



# 04.

## Business Areas

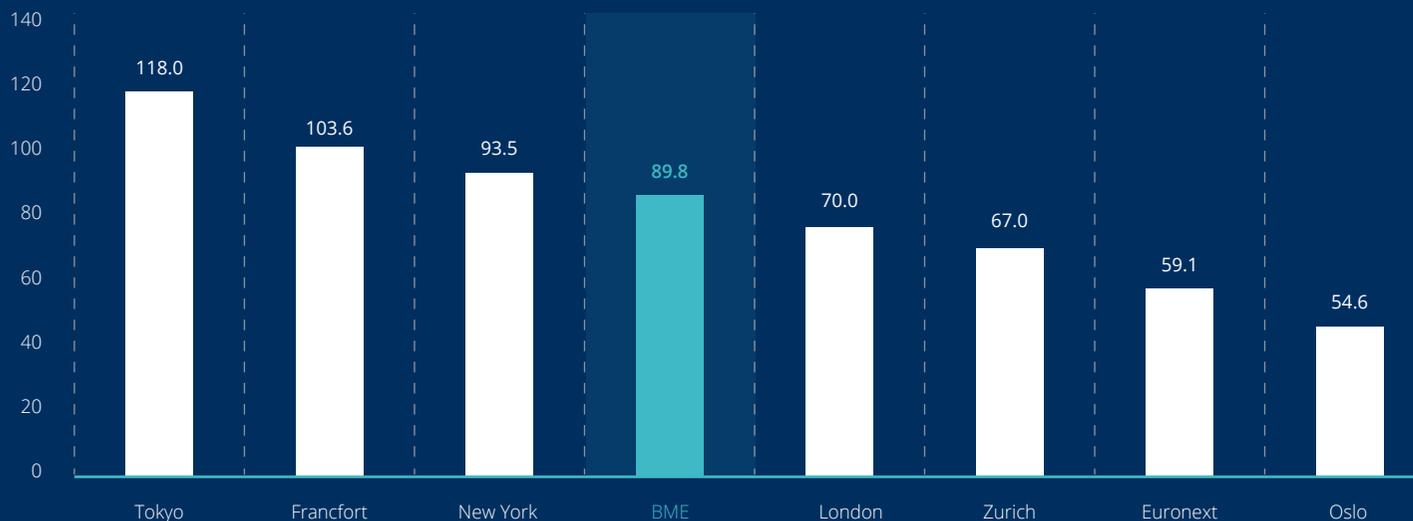
## Equities

At end-2018 the market value of the companies listed in Spain once again this year stands at over a trillion euros. The market fund remains solid in spite of the difficult conditions recorded during 2018. The increase in the number of socio-economic uncertainties, the weakening of the economic outlook, the adaptation to new market rules and the increased regulatory and fiscal pressure on activities associated with the movement of financial capital have resulted in lower returns, trading and financing on the Markets compared to the previous year. The Spanish Stock Exchange has not been immune to this process with two positive distinguishing elements: the dividend is understood to be a firm commitment by companies and the high liquidity index of the stock market adds a significant competitive value to companies on an international scale. These differential values

repeat year after year and are benchmarks on an international scale. In addition, both seem to be appreciated by the capital and foreign investors, who, showing signs of confidence, clearly lead the activity in significant niche areas of the Spanish listed companies, from ownership to revenue, financing flows and trading volumes.

### BME, AMONG THE MOST LIQUID WORLDWIDE

PROPORTION BETWEEN THE CASH VOLUME OF DOMESTIC SHARES TRADED IN 2018 AND THE DOMESTIC CAPITALISATION OF EACH MARKET AT DECEMBER 2018 (%)



## Trading and returns:

### Liquidity and returns remain strong

The performance of the global stock market prices in 2018 has responded with an almost generalised fall due to the amount of economic and geopolitical uncertainties that have been accumulating month after month. At the end of 2018 the Stoxx Global 1800 index fell 10.7% as a result of the mixed performance of the share prices, better in American continent and worse in Europe and particularly in Asia.

In Spain, these situational factors and some of a greater structural components have had a significant negative impact on share prices. The first of these being the lower economic dynamism of Spain and the euro area, together with foreign risks such as the crises in emerging markets such as Turkey and Argentina, countries with a strong presence of companies listed on the Spanish Stock Exchange. The economic programme of the new Government arising after the motion of censure in June also partially explains the slightly more negative performance of the Spanish Stock Exchange in comparison to its European peers.

From a structural perspective, in 2018 the significant weight of the banks in the market and their more representative indices (more than 30%) has continued to hold back the performance of the Spanish Stock Market. This year, no sufficient counterweights have been found in the relatively better performance of the large non-financial companies.

The IBEX 35 Index, which started the year with very high revaluations. After reaching its highest values of the year, 10,609.5 points on 23 January, this increase in the index reversed and ended the first quarter with a loss of 4.4% after falling below the 10,000 points mark and on some occasions registering a daily fall of over 2%. The performance of the IBEX 35 stabilised during the second quarter to end the third with minor falls of 2.4% which still continued in the fourth quarter, accumulating a decrease of over 9% to place it below 9,000.

As can be seen in the annual charts indicating the performance of the IBEX 35 attached to this report, in May it started a downhill race of the share prices which rapidly led to a more settled loss of the 10,000 points of the index. From that moment on, and in line with the other main global stock markets, the most normal has been the new stepped decreases to the annual record low of the IBEX 35, which was 8,363.9 basis points on 27 December, close to values that have not been seen since 2016.

In terms of price return, the best news for 2018 has come from the share prices of smaller companies. In this case, the IBEX Small Cap, comprising 30 securities, gained 11.1% during the first quarter, 5.6% in the second and lost the same amount that it had gained during the third, 5.6% to end the fourth quarter with a decrease of over 16%. The performance in for the entire year is 7.5%) (IBEX family main indices).

Continuing with this same scale of size of listed companies, the IBEX Medium Cap has followed a path that is quite similar to that of the IBEX 35: it lost 1.4% during the first quarter and recovered 1.9% and 0.8% in the second and third quarters and in the fourth quarter it decreased by 14.7%. As of 31 December it registered annual accumulated losses of close to 13.7%.

Share price performance among the sectors and securities has generally been negative, with the largest falls occurring in the Financial and Real Estate sectors, with some banks losing around 20%. On the positive side is the favourable performance of companies linked to activities with more weight in research and new technologies.

DAILY PERFORMANCE OF THE IBEX 35 IN 2018



VARIATION OF IBEX INDICES OVER SHORT, MEDIUM AND LONG-TERM



As regards [price performance per sector](#), the analyses of the various sectors of activity found in the General Index of the Madrid Stock Exchange (IGBM) reveal the negative performance of most in 2018. In the year in 2018, of particular relevance is the revaluation of the subsectors linked to activities with more weight in research and new technologies such as the Chemical Industry (8.8%), Renewable Energies (9.6%) and Electricity and Gas (8.9%). Moving back up a level to the sector perspective, the largest falls registered during the year are centred in the Financial Services and Real Estate Sector (-27.1%) in which the banks have accumulated a loss of 29% and the Consumer Services (-19.6%).

As will be shown throughout this report, the poor performance of stock prices has been accompanied by restrained activity in stock trading volumes or admission to trading, IPOs and capital increases. The lack of vigour in the behaviour of these market variables has had a counterweight in 2018 for the investors, which has been typical for more than a decade: the high amounts of shareholder remuneration which for the twelfth year running have caused the dividend yield of the Spanish Stock Exchange to reach 4.5% in October, placing it among the highest of the most developed markets of the world. In this manner, at the close of these lines, [the IBEX Total Return](#) accumulates an annual fall during 2018 of between 3 and 4 percentage points less than the IBEX 35.

### High liquidity within a context of weakened volumes

Both the uncertainties as well as the negative behaviour of the shares prices are affecting [the trading volumes of shares on the regulated market of the Spanish stock exchange](#) which in 2018 had registered an accumulated loss for the year of 9.8% in Euros and 13.2% in trades, compared to the best relative records in the main global markets, especially those of North America. Here we are looking at 587.5 billion euros and 44.22 million trades during a complicated year, full of new operational developments and scaled fees adapted to the new competitive environment generated by the full entry into force of the MiFID II regulations.

In general terms, and as shown in the images attached relating to the entirety of the European venues integrated with the Federation of European Stock Exchanges (FESE), it seems evident that over the last 12 months the framework of the activity has weakened overall, both in trading terms as well as flows of channelled financing.

Furthermore, the volatility of the share prices is still not helping the stock markets. Throughout 2018, the volatility has remained at a historically low average value, albeit with an increase that began in June and seems to be more sustained over the last two months. This situation of low volatility, which is very accentuated in Spain, continues to weigh heavily on the trading volumes given that it does not favour the execution of algorithmic trading strategies such as arbitrage, intraday, HFT, programme-trading and others, all of which are more active when volatility rebounds.

However, there are particularities that are negatively affecting the trading activity of shares in only the Spanish stock exchange which, however, does not equate to a loss in liquidity that continues showing a very significant resilience. Among these specific factors of the last few years we can cite three in particular. The first is the delay in the recovery of the share prices since the most difficult moment of the crisis in 2009; the second has already been mentioned: and that is the elevated weight that the financial sector (banks) has in the Spanish stock exchange; and the third, something deeply rooted with the previous comes from the systematic exclusion of the trading by very large companies during these years and for different reasons, although mostly linked to the effects of the crisis. Of course, this would include mostly Banks and Real Estate entities, which are at the heart of said crisis.

In addition to the solvency of the market model and the technological infrastructure that supports it, dividends have been a source of strength, so too the growing participation of foreign investors (market internationalisation) and, in spite of being less this year, the widespread use of the markets for companies to find financing, three of the factors that could serve as a counterweight to somehow offset the fall in volumes and place the Spanish Stock Exchange in a very attractive position in terms of liquidity.

## Prominent international position

587.50 billion euros in shares were traded in the Spanish Stock Exchange in 2018. 99.5% of this value corresponds to activity in Spanish listed shares, the capitalisation of which as of 31 December was 632 billion euros. In other words, in 12 months, around 93% of the market's value has been traded, a liquidity indicator that really stands out, as we will see further on.

If we extend this comparison to other Stock Exchanges, and using homogenous data in dollars collated from the statistics of the World Federation of Exchanges (WFE), we find that in 2018 the Spanish Stock Exchange shares had been traded for an amount equivalent to 89.8% of the domestic capitalisation at the close of the tenth month of the year. This figure places the Spanish Stock Exchange 11th in the world of among 80 comparable markets of the world such as New York, London or Euronext (which groups France with other venues). In Europe, only the German Stock Exchange surpasses Spain's with 103%. The remaining, except Tokyo, are Asian markets or others that have been recently created and lack the history and level of development and implementation of the Spanish market.

Seen from another perspective, in 2018, the Spanish stock exchange occupied the 18th position in the world in securities trading via official regulated markets closing a club of Stock Exchanges which have executed trades worth more than half a trillion dollars (behind Spain, with 650 billion dollars, lies the Istanbul Stock Exchange with 415 billion and over 60 others below that figure). In respect of domestic capitalisation, at that time this stood at 724 billion dollars (placed 19th in the world). In addition to the Spanish Stock Exchange, there are only two other markets in the world with a market value below 1.32 trillion dollars that trade more than half a trillion euros in securities: these are Bovespa (Brazil) and Taiwan.

The Spanish Stock Exchange, with 5.1% of the capitalisation of all European companies listed on any of the European member exchanges of the WFE, has an effective traded value on its systems accounting for 6.5% of the total. The listed Spanish securities represent 1% of the capitalisation of shares listed in the world and concentrate 0.85% of share trading.

In other words, although it is immersed in a cycle of weakened volumes, the Spanish Stock Exchange continues to be one of the most competitive in terms of trading for its securities and this can be seen in the international comparisons. At the close of September 2018 (latest available figures) Banco Santander led the ranking of the most securities traded in the Eurozone and four more were placed 17th, 28th, 30th and 31st. 10% of the securities of the EuroStoxx 50 Index are Spanish with a total weight of 11.93% of the total traded in the first nine months of 2018.



In its 20 years of existence Latibex has become the market of reference in Europe for Latin American blue-chips.

### The Spanish stock exchange offers the best spreads for the sale and purchase of its securities

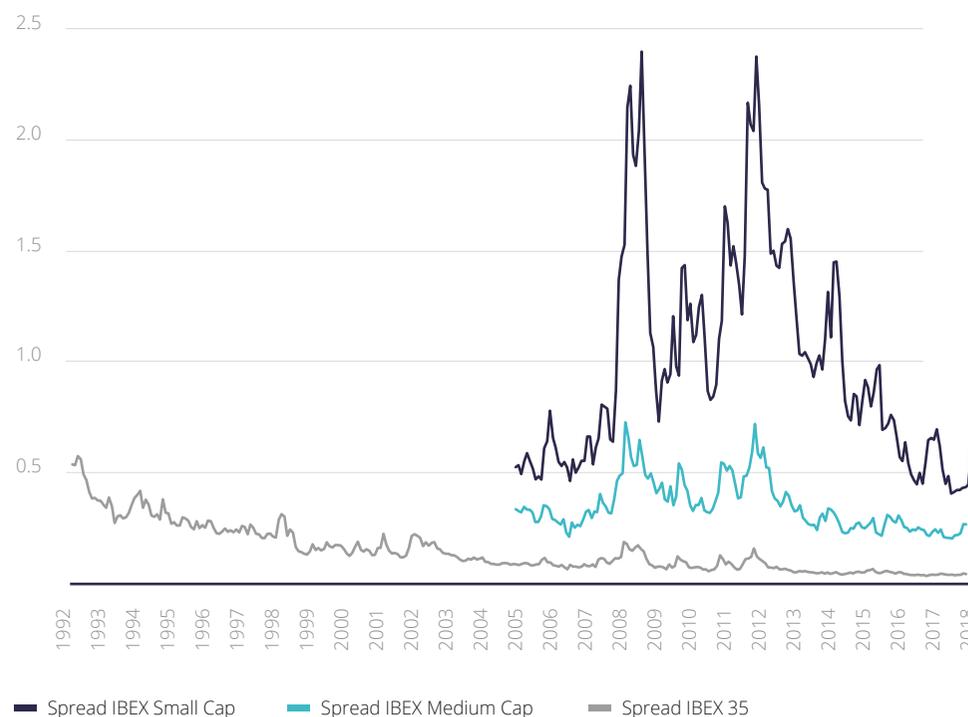
The price spreads are the element used to evaluate the quality of the execution of the purchase and sale trades on the Spanish Stock Exchange. The lower the difference between the sale and purchase prices of the securities on a trading system determines the greater probability that a trade will be executed. This circumstance combined with the depth of the orders, that is, the number of securities associated with the supply and/or demand prices is sufficient so that buyers and sellers can perform their transactions, is essential when matching a trade.

The Spanish Stock Exchange's trading systems hold a very prominent position in the prices and the volumes of the orders with regard to the securities of listed companies on its platform. This can be seen in the performance of the average spreads of the all the securities included, both in the leading index of the Spanish Stock Exchange, the IBEX 35, as well as those for the small- and medium-sized companies, the IBEX Medium Cap and the IBEX Small Cap, which over the years have systematically reduced their spread. In 2018, the average spreads of all the securities included in these three reference indices were at an all time low: 5.2 basis points (bp) for the IBEX 35, 24 bp for the IBEX Medium Cap and 48 bp for the IBEX Small Cap. At the close of 2018, the IBEX 35 had a spread of 5.4 basis points (in hundredths of a percentage point), up three thousandths of a percentage point year-on-year. Lastly, the average spread of the IBEX Medium Cap set a new record low of 21 bp in July 2018.

This can all be seen security by security in the Monthly Reports and the "Best Execution of Spanish Listed Equities Reports" by FinReg360 which have been [published on the BME website](#) since the beginning of 2017. Technical standard 27 of MiFID II (RTS 27) defines for the ISCs that channel orders in the securities markets the obligation to implement sufficient measures to ensure that the execution of the order is performed in the best execution centre available. Similarly, the execution centres will have the obligation to publish a "Best Execution Report" free of charge and machine readable. Although the obligation was not effective until the second quarter of 2018, BME began to publish monthly best execution reports in January 2017. In addition, and in line with the best information and greater transparency of the markets managed by BME, every month it also commissions a specific report by an external consultant on the issue of best execution.

### HISTORICAL PERFORMANCE OF THE MONTHLY AVERAGE SPREAD OF THE GROUP OF SECURITIES CORRESPONDING TO EACH IBEX INDEX

DAILY MONTH-TO-MONTH AVERAGES (1992-2018)(%)



## Foreign investors boost confidence in the Spanish stock exchange

The internationalisation of the activities of the listed companies and the mobility of international capital are an essential part of the growth of the finance industry and Spanish securities in recent years. Their penetration into the Spanish economy and companies continued growing in 2018 making it possible to maintain the business of many companies, even making financing and investment operations possible, which would have otherwise been impossible without the participation of foreign agents. Therefore, their weight is a decisive factor when explaining the parameters of returns, trading, financing and stability corresponding to the activity of the Spanish listed companies on the securities markets.

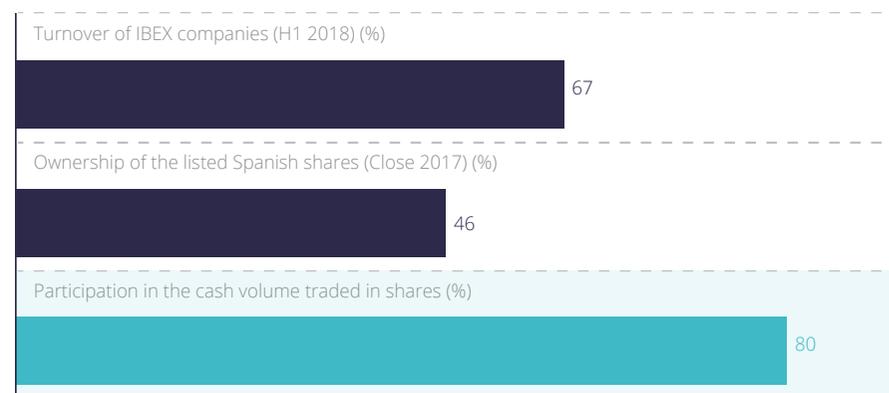
The presence of non-residents in the Spanish stock exchange and its listed companies is higher than in other areas, which is consistent with the logic for opening, accessibility, transparency and legal protection imposed due to its regulated and supervised nature. The participation of foreign investors as the owners of shares in Spanish companies was around 25-30% 25 years ago. Now their weight in the capital of listed companies is 46% ([see web statistics](#)) whereas for the rest it remains at 25% in aggregate terms.

A large part of the responsibility for this internationalisation process resides in our belonging to the EU, and more specifically, the Eurozone. According to the EC report on “Financial Integration in Europe” dated May 2018, the cross-border ownership of shares between owners located in members states of the Eurozone currently equates to 28% of all shares issued in each country, double that from 10 years ago. This percentage is also valid for the debt instruments, although this stood at 34% in 2008.

This opening of the activity and the businesses of the Spanish company has a very solid quantitative corroboration in the revenue of all the companies listed on the Spanish stock exchange. During the first half of 2018, the amount of foreign revenue of the companies of the IBEX 35 was 67.68%, when 20 years ago it was barely 24% and 50% 10 years ago.

### MAIN FOREIGN INVESTORS IN SPANISH STOCK EXCHANGE ACTIVITIES

PERCENTAGE OF EACH VARIABLE ATTRIBUTED TO THE ACTIVITY GENERATED BY FOREIGN INVESTORS OR AGENTS. IN THE CASE OF TURNOVER, IT IS THAT GENERATED OUTSIDE OF SPAIN



Source: CNMV, BDE and BME.

In the case of the Spanish banks (mostly listed) and with data from the Financial Stability Report by the Banco de España corresponding to November 2018, the financial assets that they held abroad in June of the same year represented 45% of their total financial assets, when in June 2010 it was 20%. In other words, their foreign trade has doubled its weight during this period.

Corroborating these data, the participation in the trading of shares is also significant. Foreign investors are the main players in more than 80% of the transactions carried out on the Spanish stock market.

### The dividend: shelter and protection for investors

The Spanish stock exchange has been a leader for years in this section among all the developed international stock markets. In 2018 the positive difference was maintained and it is also very likely that this is one of the factors that most attracts foreign investors to participate and be active in the day-to-day of our listed companies.

In 2018, the listed companies distributed nearly €30.10 billion to their shareholders in dividends, return of monetary contributions through share premiums and nominal reductions. This means that 6.65% more has been paid out compared to the same period of the previous year ([see web Statistics](#)).

In dividends alone, the listed companies have distributed 28.79 billion euros to their shareholders, this represents 95.6% of the total remuneration so far for the year, and this is more than the 3.5% pay out of the previous year.

In total, in 2018, 135 companies admitted to trading on one of the equity markets of those available through BME have distributed dividends. Of which 87 trade in the stock market (4 REITs) and the remaining 46 are admitted to MAB, of which 28 are REITs.

As can be seen in the chart that appears in the introduction to this chapter of the Report, listed companies on the Spanish market have paid dividends in the amount of just over €420.8 billion so far this century, or 44% of the current market value of all listed Spanish companies trading on Exchanges at the present time. Between 2000 and 2005, the average amount of the gross dividend paid out by the listed companies among their shareholders was 10.893 billion euros. In 2006, this figure was 21.810 billion and since then up to the present it has not fallen below 23 billion euros.

In accordance with these data, the effect of the dividend on the long-term performance of the Spanish stock exchange is very significant. This can be seen quite clearly on the chart showing the return for periods corresponding to the different IBEX indices a few pages back. For example, from the minimums of the crisis in 2012 to end 2018, while the IBEX 35 has grown by 43.38%, the IBEX con Dividendo has grown by 87.93% (double).

#### SPAIN, LEADER IN DIVIDEND YIELDS



Source: MORGAN STANLEY CAP-INT (OCT 2018)

Taking common data for the purposes of international MSCI comparisons from the monthly MSCI Blue Book, at 30 October 2018 the dividend yield of companies on the Spanish Exchange stood at 4.6%, a leading global position again for another year. The ratio calculated by the MSCI for Spain has not fallen below 4% for this section in a single month during the last 11 years. The historic average of this indicator for Spanish listed companies in 31 years (370 months) is 4.03%, which is also greater than that for the remaining comparable developed stock markets.

In comparison to the so-called “non-risk interest rate”, the rate for 10 year government debt, a dividend yield such as the current (4.6%) is 3.3 times the yield offered by the Spanish 10 year (1.42%). In the last 10 years, the Spanish stock market has offered an annual dividend yield of 5.5% (an average taken from the closing data for 120 months). The same average for the 10 year bond is 3.3%.

By company and size, a total of 58 companies have joined one of the indices of the IBEX family and have paid out dividends in 2018. Of those 56 remaining, 30 exceeded a yield of 4% (23 in the IBEX 35, 5 in the Medium and 2 in the Small) and there are 50 that have exceeded the 10-year rate.

In respect of remuneration methods, scrip dividends in 2018 were 4.3% up on that distributed year-on-year, totalling 4 billion euros. Its weight in the total amount of dividends distributed on the Spanish stock exchange remains at around 15% for the second consecutive year. Nine companies have used this type of remuneration in a total of twelve payments.

During the year, the return of share premiums was four times as much as in the previous year. The 1.3 billion euros came mainly from RETIS, especially of the company Testa Residencial, which in the month of December returned premiums totalling 1.007 billion euros.

Lastly, also during 2018, 13 companies have amortised a total of 402 million securities for a cash value of 3.5 billion euros. The amortisation of treasury shares is one of the methods companies can use to remunerate their shareholders, as they increase the ratios per share (profits, dividends, etc.). This type of transaction is often linked to a prior programme of buybacks of treasury shares in the market.

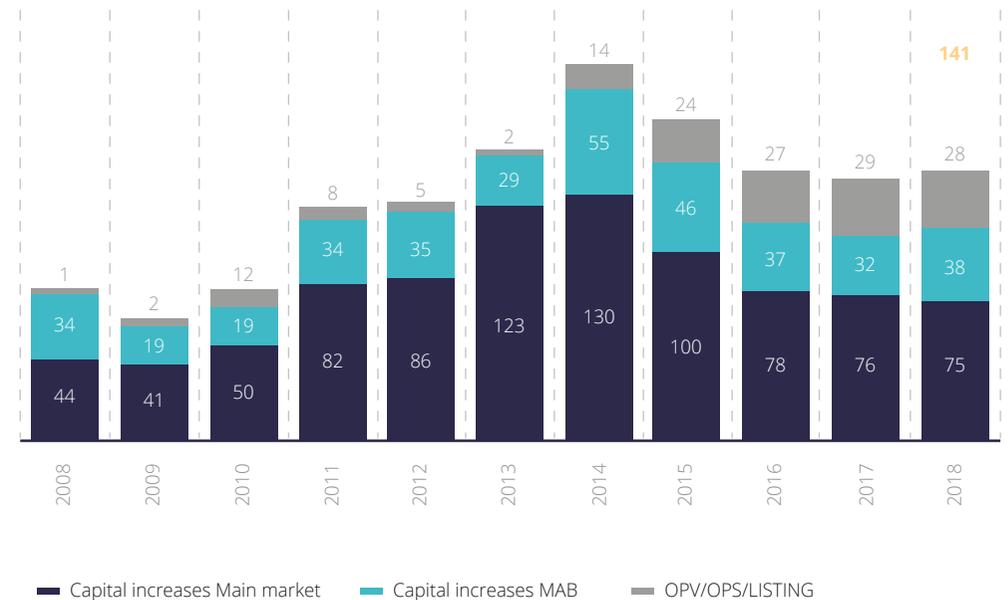
## Capital investment

The negative performance of the share prices in Europe and in Spain in 2018 has also affected the IPOs and the financing obtained through capital increases. After a magnificent previous year, in 2018 the volume of IPOs in Europe fell by 16%, year-on-year. In particular, the year 2018 recorded the lowest IPO volumes of recent years with a large number of planned transactions being cancelled due to the uncertainty of the stock markets.

According to the quarterly market report of the CNMV, at the close of September 2018, the volume of issues in equity instruments around the world totalled 812 billion dollars for the last 12 months, down slightly on the previous years figure. However, it was in Europe where the fall was most pronounced, a decrease on -28.6%, whereas the United States and China grew 7.8% and 12%, respectively.

The Spanish market has not been immune to these trends and even though 28 new companies were admitted to trading, a high number, the majority have done so through listing, with no prior. The inclusion of companies from the real estate sector still continue to be of particular note, both due to the incorporation of a company of significant size such as Metrovacesa which in February issued shares for the amount of 646 million euros, as well as the elevated admission rate of REITs (20 new in 2018) to the specific segment for them of MAB. Unless the Government implements very unfavorable tax policies, the outlook for the coming years indicates that the admission of REITs will continue due to the attractiveness of this figure to channel institutional investment into the real estate sector.

NO. OF COMPANIES FINANCED THROUGH SHARES ON THE SPANISH EXCHANGE



Overall, we can say that in 2018 the total number of transaction for obtaining financing and the capital flows generated by all the companies admitted to trading on the Spanish Stock market has been similar to that recorded in 2017, but for noticeably lower amounts. Only the admission of REITs has maintained the trend and some capital increases linked to merger processes.

Funding channelled through the Spanish Stock Market in the course of the year totalled 15.22 billion euros, and the Spanish market is still a major world player in this regard - specifically ranked number 11 in 2018 from among the 80 Exchanges contemplated by the World Federation of Exchanges (WFE), with comparable data in Dollars.

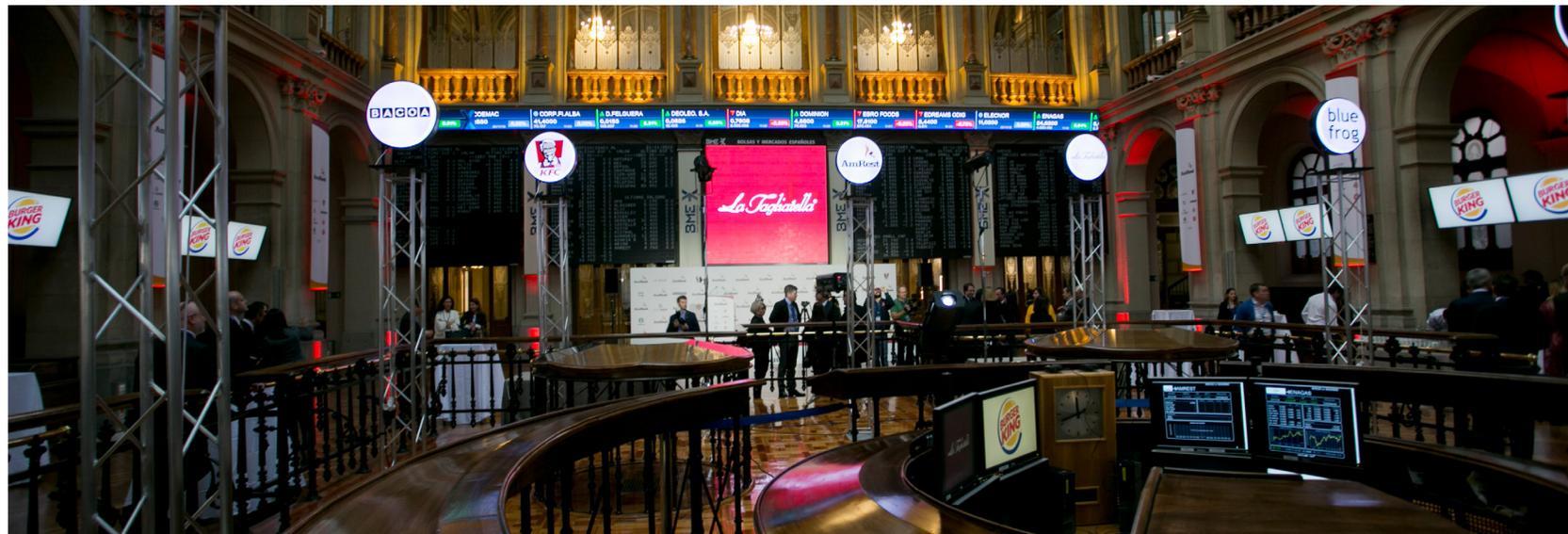
Spanish Exchanges have traditionally been well positioned on the international stage in terms of corporate funding in the form of capital investments. Thus, since the year 2000 financing flows and investments with securities of an amount close 780 billion euros have been channelled. During some years of this period, such as 2017, the Spanish stock market has been one of the three global stock market venues in this segment with comparable data from the WFE. Therefore, it is important to highlight that the unfavourable situation in 2018 in this segment of the stock exchanges should not conceal the important role the securities markets have played in exiting the crisis and which they must continue to play to stimulate the reforms and the new forms of economic growth based on intangibles that are emerging.

## IPOs

2018 was not one of the best years for IPOs. According to Ernst & Young's (EY) Global IPO trends Q42018 reported that the value of IPOs in Europe fell by 17% in 2018. During the last quarter of 2018 the number of IPOs in Europe fell by 35% and capital raised decreased by 14% compared to the fourth quarter of 2017. In the world ranking, no Eurozone exchange is among the top 12 places on a global scale by number of operations. The data, therefore, contrast negatively with the outstanding 2017 in which the funds raised through IPOs in worldwide were high and constituted, as was the case with the Spanish Stock Exchange, the main financing instrument.

The poor performance of the share prices has caused the cancellation or delay of the plans of diverse companies that had shown an interest in a stock market launch. In Spain, the most significant case of 2018 took place on 15 October when CEPSA decided to place its launch onto the Spanish stock market on hold due to the uncertain market conditions.

In 2018, 28 new companies have been admitted to trading on one of the stock markets managed by BME with these operations raising funds of 865 million euros. Of the twenty-eight companies admitted to trading, five did so on the stock exchange and 23 through in any of the MAB segments. The (largest) listed companies raised 856 million euros through an Initial Public Offering (IPO) two through Public Offerings of Newly Issued Shares and two listings. The remaining 23 were admitted to trading in the MAB: three in the Growth Companies segment through one Public Offering of Newly Issued Shares and two listings for a total of 9 million euros and 20 in the REITs segment, all through listings. ([check our website for statistics on the Initial Public Offerings and Public Offerings of Newly Issued Shares](#))



IPO Bell-ringing ceremonies in 2018.

## Capital increases

The financing flows channelled by the securities markets through capital increases in 2018 also fell in respect of 2017. The amount of these totalled 9.993 billion euros, a third of that issued in 2017 ([check our website for statistics on Capital Increases](#)).

77 capital increase operations took place on the main segment of the Spanish Stock Exchange during this period raising 9.17 billion euros, (including 200 million euros deriving from two capital increases prior to the admission to trading carried out by the REIT Arima, and the company Energías Renovables Solarpack).

The operation raising the highest amount of funds during the year was performed by Fluidra to finance its merger by absorption with Piscine Luxembourg Holdings for the amount of 1.079 billion euros. The merger consisted of a capital increase of 83,000,000 shares by Fluidra, representing approximately 42.43% of its share capital, which were delivered to Piscine Luxembourg Holdings after the merger became effective. Next is the capital increase carried out by Bankia during its merger with Banco Mare Nostrum, for a total of 891 million euros. Bankia carried out a capital increase of 205,630,814 shares, representing 7.14% of its share capital prior to the merger.

In addition to those already mentioned, another two companies carried out capital increases during the year in order to finance corporate operations: Inmobiliaria Colonial and Inypsa Informes y Proyectos. The first, for its merger by absorption with Axiare, carried out a capital increase of 19,273,622 shares, for a total of 186 million euros. The second, Inypsa, for its merger with Carbuces Europe, carried out a capital increase of 481,379,600 shares, to cover the exchange for a total of 67 million euros.

The total amount of the four capital increases carried out to fund corporate operations is 2.223 billion euros and represents 24% of the resources obtained via 77 capital increase transactions in the primary segment of the Spanish stock exchange in 2018.

Furthermore, the resources raised by the listed companies in the Stock Exchange through capital increases with pre-emptive subscription rights, carried out during 2018 total 5.33 billion euros, representing 58% of all the capital increases (not counting MAB). Of this amount, 4.02 billion euros correspond to the capital increases intended to cover the payments of dividend options. These types of increases, where the objective is to remunerate the shareholder through shares has been declining since 2015, whereas those increases for financing corporate growth or investment operations have increased.

### Good performance of MAB, especially by the REITs

The companies listed on MAB continue to find that the market is their main source for financing their growth and expansion processes. In 2018 39 capital increase operations were performed through which resources totalling 821 million euros were obtained (including 9 million euros from the capital increase carried out by Alquiber prior to its stock market launch).

Capital increases carried out by SICAVs fell in 2018, in a manner similar to how these types of companies have reduced their presence on the market throughout the year. The volume reached through capital increases carried out by these companies for the period totals 326 million euros.

In the Growth Companies segment, the amount of capital increases in 2018 reached 115 million euros (3 million euros more than in 2017), with eleven operations carried out.

Lastly, the REITs segment was the most active of MAB and of all the segments of the Spanish stock exchange, with a total of 15 operations (seven more than the previous year) raising 379 million euros, a 71% increase year-on-year.

In total, as at the close of this report, the amount of resources raised through capital increases carried out by REITs on the Spanish stock exchange, not just MAB, have reached the figure of 1 billion euros, with 11% of the resources being obtained through capital increases carried out on the Spanish market.



Bell-ringing marking IPOs on MAB in 2018.

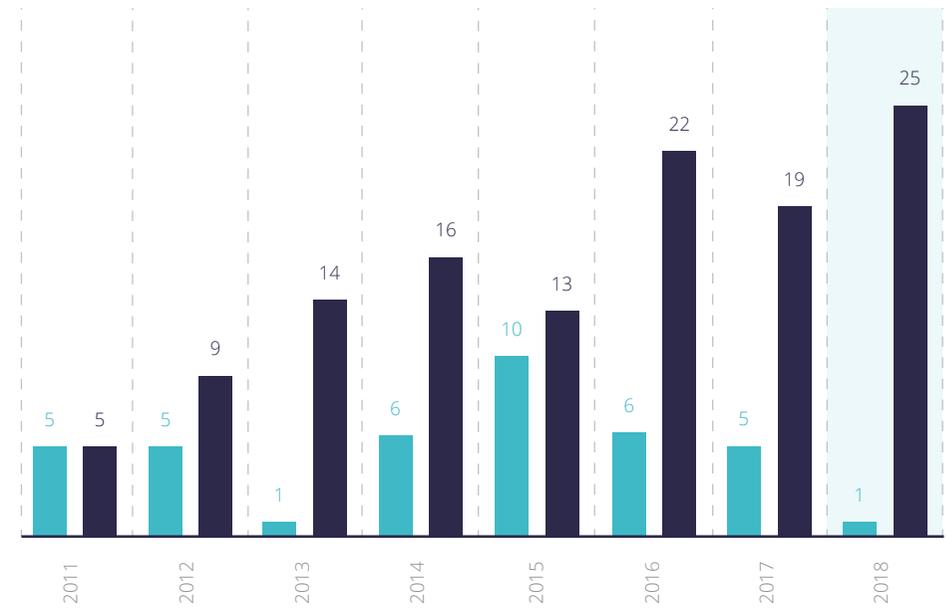
CASH RAISED THROUGH CAPITAL INCREASES ON MAB (EX-SICAVS)

(MILLIONS OF EUROS)



■ Capital increases with public listing      ■ Subsequent capital increases

CAPITAL INCREASES ON MAB (EX-SICAVS)



■ Capital increases with public listing      ■ Subsequent capital increases

### Number of companies admitted to trading on the Spanish stock exchange

At year-end 2018 there were 3,007 companies trading their stock on the Spanish stock exchange. There were 156 listed on the Stock Exchange (132 in the main market, 19 in the Latibex segment and 15 in any of the Spanish stock exchanges: Madrid, Barcelona, Valencia and Bilbao). The remaining 2,841 companies were admitted to trading on MAB (41 there were Growth Companies, 64 SOCIMIS and the rest, SICAV, SIL or ICRS) ([see web statistics](#)).

### The capitalisation of the Spanish stock market remains at over one trillion euros

During the course of the year and due to the simultaneous and generalised fall in share prices and the volume of investment flows channelled through the securities markets via capital increases and stock market launches, the capitalisation or added value of the companies admitted to trading on the Spanish stock market has registered a decrease of 12.8% for the year, to stand at 990.86 billion euros 2018. Therefore, the market value of the companies admitted to trading on the Spanish stock exchange remains at around a trillion euros for the sixth consecutive year and among the 20 largest stock exchanges in the world according to this indicator ([see web statistics](#)).

Between January 1 and December 31 of 2018, the only stock trading sector that accumulated increases in the market value of its companies was that of Oil and Energy: it grew by 7.6%, boosted by Renewable Energies. As for the other sectors with lower market values in the year, the worst record was Consumer Services with a 36% drop, followed by Consumer Goods with a decrease of 18% and the Financial and Real Estate Services, which saw its capitalisation in 2018 drop by 55.100 billion euros.

Of the group of companies admitted to trading on the BME platforms, the Spanish companies' capitalisation was 632 billion euros as of December 31, 2018. This value is twice the minimum of 337 billion reached in May 2012, but is still far from the 850 billion euros of market value reached by the Spanish listed companies in June 2007.

### REITs, the most active companies of the market in 2018

REITs were doubtlessly the biggest players on the Spanish stock exchange in 2018. Once again, for almost five years running, they proved their worth as an essential instrument in reactivating the real estate sector, one of the hardest hit by the crisis, which went from representing 6.6% of the total capitalisation of the Spanish stock market in January 2007 to 1.1% in May 2012 (3.169 billion euros). In 2018 the real estate sector (including REITs) had a stock market value of 27.71 billion euros.



## TRENDS IN THE REAL ESTATE SECTOR JUST BEFORE THE CRISIS

(FROM DECEMBER 2005 TO DECEMBER 2018)

	Starting value	Maximum value	Minimum value	Present value	Of which are REITs
Date	Dec-05	Jan-07	May-12	Dec-18	<b>Dec-18</b>
Capitalisation (Mn. Euros)	19.341,90	51,139.40	3,619.40	27,711.04	<b>22,504.00</b>
Weight of sector in the capitalisation of the Spanish stock exchange (%)	3.3	6.6	1.1	4.4	<b>3.6</b>
Nº. companies in sector	32	30	23	76	<b>69</b>

Since the REITs entered the Spanish market in force in 2014 their weight in the capitalisation of the real estate sector has continuously increased to represent around 81%. The market value of these companies has also increased, rising from 2.190 billion euros and 69 listed companies in December 2014 to 22.50 billion euros and 69 listed companies in December 2018. Throughout the year 2018, 21 new companies have been admitted to trading on the Spanish stock market, one on the Exchange and 20 on MAB. The growth of these companies is essential to the Spanish economic landscape, as their activity is directly linked to the production, employment and public revenue.

At year-end 2018, 5 REITs were listed on the Exchange: Inmobiliaria Colonial, Merlin Properties, Hispania Activos Inmobiliarios, Lar España and Arima Real Estate, with a market value of 11.99 billion euros. On 23 October Arima joined the Exchange. The other 64 REITs trade on MAB and their market value stood at 10.51 billion euros.

Two REITs listed on the Exchange merged in July 2018: Inmobiliaria Colonial (a company listed as such since 25 September 2017) and Axiare. The merger between Inmobiliaria Colonial (the absorbing company) and Axiare (as the absorbed company) occurred on 9 July, the date on which the new Inmobiliaria Colonial shares originating from the merger were admitted to trading and those of Axiare were excluded.

The five years since the appearance of the first REITs on the market have served to consolidate the presence of this subsector in the Spanish economy and the markets. In 2018, the REITs have executed 19 capital increases raising 1.17 billion euros, 38% more than on the same date in 2017. Of this amount, 794 million correspond to three increases carried out by the REITs listed on the Exchange and 379 million to increases carried out by those listed on MAB.

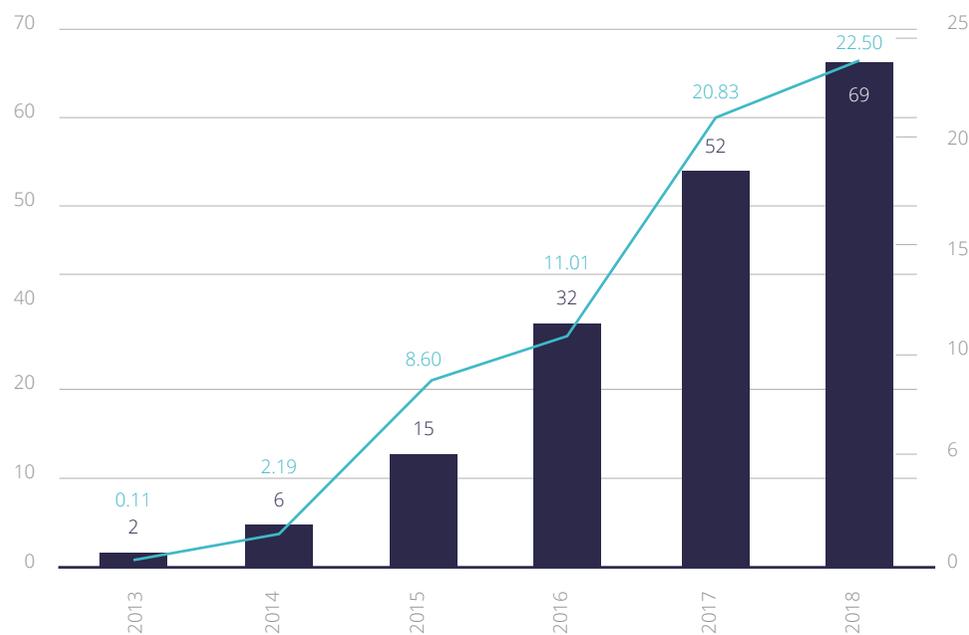
In terms of shareholder remuneration, during 2018 the REITs have distributed approximately 638 million euros in dividends, 2.2% of the total distributed by all the companies listed in 2018.

In respect of trading volumes, purchase/sale trades in REITs were crossed for an total annual amount of 10.93 billion euros. In the whole of 2017, REIT trading totalled 10.921 billion euros.

The five large REITs listed on the Exchange have a high percentage of foreign capital. 2018, the significant declared stakes of foreign investors in the equity of these companies were as follows: Merlin Properties 5%, Arima Real Estate 38%, Inmobiliaria Colonial 39%, Lar España 46% and Hispania Activos Inmobiliarios 91%.

### REITS ADMITTED TO TRADING ON THE SPANISH EXCHANGE

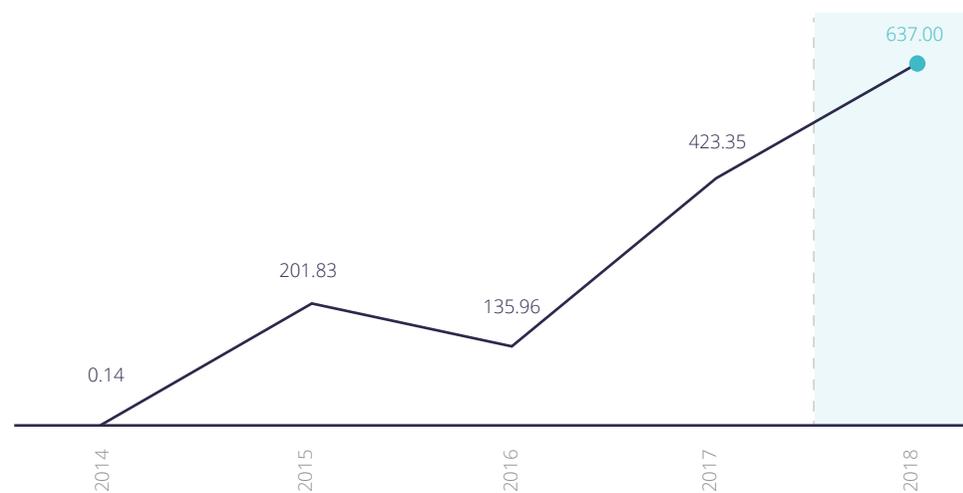
TRADED ON MAB AND MAIN MARKET



■ N° companies admitted to trading at close of each period    — Capitalisation (€ Mn)

### DIVIDENDS PAID BY REITS

(MILLIONS OF EUROS)

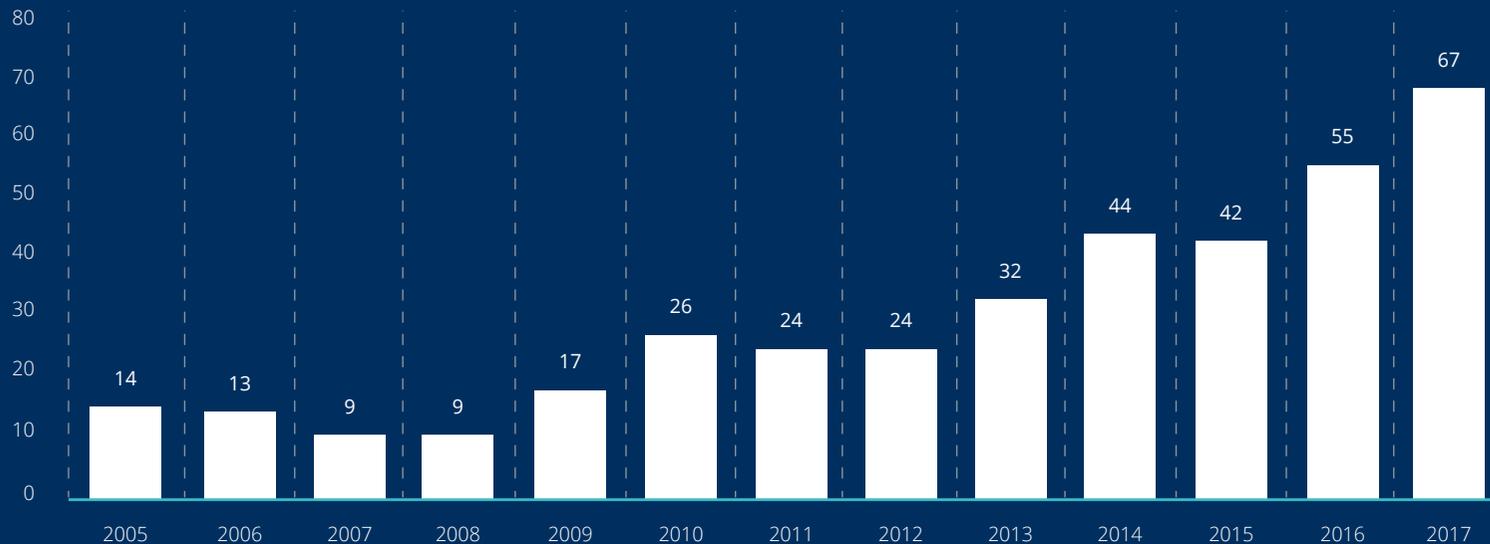


## Fixed Income

The adaptation of trading to the European regulation MiFID II with its more rigorous market and transparency rules, similar to those in effect for Equities, has taken up a good part of the efforts of all the Fixed Income Markets managed by BME. The aim is to cover the widest possible range of services which facilitate intermediaries and their client's trading in these assets adapted to the new regulatory requirements. In 2018, the Fixed Income markets and platforms have added both new formats, such as the option to trade according to the indication of interest for illiquid

instruments, as well as increased the number of issues available for trading. The objectives for the coming years is the reinforcement of the usefulness of the market for issuers and investors through the optimisation of the admission to trading processes of the different types of fixed income issues and the fee structure.

NUMBER OF SPANISH FIXED-INCOME ISSUING COMPANIES FOR BOTH SHORT- AND LONG TERM (2005 - 2017)



Source: Banco de España

In this manner the aim is to maintain the strong increase in the number of Spanish companies that raise funds through the issue of fixed income securities, which reached 67 in 2017, as detailed in a paper published by the Banca de España titled “The recent evolution of the non-banking financing of Spanish companies. This increase in the number of listed companies issuing debt has had and continues to have a decisive role in the Mercado Alternativo de Renta Fija MARFJ”.

### Lower issuing activity in 2018 around the world and in Spain

2018 has seen a significant fall, close to 30% with the data up until September, in the net long-term debt issues all around the world, especially in sovereign debt and non-financial corporate debt, whereas bank issues have risen slightly. The global negative performance has occurred as a result of a context of interest rate rises and less attractive financing conditions for the issuers of fixed-income securities.

In Spain the issue of senior and guaranteed bonds has fallen, whereas high yield bonds and the issue of hybrid debt has remained stable. The performance of issued debt was positive during the first quarter of the year. Numerous trades in corporate debt took place, encouraged by interest rates at their lowest ever, but this did not result in large issues by the financial sector due to the high level of liquidity in the banking system. Beginning in the second quarter the market began to show signs of a slowdown in issues, becoming almost non-operational in the summer due to the uncertainty generated by international and European factors: trade war, Brexit and the political uncertainty in Italy. The instability extended into the last quarter of the year and has paralysed the plans of the large Spanish companies that were expected to be admitted to trading during this period to refinance debt.

The Spanish banks have been active in raising resources to increase their capital buffer. Of particular note are the issues and admissions to trading on the Fixed Income regulated market of contingent convertible bonds (CoCos) carried out by CaixaBank and BBVA with the aim of meeting the capital requirements established by the European banking authorities and with placements restricted to institutional investors. Several analyses indicate that the Spanish financial system will need to issue “anti-crisis” debt amounting to more than 60 billion euros over the next few years. The placement of contingent convertibles and subordinated debt has been supported by investors seeking to increase the low returns of their debt portfolios. In spite of this, not even these assets have been able to avoid the instability and retraction of demand of the last few months of the year, with October being the first month since the middle of 2016 with no subordinated debt issues.

In aggregate terms, and in line with the international trends, both the main Spanish companies and banks have reduced their issues. The majority of these had covered their financing needs in the previous financial year to take advantage the low costs at that time, subsequently their needs for this period have further decreased. The market conditions became tougher in 2018 with higher returns being demanded by the market.

In 2018 the issues carried out and registered by Spanish companies in other countries have exceeded those registered in Spain by the CNMV, the national supervisor for the fixed-income markets. It is a practice that both the CNMV and the Spanish fixed-income markets managed by BME are attempting to revert with measures that simplify the issue and admission of fixed-income in Spain.

## Government Debt Activity

The outstanding balance of Spanish Government Debt on the BME Fixed-Income Market grew 4.9% year-on-year and is slightly above 100% of the GDP. At the end of December the auctions for 3Y Government Bonds closed with an average interest rate of +0.021%, the 5Y at +0.412% and the 10Y and 30Y bonds at an average interest rate of 1.456% and 2.677%, respectively.

### GOVERNMENT DEBT

VOLUME TRADED ON BME'S FIXED-INCOME PLATFORMS (MILLION EUROS)

	SENAF	SEND	Total
2017	137,618	146	<b>137,764</b>
2018	101,088	99,284	<b>200,371</b>
Var%	-26.5	---	<b>45.4</b>

In December 2017 the outstanding balance of Spanish regional debt was admitted to the SEND electronic trading platform and at the close of the third quarter of 2018 the listing and subsequent inclusion in the market's electronic platform of all the government debt issues for Germany, France, The Netherlands, Belgium, Italy, Austria, Portugal and Ireland and the European Stability Mechanism (ESM) was completed. After these admissions, the outstanding volume of government debt tradeable on the market's electronic platform exceeded €6.2 trillion.

Consequently, the electronic trading in Government Debt on BME's SEND platform has experienced a strong surge, reaching 99.28 billion euros this year, a figure that is nearly 700 times the trading strictly comparable with the previous year, in other words, that performed using electronic platforms in accordance with the MiFID II regulations.

In respect of Government Debt traded through SENAF, the debt market makers' multilateral platform also managed by BME, also reached a similar level: 101.088 billion euros.

## Corporate Debt Activity

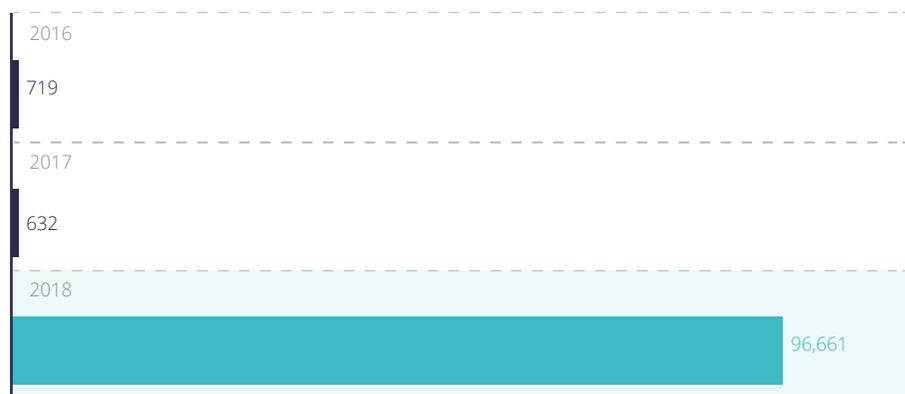
### AIAF Regulated Market

The weakness of the issues market has affected the volume of new issues admitted to trading on the AIAF Fixed-Income Market, which registered a fall of 36.8% to nearly 76.75 billion euros. The recurring issuers with medium- and long-term assets programmes have reduced their use, whereas the refinancing operations of the financial entities has barely reached 75% of matured debt.

The balance of outstanding private debt of the AIAF Fixed-Income Market has fallen 9.1% overall, down to 448.48 billion euros. The outstanding volume of short-term assets (promissory notes) experienced the biggest drop (-21.6%) due to the lower demand for these assets. The balance of medium- and long-term assets decreased by 8.8%, with the volume of hybrid debt (CoCos and preference) registering an increase.

### FIXED-INCOME REGULATED MARKET VOLUME TRADED ON SEND PLATFORM (2016-2018)

(MILLIONS OF EUROS)



**AIAF FIXED-INCOME REGULATED MARKET. ADMISSION TO TRADING  
OF PRIVATE MEDIUM- TO LONG-TERM PRIVATE DEBT**

(MILLIONS OF EUROS)

	2017	2018	Var%
Bonds and debentures	43,161	19,234	-55.4
Bonds	30,350	20,735	-31.7
Securitised bonds	28,635	18,925	-33.9
Preference shares	1,000	2,850	185.0
<b>Total</b>	<b>103,146</b>	<b>61,744</b>	<b>-40.1</b>

### The Mercado Alternativo de Renta Fija (MARF)

Of all the markets, MARF deserves a special mention due to its sustained growth and growing relevance within the alternatives which are contributing to driving the diversification of business financing in Spain. It was designed as a Multilateral Trading Platform in 2013 in order to efficiently incorporate the issues of companies of differing sizes into the Fixed-Income markets, many of which had no presence in the capital markets. Since its beginnings 2018, 57 companies have used it for financing.

MARF finished 2018 with an outstanding balance of corporate debt issues totalling 3.3 billion euros, composed of just over 1.57 billion euros in promissory notes and 1.75 billion euros in bond issues. The outstanding balance was up by 46.9% compared to 2017.

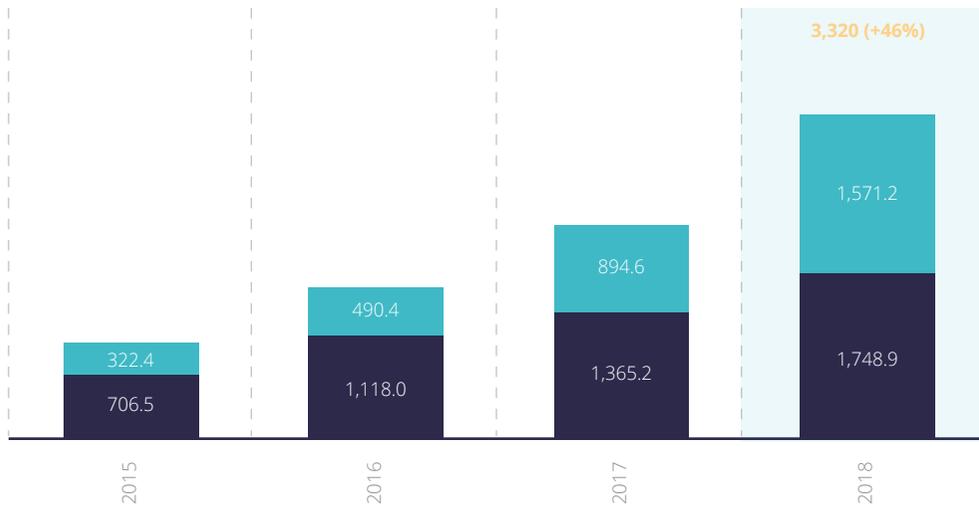
As of 31 December 2018, 35 companies have used MARF to cover their financing needs, either through the registration of promissory note programmes or the launch of bond issues. Of these, 12 were newcomers and the other 26 had already conducted such operations in the past. From among the latter, it should be noted that the refinancing processes that some of the companies have carried out during this period which had already issued bonds in 2013 and 2014, such as COPASA, AUDAX, Elcano and Grupo Ortiz, these first issues are now approaching maturity they have been refinanced through MARF.

Among the new companies admitted to trading on MARF, this year sees representatives of new sectors, TSK and Sorigué for engineering, COBRA for energy, HOTUSA for hospitality services or hospital management services companies such as the Portuguese company José de Mello Saude, also joined by the Portuguese company SUGAL, which already issued in 2015.

Overall, in 2018, the volume of issues and admissions to trading on MARF totalled 6.357 billion euros, 60.1% up on the same period of 2017.

FIXED-INCOME ALTERNATIVE MARKET (MARF) OUTSTANDING BALANCE AT CLOSE OF PERIOD (2015-2018)

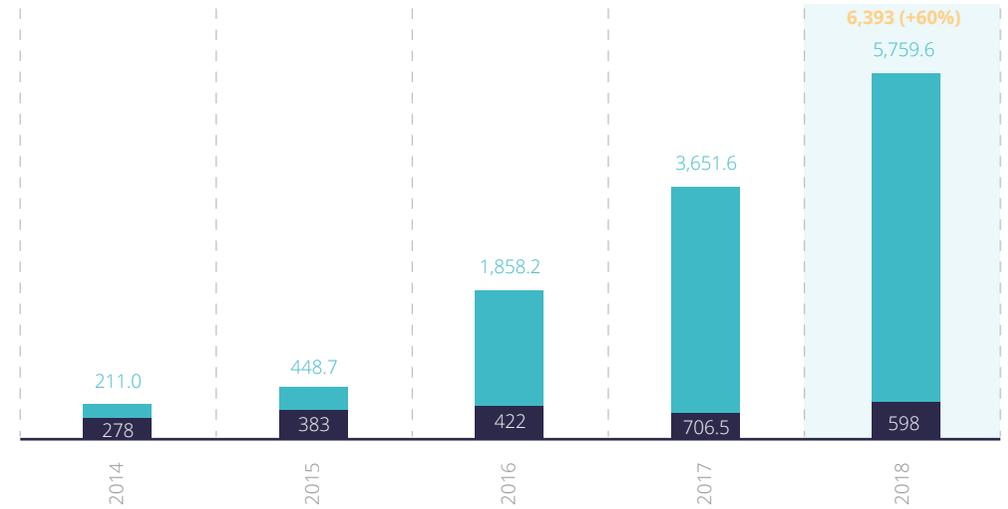
(MILLIONS OF EUROS)



■ Bonds ■ Promissory notes

FIXED-INCOME ALTERNATIVE MARKET (MARF) VOLUME ADMITTED TO TRADING DURING THE YEAR (2014 - 2018)

(MILLIONS OF EUROS)



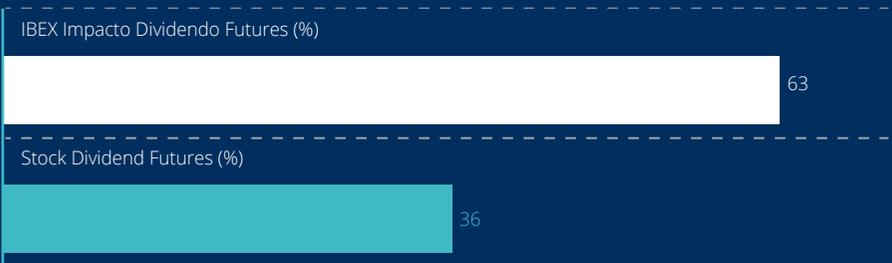
■ Bonds ■ Promissory notes

## Financial derivatives: Options and Futures

The reference market for index and share based derivatives, MEFF, commenced the 2018 financial year under the MiFID II regulations, which for the first time included derivative products in the scope of application of the legislation and its implementing European and domestic regulations. The adaption process of the market operations, as well as the market intermediaries has been long and costly, but it strengthens MEFF's position as the regulated market of reference for the derivative products in Spanish underlyings, and it is already prepared to extend the range of products, attract new participants and to continue improving transparency, liquidity and training for participants aimed at obtaining a better specialisation and knowledge of trading in derivative products as a good tool for hedging portfolios.

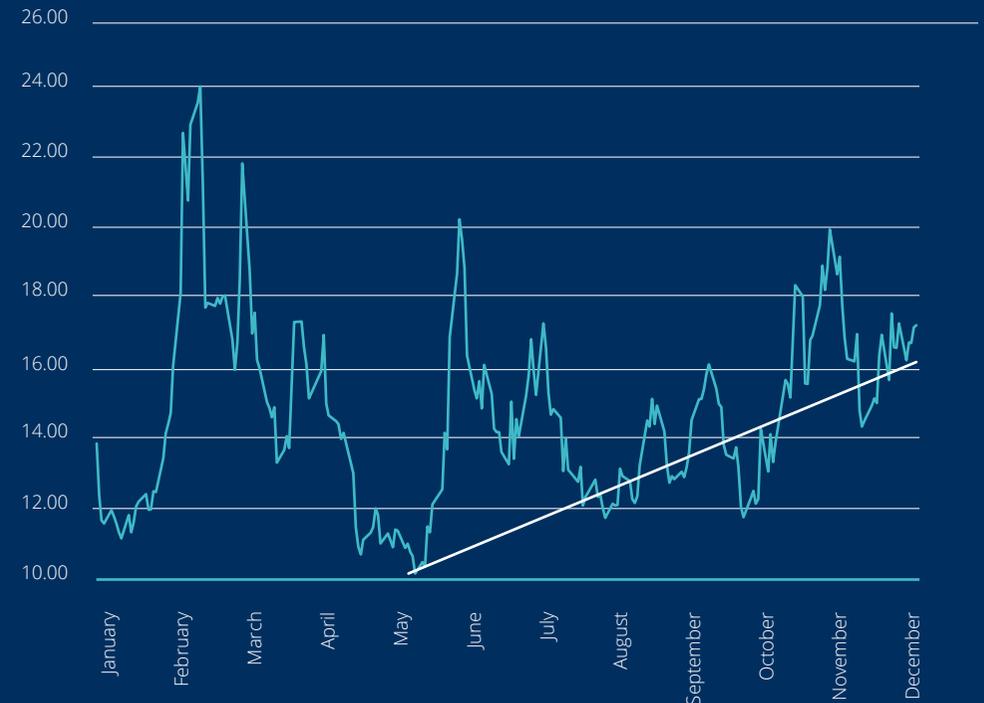
### DIVIDENDS ALSO GENERATE GROWTH IN THE SPANISH FINANCIAL DERIVATIVES MARKET

VARIATION IN VOLUME OF CONTRACTS TRADED PERIOD FROM JANUARY TO 2018 COMPARED TO IN 2017



### VOLATILITY STILL VERY LOW BUT PICKED UP IN 2018 FROM ITS MAY LOW

SPANISH STOCK EXCHANGE'S VIBEX INDEX (%)



## OTC product standardisation

The new MiFID II regulation provides the derivatives market managed by BME the opportunity to standardise products traded on OTC markets, attracting transactions to the regulated market. MEFF has the transparency of the market that is regulated and supervised by the CNMV, the reliability of a tested trading platform with decades of experience and the security provided by an authorised Central Counterparty (CCP) subject to the European Markets Infrastructure Regulation (EMIR).

## Volatility remains very low in accordance with the VIBEX

The low volatility observed in the market in 2017 continued in 2018, and again had an adverse effect on trading in options and futures. As of 2018, the Spanish market has an index known as the VIBEX, which monitors market volatility in real time using the most liquid options on the IBEX traded on MEFF. According to the VIBEX, the daily average implied volatility of in 2018 was 15%, a 0.3 point fall with respect to the previous year and 8.5 points less than in 2016. Although the volatility peak of 2017 has not been reached, the trend in 2018, as of May, has been positive, with the last week of December consistently exceeding 20%. The swings in volatility during the year have been less than in the previous two years. This exceptional behaviour of the implied volatility with regard to historical averages on MEFF is evidenced by the fact that the average indicated by the recalculated historical data of the VIBEX since 2008 was 24%, more than 9 points higher than the level for 2018.

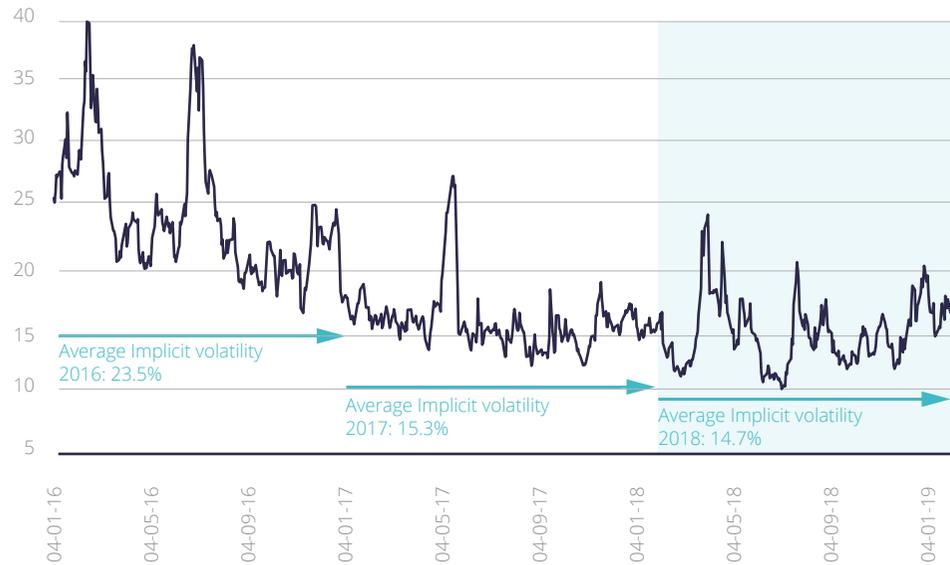
## Lower trading activity

In 2018 there were 43.5 million trades in futures contracts and options on underlyings related to equity, indices and shares, a fall of 2.4% with respect to the previous year ([statistics table on website](#)). Trading in the main product of MEFF, IBEX 35 Futures contracts, was up by 1.2% compared to the same period the previous year. The younger products traded on the market, related to the hedge dividends, were up by 63% in the year overall in the case of the IBEX 35@ Impacto Dividendo futures, whereas dividend futures rose by 36% for the year.



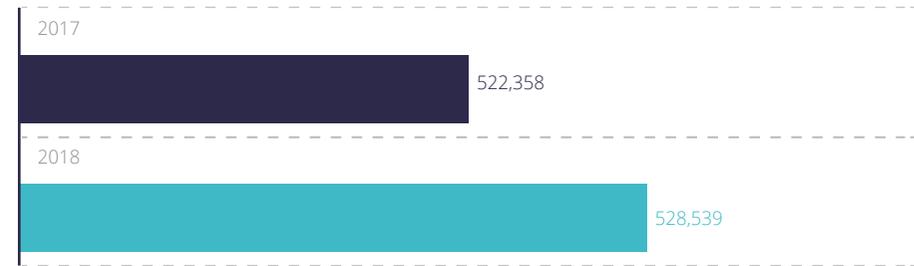
### SPANISH STOCK EXCHANGE'S VIBEX INDEX

2016-2017-2018 VOLATILITY IDAILY DATA %



### AVERAGE MONTHLY VOLUME OF IBEX 35 FUTURES

Nº OF CONTRACTS TRADED ON MEFF 2016 - 2018



In another of the products for which MEFF is the leading market, the options whose underlying is single Spanish stocks, the volume traded remained stable (-0.4%) compared to the previous year. Trading in futures on individual stocks also fell by 8.3%. In both cases, the negative year in terms of returns and volume traded suffered by some of the main securities on the Spanish Exchange have weighed heavily on the trading in their derivatives.

## Clearing

BME CLEARING, in its role as the Spanish Stock Exchange's Central Counterparty, offers clearing services in five segments: the financial derivatives instruments traded, the electricity derivatives instruments registered, simultaneous purchase-sale transactions (repos) for Spanish Government Debt, purchase-sale transactions for securities traded on the Stock Exchange, and OTC interest-rate derivatives transactions.

### REPOS CLEARED IN BME CLEARING

AVERAGE LAST 10 DAYS OF THE MONTH (€ MILLION)



## Energy

May 2018 saw the successful launch of a new counterparty clearinghouse service for natural gas within the Energy segment. Since then it has already commenced trading with 23 settlement participants for gas, with a registered volume up until October of 1.4 TWh, and with an open interest at the end of 2018 of 1.1 TWh, both figures far in excess of the most optimistic estimates.

The expectations of future development for gas are high, in a market with perspectives for strong growth in volumes over the coming years. It should also be mentioned that the whole physical nomination process in the virtual balancing point managed by Enagás functions without incident and there are already products registered with physical delivery for the next two years.

In addition to gas, the energy derivatives segment has continued to attract interest from numerous entities active in the sector for electricity, increasing the number of participants from 146 entities at the end of 2017 to 158 settlement participants at the end of 2018. The volume registered in electricity totalled 12.4 TWh with an open interest that reached a volume of 5.5 TWh 2018, in line with the volume of the previous year.

## IRS SWAPS

The SWAPS segment offers a central counterparty service for OTC derivative trade on interest rates. It commenced its activities in 2016 and in the last 12 months has registered a total volume of 147 million euros.

Currently, the segment boasts 8 settlement participants. It is expected that the number of participants will increase considerably with the entry into force of the obligation to register with a clearing house in June 2019. The open interest has increased since the beginning of the activity to reach a total of 463 million euros at the end of 2018.

## Equities

The Equities segment provides the central counterparty service for securities traded on the Spanish Stock Exchange. The segment began operating on 27 April 2016 and its implementation was an important and significant part of the reform of the clearing, settlement and registration system in Spain.

It achieved another milestone in September 2017 by successfully connecting BME CLEARING to the Pan-European securities settlement platform Target2 Securities, thereby concluding the second and last phase of the reform.

In 2018 it registered a daily average of 347,988 transactions with a daily average of net cash volume (single side) traded totalling 2.23 billion euros, 12.19% lower than in 2017, and an average volume of securities of nearly 571 million per day. Currently, the segment boasts 27 clearing members.



## Financial Derivatives

Measured in trades, the activity of the financial derivative segment as a whole was slightly down 2.4% lower compared to 2017.

The activity in the primary clearing instrument, IBEX 35 Futures, was 1.2% higher compared to the previous year.

A total of 12.1 million index-based futures and options contracts were settled, a figure practically the same (-1.25%) as that of the same period of the previous year. 31.4 million stock options and futures contracts were cleared, 2.9% less than the same period of the previous year.

The open interest on IBEX 35 futures has remained at an all-time high, at over 87,100 contracts. The open interest in IBEX 35 options has soared by 13.7%, that on stock options increased by 4.3% and it did so by 5.7% for stock futures.

## Repo

The REPO Fixed-Income segment offers a central counterparty service for Spanish Government Debt repo transactions, thus eliminating the counterparty risk for the settlement participants. During 2018, the total volume registered reached 155.63 billion euros, with a monthly average of 179 transactions.

Currently, the segment boasts 25 settlement participants. The open interest, i.e., the average outstanding balance of non-expired transactions, equivalent to the facilitated financing, was 8.24 billion, with an average financed term of 26 days.

By the end of 2018 BME CLEARING and NEX MARKETS reached an agreement whereby participants in the platform owned by NEX, BROKERTEC, leader in electronic trading of Spanish Public Debt repos, may operate in it and send their transactions to BME CLEARING for registration and clearing. On December 17, the connection between the platform and the Central Counterparty was successfully implemented.

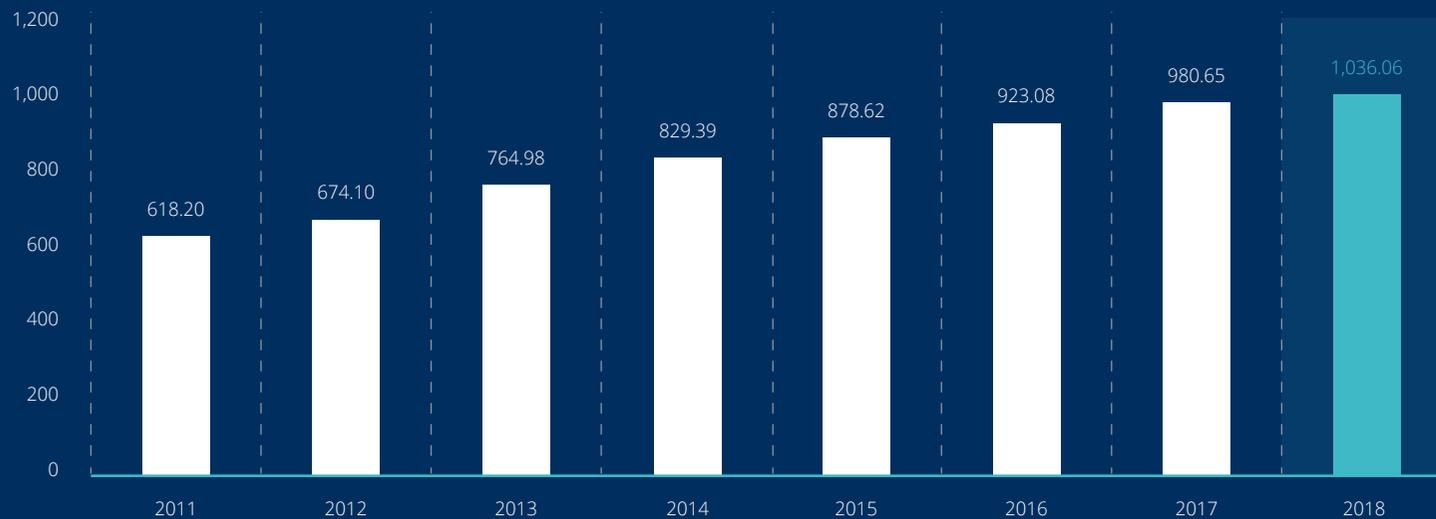
## Settlement and Registration

The number of instructions originating from stock market operations settled through IBERCLEAR in 2018 show a small increase of 0.83% compared to the same period a year ago, reaching a monthly average of 0.64 million trades. This increase consolidates the levels to which these fell in 2017 after the entry into force of the System Reform with the interposition of the Central

Counterparty, or clearing house between the market and depositing entities. The resulting transactions netting prior to settlement resulted in less transactions in IBERCLEAR.

### OUTSTANDING BALANCE OF PUBLIC DEBT

(BILLIONS OF EUROS)



In respect of the corresponding cash volume settled, there was a fall of 0.17% as 7.52 billion euros was settled on an average daily basis, compared to 7.53 billion the previous year.

The nominal balances recorded at decreased by 5.88% in the securities listed on the BME Fixed Income market and increased by 5.65% in the Government Debt Market. Equities dropped by 12.93% at market prices.

### Settlement via the European T2S settlement platform continues as normal

Within the scope of T2S, after the successful completion of the migration with the Final Wave in which the most significant CSD was IBERCLEAR, the migration of the Slovakian CSD NCDCP a month later highlights the correct functioning of the technical platform in general lines.

Relevant milestones in 2018 worthy of mention would be the correct implementation of important releases of the T2S software in February, June, September and November, as detailed in the annual planning agreed between the ECB and the CSDs and Central Banks participating on T2S.

The Danish Krone (DKK) was admitted as an eligible currency to settle trades versus payment with the euro no longer being the only currency, and the migration of the Irish Central Bank and the French CSD, ID2S, to the technical platform, all taking place on the last weekend in October, as planned.

Lastly, the Finnish CSD, Euroclear Finland, is still working with its community to reschedule its migration to T2S. This will not take place until October 2019 and there is no specific planned date as yet. They insist that they are committed to migrating to T2S, although it should be remembered that the first planned migration date was that of the Final Wave, the same one as IBERCLEAR, in other words, September 2017.

### Other initiatives

In respect of CSDR, last March IBERCLEAR published its CSD-R White Paper on the implications the implementation of this European legislation would have on settlement participants. In December 2018, IBERCLEAR continued with the authorisation process as a Central Securities Depository.

The regulatory technical standards on settlement contained in the CSD-R were published last 13 September and shall enter into force two years after their official publication date, in other words, next 14 September 2020. These will directly affect the operations of the settlement participants on IBERCLEAR, and particularly the volume of fails that may be generated on a daily basis.

The CBS (cross-border services) project commenced last 17 December. Developed based on the agreement signed with Citi in October 2017, it offers Spanish financial entities the option to settle international securities through IBERCLEAR, which shall act as the sole point of access for all markets, in both the T2S zone and outside it, providing asset settlement, custody and management solutions.



BME in SIBOS, the main securities post-trade event worldwide.

## REGIS-TR activity in 2018

REGIS-TR maintains its position as the second largest trade repository in Europe, with more than 1,600 open accounts (200 more than the previous year) processing between 10 and 12 million messages a day.

During the year, REGIS-TR has headed, together with DTCC, the list of European repositories in the number of transactions received, with 987 million new registered transactions during the first three quarters.

REGIS-TR has consolidated itself during this year as a foreign repository for the regulatory reporting services it offers under the Swiss FinfraG regulations, the EMIR equivalent in the alpine country. The company has reached a considerable number of clients and, of the six Swiss authorities that must be able to access the data as stipulated under this regulation, REGIS-TR has registered three of them and has established contact with the other three.

The intentions of regulatory bodies are clear in the well-known EMIR regulatory environment. During this year ESMA has focused its requests for the TRs to optimise the information reported so that the European regulators can make reliable use of the data in their supervision tasks. It is for this reason that the request to completely align the content of the reports between the two formats for providing data to the regulators (CSV and XML) has resulted in a considerable improvement in the quality of the information contained in the reports.

Other projects that represent a great challenge due to the technical specialisation and sophistication of the systems forming them are: Portability of data between the European repositories, the position calculation project consisting in providing regulators with reports that show the aggregation of data representing the open interest of the counterparties, and the third phase of the TRACE project that also introduces improvements to the ESMA common information portal.

As a result of the new challenges associated with the EMIR services comes the idea to form an association representing all the TRs with the aim of giving the industry a voice in the bodies of the European Unions. The TRs are in talks to define the bases of this association.

REGIS-TR has also been involved in the departure of the United Kingdom from the European Union. In order to cover the reporting services in this market, REGIS-TR will create a new entity in the United Kingdom and will apply to be recognised as a data repository in order to continue providing a service to its clients under a new regulatory framework, supervised by the competent authority in the United Kingdom, the Financial Conduct Authority (FCA).

Meanwhile, the project for the provision of reporting services under the Securities Financing Transactions Regulation (SFTR) is at a very advanced stage. In January 2019 the first version of the system will be available for clients. Thanks to the commercial efforts being made and the demonstrable experience of the parent companies (IBERCLEAR and Clearstream), a considerable number of potential clients are interested in reporting those products through REGIS-TR. It is expected that the new service will be launched during the first quarter of 2020.

With regards to its position as repository to the community of supervisors and regulators, REGIS-TR offers information to 38 European regulators through the REGIS-TR and TRACE regulators' portal, the common information portal of ESMA, processing more than 250 million messages a day for the regulators. ([more information on the website](#))

## Market Data and Value-Added Services (VAS)

Solidity and progression in the management of information generated by BME

In 2018, BME Market Data continued to add new content to its information supply. During this year, the monthly average of delivery points where information has been disseminated in real-time of the more than 98,000 Equity, Fixed Income and Derivatives Instruments and Indices managed by BME group exceeds 90,000.

Turning to new content available in real time, BME Market Data has integrated the new APA BME service managed by BME Regulatory Services into the BME Data Feed. On 3 January 2018 it began to publish the details of the OTC trades on financial instruments carried out by the investment services companies, as well as the firm share prices of the systematic internalisers subscribed to BME Regulatory Services. Throughout 2018 BME Market Data has also incorporated the new indices calculated by BME into its range (on volatility and strategy on IBEX 35 options).

During the year the number of BME Market Data clients remained stable and saw an increase in the number opting for a direct connection to the information servers. These clients are seeking to minimise reception processing time of the information for which they are signed up.

BME Market Data has expanded its line of products and analytical end of day services with the inclusion of the Daily Government Debt Bulletin, published up until September this year by the Banco de España and prepared as of this date by BME Group, which includes the price and IRR of the transactions carried out on both Government and Regional Government Debt.

New derivative products have been created with the entry into force of the MiFID II regulations, such as the FIRDS securities master files, the end of day information generated by the APA BME or the PRIIP KIDs files for options and futures, and the contents of the already existing information products have been expanded with the inclusion of the new instruments that the different BME markets have integrated into its platforms throughout the year. BME Market Data currently delivers more than 2,700 end-of-day files at the end of each session.

BME Market Data continues to improve the hosting and connectivity services known as “BME Co-Location”, “BME Proximity” and “BME London HUB”. These services have become a key pillar in daily operations of BME contracting and information dissemination platforms. Clients are guaranteed the least possible delay in accessing these systems and a robust connection with the various BME Group operating environments. Along these same lines it should be noted that in 2018 BME Market Data took over the hosting and support services of those entities interested in providing connectivity to third-parties within the BME Data Processing Centres.

BME business unit continues exploring opportunities to launch new products and added value services aimed at market participants. The challenges which have come from the regulatory environment, together with constant technological innovation have required BME Market Data to constantly improve and create new information products which fulfil the market participants' new and sophisticated requirements. BME Market Data retains permanent contact with its clients in order to know first-hand their requirements and gain key knowledge to be able to move forward in the challenges related to information sharing.



## LED Latam\_Exchanges\_Data

With this very same philosophy in mind, beyond our borders, BME has promoted the creation of two companies to drive the Market Data business in Latin America with the assistance of Bolsa Mexicana de Valores (BMV). The first company, which will direct the project and is responsible for the definition, development and commercialisation of the products, was incorporated in Miami (United States). The second will have its corporate headquarters in Mexico City.

The goal behind this joint initiative is to promote the generation, distribution and sale of information relating to the Latin America stock markets using the highest levels of automation and processing, information that is absolutely essential and in high demand by those entities with interests in said markets.

### Other Value-Added Services: BME Inntech

The process to reorganise BME's activities in relation to technology, regulation and innovation which began in 2017 was consolidated in the course of 2018, and this now enables BME to offer Fintech services which can be added seamlessly to the value chain of processes in relation to investment and financial advisory services.

Subsequently, BME Inntech acts as a supplier of global solutions that permit the comprehensive automation of the Front and Middle Office of the activities associated with the investment, portfolio management and financial advisory services business processes as well as the registration of clients with the entities providing these services.

Within these solutions is the contribution of the Openfinance subsidiary, a leader in Spain in the supply of the Wealth Management technology platform, and which has consolidated its international presence during 2018 with new projects in Portugal, Mexico and Chile for the provision of tools to automate financial advisory processes.

By combining the talent of our professional BME Inntech team with a dedicated commitment to continual innovation and the solvency and robustness of the Spanish Stock Exchange, we intend to consolidate our position as the leading supplier for these types of services in the Spanish and international securities market and provide our clients with the highest standards of quality each day.

In respect of the BME Inntech services that respond to the ever increasing demand of legislation, it should be noted that this year has seen the consolidation of its subsidiary, BME Regulatory Services, which offers a single window to the financial system institutions so they can manage compliance with legal obligations arising from their activity in financial markets.

These services complement the range of regulatory compliance solutions that are already provided by BME Inntech, among them the Regulatory Reporting Services (SIR) reporting to the CNMV and Market Abuse Services (SICAM), which expanded considerably during the year. In addition to the above are the Best Execution Reports, which publish a summary of the analysis and the conclusions reached from the in-depth monitoring of the quality of the execution obtained on the markets where all the orders of its clients have been executed during the previous year by each class of financial instrument, and the Transaction Cost Analysis, which gauges the quality of execution obtained by the different brokers in the different markets in which the ISCs (investment services companies) operate. Lastly, this year has also seen the launch of the Smart Order Routing Service (SOR), which facilitates the automatic access to the liquidity of services that are listed on more than one market or alternative platform, guaranteeing the application of the best execution policies defined by the contracting entity.

In respect of the projects that BME carried out in other countries, this year the Colombian Exchange has started up the Master Trader service, fully developed by BME and which provides the routing and the screens that allow market members to send orders to the fixed-income market. During 2019 an identical functionality for equities and derivatives will be implemented.

With regard to the Algerian financial system, 2018 saw the completion of the development of the equities and private fixed-income trading systems, the routing and the information dissemination system, with these being implemented during 2019. Also, work is underway to implement the Clearing and Settlement system, which will take place in 2019.

Lastly, the Ukrainian market supervisor is currently seeking advice regarding the situation of the local market and how it compares to the European markets and international standards.

The regular services provided by BME Inntech have remained stable throughout the year, especially Online Broker Services, with these being implemented in a new entity and the consolidation of the existing ones, thereby providing service to more than five hundred thousand end users in Spain with information solutions and market order routing.

