Unicaja Banco, S.A. and its Subsidiaries (Unicaja Banco Group)

Independent audit report,
Consolidated annual accounts and
Consolidated directors' report
at December 31, 2017

A free translation of the report on the consolidated annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails.

Independent auditor's report on the consolidated annual accounts

To the shareholders of Unicaja Banco, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Unicaja Banco, S.A. (the Parent company) and its subsidiaries (the Unicaja Banco Group or the Group), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How the matter was addressed in the audit
Admission to trading of Unicaja Banco and repurchase of the contingently convertible bonds (CoCos) of EspañaDuero initially subscribed for by the FROB.	
On June 30, 2017 the Unicaja Banco flotation was completed, involving a capital increase of €625 million and a share premium of €62.5 million. On July 25, 2017 the capital increase was carried out relating to the subscription option granted to the Stabilisation Agent (green-shoe option), which entailed an additional capital increase of €62.5 million and an increase in the share premium of €6.25 million. As detailed in the offer prospectus, the funds are to be used to strengthen the solvency position following the repurchase of the CoCos subscribed by the FROB (€604 million) and finance the acquisition of the FROB's interest in EspañaDuero (€63 million), the remainder being used for other general business purposes. On August 31, 2017, having obtained the relevant administrative authorisations and adopted the necessary corporate resolutions, Unicaja Banco repurchased the €604 million of CoCos issued by its subsidiary Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero) from the FROB, which had initially been acquired by the FROB under the resolution plan of EspañaDuero approved on December 19, 2012 by the FROB and the Bank of Spain, and on December 20, 2012 by the European Commission, thereby fulfilling in advance the repayment commitment stipulated in the decision of the European Commission dated January 27, 2017. Following this repurchase, said bonds are owned by Unicaja Banco. In addition, on December 14, 2017, Unicaja Banco and EspañaDuero acquired the interest held by the FROB in EspañaDuero for €20 million and €43 million, respectively.	In relation to the above-mentioned stock-market flotations, capital increases, repurchase of the CoCos issued by EspañaDuero and initially acquired by the FROB and acquisition from the FROB of its interest in EspañaDuero, we have carried out the following audit procedures: • Verification of the accounting treatment of the initial public offering made within the framework of the Unicaja Banco flotation, including the recognition of the capital increases and the treatment of costs directly attributable to the issuance of the new shares. • Tests of detail, verifying the settlement of the capital increases. • Verification of the authorisations received by the Group for the repurchase of the CoCos. • Analysis of the reasonableness of the accounting treatment of the CoCos repurchase, based on the financial reporting framework applicable to the Group and the impact on the consolidated financial statements. • Tests of detail verifying the settlement of the CoCos repurchase against the supporting documentation, and the accounting treatment of the operation carried out. • Tests of detail verifying the settlement of the acquisition of the FROB's interest in EspañaDuero against the supporting documentation, and the accounting treatment of the operation. • Verification of the information provided in the notes to the Group's consolidated annual accounts on the operations referred to above.

Key audit matters	How the matter was addressed in the audit
This question is considered a key audit matter as it is a significant event that took place during the year being audited. See Note 1.2 Admission to trading of Unicaja Banco and repurchase of the contingently convertible bonds of EspañaDuero initially subscribed for by the FROB, and Note 17.4.3 Subordinated liabilities in the notes to the accompanying consolidated annual accounts.	As a result of the above procedures, we have obtained sufficient and adequate audit evidence to conclude on the suitable accounting treatment of the operations and their disclosure in the consolidated annual accounts.
Restructuring of the banking-insurance business on a Unicaja Banco Group level for personal insurance and pension plans	
On May 9, 2017, Unicaja Banco, EspañaDuero and Aviva Europe SE entered into an agreement to terminate the strategic business alliances that they had maintained for the development of the joint marketing and distribution, under banking-insurance regulations, of personal insurance and pension plans through the network of Unicaja Banco and EspañaDuero derived from the former Caja España, which included the disinvestment by Aviva Europe SE of its interests in Unicorp Vida, Compañía de Seguros y Reaseguros, S.A. and Caja España Vida, Compañía de Seguros y Reaseguros, S.A. Simultaneously, Unicaja Banco, EspañaDuero and Santa Lucía, S.A. concluded an association agreement with a specific duration on an exclusive basis for the development, joint marketing and distribution, under banking-insurance regulations, of life insurance and pension plans of Unicorp Vida, Compañía de Seguros y Reaseguros, S.A. and Caja España Vida, Compañía de Seguros y Reaseguros, S.A. Said agreements came into effect on September 14, 2017 after obtaining the requisite regulatory authorisations.	In relation to the Unicaja Banco Group banking-insurance business restructuring described above, we have carried out the following audit procedures: • Review of the agreements concluded by the Unicaja Banco Group during the banking-insurance business restructuring process, including the termination agreement with Aviva Europe SE, the association agreement with Santa Lucía, S.A. and the sale and purchase agreement with Mapfre for 50%of the share capital of Unión del Duero, Compañía de Seguros de Vida, S.A. and Duero de Pensiones, E.G.F.P., S.A. • Verification of the authorisations received by the Group for the above-mentioned agreements. • Analysis of the reasonableness of the accounting treatment of the transactions, including their impact on the consolidated income statement. • Tests of detail, verifying the settlement of and accounting recognition of the operations. • Verification of the information provided in the notes to the Group's consolidated annual accounts on the operations referred to above.

Key audit matters	How the matter was addressed in the audit
On June 8, 2017, EspañaDuero concluded an agreement with Mapfre Vida, S.A de Seguros y Reaseguros sobre la Vida Humana ("Mapfre") for the purchase of 50% of the share capital of Unión del Duero, Compañía de Seguros de Vida, S.A. and Duero de Pensiones, E.G.F.P., S.A., involving the receipt of the variable price agreed for the sale in 2008 by EspañaDuero of 50% on the interest in these companies. The effectiveness of this agreement was subject, at end-2017, to the obtainment of the relevant regulatory authorisations. These authorisations were received on February 27, 2018. This question is considered a key audit matter as it involves significant events that took place during the year being audited. See Note 12.2 Notifications on the acquisition and alienation of shareholdings in the accompanying consolidated annual accounts.	As a result of the above procedures, we have obtained sufficient and adequate audit evidence to conclude on the suitable accounting treatment of the operation and its disclosure in the consolidated annual accounts.
Valuation of loans and receivables and assets acquired in settlement of debts The Unicaja Banco Group regularly evaluates the estimate of impairment of the loan portfolio and real-estate assets derived from repossessions or other debt recovery processes, recording the relevant provisions when there is evidence of impairment due to one or more events occurring since initial recognition that impact the estimated cash flows. The determination of impairment due to credit risk and risk related to real-estate assets derived from debt recovery processes is one of the most significant and complex estimates in the preparation of the accompanying consolidated annual accounts and has been regarded as a significant risk at the audit level.	Our work on the estimation of the valuation adjustments due to impairment have focused on the analysis, assessment and verification of the internal control system, as well as on detail testing of the estimates made by the Group. In relation to internal control, we have carried out, among others, the following audit procedures: • Validation of general IT controls over relevant systems impacting the financial information for the area. Verification of the main aspects relating to the IT systems security environment included in the calculation of the impairment provisions.

Key audit matters	How the matter was addressed in the audit
The process for evaluating and calculating potential losses due to the impairment of these assets is carried out: • Individually, for all significant debt instruments and those which, though not significant, cannot be classified into uniform groups of instruments of a similar type, by kind of instrument, debtor's business sector and geographical area of the debtor's activity, guarantee type, age of past due amounts, etc. • Collectively, for other debt instruments, establishing different classifications for the operations based on the nature of the liable parties and the circumstances in their countries of residence, status of the operation and type of guarantee, age of past due amounts, etc., setting for each of these risk groups the impairment losses to be recognised in the consolidated annual accounts. Collective provisions are calculated using internal methodologies based on experience of historical losses for assets with similar risk characteristics, adjusted on the basis of observable data, in order to reflect the effect of current conditions that do not affect the period from which the historical experience is taken, as well as to suppress the effects of the conditions of the historical period that do not exist at present. The internal valuation models and methodologies entail a major judgment component when estimating the impairment losses, considering aspects such as: • Classification of the transactions and real-estate assets in the different portfolios, depending on their risk level. • Identification of impaired assets. • Use of significant assumptions such as interest rate fluctuations, unemployment rates, future income levels, etc.	• Verification that policies and procedures and the approved internal models comply with applicable regulatory requirements. • Understanding of the internal control environment in the construction of the main models, identification and validation of the main key controls, both automated and manual. The evaluation of the control environment has included checking the reliability of data sources used in the calculations. • Verification of the periodic evaluation of monitoring alerts made by the Group to identify assets under special surveillance or impaired. • Verification of the different calculation methodologies, as well as retrospective checks. • Review of internal validation reports on internal methodologies developed for collective impairment estimate. • Understanding and evaluation of the regular review of records conducted by the Unicaja Banco Group, aimed at monitoring their classification and, where appropriate, recording the corresponding impairment. • Understanding of the control environment, identification of key automatic and manual controls and validation thereof, in relation to the measurement of collateral and real-estate assets. We have also carried out, among others, the following tests of detail: • Verification of a sample of records of individual borrowers to assess their proper classification and, where appropriate, recognition of the relevant impairment. • Verification of a sample of real-estate assets from debt recovery processes to assess their proper classification and, where appropriate, recognition of the relevant impairment.

