I Securities markets and their agents: Situation and outlook

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1 Executive summary

- The international macroeconomic and financial environment over recent months has been characterised by the widespread improvement in activity data and consolidation of the differences between monetary policy in the United States and in other advanced economies. In the United States, growth in activity and progress in the job market allowed new hikes in Federal Reserve rates in June, while in the euro area, the United Kingdom and Japan, central banks maintained a much more accommodative stance. The short-term growth outlook is positive, although some elements of uncertainty remain, relating, for example, to the development of certain geopolitical conflicts. Although growth in Europe has been spread more evenly among the different countries, the risks relating to the strength of the banking sector and to Brexit remain in an environment where the recent appreciation of the euro against the dollar may further complicate the upcoming decisions of the ECB.

- In international financial markets, long-term bond yields have remained relatively stable in the United States, while increases have been recorded in the euro area.[1] These increases are related to certain aspects of political uncertainty that have tended to dissipate as the results of various elections became known, but they are also related to the consolidation of higher growth and inflation in the euro area. The leading stock market indices have recorded significant growth over the year, with sharp rises in prices in the first quarter followed by greater stability. US indices have grown at above 11.5%, while European indices (with the exception of the UK index) have grown at over 7% in an environment where volatility remains at historic lows.

- In Spain, the latest quarterly data of the National Accounts confirms that GDP growth remains above 3% in year-on-year terms, almost one percentage point above growth in the euro area. The dynamism of the economy is also reflected in the employment market, where jobs continue to be created and the employment rate is falling, and in the public accounts as it seems feasible that the public deficit might be reduced to rates close to 3% by the end of the year. Most of the risks faced by the Spanish economy are common to other European economies. The most important risks relate to the development of the banking sector and, more recently, to the impact of the appreciation of the euro on exporters. Among the risks to the Spanish economy, we can highlight the

1 As usual, the closing date of this report is 15 September. Therefore, some economic and financial indicators are presented in their monthly or quarterly equivalent so as to facilitate year-on-year comparison. However, they do not reflect the most recent information on events relating to the political crisis in Catalonia. An analysis of this crisis will be published in the forthcoming October Financial Stability Note.

challenges still posed by the high number of unemployed people and some political uncertainties.

- The development of the banking industry continues to be conditioned by an environment of very low interest rates and the consolidation of other competitive forces (shadow banking, fintech, etc.). This environment is more favourable in the case of Spain as growth is now firmly rooted with the consequent reduction in NPL ratios, which stood at 8.4% in June. Bank income statements showed signs of improvement in the early months of the year even though lending still shows negative growth (in contrast with the positive rates recorded in the euro area) due to the deleveraging process still being undertaken by some market participants in Spain.

- The stress indicator for Spanish financial markets prepared by the CNMV remained at values close to or lower than 0.2 throughout the year, which indicate a low stress level. By segment, the greatest stress was recorded in the bond market as a result of worsening liquidity and increasing volatility recorded in recent months. However, events that might potentially generate uncertainty, such as the resolution process of Banco Popular and the terrorist attacks in Barcelona, have not had a significant impact on the indicator.

- In Spanish equity markets, the Ibex 35, which had begun the year with very strong growth to then stabilise in the second quarter, ended the third quarter was slight falls (-1.2%), which were higher than those recorded in other European indices. Various geopolitical conflicts, the strength of the euro and political uncertainty in Spain are factors that have influenced the index, which has nevertheless recorded cumulative growth of 10.3% over the year. Against this backdrop, volatility indicators have remained at very low levels and liquidity conditions have been positive. Trading of Spanish securities in the Spanish regulated market has fallen slightly, by 3%, over the year, while it continues to rise in foreign markets (with a market share of 35%).[2]

- In Spanish fixed-income markets, short-term interest rates remained at historic lows, while medium-term and long-term rates rose temporarily in the first half of the year and then later stabilised. The rate rise in the United States, the improvement in the economy of the euro area, higher inflation and some political uncertainties were the main triggers for the rise in interest rates. Subsequently, the publication of some less favourable macroeconomic data and the doubts relating to the upcoming decisions of central banks gave rise to few changes in debt yields. Spain's sovereign risk premium rose slightly in the third quarter (12 bp). Fixed-income issues by Spanish issuers abroad have grown by 36% so far this year, to the detriment of issues registered with the CNMV, which have fallen by 29%. Within the latter, all instruments recorded falls in issues except uncovered bonds, which were driven by the ECB's purchasing programme.

2 Includes trading of Spanish equity subject to market or MTF rules (lit plus dark).

- Assets under management in Spanish mutual funds grew by 6.6% in the first half of the year to 253 billion euros. 77% of the increase in assets under management resulted from net subscriptions by unit-holders, the number of which soared by 1,300,000 over the six months, while the remaining 23% was the result of an increase in the portfolio value. As in previous quarters and in the context of strategies that seek a higher return, redemptions were recorded in more conservative fund categories and strong investments in higher risk categories. Following several years of strong growth in the CIS industry, assets under management are approaching the levels recorded prior to the crisis and the number of unit-holders is now higher. This growth is also reflected in the increase in the number of management companies (six new companies between January and June) and an increase in profits of close to 20%.

- Financial intermediaries registered with the CNMV recorded a 6.7% fall in aggregate profit before tax to 111.3 million euros in the first half of the year. This fall was concentrated in broker-dealers (-8.6%), while brokers recorded growth of 39%. In general, fee income from market trading fell while the fee income from CIS marketing and portfolio management rose. The number of loss-making firms stood at 24 at mid-year, five up on December 2016. Nevertheless, solvency conditions in the sector are favourable although there has been a slight fall in the surplus of capital over minimum requirements.

- The growth recorded in the venture capital sector seems to have continued in 2017. Both the number of entities registered with the CNMV (traditional vehicles and the new vehicles that may be created under Law 22/2014) and investment volumes have increased. The increase in volumes has been driven by several large-scale deals closed by international operators.

- This report includes four monographic exhibits:

  – Exhibit 1 describes the sharp appreciation of the euro against major currencies over the year and its possible consequences in economic terms and for monetary authorities.

  – Exhibit 2 summarises the main aspects of CNMV Technical Guide 3/2017 on audit committees at public-interest entities, approved on 27 June.

  – Exhibit 3 addresses the key elements of the incorporation of Iberclear to TARGET2-Securities (T2S) on 18 September. This milestone is the culmination of the reform of the clearing, settlement and registry system of the Spanish securities market.

  – Finally, exhibit 4 addresses the cybersecurity challenges faced by securities markets, their participants and their supervisors, as well as some of the initiatives undertaken.

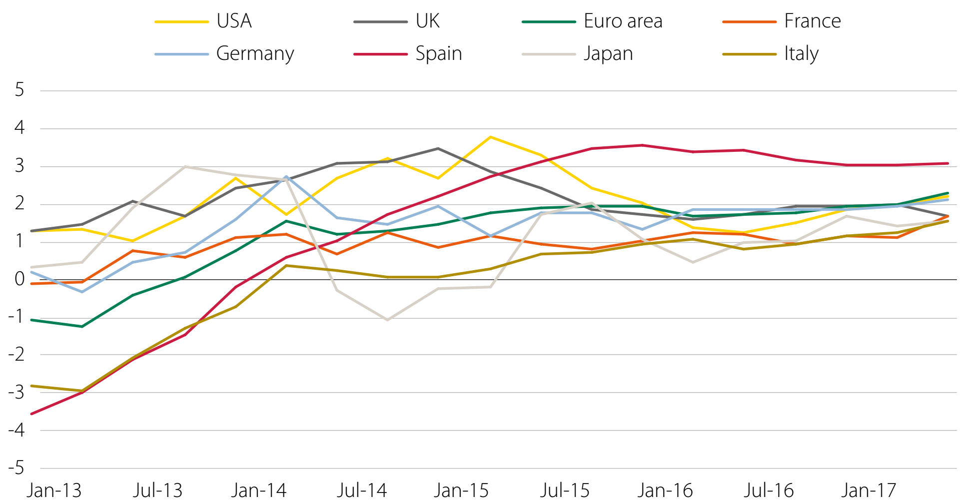
2 Macro-financial background

2.1 International economic and financial developments

The global economy continued to recover in the first half of this year, with growth more evenly spread among European economies.

The global economy continued to recover in the first half of 2017. In the United States, following weak growth in the first quarter (0.3%), activity picked up pace in the second quarter (0.8%) as a result of domestic demand. Within the euro area, the accommodative monetary policy encouraged strengthening economic growth, which was more evenly spread among the regions during the first quarter of the year than in the recent past. The change in GDP in the second quarter compared with the first was similar in Germany (0.6%), France (0.5%) and Italy (0.4%), while Spain stood out with 0.9%. In contrast, economic growth in the United Kingdom slowed down (0.3% in the second quarter) as a result of the increase in inflation following the depreciation of the pound, which had a negative impact on household spending. In Asia, there was noteworthy growth in Japan (0.6% in the second quarter) and in China, where year-on-year GDP growth stood at 6.9% at the end of the first half of the year.

Annual % change in GDP FIGURE 1



Source: Thomson Datastream.

In the US, the Federal Reserve continued normalising its monetary policy stance with a new interest rate rise in June…

The process of normalising monetary policy in the United States continued to contrast with the more accommodative attitude in other advanced economies, where no significant change is expected in the short term. The Federal Reserve once again raised interest rates in June, to a range of 1-1.25%, based on the moderate growth in economic activity, the increase in household spending and the progress recorded in the job market, despite inflation remaining below the 2% target. Although it maintained interest rates at its June meeting, the Federal Reserve expressed its intention to gradually start reducing the size of its balance sheet relatively quickly.

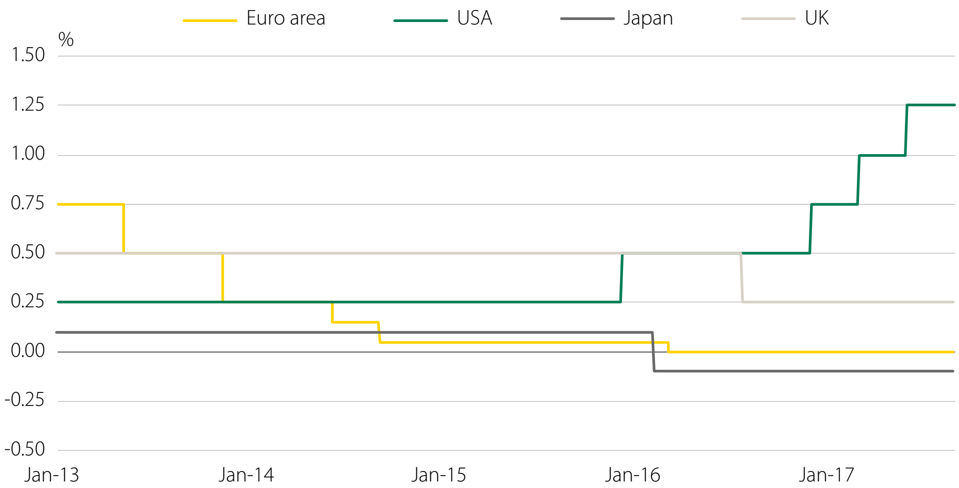
… while the ECB decided to maintain its accommodative tone.

At its September meeting, the ECB decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility would remain unchanged at 0%, 0.25% and -0.4%, respectively, and confirmed that it would continue to run its asset purchasing programme at the monthly pace of 60 billion euros until December 2017 or beyond, if necessary. The ECB considers that the tone of the monetary policy in the euro area should remain accommodative as, even though the economic expansion has strengthened and underlying inflation has increased slightly in recent months, the latter remains at low levels and is yet to show a strong upward trend. In addition, the strong appreciation of the euro against the dollar, which reached highs since January 2015 of 1.2 dollars per euro in September, has introduced some uncertainty regarding the ECB's future decisions (see exhibit 1).

Monetary policy has remained unchanged in both the United Kingdom and in Japan over recent months. In September, the Bank of England maintained interest rates at 0.25% and decided to continue its bond-buying programme even though inflation stood at 2.9% in August (above the 2% target) and is forecast to reach 3% in October due to depreciation of the pound. However, the Bank of England announced that monetary policy night have to be tightened more than the market expects and some withdrawal of monetary stimulus was likely to be appropriate over the coming months. The Bank of Japan maintained the official interest rate at -0.1% and will continue its asset purchase programme with the aim of controlling the interest rate curve.

The Bank of England, which had not decided any major changes over recent months, has started to consider a tightening of its monetary policy to be likely in the short term due to the rise in inflation.

Central bank interest rates FIGURE 2



Source: Thomson Datastream. Data to 15 September.

The movements in short-term interest rates over the central months of 2017 reflected the differences in monetary policies applied in the different regions. In the United States, three-month interbank rates rose by 33 bp from the start of the year and stood at 1.32% in the middle of September as a result of the two increases in the Federal Reserve rate over that period. In contrast, twelve-month rates were more stable (they remained at around 1.7%), partly as a result of doubts about the future movements in inflation and the pace at which monetary policy would return to normal. Three-month rates in the euro area[3] barely recorded any changes over the year and stood at -0.33% in September (practically the same as at year-end 2016), while twelve-month rates fell slightly, moving a little further into negative figures. In mid-September, they stood at -0.17%, nine basis points lower than at year-end 2016.

In the first half of the year, short-term interest rates in the US rose in line with the increases in the Federal Reserve rate, while in the euro area they still remained negative.

3 Euribor interest rates.

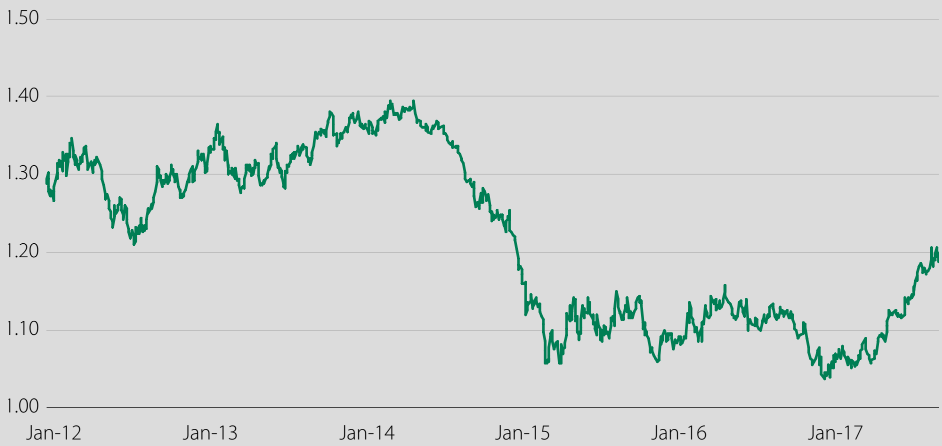
The appreciation of the euro and the ECB's monetary policy

EXHIBIT 1

The euro has appreciated significantly in 2017 in relation to the main international currencies. The exchange rate against the dollar stood at 1.2 dollars in mid-September,[1] a rise of 13.5% over the year, and the exchange rate against the yen and the pound stood at 133 yen and 0.88 pounds, an appreciation of 7.7% and 2.8%, respectively, over the same period. The gain in value of the euro is also noteworthy when compared with the changes recorded over recent years. Against the dollar, this trend contrasts with the depreciation of the last three years (12% in 2014, 10.3% in 2015 and 3.2% in 2016) and compared with the British pound, the euro has reached its highest level of the last five years.

Euro-US dollar exchange rate

FIGURE E.1.1



Source: Thomson Datastream.

The ECB's ultra-expansive monetary policy (its base interest rate and deposit rates currently stand at 0% and -0.4%, respectively), which has included a set of debt purchasing programmes,[2] has encouraged the depreciation of the euro against the dollar in recent years. Implementation or expectations relating to a lax monetary policy tend to have a downward effect on the exchange rate (depreciation). In fact, the ECB's balance sheet has doubled over the last three years[3] due to these non-conventional monetary policy measures.

Bearing in mind that the monetary policy applied by the ECB has not undergone significant changes over recent months, what might explain the behaviour of the euro? It could be argued that there are several reasons (economic, political, etc.) and they do not all have a European origin. The most significant are explained below:

i) The reduction in political uncertainty in Europe after several electoral processes, particularly in France. In the months leading up to the French elections, the possibility that options favouring a political breakup of the European project might win generated market uncertainty, but the electoral result dispelled the threats to the European project and the euro strengthened.

ii) The economic situation of the euro area, whose recent development and outlook are better than expected. In September, the ECB verified that the economic expansion had accelerated in the first half of the year and it upgraded its growth forecasts for the euro area in 2017 to 2.2% (vs. 1.9% previously), and confirmed those for 2018 and 2019 at 1.8% and 1.9%, respectively.

(iii) The markets' expectation of a change in direction in the ECB's accommodative monetary policy for much of the year (withdrawal of monetary stimulus).

(iv) The slowdown in US growth in the middle of the year, which led to postponement of the Federal Reserve's schedule of rate hikes, and delays in implementation of various fiscal measures and spending incentives announced by the new US administration.

The impact of the appreciation of the euro on the European economy has so far been limited, but it could have noticeable effects in the short and medium term. A large part of the European recovery, which comes from countries such as Germany and some peripheral economies that have based their expansion on foreign trade,[4] may be affected. A significant appreciation of the euro might reduce the gains in competitiveness of the leading exporters resulting from the exchange rate and harm their income statements.[5] In addition, it should be noted that a strong currency introduces greater deflationary pressure as it makes imports cheaper, which might have an impact over the medium term on the ECB's target of increasing inflation until it stands slightly below the 2% threshold.

The movements in the European currency are playing a significant role in the decision-making of the European monetary authority. At its last meeting at the start of September, the ECB opted to delay any decision on monetary policy until the coming meeting in October, leaving the door open to an expansion, both in time and in amount, of its debt purchasing program, which would delay the markets' expectations of a change in direction towards a normalisation of monetary policy. The ECB has warned that exchange rate volatility represents a source of uncertainty in formulating monetary policy and requires monitoring for its impact on price stability in the medium term. Thus, in its October meeting it might reveal some details about the evolution of the purchase programme, but little more is expected while there is no additional data on movements in inflation. In principle, if the ECB's inflation forecasts are correct (1.5% in 2017, 1.2% – vs. the previous 1.3% – for 2018 and 1.5% – vs. the previous 1.6% – for 2019), it appears that the ECB will be in no rush to alter its monetary policy.

In the short term, it is possible that the exchange rate of the euro against the dollar will remain at the same level, or slightly lower, as no significant changes are expected in most of the factors that have led to its appreciation. In Europe, expectations about economic activity are positive and there is no reason why political uncertainties should worsen, although the recent narrow victory of the governing party in Germany and the political crisis in Catalonia have introduced some uncertainty with regard to the reform agenda in Europe. In the United States, the debt ceiling still remains to be negotiated and President Trump's fiscal reform measures need to be specified, as it does not appear that there will be significant changes from a fiscal point of view in the short term and it also seems unlikely that the calendar for rate hikes will move faster than expected in view of the latest macroeconomic data.

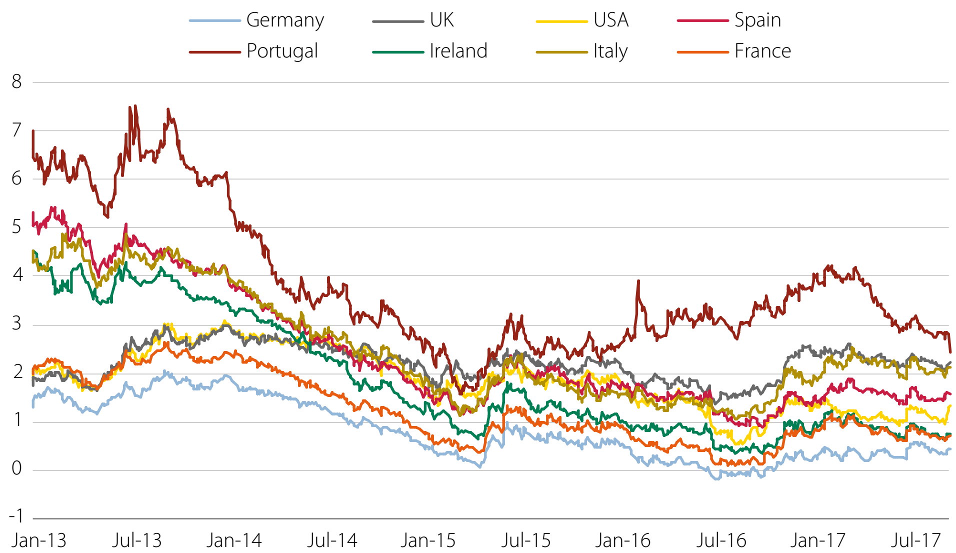
1 Data to 15 September.
2 The ECB has four different active debt purchase programmes: The Public Sector Purchase Programme (PSPP), the Corporate Sector Purchase Programme (CSPP), the Third Covered Bonds Purchase Programme (CBPP3) and the Asset-Backed Securities Purchase Programme (ABSPP).
3 The size of the ECB' balance sheet has grown from 2 trillion euros in 2014 to currently stand at 4.3 trillion euros.
4 Spanish exports grew at a rate of 11.7% year-on-year to July (compared with 7.5% for the euro area as a whole).
5 By way of example, the latest accounts published by Inditex (September 2017) reflected the lower growth in profits expected by the company due to the appreciation of the euro.

