I Securities markets and their agents: Situation and outlook

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1 Executive summary

- The world economy and financial markets have been dominated in the last few months by doubts about Greek debt negotiations, only settled in July, and since then by turbulence rippling out from China's financial markets forcing the authorities to step in repeatedly and raising questions about just how sharply Asian economies are slowing. Perceptions of slowing activity in China and other emerging economies led to downgrades in growth forecasts for the advanced economies further muddying the issue of when the Federal Reserve would start raising rates. While it was thought highly likely the Federal Reserve would bite the bullet by the summer's end, in fact the Federal Open Market Committee (FOMC) meeting of 16 and 17 September left rates unchanged, arguing that the US economy was still well below its 2% inflation target. The press release also underlined the Federal Reserve's worries about the wider global economy.

- Against this background, international financial markets went through some turbulent times, which only fell off in September.[1] These bouts of turbulence were most severe in equity markets, where leading indices lost heavily in the third quarter, in several cases wiping out all the gains of the earlier months. Volatility also surged to above 40% at its peak. In fixed-income markets, the yields on ten-year sovereign debt of the world's biggest economies – which had widened in the second quarter amid fears for Greece – narrowed again during the third quarter. Chinese turbulence had less of an impact on these yields, which were more affected by their safe-haven status and, in Europe, by the European Central Bank's (ECB) asset purchase programme. Risk premiums followed a similar pattern, holding broadly stable over the quarter.

- Spanish economic activity is performing very well. GDP grew at more than 3% in annualised terms during the second quarter, driven by strong domestic demand. Vigorous growth fed through to the labour market, where employment figures rose by near 3% and the jobless rate dropped to 22.4% of the active population (second quarter figures). Inflation, meanwhile, has been in negative territory for most of the year, heavily affected by the fall in fuel prices. Stripping out the most volatile factors, the CPI rate has hovered between 0.2% and 0.8% over the year.

- In the banking sector, meanwhile, the pickup in Spain's economy and their easier access to financing are having a positive effect on the business done by banks, boosting margins. Sector solvency is also favourable and NPL ratios continue to decline, to 11% by mid-year. That noted, the low-interest rate

1 The closing date for this report is 15 September.

environment and heavy backlog of unproductive assets pose a major challenge to banks' business models in the short and medium terms.

- The financial statements of listed companies also reflect renewed growth of activity in the country. Earnings were up by 54% in the first half-year, to 13.75 billion with strong gains by all sectors except energy. Borrowings of listed companies edged up by 2.3% between January and June though this was not enough to derail a fall in aggregate leverage.

- Domestic equity markets suffered substantial losses in the third quarter, hit, like other stock markets, by turbulence in Greece and China. In September, other factors of uncertainty, such as the exposure of some Spanish companies to struggling Latin American economies, also acted as a drag on the market. For many companies, share price declines for two consecutive quarters wiped out the strong gains of the year's early months. The Ibex 35 lost 9.2% in the third quarter and is down 4.8% year to date. Market volatility also experienced sporadic surges, touching 46% in late August. Trading volumes fell back somewhat during the third quarter but year-to-date figures still show a 30% increase on the same period last year, to 850 billion euros. The trend in new share issues was similar: fewer calls on the market in the latest quarter reflecting the rise in volatility and summer break, but a healthy performance in the year so far thanks to new share offerings and capital increases in the first six months. The volume of share issuance to mid-September was 33.63 billion euros, more than the full-year total for 2014 (32.76 billion).

- Spanish fixed-income markets also suffered a degree of instability, prompting sporadic upticks in yields which gradually faded away once a deal was struck on the third Greek bailout. Once this uncertainty was over, yields on public and private debt began to fall again across all terms of the curve and, despite modest jumps in response to events in China, ended the quarter on a smooth downtrend. The market continues to enjoy the benefits of the ECB's asset purchase programme although its impact is increasingly attenuated. Credit risk premiums also fell as the Greek situation returned to normal and subsequent rises were far less severe. Over the year to date sovereign risk premium is up slightly as are premiums on financial issuers, exposed to stuttering emerging economies and various political uncertainties. New issuance eased off in the third quarter, down 5% on second quarter volumes, but cumulative figures for the year show volumes up 28% compared to the same period 2014, at 85.54 billion euros.

- The collective investment industry continued its expansion during the year's second quarter. Funds still offer competitive advantages over the meagre rates available on bank deposits. Assets managed by investment funds topped 222 billion euros in mid-year, up 11.7% since the end of 2014. Some 90% of this rise came from subscriptions by unit-holders, who, in contrast to previous years, were showing a healthy appetite for higher-risk funds. The funds industry has been growing since 2013 and, as a result, investment managers posted substantial growth in interim profits, up by 20% on the first half 2014. If this pace of growth were to be sustained the aggregate full-year results for the sector would be 654 million euros.

- Market turbulence meant that investment firms were trading in a complex environment during the first half of the year. Total sector profits before tax, which had improved over the past two years, fell by 11.3% in the year to June (266 million euros in annualised terms). This drop in profitability was traceable to different income statement items. Firms' key fee items suffered substantial falls, except for CIS sales. Net interest income also contributed less as did some currency transactions. The number of firms recording losses in June rose to twelve, two more than in 2014, although the industry remains healthily solvent.

- The report includes six exhibits:

  – The first looks at recent developments in the Chinese economy and its financial markets, highlighting possible implications for global financial markets.

  – The second sets out the key features of the extension of the ECB's asset purchase programme and some of its effects.

  – The third summarises the main changes to the clearing, settlement and registration of securities brought in by Spain's Law 11/2015.

  – The fourth presents the key features of CNMV Circular 1/2015 on data and statistical information on market infrastructures.

  – The fifth describes recently introduced measures to improve transparency in the marketing of CIS.

  – Finally, the sixth exhibit summarises information taken from the 2014 statements on codes of conduct of investment services firms.

2 Macro-financial background

2.1 International economic and financial developments

First half data showed a slowdown in emerging economies, with China a particular source of concern…

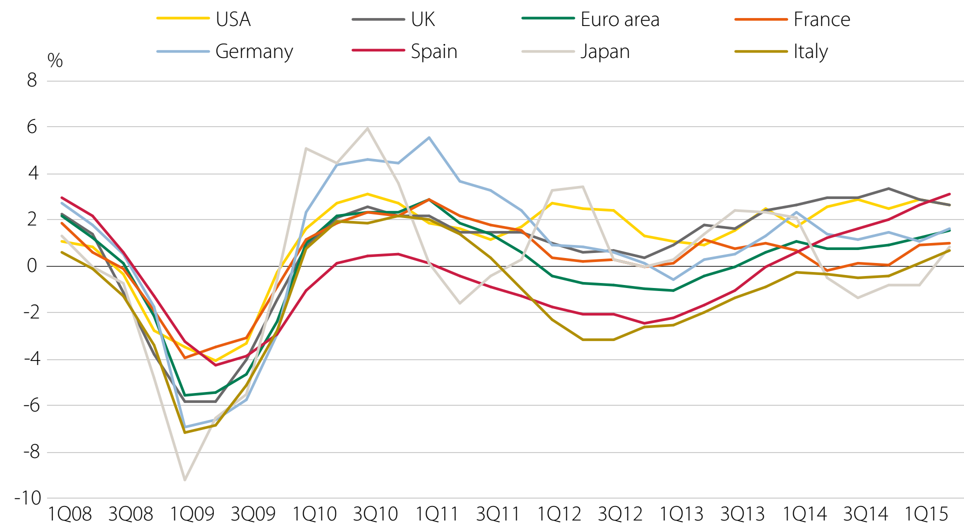
Activity data for the first half showed improvements in most advanced economies, helped by lower oil prices, and some slowing of emerging economies, hampered by falls in commodity prices, currency depreciation and in some cases on-going domestic imbalances. At the fore of these concerns was the uncertainty surrounding China, whose financial markets hit a wave of volatility in the summer prompting the People's Bank of China (PBoC) to intervene. The ripples from events in Asia's biggest economy (see exhibit 1) have not only boosted volatility in many of the world's stock markets but continue to drive downgrades to growth forecasts for advanced economies.

… and stronger recovery in advanced economies, helped by falling oil prices and, in the euro area, currency depreciation.

As figure 1 shows, GDP grew fastest in the United States and United Kingdom, at annualised rates of just below 3% in the second quarter. In the euro area, economic activity was helped in the early months of the year by sharp falls in commodity prices, especially energy prices, and a cheaper euro. GDP for the zone grew 1.2% in

the first quarter and 1.5% in the second in annualised terms, although the picture was very mixed across the various euro economies. Conspicuously strong was the recovery in Spain, with annualised growth of over 3% in the second quarter.

Gross domestic product (annual % change) FIGURE 1



Source: Thomson Datastream.

Recent trends in the Chinese economy and markets and implications for global financial markets EXHIBIT 1

During 2015, international financial markets showed greater sensitivity to news coming out of China, especially the Chinese government's interventions of recent months in foreign exchange and domestic stock markets.

In the first weeks of August volatility soared across many markets following the Chinese authorities' surprise devaluation of the renminbi. The depreciation was the biggest change in value since 1993 and dragged down other emerging market currencies, particularly those heavily reliant on Chinese imports and some commodity producers. Markets in other instruments, such as equities, suffered falls and there was a global increase in volatility although this was strongest in the above-mentioned economies. The Chinese authorities intervened directly in equity markets, buying shares in a bid to shore up prices, and also took to the currency markets selling off some of their currency reserves to stop the renminbi sliding further than intended.

Commodity markets were also hit by news from China, which buys an estimated one third of the world's raw materials output. Percentages are even higher for products like soya, oil, copper and iron ore. That said, the latest tensions on financial markets have been less severe than during some other recent wobbles, such as the taper tantrum in May 2013 when uncertainty about normalisation of

the US Federal Reserve's monetary policy rocked those emerging economies that had built up the greatest imbalances over previous years.

The Chinese authorities have justified their recent devaluation as part of the transition toward a floating currency, parallel to the on-going process of opening up the country's capital account. A freely convertible renminbi is seen as a way of winning influence in the international sphere as it could then qualify for the currency basket used to define Special Drawing Rights, encouraging its use in trade and international financial markets. However, many analysts and market agents read the move as another attempt, albeit driven by events, to boost exports and so mitigate the gathering slowdown experienced by the Chinese economy since 2007. Chinese monetary policy has been loosened substantially since the end of 2014 (cuts in reserve requirements ratios and official interest rates plus liquidity injections to the interbank market) to try and mitigate both the slowdown and the jump in real financing costs for domestic economic agents as a result of sharply falling inflation.

China's economic growth has actually been slowing since the eruption of the global crisis in 2007. The Chinese economy grew 7.3% in 2014, 0.4 points less than in 2013. The slide has continued into 2015 with the second quarter recording a year-on-year growth rate of 7%. Average annual growth in 2010-2014 was 8%, three points less than in 2000-2007.

In its concern to assuage the impact of the crash, the government fell back on public sector infrastructure projects, which have contributed to the spiralling debt of local authorities. Debt owed by non-financial firms also swelled since 2007, mainly in the real estate and associated sectors (steel, cement, copper, etc.). At the same time, there was a rise in loans made in the so-called shadow banking sector: big non-banking firms, often partly publicly owned, lending to smaller subsidiaries, investee firms or independent suppliers who find it harder to tap credit markets (bank loans or bond issues). These so-called entrusted loans[1] provided lenders with a substantial margin given the gap between the rates charged and their cheaper market funding costs. The banks, meanwhile, have also been selling products classed as shadow banking, such as wealth management products which channel the savings of wealthier investors into financing for real estate developers, related companies and large corporates, bypassing limits on direct bank funding to such companies.

As a result, the aggregate debt in the Chinese economy looks to have topped 280% of GDP in 2014, compared to 158% in 2007 and 121% in 2000. Stripping out the financial sector to eliminate double counting,[2] debt was 217% of GDP in 2014, well above the 134% in 2007 or 114% in 2000. Regarding non-financial sector debt, nearly half is linked to real estate, real-estate related companies or construction suppliers while a third comes from shadow banking (compared to around 10% in 2007).

The slowdown in the Chinese economy is in line with the declining potential growth of emerging markets and most advanced economies following the latest international crisis. However, two specifically Chinese factors are causing concerns among analysts and international investors because of their potential repercussions for global economic and financial stability. First, the Chinese authorities are steering their productive capacity toward a more balanced and sustainable

growth model, which puts greater emphasis on consumption and less on investment, particularly in residential property. They also want to be less dependent on heavy industry and low value-added manufacturing and instead build up their medium-high tech segments. Such a redirection could mean lower growth rates in future,[3] with a potentially significant impact on exporter countries who have hitherto relied on China's booming market. The recent devaluation of the renminbi, which the market failed to see coming, generated uncertainty about a possible slump in China's economic growth and tensions on financial markets, possibly amplified by the usual thin summer liquidity of the markets.

The second source of worry is the on-going deregulation of the financial system and liberalisation of the capital account. As these processes go on, Chinese financial markets will become more closely tied in to international markets and more responsive to market sensitive information. This in turn will affect the transmission of macro-financial shocks from China, which will spread more easily through domestic and international financial markets. Since mid-2000 the Chinese authorities have been gradually easing restrictions on institutional investors in cross-border market transactions and have simplified the stock market flotation process. In November 2014, they took a major step forward by launching the SHK Stock Connect linking the Shanghai and Hong Kong stock markets. Investors in Hong Kong and mainland China can now trade shares listed on the other market. In April 2015, China's regulator –the China Securities Regulatory Commission (CSRC)–, lifted the ban on local investment funds investing in Hong Kong listed companies through the SHK Stock Connect. The new connection system led to a sharp rise in demand for listed shares in Chinese companies and stimulated activities such as margin lending. The spread of this practice may have contributed to the initial rally in prices and, when the market went into reverse, exacerbated the market's falls as traders rushed to sell off pledged assets to settle or pay down their credit lines. The CSRC is currently tightening regulation of such loans and other related activities by raising the qualifying requirements for authorised investors to use them and banning investment companies from gaining more exposure to leveraged products. The CSRC is also looking to rein in the growth of shadow banking practices, such as entrusted loans.

China's development in the last two decades has a lot in common with the history of other Asian countries (Japan, South Korea or Taiwan) which also started from a low level of development but achieved massive growth, high investment rates, undervalued currencies, a steadily ageing population and a growing openness toward trade and international financial markets. All of them hit a phase of sharply slowing economic growth. The Chinese economy may pose a yet bigger challenge to global economic and financial stability given its size, share of international trade and high levels of debt.

The pace with which the authorities are pressing ahead with their dual aim of: i) reconfiguring the model of production towards slower but better balanced economic growth, and ii) liberalising the financial system and opening up the capital account, will be crucial to how far problems with the Chinese economy are likely to affect to global economic and financial stability. As Chinese markets integrate

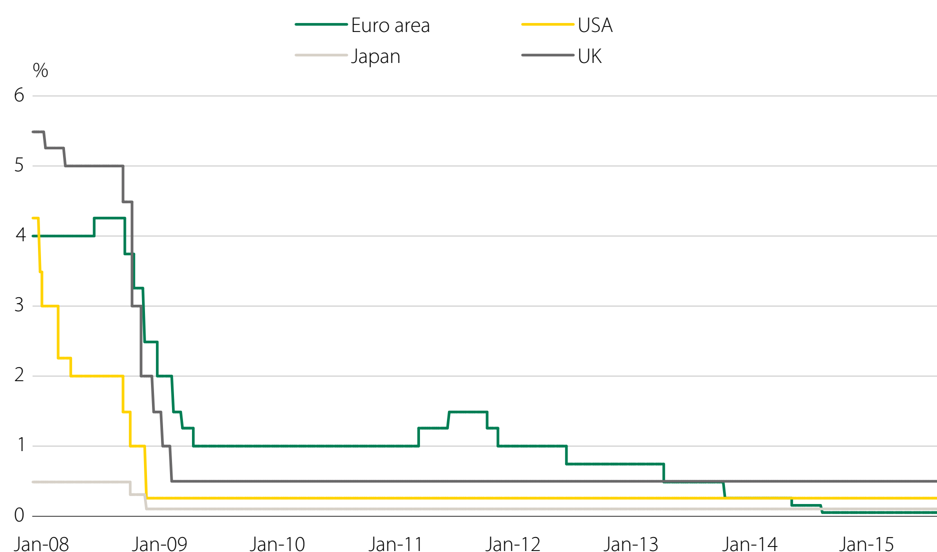
with global capital markets any disturbances in China will tend to hit harder on world markets. That said, there are upsides to integration also such as a broader spreading of risks and an increase in global liquidity. China's reforms aimed at improving risk management and transparency of the financial system, creating an efficient system for orderly resolution of corporate bankruptcies and strengthening local finances would help limit the negative fallout from any sudden adjustment in the economy.

1 The potential risk from entrusted loans stems from the domino effect on other companies when one company defaults. These loans tend to be low risk as regards leverage and maturity transformation. That said, interest rates are unregulated and loans are granted without any proper credit risk controls either for the specific loan or across the company's wider loan book.
2 Necessary because most of the non-equity funds raised by the financial sector is channelled as loans to other resident sectors.
3 Another factor dragging down China's potential growth is its ageing population, the result of past birth control policies.

The ECB maintains its sovereign debt buying programme, while the Federal Reserve queries the timing of rate rises in light of turbulence and uncertainty spreading from China…

The tone of monetary policy in advanced economies has changed little in recent months as inflation has remained low. In the euro area, the ECB continued to buy sovereign debt under its quantitative easing (QE) programme, which totalled 292 billion euros at end-August (see exhibit 2) and in early September said it planned to press with QE while trimming its growth and inflation forecasts slightly. In the United States, where the last round of QE ended late last year, the economy was looking healthy from an inflation and jobs point of view making it likely the Federal Reserve would start raising policy rates in the last four months of 2015. However, the slowdown in emerging economies and, particularly, the impact of a likely slackening of Chinese growth injected an element of uncertainty into the timing of this decision, which may now be pushed back to late in the year. For the moment, the FOMC opted to hold rates at its 16 and 17 September meeting citing inflation which is running well below target. As indicated, recent performance of the Chinese and other emerging economies also seems to have weighed in the Federal Reserve's decision.

Official interest rates FIGURE 2



Source: Thomson Datastream. Data to 15 September.

… where the authorities took measures to stave off economic slowdown.

The Chinese authorities have been the most active on this front in recent months (see exhibit 1). Fears of a sharp slowdown in its economy led the PBoC to cut rates on loans[2] and deposits, and banks' reserve requirements. The renminbi was also devalued three times, losing nearly 5% of its value, and greater flexibility was allowed in the way it was calculated bringing it more into line with the reality of the economy and the financial markets.

Extension of the ECB's purchase programme EXHIBIT 2

The economic and financial crisis of recent years forced central banks in most advanced economies to deploy highly expansionary monetary policy measures. In the immediate wake of the crash this meant slashing official interest rates to all-time lows. Then, as rates neared zero and traditional policy ran out of road they turned increasingly to so-called non-conventional measures. These included programmes to buy up assets on financial markets. The United States, for instance, embarked on a string of such programmes known as QE (quantitative easing). The last of these was wound up in late 2014 as employment and inflation improved. The Bank of England ran its own scheme between 2011 and 2012 and, although it has stopped buying new assets, it has continued to reinvest the proceeds of maturing bonds so that the stock of assets in these programmes is unchanged on its balance sheet. Japan, for its part, was the first economy to use QE to stave off deflation – in 2001-2005 – and reached for the same policy in 2010, cranking it up year after year since.

In the euro area, however, the absence of any solid recovery and divergence of inflationary expectations from the central bank's targets have kept purchase programmes in place. This exhibit summarises the main non-conventional policy measures the ECB has been using recently, with a special focus on the latest asset buying spree started in January this year, similar in nature to the US and British QE programmes.

In 2014, with official interest rates now as low as they could practically go,[1] the ECB's Governing Council launched its new targeted long-term refinancing operations (TLTRO) accompanied by two programmes to buy corporate debt: the asset backed security purchase programme (ABSPP) and covered bond purchase programme[2] (CBPP3). At end-2014, all corporate debt purchase programmes (one for securitised debt instruments plus three for covered bond programmes so far) had built up assets of 33.11 billion euros.