Key audit matters	How the matter was addressed in the audit
• Inclusion of qualitative adjustments in the calculation of provisions due to economic or judgement factors, such as internal rating policies or future economic expectations, among others. • Consideration of effective guarantees. The evaluation of the recoverable amount of guarantees is subject to an estimate of their fair value less associated costs to sell, adjusted by a discount to the reference value calculated on the basis of the Unicaja Banco Group's historical experience. The Group has developed internal methodologies for estimating discounts to be applied to reference values and estimated costs to sell. See Note 1.4 Responsibility for information and estimates made; Note 2.7 Financial asset impairment; Note 10 Loans and receivables; Note 15 Other assets; and Note 16 Non-current assets and disposal groups of items classified as held for sale in the notes to the accompanying consolidated annual accounts.	• Selective testing to verify data quality by checking with supporting documentation for the information contained in systems that serves as the basis for the classification of transactions and, where appropriate, any relevant impairment, as well as for estimating necessary real-estate asset provisions. • Selective verifications with respect to: i) methods of calculation and segmentation of borrowers and real-estate assets into different categories; ii) historical loss rates in the estimate of future cash flows and of historical discount rates in sales of real-estate assets derived from debt recovery processes compared with the appraisal value; iii) the correct classification of lending operations and real-estate assets in the relevant categories. • Recalculation of collective provisions and real-estate assets derived from debt recovery processes. • Monitoring and verification, through selective testing, of impairment losses actually incurred against those estimated in previous periods. From the results of the above procedures it may be deduced that the models and methodologies used by the Group to classify operations and calculate any related impairment are suitable under the financial reporting framework applicable to the Group, and that the estimates made by the Group are reasonable.

Key audit matters	How the matter was addressed in the audit
Entry into force of IFRS 9 and disclosure information relating to the estimated impacts of this standard	
In relation to the entry into force of IFRS 9 on the classification and measurement of financial instruments, as described in Note 1.12 Changes in International Financial Reporting Standards, the Unicaja Banco Group has an adaptation plan approved by the Board of Directors which sets out a number of stages and milestones and which contains the three main lines of analysis: (i) accounting and risk classification of financial instruments, (ii) measurement of significant impairment of credit risk and estimate of carrying amount, and (iii) recognition of provisions. On the basis of this plan, the Group has made preliminary estimates and calculations prior to the entry into force of IFRS 9, and has disclosed certain qualitative and quantitative information this respect in the accompanying consolidated annual accounts. See Note 1.12 Changes in International Financial Reporting Standards in the accompanying consolidated annual accounts.	We have carried out certain procedures in relation to IFRS 9, which will be applicable in the year commencing January 1, 2018, in order to verify the reasonableness of the information disclosed in the accompanying consolidated annual accounts. The main procedures carried out are described below: • Obtaining and reading the Group adaptation plan for IFRS 9, verifying the main tasks and milestones achieved. • Understanding the adaptation of accounting policies and the methodological framework in order to assess compliance with the new standard. • Verifying the documentation prepared by the Group for the evaluation of the new criteria for classifying financial instruments. • Verifying the reasonableness of the impacts on the classification and measurement of financial instruments. • Checking the criteria and methodologies developed by the Group for the calculation of provisions under the new standard, highlighting the verification of the criteria for determining the risks that have significantly increased since initial recognition and the reasonableness of the scenario projection models used. • Verifying the information provided in the notes to the consolidated annual accounts on the future impact of IFRS 9 on the Group. As a result of the above procedures, we have obtained sufficient and adequate audit evidence to conclude on the reasonableness of the estimates made by the Group in relation to the future impact of IFRS 9.

Key audit matters	How the matter was addressed in the audit
Recoverability of deferred tax assets The Unicaja Banco Group regularly evaluates the recoverability period of deferred tax assets, considering the estimates made in its business plan. The evaluation of the recoverability of deferred tax assets requires a high degree of judgment and estimation. Our objective as auditors is to obtain sufficient and adequate evidence that the evaluation performed by the Group on the basis of the projections under its business plan is reasonable and that the relevant information disclosed in the consolidated annual accounts is appropriate in the context of the applicable financial reporting framework. See Note 1.4 Responsibility for information and estimates made and Note 24.4 Temporary differences in the notes to the accompanying consolidated annual accounts.	In the course of our audit we have verified the process for estimating deferred tax assets and their future recoverability. To carry out the audit work in this area, we have received the assistance of our tax specialists. The main audit procedures carried out are described below: • Verification of policies and assumptions considered by the Group in the calculation of the deferred tax assets, and the understanding on the control environment in this area. • Obtainment and verification of the information used by the Group in the estimate and subsequent recoverability of the deferred tax assets. As the most relevant information for the estimate of the recoverability of the deferred tax assets, we have obtained the business plan drawn up by the Group and approved by the parent company's Board of Directors and have verified the reasonableness of the assumptions included therein, in collaboration with out tax experts, by means of the following audit procedures: • Verification of the consistency of the business plan with the Group's budgets for the coming years, risk appetite framework and other documents on which the Group's strategy is based. • Verification of the consistency of the business plan in the application of the sensitivity analysis and stress exercises on the main variables. • Verification of the reasonableness of the assumptions on which the business plan is based and, in the case of macroeconomic variables, verification that they are aligned with the latest forecasts on the performance of the Spanish economy.

Key audit matters	How the matter was addressed in the audit
	• Evaluation of the accuracy of the projections carried out by the Group in the past, by retrospective analysis. • Verification of the reasonableness of the assumptions made in relation to the tax treatment of projected earnings and the reversibility of tax assets. As a result of the above procedures, we have obtained sufficient and adequate audit evidence to conclude on the reasonableness of the estimates made by the Group in relation to the recoverability of deferred tax assets.
Provisions for tax, legal, labour and regulatory claims and litigation The Unicaja Banco Group records provisions to cover potential contingencies arising in the normal course of its business, such as those derived from legal proceedings or claims in which it is involved or others of a tax, legal, labour and/or regulatory character. The Group's directors and management make the estimates applying prudent criteria and considering the best available information on the facts analysed, although in general these procedures involve uncertainty and take a considerable length of time, resulting in complex processes. As a result, the recognition of these provisions requires a major component of judgement and estimation. Our objective as auditors is to obtain sufficient and adequate audit evidence that the accounting estimates are reasonable and the relevant information disclosed in the annual accounts is appropriate in the context of the applicable financial reporting framework.	In the course of our audit we have verified the policies and processes established in the Group to estimate provisions for litigation and proceedings in progress, having carried out the following audit procedures: • Understanding of the internal control environment and the policy for classifying claims and litigation, as well as, where appropriate, the allocation of provisions, in accordance with applicable accounting regulations. • Analysis of the main lawsuits, both individual and, if applicable, collective. • Obtainment of letters of confirmation from external lawyers and tax advisers that work with the Group to check their evaluation of the expected outcomes of the lawsuits, the proper recognition of the provision and the identification of potential omitted liabilities. • Follow-up of tax inspections in progress.