Long-term government bond yields have fallen so far this year in the United States, while yields in euro area economies have risen slightly as a result of several sources of uncertainty and higher inflation.

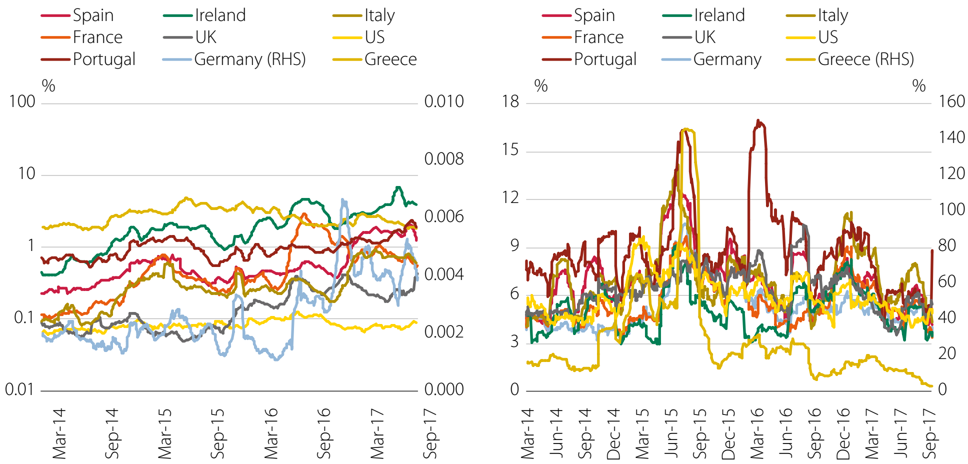
In international bond markets, ten-year government bond yields remained at higher levels in the United States compared with the stronger euro area economies, mainly as a result of the aforementioned difference in the tone of monetary policies. The yield on the US ten-year sovereign bond has fallen slightly since the start of the year, standing at 2.2% in mid-September (23 bp down on year-end 2016). This fall was partially due to low inflation and the expectation that the fiscal stimulus package proposed by the government, which is still subject to a high level of uncertainty, will have a smaller scope than initially thought. In contrast, government bond yields in euro area countries generally rose moderately until September as a result of the rise in inflation and, in some countries, various sources of uncertainty, in some cases of a political nature. The greatest increase was recorded in Italy, where there are some worries about national political stability and the weakness of the bank sector. Consequently, bond yields reached 2.15% (32 bp higher than at the start of the year), while in Germany, France and Spain, yields stood at 0.44%, 0.72% and 1.61%, respectively (23 bp, 4 bp and 22 bp higher, respectively, than at the start of the year). The sovereign bond yield in Portugal fell to 2.8% (96 bp lower than at year-end 2016) as a result of the significant improvement in the perception of its credit risk.

Indicators of the ten-year sovereign bond market FIGURE 3

Yield, %



Liquidity,[1] % Volatility,[2] %



Sources: Bloomberg, Thomson Datastream and CNMV. Data to 15 September.

1 One-month average of the daily bid-ask spread of ten-year sovereign bond yields (on a logarithmic scale). In the case of the German bond, the one-month average of the bid-ask spread is shown without dividing it by the average of these yields so as to avoid the distortion from its proximity to zero.

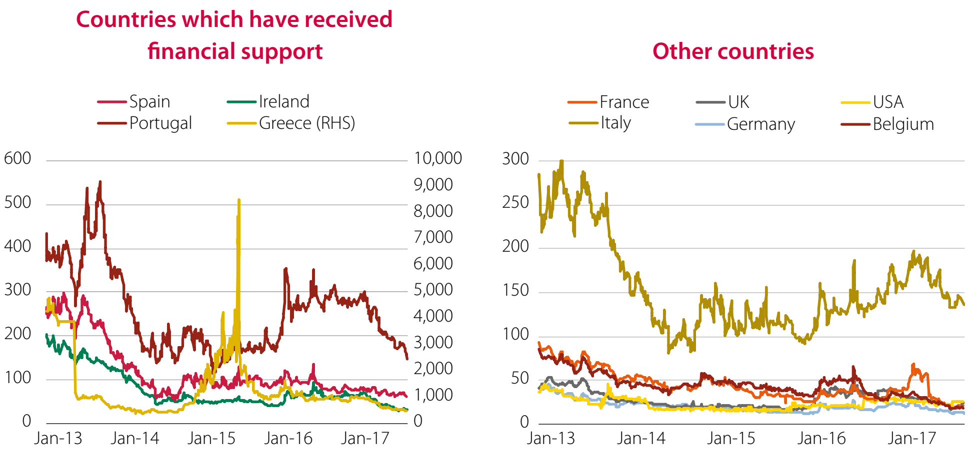
2 Annualised standard deviation of daily changes in the prices of 40-day sovereign bonds.

Most advanced economies have recorded falls in credit risk premiums over 2017, which were more intense in euro area countries.

Sovereign credit risk premiums, assessed through the five-year CDS of sovereign bonds, have fallen since the start of 2017 in most advanced economies (see figure 4). These falls were higher in euro area countries as a result of the improvement in growth forecasts, confirmed by the buoyancy of economic activity in the first half of the year, and the reduction in political risk in the region, as the outcome of the various political events has been interpreted as favourable for EU stability. Consequently, in mid-September credit risk premiums stood at 12 bp in Germany, 20 bp in France (where they have fallen by over 30 bp since March), 59 bp in Spain and 136 bp in Italy. In all these countries, the falls compared with the start of the year range between 10 bp and 30 bp. Particularly noteworthy was the dramatic fall in the Greek risk premium, which dropped from 1,000 bp at the end of 2016 to 478 bp in

September, coinciding with approval of the release of an additional tranche of 8.5 billion euros in financial support offered by the European Stability Mechanism (ESM). The CDS of US sovereign debt remained stable over the same period, at around 25 bp, while in the United Kingdom it fell by 8 bp to 24 bp.

Credit risk premiums on public debt (five-year CDS, bp) FIGURE 4



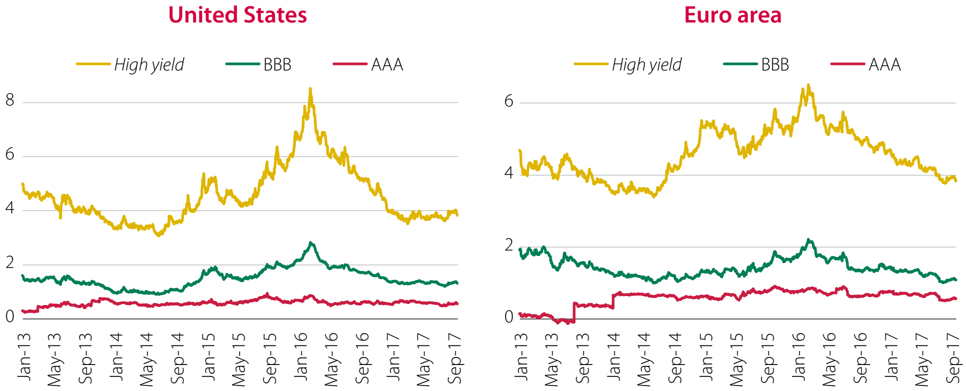
Source: Thomson Datastream. Data to 15 September.

Private debt risk premiums stabilised in the US, while they fell once again in the euro area.

In corporate fixed-income markets, the credit risk premium in the United States behaved differently to the euro area. While the US hardly recorded any changes over the year (the risk premium of AAA-rated bonds rose by 2 bp while that of BBB-rated bonds fell by 6 bp), with the exception of the lowest rated category (whose risk premium decreased by 20 bp), euro area countries recorded significant falls. In particular, the risk premium of high-yield instruments fell by 84 bp to 383 bp. The risk premium of BBB-rated instruments fell by 34 bp to 109 bp due to the purchases by investors that have incentives to seek out higher-return assets. The risk premium of AAA-rated instruments fell by 19 bp to 57 bp due to the fall in perceived political risk in the euro area.

Corporate debt risk premiums FIGURE 5

Spread with respect to the ten-year government bond, percentage points[1]



Sources: Thomson Datastream and CNMV. Data to 15 September.

1 In the euro area versus German public debt.

Net long-term debt issues in international fixed-income markets amount to 1.8 trillion dollars so far this year,[4] 35% down on 2016. This reduction was due to the fall in sovereign issues (-70%) and despite the slight increase in net private sector issues, which grew by 4% compared with the previous year. Cumulative net public sector issues during the year stand at 503 billion dollars, while the private sector has recorded a volume of 1.36 trillion dollars.

The volume of debt issues in international markets has fallen by 35% so far this year due to the reduction in sovereign debt issues…

Every region has recorded reductions in the amount of net public-sector issues over 2016, mainly as a result of the fall in gross issues (see upper right-hand panel of figure 6). There was a noteworthy fall in the United States, where the volume of net issues stood at 60 billion dollars, 474 billion dollars less than in 2016. However, following the increase in the debt ceiling approved by Congress, this amount is likely to recover in the final four months of the year. Net issue volumes in Europe and Japan have remained dependent on the fiscal consolidation processes underway and the recovery in economic activity and have fallen by 62 billion dollars and 254 billion dollars, respectively.

… which has been widespread across advanced economies and is a result of the fall in gross issues.

Net international debt issuance FIGURE 6

Source: Dealogic. Half-year data. The data for the second half of 2017 are up to 15 September, but their semiannual equivalent is shown for comparative purposes.

4 The data for the second half of 2017 are up to 15 September, but their half-yearly equivalent is shown for comparative purposes.

Debt issues by financial institutions have fallen in Spain and grown in the US and Japan…

Net financial sector issues have amounted to 503 billion dollars over 2017, 33 billion dollars up on the previous year. However, the volume of issues in Europe remains in negative numbers and stands at -97 billion dollars, compared with -86 billion dollars in 2016. This negative trend reflects the deleveraging process currently being undertaken by European banks, whose profitability has been affected by very low interest rates, the high percentage of non-performing loans in some countries, high operating costs and growing competition in the provision of some financial services. In contrast, volumes have grown in both the United States and Japan, amounting to 272 billion dollars and 54 billion dollars, respectively, 21% and 31% up on 2016.

… and the same occurred with corporate debt issues.

The volume of corporate debt issued during the year – a net figure of 861 billion dollars – was higher than the amount recorded in the same period of 2016 (841 billion). Issues rose in both the United States and in Japan driven by the accommodative bias of the monetary policies applied, which have significantly improved corporate financing conditions, the debt purchase programmes implemented by central banks and the growth in economic activity, which allows investment projects to be resumed. Specifically, net issues amounted to 542 billion dollars in the United States and 46 billion dollars in Japan, 94 billion and 37 billion dollars up, respectively, on 2016. However, the amount issued in Europe totalled 113 billion dollars, compared with 160 billion dollars in the previous year, as a result of issues being brought forward to the first half of the year as a result of the expectation of a turnaround in the ECB's monetary policy, which dissipated several months later.

The leading international share indices have recorded gains so far this year…

For the year as a whole, the leading international equity indices have recorded growth that was particularly significant in the first quarter and which have helped to keep up the pace of the rises recorded in 2016. The largest gains have been recorded in US stock indices and some European indices. In the United States, the Dow Jones, S&P 500 and Nasdaq have gained 12.7%, 11.7% and 19.8% respectively. In the peripheral countries of the EU and in most euro area economies, share prices were buoyed by a significant reduction in political risk and strengthening of economic growth in the region. Since the start of the year, Italy's Mib index has grown by 15.6%, the Ibex 35 by 10.3%, Germany's Dax 30 by 9% and France's Cac 40 by 7.2%. Gains have been lower in the case of the UK's FTSE 100 (1%) due in part to the slowdown in economic growth over recent quarters and uncertainty relating to the elections held in June. Japan's Nikkei 225 has recorded a smaller gain over the year (4.2%) due to the drop in the third quarter (-0.6%).

… which have come with very low levels of implied volatility and which reflect an increased risk appetite.

The stock market gains have come with very low levels of implied volatility, which remained between 10% and 20% in the first half of the year and between 7% and 15% so far in the second half (see the right-hand panel of figure 7). The positive performance of equity markets worldwide reflects the increased risk appetite recorded since the start of the year (see left-hand panel of figure 7).

Emerging market share indices have generally recorded significant growth so far in 2017.

Emerging market share indices have also generally recorded significant growth over the year. In China, where economic growth has remained stable and the financial sector obtained good results in the first half of the year, the Shanghai Composite has risen by 8.1%. The upward trend in the technology sector has also supported gains in other Asian indices, such as the Korean KOSPI, which has recorded a rise of 17.7% despite the political tensions in the region. In Latin America, the Brazilian Bovespa index has risen by 25.8% after the economy emerged from recession and on the expectation that a series of reforms will be applied that the market considers to be favourable, and the Argentinean Merval index has grown by 40.2%. The Russian stock market has shown very uneven behaviour, with sharp falls in the second quarter (-10.1%) as a result of doubts relating to the trend in the price of oil and the effect of sanctions imposed by several countries, and significant gains in the third quarter (12.2%). All in all, so far this year the Russian index has fallen by 2.5%.

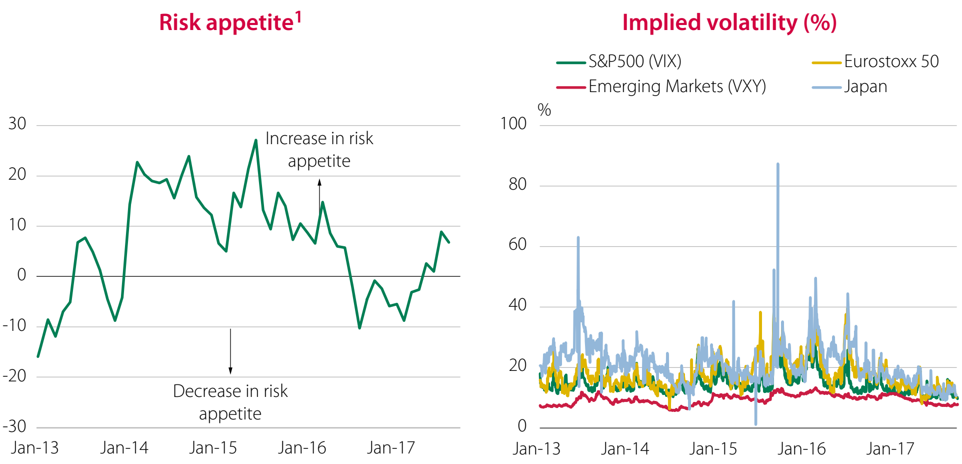
Performance of main stock indices[1] TABLE 1

%	2013	2014	2015	2016	III16	IV16	I17	II17	III-17 (up to 15 September) %/prior quarter	III-17 (up to 15 September) %/Dec.
World										
MSCI World	24.1	2.9	-2.7	5.3	4.4	1.5	5.9	3.4	3.7	13.5
Euro area										
EuroStoxx 50	17.9	1.2	3.8	0.7	4.8	9.6	6.4	-1.7	2.1	6.8
Euronext 100	19.0	3.6	8.0	3.0	4.1	5.9	5.6	0.0	3.0	8.8
Dax 30	25.5	2.7	9.6	6.9	8.6	9.2	7.2	0.1	1.6	9.0
Cac 40	18.0	-0.5	8.5	4.9	5.0	9.3	5.4	0.0	1.8	7.2
Mib 30	16.6	0.2	12.7	-10.2	1.3	17.3	6.5	0.4	8.0	15.6
Ibex 35	21.4	3.7	-7.2	-2.0	7.5	6.5	11.9	-0.2	-1.2	10.3
United Kingdom										
FTSE 100	14.4	-2.7	-4.9	14.4	6.1	3.5	2.5	-0.1	-1.3	1.0
United States										
Dow Jones	26.5	7.5	-2.2	13.4	2.1	7.9	4.6	3.3	4.3	12.7
S&P 500	29.6	11.4	-0.7	9.5	3.3	3.3	5.5	2.6	3.2	11.7
Nasdaq-Composite	38.3	13.4	5.7	7.5	9.7	1.3	9.8	3.9	5.0	19.8
Japan										
Nikkei 225	56.7	7.1	9.1	0.4	5.6	16.2	-1.1	5.9	-0.6	4.2
Topix	51.5	8.1	9.9	-1.9	6.2	14.8	-0.4	6.6	1.7	7.9

Source: Datastream.

1 In local currency.

Financial market indicators FIGURE 7



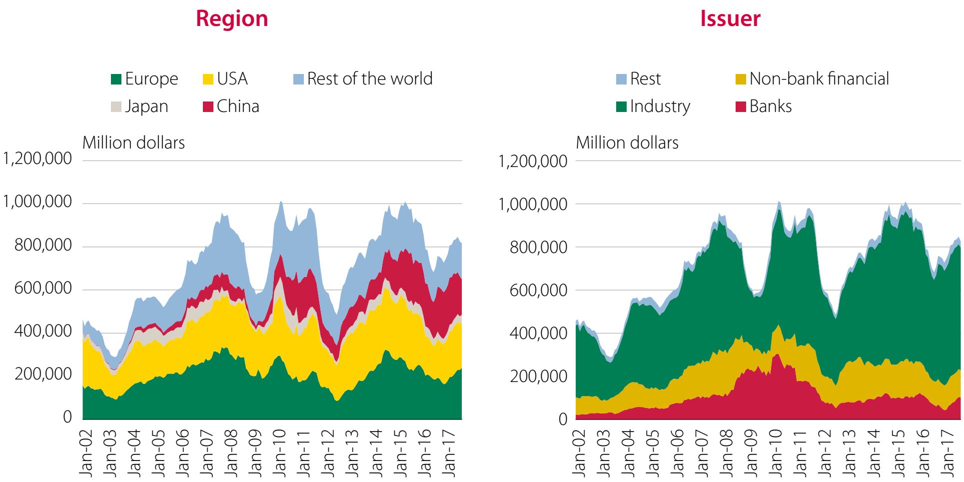
Sources: Thomson Datastream and CNMV.

1 State Street indicator.

Equity issues grew in 2017 in every region except China.

Equity issuance over the first three quarters of the year[5] totals 632 billion dollars, an increase of 16.7% compared with the same period of 2016 (see figure 8). By region, significant rises were recorded in the United States, Europe and Japan, which accumulated volumes of 174 billion dollars, 194 billion dollars and 25 billion dollars, respectively, 20%, 64% and 33% up on 2016. The significant stock-market gains in these regions encouraged the dynamism in primary equity markets. In contrast, the cumulative amount of issues in China so far this year totals 113 billion dollars, 31% down on 2016. The fact that the growth of the Chinese economy was somewhat lower than expected might have influenced this fall. The breakdown by sector shows widespread increases in issues with the exception of utilities, whose volume fell by 26%. In particular, issues by industrial companies rose by 7% and issues by non-bank financial companies rose by 18%. Bank issues increased dramatically (by 173%) on the previous year due to the low level of issues in 2016.

Global equity issuance FIGURE 8



Source: Dealogic. Cumulative twelve-month data to 15 September. The monthly equivalent for September is shown for comparative purposes.

2.2 National economic and financial developments

Spanish GDP continues to grow at almost one percentage point higher than the euro area.

In the first half of the year, the Spanish economy continued the strong growth that it has been recording since the end of 2014 with GDP rising at a much faster rate than in the euro area. The quarterly change in GDP in the second quarter of the year stood at 0.9% (3.1% year-on-year), while the figure for the euro area was 0.6% (2.3% year-on-year).

Growth was balanced as the contribution of both domestic demand and the external sector was positive.

Economic growth remained balanced and the contributions from both domestic demand and from the external sector were positive. In particular, the contribution of domestic demand to GDP growth stood at 2.4 percentage points (pp) at the end of the first half of the year (2.2 pp at year-end 2016) and the contribution of the external sector was 0.68 pp, a little less than at year-end 2016 (0.78 pp). Within the components of domestic demand, private consumption recorded a year-on-year change

5 The data for September 2017 are up to the 15th, but their monthly equivalent is shown for comparative purposes.

of 2.5% in the second quarter, a fall of 0.5 pp compared with year-end 2016, while the growth in public consumption and gross fixed capital formation stood at 1.4% and 3.4%, respectively, which were much larger increases than those recorded at year-end 2016 (0% and 2.2%, respectively). With regard to the components of the external sector, it is important to highlight the stability of exports (around 4.5%) and the acceleration of imports (0.5 pp to 2.8%).