But all this buying failed to produce the desired result. Inflationary expectations continued to fall, a trend exacerbated by the drop in the price of crude and other commodities in late 2014. Against this background, the ECB's Governing Council met on 22 January 2015 and decided to take a further step, announcing an extension of its asset purchase programme (APP) to include buying sovereign as well as corporate debt. Specifically, it was decided that as from March bonds

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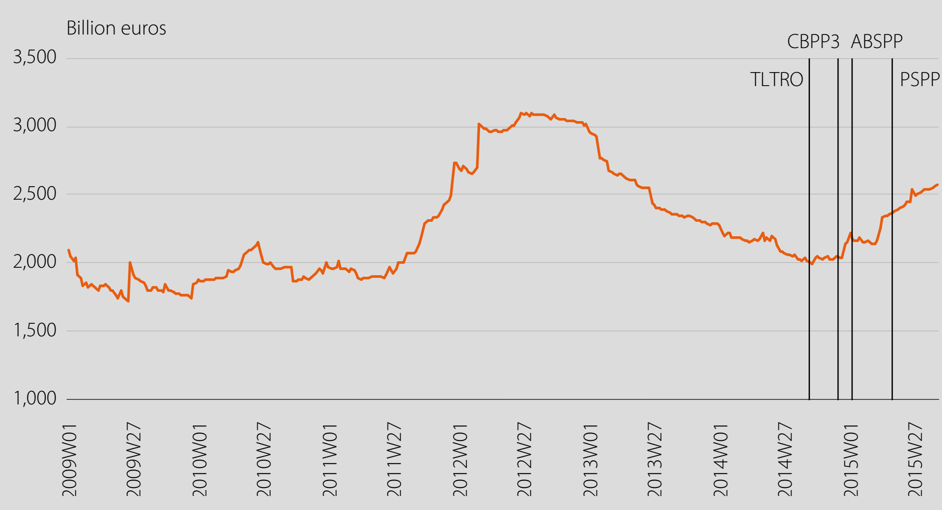
2 The lending rate has been cut four times so far this year to 4.6% by end-August, an all-time low for the country.

issued by euro area central governments, agencies and European institutions would be eligible for the programme. The target for these purchases was set at 60 billion euros monthly and it was expected that these would continue until September 2016[3] ending when the Governing Council considered that the inflationary trend was in line with the ECB's monetary policy target of below, but close to, 2%.

There were new rules on risk sharing – how hypothetical losses are allocated among the participating institutions. Of the new assets purchased 20% would go into a risk-sharing scheme (12% held by national central banks and the other 8% held directly by the ECB), while the remaining 80% would be acquired individually by the central banks and so not subject to risk sharing. Purchases of sovereign debt were capped at 33% from a single issuer and 25% of any one issue.

Eurosystem balance sheet FIGURE E2.1



Source: ECB.

At 31 August 2015, 414.90 billion euros of assets had been bought under the APP, of which 70% under the PSPP, 27% under CBPP3 and just below 3% under the ABSPP (see table E2.1). Of the 292.33 billion euros of PSPP purchases, 33.52 billion was Spanish public debt with a weighted average maturity of 9.68 years compared to the European average of 8.03 years (see table E2.2). Six months on from its launch the Eurosystem's balance sheet has swollen considerably, from 2.16 trillion euros to 2.57 trillion at end-August (see figure E2.1). The latter figure represents around 26% of euro area GDP, near to the equivalent holding for the Federal Reserve (27%). Both of these are, however, a long way short of the Bank of Japan (BoJ) whose balance sheet has ballooned over recent years to near 70% of national GDP (see figure E2.2).

ECB asset purchase programmes (31 August)

TABLE E2.1

	ABSPP	CBPP3	PSPP	
Billion euros	Europe	Europe	Spain	Total
Start of programme	Nov-14	Oct-14		Mar-15
Volume bought on secondary market	8.1	91.5	33.5	292.3
Volume bought on primary market	3.0	20.0	–	–
Weighted average maturity (WAM)	–	–	9.68	8.03

Source: ECB.

Net monthly purchases under PSPP

TABLE E2.2

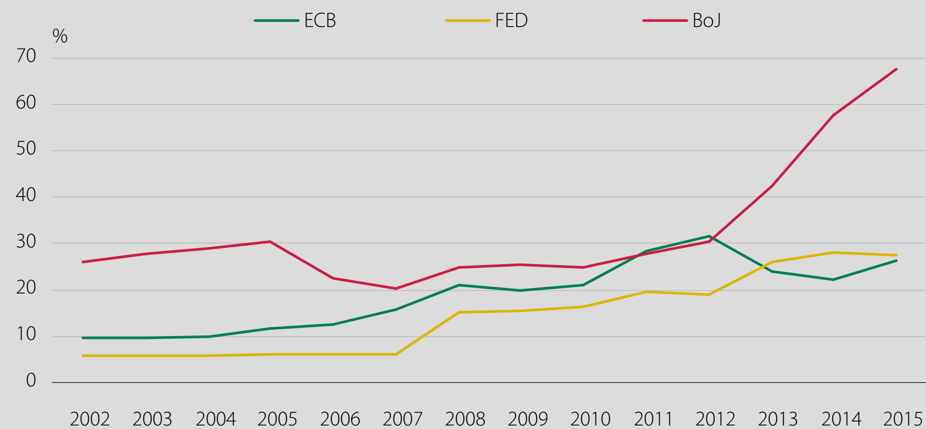
Million euros	March	April	May	June	July	August
Spain	5,447	5,471	5,909	5,915	5,891	4,882
Europe	47,383	47,701	51,622	51,442	51,359	42,826

Source: ECB.

To gauge the impact of this programme, we track below several relevant variables. Bear in mind that other factors may also be having an impact, especially, in recent months, events in Greece which massively stoked market volatility.

Balances compared to GDP

FIGURE E2.2



Source: Bloomberg and Thomson Datastream.

The first and most direct effect was during the first weeks of the programme, when the increase in liquidity prompted a widespread rise in the prices of sovereign debt. In the ten-year segment for instance, most sovereign yields were at historical lows at the end of the first or start of the second quarter: 0.08% in Germany, 0.36% in France, 0.56% in Ireland, 1.14% in Spain and Italy, and 1.37% in Portugal. Subsequently, as doubts emerged over Greece, debt markets tightened bringing upticks in both interest rates and volatility.

Meanwhile, inflationary expectations in the euro area have clearly reversed their trend since the PSPP was approved (one of the main aims of the programme). Five-year inflationary forecasts taken from the ECB's Survey of Professional Forecasters, which had dropped from 1.98% in the first quarter 2013 to 1.77% in the first quarter 2015, have, since January, reversed their downtrend. Lending conditions also seem to have eased in the early months of the year, as confirmed by data from the ECB's Quarterly Bank Lending Survey. The Survey shows that in recent months banks have been gradually relaxing the terms of loans to non-financial corporates and demand for such loans has also been on the rise. This suggests that, although the effect seems slight and the data are still preliminary, the ECB's non-conventional programmes seem to be starting to impact the real economy of euro area countries.

Finally, we must mention that in his latest comments, the ECB's chairman has made it amply clear that he intends to maintain this sovereign debt purchase programme until at least September 2016 and if necessary until the ECB considers that inflationary expectations have moved back into line with the Bank's monetary policy targets.

1 The official rate has been unchanged at 0.05% since September 2014.

2 CBPP3 is the third purchase programme for this asset class. The first two were launched in 2009 and 2011.

3 In fact, ECB Chairman Mario Draghi has repeatedly said he intends to expand the ECB's balance sheet to near 3 trillion euros as happened in early 2012.

Turbulence from China had no significant impact on sovereign debt yields…

In the international debt markets, yields on ten-year sovereign debt of the leading economies, which had narrowed in the first quarter only to rebound in the second, moved back down again in the third quarter. While uncertainty over the Greek debt negotiations drove yields and volatility in debt markets upward between April and the start of July there was no such effect from the later bout of jitters over China. Secondary debt markets were dominated in recent months by sovereign bonds' safe haven status and, in the case of Europe, the ECB's asset buying programme. By mid-September, therefore, yields on ten-year sovereign debt were back to near January levels in a climate of falling volatility and improving liquidity (see figure 3).

… or on sovereign risk premiums, which only edged up in early July, ahead of the deal between the European Union and Greece.

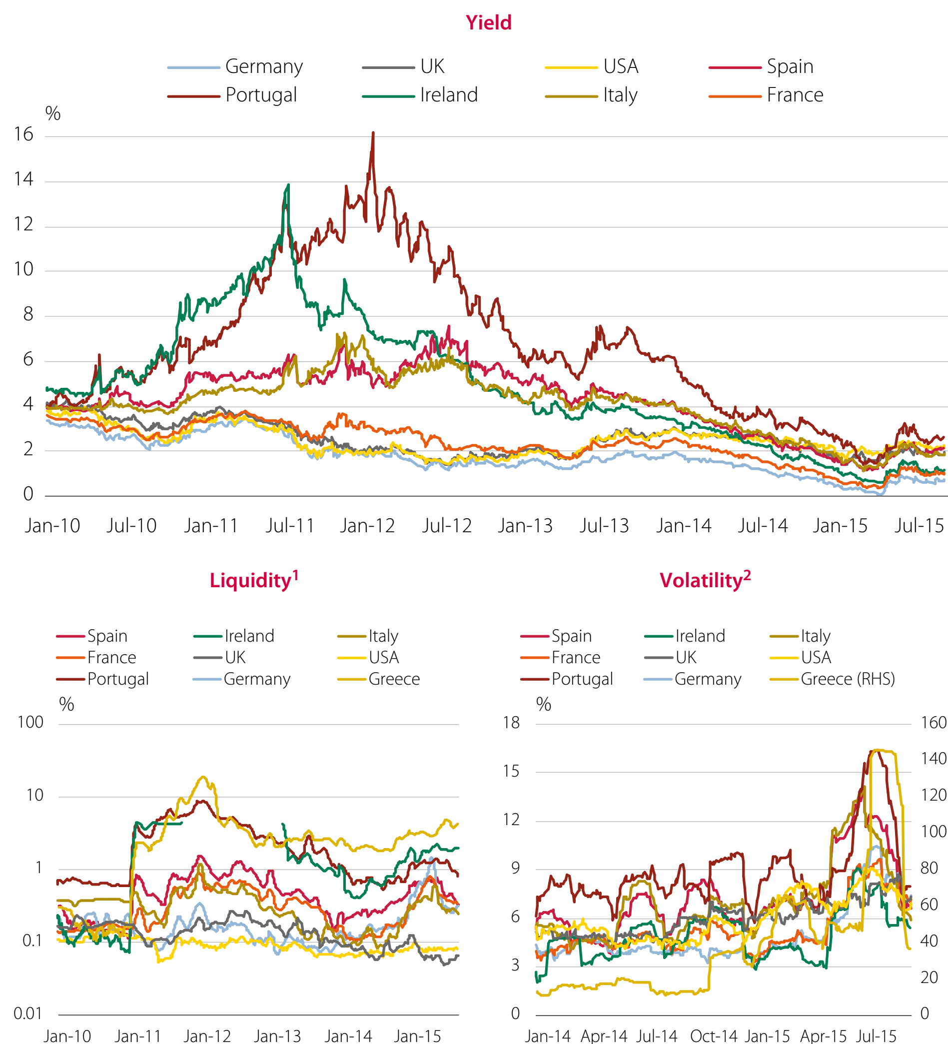
Risk premiums in Europe's periphery barely moved in the third quarter having upticked slightly in early July, just before the deal between the European Union and Greece. In mid-September these risk premiums as measured by CDSs on ten-year sovereign bonds were running at 51 bp for Ireland and 170 bp for Portugal, with Spain at 101 bp. In Greece, the weeks of crisis drove a surge in its CDS premium which topped out at more than 8,500 bp in early July. After the deal, the risk premium fell back sharply to less than 1,500 bp at the closing date of this report.

On corporate fixed-income markets, there was a slight increase in risk premiums on lower-rated debt.

On corporate fixed-income markets, there was a slight increase in risk premiums on lower quality debt from the spring on, perhaps reflecting a flight to safer instruments. In the United States, the premium on high yield debt rose from near 420 bp in April to highs of 540 bp at start-September. In the euro area the surge was less marked, from 450 bp to 530 bp (see figure 5).

Ten-year sovereign debt market indicators

FIGURE 3



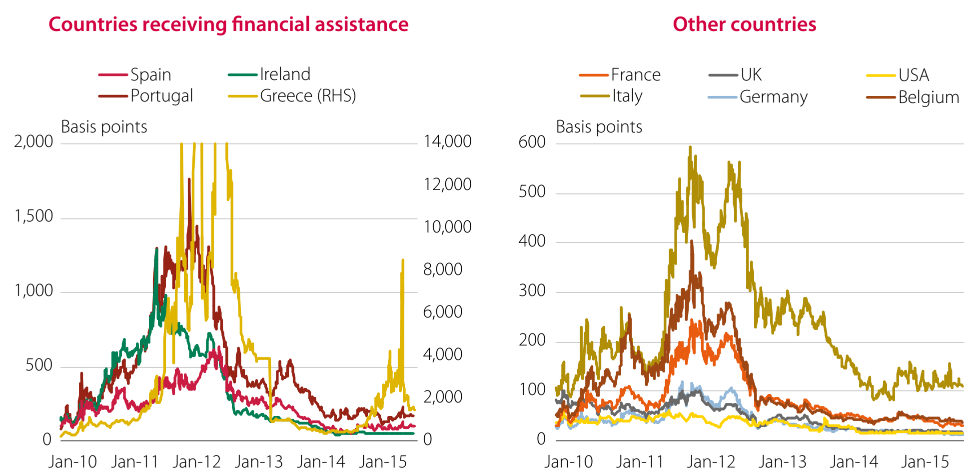
Source: Bloomberg, Thomson Datastream and CNMV. Data to 15 September.

1 One month average of daily bid-ask spread for yields on ten-year sovereign bonds (logarithmic scale).

2 Annualised standard deviation of daily price changes in 40-day sovereign debt prices.

Credit risk premiums on public debt (five-year CDS)

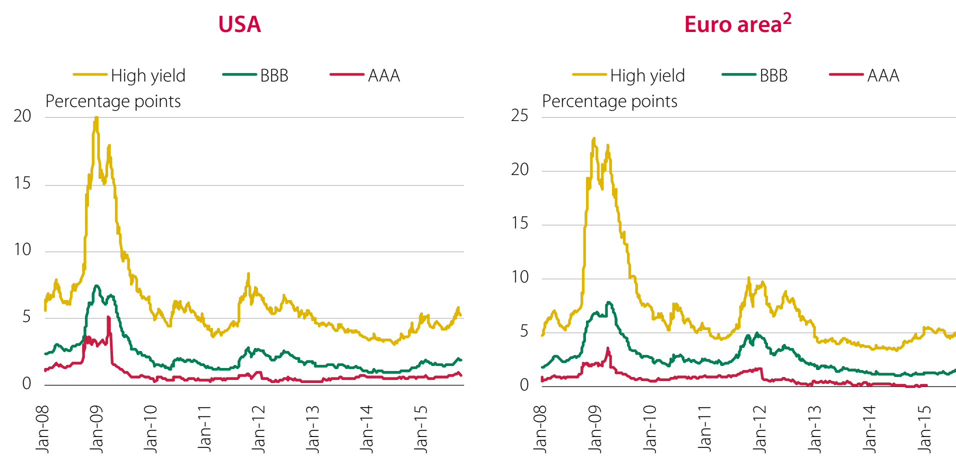
FIGURE 4



Source: Thomson Datastream. Data to 15 September.

Corporate debt risk premiums. Spread to sovereign ten-year bond[1]

FIGURE 5



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

1 Euro area versus the German benchmark.

2 Since 1 January 2015 there are no AAA rated bonds.

Net issuance of long-term debt in international markets was 1.34 trillion dollars year to date (in annualised terms), a near 60% decline on the 2014 volume. The fall originated with the decline in net issuance by the public sector, which turned negative in the second half of the year both in the United States and Europe, and lower issues by financial entities, particularly in Europe where the sector continued to deleverage (see figure 6).

Net issuance of debt fell off sharply in 2015 as public sector and financial entities issues declined.

In stark contrast, corporate debt issuance in the United States was plentiful, topping 560 billion dollars in the year, up 52% on 2014 and well above the figures seen during the crisis. The heavy volumes issued by these firms should be seen against a background of historically low primary market interest rates and the prospect that these could rise toward the end of the year, a prospect that may have led many issuers to rush to market.

In contrast, US corporate issuance was running at a post-crisis high, encouraged by the rock bottom cost of issuance. This trend may change in coming months.

Major international equity indices fell sharply in the third quarter, following bouts of turbulence triggered by economic uncertainty in China. Japanese indices lost more than 10%, US indices between 2.5% and 5.8% and European indices between 2.9% and 9.2%. For Europe, this meant two quarters of declining stock markets – the second quarter was blighted by Greece – in contrast to major gains in the first few months of the year as the ECB rolled out its asset purchase programme. On a year to date basis, a number of European indices are down, including the Ibex 35 and FTSE 100, though others show gains which in some cases, such as the Mib 30, are substantial.

Leading stock indices fell sharply in the third quarter on turbulence from China…

In the United States, the Dow Jones and S&P 500 are down on the year as heavy third-quarter losses more than wiped out the somewhat erratic gains of prior months. In contrast, the tech-heavy Nasdaq is slightly up on the year (2.6%). Japanese indices are also showing positive year to date returns thanks to a strong first-half performance (see table 1).

… wiping out or severely curtailing gains made earlier in the year.

Net international fixed-income issuance

FIGURE 6

Source: Dealogic. Half-year data. Data for the second half of 2015 are to 13 September but restated on a semi-annual basis to facilitate comparison.

There were also big spikes in volatility.

The slide in prices was punctuated by sporadic and substantial spikes in stock market volatility. In late August, most indices experienced volatility upticks of near 40% or more, such as the Japanese Nikkei 225. In Europe, August volatility mirrored that seen in June during the dark weeks of the Greek impasse.

Performance of main stock indices[1] (%)

TABLE 1

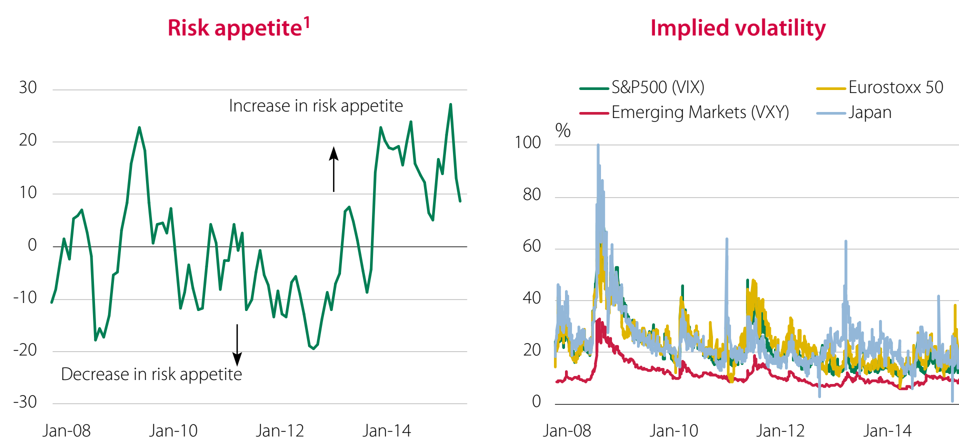
	2011	2012	2013	2014	3Q14	4Q14	1Q15	2Q15	III-15 (to 15 September) %/prior quarter	%/ Dec-14
World										
MSCI World	-7.6	13.2	24.1	2.9	-2.6	0.7	1.8	-0.3	-5.9	-4.4
Euro area										
Eurostoxx 50	-17.1	13.8	17.9	1.2	-0.1	-2.5	17.5	-7.4	-6.3	1.9
Euronext 100	-14.2	14.8	19.0	3.6	0.4	-0.6	17.3	-4.5	-6.6	4.7
Dax 30	-14.7	29.1	25.5	2.7	-3.6	3.5	22.0	-8.5	-6.9	3.9
Cac 40	-17.0	15.2	18.0	-0.5	-0.1	-3.2	17.8	-4.8	-4.6	6.9
Mib 30	-24.0	10.2	18.8	-0.4	-3.2	-7.4	22.5	-2.7	-2.9	15.7
Ibex 35	-13.1	-4.7	21.4	3.7	-0.9	-5.0	12.1	-6.5	-9.2	-4.8
United Kingdom										
FTSE 100	-5.6	5.8	14.4	-2.7	-1.8	-0.9	3.2	-3.7	-5.9	-6.5
United States										
Dow Jones	5.5	7.3	26.5	7.5	1.3	4.6	-0.3	-0.9	-5.8	-6.9
S&P 500	0.0	13.4	29.6	11.4	0.6	4.4	0.4	-0.2	-4.1	-3.9
Nasdaq-Composite	-1.8	15.9	38.3	13.4	1.9	5.4	3.5	1.8	-2.5	2.6
Japan										
Nikkei 225	-17.3	22.9	56.7	7.1	6.7	7.9	10.1	5.4	-10.9	3.3
Topix	-18.9	18.0	51.5	8.1	5.0	6.1	9.6	5.7	-10.3	3.9

Source: Datastream.