Key audit matters	How the matter was addressed in the audit
These provisions include coverage for agreements to limit interest-rate fluctuations (so-called “floor clauses”). The Unicaja Banco Group has obtained an independent expert report to verify the provisions set up to cover this risk, from which no significant differences have derived with respect to the amounts provided for. See Note 1.4 Responsibility for information and estimates made, and Note 24.8 Provisions and contingent liabilities; and Note 18 Provisions, in the notes to the accompanying consolidated annual accounts.	• Evaluation of possible contingencies in relation to compliance with tax obligations for all periods open to inspection. • With the assistance of our in-house experts, analysis of the reasonableness of the estimate of the expected outcome of the most significant fiscal and legal procedures. • Verification of the recognition, estimate and movements of accounting provisions. In addition, in relation to the provisions recorded by the Unicaja Banco Group to cover the contingencies related to floor clauses, we have specifically performed the following additional audit procedures: • Understanding the control environment, evaluating and verifying the controls associated with the calculation and verification of the customer compensation provision. • Evaluation of the methodology and assumptions used by the Group, verifying that they are consistent with the applicable accounting framework. • Selective tests of detail, verifying certain items against the supporting documentation. • Obtainment and verification of the independent expert report, verifying, in association with our in-house experts, that the conclusions thereof are aligned with the estimates made by the Group. The result of our work indicates that the Group has applied, when estimating provisions, reasonable judgments that are supported and substantiated on the basis of the available information.

Key audit matters	How the matter was addressed in the audit
Matters related to automated financial information systems and access thereto Given the operations it carries out, the Unicaja Banco Group uses complex information systems in both the performance of its business activity and the processing, recording, storage, preparation and presentation of its financial and accounting information. Therefore, adequate control over them and the access protocols for applications and databases are essential to ensure the proper processing of information. In this context, knowledge, evaluation and validation of general controls relating to the financial information systems, including accesses to applications and databases, is a key area of our work. In addition, the effectiveness of the general internal control framework for information systems related to the accounting recognition and closing process is essential for the performance of certain audit procedures based on internal control.	As part of our overall approach, we have carried out the validation of the general IT controls and automated controls over applications that support the key business processes. To carry out the audit work in this area, we have received the assistance of our IT systems specialists. The main audit procedures carried out on the information systems considered relevant to the process for generating financial information are as follows: • Validation of general organisation and management control mechanisms, including policies and procedures relating to the control functions, and the appropriate segregation of functions. • Validation of controls for the management of access authorisations to the financial information systems, for managing users and for making changes in the information systems. • Validation of development controls and maintenance of the application systems. • Concerning key IT applications, validation of entry and exit controls and controls over system processing and storage. • Understanding and evaluation of the Group's controls in the IT security area. • Understanding of key business processes, identification of key automated controls therein and validation of these controls. • Understanding and verification of the process for generating manual entries and tests of extraction and filtering of entries included manually in the financial information systems. The outcome of our procedure has been satisfactory and we have obtained sufficient and adequate audit evidence; no relevant matters have been identified that could significant affect the financial information included in the accompanying consolidated annual accounts.

Emphasis paragraph

We draw your attention to Note 1.14 to the accompanying annual accounts which states that, on October 27, 2017, the Board of Directors of Unicaja Banco agreed to propose to Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero) a merger operation involving the absorption of EspañaDuero (target company) by Unicaja Banco (acquiring company), the Joint Merger Plano having been approved on January 26, 2018. As mentioned in said Note in relation to this merger between EspañaDuero and Unicaja Banco, the relevant resolutions have yet to be adopted by the shareholders in general meeting and the necessary administrative authorisations have yet to be received at the present time. Our opinion has not been altered in relation to this matter.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2017 financial year, the formulation of which is the responsibility of the Parent company's directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the information included in the consolidated management report is defined in the company audit governing regulations, which establishes two differentiated responsibility levels:

a) A specific level that is applicable to the statement of non-financial information, as well as to certain information included in the Annual Corporate Governance Report, defined in article 35.2.b) of Law 22/2015 on Accounts Auditing, which solely consists of verifying that the aforementioned information was included in the consolidated management report or otherwise report on it.

b) A general level applicable to the rest of the information included in the consolidated management report, which consists of evaluating and informing about the concordance of the mentioned information with the consolidated annual accounts, based on the knowledge of Unicaja Banco Group acquired from the audit of the accounts and without including information other than that obtained as evidence during such audit, as well as evaluating and informing about whether the content and presentation of this part of the consolidated management report comply with the applicable regulations. If we conclude, based on the work performed, that there are material misstatements, we would be compelled to report on this.

On the basis of the work performed, as described in the previous paragraph, the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company's directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company's directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company's audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company's directors.

- Conclude on the appropriateness of the Parent company's directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Unicaja Banco's audit committee (as parent company of Unicaja Banco Group) with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company's audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated March 21, 2018.

Appointment period

The General Ordinary Shareholders' Meeting held on April 26, 2017 appointed us as auditors of the Group for a period of three years, as from the year ended December 31, 2017 (that is, for financial years 2017, 2018 and 2019).

We had previously been appointed as auditors under resolutions of the General Shareholders' Meeting or the Single Shareholder of the parent company or the General Assembly of the predecessor entity (see Note 1 to the accompanying consolidated annual accounts) and we have been auditing the Group's accounts continuously since the year ended December 31, 2002.

Services provided

During the year ended December 31, 2017, PricewaterhouseCoopers Auditores, S.L. and the companies in its network have provided Unicaja Banco, S.A. and its subsidiaries with non-audit services including the issuance of comfort letters and other regulatory reviews required of the auditor, and with advisory and regulatory compliance services. These services are detailed in Note 41.2 to the accompanying consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
Amagoia Delgado Rodríguez (22009)

March 21, 2018

UNICAJA BANCO, S.A.
AND ITS' SUBSIDIARIES
(UNICAJA BANCO GROUP)

Consolidates Annual Accounts and Consolidated
Director's Report at 31 December 2017

A free translation of the consolidated annual accounts originally issued in Spanish and prepared in accordance with generally accepted accounting principles in Spain. In the event of a discrepancy, the Spanish language version prevails.

UNICAJA BANCO, S.A. AND ITS' SUBSIDIARIES (UNICAJA BANCO GROUP)

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016
(Thousand euros)

ASSETS	Note	2017	2016
CASH, CASH BALANCES AT CENTRAL BANKS AND OTHER DEMAND DEPOSITS	7	3 806 391	861 711
FINANCIAL ASSETS HELD FOR TRADING	8	31 462	78 330
Derivatives		18 482	40 788
Equity instruments		-	-
Debt securities		12 980	37 542
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: Loaned or advanced as collateral(sale or pledge)		*11 849*	*14 765*
FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
Derivatives		-	-
Equity instruments		-	-
Debt securities		-	-
Loans and advances		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Memorandum item: Loaned or advanced as collateral(sale or pledge)		-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS	9	3 701 538	5 403 336
Equity instruments		536 062	649 237
Debt securities		3 165 476	4 754 099
Memorandum item: Loaned or advanced as collateral(sale or pledge)		*1 903 978*	*2 266 416*
LOANS AND RECEIVABLES	10	32 407 257	31 642 958
Debt securities		2 585 205	786 499
Loans and advances		29 822 052	30 856 459
Central Banks		-	-
Credit institutions		184 175	170 219
Customers		29 637 877	30 686 240
Memorandum item: Loaned or advanced as collateral(sale or pledge)		*894 427*	*1 858 309*
HELD-TO-MATURITY INVESTMENTS	9	10 634 320	12 907 583
Memorandum item: Loaned or advanced as collateral(sale or pledge)		*4 138 903*	*4 312 192*
HEDGING DERIVATIVES	11	456 829	606 362
FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	12	482 943	294 099
Jointly-controlled entities		74 409	74 950
Associates		408 534	219 149
INSURANCE OR REINSURANCE ASSETS	20	-	-
TANGIBLE ASSETS	13	1 290 684	1 437 840
Property, plant and equipment		872 636	1 010 450
For own use		872 636	1 010 450
Leased out under operating lease		-	-
Investment properties		418 048	427 390
o/w: leased out under operating lease		*241 366*	*283 662*
Memorandum item: Acquired under finance lease		*3*	-
INTANGIBLE ASSETS	14	1 882	782
Goodwill		184	184
Other intangible assets		1 698	598
TAX ASSETS	24	2 613 094	2 585 726
Current tax assets		75 078	51 089
Deferred tax assets		2 538 016	2 534 637
OTHER ASSETS	15	466 455	659 851
Insurance contracts linked to pensions		131 103	138 198
Inventory		266 596	480 450
Other		68 756	41 203
NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE	16	439 053	762 250
TOTAL ASSETS		**56 331 908**	**57 240 828**

Notes 1 to 49 described in Notes and Appendix I, II, III, IV and V, are part of the consolidated balance sheet at 31 December 2017.