On the supply side, growth of the main branches in the second half was stronger than in December of the previous year with the exception of the services sector, which recorded a slight slowdown (from 3.1% to 2.8 %). The value added of primary branches and construction grew significantly, with year-on-year rises of 4.1% and 4.8%, respectively, in the second quarter (above the 2.9% and 3%, respectively, recorded at year-end 2016). The industrial sector grew by 2.6% (2.2% in December 2016).

On the supply side, all sectors recorded accelerated growth in 2016 except for the services sector, which recorded a slight slowdown.

Spain: Main macroeconomic variables (annual % change) TABLE 2

					EC[1]	
	2013	2014	2015	2016	2017F	2018F
GDP	**-1.7**	**1.4**	**3.2**	**3.2**	**2.8**	**2.4**
Private consumption	-3.2	1.6	2.8	3.2	2.5	2.0
Government consumption	-2.1	-0.3	2.0	0.8	0.9	0.8
Gross fixed capital formation, of which:	-3.4	3.8	6.0	3.1	3.4	3.9
Construction	-8.6	1.2	4.9	1.9	n.a.	n.a.
Capital goods and other assets	5.3	8.4	8.9	5.1	3.9	3.7
Exports	4.3	4.2	4.9	4.4	5.7	4.8
Imports	-0.5	6.5	5.6	3.3	4.8	4.4
Net exports (contribution to growth, pp)	1.4	-0.5	-0.1	0.4	0.4	0.3
Employment[2]	**-3.4**	**1.1**	**3.0**	**2.9**	**2.3**	**2.1**
Unemployment rate	**26.1**	**24.4**	**22.1**	**19.6**	**17.6**	**15.9**
Consumer price index[3]	**1.4**	**-0.1**	**-0.5**	**-0.2**	**1.1**	**1.4**
Current account balance (% GDP)	**1.5**	**1.1**	**1.4**	**1.9**	**1.6**	**1.6**
General government balance (% GDP)[4]	**-7.0**	**-6.0**	**-5.1**	**-4.5**	**-3.2**	**-2.6**
Public debt (% GDP)	**95.5**	**100.4**	**99.8**	**99.4**	**99.2**	**98.5**
Net international investment position (% GDP)	**-85.2**	**-90.1**	**-80.7**	**-70.9**	**n.a.**	**n.a.**

Sources: Thomson Datastream, European Commission, Banco de España and National Statistics Office (INE).
1 European Commission forecasts from May 2017.
2 In full-time equivalent jobs.
3 European Commission forecasts referred to the harmonised index of consumer prices.
4 Data for 2013, 2014, 2015 and 2016 include government aid to credit institutions amounting to 0.4%, 0.1%, 0.1% and 0.2% of GDP, respectively.
n.a.: [data] not available.

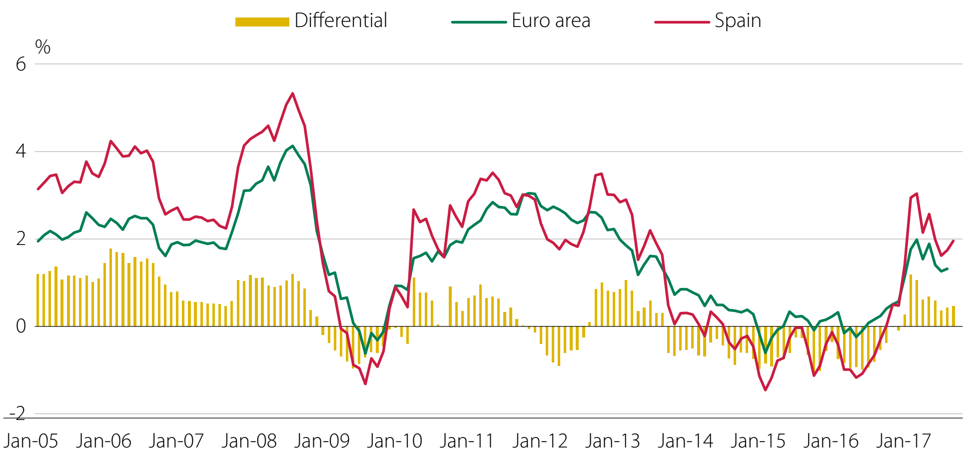
Inflation, which returned to positive numbers in the second half of 2016 after being in negative terrain for over a year, stood at 3% in January and remained above 2% over the first four months of the year. However, this increase was temporary and largely due to the increase in energy prices and in subsequent months, inflation stabilised at around 1.6% (figure for August). In the meantime, the underlying inflation rate, which excludes the most volatile elements such as energy and fresh food, showed a slight upward trend over the first few months of the year and in August stood at 1.2% (1% in December 2016). The inflation gap compared with the euro area, which reached 1.2 pp in December 2016, fell gradually over the year to 0.5 pp in August (see figure 9).

Inflation, which rose significantly in the first few months of 2017 as a result of rising energy prices, fell to below 2% by the middle of the year.

Employment continued to grow at rates slightly below 3% in the first of the year, which once again led to falls in the unemployment rate…

In the job market, the process of job creation continued apace with a year-on year change of 2.8% in the second quarter of the year, a very similar rise to that recorded in 2016 (2.7%). The generation of 284,000 jobs in the first half of the year allowed the employed population to rise to 17.8 million in June and the unemployment rate to fall to 17.2% (18.6% at year-end 2016). The creation of jobs is accompanied by a reduction in unit labour costs, which recorded negative year-on-year growth in June, thus continuing the trend that began in 2015. The fall in unit labour costs can be explained by the increase in apparent productivity (0.28% in the second quarter) outstripping the remuneration per employee (-0.1%).

Harmonised CPI Spain vs. Euro area (annual % change) FIGURE 9



Source: Thomson Datastream. Data to August.

… while favouring reduction in the government deficit through income from contributions. By year-end, the deficit will be close to 3% of GDP, within the limits established by the Stability and Growth Pact.

The cumulative general government deficit[6] in the first half of the year stood at 2.32% of GDP, 0.7 percentage points below that recorded in the same period of 2016 (3.01%). The breakdown by subsector reveals that the central government deficit stood at 1.06% of GDP, while the deficit of the autonomous regions stood at 0.7%, 0.1 percentage points above the figure recorded in the same period of the previous year. The deficit of the Social Security Fund stood at 0.54% of GDP, 0.05 points down on 2016 as a result of the rise in income from social security contributions. According to the Excessive Deficit Procedure, consolidated government debt, after falling to 99.4% of GDP at year-end 2016 (99.8% at year-end 2015), rose to 100.4% in the first quarter of the year.[7] According to the budget forecasts of the latest updated Stability Programme for 2017-2020, the deficit will stand at 3% of GDP in 2017, 2.2% in 2018, 1.3% in 2019 and 0.5% in 2020. These estimates are somewhat more optimistic than those published by the European Commission in May (3.2% in 2017 and 2.6% in 2018).

Banks continue to negotiate a complex business landscape, although one which is somewhat more favourable in Spain due to consolidated growth, although not exempt from risks.

Development of the banking industry in the euro area remains conditioned by an environment of very low interest rates and the consolidation of other competitive factors (shadow banking, fintech, etc.) as key factors. The high percentage of non-performing assets and the slow process of economic recovery are also

6 Excluding local authorities and the net balance of aid given to banks.

7 Advance data from the Banco de España.

significant factors in some peripheral countries. The environment in Spain is more favourable as growth has become consolidated with the consequent reduction in the NPL ratio, but the sector is not exempt from risk. Similarly, in a context in which banks are finding it difficult to increase revenue, the process of streamlining costs in the banking system remains a key challenge for improving efficiency.

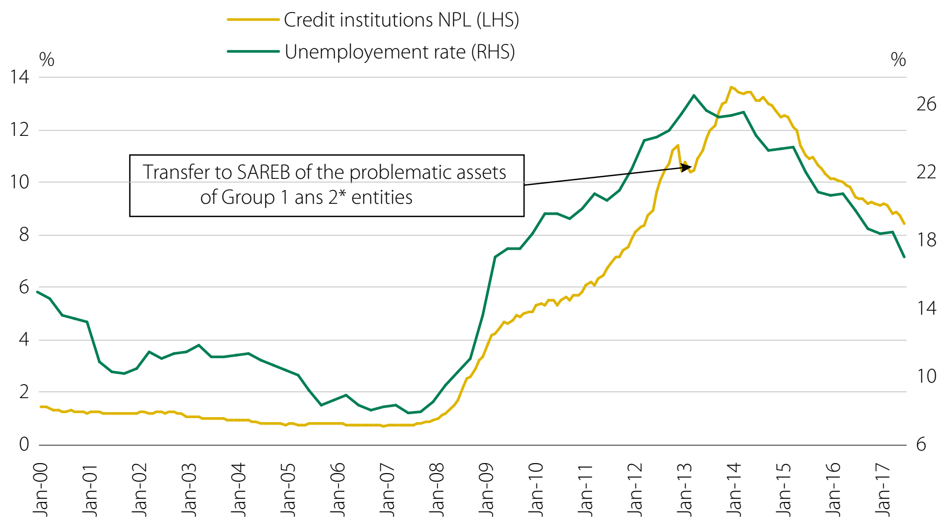
The sector's profits fell in 2016 for different reasons, some of a regulatory nature, but rose in the first quarter of 2017…

Despite this more positive environment, the net profit of credit institutions fell by 35% in 2016 to 6.08 billion euros. The reasons behind this fall are as follows: (I) the decrease in the gross profit margin, as the fall in finance costs did not offset the fall in income; (ii) the impact on the operating profit of the considerable increase in provisions made by one bank in the last quarter of the year,[8] and (iii) the impact on profit before tax of the changes resulting from entry into force of Banco de España Circular 4/2016, which modifies Spanish banking accounting to adapt it to IFRS 9. In the early months of 2017, there was a change in trend in the income statement for the sector. Up to March, profit was 3.51 billion euros, 31% higher than in the same period of 2016. The fall in operating profit was offset by a slight improvement in impairment losses of non-financial assets.

… while the NPL ratio continues to fall.

The ratio of non-performing loans to other resident sectors (households and non-financial companies)[9] continued the downward trend of the last three years and at the end of June stood at 8.4%, its lowest level since 2012. This fall is largely explained by the strength of the economic recovery, the current environment of low interest rates and the fall in the unemployment rate (see figure 10).

Credit institution NPL ratios and the unemployment rate[1] FIGURE 10



Sources: Banco de España and National Statistics Office (INE). Data to June.

1 Percentage of active population.

* Group 1 transfers took place in December 2012 (36.7 billion euros) and Group 2 transfers in February 2013 (14.09 billion euros).

8 Banco Popular.

9 Due to adaptation to the preparation and format criteria for the FINREP (Financial Reporting) statements of European Union legislation, the data offered by the Banco de España as from April 2017 are provisional.

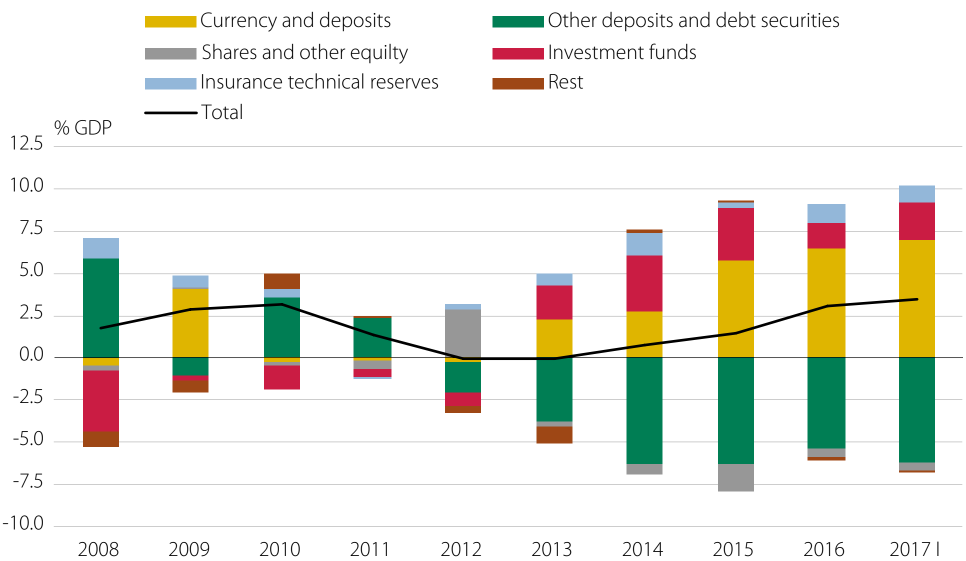
Bank lending to the non-financial sector of the economy (households and companies) reversed its downward trend in the first quarter of the year and grew for the first time since 2011.

Bank lending to the non-financial resident sector (companies and households) temporarily reversed its downward trend in the first quarter of the year, recording positive rates of change between March and June, which had not happened since 2011. However, the year-on-year rate returned to negative numbers in July (-0.3%). In the case of non-financial companies, year-on-year growth stood at 0.6% in July (-0.3% in the same month of 2016). The growth of financing from securities other than shares offset the negative contribution of loans granted by resident credit institutions and loans from abroad. Lending to households, however, continued to contract with the year-on-year rate in July standing at -1.4% (-1.5% in the same month of 2016) due to the reduction in home purchase loans, which contributed -2.4 pp to the rate of change. The growth in lending in the euro area to non-financial companies and households stood at 1.6% and 2.7%, respectively, in May.

The size of the banking sector continues to decline, albeit at a slower pace than in previous years.

The size of the banking sector fell in the first half of 2017, albeit at a slower pace than that recorded in recent years. The total volume of assets in June amounted to 2.63 trillion euros, 15 billion euros less than at year-end 2016. Movements in the main funding sources for banks were uneven. The balance of deposits and net Eurosystem borrowing rose (21 billion euros to 1.89 trillion euros and 32 billion euros to 170 billion euros, respectively), while the volume of debt issued and equity fell (by 9 billion euros and 10 billion euros, respectively, to 192 billion euros and 350 billion euros).

Households: Net financial asset acquisitions (% GDP) FIGURE 11



Source: Banco de España, Financial Accounts. Cumulative data from four quarters.

The financial position of Spanish households has continued to improve, with a fall in the debt ratio and investment of 3.4% of GDP in financial assets, surpassing the figures recorded in recent years.

Indicators for the financial position of households reveal that savings rates fell to 7% of gross disposable income (GDI) in the first quarter of 2017, 0.7 percentage points down on year-end 2016. Furthermore, the combination of lower debt and higher income led to the debt ratio maintaining its downward trend and falling in March to 101.2% of GDI, compared with 105.6% in the same month of 2016. The debt burden ratio stabilised at around 11.7% of GDI. In this context, net acquisition of financial assets by Spanish families amounted to 3.4% of GDP in the first quarter,[10] largely driven by the consolidation of the economic recovery and job creation. By type of financial instrument, net acquisitions followed the same pattern of recent years with sharp divestments from long-term deposits and fixed-income securities (-6.1% of GDP), due to the poor returns on offer, and substantial investments in cash and transferable deposits (7% of GDP) and, to a lesser extent, in mutual funds and insurance products (2.2% and 1% of GDP, respectively).

2.3 Outlook

The IMF, in its July forecasts, estimates global GDP growth of 3.5% in 2017 and 3.6% in 2018. These rates improve on the 3.2% of 2016, but they do not reach the historic average prior to the financial crisis.[11] Advanced economies are expected to grow by 2% in 2017 and 1.9% in 2018 (1.7% in 2016) as factors such as demographic trends, low investment rates and slow productivity gains slow down economic growth. Emerging economies are expected to grow by 4.6% in 2017 and 4.8% in 2018 (4.3% in 2016).

The world economy will grow by 3.45% in 2017, above the 3.2% recorded in 2016.

Gross Domestic Product (annual % change) TABLE 3

					IMF[1]	
	2013	2014	2015	2016	2017F	2018F
World	3.3	3.4	3.4	3.2	3.5 (0.0)	3.6 (0.0)
United States	1.7	2.4	2.6	1.6	2.1 (-0.2)	2.1 (-0.4)
Euro area	-0.3	1.1	2.0	1.8	1.9 (0.2)	1.7 (0.1)
Germany	0.6	1.6	1.5	1.8	1.8 (0.2)	1.6 (0.1)
France	0.6	0.6	1.1	1.2	1.5 (0.1)	1.7 (0.1)
Italy	-1.7	-0.3	0.8	0.9	1.3 (0.5)	1.0 (0.2)
Spain	-1.7	1.4	3.2	3.2	3.1 (0.5)	2.4 (0.3)
United Kingdom	1.9	3.1	2.2	1.8	1.7 (-0.3)	1.5 (0.0)
Japan[2]	2.0	0.3	1.1	1.0	1.3 (0.1)	0.6 (0.0)
Emerging economies	5.0	4.6	4.3	4.3	4.6 (0.1)	4.8 (0.0)

Source: IMF.

1 Figures in brackets show the change vs. previous published forecast. IMF, Forecasts published in July 2017 vs. April 2017.

2 Japan's historical national accounts were revised in December 2016 in line with changes in the country's GDP methodology.

In the international context, the scope of the expansionary fiscal policy announced by the US Administration is still unknown and some of the measures proposed may not be approved or may only be implemented partially or later than expected. Furthermore, a shift towards protectionist policies (in particular, restrictions to trade and immigration) might have a negative impact on global growth in the medium and long term. In this scenario, there is a risk of a downward revision in expectations with

In the international context, economic activity and financial stability in financial markets may be affected by uncertainties about the scope of the measures taken by the US Administration, on the withdrawal of monetary stimulus…

10 With cumulative data from four quarters up to the first quarter of 2017.

11 Between 2000 and 2007, world GDP grew on average by 4.5%.

regard to future corporate profits in some sectors and falls in their share prices. The risk of a faster-than-expected normalisation of US monetary policy, less likely than several months ago, might have a significant impact on financial markets, with sharp falls in fixed income prices and increases in risk premiums worldwide.

… and the development of some geopolitical conflicts.

In addition to these risks, it is important to note the presence of other sources of uncertainty such as, for example, the increase in geopolitical tensions and the possibility of terrorist attacks worldwide. All these elements might have a significant impact on financial markets.

In Europe, where political uncertainty has fallen, the Brexit negotiations and the weakness of the banking sector are the most significant risks.

In Europe, political risk has fallen in recent months following the outcome of several electoral processes, the results of which have been perceived as positive for the continuity of the EU project. Brexit negotiations and the recent appreciation of the euro are other sources of uncertainty that might trigger episodes of volatility in financial markets. In addition, risks remain in the banking sector, as mentioned above.

The Spanish economy will continue to grow at rates higher than those recorded in the euro area. The challenges linked to the high unemployment rate and to fiscal consolidation remain.

With regard to the Spanish economy, the IMF forecasts a slight moderation in growth, which, according to its forecasts, will stand at 3.1% in 2017 and 2.4% in 2018, which is an upward revision of 0.5 percentage points and 0.3 percentage points, respectively, since its previous forecast. Although these rates are above those expected for the euro area as a whole (1.9% in 2017 and 1.7% in 2018), there remain various sources of uncertainty which threaten the sustainability of this growth and financial market stability. Some of these risks, such as those relating to banking or the growing significance of certain geopolitical conflicts, are common to other major economies. In the case of the banking sector, it is important to highlight the improved situation relating to Spanish banks compared with others in the EU due to the progress made in their restructuring processes, which is reflected in a more favourable efficiency ratio and strong growth in the activity in Spain. The most significant domestic risks are those resulting from the high unemployment rate, the process of fiscal consolidation and, more recently, uncertainty relating to the political crisis in Catalonia. Finally, particularly noteworthy are the risks that affect Spanish companies with high exposure to some emerging countries and to the United Kingdom as these may be affected by a tightening of financing conditions in international markets and by Brexit.

3 Spanish markets

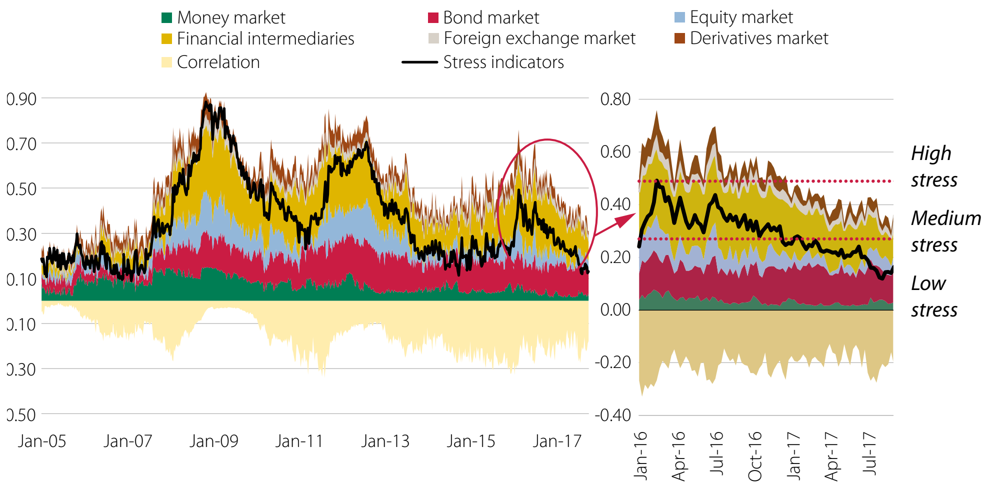
The stress indicator for Spanish financial markets has remained at a low level (below 0.27) throughout the year.

The stress indicator of financial markets in Spain has shown a downward trend over most of the year, with values which correspond to reduced levels of stress.[12]

12 The stress indicator developed by the CNMV provides a real-time measurement of systemic risk in the Spanish financial system in the range of zero to one. To do so, it assesses stress in six segments of the financial system and aggregates them into a single figure bearing in mind the correlation between said segments. Econometric estimates consider that market stress is low when the indicator stands below 0.27, intermediate in the interval of 0.27 to 0.49, and high when readings exceed 0.49. For more detailed information on the recent progress of this indicator and its components, see the CNMV's quarterly Financial Stability Note and statistical series (market stress indicators) available at www.cnmv.es/portal/

This indicator reached an annual low in the first few days of August (0.12) and then rose slightly to 0.16. By segment, the higher stress levels were recorded in the bond market, where volatility rose while liquidity fell.[13] Significant events, such as the resolution process of Banco Popular and the terrorist attacks in Barcelona did not have a significant impact on the general stress level of the Spanish financial system.

Spanish financial market stress indicator FIGURE 12



Source: CNMV.

The most important risks in the area of financial markets are market risk and liquidity risk, particularly in debt assets.

The most important risks in the area of financial markets are market risk and liquidity risk. These risks are felt much more strongly in fixed-income assets, whose prices (many of which are at historic highs) are directly affected by the extremely low interest rates. Furthermore, the liquidity of these assets has been affected over recent years by some regulatory changes,[14] as well as the ECB's asset purchase programmes. In this context, it is important to continuously monitor all the circumstances that might lead to an increase in interest rates or risk premiums and to substantial asset sales and negative contagion spirals between different countries, markets or classes of financial instrument.

Menu/Publicaciones-Estadisticas-Investigacion. For further information on the indicator's methodology, see M. I. Cambón and L. Estévez (2016), "A Spanish Financial Market Stress Index (FMSI)", Spanish Review of Financial Economics 14, January (1), pp. 23-41 or CNMV Working Paper No. 60 (www.cnmv.es/portal/Publicaciones/monografias).

13 A detailed analysis of the development of the liquidity of Spanish bonds is offered in a separate article in this bulletin, "Measuring liquidity of Spanish fixed-income securities (2005-2016)", written by the CNMV's Research and Statistics Department.

14 The financial regulation that arose out of the crisis toughened the capital requirements for market making by banks, thus discouraging this activity, which, in theory, is beneficial for market liquidity.

3.1 Equity markets

Equity markets declined slightly in the third quarter as a result of various national and international uncertainties.

Spanish stock markets rose significantly in the early months of the year and then stabilised over the middle part of the year. They fell in the third quarter, which placed stock market indices at their lowest level since April. The fall in share prices resulted from the slowdown in US economic growth, geopolitical tensions in Asia with North Korea and the strength of the euro, which may reduce the competitiveness of the European economy and delay normalisation of the ECB's monetary policy. In Spain, political uncertainty has also had an impact on stock market indices. The Ibex 35 fell by 1.2% in the third quarter, and was thus outperformed by the main benchmark European indices,[15] in a context of moderate volatility and reduced trading volumes. Share prices performed unevenly between sectors and the shares with the greatest falls were concentrated in companies in the industrial, consumer goods, tourism and textile sectors, as well as in companies in the electricity sector. On the positive side, oil, steel and real estate companies together with motorway operators recorded share price rises.

The Ibex 35 fell by 1.2% in the third quarter, recording a poorer relative performance compared with other European indices, although it has accumulated gains of 10.3% in the year.

The Ibex 35, which had risen by 11.9% in the first quarter and remained stable in the second quarter, fell slightly in the third quarter. In the year as a whole,[16] this index has gained 10.3%. The third quarter falls were sharper for mid-cap companies (-3.5%), which are more exposed to the external sector than small-cap companies, which recorded a fall of 1.3%. The indices that reflect movements in Latin American securities listed in euros grew significantly in the third quarter, offsetting the falls recorded in the second quarter. In particular, the FTSE Latibex All-Share and FTSE Latibex Top indices have recorded gains of 12.6% and 14.5%, respectively, so far this year and have benefited from the positive performance of the leading Latin American economies – Brazil came out of recession in the second quarter –[17] as well as the appreciation of their currencies against the euro.[18]

Movements in share prices were not even among sectors. Despite improvements, some uncertainty persists in the financial sector.

With the exception of companies in the oil sector and the motorway concession sector, which were favoured by the recovery of crude oil prices and the possible submission of competing bids for the takeover of the main Spanish company of the motorway concessions sector, most sectors recorded negative growth in the third quarter, although their performance was not entirely even. The largest falls corresponded to the industrial and construction sectors, as well as the consumer goods and services sector. In addition, securities linked to the financial and insurance sectors fell once again as, despite the improvements seen in the sector, problems persist in some companies. The resolution process of Banco Popular decided by the Fund for Orderly Banking Restructuring (FROB) and the Single Resolution Board in early June, and the CNMV's decision to restrict short positions in Liberbank shares, which was adopted on 12 June and extended twice, are two examples of these difficulties.

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15 The leading European indices recorded slight increases: Dax (1.6%), Cac (1.8%), Eurostoxx 50 (2.1%), with the Mib 30 recording a significant gain of 8%.

16 With data to 15 September.

17 The Brazilian economy grew by 0.2% in the second quarter, and has now recorded two consecutive quarters of GDP growth.

18 So far this year, the Brazilian real has gained 8.4% against the euro.

Performance of Spanish stock market indices and sectors

TABLE 4

%							III-17 (Up to 15 September)	
Index	**2014**	**2015**	**2016**	**IV-16[1]**	**I-17[1]**	**II-17[1]**	**%/prior quarter**	**%/Dec. 2016**
Ibex 35	3.7	-7.2	-2.0	6.5	11.9	-0.2	-1.2	10.3
Madrid	3.0	-7.4	-2.2	6.7	11.8	-0.2	-1.3	10.1
Ibex Medium Cap	-1.8	13.7	-6.6	3.5	4.3	3.3	-3.5	4.0
Ibex Small Cap	-11.6	6.4	8.9	6.3	15.1	2.2	-1.3	16.0
FTSE Latibex All-Share	-16.1	-39.2	71.0	14.3	10.0	-9.7	12.6	11.8
FTSE Latibex Top	-11.1	-34.6	67.8	17.0	12.4	-9.6	14.5	16.2
Sector[2]								
Financial and real estate services	**1.4**	**-24.2**	**-1.6**	**21.0**	**15.2**	**-0.5**	**-0.4**	**14.2**
Banking	1.6	-26.0	-1.8	22.5	16.0	-0.9	-0.5	14.3
Insurance	-9.2	-5.0	15.5	16.8	9.7	-0.4	-5.7	3.0
Real estate and others	36.3	18.4	-2.3	0.9	8.0	8.1	3.2	20.5
Oil and energy	**11.8**	**0.6**	**0.8**	**1.7**	**7.2**	**-0.4**	**0.4**	**7.2**
Oil	-15.1	-34.9	32.6	11.1	7.9	-7.4	12.1	11.9
Electricity and gas	21.7	9.6	-4.3	-0.2	7.0	1.2	-2.5	5.6
Basic materials, industry and construction	**-1.8**	**2.1**	**2.0**	**-0.4**	**8.9**	**-0.9**	**-7.8**	**-0.5**
Construction	8.9	4.9	-7.9	-1.9	9.0	3.6	-3.8	8.6
Manufacture and assembly of capital goods	-18.3	49.0	7.8	-6.1	11.4	-7.7	-24.2	-22.1
Minerals, metals and metal processing	4.5	-30.8	48.8	11.6	6.8	-5.4	3.1	4.2
Engineering and others	-17.0	-39.6	9.9	6.5	-1.4	-6.5	-3.3	-10.8
Technology and telecommunications	**2.5**	**-5.2**	**-9.0**	**2.8**	**16.2**	**-6.1**	**1.5**	**10.8**
Telecommunications and others	2.6	-12.3	-14.2	-2.7	18.6	-12.3	0.6	4.7
Electronics and software	2.3	22.2	7.9	-3.0	10.7	9.3	3.2	24.8
Consumer goods	**-1.5**	**30.9**	**0.2**	**-0.9**	**4.4**	**3.0**	**-3.0**	**4.4**
Textiles, clothing and footwear	-1.1	33.6	2.6	-1.5	1.9	1.6	-2.8	0.6
Food and drink	-5.2	26.4	-5.4	-2.2	0.4	4.9	-0.8	4.5
Pharmaceuticals and biotechnology	-1.0	23.5	-6.4	1.3	15.5	4.4	-6.5	12.8
Consumer services	**10.0**	**10.4**	**-8.0**	**0.9**	**13.0**	**7.2**	**-3.4**	**17.0**
Motorways and car parks	6.8	-7.9	-3.1	-4.1	13.6	7.4	4.9	28.0
Transport and distribution	27.9	29.6	-15.7	4.3	16.3	13.2	-6.7	22.9

Sources: BME and Thomson Datastream.

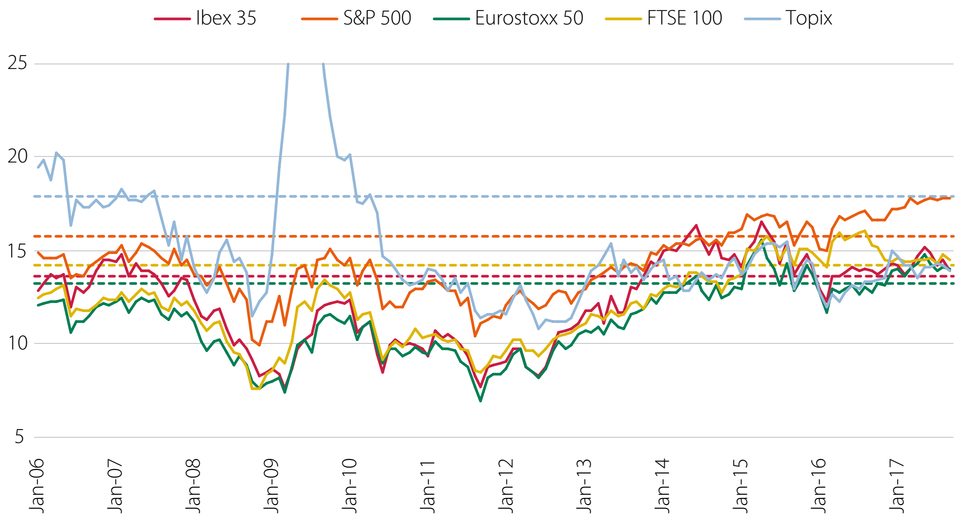
1 Change on previous quarter.

2 IGBM sectors. Under each sector, data are provided for the most representative sub-sectors.

The fall in share prices over the quarter together with the increase in corporate profits led to a slight reduction in the price-earnings ratio (PER).

The fall in share prices in the third quarter and the improvement in corporate profits, together with the forecast that this trend will continue in the coming months, allowed the price-earnings (P/E) ratio of the Ibex 35 to fall from 14.9 in mid-June to 13.9 in mid-September. As shown in figure 13, the P/E ratios of the leading stock market indices remained relatively stable in the quarter, mostly standing at above their average values for the period 2000-2017.[19] The P/E ratio of the US S&P 500 index hardly changed as improvements in corporate profits were accompanied by similar price rises in the index. In the European Eurostoxx and the Japanese Topix, there was a slight fall in the ratios as in both cases the improvement in earnings per share was greater than the increase in share prices. On the other hand, the fall in the ratio for the British FTSE 100 was due to a reduction in share prices.

Price-Earnings ratio[1] (P/E) FIGURE 13



Source: Thomson Datastream. Data to 15 September.

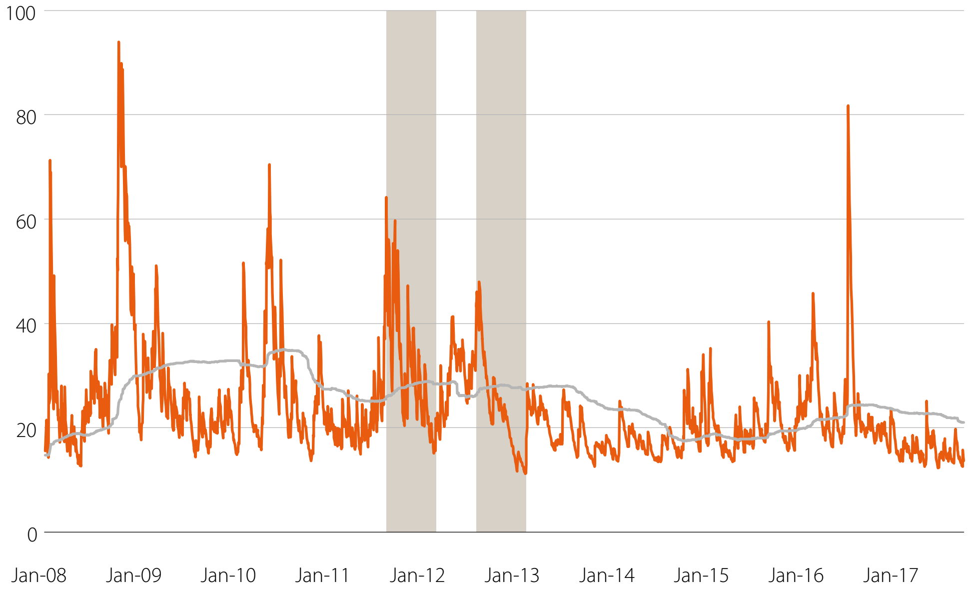
1 Twelve-month forward earnings.

Volatility remained largely unchanged, remaining at low levels in historical terms (below 14%).

The volatility of the Ibex 35 remained stable in the third quarter of the year, with hardly any changes compared with the previous two quarters. Its level was moderate throughout the quarter and ended below 14%. This figure is slightly lower than the average for the two previous quarters (15.4% and 15.8%, respectively) and the average of the year as a whole (15.4%) and reflects the significant decrease in volatility compared with 2016, when it stood at 24%. Movements in volatility in the Spanish market are similar to those recorded in other international markets in which there seems to have been a certain dissociation between market uncertainty (high at certain times due to geopolitical tensions and conflicts) and market volatility, which stands at historic lows. In the case of the Eurostoxx 50, this indicator ended the quarter below 10%, a similar value to that recorded in the US VIX.

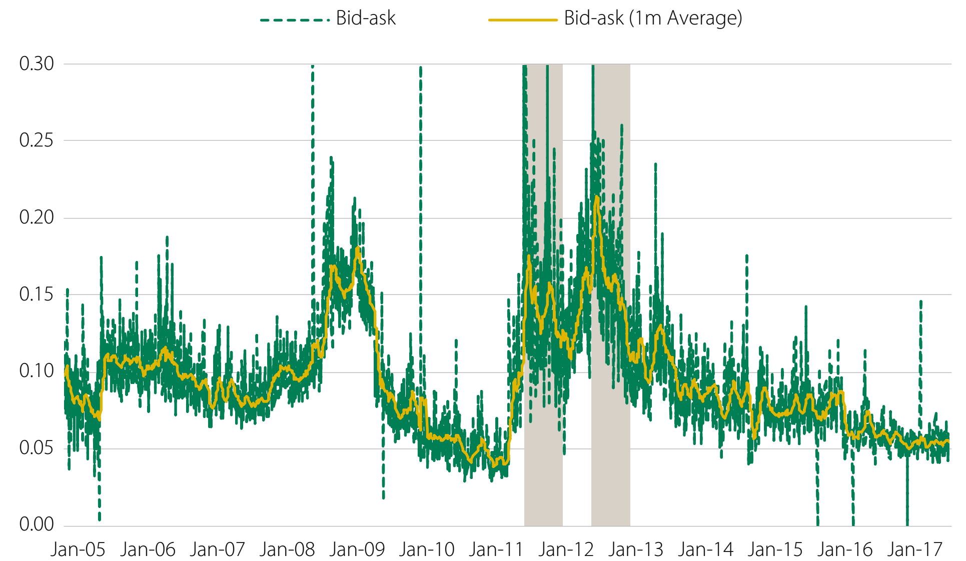
19 Except for the Japanese Topix index.

Historical volatility of the Ibex 35 FIGURE 14



Sources: Thomson Datastream and CNMV. Data to 15 September. The grey line tracks conditional volatility and the red line unconditional volatility. The grey shaded areas refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013. The first ban affected financial institutions, while the second ban affected all entities.

Ibex 35 liquidity. Bid-ask spread (%) FIGURE 15



Sources: Thomson Datastream and CNMV. Data to 15 September. The curve represents the bid-ask spread of the Ibex 35 along with the average of the last month. The grey shaded areas refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013. The first ban affected financial institutions, while the second ban affected all entities.

IBEX 35 liquidity remained stable at satisfactory levels.

Ibex 35 liquidity, as measured by the bid-ask spread, remained stable in the third quarter, in line with the trend recorded in the previous two quarters. The spread narrowed as a result of the fall in volatility in the year and the improvement in trading volumes compared with the second half of 2016. In particular, the spread stood at 0.05% at the end of the third quarter, a similar level to the second quarter, but below the average for 2016 as a whole (0.064%) and the historical average of the indicator (0.096%).

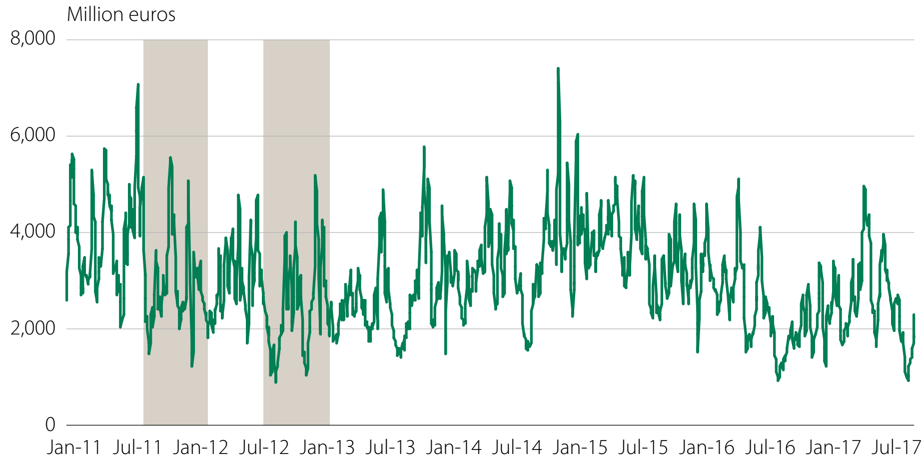
Despite the slight recovery in trading over recent months, the cumulative figure for the year shows a fall of 3%.

After recording rises in the last three quarters with regard to year-end 2016 data, trading in Spanish equity fell in the third quarter, reflecting the usual fall over the summer as well as the growing competition from multilateral trading facilities (MTFs) and OTC trading, as well as uncertainty relating to geopolitical tensions in Asia. For the year as a whole, the volume of equity trading in the Spanish regulated market stood at 460 billion euros, 3% down on the same period of 2016.[20] In addition, total trading of equity admitted to Spanish stock markets rose to over 668 billion euros in mid-September, a year-on-year rise of 3%. The bulk of the trading is still carried out on the regulated Spanish market, but its relative weight in total trading of the securities admitted on it continues to fall in favour of other European regulated markets and MTFs, which now account for over one third of the total. In daily terms, trading on the electronic market stood on average at 1.92 billion euros in the third quarter, below the 2.41 billion euros and 3.27 billion euros in the previous quarters and the cumulative average so far this year of 2.55 billion euros, as shown in figure 16.

Trading abroad now accounts for almost 35% of the total amount of trading in Spanish securities.

The market share of trading in Spanish securities carried out abroad continues to increase and has reached almost 35% of total trading. The most important platform is the Chi-X, with traded volume of 84 billion euros so far this year, accounting for 40% of trading conducted abroad. Among the other competitors, there was a significant fall in Turquoise and notable growth in BATS and the other operators, which recorded gains of 51% and 111%, respectively in year-on-year terms, and which have gained most from the expansion of trading abroad.

Daily trading on the Spanish stock market[1] FIGURE 16



Source: CNMV. Data to 15 September. The grey shaded areas refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013.

1 Moving average of five trading days.

20 Deducting trading on the MAB, Latibex and ETFs.

Trading in Spanish shares listed on Spanish exchanges[1] TABLE 5

Million euros	2013	2014	2015	2016	I-17	II-17	III-17[2]
Total	**764,986.6**	**1,002,189.0**	**1,161,482.8**	**877,413.3**	**224,055.9**	**284,277.4**	**160,226.8**
Admitted on SIBE	**764,933.4**	**1,002,095.9**	**1,161,222.9**	**877,402.7**	**224,051.1**	**284,276.1**	**160,226.4**
BME	687,527.6	849,934.6	925,978.7	631,107.2	154,769.9	200,614.7	104,433.6
Chi-X	53,396.7	95,973.0	150,139.9	117,419.4	28,193.9	33,434.1	22,860.7
Turquoise	11,707.9	28,497.5	35,680.5	51,051.8	11,945.3	12,293.0	8,005.6
BATS	10,632.1	18,671.0	35,857.6	44,839.8	13,446.4	19,511.0	15,733.0
Other[3]	1,669.2	9,019.8	13,566.2	32,984.5	15,695.6	18,423.3	9,193.5
Open outcry	**51.4**	**92.4**	**246.1**	**7.5**	**4.7**	**0.8**	**0.4**
Madrid	7.3	32.7	19.4	3.2	1.6	0.1	0.1
Bilbao	0.1	14.3	7.5	0.0	0.0	0.0	0.0
Barcelona	44.1	45.2	219.1	4.1	3.1	0.7	0.4
Valencia	0.0	0.3	0.1	0.0	0.0	0.0	0.0
Second market	**1.7**	**0.7**	**13.8**	**3.2**	**0.1**	**0.4**	**0.0**
Pro memoria							
BME trading of foreign shares	5,640.0	14,508.9	12,417.7	6,033.0	2,535.4	1,911.0	1,179.4
Alternative stock market (MAB)	5,896.3	7,723.2	6,441.7	5,066.2	1,396.2	1,261.8	667.9
Latibex	367.3	373.1	258.7	156.7	71.2	31.3	10.0
ETF	4,283.9	9,849.4	12,633.8	6,045.2	1,095.7	1,196.3	537.7
Total BME trading	703,768.7	882,482.3	957,990.5	648,418.9	159,873.2	205,016.3	106,829.1
% Spanish shares on BME vs. total Spanish shares	89.9	84.8	80.1	71.9	68.4	68.4	65.4

Sources: Bloomberg and authors.

1 Includes the trading of Spanish equity subject to market or MTF rules (lit plus dark). Spanish shares on Spanish stock exchanges are those with a Spanish ISIN that are admitted to trading on the regulated market of Bolsas y Mercados Españoles and so they do not include the Alternative Stock Market. Foreign shares are those which are admitted to trading on the regulated market of Bolsas y Mercados Españoles whose ISIN is not Spanish.

2 Data to 15 September.

3 Calculated as the difference between the turnover of the EU Composite estimated by Bloomberg for each share and the turnover of the markets and MTFs.

The volume of share issues in the quarter grew significantly in year-on-year terms thanks to the size of the capital increase performed by the leading Spanish bank.

Equity issues in domestic markets amounted to 8.59 billion euros,[21] which is below the values recorded in the first two quarters of the year, but almost five times higher than the volume issued in 2016. Particularly noteworthy was the capital increase with pre-emptive subscription rights of the leading Spanish bank, with a value of over 7.1 billion euros, which was the largest increase of this type by a Spanish company in recent years. In addition, one small bank went public by means of a public offering for subscription (OPS) and three companies went public by means of a public offering for sale (IPO). The market expects that in the coming months there will be similar operations of new companies that will become listed on the market. There was also a significant amount of capital increases under scrip dividends (which amounted to totals similar to those in the same period of 2016) coinciding with the usual payment of dividends at the start of the summer by several large companies.

21 Data to 15 September.

Capital increases and public offerings for sale

TABLE 6

	2014	2015	2016	IV-16	I-17	II-17	III-17
NUMBER OF ISSUERS[1]							
Total	**49**	**50**	**45**	**18**	**16**	**16**	**17**
Capital increases	47	45	45	18	15	13	17
Public offerings for subscription (OPS)	6	0	3	0	1	1	1
Public offerings for sale (IPO)	4	6	2	0	2	3	0
NUMBER OF ISSUES[1]							
Total	**143**	**111**	**81**	**23**	**27**	**18**	**18**
Capital increases	136	99	79	23	25	14	18
Public offerings for subscription (OPS)	8	0	4	0	1	1	1
Public offerings for sale (IPO)[2]	7	12	2	0	2	4	0
CASH AMOUNT[1] (Million euros)							
Total	**32,759.2**	**37,065.5**	**20,251.7**	**4,154.3**	**8,723.5**	**11,068**	**8,591**
Capital increases	27,872.3	28,733.9	19,745.1	4,154.3	7,364.2	10,049.8	8,590.6
Public offerings for subscription (OPS)	2,951.5	0.0	807.6	0.0	100.0	687.5	68.8
Bonus issues	12,650.8	9,627.8	5,898.3	2,552.1	1,084.4	850.3	1,152.5
Of which, scrip dividend[3]	12,573.8	9,627.8	5,898.3	2,552.1	1,084.4	850.3	1,152.5
Capital increases by debt conversion	3,645.6	1,868.7	2,343.9	76.3	0.1	23.6	0.0
Capital increases against non-monetary consideration[4]	2,811.3	365.2	1,791.7	1,502.6	58.0	8,122.6	238.8
With pre-emptive subscription right	2,790.8	7,932.6	6,513.3	4.6	185.3	11.7	7,102.9
Other capital increases	3,022.2	8,939.7	2,390.2	18.6	5,936.4	354.1	27.6
Public offerings for sale (IPO)	4,886.9	8,331.6	506.6	0.0	1,359.3	1,018.0	0.0
Pro memoria: MAB transactions[5]							
Number of issuers	9	16	15	7	2	6	1
Number of issues	15	18	21	7	2	6	1
Cash amount (million euros)	130.1	177.8	219.7	30.1	2.2	84.2	10.9
Capital increases	130.1	177.8	219.7	30.1	2.2	84.2	10.9
Of which, through public offerings for subscription	5.0	21.6	9.7	2.4	0.0	14.1	0.0
Public offerings for sale	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: BME and CNMV. Data to 15 September.

1 Transactions registered with the CNMV. Not including figures for MAB, ETFs or Latibex.

2 Greenshoe-related transactions are accounted for separately in this item.

3 In scrip dividends, the issuer gives existing shareholders the option of receiving their dividend in cash or converting it into shares in a bonus issue.

4 Capital increases for non-monetary consideration have been recorded at market value.

5 Transactions not registered with the CNMV.

Brief note on CNMV Technical Guide 3/2017 on audit committees at public-interest entities EXHIBIT 2

The CNMV's Board approved this technical guide on 27 June 2017 with the aim of publishing certain good practices for the functioning, scope and responsibilities to be undertaken by audit committees in performing their duties.

The importance of audit committees within entities' corporate governance structure was first set out in Spain in the Olivencia Code. One of the principles and most innovative recommendations in the code was that listed companies should create, from the members of the board of directors, an audit committee composed exclusively of non-executive directors that should be responsible for accounting information and oversight and relations with the external auditor and which should include independent directors in proportion to the free float. Since that time, audit committees have taken on growing importance and in 2002, with approval of Law 44/2002, of 22 November, the Olivencia Code recommendation became a legal obligation for entities with listed securities.

Subsequently in 2015, Law 22/2015, of 20 July, on Account Auditing, extended this obligation, with some exemptions, to "public interest entities (PIEs), a category that includes, in addition to listed companies, certain financial institutions subject to supervision and enterprises that exceed a given size threshold.[1]

There are two important aspects to bear in mind in order to understand this guide. The first is that, as the guide itself establishes by referring to the wide range of entities to which it is addressed, not all of the principles or recommendations will be applicable to all entities to the same extent. Each PIE must therefore adapt said principles and recommendations to its particular circumstances and features. The second important aspect is that the guide is not intended to be applied under the principle of "comply or explain", unlike the Good Governance Code, as it refers to good practices based, ultimately, on common sense and supervisory experience. However, if an entity decides not to apply it to its full extent, it should be prepared to give an explanation of the reasons why it believes that the audit committee is able to achieve its aims and suitably perform the functions entrusted to it by law, despite not fully applying these principles or recommendations.

The Guide is structured into two major chapters. The first chapter establishes some key principles to guide audit committees in the performance of their functions. The second sets out a series of criteria and good practices for appropriate and effective performance of the duties entrusted to these committees.

The key principles set out the ideas that inspire the other criteria and good practices that are specified in the second part of the guide. These principles are as follows:

Responsibility. The audit committee is responsible for advising the board of directors and for supervising and monitoring the process of preparation and presentation of financial information and for ensuring the independence of the statutory auditor and the effectiveness of the internal control and risk management systems.

Sceptical stance. Committee members must act with a critical stance, questioning the data and judgements provided to them in order to form their own opinion.

Constructive dialogue that encourages members to speak freely. The audit committee must nurture constructive dialogue, encouraging members to participate and speak freely and to take a critical approach.

Ongoing dialogue with the internal audit unit, the statutory auditor and management. In order to perform its role properly, the committee must put in place channels for effective communication with its usual points of contact. However, this ongoing dialogue should not threaten the independence of the committee or that of the statutory auditors. Therefore, the presence of managers, board members who are not committee members and other persons should be limited to those items on the agenda which require their presence and for which they have been previously invited.

Adequate analytical capability (recourse to experts). The committee must have the power to seek and obtain expert advice or opinions as well as internal support and advice where considered necessary.

As mentioned above, the second part of the guide is based on these principles and sets out a series of criteria and good practices for proper and effective performance of the duties entrusted to the audit committee.

This exhibit essentially aims to provide information on the recent publication of the guide and highlight some of its most important aspects. For further information, the full text of the guide may be found at the following link: https://www.cnmv.es/portal/Legislacion/Guias-Tecnicas.aspx?lang=en.

However, it should be highlighted that it is important for shareholders and other stakeholders to know and understand the activities performed by the audit committee each year and therefore it is essential for the committee to prepare an annual report with the minimum content suggested in Section 9 of the guide and that this report should be published on the company's website and made available to shareholders upon the announcement of the ordinary general meeting, thus encouraging transparency in its actions and greater involvement of shareholders and investors.

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1 See the full definition in article 3.5 of Law 22/2015, on Account Auditing and in article 15 of the implementing Royal Decree 1517/2011.

3.2 Fixed-income markets

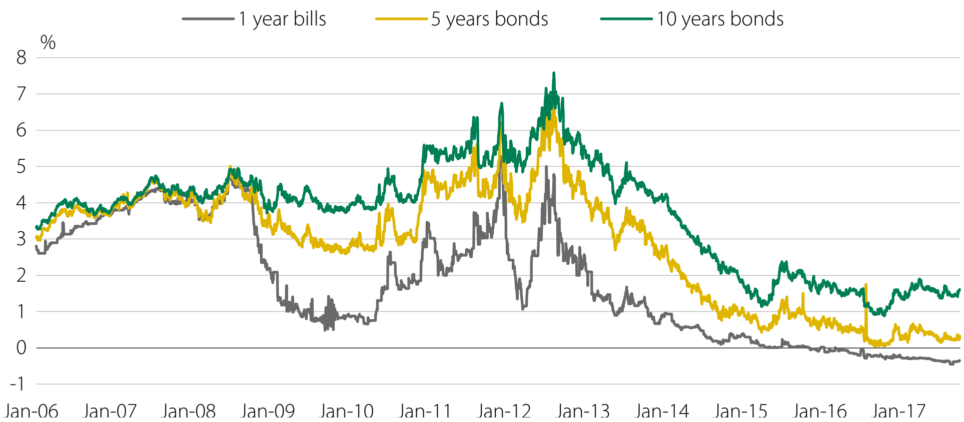
Despite initial expectations of rate hikes, the outlook that monetary policies will remain relatively stable in the short term both in the US and in the euro area have allowed debt returns to remain almost unchanged in most curve terms.

Both Spanish and international fixed-income markets have been aware for most of the year that the rate hikes by the Federal Reserve (the last one in June), as well as improvement in the economy and inflation in the euro area, would force the ECB to adopt the first measures for monetary stimulus withdrawal. This allowed temporary upturns in medium and long-term rates of public and private debt in the first half of the year above the historic lows recorded in the third quarter of 2016. Nevertheless, the recent signs of a slowdown in the US economy, coupled with the strengthening of the euro exchange rate and the moderation of inflation in Europe, have diminished the prospect of a new rate hike by the Federal Reserve before the end of the year. Similarly, the ECB has delayed a possible tightening of its monetary policy until the autumn, leaving the door open to an expansion of the size and duration of its asset purchase programme. The aforementioned doubts about the future of monetary policy in both regions have had an impact on both public and private fixed-income rates, which have remained relatively stable and have hardly changed for most of the curve terms over the third quarter.

The sovereign credit risk premium rose slightly in the third quarter.

In the case of Spain, the sovereign credit risk premium has increased slightly (by around 12 bp) due to domestic political uncertainties and has therefore moved away from the trend in other similar countries in the euro area, which reached annual lows in July. With regard to debt issues, the process of replacing assets registered with the CNMV (-29% in 2017) with debt issued abroad (36%), which now represent 45% of the total, has continued. Falls have been recorded in issues of most fixed-income assets, except uncovered bonds, which continue to benefit from the ECB's debt purchase programme.

Spanish government debt yields FIGURE 17



Source: Thomson Datastream. Data to 15 September.

Yields on short-term government bonds have been at historic lows for close to a year.

Yields on short-term government bonds remained relatively unchanged in the third quarter, both in the primary and secondary markets, thereby completing almost one year at historically low levels. Unlike longer-term rates, which have shown greater volatility, movements at the shorter end of the debt curve remain dependent on the ECB's accommodative monetary policy, which maintains base interest rates at historic lows, as well as on the Public Sector Purchase Programme (PSPP).[22] By mid-September,

22 At the start of September, the ECB had acquired public debt for 1.72 trillion euros, of which 206.19 billion euros corresponded to Spanish debt.

secondary market yields on three-month, six-month and twelve-month Letras del Tesoro stood at -0.42%, -0.39% and -0.37%, respectively, similar to the last quarter and the minimum annual return of -0.4% set by the ECB in its debt purchasing programmes (the marginal deposit facility rate). All auctions of Letras del Tesoro were again settled at negative rates, with the latest auction performed in September settled at a similar rate to those in previous auctions. Short-term corporate debt performed more unevenly, with an increase of 19 bp for three-month rates and falls in longer-term rates (of between 11 and 32 bp), which placed the rates for twelve-month commercial paper into negative territory for the first time. Yields on these assets at the time of their issue therefore stood at 0.37%, 0.1% and -0.01% at three months, six months and twelve months, respectively (see table 7).

Short-term interest rates[1] TABLE 7

%	Dec-14	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17[2]
Letras del Tesoro						
3 month	0.12	-0.15	-0.47	-0.42	-0.41	-0.42
6 month	0.25	-0.01	-0.34	-0.35	-0.39	-0.39
12 month	0.34	-0.02	-0.25	-0.28	-0.36	-0.37
Commercial paper[3]						
3 month	0.55	0.31	0.18	0.36	0.18	0.37
6 month	0.91	0.42	0.20	0.20	0.42	0.10
12 month	0.91	0.53	0.15	0.14	0.10	-0.01

Sources: Thomson Datastream and CNMV.
1 Monthly average of daily data.
2 Data to 15 September.
3 Interest rates at issue.

The yields on long-term government bonds rose slightly as a result of expectations of a tightening of monetary policy, although markets later downgraded the likelihood of such a scenario.

Yields on medium and long-term government bonds rose slightly over the third quarter as a result of expectations of further hikes in US interest rates and a tightening of monetary policy in Europe. However, these expectations later diminished, with the rate hikes reduced to a range of 5-7 bp, which even allowed three-year bond rates to remain at negative values. As of the report date (15 September, the yield on three, five and ten-year government bonds stood at -0.08%, 0.27% and 1.53%, respectively (see table 8). The three-year bond has recorded negative values for three consecutive quarters, while the yields of five-year and ten-year bonds have increased slightly although they remain close to historic lows.

Yields on corporate debt fell for medium-term bonds as a result of expectations that the ECB might extend both the volume and duration of its debt purchasing programme.

In the case of corporate debt, the average yield on ten-year bonds recorded a similar rise to that recorded by the government bond, while medium-term returns (three and five years) performed slightly differently from government debt. In general, these assets have benefited from the prospect that the ECB might extend the corporate sector purchase program both in terms of amount and duration, when markets had expected further cuts.[23] In addition, investors continue to opt for this type of debt in their strategies of seeking out returns despite the risk of significant falls in

23 The ECB's President indicated in a meeting on 7 September that the bank is ready to adjust its asset purchasing programme in the autumn both with regard to volume and duration.

their prices in the event of any upturn in interest rates. The fall in medium and long-term yields was between 7 and 14 bp as these tranches are the most sensitive to any change in interest rates. In mid-September, private debt yields stood at 0.55%, 0.91% and 1.92% for the three-year, five year and ten-year bonds, respectively.

Medium and long term yields[1] TABLE 8

%	Dec-14	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17[2]
Government bonds						
3 year	0.65	0.24	0.04	-0.02	-0.15	-0.08
5 year	0.96	0.72	0.35	0.51	0.22	0.27
10 year	1.77	1.72	1.44	1.76	1.46	1.53
Corporate bonds						
3 year	0.84	0.66	0.69	0.45	0.62	0.55
5 year	1.88	1.95	1.43	1.50	1.05	0.91
10 year	2.32	2.40	2.14	1.96	1.82	1.92

Sources: Thomson Datastream, Reuters and CNMV.

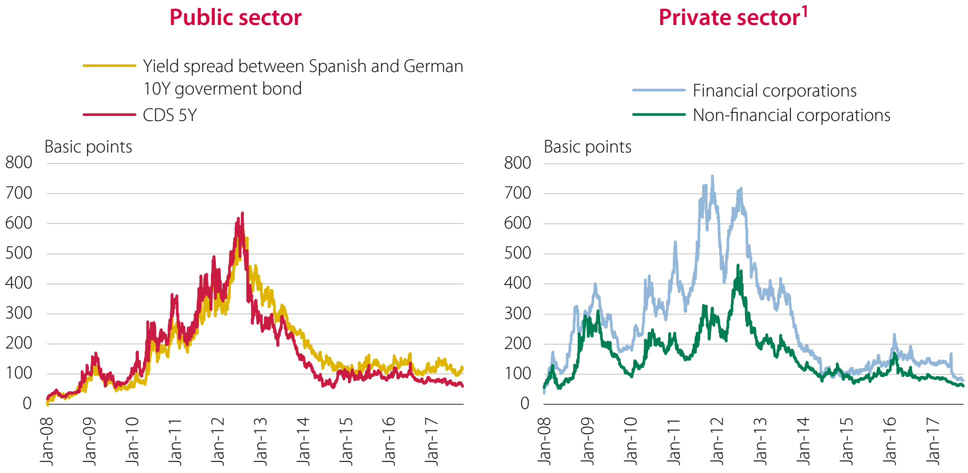
1 Monthly average of daily data.

2 Data to 15 September.

Private sector risk premiums followed a reverse trend to that of government debt in the third quarter. While the former fell slightly, thus following the trend recorded over the year, the latter rose by 12 bp and stood at practically the same level as at the start of 2017. Accordingly, the positive effect of the ECB's public sector purchase program is increasingly limited at the same time as the relative importance of the public sector debt level and political uncertainties gain weight. The risk premium, measured as the ten-year yield spread versus the German benchmark, stood at 118 bp. In contrast, the risk premium, measured through the Spanish sovereign bond's CDS, followed the opposite trend and closed the quarter at a slightly lower level than at the start (see left-hand panel of figure 18).

The sovereign risk premium has risen slightly over recent months (12 bp to 118 bp) and stands at similar levels to the start of the year.

Risk premium paid by Spanish issuers FIGURE 18



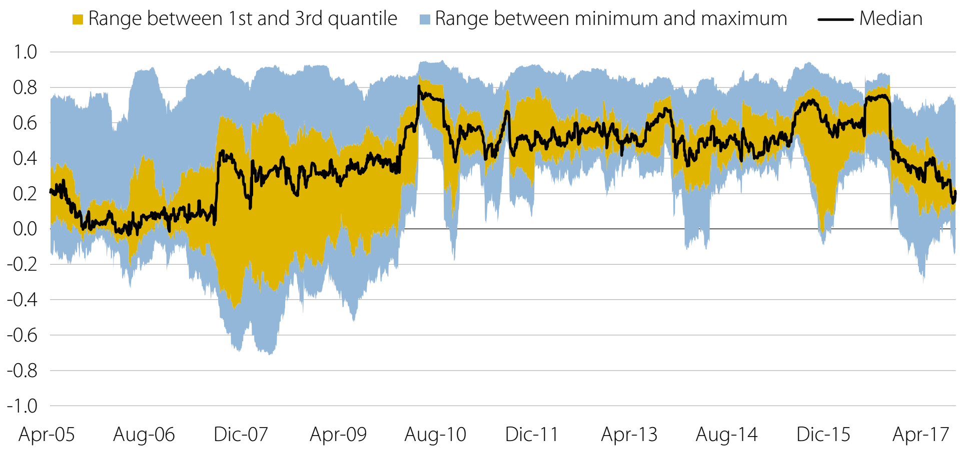
Sources: Thomson Datastream and CNMV. Data to 15 September.

