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Areas

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1. EQUITIES

The 2019 balance sheet for equities markets in Spain was dominated by conflicting factors that pushed returns upward in general - and sharply in many cases - while the level of activity was slower than in previous periods. The IBEX35® grew 11.8% in the year, with 66% of listed securities performing positively.

Market capitalisation remained above one trillion euros, in the club of the largest stock exchanges in the world. However, share trading registered an annual cumulative decrease of around 20% and IPOs were put on the back burner. Both of these weakening trends are global and, especially, European. However, capital increases by Spanish listed companies performed slightly better than in 2018. This resulted in an annual volume of financing flows of 16.71 billion euros, an outstanding figure in the international context.

The best activity was in dividends and the growth of the group of smaller companies on the Spanish stock market. Total dividend remuneration and other payments amounted to 31.71 billion euros in 2019, 5.3% more than the previous year, with MAB companies recording notable increases in prices, trading and financing volumes captured in the market.

Returns and investment

Global stock prices performed very positively in 2019, despite the economic and geopolitical uncertainties. The reason for this was the relative improvement in the concerns that had built up at the end of 2018 and the radical change in the slant of central bank monetary policy in the world's main economic areas. At the end of December, the annual increases in the global stock market indexes of developed markets ranged between 9% for the Hong Kong Stock Exchange index and 38% for the US Nasdaq 100. The accumulated increase in the year was over 25% in most European indexes.

The IBEX 35® was up 11.8% in the year. Prices were bullish until April interrupted their upward path, as the commercial confrontation between the US and China intensified, while other sources of uncertainty - such as the slowdown of activity in the Eurozone and doubts about how Brexit would unfold - also intensified. Most of this annual gain accumulated in the first quarter of the year (8.2%), with a slight decrease (0.4%) in the second and a 0.5% increase in the third, following a new phase of recovery in prices in September due to the new measures adopted by the European monetary authority and the Federal Reserve's rate cut.

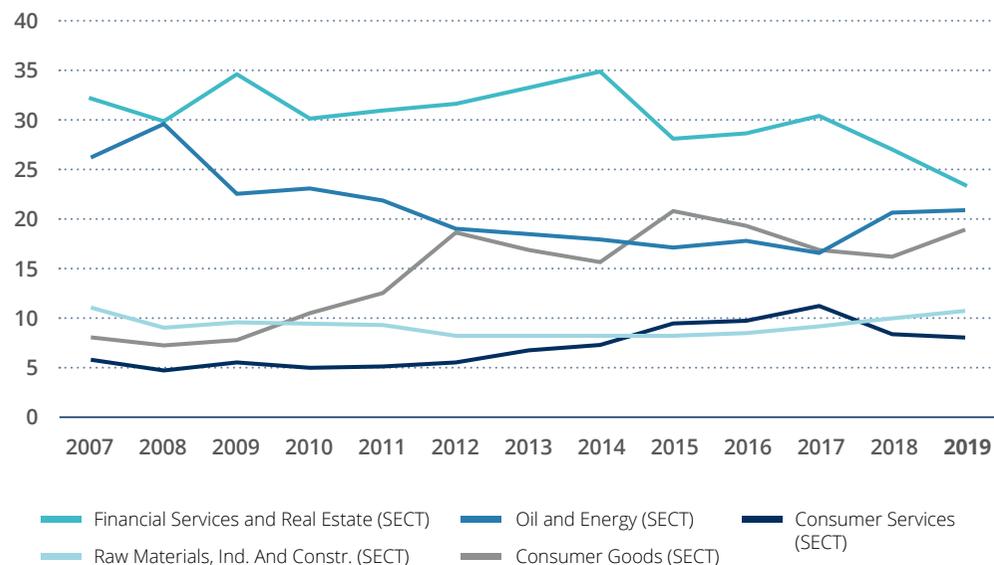
The IBEX 35® began the year with substantial price increases, but these moderated as the quarter progressed. The upward path reversed, ending the second quarter down 0.4%, after some daily falls of more than 1%, bottoming out at 8,519 points on 15 August. The IBEX 35® then climbed back above 9,000 points until reaching an annual high of 9,700.5 points on 27 December, ending the year 11.8% higher.

One positive aspect in relation to investor sentiment about Spanish stocks in 2019 is that it was one of the few years out of the last 15 in which the annual stock exchange performance in terms of prices was always positive, despite the oscillations. This happened in 2014 and also in 2007. The maximum annual increase in 2019 (measured using monthly closes) was in April, at 12.07%, and the smallest in August, at 3.02%. Most months ended with more than an 8% annual increase

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WEIGHT OF SECTORS IN THE SPANISH STOCK MARKET

CAPITALISATION OF EACH AS A PERCENTAGE (%) OF THE SPANISH STOCK MARKET AT THE END OF EACH YEAR



However, the performance of the IBEX 35® in 2019 was weaker than that of other reference European (Euro Stoxx 50, +24.78%) and global (Stoxx Global 1800, +25.24%) indexes. This was influenced by the weak performance of banking stocks, which account for a large share of the main Spanish index. The IBEX 35 banks index fell by 3.4% during the year, while the construction index grew by 27.5% and the energy index was up 12.3%, offsetting the decline in the financial sector, but not enough to put the IBEX 35® on a par with its European counterparts. Internal political factors were also unhelpful: two lots of elections and tensions in Catalonia.

The thinning out of the financial and banking sector in the world and Spain in particular is gradually correcting the excessive influence of banks in Spanish stock indexes in favour of other sectors. In the last two years, the banking and real estate developers sector has lost seven points from its share of the Spanish stock exchange in terms of capitalisation, and 12 points in the last five years. The financial sector currently accounts for 23.3% of the capitalisation of listed Spanish companies, while the oil and energy sector accounts for 20.5% and the consumer goods sector 18.9%, when it only represented about 7% just ten years ago.

The current capitalisation of the banking and real estate developers sector is still 72% below its pre-crisis peaks in 2007. This gives an idea of the significant negative impact on this group of companies during the last 12 years, which is directly reflected in its stock prices.

In terms of returns from prices, the largest increases in 2019 were in the shares of smaller companies. The IBEX Small Cap®, comprising 30 companies, gained 9.4% in the first quarter, and fell back by just 1% in the second and third, to accumulate an annual gain of close to 12% by year-end. The price performance of the IBEX Medium Cap®, comprising 20 companies, was more moderate, held back by the uncertainties in conditions. It gained 4.7% during the first quarter and lost 1.4% and 5.5% in the second and third quarters. The year ended with accumulated annual gains of over 8%.

The securities of smaller listed companies, specifically those in the Alternative Stock Market (MAB), provided the best aggregate price performance in 2019. The IBEX MAB15® returned one of the largest annual increases of any stock index worldwide, up 65.4%. This index includes a group of companies from very diverse sectors that were a focus of increasing interest for many investors during the year, as the major increase in trading of MAB securities in 2019 shows.

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Capitalisation exceeds one trillion euros

The slight increase in prices and the increase in funding obtained by companies through capital increases had an increasing impact on the capitalisation or added value of companies listed on the Spanish Stock Exchange, which was up 11.5% in December 2019 compared to the same month in 2018. This took capitalisation past one trillion euros again, to 1,105,662 million.

The strongest gainer in market value in the year was the oil and energy sector, which increased its capitalisation by 14%, mainly due to Iberdrola, which was up 30% at 58.40 billion euros. It is also important to mention the 33 billion euro increase in the consumer goods sector, where Inditex was the main driver of growth during the year. This textile group's share price rose by 40% compared to the beginning of the year, with its market value increasing proportionately to 98 billion, putting it in first place in the ranking of companies by market capitalisation, ahead of Banco Santander.

Of total capitalisation at 31 December 2019, 710.7 billion related to Spanish companies. The market value of domestic listed companies increased by 78.68 billion during the year.

A total of 2,870 companies had shares admitted to trading on the trading systems managed by BME as at 31 December 2019.

Dividends: International reference

One of the factors that underpinned and drove stock market activity in 2019 was the various forms of shareholder remuneration, especially dividends. In 2019, 55 publicly traded securities out of the 85 in the three main IBEX indexes generated returns through annual dividends alone in excess of the 0.43% offered by the 10-year Spanish bond at 31 December 2019. Of these, 22 returned above 4% and 15 more than 5%.

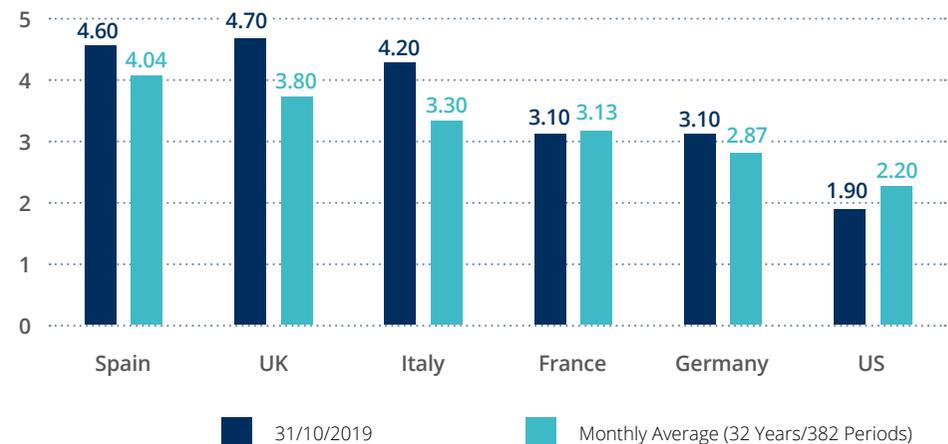
SHAREHOLDER REMUNERATION ON SPANISH STOCK EXCHANGE (2006-2019)

PAYMENTS IN CASH AND SHARES. (MILLION EUROS)



LEADING INTERNATIONAL POSITIONS FOR DIVIDEND YIELDS

IN %



Source: Morgan Stanley Cap. Int (November 2019)

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The dividends of Spanish listed companies once again led the way for returns worldwide with the Spanish stock market again in a leading international position with annual returns from dividends of 4.5% at the end of December 2019, according to standardised MSCI data. In the last 12 years, the ratio that MSCI calculates for Spain has never been less than 4% in any month; in other words, it has exceeded that level for 144 consecutive periods. The historical average of this indicator for Spanish listed companies over the last 32 years (383 months) is 4.04%, putting it in first place for this ratio compared to other developed economy stock exchanges.

The Spanish stock exchange has been a leader for years in this section among all developed international stock markets. This sustained difference over time may be one of the factors that most attracts foreign investors to invest and take an active interest in the day-to-day business of our listed companies. Based on data from a year ago, non-residents owned 48% of the shares of Spanish listed companies, 14 points higher than 12 years ago.

Total shareholder remuneration in the Spanish Stock Exchange was 31.71 billion euros in 2019, 5.3% higher than in 2018. Of that, 30.54 billion was in the form of dividends, 6.1% up on the previous year. In 2019, 142 companies listed on BME's equity markets distributed dividends. Of these, 88 were publicly traded (4 were REITs) and the other 54 were listed on the MAB, of which 39 were REITs.

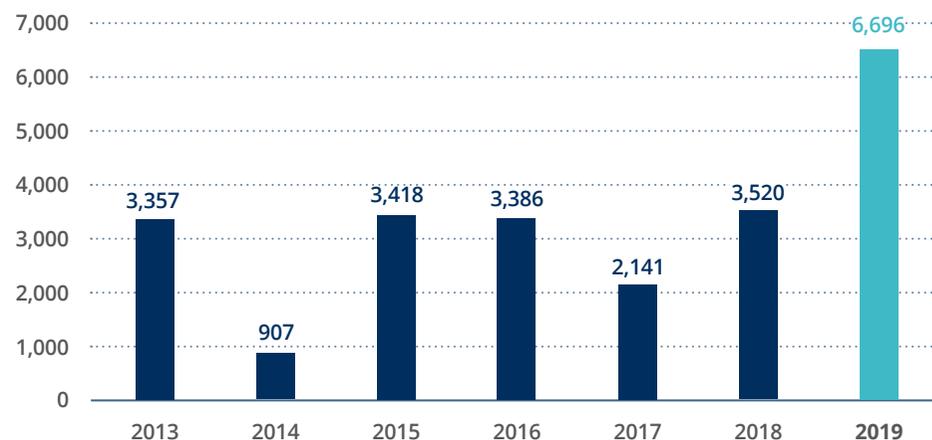
Companies listed on the Spanish stock market have paid out dividends of just over €454.55 billion so far this century, or 69% of the current market value of all listed Spanish companies. The average gross dividends paid out by listed companies to their shareholders between 2000 and 2005 amounted to 10.89 billion euros. In 2006, this figure was 21.81 billion and, since then, it has not fallen below 23 billion euros. And over the last 4 years it has never been less than 27 billion euros.

Dividends have a very significant effect on the long-term performance of the Spanish stock exchange. For example, from the trough of the crisis in 2012 to 31 December 2019, while the IBEX 35 grew by 60.32%, the IBEX with dividends increased by almost twice as much, by 119.08%.

In comparison, the current dividend yield (4.5%) is almost eleven times the yield offered by the so-called "risk-free interest rate" on 10 year Spanish government debt (0.43%). In the last 12 years, the Spanish stock market has offered an annual dividend yield of 5.5% (average of closing prices over 144 months). This average for the 10 year bond is 3.2%.

■ REDEMPTION OF SHARES IN THE SPANISH STOCK MARKET (2013-2019)

CASH VALUE AT REDEMPTION DATE IN MILLIONS OF EUROS



Source: BME

The return of issue premiums was 4.6-times higher than the figure for the previous year. The 1.11 billion euros paid in 2019 came mostly from REITs. Finally, 18 companies cancelled a total of 492 million securities in the year, with a cash value of 6.70 billion euros. These figures are exceptionally high compared to historical figures. In 2018, 11 companies cancelled securities with a value of 3.52 billion euros, which was a historical record at the time.

The amortisation of own shares is one of the options companies have for remunerating their shareholders, as this increases the per share ratios (profits, dividends, etc.). This type of operation is often linked to an earlier buy-back programme for own shares in the market.

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Lower activity worldwide

The increases in prices for listed shares and the profusion of dividend payments were not sufficient to compensate the decrease in trading volumes in the secondary stock market in 2019. These declines had two exceptional supports in the form of the drying up of IPOs and sustained levels of historically low volatility. These have been widespread factors in most of the developed world's stock markets.

In 2019, annual trading in shares amounted to 469.63 billion euros, 20.1% down on 2018. This involved 37.2 million trades, 16% fewer than the previous year.

As with the indexes, the markets with the worst performance in terms of trading volumes were, with the exception of NYSE, those affected by the greatest political-economic complexity: such as the United Kingdom, Hong Kong and Spain. Faced with a scenario of negative interest rates, with pronounced market fluctuations in response to circumstances other than company results and regulation that has become ever more difficult to comply with, investors have become cautious in their exposure to equities, maintaining highly liquid positions. This has had a generalised effect on the velocity of circulation of the securities of listed companies.

As already mentioned, volatility continued to weigh negatively on activity in the equities market throughout the year, with historically low averages that were even lower than those for the previous year. It is however likely that there will be a reversion of volatility towards more normal levels in the coming years. This would have a positive effect on trading volumes for both stock markets and markets in equity and stock index options and futures.

Measures to improve liquidity

In 2019, pricing incentives were introduced to improve liquidity (liquidity providers). These are improving competitiveness compared to alternative platforms by reducing the bid-offer spread on the securities on which liquidity providers act.

The Spanish stock exchange is therefore continuing to be the main focus for trading and the liquidity of its listed securities, with about 70% by volume of the total traded on its platforms in 2019. This equates to a value close to the 469.93 billion euros of annual share trading previously mentioned. This is accompanied by independent monthly reports from Liquidmetrix, which indicate that BME's markets generally offer the most efficient and narrowest prices and spreads in terms of best execution.

In December, BME achieved a 72.2% market share of trading in Spanish securities for the year as a whole. The average spread was 4.91 basis points in the year at the first price level (12.9% better than the next trading venue) and 6.88 basis points with order book depth of 25,000 euros (34.3% better), according to the independent LiquidMetrix report. These figures include trading in trading centres in both the transparent order book (LIT), including auctions, and non-transparent (dark) trades arranged outside the book.

The best price spreads

In 2019 the Spanish stock market continued to be a benchmark for the liquidity of its listed securities. This factor, which is key to generating activity, is very attractive for investors. The changes to BME's technical, operating and organisational systems over recent years have enabled it to channel significant investment volumes, giving the market greater liquidity, transparency and efficiency.

Price spreads are used to estimate the quality of the execution of trades on the Spanish stock exchange. The smaller the difference between the purchase and sell prices of securities in a trading system, the greater the probability that a trade will be executed. This, combined with the depth of the orders (i.e. the number of securities associated with the bid and/or offer prices being sufficient for buyers and sellers to execute their transactions) is essential when matching a trade.

Throughout 2019, the average spread of securities in the IBEX 35® index remained at historical lows; At the end of December, the average spread was narrower than a year previously, at 5.12 basis points (bp). The spreads for the IBEX Medium and IBEX Small indexes also ended December 2019 below the levels recorded the year before: 2.7 bp for the IBEX Medium and 5.8 bp for the IBEX Small.

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Intense activity in the MAB

The best performance in the equities market in Spain in 2019 on an aggregate basis in relative terms was among companies on the MAB. This essentially involves Growth Companies segments and REITs. The IBEX MAB 15@ was up 65.4% in 2019, one of the largest percentage increases in international stock exchanges worldwide. The IBEX MAB All Share@ rose by 37.66% in that period.

These indicators include the prices of companies in the Growth Companies segment, of which there were 39 at the end of December 2019 after four new additions in the year in very different sectors (Proeduca, Plastics Kompuestos, Izertis and Holaluz).

The growth in the size and business of some of the companies in this market is the main explanation for this increase, together with the better functioning of the 15 liquidity providers registered in the MAB.

The operation of the MAB as a financing mechanism for Growth Companies through capital increases was also very positive in the year, in terms of financing and even ignoring these new additions. There were 23 capital increases in the year, raising 114 million euros. There were 12 capital increases in the same period of 2018.

The year was again exceptional for REITs. 17 new REITs were registered in 2019, increasing the total number of REITs admitted to trading on the MAB to 77 at year-end. The REITs on the MAB performed 58 capital operations in 2019 (39 in 2018), through which they raised 1.43 billion euros (40% more than in 2018).

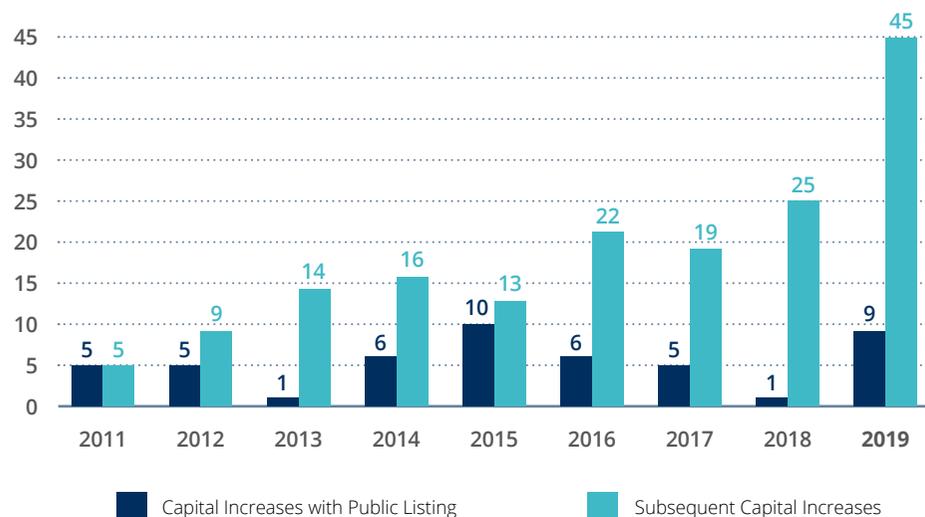
The sharp increase in the trading of shares of REITs in the MAB was significant: 133 million euros in the year (121% more than in 2018), with 59% growth in the number of trades in the secondary share market.

Overall, the capitalisation of MAB companies (excluding SICAVs, VCFs and CISs) was around 15.13 billion euros in December 2019, 29.5% more than the previous year, and about 36% of the 42.03 billion euros value of all of the segments of the alternative market, which, as we have said, includes SICAVs (of which there are about 2,600, accounting for the bulk of the MAB's total market value).

The BME Pre Market Environment (PME) is also playing an increasingly significant role in bringing companies and investors into the financing and investment ecosystem represented by securities markets. At the time of writing, 12 companies from very different sectors are taking part in advisory programmes and adjusting their businesses to the markets.

MAB CAPITAL INCREASES

(EXCLUDING SICAV SEGMENT)



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MAB -Opening Ceremony Bell-Ringing

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BME indexes in the new European Benchmark Regulation register

On 14 November, the main BME indexes were included in the register for benchmark administrators under this European Regulation, which is also known as the Benchmark Regulation (BMR). This regulation reflects the importance of Indexes in the financial markets. The IBEX 35 was registered as a significant index, while the other indexes were considered not to be significant.

Increased financing from markets

Capital increases by companies already admitted to trading increased in 2019, with 117 transactions raising 13.37 billion euros. Spain remains very high in the world rankings for the volume of new investment and financing flows channelled to companies, according to data from the World Federation of Exchanges (WFE): thirteenth in the world and second in the EU. New flows in 2019 amounted to 16.71 billion euros, in a year when European stock exchanges once again recorded a shortage of IPOs, while the use of private equity increased as the preferred mechanism for financing based on companies' own funds.

Spanish stock exchanges have traditionally been well positioned on the international stage in terms of corporate funding in the form of capital. Financing flows and investments in shares have amounted to almost 800 billion euros since 2000.

IPOs

Figures for the global IPO market in 2019 reveal a slowdown in this activity, which began the previous year. According to PwC's annual "IPO watch Europe" report, IPOs fell by 40% in number and 55% in volume in the year to September in Europe, compared to the same period of 2018, with 69 IPOs raising 15.9 billion euros. The report points to global socio-economic uncertainty and low interest rates as the main factors discouraging companies from taking the plunge.

As the CNMV points out in its latest "Quarterly Report on the Securities Markets in Spain", equity issuances in the international financial markets in 2019 are continuing on the downward path that began several months ago. Issuances in the 12 months to the end of June stood at 625 billion dollars, well below the 800 billion in the same period of 2018. However, there are differences: while China and Japan showed notable decreases of 35.2% and 19.6%, the decline was more moderate in Europe (-6%) and the United States increased by 34.3%.

The behaviour of the Spanish market in terms of listings of new companies was also negative compared to the previous year, with 22 flotations raising 288.6 million euros. In 2019, the stock exchange only received one new security, in December: Greenergy. This company joined the MAB in July 2015 and made the leap to the main market on 16 December 2019. It is the third company to pass from the MAB to the main market, following MásMóvil and Carbuces (now Airtificial).



Greenergy Opening Ceremony Bell-Ringing

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Capital increases

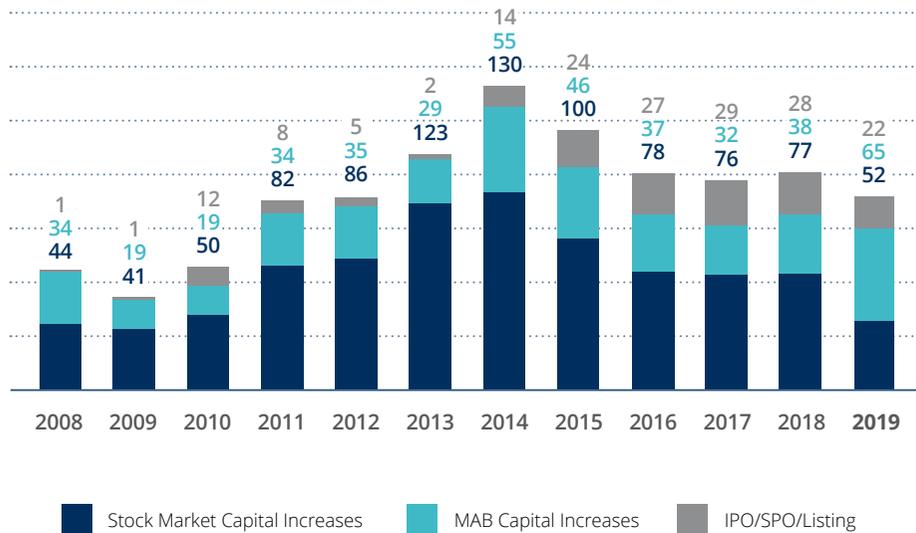
New financing flows channelled through the Spanish securities markets in the form of capital increases increased compared to 2018, up 32.62% to 13.37 billion euros.

Listed companies performed 52 capital increases, raising 11.727 billion euros.

Stock-exchange listed companies raised 8.67 billion euros through capital increases with preferential subscription rights, representing 74% of all capital increases (excluding the MAB). Of this amount, 4.10 billion euros corresponded to capital increases intended to cover dividend option payments. Since 2015, this type of capital increase has gradually fallen, to the benefit of those to finance corporate growth and investment.

■ CAPITAL INCREASES ON THE SPANISH STOCK EXCHANGE

IN NUMBERS

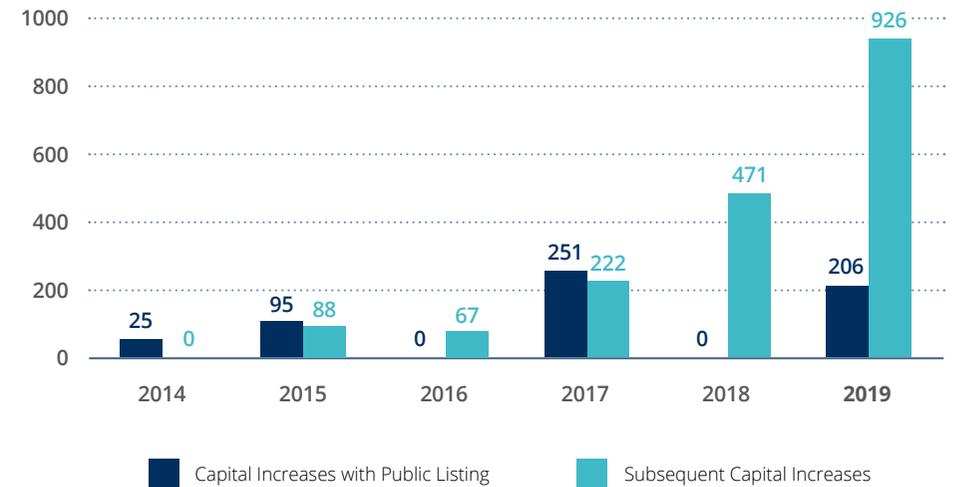


Positive performance of capital increases in the MAB

Once again, MAB companies turned to the market as their most important source of finance for growth and funding, this was particularly true for REITs. In 2019, the companies in this BME market performed 65 capital increases, raising 1.64 billion euros. This is 79% more than the amount raised in 2018.

■ CASH RAISED THROUGH CAPITAL INCREASES IN THE REIT'S SEGMENT

MILLION EUROS

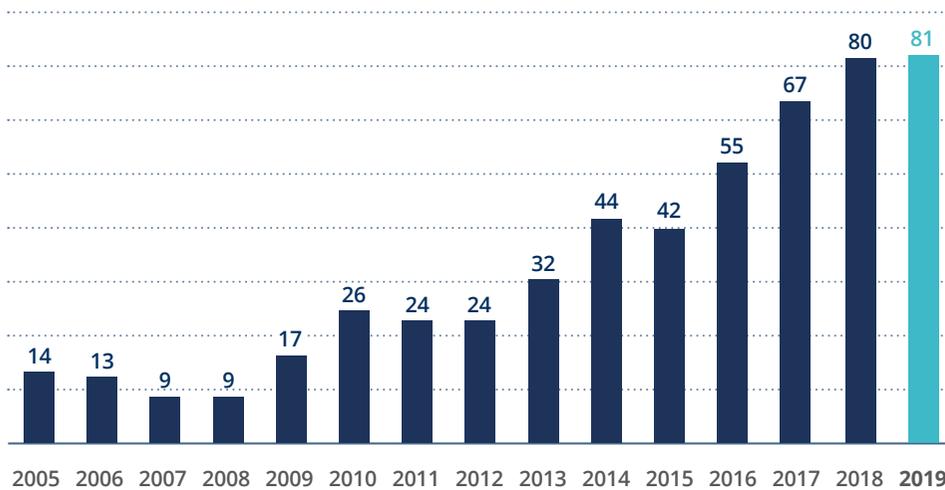


The total funds raised in 2019 from capital increases on the stock exchange by REITs and in the MAB amounted to 1.33 billion euros, representing 9.94% of the funds raised through capital increases in the market as a whole.

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2. FIXED INCOME

2019 was a very positive year for fixed income markets. The change in the bias of central bank monetary policy - with the return of quantitative easing, interest rate cuts and liquidity injections - attracted investors to fixed income assets. In this context, with the adaptation to the MiFID II transparency and reporting requirements which BME carried out in 2017, the electronic trading platforms of the Spanish fixed income markets increased their activity significantly.

NUMBER OF SPANISH FIXED-INCOME ISSUING COMPANIES AT BOTH SHORT AND LONG TERM


Source: Banco de España

The number of Spanish companies that finance themselves through debt instruments in the markets is growing consistently, reaching a historical record of 81 companies in 2019. The Alternative Fixed Income Market (MARF) has been an essential factor in this trend and consolidated its role in 2019, growing by 63% in terms of issuances and 54% in outstanding balance, reinforcing its role as a financing channel for companies of all sizes, with 78 companies financed since 2013.

European and, in particular, Spanish fixed income markets have undergone a very intensive transformation process over the last two years. They have adapted their operations to the new MiFID II regulation, with its more rigorous market and transparency rules, which are similar to those for equity markets. The global and European (particularly following the new regulation) trend of increased fixed income trading through electronic platforms has intensified.

Member entities are turning to the electronic markets and fixed income trading systems managed by BME to meet their transparency and reporting obligations deriving from the application of the new and increasing regulations. With an eye to the future, the market is trying to enhance its usefulness for issuers and investors by optimising its admission to trading processes for different types of fixed income issuances and its fee structure.

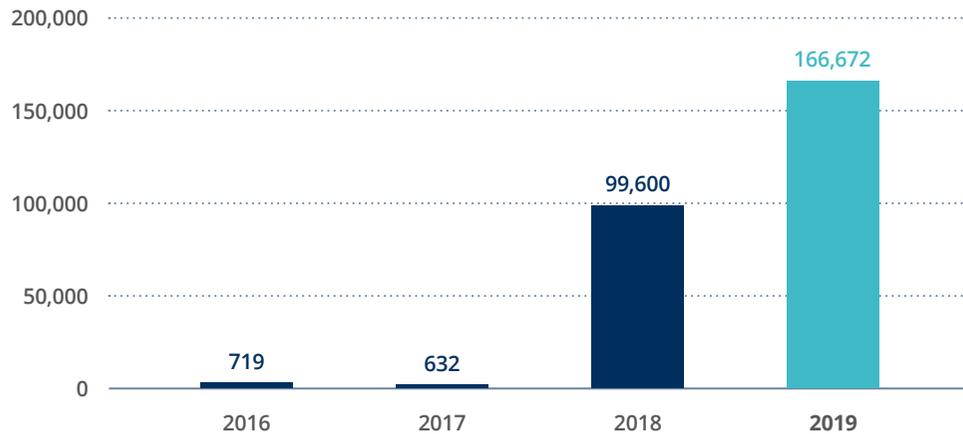
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Government debt activity

The outstanding balance of Spanish government debt securities in the BME AIAF fixed income market increased at an annual rate of 2.1% at year-end 2019, to 1,020 trillion euros. The largest share of this relates to Treasury issuances, totalling 983.91 billion euros, 68.33 billion in treasury bills and 915.58 billion in bonds and debentures.

REGULATED FIXED-INCOME MARKET. VOLUME TRADED ON THE SEND PLATFORM

MILLION EUROS



Another noteworthy aspect of Spanish public debt securities in the AIAF market was the return of the Balearic Islands, Castille and León, Andalusia and the Principality of Asturias to the issuance markets in 2019, after having no fixed income activity in recent years. The Autonomous Communities issued a total of 6.08 billion in promissory notes and bonds in 2019, with the outstanding balance for these issuers standing at 35.25 billion.

In order to make use of the AIAF fixed income market's SEND electronic contracting platform universal, the Treasury issuances of Germany, France, Holland, Belgium, Italy Austria, Portugal, Ireland, Greece and the European Stability Mechanism (ESM) started to be incorporated into this system in December 2017. After these inclusions, totalling 4.9 trillion euros, the outstanding volume of government debt tradeable on the market's electronic platform exceeds €6.4 trillion.

As a result, the electronic trading of public debt on the SEND platform has achieved substantial momentum, reaching 173.03 billion in the year, 74% higher than the previous year. The Public Debt traded through SENAF, a multilateral platform for market makers in debt, which is also managed by BME, reached 160.66 billion euros in 2019, 70% higher than in 2018.

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Corporate debt activity

The private fixed income market displayed significant growth in 2019, driven by increased activity by issuers, who benefited from favourable liquidity conditions and the historically low interest rates in debt markets. In this context, admissions to the AIAF fixed income market for securities issued by the private sector increased by 51% in 2019, to more than 114.03 billion euros.

AIAF REGULATED FIXED-INCOME MARKET

ADMISSION TO TRADING OF MEDIUM TO LONG-TERM PRIVATE DEBT. MILLION EUROS

| | Bonds and debentures | Covered bonds | Securitised Bonds | Preference Shares | Total |
|----------|----------------------|---------------|-------------------|-------------------|--------|
| 2018 | 19,234 | 20,735 | 18,925 | 2,850 | 61,744 |
| 2019 | 45,083 | 34,175 | 18,741 | 1,000 | 98,999 |
| % change | 134.4% | 64.8% | -1.0% | -64.9% | 60.3% |

The volumes contributed by companies that repatriated their issuances to the AIAF market was key to achieving these figures. This is the case with Endesa, Aena and Colonial. The recovery of issuances from financial institutions was also important, particularly mortgage bonds and territorial bonds, which returned to significant levels of activity, as were issuances of hybrid fixed income (CoCos, AT1s, subordinated debt and non preferred senior debt) by credit institutions to cover their liquidity ratios, which they had been carrying out in the United Kingdom under English law, but which they now prefer to register in Spain because of Brexit.

Despite the increase in activity in 2019 compared to 2018, the new issuances practically matched the accumulated maturities in the year. As a result, the balance of outstanding private debt issuances in the AIAF market decreased by 3.4%, to 463.80 billion euros at the end of the year. The volume of short-term assets (company promissory notes) in circulation fell by 30%, followed by securitised bonds, which decreased by 6.6%, to 166.13 billion euros.

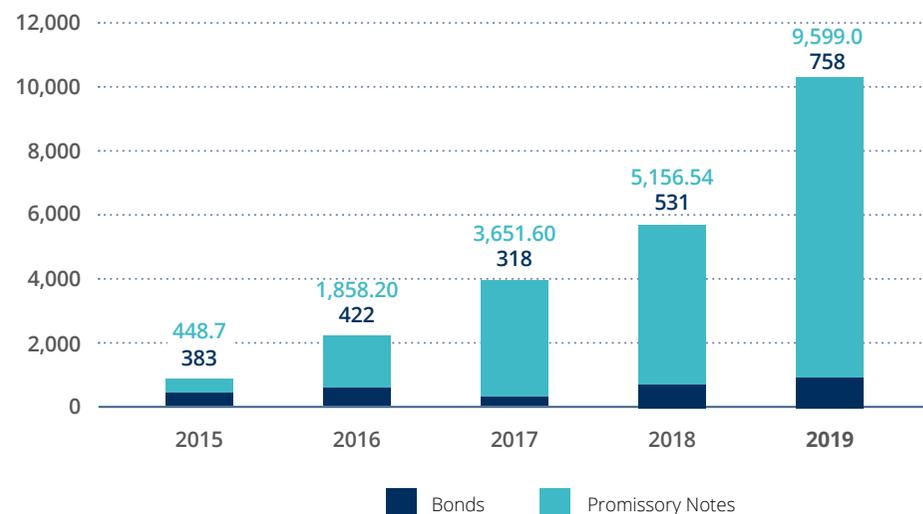
Highlights on the positive side include the growth in the balance of issuances of ordinary bonds and debentures, increasing by 31% to 61.25 billion euros, and covered bonds, which increased by 7% compared to 2018, to 217.96 billion euros.

MARF growth

This year saw MARF consolidate its position as an alternative for business financing. It was designed as a multilateral trading facility in 2013 to efficiently incorporate the fixed-income issuances of companies of a range of sizes, many of which had no presence in the capital markets. It was used by 78 companies to raise funds between its launch and 2019. Six of these were Portuguese, who chose to list their issuances of promissory notes and bonds on the MARF due to its flexibility and ease of use.

MARF: VOLUME ADMITTED TO TRADING IN THE YEAR (2015-2019)

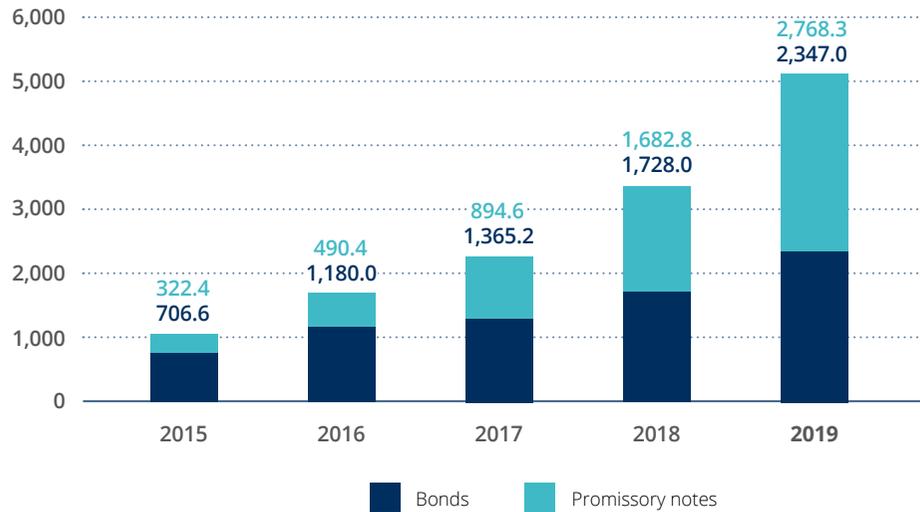
FIGURES IN MILLION EUROS



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■ MARF: OUTSTANDING BALANCE AT END OF PERIOD (2015-2019)

FIGURES IN MILLION EUROS



The MARF had an outstanding balance of corporate debt issues of 5.11 billion euros at year-end 2019, comprising just over 2.77 billion euros in promissory notes and 2.35 billion euros in bond issues. The outstanding balance was 54% larger than at year-end 2018. In 2019, 52 companies used MARF to cover their financing needs, either through the registration of promissory note programmes or bond issue. Of these, 18 were using it for the first time.

Four of the new companies are Portuguese: Mota-Engil, with a 50 million euros promissory note programme; EFACEC, which registered a 58 million euro bond issuance in July; Vista Alegre, with a 45 million euro bond issuance; and Grupo Visabeira, which issued a 50 million euro promissory note programme on the MARF. These companies have taken advantage of the opportunities offered by this market to diversify their financing sources through the market, while accessing new Spanish and foreign investors. In 2019 as a whole, the volume of issuances and admissions to trading in the MARF amounted to 10.36 billion euros, 63% higher than in 2018.

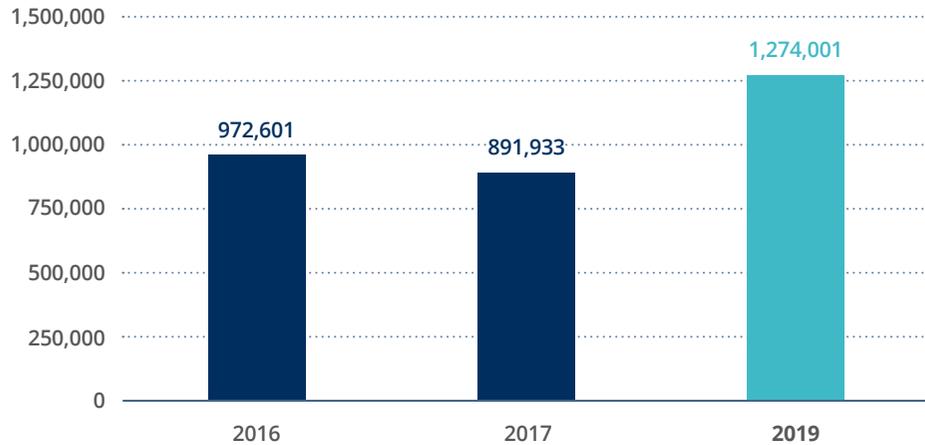
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3. FINANCIAL DERIVATIVES FUTURES AND OPTIONS

The total volume traded in BME's MEFF derivatives market increased by 3% in 2019 compared to the same period in the previous year. Share futures grew by 43% and the volume of trading in hedging products for IBEX 35® dividend payments doubled in volume. Against a backdrop of reduced volatility, 44.8 million futures contracts and options on equity securities, indexes and shares were traded.

■ AVERAGE MONTHLY VOLUME OF IBEX 35 OPTIONS

TRADED IN MEFF

**Volatility below its historic average**

The very low level of volatility seen in the previous two years remained unchanged in 2019. The VIBEX index, which was created in 2018, allows market volatility to be followed daily using the most liquid IBEX 35® options traded on the MEFF. According to this indicator, the daily average implied volatility in 2019 was 13.7%, a 1.3 point fall compared to the previous year and almost 10 points lower than in 2016. Volatility peaked in August, but at lower levels than in the previous two years. This persistent low volatility is reflected in the average volatility in 2019 being 10 percentage points lower than the historical average of the VIBEX since 2008.

■ VIBEX VOLATILITY INDEX FOR THE SPANISH STOCK EXCHANGE

DAILY VOLATILITY DATA %



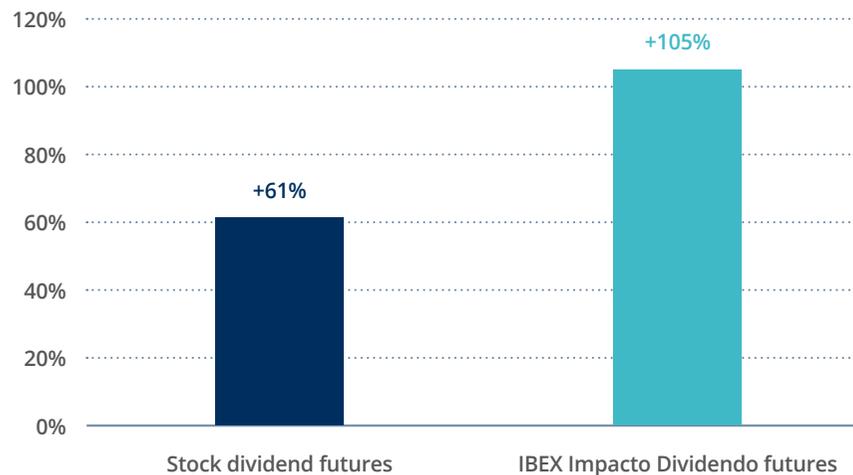
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Growth in futures on share and dividend hedge contracts

Futures on share dividends grew by 61% to 758,700 contracts. IBEX 35® Impacto Dividendo futures, which allows hedging of dividend payments in the group of IBEX 35® companies, increased by 105%. In line with the trend in the main European markets, trading in futures on individual shares increased in MEFF by 43% to November 2019 compared to the previous year. In both cases, MEFF is in line with the trend in other European derivatives markets, where we have seen a reduction in trading in share options and an increase of trading in share futures.

HIGHEST GROWTH PRODUCTS IN THE SPANISH OPTIONS AND FUTURES MARKET IN 2019

CHANGE IN THE VOLUME OF CONTRACTS TRADED 2019 VS. 2018



More derivatives traded in regulated markets and registered in central counterparties

The notional volume of derivatives traded in regulated markets around the world grew by 26.8% to June 2019 compared to the same period in the previous year, prolonging the trend from previous years, increasing from a notional value of 94.8 trillion dollars to 120.12 trillion, according to figures from the Bank for International Settlements (BIS). The notional outstanding volume of OTC derivatives (traded bilaterally outside organised markets) at the end of the first half stood at 640.4 trillion dollars, approximately eight times global GDP, and 7.7% higher than in the same period in the previous year.

Regulatory pressure is leading to more and more derivatives being registered and settled through central counterparties (CCPs), in a way that generalises the use of collateral and margins, on which both the BIS and IOSCO (the International Organization of Securities Commissions, representing regulatory bodies worldwide) have insisted. In 2010, the European Commission published its initial regulatory proposal, with the EMIR regulation being approved in 2012. This regulation defines obligations with regard to clearing, information and risk control for OTC derivatives, and requirements for CCPs and the registration and supervision of trades register entities.

The outstanding volume of OTC derivatives settled in CCPs increased by 22.9%, from 334 trillion dollars to 411 trillion dollars, with interest rate derivatives representing 99% of this. Currently, almost 78% of all interest rate derivatives traded OTC are registered in CCPs.

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4. CLEARING

BME Clearing is the Spanish stock exchange's central counterparty, offering clearing services in five segments: financial derivatives, electricity and natural gas derivatives, Spanish government debt repos, trades in securities listed on the stock exchange and OTC interest-rate derivatives. In 2019 it started to clear foreign currency instruments in the financial derivatives segment.

Financial derivatives

In 2019, BME launched xRolling® FX, "perpetual" Futures contracts on 17 currency pairs. Rather than having a standard maturity date, the xRolling™ product is a "perpetual" future, meaning the close-of-trade positions are rolled-over daily, ensuring that the xRolling™ close price is the same as the spot price. There is no physical delivery of the underlying and all settlements are in euros. Given the global nature of the FX market, the new contracts, which are MEFF listed and settled and cleared in BME Clearing, are traded 23 hours a day, from Monday to Friday. With this product, BME is offering investors the possibility of trading in currencies using an instrument quoted in MEFF with the security and transparency of trading in a regulated market and the guarantee of BME Clearing as the counterparty.

As a whole, measured in terms of contracts, activity in the financial derivatives segment in 2019 increased by 3.3% year-on-year. This rise was mainly due to the increase in trading in stock futures, dividend futures and IBEX 35 Impacto Dividendo futures. The volume of stock futures increased by 42.9% compared to 2018; while dividends futures on shares were up by 60.9% and IBEX 35® Impacto Dividendo futures rose by 105.0%.

Specifically, a total of 33.5 million in futures and options contracts on shares, including futures on share dividends, were cleared, 6.8% more than the previous year. Activity in futures and options on index contracts fell by 5.9% compared to 2018, with 11.4 million contracts being cleared in 2019, of which 6 million were IBEX 35® futures contracts and 3.8 million were IBEX 35® option contracts. The total open position in financial derivatives at the end of the year was down by 3.6%.

Equities

The equities segment provides the central counterparty service for securities traded on the Spanish Stock Exchange. This 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.

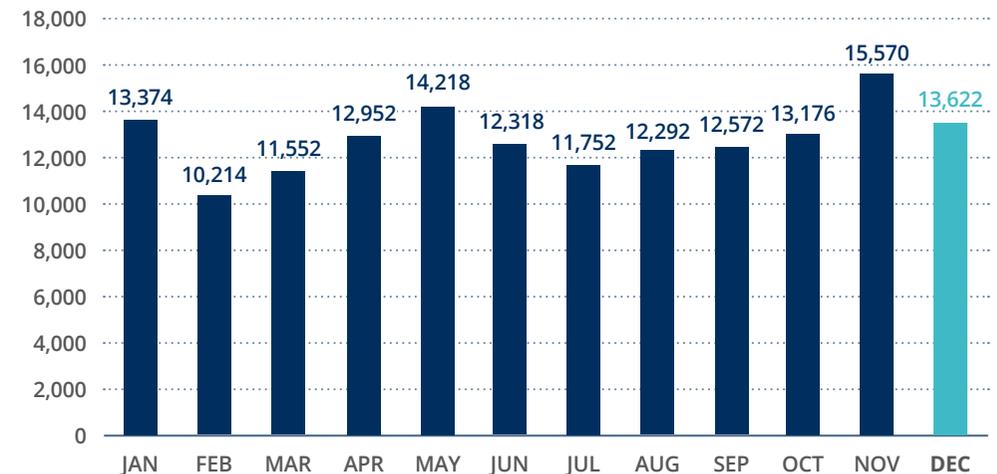
In 2019, 292,226 trades were registered on average per day (sales plus purchases) with average daily net cash (single side) traded of €1.83 billion, 18.01% lower than in 2018, with an average volume of nearly 688 million securities per day. This segment currently has 24 clearing members.

Repo

The fixed-income repo segment offers a central counterparty service for repo trades in Spanish government debt, eliminating counterparty risk for participants. The total volume registered in 2019 was 365.44 billion euros, with a monthly average of 316 transactions. The segment currently has 25 participants.

■ OUTSTANDING REPOS BALANCE 2019

OUTSTANDING (MOVING AVERAGE OF LAST 10 DAYS) IN MILLIONS OF EUROS



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The open position at the end of December was 16.92 billion euros, with an average financing period of 21 days. The reception of trades involving Italian, Portuguese, French, German, Dutch and Austrian sovereign debt for registration and clearing in the clearing house began in November, adding to the services already offered for Spanish sovereign debt. This new development is part of the expansion of the segment for new debt, as well as the connection to new platforms. This was the case at the end of 2018 with the agreement under which participants in the Brokertec platform owned by NEX, the leader in electronic trading in Spanish Sovereign Debt repos, have since been able to operate in and send their trades to BME Clearing for registration and clearing.

Energy

The energy derivatives segment has continued to attract interest from numerous entities active in the electricity sector, with the number of participants increasing from 158 at the end of 2018 to 181 at the end of 2019.

The volume of electricity registered in 2019 rose to 26.4 TWh, more than double the total for 2018 (12.4 TWh). The open position also increased, from 5.5 TWh in 2018 to 9.0 TWh at the end of 2019.

Progress has continued since the beginning of gas operations in 2018, with a significant increase in the number of participants to 29 entities at the end of 2019. The volume recorded in the year was 233,839 MWh with an open position of 653,647 MWh, both of which are higher than expected.

Interest rate swaps (IRS)

The swaps segment offers a central counterparty service for trades involving interest rate derivatives. It commenced its activities in 2016 and in 2019 registered a total volume of 196 million euros. The segment currently has nine participants. The number of entities is expected to increase with the introduction of the obligation on smaller entities to register with a clearing house. The open position was 588 million euros at the end of December.



Iberclear attended SIBOS London as exhibitor

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5. SETTLEMENT AND REGISTRATION

The most important milestone achieved by the Settlement and Registration unit in 2019 was directly related to European harmonisation. Last September, Iberclear obtained authorisation to continue providing its services in accordance with the requirements of Regulation No 909/2014, also known as the CSD Regulation.

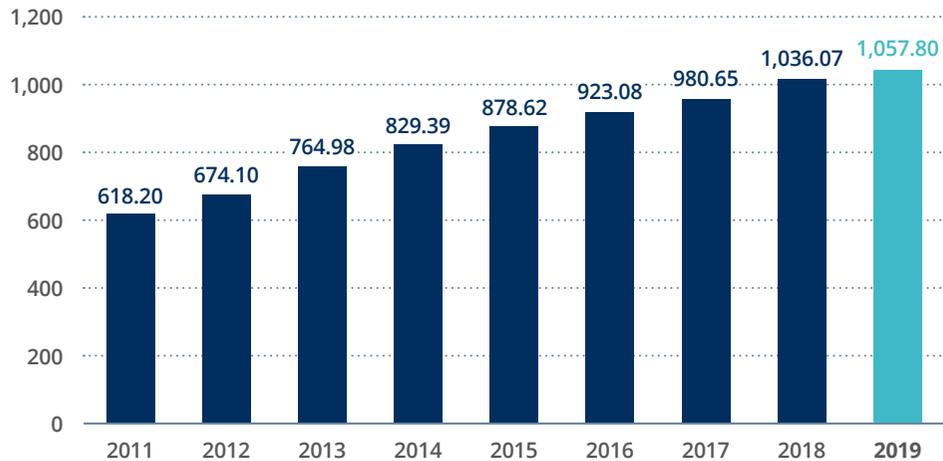
This European regulation seeks greater efficiency in settlement terms and enhanced security with the introduction of discipline and control mechanisms and more exhaustive supervision of the governance and operation of depository entities. With this licence, Iberclear is continuing to contribute actively to efforts to harmonise post-trading in Europe, taking another step forward in guaranteeing access to capital markets for issuers and participants, while BME achieves another of the milestones in its Strategic Plan.

The number of instructions from stock market operations settled in Iberclear in 2019 was down by 1.84% compared to the previous year, with a monthly average of 0.62 million trades. These figures confirm the general decrease in volumes that has been seen across securities markets.

There was a fall of 10.13% in the cash volume settled, with a daily average of 6.76 billion euros compared to 7.52 billion the previous year. However, the nominal balances at year-end showed a smaller decrease of 1.27% in the securities listed on the BME private fixed income market and a 2.10% increase in the public debt market. Equities increased more strongly, rising by 11.71% valued at market prices.

■ OUTSTANDING BALANCE OF PUBLIC DEBT REGISTERED IN IBERCLEAR

FIGURES IN MILLIONS OF EUROS.



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Other initiatives

Following the entry into production of Cross-Border Services (CBS) for settlement and custody, through which Spanish financial entities can register and settle international securities through Iberclear, the Portuguese market was added in March through connection to Interbolsa, Portugal's central depository. Iberclear is the first central depository to establish a link in this country as a "Central Securities Depository - Investor".

This has added Portugal to the service that Iberclear already offers for the German, French, Italian, Dutch and Austrian markets. With regard to the loan principal collateral strategy pursued jointly by BME Clearing and Iberclear, the first BME LET (Treasury Liquidity and Efficiency) forum was held on 2 October. This enabled financial entities and the infrastructures involved in the Spanish market to share the latest developments in regulatory and strategic framework at the European level, and the initiatives and advances offered by BME to improve liquidity and efficiency in treasury and loan principal collateral management.

Work is continuing on the harmonisation of loan principal collateral management standards, seeking better tools for management of bilateral trades to expand the services offered to clients. The objective of this is to expand the offer of electronic pledges to almost all entities that need to use this tool for financing securities, regardless of their relationship with Iberclear. The electronic pledge procedure for securities pledges became available to entities that are not Iberclear participants in March. This responds to requests from participants to be able to open pledge transactions for their clients with the possibility of covering their securities financing.

REGIS-TR

REGIS-TR remains one of the largest repositories in Europe, with more than 1,600 open accounts, processing between eight and ten million new transaction messages per day. REGIS-TR has received more than 19 billion transaction messages since the introduction of EMIR in 2014. The intentions of regulatory bodies with the EMIR regulations are clear.

This year ESMA has focused its requests to trade repositories on optimising the information reported, so that European regulators can make reliable use of the data in their supervision work. The request to fully align the content of the reports using the two formats for providing data to the regulators (CSV and XML) has resulted in a considerable improvement in the quality of the information in the reports.

REGIS-TR UK, a sister company of REGIS-TR, has been set up to facilitate reporting services in the UK. This company was registered with the UK's Companies House in March 2019 and has been recognised under the Temporary Registration Regime for Trade Repositories by the Financial Conduct Authority (FCA), the competent authority in the United Kingdom. It is ready to start operating once Brexit materialises. REGIS-TR UK will provide services under the EMIR regulations and also under the new SFTR regulations, when it enters into force in the United Kingdom.

In Switzerland, REGIS-TR is continuing to consolidate its position as a trade repository recognised by FINMA for the provision of services in the country under the FinfraG regulations, which are accredited under EMIR. REGIS-TR is the largest foreign commercial repository in this market in terms of clients and volume. The first phase of the Securities Financing Transaction Regulation (SFTR) came into force in April 2020. There will be three subsequent waves of entry into force, depending on the classification of each market participant as a counterparty. REGIS-TR has launched a preliminary testing environment for the new service, which came into operation in March 2019, with an improved testing environment being launched in November 2019.

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6. MARKET DATA

The number of clients for BME Market Data increased to a historical high in 2019, in terms of those who receive BME information through information distributors and those who have a direct connection to BME Market Data servers to minimise response and data processing times.

The monthly average of delivery points disseminating real-time information on the over 61,000 equity, fixed income and derivative instruments and indexes managed by BME group easily exceeds 90,000.

This year, BME Market Data significantly expanded its content offering, for both real-time and end-of-day information. The new real-time content available in its systems includes information provided by the integration of the new “xRolling FX” Forex futures trading platform. The developments required for inclusion of the new retail service for BME’s information distribution products has also been completed.

BME Market Data has also expanded its line of analytical and end-of-day products and services, with the incorporation of the Private Fixed Income Settlement Bulletin, and the end-of-day information from the xRolling FX Forex futures trading platform and BME Regulatory Services’ Authorised Publishing Agent (APA) service.

The Regulatory Filings in Processable Format product has also been enriched with the inclusion of regulatory filings in SWIFT format, while the Front Office Significant Events product has been enriched with the inclusion of significant events from the MAB. Fixed income data tick files have also been modified by incorporating new fields adapted to T2S.

BME Market Data currently delivers more than 1,500 end-of-day files at the end of each session. BME Market Data is in constant contact with its clients to understand their needs first hand and ascertain the keys to anticipating the challenges involved in disseminating information.

BME Market Data has continued to work to boost its market data business in Latin America, through the Latam Exchanges Data (LED) joint venture with the Mexican Stock Exchange (BMV). The goal of this joint initiative is to promote the generation, distribution and sale of information on Latin America financial markets using the highest levels of automation and processing. This is crucial information that is in high demand among entities with interests in these markets.

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7. VALUE ADDED SERVICES

BME's technology subsidiary, BME Inntech, is continuing to roll out technological solutions for financial institutions, helping them in their digital transformation. The catalogue of services was consolidated in 2019 to cover the entire value chain for investment and financial advice processes, providing global coverage of buy-side and sell-side needs.

BME Inntech acts as a supplier of global solutions enabling comprehensive automation of front and middle-office activities associated with business processes for investment, portfolio management and financial advisory services, and the registration of clients with entities providing these services. Highlights in the Global Access to Trading Services and Infrastructure area include the start-up of the Smart Order Routing (SOR) service and enrichment of the Order Management System (OMS), with implementation of new types of orders, third-party sets and the incorporation of new sell-sides, increasing the global network of clients in the system.

In Latin America, development of the trading and order management platform is progressing in Colombia, with the incorporation of the new functionality required for the fixed income market. Financial information services have performed positively during the year, mainly due to online broker services that allow entities to offer securities trading solutions to their end clients.

During this year, several customised online trading platforms were successfully implemented, enabling flexible, fast and simple trading in the main national and international equities and derivatives markets. Latin America has notched up a steady increase in commercial activity, through the sale of new ASP solutions and integration of new information content in Mexico. In advisory and portfolio management (WealthTeach) services, development of new securities functionality has been successfully completed in a number of Spanish and Portuguese financial institutions.

Work is ongoing in market abuse services (SICAM) and services related to MiFID II regulatory compliance, such as the Best Execution and TCA reports for managers, These are being very well received in the domestic market, developing into indispensable compliance tools for entities.

In terms of infrastructure, the number of clients of the HIGHWAY financial communication services has continued to grow. BME makes these services available to financial entities for the outsourcing of their SWIFT infrastructure, and to non-financial entities to allow customers access to messaging with all of their banks in a single window. In another new development in line with the digital transformation strategy, a specific Innovation line has been created, grouping the laboratories for specific technologies, such as the DLT and AI labs.

The DLT lab analyses and experiments with Blockchain technology in the digitalisation of processes and new operating models that improve current financial processes, in consultation and collaboration with regulators, other BME areas and financial institutions. We are working on a number of initiatives, some of which have already been implemented in production after the success of their proof of concept. Be DLT-Pledge recently came into operation, automating the certification process for current pledges, achieving a 70% saving in time and costs.

The Artificial Intelligence lab is working on a range of initiatives in which artificial intelligence can add value to financial processes. Highlights in this area include bringing execution and investment algorithms into production that maximise the investments and efficiency of our clients' processes. This commitment to technology and innovation is the main feature in all areas of Inntech's business as it seeks to become the benchmark technology partner for our clients, making them more competitive and efficient, in line with BME group's global strategy.