LIABILITIES	Note	2017	2016
FINANCIAL LIABILITIES HELD FOR TRADING	8	27 412	50 820
Derivatives		27 412	50 820
Short positions		-	-
Deposits		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
Deposits		-	-
Central Banks		-	-
Credit institutions		-	-
Customers		-	-
Debt securities issued		-	-
Other financial liabilities		-	-
o/w: Subordinated debt		-	-
FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST	17	50 940 743	52 729 470
Deposits		50 086 072	50 996 133
Central Banks		3 330 034	-
Credit institutions		714 873	2 464 170
Customers		46 041 165	48 531 963
Debt securities issued		129 848	814 010
Other financial liabilities		724 823	919 327
o/w: Subordinated debt		-	*614 165*
HEDGING DERIVATIVES	11	31 385	49 902
FAIR VALUE CHANGES OF THE HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
LIABILITIES UNDER INSURANCE CONTRACTS	20	4 290	3 992
PROVISIONS	18	935 351	707 015
Pensions and other post-employment commitments		163 480	174 254
Other long-term staff retributions		127 415	152 103
Provisions for taxes and other legal contingencies		-	-
Contingent liabilities and commitments		104 238	115 975
Other provisions		540 218	264 683
TAX LIABILITIES	24	208 984	239 107
Current tax liabilities		22 793	13 578
Deferred tax liabilities		186 191	225 529
OTHER LIABILITIES	19	281 405	277 399
o/w:: social work fund (only savings Banks and credit unions)		-	-
LIABILITIES INCLUDED IN DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE		-	-
TOTAL LIABILITIES		**52 429 570**	**54 057 705**

Notes 1 to 49 described in Notes and Appendix I, II, III, IV and V, are part of the consolidated balance sheet at 31 December 2017.

EQUITY	Note	2017	2015
SHAREHOLDERS' FUNDS	22 y 23	**3 855 750**	**2 918 429**
CAPITAL		1 610 302	922 802
Registered capital		1 610 302	922 802
Non-registered demanded capital		-	-
Memorandum item: Non-demanded capital		-	-
SHARE PREMIUM		1 209 423	1 140 673
EQUITY INSTRUMENTS ISSUED OTHER THAN CAPITAL		49 021	49 263
Equity component of compound financial instruments		49 021	49 263
Other		-	-
OTHER EQUITY ELEMENTS		-	-
RETAINED EARNINGS		871 757	535 674
REVALUATION RESERVES		-	-
OTHER RESERVES		(27 128)	127 900
Retained earnings or losses from investments in subsidiaries, joint ventures and associates		(406 640)	(234 954)
Other		379 512	362 854
(–) TREASURY SHARES		-	-
PROFIT OR LOSS ATTRIBUTABLE TO PARENT		142 375	142 117
(–) INTERIM DIVIDEND		-	-
ACCUMULATED OTHER COMPREHENSIVE INCOME		**16 910**	**34 648**
ITEMS NOT SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		183	(1 150)
Actuarial gains (losses) on pension plans		183	(1 150)
Non-current assets and disposal groups classified as held-for-sale		-	-
Part in profit or losses from investments in subsidiaries, joint-ventures and associates		-	-
Other valuation adjustments		-	-
ITEMS SUBJECT TO RECLASSIFICATION TO INCOME STATEMENT		16 727	35 798
Hedges of net investments in operations abroad		-	-
Exchange differences		(79)	35
Hedging derivatives. Cash flow hedges (effective portion)		(8 379)	(9 359)
Available-for-sale financial assets	9	2 145	32 689
Debt instruments		*3 035*	*(833)*
Equity instruments		*(890)*	*33 522*
Non-current assets and disposal groups classified as held-for-sale		-	-
Part in profit or losses from investments in subsidiaries, joint-ventures and associates	23	23 040	12 433
MINORITY INTEREST (NON-CONTROLLING INTEREST)	21	**29 678**	**230 046**
OTHER ACCUMULATED COMPREHENSIVE RESULT		392	5 409
OTHER		29 286	224 637
TOTAL EQUITY		**3 902 338**	**3 183 123**
TOTAL EQUITY AND TOTAL LIABILITIES		**56 331 908**	**57 240 828**
MEMORANDUM ITEMS: OUT OF BALANCE EXPOSURES			
FINANCIAL GUARANTEES GIVEN		1 056 588	1 065 777
CONTINGENTS COMMITMENTS		3 625 252	2 901 768

Notes 1 to 49 described in Notes and Appendix I, II, III, IV and V, are part of the consolidated balance sheet at 31 December 2017.

UNICAJA BANCO, S.A.
AND ITS' SUBSIDIARIES (UNICAJA BANCO GROUP)

CONSOLIDATED INCOME STATEMENTS
FOR YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousand euros)

	Note	(Debit) Credit 2017	(Debit) Credit 2016
INTEREST INCOME	32	852 818	1 010 971
INTEREST EXPENSE	33	(270 055)	(391 192)
EXPENSE ON CAPITAL REPAYABLE ON DEMAND		-	-
NET INTEREST INCOME		**582 763**	**619 779**
DIVIDEND INCOME	34	22 881	27 446
SHARE OF PROFIT OR LOSS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	35	48 969	35 180
FEE AND COMMISSION INCOME	36	240 565	225 836
FEE AND COMMISSION EXPENSES	37	(20 418)	(18 396)
GAINS OR (-) LOSSES ON DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS. NET	38	96 052	84 080
GAINS OR (-) LOSSES ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING. NET	38	1 675	(7 061)
GAINS OR (-) LOSSES ON FINANCIAL ASSETS AND LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS. NET		-	-
GAINS OF (-) LOSSES FROM HEDGE ACCOUNTING. NET	38	179	258
EXCHANGE DIFFERENCES (LOSSES). NET	2.4	402	968
OTHER OPERATING INCOME	39	163 889	232 021
OTHER OPERATING EXPENSES	39	(139 906)	(115 857)
INCOME ON INSURANCE AND REINSURANCE CONTRACTS	40	-	17 394
EXPENSES ON INSURANCE AND REINSURANCE CONTRACTS	40	-	(12 529)
GROSS INCOME		**997 051**	**1 089 119**
ADMINISTRATION COSTS	41	(590 481)	(610 629)
Staff costs		(401 073)	(426 520)
Other administration costs		(189 408)	(184 109)
AMORTIZATION	13 y 14	(42 315)	(45 233)
PROVISIONS OR (-) REVERSAL OF PROVISIONS	18	(132 454)	(104 037)
IMPAIRMENT OR (-) REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS	10 y 27	(36 652)	(38 506)
Financial assets measured at cost		(18 621)	(4 167)
Held-for-sale financial assets		30 588	49 508
Loans and receivables		(48 619)	(83 847)
Held-to-maturity investments		-	-
NET OPERATING INCOME		**195 149**	**290 714**
IMPAIRMENT OR (-) REVERSAL OF IMPAIRMENT OF INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES	42	(27 247)	(27 330)
IMPAIRMENT OR (-) REVERSAL OF IMPAIRMENT ON NON-FINANCIAL ASSETS	42	(46 716)	(96 937)
Tangible assets		(5 808)	(3 379)
Intangible assets		-	(11)
Other		(40 908)	(93 547)
GAINS (LOSSES) ON DERECOGNIZED OF NON-FINANCIAL ASSETS AND SUBSIDIARIES. NET	43	18 737	25 009
o/w: investments in subsidiaries, joint ventures and associates		*13 394*	*19 470*
NEGATIVE GOODWILL RECOGNIZED IN PROFIT OR LOSS		-	-
PROFIT OR (-) LOSS FROM NON-CURRENT ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE NOT QUALIFYING AS DISCONTINUED OPERATIONS	44	(143)	(492)
OPERATING PROFIT BEFORE TAX		**139 780**	**190 964**
TAX EXPENSE OR (-) INCOME RELATED TO PROFIT OR LOSS FROM CONTINUING OPERATIONS	23	(1 341)	(66 113)
PROFIT FROM CONTINUING OPERATIONS		**138 439**	**124 851**
PROFIT FROM DISCONTINUED OPERATIONS (NET)	2.21	-	10 205
PROFIT		**138 439**	**135 056**
Attributable to minority interest (non-controlling interests)	21	(3 936)	(7 061)
Attributable to owners of the parent		142 375	142 117
EARNINGS PER SHARE			
Basic	3	0.113	0.154
Diluted	3	0.109	0.147

Notes 1 to 49 described in Notes and Appendix I, II, III, IV and V, are part of the consolidated incorme statement at 31 December 2017.

UNICAJA BANCO, S.A.
AND ITS' SUBSIDIARIES (UNICAJA BANCO GROUP)

CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSES
FOR YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousand euros)

	Note	Year 2017	Year 2016
PROFIT RECOGNIZED IN INCOME STATEMENT		**138 439**	**135 056**
OTHER RECOGNIZED INCOME (EXPENSES)		**(17 738)**	**(107 665)**
Items not subject to reclassification to income statement		**1 333**	**425**
Actuarial gains and losses from defined benefit pension plans	41	1 904	607
Non-current assets and disposal groups available for sale		-	-
Gains or losses from investments in subsidiaries, joint-ventures and associates		-	-
Other valuation adjustments		-	-
Income tax related to items not subject to reclassification to income statement	24	(571)	(182)
Items subject to reclassification to income statement		**(19 071)**	**(108 090)**
Hedge of net investments in foreign operations [effective portion]		-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Foreign currency translation	2.4	(163)	29
Valuation gains or (-) losses taken to equity		(163)	126
Transferred to profit or loss		-	(97)
Other reclassifications		-	-
Cash flow hedges [effective portion]	11	1 400	(16 025)
Valuation gains or (-) losses taken to equity		(9 283)	(16 731)
Transferred to profit or loss		10 683	706
Transferred to initial carrying amount of hedged items		-	-
Other reclassifications		-	-
Available-for-sale financial assets	9	(43 634)	(118 209)
Valuation gains or (-) losses taken to equity		44 797	19 218
Transferred to profit or loss		(88 431)	(137 427)
Other reclassifications		-	-
Non-current assets held for sale	16	-	-
Valuation gains or (-) losses taken to equity		-	-
Transferred to profit or loss		-	-
Other reclassifications		-	-
Gains or losses from investments in subsidiaries, joint-ventures and associates	23	15 153	(20 209)
Income tax on items to be reclassified to income statement	24	8 173	46 324
Total recognized income/expenses		**120 701**	**27 391**
Attributable to minority interest [non-controlling interests]		(3 936)	(7 061)
Attributable to owners of the parent		124 637	34 452

Notes 1 to 49 described in Notes and Appendix I, II, III, IV and V, are part of the consolidated statement of recognised income and expenses at 31 December 2017.

UNICAJA BANCO, S.A. AND ITS' SUBSIDIARIES (UNICAJA BANCO GROUP)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousand euros)

	Capital	Share premium	Equity instruments issued other tan capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	Treasury shares (-)	Profit or loss attributable to owners of the parent	Interim dividends (-)	Accumulated other comprehensive income	Non-controlling interest		Total
												Other accumulated comprehensive income	Other	
Balances as of January 1, 2017	**922 802**	**1 140 673**	**49 263**	**-**	**535 674**	**-**	**127 900**	**-**	**142 117**	**-**	**34 648**	**5 409**	**224 637**	**3 183 123**
Adjustments from error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances as of January 1, 2017	**922 802**	**1 140 673**	**49 263**	**-**	**535 674**	**-**	**127 900**	**-**	**142 117**	**-**	**34 648**	**5 409**	**224 637**	**3 183 123**
Total income/ expense recognized	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**142 375**	**-**	**(17 738)**	**-**	**(3 936)**	**120 701**
Other changes in equity	**687 500**	**68 750**	**(242)**	**-**	**336 083**	**-**	**(155 028)**	**-**	**(142 117)**	**-**	**-**	**(5 017)**	**(191 415)**	**598 514**
Issuances of common shares	687 500	68 750	-	-	-	-	(23 786)	-	-	-	-	-	-	732 464
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period or maturity of other issued equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt on equity (Note 22)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution (Note 3)	-	-	-	-	(23 850)	-	-	-	-	-	-	-	-	(23 850)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items (Note 3)	-	-	-	-	486 449	-	(147 900)	-	(142 117)	-	-	(5 017)	(191 415)	-
Increase/Reduction of equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	(242)	-	(126 516)	-	16 658	-	-	-	-	-	-	(110 100)
o/w: transfer to welfare funds (only savings banks and credit co-operatives)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances as of December 31,2017	**1 610 302**	**1 209 423**	**49 021**	**-**	**871 757**	**-**	**(27 128)**	**-**	**142 375**	**-**	**16 910**	**392**	**29 286**	**3 902 338**

Notes 1 to 49 described in Notes and Appendix I, II, III, IV and V, are part of the consolidated statement of changes in equity at 31 December 2017.

UNICAJA BANCO, S.A. AND ITS' SUBSIDIARIES (UNICAJA BANCO GROUP)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousand euros)

	Capital	Share premium	Equity instruments issued other tan capital	Other equity items	Retained earnings	Revaluation reserves	Other reserves	Treasury shares (-)	Profit or loss attributable to owners of the parent	Interim dividends (-)	Accumulated other comprehensive income	Non-controlling interest		Total
												Other accumulated comprehensive income	Other	
Balances as of January 1, 2016	**881 288**	**1 132 857**	**98 652**	**-**	**480 719**	**-**	**53 348**	**-**	**186 661**	**-**	**142 313**	**7 794**	**272 313**	**3 255 945**
Adjustments from error corrections	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances as of January 1, 2016	**881 288**	**1 132 857**	**98 652**	**-**	**480 719**	**-**	**53 348**	**-**	**186 661**	**-**	**142 313**	**7 794**	**272 313**	**3 255 945**
Total income/ expense recognized	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**142 117**	**-**	**(107 665)**	**-**	**(7 061)**	**27 391**
Other changes in equity	**-**	**7 816**	**(49 389)**	**-**	**54 955**	**-**	**74 552**	**-**	**(186 661)**	**-**	**-**	**(2 385)**	**(40 615)**	**(100 213)**
Issuances of common shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period or maturity of other issued equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of debt on equity (Note 22)	41 514	7 816	(49 310)	-	-	-	-	-	-	-	-	-	-	20
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution (Note 3)	-	-	-	-	(38 750)	-	-	-	-	-	-	-	-	(38 750)
Purchase of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers between equity items (Note 3)	-	-	-	-	155 109	-	74 552	-	(186 661)	-	-	(2 385)	(40 615)	-
Increase/Reduction of equity due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Share based payments	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	(79)	-	(61 404)	-	-	-	-	-	-	-	-	(61 483)
o/w: transfer to welfare funds (only savings banks and credit co-operatives)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Balances as of December 31,2016	**922 802**	**1 140 673**	**49 263**	**-**	**535 674**	**-**	**127 900**	**-**	**142 117**	**-**	**34 648**	**5 409**	**224 637**	**3 183 123**

Notes 1 to 49 described in Notes and Appendix I, II, III, IV and V, are part of the consolidated statement of changes in equity at 31 December 2017.

UNICAJA BANCO, S.A.
AND ITS' SUBSIDIARIES (GRUPO UNICAJA BANCO GROUP)

CONSOLIDATED CASH FLOW STATEMENTS
FOR YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousand euros)

	Note	Year 2017	Year 2016
A) CASH FLOWS FROM OPERATING ACTIVITIES		**1 118 667**	**4 346 591**
Profit for the year		**138 439**	**135 056**
Adjustments to obtain cash flow from operating activities		**(194 127)**	**(126 661)**
Depreciation and amortization	13 y 14	42 315	45 233
Other adjustments	2.25	(236 442)	(171 894)
Net increase/decrease in operating assets		**2 128 859**	**7 395 867**
Financial assets held for trading	8	46 868	15 682
Other financial assets/liabilities designated at fair value through profit or loss		-	-
Available-for-sale financial assets	9.1	2 444 161	4 406 719
Loans and receivables / Financial liabilities	10.1	(764 299)	2 657 107
Other operating assets/ liabilities		402 129	316 359
Net increase/decrease in operating liabilities		**(954 504)**	**(2 941 889)**
Financial liabilities held for trading	8	(23 408)	(74 460)
Other financial liabilities at fair value through profit or loss		-	-
Financial liabilities at amortised cost	17	(1 145 219)	(2 847 859)
Other operating liabilities		214 123	(19 570)
Collection/Payments for income tax		**-**	**(115 782)**
B) CASH FLOWS FROM INVESTING ACTIVITIES		**1 737 122**	**(5 429 456)**
Payments		**(687 471)**	**(5 992 293)**
Tangible assets	13	(24 252)	-
Intangible assets	14	(101)	-
Investments	12	(39 912)	(658)
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities	16	(623 056)	-
Held-to-maturity investments	9.4	-	(5 991 635)
Other payments related to investing activities		(150)	-
Collections		**2 424 593**	**562 837**
Tangible assets	13	164 658	26 584
Intangible assets	14	130	412
Investments	12	22 149	114 172
Subsidiaries and other business units		-	-
Non-current assets held for sale and associated liabilities	16	-	81 672
Held-to-maturity investments	9.4	2 168 720	339 997
Other collections related to investing activities		68 936	-
(Continues)			

Notes 1 to 49 described in Notes and Appendix I, II, III, IV and V, are part of the consolidated cash flow statement at 31 December 2017.