1 Simple average of five-year CDS from a sample of issuers.

Private sector risk premiums continued to fall as they benefited from improvements in balance sheets and the ECB's corporate sector purchase programme.

Similarly, private sector risk premiums continue to benefit from the positive impact of the ECB's corporate sector purchase programme as the main Spanish corporate debt issuers are on the list of eligible issuers and assets for this programme. In addition, although there has been no specific purchase programme for debt issued by financial institutions, their risk premiums have benefited from the strength of their balance sheets and expectations of upward rate hikes. As shown in the right-hand panel of figure 18, the average of CDS of Spanish financial institutions stood at 79 bp in mid-September, down from the 91 bp at the end of the previous quarter and far from the 136 bp at the beginning of the year. In addition, in the case of non-financial companies, average risk premiums amounted to 61 bp on the same date, compared with 68 bp and 89 bp in the previous quarter and at the start of the year, respectively.

Indicator of correlation between asset classes[1, 2] FIGURE 19



Sources: Thomson Datastream and CNMV. Data to 15 September.

1 The indicator of correlation between asset classes is based on pairs of correlations calculated using daily data in three-month windows. The asset classes are sovereign debt, corporate fixed income of financial and non-financial firms and Ibex 35 stocks of financial corporations, utilities and the other sectors. A high correlation between Spanish asset classes points to gregarious investor behaviour, possibly due to the heightened volatility typical at times of stress. Also, diversification would hold out fewer advantages, since it would be harder to avoid exposure to sources of systemic risk.

2 As from 7 June 2017, the calculation of the return on the asset class corresponding to financial fixed income excludes the CDS on the five-year senior debt of Banco Popular.

Correlation between the prices of Spanish financial assets continues to fall and its median reached the lowest level since 2009.

The correlation between the prices of different Spanish equity and fixed-income assets has continued to fall (see figure 19) and in the third quarter stood at its lowest level since 2009. The median correlation between these assets has fallen over most of the years, thus reflecting the lower risk of contagion between the different classes of financial instruments. Similarly, the range of correlations has remained relatively stable.

The volume of fixed-income issues registered with the CNMV fell in the third quarter and also in the year as a whole…

The CNMV registered 9.68 billion euros of gross bond issues in the third quarter (up to 15 September), 18.7% down on the same period of 2016. Despite it being the summer period, this volume is the lowest of the last two years and continues to be symptomatic of more abundant and cheaper traditional bank lending and the fact that Spanish issuers have already covered a large part of their financing needs for this year, and the replacement of domestic issues by issues made abroad. In absolute terms, the largest falls corresponded to territorial covered bonds, as there were no issues in the quarter, as well as commercial paper and asset-backed securities. In contrast, issues of mortgage covered bonds rose by almost 3 billion euros in the quarter.

… with falls in the issues of most instruments, except uncovered bonds, which benefit from the ECB's purchase programme.

In the year as a whole, fixed income issues stood at 58.16 billion euros, 29% down on 2016. Falls were recorded in every asset category except uncovered bonds, whose issues rose by 26.7% to 17.36 billion euros. These assets continue to benefit from the ECB's corporate sector purchase programme (CSPP). Also noteworthy was an issue for almost 1 billion euros of contingently redeemable perpetual bonds registered by the leading Spanish bank so as to offer it to former shareholders and bondholders of Banco Popular. The sharpest falls were recorded in asset-backed securities, with 12 billion euros less issued this year, and in covered bonds (almost 11 billion euros less between mortgage and territorial bonds) and in commercial paper, with 5 billion euros less. Covered bonds also benefit in their issue costs both from their credit rating and the ECB's covered bond purchase programme (CBPP3),[24] but their issue volume is limited by the balance of outstanding mortgage loans, which continues to fall.

In contrast, fixed-income issues abroad continued to rise and now account for 45% of total issues.

As has been the case for several years, fixed-income issues by Spanish issuers abroad continued to rise and now account for 45% of total issues (30% in 2016). In the year to July, these issues amounted to 48.35 billion euros, 36.3% up on the same period of 2016. This increase was exclusively the result of the sharp rise in long-term bond issues, which amounted to 38.52 billion euros, more than double the figure recorded in 2016. In contrast, issues of commercial paper did not reach 10 billion euros (16.48 billion euros in 2016). As in the case of issues registered with the CNMV, the growth in the long-term bond segment is related to their status as eligible assets within the ECB's corporate sector purchase programme (CSPP). Issues by subsidiaries of Spanish companies abroad have also grown over the year (by 8% to 36.13 billion euros), as a result of the rise in issues by financial institutions.

24 Up to 31 August, this programme accumulated purchases for close to 230 billion euros, of which 33.27% corresponded to the primary market.

Grows fixed-income issues

TABLE 9

Registered with the CNMV	2013	2014	2015	2016	2017 I	2017 II	2017 III[1]
NOMINAL AMOUNT (million euros)	**138,839**	**130,258**	**136,607**	**139,028**	**25,429**	**23,050**	**9,682**
Mortgage covered bonds	24,800	23,838	31,375	31,643	2,250	9,050	2,925
Territorial covered bonds	8,115	1,853	10,400	7,250	0	350	0
Non-convertible bonds and debentures	32,537	41,155	39,100	40,170	13,486	2,763	1,108
Convertible/exchangeable bonds and debentures	803	750	53	0	0	0	0
Asset-backed securities	28,593	29,008	28,370	35,505	6,525	3,594	2,969
Spanish tranche	24,980	26,972	25,147	32,229	5,463	1,899	2,969
International tranche	3,613	2,036	3,222	3,276	1,062	1,695	0
Commercial paper[2]	43,991	33,654	27,310	22,960	3,168	6,293	1,700
Securitised	1,410	620	2,420	1,880	0	1,000	0
Other commercial paper	42,581	33,034	24,890	21,080	3,168	5,293	1,700
Other fixed-income issues	0	0	0	1,500	0	0	981
Preferred shares	0	0	0	0	0	1,000	0
Pro memoria:							
Subordinated issues	4,776	7,999	5,452	4,279	1,520	1,956	1,370
Covered issues	193	196	0	421	0	0	0

Abroad by Spanish issuers	2013	2014	2015	2016	2017 I	2017 II	2017 III[3]
NOMINAL AMOUNT (million euros)	**47,852**	**56,736**	**66,347**	**58,587**	**22,064**	**21,617**	**4,665**
Long-term	34,452	35,281	33,362	31,655	17,723	16,996	3,802
Preferred shares	1,653	5,602	2,250	1,200	0	2,000	750
Subordinated debt	750	3,000	2,918	2,333	3,381	968	1,000
Bonds and debentures	32,049	26,679	28,194	28,122	14,342	14,028	2,052
Asset-backed securities	0	0	0	0	0	0	0
Short-term	13,400	21,455	32,984	26,932	4,341	4,621	863
Commercial paper	13,400	21,455	32,984	26,932	4,341	4,621	863
Securitised	0	0	0	0	0	0	0

Pro memoria: Gross issues by subsidiaries of Spanish companies resident abroad

	2013	2014	2015	2016	2017 I	2017 II	2017 III[3]
NOMINAL AMOUNT (million euros)	**48,490**	**42,170**	**55,286**	**56,674**	**15,572**	**15,412**	**5,149**
Financial institutions	7,951	10,201	14,875	11,427	3,785	4,036	1,450
Non-financial companies	40,539	31,969	40,411	45,247	11,788	11,376	3,699

Sources: CNMV and Banco de España.

1 Data available to 15 September.

2 The figures for commercial paper issues correspond to the amounts placed.

3 Data to 31 July.

Integration of Iberclear in TARGET2-Securities

EXHIBIT 3

On September 18, Iberclear joined TARGET2-Securities (T2S). This milestone is the culmination of the reform of the clearing, settlement and registry system of the Spanish securities market.

What is T2S?[1]

T2S is the Eurosystem platform for centralised securities settlement in central bank money. T2S offers central securities depositories (CSDs) an integrated settlement service that is neutral and with advanced features. Through this integrated settlement model, European CSDs will use T2S as technical support for providing security settlement services.

The platform allows settlement of securities trading in euros and other currencies issued by the central banks connected to the platform. T2S harmonises the settlement processes in Europe and standardises cross-border settlement with domestic settlement, thus encouraging more economical and efficient management of cross-border securities trading in the European Union.

The platform began to operate in June 2015 and since then 20 CSDs from all over Europe have joined T2S.

Iberclear's migration to T2S

In its meeting held on 20 March 2013, the CNMV board approved the framework agreement between Iberclear and the Eurosystem, which establishes the rights and obligations of both parties with regard to the development and operation of T2S.

On signing this agreement, Iberclear initiated the work aimed at its migration to the platform, which was completed in September this year, together with the CSDs of the Baltic countries.

In parallel, the Spanish market, in order to harmonise its securities clearing, settlement and registry system with its European counterparts and facilitate migration to T2S, launched a process of reform that was divided into two stages:

– Stage I, implemented in April 2016, which led to significant changes to equity trading. This stage established the mandatory intervention of a central counterparty in multilateral trading, eliminated registry references in order to introduce a settlement by balances system and established that transfer orders become irreversible as from the moment they are matched as opposed to the guarantee of delivery at the time of trading in the previous system. In addition, in October 2016 the settlement period was reduced from T+3 to T+2.

– Stage II, completed in September 2017, which involved the incorporation of fixed-income securities to the ARCO settlement system (in which, up to that time, equity securities were settled) and connection of this system to T2S.

The reform process was finalised with completion of Stage II and migration of Iberclear to T2S was carried out on the agreed dates.

This migration is part of the last wave of migrations agreed between the Eurosystem and the CSDs that undertook to join T2S. The European Central Bank expects that, following this last wave, the platform will process an average of 550,000 daily transactions.

Progress towards an integrated post-trading system in the EU and main challenges

As a result of its contribution to unifying European securities markets, T2S is a key piece in financial integration in Europe and in achieving a capital markets union. The T2S settlement platform encourages the opening of the internal market for securities settlement systems with the aim of enhancing cross-border settlement.

This is also one of the aims of the CSD Regulation,[2] which establishes uniform requirements for the settlement of financial instruments in the European Union and rules on the organisation and conduct of central securities depositories (CSDs) to promote safe, efficient and smooth settlement in the EU.

In this regard, the CSD Regulation and T2S are complementary initiatives. Firstly, the CSD Regulation harmonises at an EU level the legal aspects of securities settlement and the rules for CSDs, and, on the other hand, T2S harmonises the operational aspects of securities settlement. This allows any investor in the European Union to invest in all EU securities with the same ease as in, and using the same processes as for, domestic securities.

Progress towards an integrated post-trade system in the EU has been recognised in the report by the European Post Trade Forum[3] (published by the European Commission on 23 August 2017). This report indicates that several of the barriers identified by the Giovannini Group[4] were dismantled with the introduction of T2S and the CSD Regulation (issues such as intraday finality, the differences in settlement periods and harmonisation of operating hours and settlement deadlines).

Nevertheless, the report identifies outstanding elements in order to dismantle these barriers. There are therefore several aspects which require further work. Noteworthy among these aspects due to their impact on the Spanish market is the divergence between national legislations with regard to ownership, insolvency and the holding of securities. These issues are being analysed by the European Commission as set out in the Capital Markets Union Mid-Term Review Action Plan published in June 2017.[5]

1 For further details, see the annex of the joint communication of the CNMV and the Banco de España on completion of the reform project of the securities clearing, settlement and registry system dated 18 September 2017: http://10.10.1.33/portal/verDoc.axd?t={ff472ea8-8ab1-46bd-89e5-7e66b87df233}

2 Regulation (EU) No. 909/2014, of the European Parliament and of the Council, of 23 July 2014, on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No. 236/2012.

3 "European Post Trade Forum Report". Report available on the European Commission's website: https://ec.europa.eu/info/consultations/finance-2017-post-trade_en

4 Reports of the Giovannini Group available on the European Commission's website: https://ec.europa.eu/info/publications/giovannini-reports_en

5 Report available on the European Commission's website: https://ec.europa.eu/info/sites/info/files/communication-cmu-mid-term-review-june2017_en.pdf

4 Market agents

4.1 Investment vehicles

Financial CIS[25]

Assets under management in Spanish mutual funds increased by 6.6% in the first half of the year to 253 billion euros, thus consolidating the expansion of the sector that began in 2013. This industry continues to benefit from the behaviour of an increasing number of investors seeking financial investments with a higher return than traditional assets such as deposits or government bonds, which are unappealing given current low interest rates. Consequently, 77% of the increase in assets under management in mutual funds came from net investments by unit-holders, which exceeded 12 billion euros between January and June (see table 10), and the rest came from an increase in the value of the funds' portfolios.

Assets under management in mutual funds rose by 6.6% in the first half of 2017 to 253 billion euros…

Net mutual fund subscriptions TABLE 10

				2016		2017	
Million euros	2014	2015	2016	III	IV	I	II
Total mutual funds	**35,972.7**	**23,466.6**	**13,782.4**	**5,898.7**	**6,361.9**	**6,266.4**	**5,968.3**
Fixed-income[1]	13,492.7	-5,351.4	7,613.8	2,400.8	1,298.4	-1,952.6	-1,181.5
Mixed fixed-income[2]	15,712.0	21,167.5	-3,177.6	-1,200.0	189.1	1,151.3	395.1
Mixed equity[3]	6,567.7	8,153.8	-3,030.2	-2,312.2	377.8	1,529.4	1,679.7
Euro equity[4]	2,184.9	468.9	-542.9	-172.6	291.4	397.9	957.7
International equity[5]	531.8	4,060.5	346.6	237.2	533.4	1,961.7	403.2
Guaranteed fixed-income	-10,453.6	-6,807.4	-3,202.7	-813.1	-156.5	-832.0	-778.5
Guaranteed equity[6]	-909.5	-2,599.8	5,478.4	770.1	1,434.9	844.6	-439.5
Global funds	2,182.3	5,805.3	3,579.9	3,537.5	403.6	3,350.4	4,353.3
Passively managed[7]	4,970.9	-6,264.2	5,790.0	2,983.2	1,631.1	-1,181.4	-1,215.0
Absolute return[7]	1,693.9	4,811.4	946.4	467.8	358.7	997.0	1,793.8

Source: CNMV. Estimated data.

1 Includes: Euro and international fixed-income and money market funds (as of 3Q 2011, money market funds encompass those engaging in money market and short-term money market investments, Circular 3/2011).
2 Includes: Euro mixed fixed-income and International mixed fixed-income.
3 Includes: Euro mixed equity and International mixed equity.
4 Includes: Euro equity.
5 Includes: International equity.
6 Includes: Guaranteed equity and Partial guarantee.
7 New categories as of 2Q09. All absolute return funds were previously classified as Global Funds.

The breakdown of subscriptions according to fund category shows that the more conservative categories, such as fixed-income funds, guaranteed fixed-income funds and, to a lesser extent, passively managed funds underwent significant divestments in the first half of the year (over 7 billion euros as a whole). In contrast, other categories that

… as a result of increased investments by unit-holders, which exceeded 12 billion euros between January and June.

25 Hedge funds and funds of hedge funds are financial CIS, but due to their specific features they are described in a separate sub-heading.

involve greater risk-taking received the bulk of the investments. Among the latter we can highlight global funds, whose net subscriptions exceeded 7.7 billion euros (over 60% of total subscriptions) and the different categories of equity funds: Mixed equity funds received 3.2 billion euros, international equity funds received 2.37 billion euros and euro equity funds received 1.36 billion euros. Absolute return funds also received substantial investments (close to 2.8 billion euros over the first half of the year).

The cumulative return of mutual funds (1.5%) is already higher than in 2015 and 2016 as a result of the increased value of the share portfolio.

The cumulative return on the funds between January and June was 1.5%, which is higher than the annual returns recorded in 2015 and 2016, which did not reach 1%. The improvement in the funds' returns this year is linked to the appreciation of the portfolio held by equity funds, which is greater than 10% in the case of euro equity and 5% in the case of international equity. In addition, the highest returns were received in the first quarter of the year, while the returns recorded in the second quarter were much lower, in line with the sluggish nature of the markets over those months (see table 11).

The number of funds remained almost unchanged, but there was a shift towards riskier categories.

The number of mutual funds remained practically stable during the first half of the year with a total of 1,804, only one fewer than in December 2016. The funds wound up in the most conservative categories – guaranteed fixed-income funds (-22), passively managed funds (-8) and fixed-income funds (-7) – were offset by the additions in the higher risk categories: Global funds (14) and equity funds (16).

The significant increase in the number of unit-holders - more than 1,300,000 investors in six months - left the total number of investors at higher levels than prior to the crisis.

The number of unit-holders in mutual funds grew significantly between January and June of this year, with a rise of 16% to 9,570,000.[26] The increase in the number of unit-holders (over 1,300,000 in six months) was higher than that recorded in 2015 as a whole (1,273,000) and 2016 as a whole (570,000). By category, the most significant increases were recorded in those categories that also showed significant growth in assets under management. Accordingly, 29% of the new investors chose international equity funds, 19% chose global funds and 17% chose absolute return funds. The only exception was an increase in unit-holders of fixed-income funds together with a fall in their assets under management (as a result of heavy redemptions), which may be explained by the existence of savers that invest small amounts of money in these products, some of which came about as a result of the maturity of bank deposits.

Provisional data for July indicate that the expansion of the mutual fund industry continued, particularly as a result of the dynamic performance of riskier categories.

The provisional data for the month of July reveal that most of these trends were maintained. Accordingly, the assets under management in mutual funds once again grew (over 2.2 billion euros), as a result of the dynamism of riskier categories (global, absolute return and equity funds), as did the number of unit-holders (227,000 more in that month).

26 Since March this year, the total number of mutual fund unit-holders has exceeded the pre-crisis levels (just over nine million unit-holders in 2006).

Main mutual fund variables*

TABLE 11

				2016		2017	
Number	**2014**	**2015**	**2016**	**III**	**IV**	**I**	**II**
Total mutual funds	**1,951**	**1,804**	**1,805**	**1,810**	**1,805**	**1,815**	**1,804**
Fixed-income[1]	359	319	306	308	306	296	299
Mixed fixed-income[2]	123	132	148	146	148	154	154
Mixed equity[3]	131	142	168	166	168	172	173
Euro equity[4]	103	109	112	112	112	114	112
International Equity[5]	191	200	201	201	201	209	212
Guaranteed fixed-income	280	186	122	135	122	111	100
Guaranteed equity[6]	273	205	198	196	198	201	197
Global funds	162	178	203	200	203	208	217
Passively managed[7]	227	213	220	221	220	218	212
Absolute return[7]	102	97	106	104	106	111	107
Assets under management (million euros)							
Total mutual funds	**198,718.8**	**222,144.6**	**237,862.2**	**229,117.4**	**237,862.2**	**247,279.3**	**253,581.1**
Fixed-income[1]	70,330.9	65,583.8	74,226.4	73,001.3	74,226.4	72,038.9	71,124.9
Mixed fixed-income[2]	24,314.3	44,791.8	40,065.6	39,644.2	40,065.6	41,468.7	41,777.8
Mixed equity[3]	13,570.4	21,502.9	16,310.6	15,601.3	16,310.6	18,159.5	19,831.4
Euro equity[4]	8,401.5	9,092.9	8,665.9	7,795.7	8,665.9	9,874.5	10,996.5
International equity[5]	12,266.4	17,143.2	17,678.8	16,274.4	17,678.8	20,687.1	20,994.3
Guaranteed fixed-income	20,417.0	12,375.6	8,679.8	9,066.1	8,679.8	7,694.5	6,858.1
Guaranteed equity[6]	12,196.4	9,966.6	15,475.7	14,064.6	15,475.7	16,418.9	16,183.3
Global funds	6,886.3	12,683.3	20,916.8	20,067.8	20,916.8	24,735.0	29,044.8
Passively managed[7]	23,837.5	17,731.1	23,601.6	21,872.0	23,601.6	22,701.7	21,601.5
Absolute return[7]	6,498.1	11,228.1	12,215.2	11,704.0	12,215.2	13,474.6	15,142.6
Unit-holders							
Total mutual funds	**6,409,806**	**7,682,947**	**8,253,611**	**8,022,685**	**8,253,611**	**9,332,934**	**9,569,922**
Fixed-income[1]	1,941,567	2,203,847	2,347,984	2,315,533	2,347,984	2,554,194	2,656,675
Mixed fixed-income[2]	603,099	1,130,190	1,043,798	1,033,454	1,043,798	1,169,480	1,114,668
Mixed equity[3]	377,265	612,276	448,491	451,040	448,491	485,795	533,200
Euro equity[4]	381,822	422,469	395,697	387,786	395,697	429,147	515,999
International equity[5]	705,055	1,041,517	1,172,287	1,138,697	1,172,287	1,505,724	1,547,970
Guaranteed fixed-income	669,448	423,409	307,771	325,955	307,771	273,188	239,787
Guaranteed equity[6]	557,030	417,843	552,445	515,563	552,445	576,664	560,146
Global funds	223,670	381,590	658,722	625,931	658,722	857,135	903,273
Passively managed[7]	686,526	554,698	746,233	681,545	746,233	723,472	697,071
Absolute return[7]	264,324	479,182	565,325	532,151	565,325	743,411	786,472
Return[8] (%)							
Total mutual funds	**3.67**	**0.89**	**0.98**	**1.34**	**1.05**	**1.35**	**0.16**
Fixed-income[1]	2.41	0.10	0.52	0.34	-0.21	-0.07	-0.03
Mixed fixed-income[2]	3.67	0.16	0.27	0.69	0.56	0.58	0.02
Mixed equity[3]	4.70	0.15	1.19	1.75	2.35	1.95	-0.12
Euro equity[4]	2.09	3.44	2.61	7.89	7.06	8.57	2.06
International equity[5]	6.61	7.84	4.15	4.00	5.46	5.67	-0.46
Guaranteed fixed-income	2.54	0.27	-0.03	0.27	-0.58	-0.35	0.48
Guaranteed equity[6]	2.64	1.07	0.19	0.97	-0.27	0.41	0.68
Global funds	4.63	2.45	1.99	2.10	2.13	2.08	0.07
Passively managed[7]	7.74	0.53	1.16	1.63	0.71	1.30	0.52
Absolute return[7]	1.98	0.12	0.38	0.65	0.12	0.50	0.27

Source: CNMV.

* Data for funds that have filed financial statements (i.e., not including those in the process of winding-up or liquidation).

1 Includes: Euro and international fixed-income and money market funds (as of 3Q 2011, money market funds encompass those engaging in money market and short-term money market investments, Circular 3/2011).

2 Includes: Euro mixed fixed-income and International mixed fixed-income.

3 Includes: Euro mixed equity and International mixed equity.

4 Includes: Euro equity.

5 Includes: International equity.

6 Includes: Guaranteed equity and Partial guarantee.

7 New categories as of 2Q09. All absolute return funds were previously classified as Global Funds.

8 Annual returns of 2014, 2015 2016. Quarterly data comprise non-annualised quarterly returns.

The volume of less-liquid assets of mutual funds, which recorded a slight increase in the first half of the year, account for 1.4% of their total assets.

The volume of less-liquid assets in the private fixed-income portfolio of mutual funds grew by close to 600 million euros between December 2016 and June 2017 to stand at 3.54 billion euros. As shown in table 12, these assets account for only 1.4% of total assets under management in mutual funds, 0.2 percentage points up on December, and they are concentrated in debt instruments issued by financial institutions rated below AA (46% of the total of less liquid assets) and, to a lesser extent, in asset-backed securities (27%) and in non-financial fixed income (25%). The 80% increase in these less-liquid assets was recorded in lower rated financial debt.

Estimated liquidity of mutual fund assets TABLE 12

	Less-liquid assets					
	Million euros			% total portfolio		
Asset type	**Dec-16**	**Mar-17**	**Jun-17**	**Dec-16**	**Mar-17**	**Jun-17**
Financial fixed income rated AAA/AA	43	39	39	4%	4%	5%
Financial fixed income rated below AAA/AA	1,174	1,406	1,644	5%	6%	6%
Non-financial fixed income	760	833	898	6%	6%	6%
Securitisations	984	949	963	73%	81%	71%
AAA-rated securitisations	116	124	120	100%	100%	100%
Other securitisations	869	825	843	71%	78%	92%
Total	**2,960**	**3,227**	**3,544**	**7.7%**	**8%**	**8%**
% of mutual fund assets	**1.2**	**1.3**	**1.4**			

Source: CNMV.

Real estate CIS

As a whole, real estate CIS have recorded slight growth so far this year, although significant differences have been recorded between real estate funds…

Real estate CIS as a whole grew slightly over the first half of the year in line with the improvement in the construction sector and real estate activities since 2015. Nevertheless, the different types of schemes (funds and companies) performed very unevenly.

… which have gradually reduced their portfolio over recent years and are likely to de-register in the coming months, and…

Real estate funds, of which there was a high of 10 in 2007, were the schemes hit hardest by the crisis. The number of funds has fallen to the three that are currently registered with the CNMV. These three funds gradually reduced their real estate portfolio and ended this process in the early months of the year. At the end of July, their assets amounted to 360.4 million euros, 2.6% below the figure for December 2016. The reason for this contraction was the 2.5% cumulative loss suffered by real estate funds over the first seven months. The number of unit-holders remained practically unchanged until July, at slightly over 3,900.

… real estate investment companies, whose assets grew by 2.4% in the first half of the year.

There are a total of seven active investment companies, one more than at year-end 2016. The assets managed by real estate companies rose by 2.4% to 724.3 million euros at the end of July while the number of shareholders fell significantly from 674 to 490. This was the result of two investment companies belonging to the same collective investment scheme management company, which recorded a 65% reduction in the number of unit-holders in the first quarter.

Hedge funds

Movements in the key figures of these funds in the first half of the year show that the hedge fund segment continues to grow and the segment of funds of hedge funds, which suffered a severe adjustment during the crisis, has reversed the trend and started to expand. The total number of the latter at mid-year was nine, two more than in December 2016, the number of unit-holders stood at 2,426 (up 1,189) and assets under management amounted to 328 million euros (up 34.3 million).

Following several years of harsh adjustment, the funds of hedge funds segment has started to expand once again…

Hedge funds maintained the growth seen over previous years. The number of these funds in June totalled 45, four more than in December 2016, the number of unit-holders was 3,254 (up 324) and the assets under management totalled close to 2.1 billion euros (up 202 million). A key difference can be seen between the development of hedge funds and funds of hedge funds, which is linked to the returns of these funds. As shown in table 13, returns are much higher in hedge funds, standing at 4.1% and 3% in the first and second quarter, while the returns of funds of hedge funds were very low or negative.

… a trend that is maintained in hedge funds, as assets under management now exceed 2 billion euros.

Main hedge fund and fund of hedge fund variables TABLE 13

				2016		2017	
	2014	2015	2016	III	IV	I	II[1]
FUNDS OF HEDGE FUNDS							
Number	18	11	7	10	7	8	9
Unit-holders	2,734	1,265	1,237	1,244	1,237	1,231	2,426
Assets under management (million euros)	345.4	319.8	293.7	286.7	293.7	293.2	328.1
Return (%)	8.48	6.16	0.90	0.48	2.83	0.16	-1.16
HEDGE FUNDS							
Number	37	37	41	40	41	41	45
Unit-holders	2,819	3,089	2,930	2,916	2,930	3,080	3,254
Assets under management (million euros)	1,369.5	1,764.8	1,889.2	1,793.0	1,889.2	1,972.0	2,091.3
Return (%)	5.30	4.83	4.32	3.62	2.51	4.08	3.00

Source: CNMV.

1 Data to May, except number of vehicles, which are shown to June.

Foreign UCITS marketed in Spain

The expansion enjoyed by foreign UCITS marketed in Spain, which began strongly in 2012 (the volume of that year had tripled by 2015) and which seemed to stop in 2016, continued in the first half of 2017. Assets managed by these UCITS grew by 19.4% in the first six months of the year to 137.34 billion euros. As shown in figure 20, this volume accounts for 32.2% of the total assets of CIS marketed in Spain, a proportion that has not stopped growing since 2011.

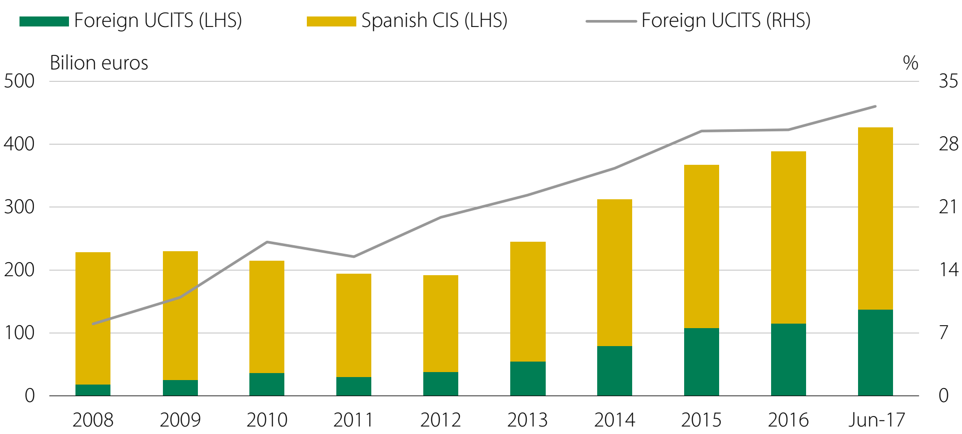
The expansion of foreign UCITS marketed in Spain continued in the first half of the year. Their investments (137 billion euros) now account for 32% of total assets managed by this sector.

This increase in investment by foreign UCITS occurred in both funds and investment companies. Assets managed by the former grew by 25.9% in the first half of 2017 to 26.86 billion euros. Assets under management by investment companies

Assets under management grew both in funds (25.9%) and in companies (18%).

rose by 18% to 110.48 billion euros. In line with the growth in investment, the number of investors grew by 4% in funds and by 8.5% in companies. The total number of investors stood at 2.1 million, 7.5% up on December 2016. In contrast, the number of schemes fell by seven in the case of funds to 430. However, this figure was more than offset by the increase in the number of companies, which reached 527, 37 up on year-end 2016. There was therefore a total of 957 foreign UCITS registered with the CNMV at the end of June. As in previous years, most of the additions were from Luxembourg and Ireland.

Assets of foreign UCITS marketed in Spain FIGURE 20



Source: CNMV.

Outlook

Investors have more resources to invest and, furthermore, they wish to do so in riskier assets, such as mutual funds, in order to obtain higher returns, but they need to be aware of their features.

The outlook for collective investment is positive because, firstly, investors have greater income to invest as a result of the current economic recovery and, secondly, a substantial proportion of investors are seeking more profitable alternatives to traditional products such as bank deposits, whose returns are low in the current context of such low interest rates. The world of collective investment offers such a wide variety of products based on the desired risk that it has become one of the preferred options of investors over recent years. The fact that equity funds, global funds and absolute return funds receive the bulk of the subscriptions confirms this search for more profitable assets by investors. In this context, it is important that unit-holders in mutual funds are able to obtain sufficient information on the features of the funds in which they invest. These are related not only to the commissions to be paid, the return and expected risk of the product, but also to its liquidity conditions. It is important to bear in mind that a change in the market scenario leading to significant increases in interest rates might lead to the sale of certain assets, thus reducing the liquidity of some of the portfolios that are most exposed to certain fixed-income assets and, in general, more complex financial assets.

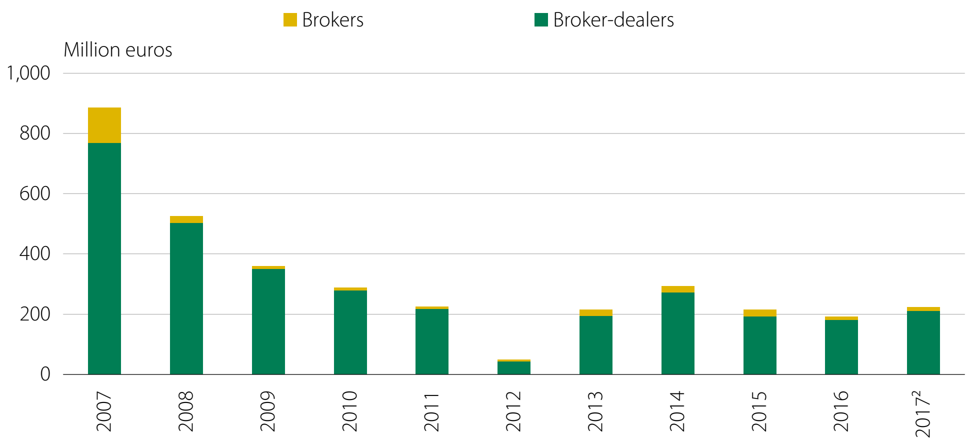
4.2 Investment firms

Broker-dealers and brokers

Investment firm profits fell by 6.7% in 2017 (in annualised terms) as a result of the poor performance of broker-dealers.

As has been the case over the last two years, in the first half of 2017 investment firms have operated against a backdrop of uncertainty in financial markets. Aggregate profit before tax between January and June amounted to 111.3 million euros, a year-on-year contraction of 6.7%. In annualised terms, profits increased slightly compared with the figure for 2016 as a result of the weak performance of these intermediaries in the second half of that year (see figure 21). The fall in profits in the first half of 2017 was caused by the performance of broker-dealers, the largest entities in the sector, whose profits fell by 8.6%. In contrast, the aggregate profit of brokers rose by 39%. The number of entities registered with the CNMV at the end of June totalled 88,[27] compared with 83 at year-end 2016 as a result of six additions, all of which were brokers. Of this total, five were passported to operate in other EU countries through a branch, the same figure as last year, and 44 were passported to operate under the free provision of services, five more than at year-end 2016.

Aggregate pre-tax profit of investment firms[1] FIGURE 21



Source: CNMV.

1 Except financial advisory firms and portfolio management companies. 2017 profits are up to June and presented in their annual equivalents in order to facilitate comparison with previous years.

2 Annualised data.

Pre-tax profit of broker-dealers fell by 8.6% as a result of the drop in income from financial investments and fee income.

Broker-dealers recorded reduced activity in the first half of 2017, which led to an 8.6% fall in aggregate profit before tax to 104.8 million euros. This figure accounts for over 90% of total sector profits (see table 14). The contraction was a result of the fall in income from financial investments, which has dropped significantly over recent years and, to a lesser extent, from fee income. The former fell by 77.8% compared with the figures at the same period of the previous year to 20.2 million euros, while fee income fell by only 0.7% to 276.2 million euros. The fees that fell most in absolute terms were those obtained for order processing and execution, which

27 Except financial advisory firms, which are discussed in a separate heading in this report due to their specific features.

amounted to 120.1 million euros, 6.8% down on the same period of 2016. Despite remaining the most significant for broker-dealers, the relative weight of these fees in the total has fallen over recent years to around 45% (they had reached 70% of the total in 2010). In contrast, the second most important fees, those resulting from CIS marketing, grew by 9.4% to 40.1 million euros, while portfolio management fees amounted to 25.5 million euros, more than double the figure recorded for January-June 2016.

Aggregate income statement (June 2017)

TABLE 14

	Broker-dealers			Brokers		
Thousand euros	Jun.-16	Jun.-17	% change	Jun.-16	Jun.-17	% change
1. Net interest income	38,447	49,527	28.8	392	818	108.7
2. Net fee income	191,507	199,702	4.3	51,128	55,773	9.1
2.1. Fee income	278,225	276,224	-0.7	61,487	66,788	8.6
2.1.1. Order processing and execution	128,808	120,062	-6.8	13,647	10,759	-21.2
2.1.2. Initial placement and underwriting	3,346	10,789	222.4	520	1,804	246.9
2.1.3. Securities administration and custody	23,559	19,632	-16.7	296	355	19.9
2.1.4. Portfolio management	10,674	25,648	140.3	5,258	5,797	10.3
2.1.5. Investment advisory services	1,266	1,670	31.9	3,371	4,483	33.0
2.1.6. Search and placement	1,385	947	-31.6	40	0	-100.0
2.1.7. Margin trading	0	0	–	0	0	–
2.1.8. CIS marketing	36,698	40,148	9.4	24,561	26,491	7.9
2.1.9. Other	72,488	57,328	-20.9	13,795	17,099	24.0
2.2. Fee expense	86,718	76,522	-11.8	10,359	11,015	6.3
3. Profit from financial investments	90,667	20,153	-77.8	-133	157	–
4. Net exchange differences	-40,353	4,109	–	-131	-358	-173.3
5. Other operating income and expense	7,964	11,660	46.4	-618	-748	-21.0
GROSS PROFIT MARGIN	**288,232**	**285,151**	**-1.1**	**50,638**	**55,642**	**9.9**
6. Operating expenses	180,188	179,369	-0.5	45,058	48,100	6.8
7. Depreciation and other charges	5,926	6,776	14.3	1,022	892	-12.7
8. Impairment losses on financial assets	164	377	129.9	0	-3	–
OPERATING PROFIT (LOSS)	**101,954**	**98,629**	**-3.3**	**4,558**	**6,653**	**46.0**
9. Other gains/losses	12,696	6,168	-51.4	154	-102	–
PROFIT (LOSS) BEFORE TAX	**114,650**	**104,797**	**-8.6**	**4,712**	**6,551**	**39.0**
10. Corporate income tax	13,175	14,878	12.9	1,037	909	-12.3
PROFIT FROM CONTINUING OPERATIONS	**101,475**	**89,919**	**-11.4**	**3,675**	**5,642**	**53.5**
11. Profit from discontinued operations	0	0	–	0	0	–
NET PROFIT (LOSS) FOR THE PERIOD	**101,475**	**89,919**	**-11.4**	**3,675**	**5,642**	**53.5**

Source: CNMV.

With regard to the other items making up the gross profit margin, the positive effects from both a reduction in the fee expense (down 11.8%) and the change in sign in net exchange differences (from -40 million euros to +4 million euros) led to the gross profit margin at the end of June standing at 285.1 million euros, 1.1% down on June 2016. Lastly, the operating profit, after operating expenses remained practically unchanged, fell by 3.3% to 98.6 million euros as a result of the increase in the depreciation/amortisation charge.

Net exchange differences and the fee expense had a positive impact on the income statement of broker-dealers.

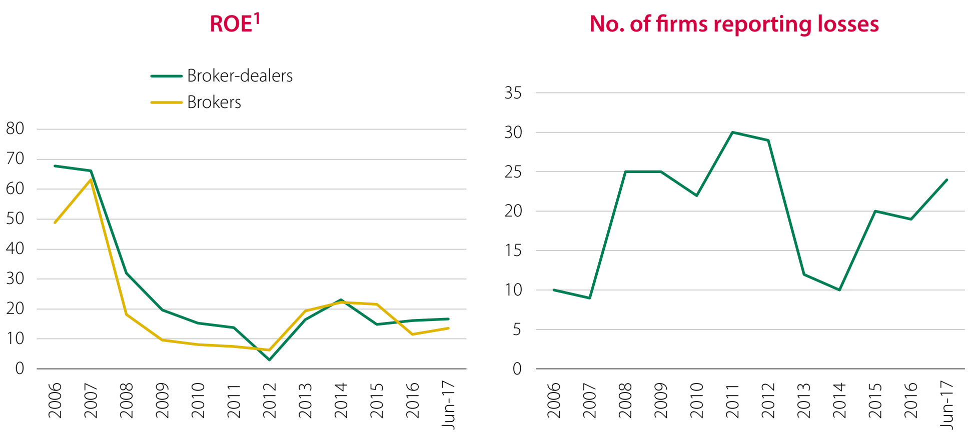
Brokers, unlike broker-dealers and following two years of falls, recorded and improvement in aggregate profit before tax of 39% in the first half of the year to 6.6 million euros. The main reason behind these positive results is the increase in fee income, particularly relating to CIS marketing, the most significant source of income in the case of brokers, with growth of 7.9% to 26.5 million euros. In contrast, fees from order processing and execution, as was the case with broker-dealers, recorded the largest falls and closed the first half of the year at 10.8 million euros, 21.2% down on the same period of 2016. It should also be noted that portfolio management fees, which are the third most important fees, grew by 10.3% to 5.8 million euros. Consequently, the aggregate gross profit margin for the first half of the year rose by 9.9% to 55.6 million euros, which, together with the lower increase in operating expenses (6.8% to 48.1 million euros) led to the operating profit growing by 46% to 6.7 million euros.

In contrast, pre-tax profits of brokers rose by 39% in the first half of the year due to rises in fees, thus breaking the negative trend of the last two years.

Despite the fall in profits, return on equity (ROE) for investment firms as a whole increased slightly between the end of 2016 and the middle of 2017, rising from 16% to 16.4%. Brokers recorded the largest growth with their ROE rising from 11.5% to 13.6%, while broker-dealers recorded a more moderate increase, from 16.2% to 16.6% (see left-hand panel of figure 22).

Despite the fall in profits, return on equity for investment firms as a whole rose slightly between December 2016 and June 2017.

Pre-tax ROE of investment firms and number of loss-making firms FIGURE 22



Source: CNMV.

1 ROE based on profit before tax.

In line with the fall in the sector's profits, the number of loss-making firms rose in the first half of the year to 24, five more than at the end of last year. There were nine loss-making broker-dealers, two more than in December, and 15 brokers, three more than in December (see right-hand panel of figure 22). The cumulative losses over the

The number of loss-making firms stood at 24 at mid-year, five more than at year-end 2016.

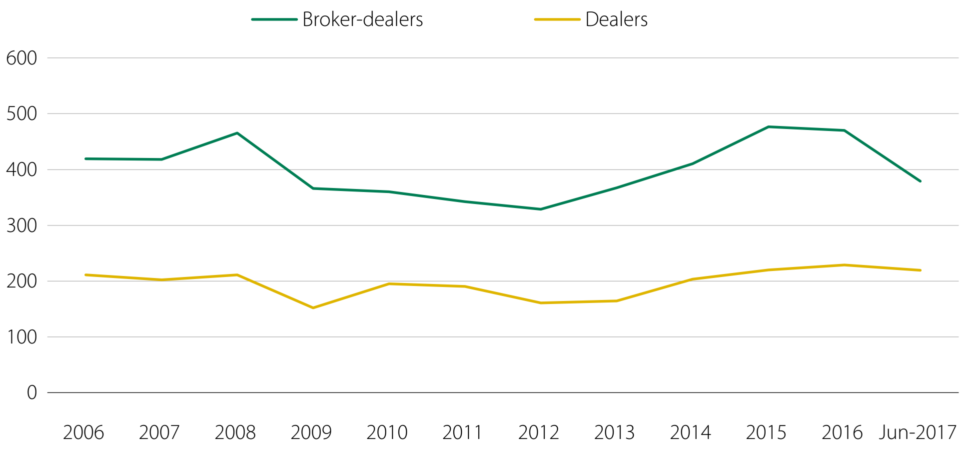
first two quarters amounted to 26 million euros compared with 16.2 million euros in the same period of the previous year.

The sector's aggregate solvency remains satisfactory despite the fall in surplus capital over the first half of the year.

The sector's solvency remained high in relative terms in the first half of 2017 even though the capital adequacy ratio (defined as the surplus of eligible capital over minimum capital requirements) of firms required to file solvency statements[28] fell for both broker-dealers and brokers. Between December 2016 and June 2017, this ratio fell from 4.7 to 3.8 for broker-dealers and from 2.3 to 2.2 for brokers (see figure 23).

Investment firm capital adequacy FIGURE 23

(Surplus of eligible capital over minimum capital requirements, %)



Source: CNMV.

Financial advisory firms

With the information from all the financial advisory firms registered with the CNMV, we can confirm the sector's growth in 2016, with an increase in assets under advice of 12.6%.

The previous issue of this report (corresponding to April) provided an initial analysis of the development of the sector with information on 94% of the financial advisory firms registered with the CNMV. This issue provides an update of these figures after including all the information, which shows few changes with regard to the initial analysis. The financial advisory firm sector grew significantly in 2016, with six more firms (up to 160) and an increase in assets under advice of 12.6% to 28.6 billion euros (almost double the figure for 2012). The distribution of assets under advice among the different types of client was very similar to that recorded in the previous year: Retail clients accounted for 26.6%, professional clients for 19.8% and eligible counterparties[29] (heading of "Other") accounted for 53.6%. Finally, despite the increase in assets under advice, fee income fell by 7.9% as a result of the fall in fees obtained directly from clients (-10.1%).

28 Since 1 January 2014, as established in CNMV Circular 2/2014 of June 23, on the exercise of various regulatory options on solvency matters for investment firms and their consolidated groups, not all entities are required to file these statements. Specifically, 12 of the 83 investment firms were exempt from this requirement in September.

29 "Eligible counterpart" is the classification that MiFID typically gives banks, other financial institutions and governments, and is a category that requires a lower level of protection.

Main financial advisory firm variables TABLE 15

Thousand euros	2014	2015	2016	% change 16/15
NUMBER OF FIRMS	**143**	**154**	**160**	**3.9**
ASSETS UNDER ADVICE[1]	**21,379,858**	**25,366,198**	**28,555,839**	**12.57**
Retail clients	5,707,640	6,777,181	7,592,441	12.03
Professional clients	4,828,459	5,109,979	5,657,508	10.71
Others	10,843,759	13,479,037	15,305,890	13.55
NUMBER OF CLIENTS[1,2]	**4,635**	**5,544**	**5,899**	**6.40**
Retail clients	4,319	5,156	5,480	6.28
Professional clients	276	319	326	2.19
Others	40	69	93	34.78
FEE INCOME[3]	**47,616**	**56,726**	**52,244**	**-7.90**
Fees received	**47,037**	**55,781**	**51,508**	**-7.66**
From clients	37,940	45,180	40,640	-10.05
From other firms	9,098	10,602	10,868	2.51
Other income	**579**	**945**	**736**	**-22.12**
EQUITY	**26,454**	**25,107**	**24,402**	**-2.81**
Share capital	5,576	5,881	6,834	16.20
Reserves and retained earnings	8,993	7,585	11,697	54.21
Profit(loss) for the year	11,885	11,531	7,965	-30.93
Other own funds	–	110	-2,094	–

1 Period-end data at market value.
2 Pre-2015 figures refer to number of contracts.
3 Cumulative data for the period.

Outlook

The lower trading volumes in regulated Spanish markets and growing competition from Spanish credit institutions in activities traditionally carried on by investment firms have had a significant impact on the main business lines of these firms over the last two years, following several years of growth. Income from trading in equity markets and order processing and execution has been particularly affected. The first of the factors may be somewhat temporary in that trading volumes may increase again as the various market uncertainties dissipate. The second factor is more structural in nature and may continue to weigh on the activity of investment firms. The increases in income from CIS marketing and portfolio management seem to indicate that investment firms are opting to shift their business model by modifying their fee income structure.

The business of investment firms is affected by both temporary factors (the fall in trading) and by other more permanent factors (competition from credit institutions). We may not therefore rule out that part of the sector will have to shift its main lines of business over the medium term.

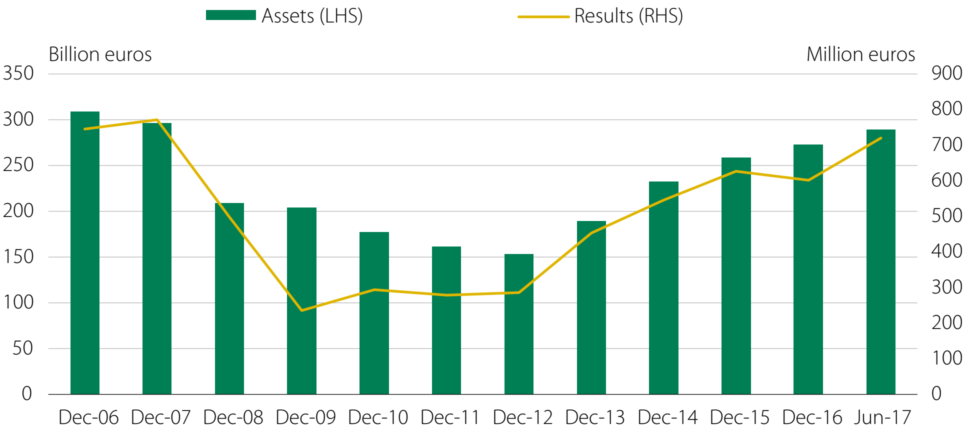
4.3 CIS management companies

CIS management companies have once again benefited from an expansion in assets under management, a trend that has continued since 2013. Assets under management at mid-2017 amounted to 288 billion euros, 5.7% up on December 2016 (see figure 24), a level which is much higher than the lows recorded over the crisis (153 billion euros) and close to the highs recorded prior to the crisis (308 billion euros). It should be pointed out that the growth in assets under management comes exclusively from the increase in assets under management of mutual funds as the assets of investment companies fell by 0.7% in the first half of the year.

CIS management companies have once again benefited from the increase in assets under management of CIS (5.7% between January and June)…

CIS management companies: Assets under management and pre-tax profits

FIGURE 24



Source: CNMV.

… which has allowed an increase in pre-tax profits of close to 20%.

The increase in assets under management allowed aggregate profit before tax of CIS management companies to grow by almost 20% between January and June to 720 million euros (in annualised terms) and aggregate return on equity rose from 55% in December 2016 to 69.2% in June 2017. Income from management fees grew by 6.7% to 2.5 billion euros as a result of the slight increase in the average management fee, which rose from 0.86% at year-end 2016 to 0.87% in June of this year. The small increase was the result of the shift of the funds' assets under management towards categories that entail greater risk and which generally have higher fees. Despite the improvement in aggregate profit, it was not distributed evenly among the entities as the number of loss-making CIS management companies rose by two between January and June to a total of 15. However, the volume of losses was lower (3.16 million euros compared with 7.37 million euros in December 2016).

CIS management companies: Assets under management and CIS management fees and fee ratio

TABLE 16

Million euros	Assets under management	CIS management fee income	Average CIS management fee (%)	Fee ratio[1]
2009	203,730	1,717	0.84	68.08
2010	177,055	1,639	0.93	67.24
2011	161,481	1,503	0.93	65.60
2012	152,959	1,416	0.93	64.62
2013	189,433	1,594	0.84	61.94
2014	232,232	2,004	0.85	61.80
2015	258,201	2,442	0.95	63.68
2016	272,906	2,347	0.86	61.67
Jun-17[2]	288,552	2,504	0.87	59.64

Source: CNMV.

1 Ratio of fee expenses for fund marketing to fee income from CIS management.

2 The data on fee income and average management fee are annualised.

The CNMV registry data indicate that the reduction in the number of management companies that began as a result of the reorganisation process undertaken in the Spanish financial system has now been completed. The dramatic expansion of the collective investment industry over recent years has led to the creation of new management companies. Between January and August this year, the number of CIS management companies rose by six, as a result of seven additions and one de-registration, to a total of 107. All the new management companies were independent except one, which belongs to a bank.

The number of CIS management companies has risen once again in 2017, thus consolidating the recovery that began last year.

4.4 Other intermediaries: Venture capital

Since entry into force of Law 22/2014, of 12 November, which opened up the possibility for new vehicles in order to promote venture capital as an alternative source of financing, 42 of the new types of vehicle have been created, nine during the first six months of 2017 (see table 17). At the end of June this year, there were 12 SME venture capital funds, two European venture capital funds, 14 SME venture capital companies and 14 closed-end collective investment entities (two funds and 12 companies).

The growth in the number of venture capital entities continued in the first half of 2017, both of the new vehicles that can be created under Law 22/2014 (nine more)…

As regards traditional vehicles, the first half of 2017 ended with 11 new additions and three de-registrations of venture capital funds, thus giving a total of 174, and eight new additions in venture capital companies and three de-registrations, leading to a total number of 104. As a result of these movements, the total number of venture capital entities at 30 June (excluding closed-end entities) was 306, compared with 291 at the end of 2016. As mentioned above, on the same date there was a total of 14 closed-end vehicles and 86 closed-end investment scheme management companies (a term that includes the old venture capital management companies) following eight new additions and three de-registrations between January and June.

… and traditional vehicles (eight more venture-capital funds and five more companies). The number of management companies also rose by five in the first half of the year.

Movements in the venture capital entity register in 2017 TABLE 17

	Situation at 31/12/2016	New registrations	De-registrations	Situation at 30/06/2017
Entities				
Venture capital funds	166	11	3	174
SME venture capital funds	11	1	0	12
European venture capital funds	2	0	0	2
Venture capital companies	99	8	3	104
SME venture capital companies	13	1	0	14
Total venture capital entities	**291**	**21**	**6**	**306**
Closed-end collective investment funds	1	1	0	2
Closed-end collective investment companies	6	6	0	12
Total closed-end collective investment entities	**7**	**7**	**0**	**14**
Closed-end investment scheme management companies[1]	**81**	**8**	**3**	**86**

Source: CNMV.

1 A name that now applies to both the old venture capital scheme management companies and the management companies of the new closed-end investment schemes.

The assets of venture capital entities grew by 2.5% in 2016…

The assets of venture capital entities rose by 2.5% over 2016 to 7.95 billion euros. This growth was exclusively due to the funds, whose assets rose by 11.3% to 4.84 billion euros, partly as a result of the high number of new registrations. In contrast, the assets of companies fell by 8.6% to 3.11 billion euros.

… as a result of the increase in the assets of funds (11.3%) in which foreign entities became the leading investor.

In the case of venture capital funds (including traditional and newly-created funds, in this case SME and European funds), there was a small shift in the relative importance of their investors in 2016. On the one hand, there was a significant increase in investment performed by CIS, which rose from a very low amount in 2015 (65 million euros) to 358 million euros. Also noteworthy was the increase in investment by foreign entities, which grew by 41.2% to 880 million euros, which makes them the leading investor in the portfolio of venture capital funds (see table 18). At the opposite end, there was a significant 33.1% reduction in the investment of foreign venture capital entities to 242 million euros and, a smaller reduction in government investments of 6.3% to 663 million euros.

Venture capital entities: Assets by type of investor TABLE 18

	Funds		Companies	
Million euros	**2015**	**2016**	**2015**	**2016**
Natural persons				
Resident	317.73	390.59	99.72	100.82
Non-resident	6.78	13.19	153.31	148.56
Legal persons				
Banks	291.86	207.90	506.93	225.34
Savings banks	49.98	42.05	21.98	12.82
Pension funds	541.92	594.81	26.20	28.10
Insurance companies	208.17	264.54	43.75	51.31
Broker-dealers and brokers	1.34	2.02	0.22	0.34
Collective investment schemes	65.43	358.24	3.96	6.41
Spanish venture capital entities	166.44	196.59	45.31	112.81
Foreign venture capital entities	362.37	242.30	0.00	0.00
Public authorities	707.28	663.06	407.61	409.73
Sovereign funds	31.74	4.63	0.00	0.00
Other financial companies	306.25	378.21	980.31	998.24
Non-financial companies	463.59	459.55	859.57	880.05
Foreign entities	623.07	879.82	114.67	92.86
Others	201.91	137.84	142.96	46.13
TOTAL	**4,345.86**	**4,835.34**	**3,406.50**	**3,113.52**

Source: CNMV.

The assets of venture capital companies fell by 8.6% in 2016. Bank investment in these entities fell significantly (55%), thus repeating the pattern of the previous year.

In venture capital companies (as in the case of funds, this includes SME venture capital companies), the two most important types of investors – non-financial companies and other financial companies – increased their investment slightly by 2.4% and 1.8% to 880 million and 998 million euros, respectively. As in the previous year, banks substantially reduced their investment in this type of entity in 2016, specifically by 55.6%

to 225 million euros (their investment exceeded 1.6 billion euros in 2013). Natural-person investors accounted for 8.3% of total assets in venture capital funds and 8% of assets in venture capital companies, figures that are slightly higher than in 2015.

Preliminary data from the Spanish Venture Capital Entity Association (ASCRI) for the first half of 2017 indicate that the sector continued the growth that started in mid-2016, after the first half of 2016 and the final months of 2015 were marked by political uncertainty in Spain and the lack of megadeals. These megadeals, which are defined as being in excess of 100 million euros, grew significantly over the first half of the year with a total of eight deals, all of which were closed by international operators. These deals accounted for 66.5% of the total invested volume, which amounted to 3.05 billion euros, very similar to the figure for the second quarter of 2016, but which is three times higher than the figure for the first half of 2016. In addition, middle market deals (between 10 million and 100 million euros) also grew significantly, with an increase in investment between January and June of 61% percent compared with the same period of the previous year, while small-scale deals (up to 5 million euros) continue to account for the bulk of the deals (84%).

Preliminary data for the first half of 2017 provided by ASCRI reveal strong growth in the venture capital sector as a result of the growth of megadeals.

By investment stage, the bulk of the deals were in venture capital (seed and start-up) with a total of 205, although this figure was far below the 436 recorded in the second half of 2016. The most important in terms of volume were investments in buyouts, with 62% of the total invested amount. Fundraising continued to perform well with over 1 billion euros raised by Spanish private operators in the first half of the year.

Investments in venture capital *(seed and start-up) accounted for the bulk of the deals.*

The outlook for the sector, at least for the rest of the year, is extremely positive, with several significant deals underway that are likely to be closed by the end of the year. In addition, in July, FOND-ICO Global launched its ninth process to promote fundraising and a tenth process is expected in 2018.

The outlook for the sector is favourable as several significant deals are expected to be successfully closed by the end of the year.

Cybersecurity in securities markets EXHIBIT 4

Cybersecurity has already become one of the major concerns of authorities and businesses around the world. The financial sector is no exception; on the contrary, it has become a key sector for adopting protection measures as cybersecurity threats may have a major impact on this sector.

The financial sector already has some experience, fortunately limited in its effects, that demonstrates the damage of cyberattacks and the need to prevent them. For example, in October 2017, the Securities and Exchange Commission (SEC) acknowledged that in 2016 there was a security breach in its financial reporting system for listed companies (EDGAR), which might have led to the use of insider information and which the SEC was not aware of until September 2017. Another recent example is that of Equifax, the credit reporting agency, which operates in 23 countries, including Spain, where it manages the lists of borrowers with unpaid debt of ASNEF (National Association of Financial Companies), and which holds credit information on over 200 million customers. On 7 September, due to a serious defect on its website, it was subject to an attack which allowed access to confidential data. The firm was blackmailed with the threat of the disclosure of its customers' confidential information if it did not pay a ransom. Since the news broke, the company has lost 30% of its stock market value as a result, among other factors, of the reputational cost of the attack. Its CEO resigned on 26 September.

It is therefore essential that cybersecurity should be among the priorities of financial supervisors, since cyberattacks can disrupt the proper functioning of markets, affect financial stability and steal confidential information from investors and financial institutions. Market infrastructures (trading platforms, central counterparties, settlement and registry systems) have long had in place specific and advanced cybersecurity plans developed under the coordination of various national and international agencies. However, this is a task undergoing constant assessment and evolution which is gradually including, at a different scale, investment firms and fund managers.

Market infrastructures (trading and post-trading) are considered critical for cybersecurity both in Spain and the rest of the world. In particular, a cyberattack on post-trading infrastructures (registry, payments and central counterparty) might generate events of systemic importance and prolonged effects that would be slower to reverse and to recover from than others in trading facilities.

Without appropriate measures, the associated technology and the interoperability of market infrastructures with other platforms and with their members might facilitate the route for these cybernetic threats to materialise, as well as for their effects to propagate and spread.

The cybersecurity of critical infrastructures is an issue of national security in most advanced countries, including Spain. In the context of securities markets, international regulatory forums, such as IOSCO and financial industry associations, such as SIFMA, have already stated that cybersecurity is among their top priorities. Addressing this challenge requires urgent and appropriate provision of staff with a clear technological profile in the supervisory entities. This need is also amplified by the growing development of fintech activities in the financial sector.

The nature of cybersecurity threats is constantly evolving, and the regulatory and supervisory approach therefore also needs to be constantly revised. International cooperation and the sharing of information and experience (cyber intelligence) are key elements in the strategy to obtain greater security.

Over recent years, the Committee on Payments and Market Infrastructures (CPMI) of the BIS and IOSCO have addressed, with the help of specific working groups, the importance of cybersecurity for financial market infrastructures. Particularly relevant is the joint effort of both organisations set out in the "Guidance on cyber resilience for financial market infrastructures" published in June 2016. The document clarifies that it is not aiming to establish new principles for structures, but to provide better guidance and specification of the already existing principles on governance (principle 2), comprehensive management of risks (principle 3), settlement finality (principle 8), operational risk (principle 17) and links (principle 20).

The CPMI-IOSCO document complements another previous IOSCO document published in April 2016, “Cyber Security in securities markets. An international perspective”, which provides an overview of the different regulatory approaches that IOSCO members have implemented to date. A specific IOSCO working group, of which the CNMV is a member, has recently been set up. This group has various fields of action and cooperates with the industry and will undertake resilience exercises and tests. IOSCO’s framework for cybersecurity is based on five points:

1. **Governance**. This refers to the arrangements and procedures that the infrastructure has put in place to manage cyber risks. The measures must not be limited to technical aspects, but must also include people; specifically, the management and board of the infrastructure will ultimately be responsible for establishing and ensuring compliance with the cybersecurity plan.

2. **Identification**. The aim is to detect the infrastructure’s critical processes and operations that require priority protection against cyberattacks. This identification makes it possible to prioritise the use of resources and should include order processing and execution systems and systems for risk management, supervision and disclosure of information.

   Stress is again placed on the need to involve the highest possible number of people in the organisation in cybersecurity tasks and even to create a dedicated committee (with representatives from IT, business, legal, HR, communications, and risk functions). Most trading venues included in the aforementioned document have appointed a Chief Information Security Officer.

3. **Protection**. Infrastructures must implement control mechanisms in accordance with the strictest standards in cybersecurity. The measures may be organisational, such as the creation of security operations centres or technical, such as antivirus and intrusion prevention systems.

4. **Detection**. Capacity to recognise potential incidents or detect a security breach of the systems.

5. **Response and recovery**. The infrastructure’s capacity to continue with its functions, restore critical systems following an attack and reduce the systemic risk that will be created by an interruption in its activities.