1 In local currency.

Financial market indicators

FIGURE 7



Source: Thomson Datastream and CNMV.

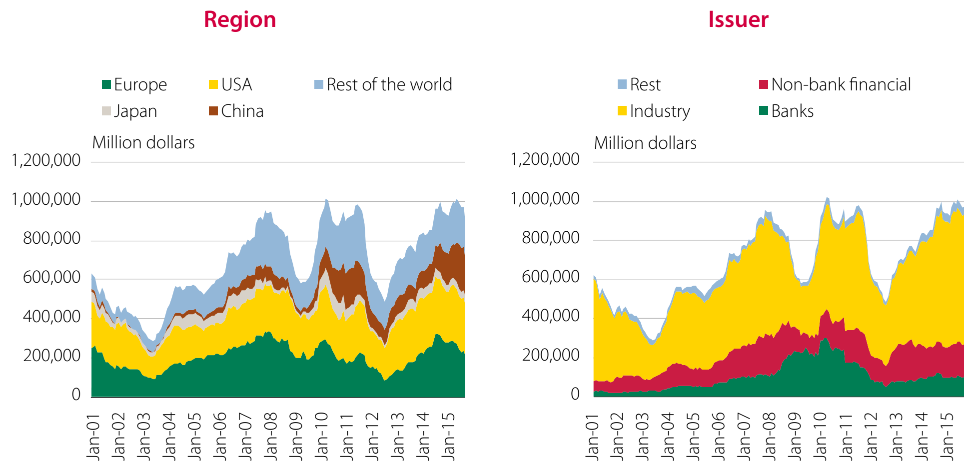
1 State Street indicator.

The dynamic trend in equity issuance of the first half-year (up 11.1%) went into reverse in the third quarter, affected by uncertainties over Greece and the turbulent August

Share issue volumes fell 3.2% to September, affected by uncertainty over Greece and China.

markets. In consequence, stock issuance volumes between January and September[3] totalled 701 billion dollars, 3.2% below the same period 2014 (see figure 8). By region, the falloff in equity issuance was greatest in Europe (-23%) and, to a lesser degree, Japan (-6.3%). US volumes were little changed from 2014 and Chinese issuance was the fastest growing of any region, up 25%, thanks to a surge of issues during the first few months of the year. By sector, equity issuance rose in the financial sector, both banking (7%) and non-banking (2%), but fell among industrials (-6.5%). Even so, industrial firms were still responsible for the lion's share of total issue volumes (66%).

International equity issuance FIGURE 8



Source: Dealogic. Cumulative twelve-month data to 13 September. For comparative purposes, the figure for this month is restated on a monthly basis.

2.2 National economic and financial developments

Spanish GDP grew 1% in 2Q (3.1% annualised), much faster than in the euro area (0.4%).

Spanish GDP grew 1% in the second quarter, one tenth of a point faster than in the first quarter. Annualised growth was 3.1% (2.7% in the first quarter). These figures are much higher than those elsewhere in the euro area (0.4% quarterly, 1.5% annual) and confirm the Spanish economy is picking up, growing at close to the rates seen before the global economic and financial crisis.

Domestic demand and net exports both improved their contributions to growth in the second quarter.

Domestic demand and net exports both improved their contributions to growth. Domestic demand contributed 3.1 percentage points in the first quarter rising to 3.3 in the second. The negative contribution from net exports fell from 0.4 to 0.2 percentage points between the two periods. Breaking down domestic demand by its components, annual growth in final household consumption held steady at 3.5% and gross fixed capital formation at 6.1%, confirming their driving role in economic recovery. Public sector final consumption rose from 0.2% to 1%. Net exports reflected the quickening pace of growth in both exports and imports in the second quarter: exports rose from 5% to 6% and imports from 7% to 7.2%.

3 Data to 13 September.

Supply side, all sectors improved gross value added (GVA) and did so at an accelerating pace. Industrials grew GVA by 3.5% compared to 2.9% in the first quarter with manufacturing industry reporting a particularly strong 3.8% rise. Signs of recovery in the construction sector were reflected in a 5.8% increase in value added (5.7% in the prior quarter). A better performance by most service-related sectors meant that services increased GVA by 3.0% (2.7% in the first quarter). Finally, value added was also up in primary industries where, after a 2.6% decline in the first three months of the year, GVA rose by 2.2% in the second quarter.

All sectors of the economy are growing value added at a quickening pace, confirming the broad-based recovery of the economy.

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

					EC[1]	
	2011	2012	2013	2014	2015F	2016F
GDP	-0.6	-2.1	-1.2	1.4	2.8	2.6
Private consumption	-2.0	-3.0	-2.3	2.4	3.5	2.8
Public consumption	-0.3	-3.7	-2.9	0.1	0.4	0.3
Gross fixed capital formation, of which:	-6.3	-8.1	-3.7	3.4	5.5	5.1
Construction	-10.6	-9.3	-9.2	-1.4	n.a.	n.a.
Equipment and others	0.9	-9.1	5.6	12.3	8.8	7.9
Exports	7.5	1.2	4.3	4.2	5.5	6.2
Imports	-0.7	-6.3	-0.4	7.7	7.2	7.1
Net exports (growth contribution, p.p.)	2.1	2.2	1.4	-0.8	-0.4	-0.1
Employment[2]	-2.6	-4.4	-3.2	1.2	2.7	2.5
Unemployment rate	21.4	24.8	26.1	24.4	22.4	20.5
Consumer price index	3.2	2.4	1.4	-0.2	-0.6	1.1
Current account balance (% GDP)	-3.2	-0.3	1.4	0.8	1.2	1.0
General government balance (% GDP)[3]	-9.4	-10.3	-6.8	-5.8	-4.5	-3.5
Public debt (% GDP)	69.2	84.4	92.1	97.7	100.4	101.4
Net international investment position (% GDP)[4]	-80.3	-65.9	-80.0	-83.6	n.a.	n.a.

Source: Thomson Datastream, European Commission, Banco de España and National Statistics Office (INE).

1 European Commission forecasts of May 2015.

2 In full-time equivalent jobs.

3 Figures for 2011, 2012, 2013 and 2014 include government aid to credit institutions of 0.5%, 3.8%, 0.5% and 0.1% of GDP, respectively.

4 Ex. Banco de España.

n.a.: Not available.

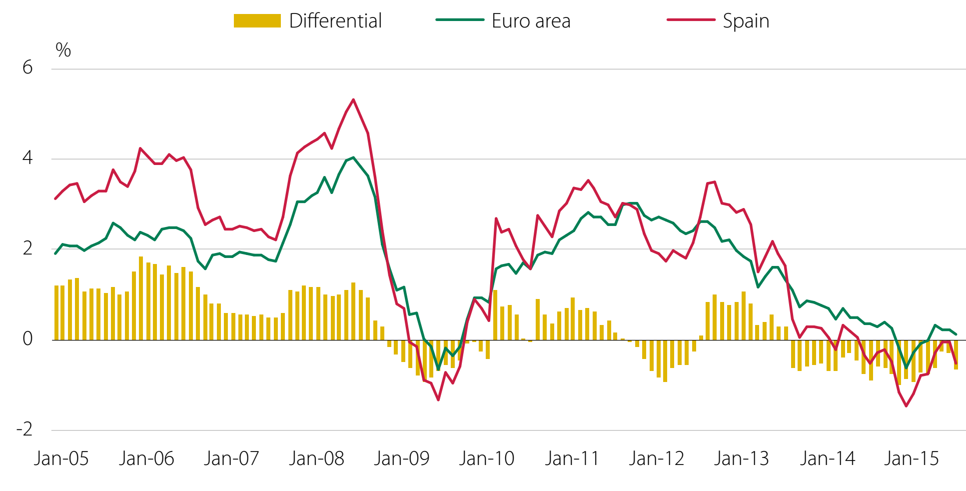
Spanish inflation, which during the year crept up from negative annual rates of -1.3% to a just positive 0.1% in June and July, fell back into deflation in August (-0.4%) following the latest dip in oil and electricity prices. The underlying rate, stripping out the more volatile components, has also been edging upward over the year, rising from 0.2% in January to 0.7% in August. Spanish inflation remained below the euro area average throughout the period but the gap was tending to narrow until July, when it touched -0.2 percentage points, before rebounding to -0.7 points in August.

Annual inflation, which had gradually crept above zero, turned negative again in August as energy prices fell.

Spanish economic recovery is driving employment with 477,000 more full-time equivalent jobs created in the last year.

Vigorous domestic activity is feeding through to a substantial rise in the numbers of people in employment and corresponding decline in the unemployment rate. A range of statistics[4] suggests job creation is running at around 3% annually. This means the Spanish economy has 477,000 more full-time equivalent jobs than last year. The unemployment rate, which peaked at 27% of active population in the first quarter 2012, has since fallen to 22.4% in mid-2015. Labour cost per unit of output (unit labour cost or ULC), which grew at annual rates of near to or above 4% in pre-crisis years went into reverse when the crisis hit as pay per employee slumped and there was an apparent rise in labour productivity. ULC figures for the last year show this decline slowing, as both these components have stabilised.

Harmonised index of consumer prices: Spain vs. euro area (annual % change) FIGURE 9



Source: Thomson Datastream. Data to August.

Economic recovery is helping fiscal consolidation.

Available budget execution figures to July suggest the public deficit was 2.44% of GDP, less than the 3.05% recorded for the same period 2014. Non-financial resources increased by 4% to 100.79 billion euros, while non-financial uses fell 1.2% to 127.56 billion. Deficit figures for all branches of government except local authorities, available to May, were running at 2.19% of GDP, slightly down on last year's 2.34%. The central government deficit was 2.02% of GDP (2.27% in 2014) and the autonomous regions' deficit was 0.48% of GDP, down from 0.59% in 2014. Public debt as a ratio of GDP was 97.7% at end-June, unchanged from end-2014. Under the 2016 Draft State Budget, the consolidation of the public sector accounts should continue over coming years helped by a growing economy. Specifically, it is envisaged that the deficit will end the year at 4.2% of GDP and fall to 2.8% in 2016, 1.4% in 2017 and 0.3% in 2018. Forecasts see public debt declining from 98.7% at the end of this year to 98.2% in 2016.

The banking sector is doing well, but low interest rates pose a serious challenge to banks' business model.

As for the banking sector, the pickup in Spain's economy and easier access to finance are having a positive effect on the business done by banks. Profitability is improving. Sector solvency is healthy. That noted, the low-interest rate environment and heavy backlog of unproductive assets pose a major challenge to banks' business models in the short to medium terms.

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4 National Quarterly Accounts data has employment rising at 2.9% annually in the second quarter (2.8% in the first). The Active Population Survey has the numbers in employment up 3.0% to 17.86 million.

The aggregate income statement for the first quarter 2015 shows operating profit improving, rising to 4.62 billion euros, an increase on the same-period levels of the last few years. Most of the gains came from net interest income, up to 6.76 billion euros (6.41 billion in 2014), and lower write-offs of impaired financial assets (3.39 billion euros in 2015 compared to 3.60 billion in 2014). Operating expenses were virtually unchanged at 6.51 billion. Net profit for the sector in the first quarter was lower than in 2014, at 3.03 billion compared to 3.70 billion, due to higher impairment losses on other assets.

Banks' operating profits rose in 1Q 2015, but the bottom line was held back by heavier impairment losses on other assets.

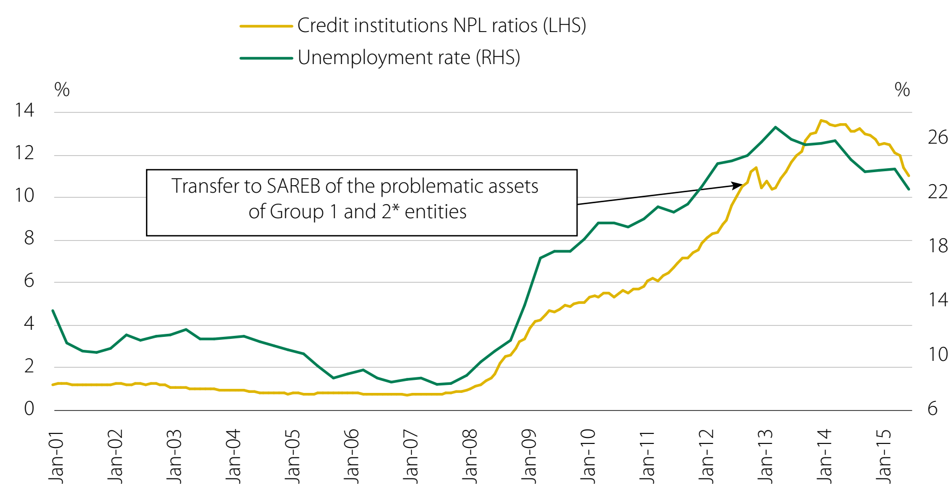
Bank lending to the non-financial residential sector (businesses and households) continued to fall in the first six months of the year as customers continued to deleverage. The fall was however less marked than in recent years. In July, such lending had shrunk by 2.8% year-on-year, less than the 4% drop seen to end-2014 or the 5.9% to end-2013. By sector, the stock of lending to non-financial corporates fell 2.7% in July (4.3% in December 2014) on a smaller decline in bank loans. Figures for new loans actually show a recovery in volumes compared to recent years in small loans (less than a million euros) and in other lending. Loans to households fell in July by 2.8% (3.7% last December) due to the still shrinking market for home purchase loans. In contrast, loans for other purposes, particularly consumer lending, were growing in July, something that had only been seen in one month[5] since May 2009 and that was early in the crisis.

Bank lending to businesses and households continued to fall, but much more slowly than in recent years. There are even signs of reviving demand in some segments…

Spain's economic recovery also impacted NPL ratios, which fell to 11% by mid-year (see figure 10). This continues the longstanding downtrend from a 13.6% peak in December 2013.

… while NPLs continue to fall, to 11% in June.

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



Source: Banco de España and National Statistics Office (INE). Data to June 2015.

1 Percentage of the active population.

* Group 1 transfers took place in December 2012 (36.70 billion euros) and Group 2 transfers in February 2013 (14.09 billion euros).

5 June 2010.

The banking sector's balance sheet is still shrinking.

The financing terms available to Spanish credit institutions have improved considerably this year, making it easier to issue debt at home and abroad. That said, the sector's aggregate balance sheet continues to shrink, to 2.83 trillion euros from 2.91 trillion in December. Deposits were fairly steady but borrowings declined slightly (redemptions outstripping new issues) as did equity. Reliance on Eurosystem borrowings fell in the early months of the year only to revive later to 138 billion euros, compared to 141 billion at the end of 2014.

Profits of non-financial listed companies rose by 54% in the first half-year to 13.75 billion euros.

Aggregate profits of non-financial listed companies were 13.75 billion euros at the end of the first half of the year, up 54% on the prior year period. Spain's lively economic performance made itself felt in most sectors, which reported substantial earnings growth. The exception was energy where companies were hard hit by falling oil prices. In absolute terms, the highlight was the jump in retail and services profits from 1.79 billion in the first half of 2014 to 6.29 billion in the same period 2015 (see table 3).

Earnings by sector: Non-financial listed companies[1] TABLE 3

	EBITDA[2]		EBIT[3]		Profit for the period	
Million euros	1H14	1H15	1H14	1H15	1H14	1H15
Energy	10,429	11,532	6,195	6,639	5,355	4,855
Industry	2,089	2,450	1,368	1,713	729	973
Retail and services	13,477	12,078	7,228	4,998	1,791	6,285
Construction and real estate	2,973	3,917	1,853	2,764	1,019	1,598
Adjustments	-57	-44	-20	-9	27	37
TOTAL	**28,911**	**29,933**	**16,624**	**16,105**	**8,921**	**13,748**

Source: CNMV.

1 Earnings data is for companies filing before the closing date of this report.

2 Earnings before interest, taxes, depreciation and amortisation.

3 Earnings before interest and taxes.

Corporate borrowings rose but leverage still fell slightly.

Aggregate borrowings by non-financial listed companies were 261.61 billion euros, up 2.3% on the end of 2014. By sector, it can be seen that debt was rising for energy companies (by 10.3%) and in the retail and services sector (by 3%). Despite the rise in borrowing, leverage of non-financial listed companies dropped slightly between December 2014 and June 2015 from 1.3 to 1.2 (see table 4). Debt/EBITDA, measuring the years needed to repay existing debt assuming constant EBITDA, was stable at 4.4 and EBIT/interest expenses showed a slight decline.

Measures of households' financial position improved in 2015: debt was down and wealth and savings slightly up.

Indicators of the financial position of households show a further improvement over the year. The ratio of debt to gross disposable income (GDI) continued its slide as debt reduced and incomes rose. Latest data put the GDI below 110%. In contrast, household wealth rose slightly thanks to a rise in their financial assets (real estate values held stable) and a decline in liabilities. Household savings upticked slightly in the last year from 9.5% of disposable income in mid-2014 to 9.9% in the first months of 2015. But most of the rise in income went on consumption, a trend also identified by the Quarterly Accounts discussed above.

Gross debt by sector: listed companies

TABLE 4

Million euros		2011	2012	2013	2014	1H15
Energy	Debt	95,853	91,233	82,146	70,488	77,757
	Debt/ Equity	0.92	0.85	0.75	0.73	0.76
	Debt/ EBITDA[1]	3.27	3.26	3.41	3.76	3.37
	EBIT[2] / Interest expenses	3.30	3.14	2.90	2.97	3.59
Industry	Debt	17,586	17,232	16,609	16,928	16,811
	Debt/ Equity	0.63	0.63	0.62	0.58	0.85
	Debt/ EBITDA	2.54	2.38	2.17	1.94	3.43
	EBIT/ Interest expenses	3.90	3.82	4.56	6.03	3.55
Retail and services	Debt	113,142	117,359	111,795	107,402	110,575
	Debt/ Equity	2.01	2.00	1.99	1.92	1.60
	Debt/ EBITDA	3.78	4.01	3.90	4.06	4.58
	EBIT/ Interest expenses	2.45	2.02	2.08	2.05	1.30
Construction and real estate	Debt	83,716	76,236	65,066	62,882	57,780
	Debt/ Equity	2.98	3.51	4.46	3.44	2.15
	Debt/ EBITDA	15.00	15.17	18.87	12.83	7.38
	EBIT/ Interest expenses	0.52	0.32	0.09	0.64	1.60
Adjustments[3]		-1,404	-1,429	-1,395	-1,381	-1,311
TOTAL	**Debt**	**308,893**	**300,633**	**274,221**	**256,319**	**261,611**
	Debt/ Equity	1.44	1.41	1.33	1.29	1.20
	Debt/ EBITDA	4.29	4.32	4.29	4.37	4.37
	EBIT/ Interest expenses	2.30	2.06	1.99	2.17	2.05

Source: CNMV.

1 Earnings before interest, taxes, depreciation and amortisation.

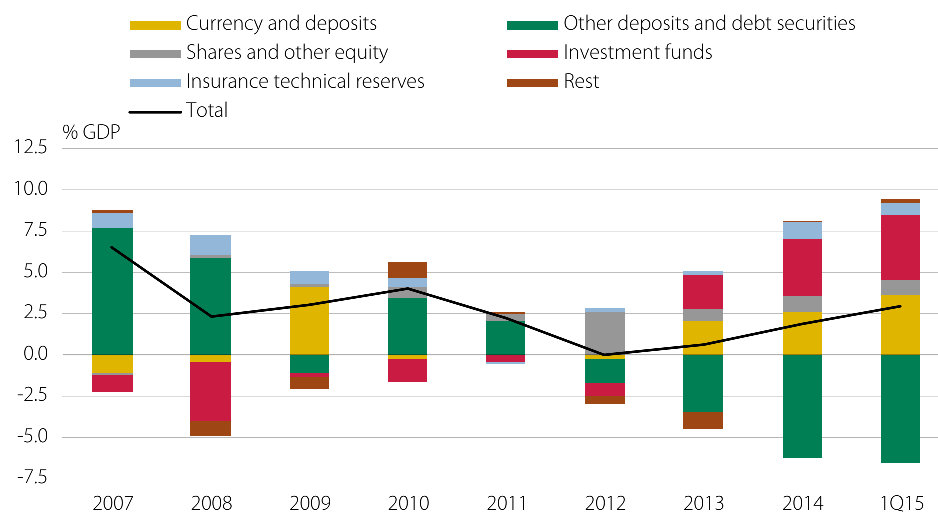
2 Earnings before interest and taxes.

3 In drawing up this table, we eliminated the debt of issuers consolidating accounts with some other Spanish listed group. The figures in the adjustments row include eliminations corresponding to subsidiary companies with their parent in another sector.

When investing, households continue to shun low-yielding bank deposits in favour of investment funds, more attractive in the current climate.

Among household financial investments there was a rise in asset acquisition and a shift in the types of asset held. Four-quarter cumulative data to the first quarter 2015 shows net household investments totalling 2.9% of GDP, higher than at any time since 2010 (see figure 11). As for the change in portfolio composition, we see the consolidation of a trend established for several quarters away from bank deposits and fixed-income securities and toward investment funds. Cumulative one-year investment in funds was 4% of GDP. The trend reflects the current low-interest rate climate, which leads investors to seek higher yields in other financial products, and the active role played by banks in selling investment funds.

Households: Financial asset acquisitions FIGURE 11



Source: Banco de España, *Cuentas financieras*. Cumulative four-quarter data.

2.3 Outlook

The global economy will grow 3.3% this year and 3.8% in 2016 according to the IMF.

Latest IMF forecasts suggest global GDP will grow by 3.3% in 2015 (two tenths less than its April forecast) and 3.8% in 2016 (see table 5). The downgrade to the 2015 forecasts was motivated by worsening prospects for the US economy, where first quarter figures disappointed, and some emerging economies, hurt by falling commodity prices. The IMF now has GDP growth in advanced economies at 2.1% and 2.4% in 2015 and 2016, respectively, and emerging market growth at 4.2% and 4.7% in the same two years.

The big risks to global growth are economic slowdown in emerging economies and new bouts of market turbulence.

Expectations being mooted around this central scenario are generally on the downside although it is still possible growth figures may come in higher if the benefits of falling oil prices prove stronger than expected in advanced economies. The big downside risk is the threat to emerging economies and specifically the danger of an unexpectedly severe slowdown driven by falling commodity prices, weak local currencies and persistent local imbalances. August's stock market turbulence in the wake of uncertainty over China is a good instance of what an underperformance by these economies could do on a global scale. Another clear major risk is the possibility of prolonged bouts of market instability, raised not just by troubles in emerging economies but also by the prospect of a reversal in interest rates by several economies and the persistence of several geopolitical conflicts.

The Spanish economy is doing far better than expected and will grow more than 3% this year. But doubts remain.

The Spanish economy in recent quarters has outperformed all forecasts being considered at the start of the year. In fact, Spain has enjoyed the biggest upgrade to its IMF growth forecasts of any economy, by six tenths of a point to 3.1% in 2015 and five more in 2016, to 2.5%. Driving the spurt is stronger domestic demand, growing at a rate unseen since just before the crisis in 2007. The drop in the price of crude oil, improving financing conditions for the economy and the introduction of several structural reforms have all helped. That said, the growth outlook is not without risks. Structural weaknesses in the labour market and the need to continue fiscal consolidation could pose threats. There are other risks related to the likely change in the financial sector's business model to adapt to a low-interest rate environment and political risks. Also, as in other advanced economies, we cannot rule out periods of market turbulence or a sudden reversal of interest rates.

Gross Domestic Product (annual % change) TABLE 5

	2011	2012	2013	2014	IMF[1] 2015F	IMF[1] 2016F
World	4.1	3.4	3.4	3.4	3.3 (-0.2)	3.8 (=)
United States	1.6	2.3	2.2	2.4	2.5 (-0.6)	3.0 (-0.1)
Euro area	1.8	-0.7	-0.4	0.8	1.5 (=)	1.7 (+0.1)
Germany	3.7	0.6	0.2	1.6	1.6 (=)	1.7 (=)
France	2.1	0.4	0.7	0.2	1.2 (=)	1.5 (=)
Italy	0.7	-2.3	-1.7	-0.4	0.7 (+0.2)	1.2 (+0.1)
Spain	-0.6	-2.1	-1.2	1.4	3.1 (+0.6)	2.5 (+0.5)
United Kingdom	1.6	0.7	1.7	2.9	2.4 (-0.3)	2.2 (-0.1)
Japan	-0.4	1.8	1.6	-0.1	0.8 (-0.2)	1.2 (=)
Emerging economies	6.2	5.1	5.0	4.6	4.2 (-0.1)	4.7 (=)

Source: Thomson Datastream and IMF.

1 In brackets, change vs. the previous forecast. IMF, forecasts published July 2015 for April 2015.

3 Spanish markets

3.1 Equity markets

Spanish stocks suffered volatility and falls driven by uncertainties emanating from Greece and China and some Spanish companies' exposure to Brazil.

Spanish equity markets began the third quarter with gains following the new bail-out deal for Greece agreed by Europe's leaders. But the gains turned to losses with the eruption of turbulence in China at end August, intensified in the first half of September by slumps in major Spanish stocks with substantial exposure to Brazil.[6] The Chinese government response, with measures including the devaluation of the renminbi to stave off a worse slowdown, generated severe uncertainties in markets fearful of what slower growth in China and other emerging markets would mean for the rest of the world. The fall in Spanish stocks, which was slightly more severe than in other European markets, more than wiped out the rally in the first few months of 2015 and was accompanied by a sharp jump in volatility. Trading remained as vigorous as in previous quarters with a volume of 850 billion euros (up 30% year-on-year). The growing trend to trade Spanish shares on platforms other than their original market also persisted, accounting for over 20% of the total market during the period. On primary markets, there was a significant drop in the volume of new share issuance, which had risen sharply in the first half of the year thanks to some new IPOs (Initial Public Offerings) and a high volume of capital increases.

The Ibex 35 lost 9.2% with a year-to-date loss of 4.8. Small and mid-cap indices were down on the quarter but up 4.6% and 9% on the year. The deepest losses were in the Latibex, hit by currency devaluations in Latin America.

In this context, the Ibex 35 shed 9.2% over the quarter, its second quarterly decline in a row. It lost 6.5% in the second quarter having advanced 12.1% in the first. On the closing date of this report (15 September) the index was 4.8% down on its year-start level. The Madrid General Index (IGBM) and small cap index both traced a similar pattern in the third quarter, falling 9.4% and 12%, respectively, while mid-

6 Brazil went into technical recession when it recorded two consecutive quarters of falling GDP, declines of 0.7% in the first quarter and 1.9% in the second. Standard & Poor's then downgraded its country rating on 9 September from BBB to BB+ meaning it was no longer investment grade.

caps held up better, dropping just 4.2%. Year to date, the Ibex 35 and IGBM are both down around 5% while small and mid-cap indices remain in positive territory, up 4.6% and 9%, respectively. Indices of Latin American stocks were down sharply in euros as local currency losses were exacerbated by depreciation in currencies like the Brazilian real, down 30% against the euro so far this year. The FTSE Latibex All-Share and FTSE Latibex Top lost 28.5% and 24.1%, respectively, over the quarter. Coming on top of weak performances in the two previous quarters this left them down 29.1% and 27.7% in the year to date.

Performance of Spanish stock market and sectors (%) TABLE 6

							3Q15 (to 15 September)	
Index	**2011**	**2012**	**2013**	**2014**	**1Q15[1]**	**2Q15[1]**	**%/prior quarter**	**%/Dec 2014**
Ibex 35	-13.1	-4.7	21.4	3.7	12.1	-6.5	-9.2	-4.8
Madrid	-14.6	-3.8	22.7	3.0	12.1	-6.5	-9.4	-5.0
Ibex Medium Cap	-20.7	13.8	52.0	-1.8	20.9	-5.9	-4.2	9.0
Ibex Small Cap	-25.1	-24.4	44.3	-11.6	31.6	-9.7	-12.0	4.6
FTSE Latibex All-Share	-23.3	-10.7	-20.0	-16.1	-5.0	4.5	-28.5	-29.1
FTSE Latibex Top	-17.1	-2.6	-12.4	-11.1	-3.4	-1.4	-24.1	-27.7
Sector[2]								
Financial and real estate services	**-18.9**	**-4.7**	**19.9**	**1.4**	**8.0**	**-8.5**	**-15.4**	**-16.5**
Banks	-20.3	-4.8	18.8	1.6	7.1	-8.6	-15.9	-17.7
Insurance	12.5	-2.0	47.3	-9.2	19.7	-7.0	-15.1	-5.5
Real estate and others	-47.5	-14.4	38.3	36.3	21.0	-1.6	-5.3	12.7
Oil and energy	**-2.7**	**-16.0**	**19.0**	**11.8**	**6.6**	**-3.4**	**-7.5**	**-4.7**
Oil	14.9	-35.4	19.5	-15.1	11.5	-9.1	-28.6	-27.7
Electricity and gas	-10.8	-5.4	18.7	21.7	5.4	-1.9	-2.2	1.1
Basic materials, industry and construction	**-14.3**	**-8.0**	**28.9**	**-1.8**	**21.9**	**-6.0**	**-8.5**	**4.8**
Construction	-6.9	-9.3	26.5	8.9	17.2	-8.2	0.5	8.1
Manufacture and assembly of capital goods	-12.2	-8.8	55.4	-18.3	35.2	2.3	-8.5	26.6
Minerals, metals and metal processing	-33.7	-8.7	11.5	4.5	13.4	-12.2	-22.2	-22.5
Engineering and others	-29.0	3.8	7.6	-17.0	32.2	-2.0	-33.8	-14.2
Technology and telecommunications	**-20.9**	**-18.3**	**22.8**	**2.5**	**13.7**	**-5.0**	**-7.1**	**0.4**
Telecommunications and others	-20.8	-23.0	17.1	2.6	12.0	-3.6	-8.9	-1.7
Electronics and software	-21.3	39.4	56.8	2.3	21.9	-10.8	0.0	8.7
Consumer goods	**5.7**	**55.6**	**17.1**	**-1.5**	**25.4**	**-3.7**	**-1.0**	**19.5**
Textiles, clothing and footwear	12.7	66.2	13.5	-1.1	26.0	-2.4	-1.9	20.6
Food and drink	-6.3	25.0	4.7	-5.2	27.7	-3.2	-2.0	21.1
Pharmaceutical products and biotechnology	-7.3	68.3	39.6	-1.0	22.0	-8.1	2.9	15.3
Consumer services	**-24.2**	**12.7**	**58.9**	**10.0**	**20.6**	**-9.9**	**0.7**	**9.4**
Motorways and car parks	-3.7	5.7	36.5	6.8	2.5	-8.3	0.6	-5.4
Transport and distribution	-34.9	29.7	116.4	27.9	33.1	-16.2	11.9	24.9

Source: BME and Thomson Datastream.

1 Change vs. the previous quarter.

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

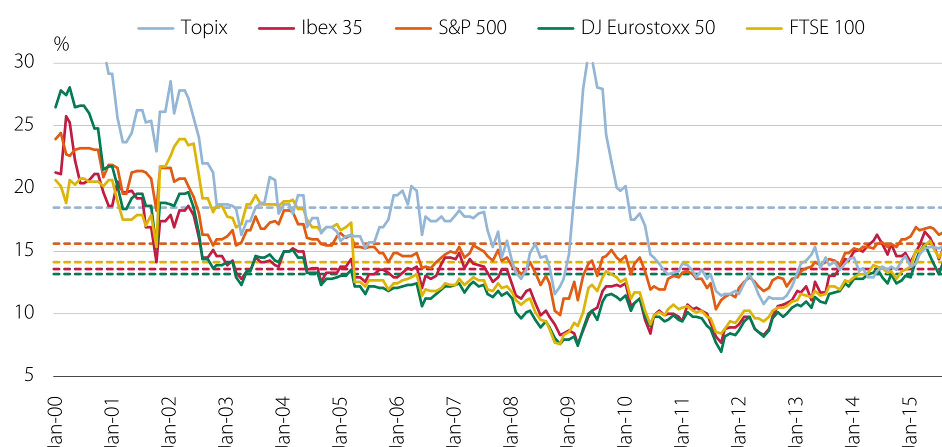
Performances varied from sector to sector in the third quarter. The biggest losses were in the financial sector, which is heavily exposed to the most troubled emerging economies (Brazil and Turkey), fears of a global economic slowdown and tighter capital requirements imposed by regulators. Oil and commodity related sectors also suffered major falls, reflecting a slump in the oil price of 32% in the quarter and 20% over the year. Best-performing sectors were consumer goods and services, construction and real estate, helped by healthy domestic consumption and some revival of the property sector. All these sectors were either broadly stable or slightly down in the third quarter but remain significantly up year to date (see table 6).

Sector performances were mixed. Financials and oil stocks have lost ground but consumer goods and services sectors, as well as construction and real estate firms are significantly up on the year.

The slide in Spanish shares at a time of rising corporate profits drove the Ibex 35's price-earnings ratio (P/E) down from 15.5 to 13.7 times, continuing the downward trend of the second quarter after an increase in the first three months of the year. Figure 12 shows that the P/E ratios of all major stock indices except the Japanese Topix fell at the end of the period to around their 2000-2015 average or even below in cases like the S&P 500 and DJ Euro Stoxx 50.

Market P/E ratio fell in 3Q taking it close to its historical average.

Price-earnings ratio[1] (P/E) FIGURE 12



Source: Thomson Datastream. Data to 15 September.

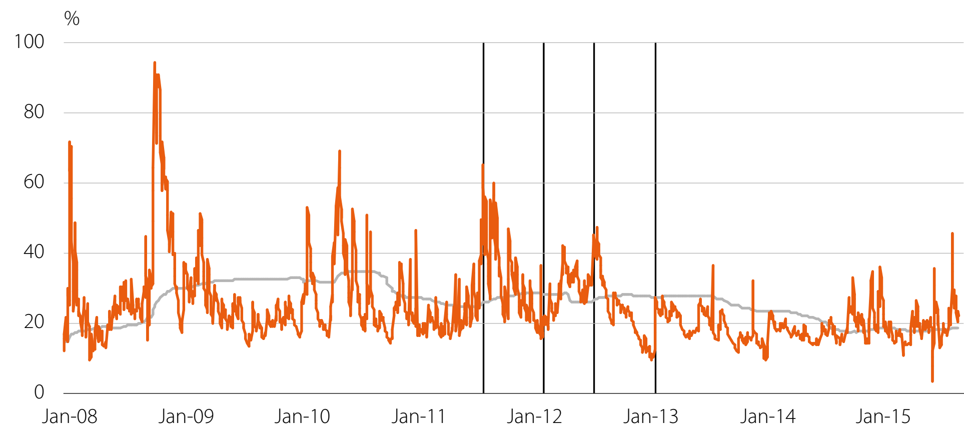
1 Twelve-month forward earnings.

Volatility of the Ibex 35 showed sporadic spikes in the first week of July amid uncertainty about the third Greek bailout but actually peaked at more than 45% in late August coinciding with turbulence in China. At the end of the quarter, volatility fell back below 25%, though this remains above the 19% average seen in the first half of the year. Spanish market volatility was similar to that of other European and even American indices such as the VIX, which topped 40%, its highest since August 2011.

Uncertainty about first Greece and later China boosted volatility briefly above 45% in late August. It subsequently fell back to below 25% but remained higher than the first-half average.

Historical volatility of the Ibex 35

FIGURE 13



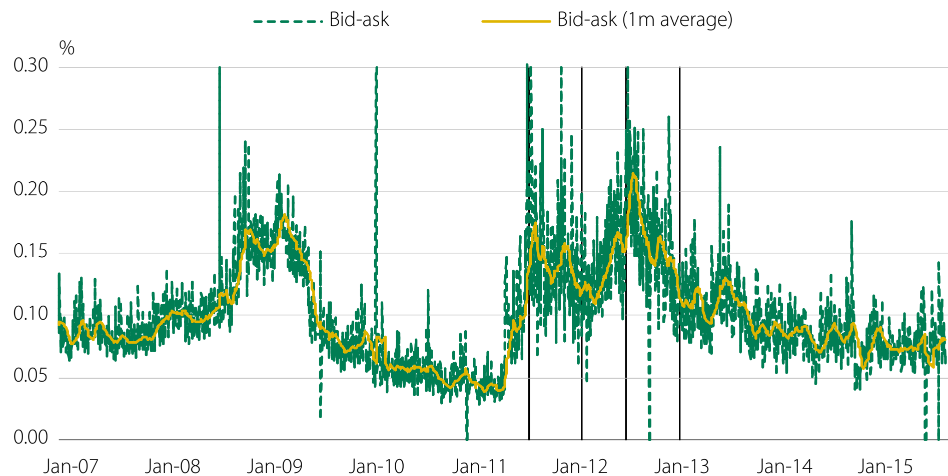
Source: Thomson Datastream and CNMV. Data to 15 September. The red line indicates conditional volatility and the grey line unconditional volatility. The vertical lines refer to the introduction and lifting of the short-selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013.

Ibex 35 liquidity remained satisfactory.

Liquidity of the Ibex 35 held broadly steady with only light upticks in bid-ask spreads at the times of highest market volatility prompted by the Greek crisis and events in China (see figure 14). The bid-ask spread on the index narrowed from 0.123% at the end of the second quarter to 0.067% in mid-September, slightly below its historical average of 0.08%.

Ibex 35 liquidity. Bid-ask spread

FIGURE 14



Source: 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 vertical lines 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.

Trading volumes in Spanish stocks fell away in 3Q for seasonal reasons, but were sharply up year-on-year.

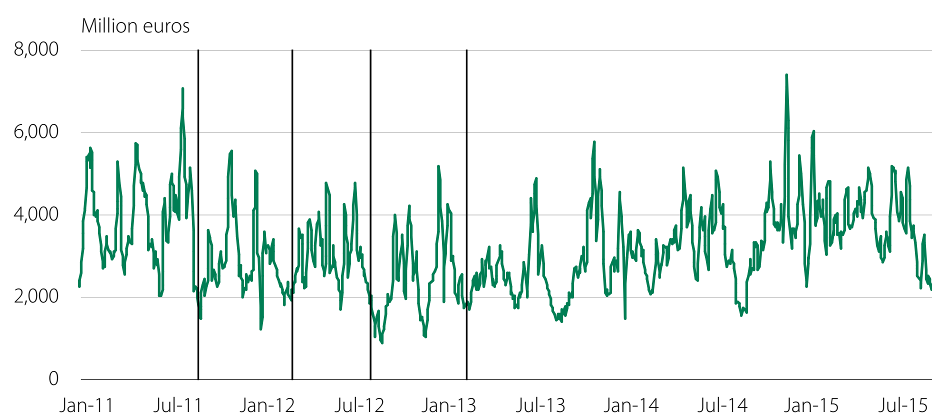
Trading volumes on Spanish stock markets reflected the quiet summer season falling 24% in the third quarter compared to the second. That said, in year-on-year terms trading was up 26%. Cumulative figures for the year to date were above

850 billion euros, a 30% increase on the same period 2014.[7] The increase in trading, a pattern repeated in other leading European indices, was encouraged by the persistence of low returns paid on bonds. Daily trading on the continuous market averaged 3.32 billion euros over the quarter, less than the 4.04 billion and 4.09 billion seen in the first and second quarter, respectively, but close to the 3.39 billion euro average for the full-year 2014 (see figure 15).

Trading of Spanish shares on other regulated markets and MTFs tended to stabilise.

We have already mentioned the trend toward trading Spanish shares on other European regulated markets and multilateral trading facilities (MTFs). So far this year, over 170 billion euros of instruments has been traded on such external markets, a 63% increase on the same period 2014. Trading of Spanish stocks was particularly popular on the Chi-X exchange which handled a volume of 109 billion euros, nearly two thirds of external trading. Transactions in Spanish equities on these markets tended to stabilise at around 20% of total trading of these shares (19.7% and 19.3% in the first and second quarters, respectively, and 15.2% in 2014).

Daily trading on the Spanish stock market[1] FIGURE 15



Source: CNMV. Data to 15 September. The vertical lines 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.

Equity issuance was sharply down in comparison with the two previous quarters due to fewer flotations and smaller capital increases. But issue volumes to September are still higher than in the whole of 2014.

Equity issuance on domestic markets fell to 4.37 billion euros in the third quarter, just under a third of the amounts raised in the first and second quarters. This drop in issue volume, which was also 24% below the same period 2014, was partly due to the absence of new share offerings (just one in the quarter, a single company in the telecoms sector) and partly to a reduction in capital increases, down to 3.61 billion euros, barely a third of the volumes seen in each of the last three quarters. Despite this, cumulative issue volumes over the year were 33.63 billion euros, more than the 32.76 billion issued in the whole of 2014. Breaking down issuance by type, the third quarter, despite including July's dividend season, saw the weighting of scrip dividend issuance fall to 30% of total issuance compared to 33% in the second and 38% in 2014. Amounts raised by scrip issues were 1.61 billion euros less than in the prior year period. In contrast, there was a greater weighting of capital increases by financial companies converting debt and rights issues.

7 Not including trading in the MAB, Latibex and ETFs.

Trading in Spanish shares listed on Spanish exchanges[1]

TABLE 7

Million euros	2011	2012	2013	2014	1Q15	2Q15	3Q15[2]
Total	**926,873.7**	**709,902.0**	**764,986.6**	**1,002,189.0**	**312,452.9**	**305,907.5**	**231,304.1**
Listed on SIBE (electronic market)	**926,828.6**	**709,851.7**	**764,933.4**	**1,002,095.9**	**312,435.9**	**305,694.5**	**231,299.0**
BME	912,176.9	687,456.1	687,527.6	849,934.6	251,024.0	246,745.1	181,541.2
Chi-X	11,120.3	16,601.3	53,396.7	95,973.0	38,605.7	39,062.4	31,873.8
Turquoise	707.7	3,519.6	11,707.9	28,497.5	11,769.7	8,668.8	6,288.4
BATS	1,276.4	2,261.9	10,632.1	18,671.0	8,890.4	8,244.8	6,498.5
Others[2]	1,547.3	12.8	1,669.2	9,019.8	2,146.2	2,973.3	5,097.2
Open outcry	**42.8**	**49.9**	**51.4**	**92.4**	**16.5**	**203.3**	**1.8**
Madrid	16.1	3.0	7.3	32.7	6.5	1.1	0.3
Bilbao	0.1	8.5	0.1	14.3	2.8	0.0	0.0
Barcelona	26.4	37.7	44.1	45.2	7.2	202.2	1.4
Valencia	0.3	0.7	0.0	0.3	0.0	0.0	0.0
Second market	**2.3**	**0.4**	**1.7**	**0.7**	**0.5**	**9.7**	**3.4**
Pro memoria							
BME trading of foreign shares[3]	5,206.0	4,102.0	5,640.0	14,508.9	3,730.2	6,520.4	1,042.5
MAB	4,379.9	4,329.6	5,896.3	7,723.2	1,944.0	1,621.4	985.9
Latibex	357.7	313.2	367.3	373.1	85.4	67.6	50.5
ETFs	3,495.4	2,736.0	4,283.9	9,849.4	3,159.8	3,263.8	3,100.1
Total BME trading	925,661.3	698,987.5	703,768.7	882,482.3	259,960.4	258,431.5	186,725.3
% Spanish shares on BME vs. total Spanish shares	98.4	96.8	89.9	84.8	80.3	80.7	78.5

Source: Bloomberg and CNMV.

1 Spanish shares listed on Spanish exchanges are those with a Spanish ISIN that are admitted to trading in the regulated market of Bolsas y Mercados Españoles, i.e., not including alternative investment market MAB. Foreign shares are those admitted to trading in the regulated market of Bolsas y Mercados Españoles whose ISIN is not Spanish.

2 Data to 15 September.

3 Difference between the turnover of the EU Composite estimated by Bloomberg for each share and the turnover of the markets and MTFs listed in the table, i.e., including trading on other regulated markets, MTFs and OTC systems.

Capital increases and public offerings

TABLE 8

	2012	2013	2014	4Q14	1Q15	2Q15	3Q15
NUMBER OF ISSUERS[1]							
Total	**30**	**39**	**55**	**22**	**23**	**20**	**23**
Capital increases	30	39	53	21	21	18	22
Of which, through public offer for subscription	3	5	6	0	0	0	0
Public offering of shares	3	0	4	1	2	3	1
NUMBER OF ISSUES[1]							
Total	**95**	**145**	**147**	**33**	**31**	**27**	**26**
Capital increases	92	145	140	31	29	23	25
Of which, through public offer for subscription	3	5	8	0	0	0	0
Public offering of shares	3	0	7	2	2	4	1
CASH AMOUNTS[1] (million euros)							
Total	**29,521.6**	**39,126.2**	**32,762.4**	**13,009.8**	**15,311.4**	**13,950.8**	**4,371.3**
Capital increases	28,290.2	39,126.2	27,875.5	9,876.9	11,001.8	11,363.1	3,607.4
Of which, through public offer for subscription	2,450.5	1,742.8	2,951.5	0.0	0.0	0.0	0.0
Paid-in capital increases	8,424.2	9,932.8	12,650.8	4,335.0	2,829.6	4,671.1	1,318.2
Of which, scrip dividend[2]	8,357.9	9,869.4	12,573.8	4,335.0	2,829.6	4,671.1	1,318.2
Capital increases by debt conversion[3]	10,982.4	7,478.8	3,757.9	35.1	412.1	433.7	516.7
Capital increases against non-monetary consideration[4]	1,867.5	231.6	2,814.5	2,497.3	242.4	234.7	0.2
With preferential subscription rights	4,560.6	11,463.1	2,790.8	1,002.1	6.2	5,683.2	1,326.3
Without rights trading	5.0	8,277.1	2,909.9	2,007.4	7,511.5	340.4	445.9
Public offering of shares	1,231.4	0.0	4,886.9	3,132.9	4,309.5	2,587.7	763.9
***Pro memoria*: MAB transactions[5]**							
Number of issuers	9	7	10	1	5	1	3
Number of issues	11	14	15	4	5	1	3
Cash amounts (million euros)	35.8	45.7	130.1	23.5	10.4	1.9	28.6
Capital increases	35.8	45.7	130.1	23.5	10.4	1.9	28.6
Of which, through public offer for subscription	6.8	1.8	5.0	0.0	0.0	0.0	3.5
Public offering of shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: BME and CNMV. Data to 15 September.

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

2 In scrip dividends, the issuer gives existing shareholders the option of receiving their dividend in cash or converting it into shares in a paid-in capital increase.

3 Includes capital increases to allow conversion of bonds and other debt into shares by the exercise of employee stock options or execution of warrants.

4 Capital increases for non-cash consideration have been measured at their market value.

5 Transactions not filed with the CNMV.

Amendment of the Securities Market Law 24/1988, of 28 July, on clearing, settlement and registry of securities, by Law 11/2015, of 18 June, on recovery and resolution of credit institutions and investment services firms

EXHIBIT 3

On 18 June 2015 Law 11/2015 on recovery and resolution of credit institutions and investment services firms was passed (Law 11/2015). Its first final provision makes a number of amendments to the Securities Market Law 24/1988, of 28 July (Spanish acronym: LMV). In general terms, these amendments address two areas. The first strand continues the process of reforming the Spanish system for clearing, settlement and registry of securities, a process whose key principles were already introduced into regulation by Law 32/2011, of 4 October, amending the Securities Market Law, of 28 July (Law 32/2011). The second strand amends regulations to comply with Regulation (EU) No. 909/2014 of the European Parliament and of the Council, of 23 July, on improving securities settlement in the European Union and on central securities depositories.

As promulgated in the preamble to Law 32/2011, the reform of the system for clearing, settlement and registry of securities traded on markets involves three core principles: i) replacement of the current securities registry system based on entries in a register by a system based solely on balances of securities, which will enable the switch from gross multilateral settlement toward a net bilateral system; ii) the use of central counterparties in clearing trades in securities traded on official secondary markets and multilateral trading facilities; and iii) the elimination of the principle of assured delivery of securities traded on such markets or facilities, as investors will now in practice be protected by a central counterparty.

As explained in 2011, the reforms are necessary to, first, make Spanish securities markets more competitive by giving them a robust, agile and flexible post-trade system harmonised with international practice and, second, to deliver the stated target of T+2 settlement of securities traded on the various exchanges (rather than the current T+3) and ready Spain to join pan-European systems such as Target2-Securities, a technical platform for cross-border settlement of securities traded anywhere in the European Union. If these aims are to be met, we have to switch to a net balances settlement system with a central counterparty. Accordingly, we are gradually harmonising our clearing, settlement and registry system with common practice in our neighbouring markets. This will help cut operating costs and improve the competitive position of our markets, companies and infrastructure.

Specific changes include a number of changes to the book-entry system, such as allowing securities to switch from book-entry to physical representation, and setting out new specifications for the issue document (articles 5 and 6 of the LMV).

The changes will also streamline the structure and functioning of the Spanish securities registry system. The system will henceforth consist of two tiers – the "two-tier system". The first tier is a central register managed by the central

securities depositary (CSD). The second tier comprises the so-called detailed register, kept jointly by the CSD's participants. Law 11/2015 sets out different types of account that CSD members can have in accordance with Regulation (EU) No. 909/2014, while leaving more technical details of the securities registry system (article 7 *bis* of the LMV) to be filled in by subsequent regulations.

The same Law clarifies how the existing prorrata rules defined in Law 32/2011 will work under the new two-tier system. These rules determine how to sort out problems arising if the securities recorded in the detailed register do not match those in the central register due to the insolvency of a participant in a securities clearing system. To preserve the integrity of the issue, in any mismatch between the two registry tiers the central register will prevail and the balance shown in the central register's general client accounts will be allocated pro-rata the securities rights shown in the detailed register. That said, this rule should be seen as a backstop to be used only in very exceptional circumstances. The register will have systems in place to ensure the two tiers will normally match (article 12 *bis* of the Securities Market Law).

As regards securities clearing, Law 11/2015 eliminates the legal specification of which securities require the participation of a central counterparty when traded on multilateral trading facilities of official markets, leaving the definition of such securities to subsequent regulations (new draft of article 31 *bis*.7 and subsection 3 of article 125 of the LMV).

As regards economic rights, securities issuers will have a legal transparency obligation to disclose immediately, both to the markets where they are listed and to the central securities depositary keeping the register, all information on the economic rights attaching to the securities, including the dates of recognition, exercise, completion and payment under applicable rules for trading, clearing and settlement of securities (article 36 *ter* of the LMV).

To ensure the orderly settlement of trades and minimise systemic risk, market members, members of central counterparties and participants in central securities depositaries are protected by two sets of measures. First, any of these entities that advance securities or cash to settle trades contracted by their clients in markets or multilateral trading facilities are accorded a legal security interest, as defined in Royal Decree-Law 5/2005, of 11 March, over the proceeds of the trade if their client should default or go bankrupt. This security interest only applies to the securities or cash resulting from the trades which are not expected to be recovered. Second, a buy-in option is provided for, whereby members of the abovementioned systems can issue buy or sell orders for securities opposite to those placed by their clients when a client goes bankrupt while these trades are still being cleared. To minimise systemic risk, these guarantees must be subsidiary to any guarantees offered by market infrastructures which will take precedence (article 36 *quater* of the LMV).

As stated, securities settlement and the legal regime governing central securities depositories are brought into line with Regulation (EU) No. 909/2014. Specifically,

the Law explicitly charges the CNMV with responsibility for authorisation and supervision of CSDs (article 44 *bis* of the LMV).

It sets out the supervisory regime for the new clearing, settlement and registry system. The biggest change is the creation of a dedicated reporting system to improve the functioning of the securities register and make it easier to supervise the process of clearing, settlement and registry. This reporting system (called the post-trading interface) will be managed by the central securities depositary based on information provided by all participants in post-trade processes (markets, central counterparties, CSDs and their members and participants). The ultimate aim is to allow traceability of trades, the transmission of information needed for post-trade processing, control of risks and guarantees, proper functioning of the two registry tiers and correct settlement of trades. It will be a key tool for the CNMV's supervision of the proper functioning of all post-trade phases (article 44 *septies* of the LMV).

Similarly, market infrastructures will have an obligation to monitor the correct functioning of the trading, clearing, settlement and registry processes, a function that regulations impose on the Government (article 44 *octies* of the LMV).

Supervisory, inspection and penalty systems are also amended to enforce the changes brought in by the LMV and the obligations flowing from Regulation (EU) No. 909/2014.

Finally, we would underline the importance of the seventh transitional provision and its entry into force. The changes brought in by this Law will be phased in as the regulations detailing the configuration of the system for clearing, settlement and registry of Spanish securities are approved and the various provisions of Regulation (EU) No. 909/2014 come into effect. This phased-in application means that many of the changes made by this Law on the clearing, settlement and registry system will apply, in a first phase, to equities alone and only later to fixed-income securities traded on markets and multilateral trading facilities.

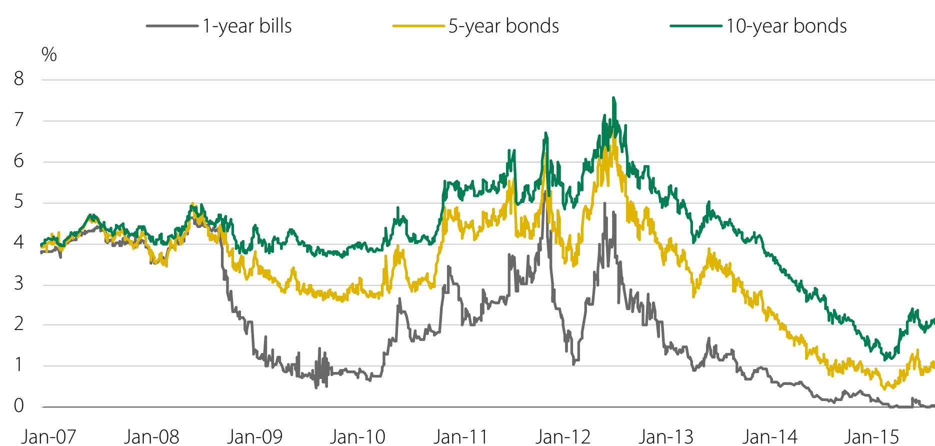
As for timing, the CNMV and Banco de España announced in a joint press release last May (available at www.cnmv.es "Other communications") that the first phase of the reforms, including significant changes to all equity clearing and settlement processes, would take effect in October 2015 and the second phase in February 2017 at the same time Iberclear is connected to Target2-Securities. However, in a new release issued on 28 September (available at www.cnmv.es "Other communications") it was recognised that, given the complexity of the process, the first phase would not launch until February 2016. The start date for the second phase is unchanged.

3.2 Fixed-income markets

Spanish fixed-income markets saw sporadic jumps in yields within a general downtrend driven by the ECB's asset purchase programme.

Spanish fixed-income markets, in common with other European markets, suffered considerable instability in the early days of the quarter as uncertainty over Greece prompted sporadic upticks in yields, which gradually faded out once the third bailout deal was struck. Once this uncertainty was over, yields on public and private debt began to fall again across all terms of the curve and, despite modest increases related to China, ended the quarter with smooth falls in most maturities. The market continues to enjoy the benefits of the ECB's asset purchase programme, which the ECB has pledged to extend and expand if necessary. That said, the programme seems to be having a diminishing impact over time. Credit risk premiums also fell as the Greek situation returned to normal and subsequent rises were far less severe. Over the year to date, sovereign risk premium is up slightly as are premiums on financial sector issuers, exposed to stuttering emerging economies. The surge in volatility took its toll on the volume of issues filed with the CNMV in the third quarter, which was down 5% on the second quarter. Despite this, issue volumes over the year (85.54 billion euros) are still up 28% on the same period 2014.

Spanish government debt yields FIGURE 16



Source: Thomson Datastream. Data to 15 September.

Further falls in short-term treasury yields, taking them to historical lows.

Against this backdrop, short-term treasury yields fell during the year's third quarter below the second quarter's close to hover around the historical lows recorded for the second quarter as a whole. By mid-September, yields on three-month, six-month and twelve-month Letras del Tesoro stood at -0.09%, 0.01% and 0.04%, respectively, having fallen by between 4 bp and 11 bp. Short-term commercial paper followed a similar downward path to record low yields, although the falls were less sharp (between 2 bp and 3 bp) and not spread over the whole curve. Rates at issue fell on three- and twelve-month paper to 0.24% and 0.56% in mid-September, respectively, but six-months paper saw a rise to 0.37% (see table 9).

Short-term interest rates[1] (%)

TABLE 9

	Dec 12	Dec 13	Dec 14	Mar 15	Jun 15	Sep 15[2]
Letras del Tesoro						
3 month	1.14	0.54	0.12	0.00	0.02	-0.09
6 month	1.68	0.70	0.25	0.05	0.05	0.01
12 month	2.23	0.91	0.34	0.06	0.08	0.04
Commercial paper[3]						
3 month	2.83	1.09	0.55	0.38	0.27	0.24
6 month	3.58	1.36	0.91	0.44	0.35	0.37
12 month	3.80	1.59	0.91	0.63	0.57	0.56

Source: Thomson Datastream and CNMV.

1 Monthly average of daily data.

2 Data to 15 September.

3 Interest rates at issue.

Long-term yields also fell, but held above their year-start levels.

Medium and long-term government bond yields also narrowed in the third quarter, by between 10 bp and 14 bp, though still held above their end-2014 levels (except for three-year debt). Yield on the ten-year bond, the most liquid, was up by 35 bp on the year. Three-, five- and ten-year notes were yielding 0.39%, 1.01% and 2.11%, respectively, in mid-September (see table 10). Corporate debt, meanwhile, despite suffering a similar squeeze on yields compared to the second quarter, remained up on the year to date, the biggest gains being at the long end, where yield rose 33 bp. In mid-September, three-, five- and ten-year notes were paying 0.99%, 2.09% and 2.65%, respectively.

Medium and long bond yields[1] (%)

TABLE 10

	Dec 12	Dec 13	Dec 14	Mar 152	Jun 15	Sep 15[2]
Government bonds						
3 year	3.40	2.00	0.65	0.25	0.54	0.39
5 year	4.22	2.68	0.96	0.53	1.11	1.01
10 year	5.35	4.15	1.77	1.26	2.21	2.11
Corporate bonds						
3 year	4.19	2.63	0.84	0.71	1.10	0.99
5 year	4.66	2.84	1.88	1.82	2.04	2.09
10 year	6.79	4.46	2.32	1.96	2.72	2.65

Source: Thomson Datastream, Reuters and CNMV.

1 Monthly average of daily data.

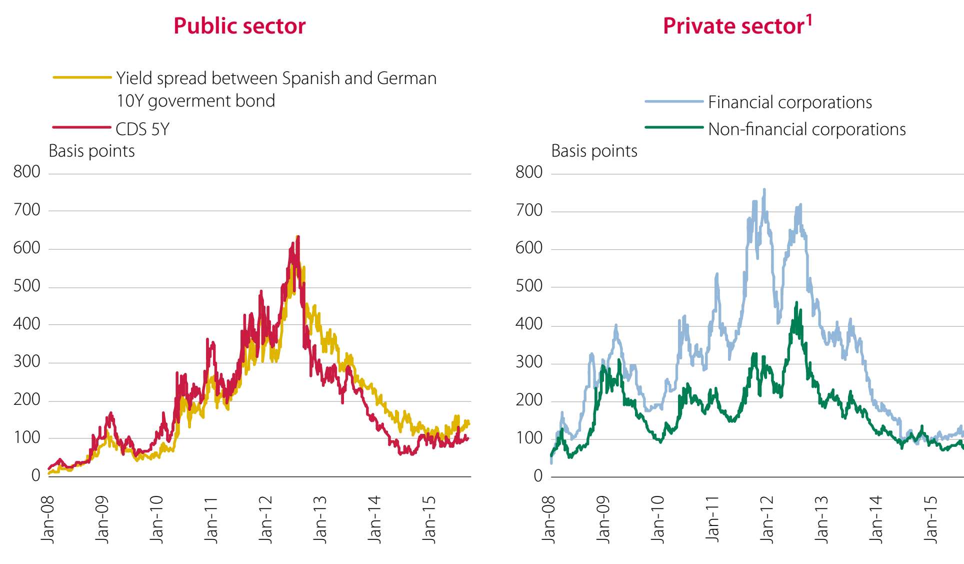
2 Data to 15 September.

Risk premiums also experienced short-lived rises. Risk on the government benchmark widened to 138 bp, slightly above the 107 bp at which it started the year…

Credit risk premiums for the economy's sectors tracked a similar path to debt, falling at the start of the quarter as a solution to the Greek crisis loomed only to rise again slightly as uncertainties emerged over China sending ripples of instability through world markets. In the public sector, the risk premium paid on the Spanish ten-year bond over the German benchmark briefly topped 160 bp. in the early days of July on possible contagion from Greece, falling subsequently to trade a range between 130 bp and 140 bp. In mid-September the premium was 138 bp, above the 107 bp of end-2014, amid intensifying political risks. The CDS spread on the Spanish sovereign bond repeated the pattern on a more modest scale, rising from 96 bp at the start of

the year to 130 bp in early July before falling back to 101 bp in mid-September (see left-hand panel of figure 17).

Risk premium paid by Spanish issuers FIGURE 17



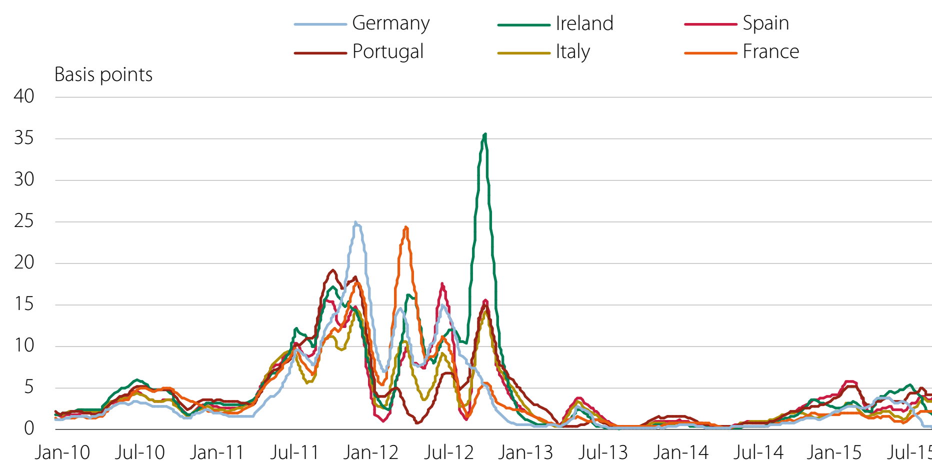
Source: Thomson Datastream and CNMV. Data to 15 September.

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

… while in the private sector, financial issuers saw the biggest increases.

Credit risk premiums on corporate bonds showed a sharper rise for financial issuers reflecting their exposure to emerging economies, mainly in Latin America. Non-financial premiums were more stable. As the right-hand panel in figure 17 shows, the average CDS spread of Spanish financials in mid-September was 141 bp, up from the second-quarter's 128 bp and the 101 bp of end-2014. Non-financials were paying average risk premiums of 99 bp in mid-September, slightly above the 2014 close of 92 bp.

Indicators of sovereign credit risk contagion in the euro area: shocks from Greece[1] FIGURE 18



Source: Thomson Datastream and CNMV. Data to 14 September.

1 For further details on the methodology used to compile these indicators see exhibit 1.2 in the *CNMV Annual Report* for 2010 and the first section of the *CNMV Bulletin* corresponding to the first quarter 2011.

Uncertainty over Greece has had little impact on other European economies, based on our indicators of sovereign credit risk contagion.

The indicators of sovereign credit risk contagion from Greece to other euro area countries flagged some small and short-lived increases, reflecting the doubts and difficulties in the negotiation of a new bailout deal between Greece and the European Union. That said, as figure 18 shows, such contagion was minimal compared to the levels reached during Europe's sovereign debt crisis.

Gross fixed-income issues

TABLE 11

					2015		
Registered[1] with the CNMV	**2011**	**2012**	**2013**	**2014**	**1Q**	**2Q**	**3Q[2]**
NOMINAL AMOUNT (million euros)	**287,490**	**357,830**	**138,839**	**130,258**	**36,633**	**31,206**	**17,702**
Mortgage bonds	67,227	102,170	24,800	23,838	8,300	8,025	6,050
Territorial bonds	22,334	8,974	8,115	1,853	3,500	3,500	3,000
Non-convertible bonds and debentures	18,692	86,442	32,537	41,155	13,901	3,961	1,789
Convertible/exchangeable bonds and debentures	7,126	3,563	803	750	0	0	0
Asset-backed securities	68,410	23,800	28,593	29,008	3,000	11,773	1,950
Domestic tranche	63,453	20,627	24,980	26,972	3,000	9,507	1,950
International tranche	4,957	3,173	3,613	2,036	0	2,267	0
Commercial paper[3]	103,501	132,882	43,991	33,654	7,932	3,947	4,912
Securitised	2,366	1,821	1,410	620	940	480	0
Other commercial paper	101,135	131,061	42,581	33,034	6,992	3,467	4,912
Other fixed-income issues	0	0	0	0	0	0	0
Preference shares	200	0	0	0	0	0	0
Pro memoria:							
Subordinated issues	28,549	7,633	4,776	7,999	660	1,810	742
Covered issues	10	0	193	196	0	0	0
					2015		
Abroad by Spanish issuers	**2011**	**2012**	**2013**	**2014**	**1Q**	**2Q**	**3Q4**
NOMINAL AMOUNT (million euros)	**120,043**	**91,882**	**47,852**	**56,736**	**22,825**	**11,874**	**5,740**
Long-term	51,365	50,312	34,452	35,281	12,364	6,356	3,123
Preference shares	0	0	1,653	5,602	2,250	0	0
Subordinated debt	242	307	750	3,000	1,500	0	0
Bonds and debentures	51,123	50,005	32,049	26,679	8,614	6,356	3,123
Asset-backed securities	0	0	0	0	0	0	0
Short-term	68,677	41,570	13,400	21,455	10,461	5,518	2,617
Commercial paper	68,677	41,570	13,400	21,455	10,461	5,518	2,617
Securitised	322	11,590	0	0	0	0	0
***Pro memoria:* Gross issuance by subsidiaries of Spanish companies resident in the rest of the world**							
					2015		
	2011	**2012**	**2013**	**2014**	**1Q**	**2Q**	**3Q[4]**
NOMINAL AMOUNT (million euros)	**108,538**	**49,392**	**48,271**	**41,682**	**13,204**	**17,406**	**5,578**
Financial corporations	79,342	18,418	8,071	9,990	2,369	5,375	1,480
Non-financial corporations	29,197	30,974	40,200	31,691	10,835	12,031	4,098

Source: CNMV and Banco de España.

1 Incorporating issues admitted to trading without a prospectus being filed.

2 Data to 15 September.

3 Figures for commercial paper issuance correspond to the amount placed.

4 Data to 31 July.

Gross issuance of debt filed with the CNMV in the third quarter 2015 (to 15 September) totalled 17.70 billion euros, less than the 18.71 billion in the same period last year and barely half that of either of the two preceding quarters. Much of this fall was due to asset-backed security issues, down by 9.8 billion in the third quarter to barely a third of the volume seen in the same period 2014. Also, to a lesser extent, non-convertible bonds and debentures, whose volumes have declined steadily as the year went on. Total issuance since January was 85.54 billion euros, 28% more than in the prior year period, thanks to plentiful taps by issuers in the first two quarters. Sales of mortgage and territorial covered bonds were notably up, as were non-convertible bonds and debentures, offsetting a fall-off in corporate paper.

Debt issued since January totals 85.54 billion euros, 28% more than in the first three quarters 2014.

Breaking issues down by type of instrument, the third quarter continued the popularity of mortgage covered bonds which made up over 34% of the whole volume, compared to 23% and 26% in the first and second quarters, respectively. Issuance of these bonds totalled 6.05 billion euros in the third quarter and 22.38 billion year to date, increases of 73% and 25%, respectively, on the same periods 2014. The rise owed much to the positive impact of the ECB's covered bond purchase programme (CBPP3) on demand and costs of issue, which are at all-time lows. By 11 September, the ECB had bought a total of more than 116 billion euros under this programme, 18% on the primary market (see exhibit 2).

Much of the rise in corporate bond issuance was in mortgage covered bonds, which got a boost from the ECB's purchase programme both in terms of demand and in issue costs.

Issuing fixed-income securities abroad remained popular, although the pace of growth slowed somewhat slightly reducing its weighting in total placements by Spanish issuers (down from 35% in 2014 to 32%). The total to July was 40.44 billion euros against 36.44 billion in the same period 2014. Breaking international issues down we find an on-going rise in short-term fundraising through commercial paper which made up 46% of the total to September, up from 38% in 2014. We also saw a rise in issues by foreign subsidiaries of Spanish companies which placed 36.19 billion euros in the year to July, compared to 41.68 billion in the whole of 2014.

Debt issues abroad continue to impress by their volume, but volumes have stabilised as a share of total issuance.

CNMV Circular 1/2015, of 23 June, on data and statistical information on market infrastructures EXHIBIT 4

This Circular aims to create a single regulation covering all statistical data sets that the Spanish market infrastructures have to provide to the CNMV so that it can fulfil its supervisory functions. The scope of market infrastructure covered by the Circular includes trading (official secondary markets, multilateral trading facilities and the Sociedad de Bolsas) and post-trade infrastructure (central counterparties and central securities depositaries).

It results from a number of legislative changes stemming from the new draft of article 86.2 of the Securities Market Law (Spanish acronym: LMV) brought in by Law 2/2011, of 4 March, on the Sustainable Economy. This empowered the Minister of Economy and Competitiveness – and, by delegation, the CNMV – to regulate the registers, internal and statistical data bases and documents that the entities listed in article 84.1 are obliged to keep, including those kept by market infrastructure regulators.

Order ECC/2515/2013, of 26 December, implementing article 86.2 of the LMV empowered the CNMV to issue this Circular which establishes, compiles and

details the statistical information on the structure and operations of market infrastructures that must be captured, kept and disclosed to the CNMV on a continuous or regular basis by the management companies of these infrastructures.

The Circular clarified the CNMV's powers to request such data, which was previously done under the power granted the CNMV by article 85 of the LMV, to require information in the course of its supervisory and inspection duties.

The Circular also empowers the CNMV to request continuous or regular rather than periodic or occasional information, as permitted by the same article 85. Specifically, the Circular authorises the CNMV to decide the informational content of the registers, internal or statistical databases and documents that market infrastructures must keep, defining the data fields and which data must be captured and kept and setting technical and computing specifications (frequency, deadlines for filing, formats, etc.). The aim is to make sure infrastructures provide all the data the CNMV needs to exercise its supervisory role rather than merely the data they consider useful to their internal management or commercial operations.

The statistics to be collected, covered by the Circular, include everything related to the cycle of services provided by the various infrastructures. The services covered include all those offered from the moment an intermediary member inputs a buy or sell order to the infrastructure's systems to the moment the final outcome is logged in its accounts.

Regarding structure, the Circular consists of five standards, an exemption clause, a final provision and an annex that forms an integral part. The annex is broken down into sections covering the different data sets for each supervisory company or infrastructure being managed and defines the timing, method and deadline for reporting data to the CNMV. Data fields, formats, length, positions and other technical details will be set in future "technical specifications files" available only to the corresponding entities who will then have to upload the data to the appropriate reserved area of the CNMV's computing system.

Preparation of the Circular required the CNMV to systematically and objectively identify which statistical information would contribute to better planning the work of both the infrastructures and itself, a question that was approved by the CNMV's Consultative Committee.

It should also be said that the new standard does not impose any disproportionately heavy administrative load as the statistics sought generally overlap with those already being reported to the CNMV.

Finally, the Circular prescribes an updatable list of all reportable data. The list can be updated to include any future amendments, such as those pending in the next few months with the launch of the new clearing, settlement and registry system.

4 Market agents

4.1 Investment vehicles

Mutual funds[8]

At the end of June 2015, assets under management in mutual funds had grown by 11.7% to 222.06 billion since the start of the year (see table 13). The rise continues the expanding trend of the last two years, lifting sector assets back close to levels seen in mid-2008. Nearly 90% of the rise stemmed from net subscriptions during the half-year, particularly in the first quarter, which exceeded 20 billion euros (see table 12). The biggest inflows were to balanced fixed-income (18.34 billion euros) and balanced equities (6.22 billion), whereas net redemptions were highest in guaranteed fixed-income funds (4.76 billion) and passively managed funds (4.44 billion). Investors are, then, behaving much as they did in the previous two years with a greater appetite for risk, but there are two notable differences. First, it seems they are seeking out slightly riskier funds than in 2013 and 2014. Second, passively managed funds, which had tripled their managed assets over these two years, saw, as we noted, a wave of redemptions.

Assets under management in mutual funds grew by 11.7% in 1H 2015, to 222.06 billion euros. Investor subscriptions accounted for 90% of the increase…

Net mutual fund subscriptions TABLE 12

				2014		2015	
Million euros	**2012**	**2013**	**2014**	**3Q**	**4Q**	**1Q**	**2Q**
Total mutual funds	-12,737.7	24,133.0	35,972.7	8,828.3	6,308.5	13,407.4	7,566.1
Fixed income[1]	-5,843.6	13,783.1	13,492.7	3,678.6	3,223.8	1.077.1	-3,926.8
Balanced fixed income[2]	-775.2	2,059.3	15,712.0	4,103.7	4,383.1	9,001.4	9,335.9
Balanced equity[3]	-383.1	1,881.9	6,567.7	2,349.7	1,570.1	2,666.8	3,548.2
Euro equity[4]	-163.7	1,730.3	2,184.9	460.6	-13.6	-97.3	231.9
International equity[5]	-420.6	900.2	531.8	-145.6	-121.9	1,440.3	1,269.5
Guaranteed fixed income	-853.0	-4,469.2	-10,453.6	-1,707.5	-2,320.0	-1,827.4	-2,929.7
Guaranteed equity[6]	-3,523.5	-2,070.2	-909.5	-566.0	-276.4	-921.6	-1,426.5
Global funds	-7.5	847.4	2,182.3	576.6	657.5	2,352.8	2,145.2
Passively managed[7]	572.1	9,538.2	4,970.9	-343.8	-1,127.5	-1,922.1	-2,516.0
Absolute return[7]	-1,339.4	-67.8	1,693.9	422.2	333.4	1,637.4	1,834.4

Source: CNMV. Estimates only.

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 and International balanced fixed income.
3 Includes: Euro and International balanced equity.
4 Includes: Euro equity.
5 Includes: International equity.
6 Includes: Guaranteed and partial protection equity funds.
7 New categories as of 2Q 2009. Absolute return funds were previously classed as Global funds.

8 Although this classification includes hedge funds and funds of hedge funds, we make no separate reference to them here, since they are the subject of their own subsection further ahead.

Main mutual fund variables*

TABLE 13

Number	2012	2013	2014	2014 3Q	2014 4Q	2015 1Q	2015 2Q
Total mutual funds	**2,185**	**2,045**	**1,951**	**1,959**	**1,951**	**1,936**	**1,862**
Fixed income[1]	454	384	359	367	359	358	359
Balanced fixed income[2]	125	122	123	117	123	122	126
Balanced equity[3]	117	128	131	125	131	132	132
Euro equity[4]	127	108	103	103	103	110	109
International equity[5]	211	193	191	186	191	193	196
Guaranteed fixed income	398	374	280	303	280	261	226
Guaranteed equity[6]	361	308	273	275	273	263	225
Global funds	192	162	162	165	162	168	172
Passively managed[7]	85	169	227	222	227	233	221
Absolute return[7]	115	97	102	96	102	96	96
Assets (million euros)							
Total mutual funds	**124,040.4**	**156,680.1**	**198,718.8**	**192,199.6**	**198,718.8**	**219,110.5**	**222,058.0**
Fixed income[1]	40,664.6	55,058.9	70,330.9	66,841.2	70,330.9	72,059.6	67,600.0
Balanced fixed income[2]	5,500.9	8,138.0	24,314.3	19,917.0	24,314.3	34,217.4	42,820.0
Balanced equity[3]	3,179.9	6,312.4	13,570.4	11,668.9	13,570.4	17,038.9	20,056.7
Euro equity[4]	5,270.2	8,632.8	8,401.5	8,693.6	8,401.5	9,621.1	9,377.7
International equity[5]	6,615.0	8,849.0	12,266.4	12,151.9	12,266.4	15,479.0	16,320.9
Guaranteed fixed income	36,445.0	31,481.2	20,417.0	23,122.1	20,417.0	18,271.9	14,702.3
Guaranteed equity[6]	14,413.2	12,503.8	12,196.4	12,497.2	12,196.4	11,751.0	9,996.9
Global funds	4,358.6	4,528.1	6,886.3	6,255.6	6,886.3	9,685.5	11,587.0
Passively managed[7]	2,991.2	16,515.9	23,837.5	24,971.5	23,837.5	22,688.0	19,608.4
Absolute return[7]	4,601.9	4,659.9	6,498.1	6,080.4	6,498.1	8,298.0	9,988.1
Unit-holders							
Total mutual funds	**4,410,771**	**5,050,719**	**6,409,806**	**6,134,711**	**6,409,806**	**7,050,828**	**7,396,161**
Fixed income[1]	1,261,634	1,508,009	1,941,567	1,818,308	1,941,567	2,092,925	2,113,775
Balanced fixed income[2]	188,574	240,676	603,099	506,220	603,099	813,223	1,047,453
Balanced equity[3]	138,096	182,223	377,265	313,796	377,265	465,249	559,016
Euro equity[4]	220,450	293,193	381,822	384,252	381,822	410,761	423,996
International equity[5]	398,664	457,606	705,055	651,495	705,055	843,867	955,135
Guaranteed fixed income	1,075,852	1,002,458	669,448	744,545	669,448	610,911	498,140
Guaranteed equity[6]	727,880	608,051	557,030	577,616	557,030	508,952	438,262
Global funds	101,321	128,741	223,670	195,290	223,670	305,397	371,784
Passively managed[7]	125,003	441,705	686,526	692,827	686,526	667,088	584,270
Absolute return[7]	173,297	188,057	264,324	250,362	264,324	332,455	404,330
Return[8] (%)							
Total mutual funds	**5.50**	**6.50**	**3.67**	**0.43**	**0.08**	**3.85**	**-1.98**
Fixed income[1]	3.54	2.28	2.41	0.55	0.28	0.99	-1.24
Balanced fixed income[2]	4.95	4.16	3.67	0.71	0.01	3.27	-2.14
Balanced equity[3]	7.83	10.85	4.70	0.77	0.28	5.56	-2.53
Euro equity[4]	12.31	28.06	2.09	-2.35	-3.38	15.94	-4.81
International equity[5]	13.05	20.30	6.61	-0.91	2.27	14.27	-2.75
Guaranteed fixed income	4.85	4.96	2.54	0.39	-0.14	0.51	-0.65
Guaranteed equity[6]	5.07	6.15	2.64	0.38	-0.60	4.27	-2.76
Global funds	7.44	8.71	4.63	0.68	0.54	6.64	-1.82
Passively managed[7]	7.10	8.88	7.74	1.49	-0.02	3.53	-2.68
Absolute return[7]	3.84	2.46	1.98	0.18	0.22	2.50	-1.47

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 and International balanced fixed income.

3 Includes: Euro and International balanced equity.

4 Includes: Euro equity.

5 Includes: International equity.

6 Includes: Guaranteed and partial protection equity funds.

7 New categories as of 2Q 2009. Absolute return funds were previously classed as Global funds.

8 Annual return for 2012, 2013 and 2014. Quarterly data comprise non-annualised quarterly returns.

Mutual fund returns to mid-year were slightly positive (1.8%) but, as with the markets, performances varied widely between the two quarters. Portfolios gained 4.0% in the first quarter only to lose 2.0% in the second (see table 13) and all fund categories, without exception, posted gains then losses in the first two quarters, respectively. The biggest six-month earners were euro and international equity funds which returned 15.9% and 14.3%, respectively, in the first quarter as equi-ty markets rallied. The only net losers to mid-year were fixed income and guaranteed fixed income funds, down -0.3% and -0.1%, respectively.

… the rest was due to gains by fund portfolios, which were positive in 1Q but negative in 2Q.

Despite the expansion in fund assets the number of funds continued to decline in the first quarter 2015 as investment firms continue to streamline product offerings. That said, the downward trend seems to be diminishing. At end-June there were 1,862 registered funds, 89 fewer than in 2014. Like last year, the sharpest reduction was in guaranteed fixed-income funds (54), followed by guaranteed equity (48).

Fund numbers continued to fall, mainly because of a smaller offering of guaranteed funds.

Investor numbers rose by nearly one million since December 2014 to nearly 7.4 million at end-June. Mirroring trends in assets, the fastest growth was in balanced fixed income and balanced equity funds, which recruited 444,000 and 182,000 net new subscribers each. Only guaranteed fixed income and equity funds and passively managed funds lost unit-holders.

At end-June there were 7.4 million unit-holders, nearly a million more than in December 2014.

Data available for July 2015 suggest the industry's expansion is not over yet. Assets and unit-holder numbers look to have increased by around 1% since June. The number of funds also fell again.

Preliminary figures for July suggest the growth in assets under management and investors continued in 3Q.

Liquidity analysis shows that the volume of less-liquid fund assets rose from 2.16 billion euros in December 2014 to 2.72 billion by mid-year 2015. Over the same period the proportion of these assets barely changed, hovering between 1% and 1.2% of total fund assets. The biggest jump in thinly liquid assets was in securitisations (see table 14). Although these figures may suggest funds are holding amply liquid assets we need to be cautious in drawing conclusions. There is no established way to rate the liquidity of financial assets and liquidity on markets, particularly fixed-income markets, can deteriorate fast in times of turbulence. For the purpose of this report, an asset is deemed liquid if a price is available based on firm bids by several contributors.

Less liquid assets continue to make up only a small portion of fund balance sheets.

Estimated liquidity of mutual fund assets TABLE 14

	Less-liquid investments					
	Million euros			% total portfolio		
Type of asset	**Dec 14**	**Mar 15**	**Jun 15**	**Dec 14**	**Mar 15**	**Jun 15**
Financial fixed income rated AAA/AA	29	19	21	3	2	2
Financial fixed income rated below AAA/AA	1,177	935	1,078	6	4	5
Non-financial fixed income	328	331	384	5	4	4
Securitisations	623	958	1,238	21	35	50
AAA-rated securitisations	97	81	62	100	93	92
Other securitisations	526	877	1,176	18	33	48
Total	**2,157**	**2,244**	**2,722**	**7**	**7**	**8**
% of mutual fund assets	**1.1**	**1.0**	**1.2**			

Source: CNMV.

Real estate schemes

Real estate funds declined less steeply than in recent years.

Although the Spanish construction and real estate sector has mounted a modest recovery, the activity of real estate schemes continues to weaken, though admittedly the pace of decline seems to be slowing.

No great change in real state investment indicators in 1H though profitability did pick up marginally in 2Q.

Real estate investment schemes took the biggest hit from the stalled property sector in recent years and little changed in the first six months of this year. At end-June the segment still counts three funds, the same ones as at end-2014, after several years of heavy closures. Note too that one of the funds split off its liquid units into a separate euro fixed income fund, retaining only institutional investors in the real estate fund. The number of unit-holders therefore fell by 2.8% to 3,910. Assets were largely unchanged at 419.5 million euros to mid-year. Returns picked up substantially in the early months of 2015 reflecting an uptick in real estate prices, which actually broke into the black in the second quarter at 0.39% (following -0.26% in the first).

One real estate investment company closed, substantially reducing the assets under management and shareholder numbers in this segment.

Real estate investment companies recorded bigger losses in their variables in the second quarter 2015 having held steady until then. There were six left at the end of June after one was wound up in May. As a result assets declined by 19.2% to 683 million euros and shareholder numbers dropped from 845 to 683.

Hedge funds

Spanish hedge funds grew assets in the early months 2015 despite some closures.

Hedge funds grew assets between January and May 2015 by 19% to top 2 billion euros. There were 48 funds in business at end-May, two fewer than at the turn of the year.

Pure hedge funds continued to expand in 2015: assets grew 22.7% and investor numbers rose 10.6%.

Table 15 shows pure hedge funds continued the expansion trend of recent years in the first half of 2015. Assets under management rose 22.7% to 1.68 billion euros by end-May with unit-holder numbers up by 10.6% to 3,118, the rise being driven by net subscriptions (182 million euros in the first five months) and 9.71% portfolio returns in the first quarter (followed by -0.23% between March and May).

Funds of hedge funds showed signs of breaking the pattern of recent years. Assets grew, although fund numbers again fell.

Funds of hedge funds, meanwhile, had 359 million euros under management in May, a 3.9% increase on the fourth quarter 2014, suggesting the shrinking trend of recent years may have touched bottom. That said, two funds closed over the period. Unit-holder numbers were near stable at 2,732 in May. Returns were 9.63%[9] and -1.23% in the first and second quarters, respectively.

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9 Note that most of this figure was due to returns by the biggest hedge fund, whose assets make up around 70% of the segment total. Stripping out this fund, returns on this type of fund to end-May would have been 2.27%.

Main hedge fund and fund of hedge fund variables

TABLE 15

	2012	2013	2014	2014		2015	
				3Q	4Q	1Q	2Q[1]
FUNDS OF HEDGE FUNDS							
Number[2]	22	19	14	16	14	14	12
Unit-holders	3,338	3,022	2,734	2,737	2,734	2,735	2,732
Assets (million euros)	540.0	350.3	345.4	367.5	345.4	367.0	359.0
Return (%)	0.88	4.39	8.48	4.42	1.76	9.63	-1.23
HEDGE FUNDS							
Number[2]	33	28	36	32	36	37	36
Unit-holders	2,427	2,415	2,819	2,627	2,819	3,024	3,118
Assets (million euros)	918.6	1,036.7	1,369.5	1,353.0	1,369.5	1,585.2	1,681.1
Return (%)	7.17	16.48	5.30	-0.98	0.07	9.71	-0.23

Source: CNMV.

1 Data to May 2015.

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

Foreign UCITS marketed in Spain

Foreign UCITS continue to expand in Spain…

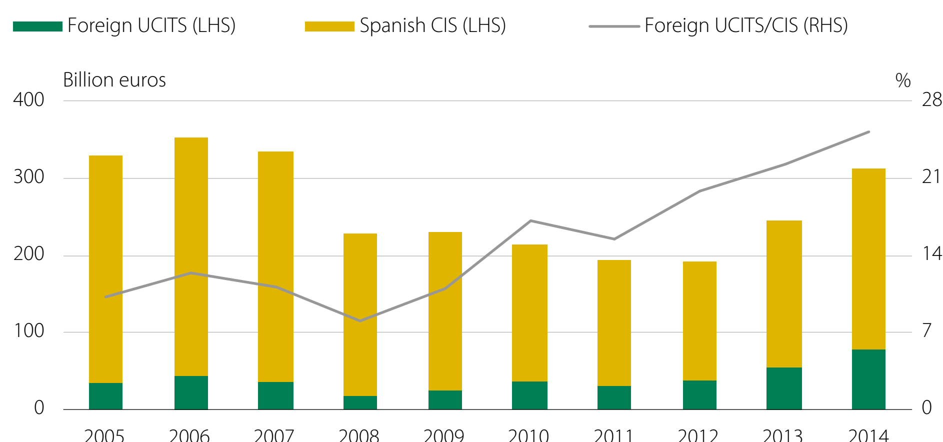
This segment has been expanding since 2012 and continued to do so in the first half of 2015. Assets under management increased 28.2% to 101.27 billion euros. This is 25.3% of all assets managed by UCITS sold in Spain (see figure 19), a percentage that has been rising almost without interruption from 8% in 2008.

… both investment funds and companies.

Funds and companies alike increased their assets over the period, funds by 25.1% to 13.97 billion euros and companies by 28.9% to 87.30 billion. Investor numbers also rose by 8% to 1.4 million, a somewhat slower increase than in recent years. Institution numbers rose to 46, 12 funds and 34 companies.

Assets of foreign UCITS marketed in Spain

FIGURE 19



Source: CNMV.

Current interest rates and recovering household incomes are good news for the fund industry. But unstable markets and possibly greater competition from banks for deposits could hold back its growth.

The collective investment industry is a big winner from current low interest rates and gradually rising household incomes. That said, there are risks to consider, such as recent turbulence and liquidity problems in fixed-income markets, still the destination for most investment fund assets, or the high volatility in equity markets, something that could hit equity investing funds just when investors are showing greater interest in such vehicles. We have also seen some revival of competition from financial institutions trying to attract deposits. If this intensifies it could draw growth away from investment funds.

Measures to improve transparency in the marketing of CIS EXHIBIT 5

2014 continued the trend, first seen in 2013, to replace guaranteed funds with others that stipulated a new target return that was not guaranteed. In most cases, the new target return can be translated as an unguaranteed AER, which is relatively easy for investors to understand. But in others the unguaranteed return depends on an equity underlying (index, shares, currencies, etc.). In this second type of fund, investors find it harder to get much idea of what returns they might expect.

Also, a substantial proportion of the subscriptions in 2014 went to fixed-income and money market funds, in line with the deeply conservative profile hitherto shown by Spanish fund investors.

In light of these trends, the CNMV decided to run a review of transparency obligations when marketing CIS with a target return and fixed-income CIS. We identified a number of measures to improve transparency, published in a press release on 23 January 2015 (available at www.cnmv.es "Other communications"). The aim is to furnish investors with information that gives them a more realistic idea of the risks and returns they can expect from such funds.

The measures taken are summarised below:

i) For CIS with variable target returns the key investor information document (KIID) must include essential data for the investor on scenarios for returns (unfavourable, moderate and favourable), plus an estimate of the probability of each based on Monte Carlo simulations run on risk neutral assumptions. The probability should be based on the following percentiles: 10% (unfavourable scenario), 50% (moderate scenario) and 90% (favourable scenario). Also, using the same methodology, unit-holders must be told the estimated probability of their investment breaking even.

In addition to the above information, the KIID must include a chart using the historical simulation method of returns that would have been delivered if the fund had been launched weekly over, as a minimum, the last ten years.

ii) CIS with target returns must include in their KIID a summary of their financial structure so that investors can understand the total income of the fixed income portfolio and initial cash, the total costs they will have to pay and any investments in derivatives used to achieve the target return.

iii) Managers must put in place internal controls to make sure that, during fund launches or subsequent fundraisings, portfolio acquisitions are always made on terms that meet the AER stated in the portfolio.

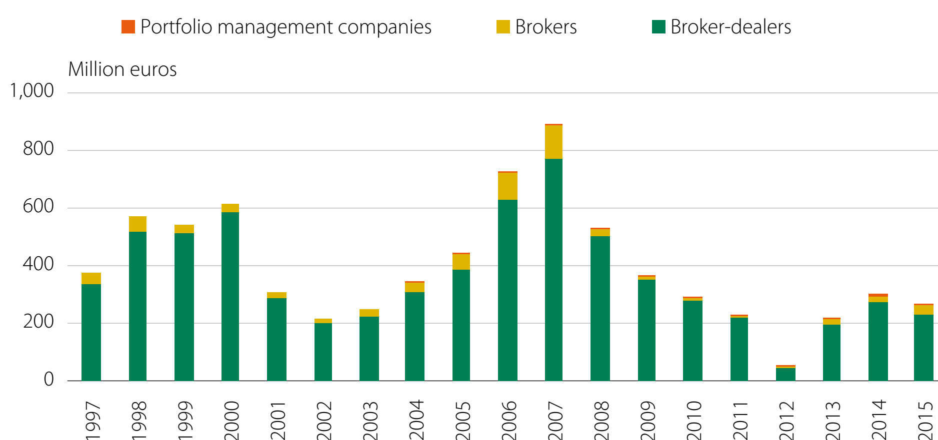
iv) Fixed-income CIS must include: i) in the KIID, more information on credit risk; and ii) in regular reports to investors, data on the average life and gross average return at market prices of the fixed-income portfolio expressed as an AER.

4.2 Investment services firms

After two years of expansion, IF profits fell 11% in 1H 2015 amid greater instability on financial markets.

In the first six months of 2015 investment firms (IFs) faced an upsurge in market instability that peaked in the second quarter. The sector as a whole posted first-half profits before tax of 266 million euros (in annualised terms), 11.3% down on 2014 earnings (see figure 20). This represents a break with the positive story of the last two years when, following four or five grim years of plunging profits and failures, the sector was beginning to make significant advances again. Behind the setback were broker-dealers, who have the biggest weighting in the sector and whose first-half profits fell 16.0% in annualised terms. At the end of June, 80[10] firms were registered with the CNMV, down from 83 at end-2014, following four withdrawals and one new entrant. Six firms have EU passports via a branch – no change from last year – and 40 qualify for passporting under free provision of services rules, one fewer than six months ago.

Investment firm[1] pre-tax profits[2] FIGURE 20



Source: CNMV.

1 Except investment advisory firms

2 Annualised earnings.

10 Excluding investment advisory firms, which are dealt with separately in a later section in view of their different characteristics.

Aggregate profits of broker-dealers fell 26% on worsening net interest income and exchange losses. However, net fee income for investment services held stable.

Profits before tax earned by broker-dealers fell 26.1% compared to the first six months of 2014 to 114.4 million euros. This comprised 86.0% of all profits in the sector (see table 16). The drop in earnings was mainly due to a 20.7% fall in net interest income and a 63.86 million euro loss under "Net exchange income" rather than the 43.4 million euro gain recorded last June. Net fee income – the biggest business – was near steady. Fees earned rose 2.1% and fee expense was up 3.6%. The biggest gains in fee income came from marketing CIS, up 18.6%, and the "Others" item, which rose 24.8%. Portfolio management fees, although still only a small contributor, have been gathering importance for some years and earned firms more than 11.7 million euros in the period. In contrast, fees from order processing and execution, far and away the biggest volume item, fell by 15.3 million euros year-on-year to June, to 175.6 million. Income from investment advising repeated the pattern of recent years, falling 53.5% to 1.8 million euros.

Broker-dealers also saw a rise in their operating and other expense items in 1H.

All of which resulted a fall in gross income of 9.6% to 308 million euros. After factoring in the 3% rise in operating expenses to 193.4 million euros and a 68.1% jump in depreciation to 3.4 million, net operating income at June 2014 was 109.8 million euros, a 27% fall compared to the prior year period.

Brokers' profits increased thanks to lower costs, despite a steep fall in fee income.

Brokers performed better over the period, increasing profits by 11.4% to 16.2 million euros. Most of this was due to an 8.5% reduction in operating expenses and, less significantly, a 32.0% fall in depreciation and other charges. However, the items comprising gross income underperformed the first half of 2014, falling by 4.9% overall to 60.7 million euros. Behind the fall lay an 8.6% reduction in net fee income, which accounts for 95% of brokers' income. Two items accounted for most of the erosion. Fees for order execution and processing fell from 25.5 million euros to 17.9 million and portfolio management fees, the second-biggest earner, were down by 33.7% to 4.6 million euros. In contrast, CIS marketing and investment advising fees were the only risers, up by 22.7% and 61.6%, respectively. Fee expense declined by a substantial 15.7%, but this was not enough to offset the slippage in fee income, leading to the lower net fee income mentioned above.

Net profit of portfolio management companies also rose, but unlike broker-dealers and brokers they grew income and cut costs.

Portfolio management companies performed similarly to brokers, raising profits before tax by 15.0% to 2.2 million euros (see table 16). Most of this was explained by a 6.7% growth in net fee income coupled with a 2.9% drop in operating costs. In turn, fee income was being driven by the portfolio management item, up by 24.9%.

Aggregate income statement (June 15)

TABLE 16

	Broker-dealers			Brokers			Portfolio managers		
Thousand euros	**Jun 14**	**Jun 15**	**% var.**	**Jun 14**	**Jun 15**	**% var.**	**Jun 14**	**Jun 15**	**% var.**
1. Net interest income	25,055	19,859	-20.7	615	448	-27.2	125	226	80.8
2. Net fee income	229,051	229,613	0.2	63,355	57,929	-8.6	4,635	4,944	6.7
2.1. Fee income	323,269	327,200	1.2	75,553	68,206	-9.7	5,861	7,594	29.6
2.1.1. Order processing and execution	191,070	175,630	-8.1	25,577	17,922	-29.9	-	-	-
2.1.2. Issue placement and underwriting	7,390	6,594	-10.8	3,851	1,891	-50.9	-	-	-
2.1.3. Securities custody and administration	10,442	12,211	16.9	311	226	-27.3	-	-	-
2.1.4. Portfolio management	10,094	11,744	16.3	6,995	4,640	-33.7	5,035	6,290	24.9
2.1.5. Investment advising	3,829	1,779	-53.5	2,673	4,319	61.6	514	193	-62.5
2.1.6. Search and placement	3,956	744	-81.2	0	186	-	-	-	-
2.1.7. Margin trading	0	0	-	0	0	-	-	-	-
2.1.8. CIS marketing	30,549	36,225	18.6	21,667	26,577	22.7	0	0	-
2.1.9. Others	65,938	82,274	24.8	14,480	12,445	-14.1	312	1,111	256.1
2.2. Fee expense	94,218	97,587	3.6	12,198	10,277	-15.7	1,226	2,650	116.2
3. Result of financial investments	36,828	114,846	211.8	565	731	29.4	46	15	-67.4
4. Net exchange income	43,447	-63,865	-	-3	654	-	227	95	-58.1
5. Other operating income and expenses	6,440	7,555	17.3	-661	979	-	-170	-218	-28.2
GROSS INCOME	**340,821**	**308,008**	**-9.6**	**63,871**	**60,741**	**-4.9**	**4,863**	**5,062**	**4.1**
6. Operating expenses	187,841	193,477	3.0	48,322	44,218	-8.5	2,911	2,827	-2.9
7. Depreciation and other charges	2,056	3,456	68.1	944	642	-32.0	22	15	-31.8
8. Impairment losses	471	1,180	150.5	-4	10	-	0	0	-
NET OPERATING INCOME	**150,453**	**109,895**	**-27.0**	**14,609**	**15,871**	**8.6**	**1,930**	**2,219**	**15.0**
9. Other profit and loss	5,691	4,567	-19.8	-8	401	-	0	0	-
PROFITS BEFORE TAXES	**156,144**	**114,462**	**-26.7**	**14,601**	**16,272**	**11.4**	**1,930**	**2,219**	**15.0**
10. Corporate income tax	34,483	21,303	-38.2	802	1,214	51.4	550	645	17.3
PROFITS FROM ONGOING ACTIVITIES	**121,661**	**93,159**	**-23.4**	**13,799**	**15,058**	**9.1**	**1,380**	**1,574**	**14.1**
11. Profits from discontinued activities	0	0	-	0	0	-	0	0	-
NET PROFIT FOR THE YEAR	**121,661**	**93,159**	**-23.4**	**13,799**	**15,058**	**9.1**	**1,380**	**1,574**	**14.1**

Source: CNMV.

Mixed ROE performance for investment firms: brokers do better while broker-dealers and portfolio managers do worse.

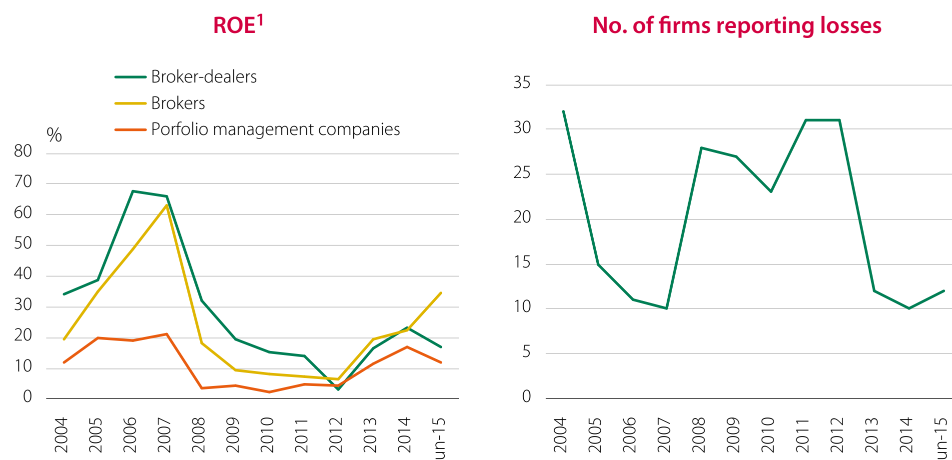
Meanwhile, return on equity (ROE) earned by broker-dealers and portfolio managers seems to have turned a corner. After two straight years of recovery, broker-dealers' ROE fell from 23.0% to 17.0% and that of portfolio managers from 16.9% to 11.9%. Brokers, in contrast, managed to boost profitability from 22.2% ROE to 34.5% (see figure 21).

Slight rise in number of loss-making firms, although the overall scale of losses fell substantially.

The number of loss-making firms went from ten at end-2014 to twelve by mid-2015. Mostly, this was due to broker-dealers where loss-makers increased from four to seven. Loss-reporting brokers fell from six to five. No portfolio managers are in the red and nor were any in the prior half-year. Although the number of loss-making firms rose, their combined total loss shrank substantially to 6.4 million euros.

Pre-tax ROE of investment services firms and loss-making entities

FIGURE 21



Source: CNMV.

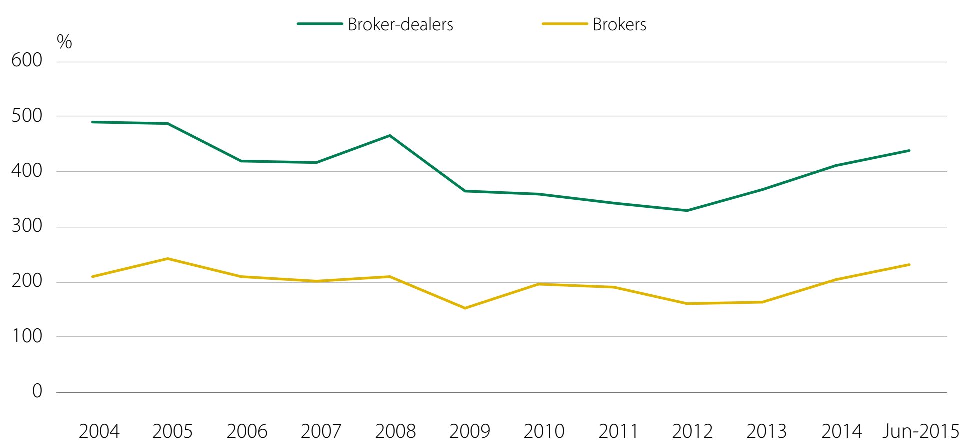
1 ROE based on annualised pre-tax earnings.

Solvency of investment firms remained robust in 1H.

Investment firms' solvency conditions remained optimal in the first half of the year. The capital adequacy ratio of firms that have to file solvency statements,[11] calculated as regulatory capital over minimum capital requirement, was 4.4 in June 2015 for broker-dealers and 2.3 for brokers. This compares to 4.1 and 2.0 respectively at the end of 2014 (see figure 22).

Investment firm capital adequacy (Surplus of eligible capital to the minimum requirement)[1]

FIGURE 22



Source: CNMV.

1 There have been minor changes to the way capital adequacy requirements are calculated since 2014 when Regulation (EU) No. 575/2013 of the European Parliament and of the Council, of 26 June 2013, on prudential requirements for credit institutions and investment firms, took effect.

Number of financial advisory firms continued to grow in 1H 2015.

In the investment advisory sector, thirteen new entrants and seven failures left Spain with 149 firms at end June, up from 143 in December 2014. Of these, ten are

11 Since 1 January 2014, according to CNMV Circular 2/2014, of 23 June, on the exercise of various regulatory options regarding the solvency of investment services firms and their consolidated groups, not all firms have to submit statements. As a result, 5 of Spain's 78 investment services firms are exempt from filing.

authorised to offer advisory services elsewhere in the European Union under the free provision of services. No data is available on advisory firms' activity in the first half of 2015 as CNMV Circular 3/2014 requires them to send reserved information annually (rather than six-monthly as before) and the latest data are therefore for the close of 2014. Table 17 shows that the volume of assets under advice increased in 2014 by 21.3% to 21.40 billion euros and fee income rose 43.6% to 47.8 million euros. Retail clients still represent 93% of all contracts, unchanged from 2013.

Main investment advisory firm variables TABLE 17

				2013	2014		% var.
Thousand euros	2012	2013	2014	2H	1H	2H	in year
NUMBER OF FIRMS	**82**	**126**	**143**	**126**	**134**	**143**	**13.5**
ASSETS UNDER ADVICE[1]	**14,776,498**	**17,630,081**	**21,391,417**	**17,630,081**	**14,456,415**	**21,391,510**	**21.3**
Retail customers	3,267,079	4,991,653	5,719,199	4,991,653	5,488,399	5,719,292	14.6
Professional customers	3,594,287	3,947,782	4,828,459	3,947,782	4,465,564	4,828,459	22.3
Others	7,915,132	8,690,646	10,843,759	8,690,646	4,502,452	10,843,759	24.8
NUMBER OF CONTRACTS[1]	**3,484**	**4,002**	**4,629**	**4,002**	**4,344**	**4,639**	**15.9**
Retail customers	3,285	3,738	4,313	3,738	4,044	4,323	15.7
Professional customers	175	235	276	235	264	276	17.4
Others	24	29	40	29	36	40	37.9
FEE INCOME[2]	**26,177**	**33,273**	**47,746**	**33,273**	**21,513**	**47,767**	**43.6**
Fees received	26,065	33,066	47,167	33,066	21,071	47,188	42.7
From customers	20,977	26,530	37,930	26,530	17,322	37,943	43.0
From other entities	5,088	6,537	9,236	6,537	3,749	9,245	41.4
Other income	112	206	579	206	442	579	181.1
EQUITY	**13,402**	**21,498**	**26,529**	**21,498**	**22,915**	**26,538**	**23.4**
Share capital	4,365	5,156	5,579	5,156	5,230	5,576	8.1
Reserves and retained earnings	4,798	9,453	8,993	9,453	9,899	8,993	-4.9
Profit/loss for the year[2]	4,239	6,890	11,956	6,890	7,787	11,969	73.7

1 Period-end data at market value.

2 Cumulative data for the period.

The outlook for investment firms is complicated by heavy competition from banks.

The outlook for investment services firms is complicated by heavy competition from credit institutions, particularly Spanish ones. These have long dominated businesses like fund marketing, investment placement and underwriting and securities custody and administration. Now they have started to overtake investment firms in services like order processing and execution, traditionally an area where most of the fee income went to investment firms.[12] This, coupled with the erosion of brokers' fees charged by investment firms, explains why despite rising trading volumes on markets the income brokers earned from this item – their biggest earner – fell. It seems that financial intermediaries will have to keep plugging away at efficiency gains to improve their competitive edge and build up business lines which have been doing better lately, such as fund marketing, portfolio management and financial advisory services.

12 See section 7 of the 2014 *CNMV Annual Report*.

Code of conduct reports on institutions providing investment services: significant 2014 figures by type of provider EXHIBIT 6

There were 203 credit institutions (banks, savings banks and credit cooperatives) authorised to provide investment services in Spain at 31 December 2014 (including foreign owned institutions with branches or agents in Spain). Of these, 151 actually did business in such services. Just over 9.5 million retail customers took advantage of their services in 2014, a numbers that continues a gentle downtrend in recent years. Spanish institutions dealt with 97% of these customers, just 3% going to foreign entities.

These institutions earned 3.8 billion euros from securities market services during the year, 57% of which came from third-party commissions for sales, overwhelmingly in the CIS business. Income does not, of course, include margins earned on sales of institutions' own issues. By service provided, income broke down as follows: around 66% from intermediation (reception, transmission and placement), 16% from custody and administration, 7% from financial advising, 5% from discretional portfolio management and 6% from other income.

Intermediation for credit institutions' retail customers grew in 2014, in transaction numbers, size and income. Entities handled 200 billion euros of cash product purchases: around 60% CIS, 25% equity, 9% non-complex fixed income and the remaining 6% complex products. The trend seen in the last two years away from non-complex fixed-income products (particularly government bonds) and toward CIS continues. Derivative volumes were down by nearly 12% overall.

Purchases of complex cash products still make up a fairly low percentage of total retail investment, 6% of all cash products or around 12 billion euros. This year was notable for the substantial rise in purchases of structured products, of which around 10 billion euros were sold. These are products sold mainly by large entities and the advisory element in their sale is becoming increasingly important.

Data on warnings given to clients during marketing show that, in general, products are placed after prior evaluation of their suitablility (convenience or aptitude test) with no indiscriminate use of the execution-only exemption allowed for non-complex products. In CIS purchases, for instance, only around 10% invoked this exemption. Nor was there any significant apparent marketing of products that were unsuitable or unassessed due to lack of information.

Financial advising by authorised credit institutions, while still a marginal business, has grown substantially in 2014 both in the number of retail clients taking advice (total of 550,000), number of buy recommendations (1.5 million) and volume of sales (more than 60 billion euros). Advising services are mainly remunerated by incentive payments, which make up 95% of income, and buy recommendations most commonly concern CIS (72% of the total), followed by structured products (12%), which were the fastest growing sub-segment in volume terms this year. Recommendations for OTC derivatives are concentrated on a small number of entities and products, especially currency or interest rate derivatives. Around 68% of recommended purchase volumes concern products related to the firm offering the advice.

Discretionary portfolio management also did well in 2014 for authorised credit institutions, with big advances in numbers of retail customers, to over 190,000, and in assets under management, to 24.30 billion euros. CIS now account for 84% of managed assets and the multi-year trend toward these instruments continues. The second-biggest item is equities, with 11%. In discretionary portfolio management there is a lower preponderance of related products than in advising services, around 40% of products managed are from the same group.

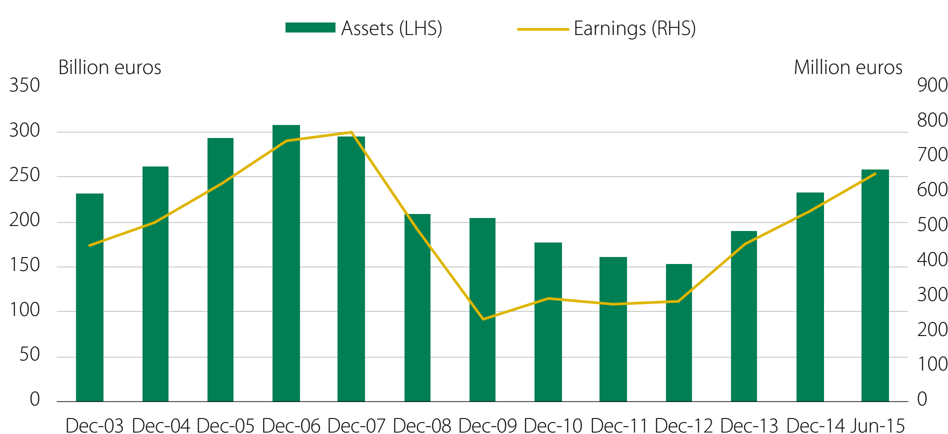
Investment services firms, not including investment advisory firms, have a considerably smaller share of the market in customer numbers than credit institutions. On 31 December 2014 they had 164,000 customers. It is more equal in total income from provision of investment services, which was more than 1 billion euros, with over 60% of this coming from intermediation. As for advisors, the total number of customers at year end was no higher than 5,000 and income was 47.5 million euros.

4.3 CIS management companies

A third year of expansion for the collective investment industry was good news for CIS managers' profits, up by near 20% in 1H 2015.

In the first half of 2015, business done by CIS management companies continued the expansionary path begun in 2013. They were helped by a low interest rate environment which encouraged investors to look beyond traditional bank term deposits. Assets under management by CIS management companies totalled 259 billion euros at the end of June, up 11.3% on end-2014. Combined profits before tax were up 19.9% to 654 million euros in annualised terms (see figure 23). Most of these gains, practically 90%, were made in the mutual fund segment but investment companies also performed well. That said, it bears mention that the sector remained heavily concentrated: combined market share of the three biggest managers is 43.1% of total assets, higher even than the 36% of December 2014.

CIS management companies: Assets under management and pre-tax profits FIGURE 23



Source: CNMV. Results to June 2015 restated on an annual basis.

ROE rose but the number of CIS management firms shrank.

The improvement was mirrored in CIS management fees, the biggest component of managers' income. These were 2.41 billion euros (annualised), up 20.5% since the end of 2014. The average management fee was 0.93% of managed assets, above

the 0.85% charged at end-2014, mainly because investment funds have restructured their assets toward riskier asset classes which pay higher fees. Similarly, the ROE of all CIS management companies increased substantially, repeating the pattern of recent years, from 48.5% at end-2014 to 54.7% in June this year. In line with the healthy results, the number of loss-making managers fell from 14 to 11, although the cumulative volume of losses rose slightly compared with last year (3.4%) to 2.9 million euros (annualised) at the end of June.

The number of CIS managers was unchanged at 96. The sector is nearing the end of its shake-out.

Restructuring in the sector, which followed the restructuring of the financial sector, seems to be nearing its end. In the first eight months of the year, only one fund manager closure was attributable to this process. Over the same period there were two new entrants and another disappearance, leaving the number of CIS management companies at 31 August this year unchanged from December 2014 at 96.

CIS management companies: Assets under management, management fees and fee ratio TABLE 18

Million euros

	Assets under management	CIS management fee income[1]	Average CIS management fee[1] (%)	Fee ratio[2] (%)
2008	208,861	2,302	1.10	70.80
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	234,588	2,004	0.85	61.80
June 15	258,575	2,414	0.93	62.90

Source: CNMV.

1 Data for fee income and average management fee restated on an annual basis.

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

4.4 Other intermediaries: venture capital

The number of VCEs fell in the early months of the year, despite the creation of new SME venture capital funds and companies under new law for the sector.

The number of venture capital entities (VCEs) dwindled from 344 in December 2014 to 340 in August 2015 as the number of venture capital companies fell (see table 19). Among these, 146 were venture capital funds (VCFs), 5 were SME venture capital funds, 111 were venture capital companies (VCCs), 4 were SME venture capital companies and 74 were VCE management companies. Table 19 includes the effects of last year's changes, the result of Law 22/2014, of 12 November, which permitted two new types of vehicle: SME venture capital funds and SME venture capital companies. The five new funds set up in this category are transformations of existing VCFs. One SME venture capital company also derives from an existing VCC. The three others are newly created.

Movements in the VCE register in 2015

TABLE 19

	Situation at 31/12/2014	Entries	Retirals	Situation at 31/08/2015
Entities	**344**	**21**	**25**	**340**
Venture capital funds	145	8	7	146
SME venture capital funds	0	5	0	5
Venture capital companies	125	1	15	111
SME venture capital companies	0	4	0	4
VCE management companies	74	3	3	74

Source: CNMV.

Between December 2013 and December 2014, assets managed by VCEs slipped by 2.57% to 8.48 billion euros. Amid this decline, however, there were mixed performances by different types of entity. VCF assets rose 6.1% while VCC assets fell 9.30% to 4.44 billion euros.

VCEs' assets fell by 2.6% in 2014 on a decline in VCCs' assets. In contrast, fund assets increased.

VCFs noted a shift in the weighting of their investor base in 2015. There was a big fall in investment by banks and savings banks, which cut back by 22.7% and 12.6%, respectively, and, to a lesser degree, investment from other Spanish and foreign VCEs (see table 20). Meanwhile, there was a standout 42.8% rise in investments by public authorities. There was also a 116.6% increase by sovereign funds worth noting even if the volumes are very small.

Financial firms cut back investments in VCFs while other investors took over, such as public authorities, sovereign funds and natural persons.

Venture capital entities: Assets by investor group

TABLE 20

	VCFs		VCCs	
Million euros	**2014**	**2015**	**2014**	**2015**
Natural persons				
Residents	252.18	288.68	125.06	133.31
Non-residents	4.63	9.11	2.09	3.75
Legal persons				
Banks	357.30	276.04	1,651.31	1,339.75
Savings banks	110.39	96.48	54.30	26.14
Pension funds	468.03	483.43	21.43	25.12
Insurance corporations	115.63	133.58	25.09	41.08
Broker-dealers and brokers	0.00	0.54	0.11	0.16
Collective investment schemes	31.73	54.65	11.65	18.91
Domestic VCEs	151.84	148.48	82.42	81.17
Foreign VCEs	207.28	195.46	1.38	0.00
Public authorities	396.89	566.87	268.85	269.64
Sovereign funds	47.57	103.04	0.00	0.00
Other financial corporations	252.19	311.31	923.66	951.69
Non-financial corporations	552.32	474.73	1,515.95	1,296.55
Foreign entities	646.18	752.22	80.77	114.19
Others	210.24	141.60	135.62	142.28
TOTAL	**3,804.40**	**4,036.22**	**4,899.69**	**4,443.74**

Source: CNMV.

Banks also cut exposure to VCCs, as did non-financial corporates but other financial entities increased their investments.

VCCs saw a drop in investment from both their biggest investor groups, banks and non-financial corporations, of 18.9% and 14.5%, respectively, in 2014. The third-biggest class of investor by volume (other financial corporations) raised investment by 3% to 951.7 million euros. Investors who most increased their relative share were the insurance companies, up by 63.7%, and CIS, up by 62.3%. Natural persons boosted their weighting in the venture capital sector during 2014 both in VCFs, to 7.3% of all assets, and in VCCs, now 3.1% of the total.

VCE investment fell 41% in 1H 2015 according to preliminary figures from ASCRI…

Preliminary data from ASCRI, the Venture Capital Association, show investment in Spanish VCEs fell by 41% in the first half of 2015 to 726 million euros, mainly due to the absence of major deals set against the four big operations in the first half of 2014. In contrast, the medium- and small-sized deal market was very active. No less than 85% of deals involved investments of less than five million euros in capital to Spanish SMEs in start-up and expansion phases. On the receiving end, the sectors attracting most investment were consumer products, industrial products and services and IT. Divestments continued apace in the first half, totalling 1.86 billion euros in an extension of the trend begun last year. Fundraising, based on provisional figures for the first six months 2015, seem to have totalled 1.19 billion euros, well below the 2.11 billion raised in the same period 2014.

… but the outlook is generally positive due to the strong performance of the Spanish economy and interest from international investors.

Although figures for the sector in the early months of this year are worse than those for 2014, the outlook for venture capital remains broadly positive. Political uncertainties may delay some deals but the bigger factor is the perception of a rapidly recovering Spanish economy. International investors continue to show great interest in Spain, either opening Spanish branches or investing from abroad. Plenty of managers are also in the process of fundraising and a good number of deals are likely to be closed in the second half of 2015, traditionally the busier season. The role played by Fond-ICO Global will also remain key to the sector's future development.