UNICAJA BANCO, S.A.
AND ITS' SUBSIDIARIES (GRUPO UNICAJA BANCO GROUP)

CONSOLIDATED CASH FLOW STATEMENT
FOR YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousand euros)

	Note	Year 2017	Year 2016
C) CASH FLOWS FROM FINANCING ACTIVITIES		**88 891**	**(46 182)**
Payments		**(667 358)**	**(46 182)**
Dividends	3	(23 850)	(38 750)
Subordinated liabilities	17	(643 508)	(7 432)
Own equity instruments amortization		-	-
Own equity instruments acquisition		-	-
Other payments related to investing activities		-	-
Collections		**756 249**	**-**
Subordinated liabilities	17	-	-
Own equity instruments issuance		756 249	-
Own equity instruments disposal		-	-
Other collections related to financing activities		-	-
D) EFECT OF EXCHANGE RATE CHANGES		**-**	**-**
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		**(2 944 680)**	**(1 129 047)**
F) CASH AND CASH EQUIVALNETS AT BEGINNING OF THE YEAR		**861 707**	**1 990 754**
G) CASH AND CASH EQUIVALENTS AT END OF PERIOD		**3 806 387**	**861 707**
COMPONENTS OF CASH AND EQUIVALENT AT END OF THE YEAR		**3 806 387**	**861 707**
Cash	2.25	346 589	323 291
Cash equivalent balances at central banks	2.25	3 352 231	338 422
Other financial assets	2.25	107 567	199 994
Less: bank overdraft refundable on demand		-	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF PERIOD	2.25	**3 806 387**	**861 707**
o/w: Held by consolidated entities but not drawable by group		-	-

Notes 1 to 49 described in Notes and Appendix I, II, III, IV and V, are part of the consolidated cash flow statement at 31 December 2017.

UNICAJA BANCO, S.A. AND ITS' SUBSIDIARIES
(UNICAJA BANCO GROUP)

NOTES TO THE CONSOLIDATED REPORT FOR THE YEAR ENDED AT 31 DECEMBER 2017
(Expressed in thousand euros)

1. Introduction, basis of presentation of the annual accounts and other information

1.1 Introduction and nature of the Company

Unicaja Banco, S.A. (hereinafter Unicaja Banco, the Parent Company or the Bank) is a credit institution incorporated for an indefinite period on 1 December 2011. Its commenced activities as a result of the approval by the General Assembly of Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén – Unicaja (currently, Fundación Bancaria Unicaja) of the indirect carrying on of finance activities through a bank.

The Bank is subject to the legislation and regulations governing banking institutions in Spain. Other public information regarding the bank is available on its website (www.unicajabanco.es) and at its registered domicile (Avenida Andalucía, 10 and 12, in Malaga).

The Bank's corporate purpose consists of all types of general banking activities, transactions, actions, contracts and services or those that are directly or indirectly related or are supplementary to them provided they are permitted or not prohibited by law.

The Bank's corporate purpose includes the rendering of investment and other auxiliary services, as well as the rendering of insurance agency activities, as an exclusive or associated operator, but not simultaneously.

In accordance with the bylaws, the activities that comply with Law 10/2014 (26 June) requirements on the organization, supervision and solvency of credit institutions and making up its corporate purpose may be fully or partially carried out indirectly in any manner allowed by law and, in particular, through the ownership of shares in companies or other entities that have the same, similar or supplementary corporate purpose.

The Bank has been entered into the Malaga Mercantile Registry and as a credit institution in the Special Registry at the Bank of Spain under number 2103. The Bank also holds a license to carry out banking activities granted by the Ministry of Finance in accordance with Article 1 and concordant articles of Royal Decree 1245/1995.

The Group's 2017 consolidated financial statements have not yet been approved by the Bank's Shareholder's General Meeting. Nonetheless, the Bank's board of directors expects the consolidated annual accounts to be approved without significant changes.

At 31 December 2017, 49,68% of the Bank's share capital pertains to Fundación Bancaria Unicaja, previously Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén (Unicaja), the ultimate parent company of the Bank and the parent of Unicaja Group. Both the Bank and its parent company are domiciled in Malaga and are subject to Spanish legislation and their annual accounts are deposited at the Malaga Mercantile Registry. Fundación Bancaria Unicaja prepares consolidated annual accounts as the ultimate parent of the Group, in accordance with Article 42 of the Commercial Code. The latest consolidated annual accounts prepared by Group Unicaja related to the year ended 31 December 2016 and have been filed with the Malaga Mercantile Registry.

Moreover, the Bank is the parent of a subgroup of subsidiaries that engage in diverse activities and make up Unicaja Banco Group. In accordance with Article 6 of Royal Decree 1159/2010 (17 September) which approves the Rules for Preparing Consolidated Annual Accounts and amends the General Accounting Plan approved by Royal Decree 1514/2007 (16 November) and the General Accounting Plan for SMEs approved by Royal Decree 1515/2007 (16 November), the Bank is obligated to prepare consolidated annual accounts as it has issued securities that are traded on a regulated market in any European Union Member State, applying international financial reporting standards adopted by European Union Regulations. Consequently, the Bank has prepared the consolidated annual accounts for Unicaja Banco, S.A. and its subsidiaries (Unicaja Banco Group), in addition to its own annual accounts, in accordance with current legislation.

The companies that form part of Unicaja Banco Group at 31 December 2017 are as follows:

Company Name	Activity
Alqlunia Duero, S.L.U.	Real estate development
Alteria Corporación Unicaja, S.L.U.	Investment in assets, securities and financial companies
Altos de Jontoya Residencia para Mayores, S.L.U.	Geriatric care
Analistas Económicos de Andalucía, S.L.U.	Study and analysis economic activity
Andaluza de Tramitaciones y Gestiones, S.A.U.	Management and settlement documents and deeds
Banco de Caja España de Inversiones, Salamanca y Soria, S.A.	Credit institution
Caja España Mediación, Operador Banca-Seguros Vinculado, S.A.U.	Insurance broker
Cartera de Inversiones Agroalimentarias, S.L.U.	Food industry
Conexiones y Servicios del Duero, S.A.	Auxiliary services
Desarrollo de Proyectos de Castilla y León, S.L.U.	Real estate development
Finanduero Sociedad de Valores, S.A.U.	Stockbroker
Gestión de Actividades y Servicios Empresariales, S.A.U.	Electronic recording and processing of data and documents
Gestión de Inmuebles Adquiridos, S.L.U.	Real estate development
Grupo de Negocios Duero, S.A.U.	Financial management
Inmobiliaria Acinipo, S.L.U.	Real estate development
Inmobiliaria Uniex Sur, S.L.U.	Real estate development
La Algara Sociedad de Gestión, S.L.U.	Turism industry
Mijas Sol Resort, S.L.U.	Real estate development
Parque Industrial Humilladero, S.L.	Development of industrial land
Pinares del Sur, S.L.U.	Real estate development
Propco Rosaleda, S.L.	Real estate development
Segurándalus Mediación, Correduría de Seguros, S.A.U.	Insurance broker
Tubos de Castilla y León, S.A.U.	Pipe Manufacturing
Unicaja Banco, S.A.	Credit institution
Unicaja Gestión de Activos Inmobiliarios, S.A.U.	Holding real estate
Unicartera Caja 2, S.L.U.	Promotion or funding of R&D in the field of medicine
Unicartera Gestión de Activos, S.L.U.	Recovery procedures and management of disputes
Unicartera Internacional, S.L.U.	Investment in assets, securities and financial companies
Unicartera Renta, S.L.U.	Investment in assets, securities and financial companies
Unicorp Patrimonio, Sociedad de Valores, S.A.U.	Wealth management
Unigest, S.G.I.I.C., S.A.	Management of Collective Investment Institutions
Unimediación, S.L.U.	Insurance Brokers
Unimediterráneo de Inversiones, S.L.U.	Investment in assets, securities and financial companies
Uniwindet Parque Eólico Las Lomillas, S.L.	Wind power
Uniwindet Parque Eólico Loma de Ayala, S.L.	Wind power
Uniwindet Parque Eólico Los Jarales, S.L.	Wind power
Uniwindet Parque Eólico Tres Villas, S.L.	Wind power
Uniwindet, S.L.	Wind power
Viajes Caja España, S.A.	Travel agency
Viproelco, S.A.U.	Property development

The most significant changes in the Unicaja Banco Group's composition during 2017 are as follows:

- On 19 April 2017, EspañaDuero's Annual General Meeting approved the vertical merger of Grupo de Negocios Duero, S.A.U. (target company) into EspañaDuero (acquiring company), including: (i) the merger balance sheets, (ii) the joint merger plan, (iii) the merger of the two companies and (iv) the application to the merger of the tax scheme provided by Title VII, Chapter VII of Spanish Corporate Income Tax Law 27/2014 of 27 November. The relevant administrative authorisations were received on 4 December 2017, so the date of the merger for accounting purposes is 1 January 2017, in accordance with the applicable financial reporting framework. The share capital of Grupo de Negocios Duero, S.A.U. was held entirely by EspañaDuero. This merger has no effect on the consolidated financial statements, barring the exit from the consolidation scope of Grupo de Negocios Duero, S.A.U., with effect as from 1 January 2017.

- On 17 May 2017, the Unicaja Banco Group sold its interests in the companies “Uniwindet Tres Villas, S.L.”, “Uniwindet Loma de Ayala, S.L.”, “Uniwindet Los Jarales, S.L.” and “Uniwindet Las Lomillas, S.L.”, losing control over the companies, which ceased to form part of the Group on that same date. This sale generated a profit of €4,537 thousand for the Group.

The following companies also left the Group during 2017: “Conexiones y Servicios del Duero, S.A.” (dissolution), “Propco Rosaleda, S.L.” (now named “Propco Malagueta, S.L.”, having become an associate following the sale of 75% of the shares) and “Tubos de Castilla y León, S.A.U.” (dissolution). No companies joined the Group in 2017.

The most significant changes in the Unicaja Banco Group’s composition during 2016 are as follows:

- On 11 February 2016, the Group sold, through Banco de Caja España de Inversiones, Salamanca y Soria, S.A. and Grupo de Negocios Duero, S.A.U., its entire shareholding in Unión del Duero, Compañía de Seguros Generales, S.A.U., generating a profit of €23,185 thousand for the Group.

- On 1 June 2016, Alteria Corporación Unicaja, S.L.U.'s sole shareholder approved the start of the process leading up to the vertical merger of Unicorp Corporación Financiera, S.L.U. and Corporación Uninser S.A.U. into Alteria Corporación Unicaja, S.L.U. (all wholly owned by the Unicaja Banco Group). The process was completed when the resolutions were executed in a public deed on 27 July 2016 and registered on 6 September 2016. This merger had no effect on the consolidated financial statements, barring the exit from the consolidation scope of the target companies, with effect as from 1 January 2016.

During 2016, the company “Bruesa Duero, S.L.” left the Group and the company “Propco Rosaleda, S.L.” (now named “Propco Malagueta, S.L.”) joined the Group.

In accordance with current legislation, the Board of Directors of the Parent Company has prepared the Bank's individual annual accounts. The effect on consolidation on the accompanying balance sheet at 31 December 2017 and 2016, the income statement, the statement of changes in equity and the cash flow statement for 2017 and 2016 is summarised below:

	Thausand euros			
	2017		2016	
	Individual	Consolidated	Individual	Consolidated
Assets	34 462 868	56 331 908	33 031 059	57 240 828
Equity	3 839 600	3 902 338	2 950 006	3 183 123
Income for the year	201 974	138 439	191 743	135 056
Total income and expense in the statement of changes in equity	180 980	120 701	87 518	27 391
Net increase/(decrease) in cash and cash equivalents	1 850 040	2 944 680	(259 570)	(1 129 047)

The Group’s consolidated annual accounts for 2017 are pending approval by its respective General Assembly or General Meeting. Nonetheless, the Entity’s Board of Directors expects these annual accounts to be approved without significant changes.

Set out below is a summary of the Parent entity’s individual balance sheet, individual income statement, individual statement of changes in equity and individual cash flow statement for the years ended 31 December 2017 and 2016 which have been prepared in accordance with the same accounting principles and measurement methods, gathered in the Circular 4/2004 of the Bank of Spain, and its subsequent amendments, as those applied in these consolidated annual accounts:

a) Individual balance sheets at 31 December 2017 and 2016

	Thousand euros	
	2017	**2016**
Cash, cash balances at central banks and other demand deposits	2 329 526	486 675
Financial assets held for trading	25 594	53 385
Available-for-sale financial assets	3 430 814	3 734 575
Loans and receivables	19 989 319	20 102 103
Held-to-maturity investments	5 562 585	5 445 776
Hedging derivatives	444 524	565 590
Investments in subsidiaries, joint ventures and associates	907 930	918 805
Tangible assets	503 169	508 714
Intangible or reinsurance assets	-	7
Tax assets	813 973	772 209
Other assets	198 893	184 787
Non-current assets and disposal groups held for sale	256 541	258 439
Total assets	**34 462 868**	**33 031 065**
Financial liabilities held for trading	19 740	24 851
Financial liabilities designated at fair value through profit or loss	-	-
Financial liabilities measured at amortized cost	29 332 909	28 961 952
Hedging derivatives	31 384	26 976
Fair value changes of the hedged items in portfolio hedges of interest rate risk	-	-
Provisions	496 228	378 685
Tax liabilities	56 970	70 904
Capital repayable on demand	-	-
Other liabilities	686 037	617 691
Liabilities included in disposal groups classified as held for sale	-	-
Total liabilities	**30 623 268**	**30 081 059**
Shareholders' funds:	3 848 446	2 937 856
Capital	1 610 302	922 802
Share premium	1 322 995	1 254 245
Equity instruments issued other than capital	49 341	49 341
Other equity elements	-	-
Retained earnings	687 620	519 725
Revaluation reserves	-	-
Other reserves	(23 786)	-
Less: treasury shares	-	-
Profit or loss attributable to parent	201 974	191 743
Less: interim dividend	-	-
Accumulated other comprehensive income:	(8 846)	12 150
Elements not to be reclassified into profit or loss	2 708	2 192
Elements to be reclassified into profit or loss	(11 554)	9 958
Total equity	**3 839 600**	**2 950 007**
Total equity and total liabilities	**34 462 868**	**33 031 065**
Financial guarrantees given	733 445	697 877
Contingents commitments	2 768 440	2 196 318

b) Individual income statements for the years ended 31 December 2017 and 2016:

	Thousand euros	
	2017	**2016**
Interest income	574 889	623 799
Interest expense	(74 908)	(128 623)
Net interest income	**499 981**	**495 176**
Dividend income	55 351	94 433
Fee and commission income	126 353	119 903
Fee and commission expenses	(13 113)	(11 246)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss. Net	60 449	76 526
Gains or (-) losses on financial assets and liabilities held for trading. Net	2 144	(8 372)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss. Net	-	-
Gains of (-) losses from hedge accounting. Net	179	258
Exchange differences (losses). Net	(288)	184
Other operating income	15 853	99 673
Other operating expenses	(53 345)	(41 575)
Gross income	**693 564**	**824 960**
Administration costs	(320 185)	(327 231)
Amortization	(18 421)	(17 792)
Provisions or (-) reversal of provisions	(71 067)	(26 550)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(45 719)	(120 669)
Net operating income	**238 172**	**332 718**
Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	(4 826)	(14 773)
Impairment or (-) reversal of impairment on non-financial assets	(134)	(1 477)
Gains (losses) on derecognized of non-financial assets and subsidiaries. Net	8 029	2 295
Negative goodwill recognized in profit or loss	-	-
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	788	9 650
Operating profit before tax	**242 029**	**328 413**
Tax expense or (-) income related to profit or loss from continuing operations	(40 055)	(136 670)
Profit from continuing operations	**201 974**	**191 743**
Profit from discontinued operations (net)	**-**	**-**
Total recognized income/expenses	**201 974**	**191 743**

c) Individual statements of changes in equity for the years ended 31 December 2017 and 2016:

	Thousand euros	
	2017	**2016**
Profit recognized in income statement	**201 974**	**191 743**
Other recognized income (expenses)	**(20 994)**	**(104 225)**
Items not subject to reclassification to income statement	**515**	**1 253**
Actuarial gains and losses from defined benefit pension plans	736	1 789
Non-current assets and disposal groups available for sale	-	-
Other valuation adjustments	-	-
Income tax related to items not subject to reclassification to income statement	(221)	(536)
Items subject to reclassification to income statement	**(21 509)**	**(105 478)**
Hedge of net investments in foreign operations [effective portion]	-	-
Foreign currency translation	(112)	30
Cash flow hedges [effective portion]	(10 350)	(20 210)
Available-for-sale financial assets	(20 187)	(130 443)
Non-current assets held for sale	-	-
Income tax on items to be reclassified to income statement	9 140	45 145
Total recognized income/expenses	**180 980**	**87 518**

d) Individual statement of changes in equity for the years ended 31 December 2017 and 2016:

	Capital and chare premium	Equity instruments issued other than capital	Retained earnings	Other reserves	Profit or loss	Accumulated other comprehensive income	Total
Balances as of January 1, 2017	**2 177 047**	**49 341**	**519 725**	**-**	**191 743**	**12 150**	**2 950 006**
Adjustments from error corrections	-	-	-	-	-	-	-
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-
Balances as of January 1, 2017	**2 177 047**	**49 341**	**519 725**	**-**	**191 743**	**12 150**	**2 950 006**
Total income/ expense recognized	**-**	-	-	**-**	**201 974**	**(20 994)**	**180 980**
Other changes in equity	**756 250**	**-**	**167 895**	**(23 786)**	**(191 743)**	**(2)**	**708 614**
Issuances of common shares	756 250	-	-	(23 786)	-	-	732 464
Issuance of preferred shares	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-
Period or maturity of other issued equity instruments	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-
Capital reductions	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-
Purchase or treasury shares	-	-	(23 850)	-	-	-	(23 850)
Sale or cancellation of treasury shares	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-
Transfers bretween equity items	-	-	191 745	-	(191 743)	(2)	-
Increase/Reduction of equity due to business combinations	-	-	-	-	-	-	-
Shared based payments	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	-	-	-
Balances as of December 31,2017	**2 933 297**	**49 341**	**687 620**	**(23 786)**	**201 974**	**(8 846)**	**3 839 600**

	Capital and chare premium	Equity instruments issued other than capital	Retained earnings	Other Reserves	Profit or loss	Accumulated other comprehensive income	Total
Balances as of January 1, 2016	**2 127 717**	**98 682**	**328 412**	**-**	**230 063**	**116 378**	**2 901 252**
Adjustments from error corrections	-	-	-	-	-	-	-
Adjustments due to changes in accounting policy	-	-	-	-	-	-	-
Balances as of January 1, 2016	**2 127 717**	**98 682**	**328 412**	**-**	**230 063**	**116 378**	**2 901 252**
Total income/ expense recognized	**-**	**-**	**-**	**-**	**191 743**	**(104 228)**	**87 515**
Other changes in equity	**49 330**	**(49 341)**	**191 313**	**-**	**(230 063)**	**-**	**(38 761)**
Issuances of common shares	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-
Issuance of other equity instruments	-	-	-	-	-	-	-
Period or maturity of other issued equity instruments	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	49 330	(49 330)	-	-	-	-	-
Capital reductions	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	(38 750)
Purchase or treasury shares	-	-	(38 750)	-	-	-	-
Sale or cancellation of treasury shares	-	-	-	-	-	-	-
Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-
Transfers bretween equity items	-	-	230 063	-	(230 063)	-	-
Increase/Reduction of equity due to business combinations	-	(11)	-	-	-	-	(11)
Shared based payments	-	-	-	-	-	-	-
Other increases or (-) decreases in equity	-	-	-	-	-	-	-
Balances as of December 31,2016	**2 177 047**	**49 341**	**519 725**	**-**	**191 743**	**12 150**	**2 950 006**

e) Individual cash flow statements for the years ended 31 December 2017 and 2016:

	Thousand euros	
	2017	**2016**
Cash flows from operating activities	**2 113 725**	**1 130 579**
Profit for the year	201 974	191 743
Adjustments to obtain cash flow from operating activities	861 753	(87 862)
Net increase/decrease in operating assets	601 542	3 255 779
Net increase/decrease in operating liabilities	550 448	(2 089 395)
Collection/ payments for income tax	(101 992)	(139 686)
Cash flows from investing activities	**(239 836)**	**(1 351 391)**
Payments	(406 584)	(1 679 433)
Collections	166 748	328 042
Cash flows from financing activities	**(23 849)**	**(38 758)**
Payments	(23 849)	(38 758)
Collections	-	-
Efect of exchangge rate changes	**-**	**-**
Net increase (decrease) in cash and cash equivalents	**1 850 040**	**(259 570)**
Cash and cash equivalents at beginning of the year	491 444	751 014
Cash and cash equivalents at end of period	2 341 484	491 444

1.2 Admission to trading of Unicaja Banco and repurchase of the contingently convertible bonds of EspañaDuero initially subscribed for by the FROB

1.2.1 Admission to trading of Unicaja Banco

In the framework of the takeover bid for Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (now EspañaDuero), Unicaja Banco stated its intention to apply for the admission to trading of the company's shares in the Spanish Electronic Trading System ("SIBE") and the stock exchanges of Madrid, Valencia, Barcelona and Bilbao.

This intention was included in the Prospectus, section 6, regarding the exchange offer of shares, contingent convertible bonds, and contingent convertible perpetual bonds of Unicaja Banco. This exchange offer to be subscribed by shareholders and bondholders of necessarily and contingently convertible bonds of EspañaDuero was authorized by the National Securities Market Commission (CNMV) on November 26, 2013, and it was incorporated in the EspañaDuero's "Restructuring Plan" TermSheet.

However, due to a combination of adverse circumstances that could have jeopardised the share flotation in 2016, the Spanish government applied for an extension to the initially agreed deadline. This authorisation for the deferral of the deadline for admission to trading of the shares was obtained from the competent Spanish and European Community authorities. The Entity reported this extension to the CNMV by means of a Significant Event published on 27 January 2017.

In this context, on 26 April 2017, Unicaja Banco's Annual General Meeting adopted the following resolutions in relation to its admission to trading:

- Apply for admission to trading in the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and inclusion in the Spanish Electronic Trading System (SIBE or continuous market) of all the Company's ordinary shares and of any shares issued between the resolution date and the effective date for trading admission. Delegate to the Board of Directors the authority to carry this out.

- Subject to and conditional upon prior approval of the resolution to apply for the admission to trading of the Company's shares, designate the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear) and its member entities as the entities responsible for the Company's bookkeeping. Also delegate to the Board of Directors the authority to formalise the process.

- In addition to the resolution to apply for the admission to trading of the Company's shares, and subject to its prior approval, authorise a share subscription offer for Company's new shares for a par value of €625,000,000 through the issuance of 625,000,000 new shares with a par value of one euro each, to be fully subscribed and paid up by means of cash contributions, excluding the pre-emptive subscription right and providing for incomplete subscription, for qualified investors, prior to the admission to trading of the Company's shares in the stock exchanges. Additionally, delegate to the Board of Directors the authority to determine the rest of the conditions for the capital increase, for all aspects not forseen in the resolution, to implement the resolution and to amend the Bylaws accordingly.

- In addition to the resolution to apply for the admission to trading of the Company's shares and the resolution to increase capital through cash contributions, described above, carry out a share capital increase for a par value of €62,500,000 through the issuance of 62,500,000 new shares with a par value of one euro each, which will be fully subscribed and paid up by means of cash contributions, excluding the pre-emptive subscription right and providing for incomplete subscription, to be offered to qualified investors, following the admission to trading of the Company's shares. Additionally, delegate the Board of Directors the authority to determine the rest of the conditions of the capital increase, for all aspects not forseen in the resolution, to implement the resolution and to amend the Bylaws accordingly.

- