalled more than 100. This range of references opens up investment opportunities for brokers and investors and also facilitates the creation of strategies and indexed products, a sector that is booming.

FOREIGN TURNOVER OF LISTED COMPANIES AT RECORD HIGH

Spanish companies have made a significant effort to reduce debt and strengthen their equity. But, they are also continuing their internationalisation process. In the first quarter of 2017, the weight of foreign trade in relation to the total turnover increased by two points on that for 2016 climbing up to 67%, a new high for the Indicator.

MORE RESOURCES THROUGH THE MARKETS, LESS BANK FINANCING

The diversification process of business financing in Spain continues advancing significantly and as such is recognised from the most prestigious levels. Taking a homogeneous group of Spanish non-financial listed companies that have formed part of the IBEX 35 between 2010 and 2016, equity rose by 24%, while bank financing fell by 42%, well below the volume of financing originating in Fixed Income instruments, which grew by 30%

In 2017, up until November, more than 35 non-financial companies have raised funds by means of bonds on the Fixed Income markets, with an issue volume of €24.7 billion.

DIVIDENDS GROW

Shareholder remuneration continues to be a recognised brand of the companies on the Spanish Exchange. The dividends distributed by the

Spanish listed companies at the close of November reached €25 billion, in line with preceding years.

The dividend yield of the Spanish exchange is 4.1%, according to MSCI data on 30 November. Another month in which the figure has exceeded 4% and now more than 10 years exceeding this value, which once again places the Spanish venue in a position of international leadership in this area.

PARTICIPATION OF NON-RESIDENTS AT RECORD HIGHS

While Spanish companies are increasing their foreign presence, non-resident investors are doing so in the Exchange. If the participation of these investors in the property of Spanish companies listed on the Exchange already set a record high at the close of 2016 of 43.1% of the total value, the provisional data corresponding to the close of the first quarter in 2017 indicates a new record high of above 45%.

The current share is almost 13 points higher than that recorded in 1992, and reflects the intense process of opening up to the exterior of both the Spanish stock market and, in particular, listed Spanish companies, which have succeeded in leveraging the visibility provided by the capital market and foreign financing in order to grow.

Families repeat as second owners of the Exchange with a share of 23.4%, compared to the low of 20% in 2007.

FAMILY WEALTH

The equity or net financial wealth of Spanish homes once again hit a new record high in the first quarter of 2017, brushing €1.37 billion, 4.5% more than at the close of 2016. Since 2008 up until this year, 2017, net wealth has increased almost 89%, more than €640 billion, this becoming in recent years a fundamental pillar of the recovery of the Spanish economy.

According to the latest available data, more than 2 million homes and a total of 5.3 million people at the end of 2014 were the owners of listed shares in Spain, in other words, 11.4% of the population.

OUTLOOK FOR 2018

One of the immediate and most important milestones for next year will be the entry into force of the Markets in Financial Instruments Directive, MiFID II. This regulation aims to favour financial integration in the European Union and a better adaptation to the new circumstances of the markets, as well as correct some of the weaknesses in the functioning and transparency that have become apparent during the recent global economic and financial crisis.

MiFID II reforms and expands the scope of the previous directive and represents a supplementary strengthening of investor protection, the application of European standards to new financial products and services and the extension of the requirements applicable to investment service companies, regulated markets, data reporting service providers and companies from third countries that provide services or perform investment activities in the European Union. The magnitude of change resulting from this new regulation has resulted in the drafting of a new Spanish Securities Market law, the bill for which is currently going through Parliament.

In the report that we are distributing today, you will find a brief summary of the most important changes that the new regulation will bring to the markets and its participants.

NEW REGULATORY SERVICES

BME will expand and strengthen its range of services to comply with MiFID II on behalf of the participants in the financial markets, so it may operate as

Approved Publication Arrangement (APA), Approved Reporting Mechanism (ARM) and manage a regulatory compliant service of Systematic Internalisers (SI). These figures and services are set out within the new European regulations.

One of the main services deriving from the new legislation that BME will provide will be that of APA, thus it will be able to assist the financial entities in fulfilling their post-transparency obligations. We have been working throughout the year on the integration of the information that the new service will supply into the *Data Feed*, as this will provide real-time details of OTC trades on financial instruments of the investment services companies, as well as the firm trading prices of the Systematic Internalisers.

THE ROLE OF THE CENTRAL BANKS

The central banks will also have a prominent role. The ECB has maintained interest rates at minimum levels and has reduced its help, but the support programme remains in place. The strength of the economies remains to be seen as they remove the stimuli and the impact of threats such as inflation, currently contained, become apparent.

With a favourable environment -the economy grows, the forecast of corporate profits increases and some ratings agencies have improved their credit outlook- the Spanish stock exchange is enjoying some good forecasts by the analysts.

VALUATION OF SOME ASSETS

Although there are markets, such as the Spanish market, that trade at a discount with regard to the consensus profit forecasts, there are other global stock exchanges where the opposite occurs, such as the New York Stock Exchange and NASDAQ. The Dow Jones has risen to trade at a P/E ratio of 20.4 and the NASDAQ has recorded a growth of this ratio of up to almost 30. No European index has put up the ratio in a similar proportion.

Other indicators, such as the record run on Wall Street without the accompaniment of a comparable increase in profit of the listed companies, or the volumes traded have received critical analyses of their sustainability, given that the gains reached are record highs.

Simultaneously, the levels of debt, both public and private, in the global economies has increased.

This debt has been growing for the last three decades, and today stands at a value equivalent to 327% of the global GDP. Although the levels are high in almost all developed countries, over the last five years, the contribution of these economies (in particular the European) to the growth of the global level of debt has reduced significantly.

We began 2017 celebrating the 25th anniversary of the creation of the IBEX. During this period, the index has increased by more than 250%.

In general terms, the scenario ahead of us for the coming year seems favourable, but it is not without its difficulties. In Spain, in addition to the present risks, there are persistent factors, such as the deficit and debt, which remain at high levels, and so to the unemployment rate. Brussels and the IMF have requested that Spain does not relax in its structural reforms in order to reduce the existing vulnerabilities.

The financial system must continue with the process of adapting to the new reality which brings with it regulation and innovation.

In the area of technology, the *fintechs* have acquired particular significance due to their influence in the transformation of many financial services models, some of which are provided by the Stock Exchanges.

IOSCO highlights the importance that the markets pay attention to the technological evolution, to the demand and uses of the customers and to the global trends, because these are going to determine the future

business. A better and greater access to data, the reduction of costs in assets and services, the disintermediation and the "re-intermediation", as well as demographic changes, are some of the trends that will force a change in the provision of financial services.

However, although *fintech* applications are creating new opportunities for investors, new risks and vulnerabilities may arise, as they tend to do in all transformation processes. And this is a challenge for us all.

The transformation of the financial system as a whole, and in particular that of the capital markets, has been decisive in recent years. BME has responded to this process of change uninterruptedly without renouncing its identity or its principles, which are transparency and security.

I wish you a Merry Christmas and a Prosperous New Year.

Thank you very much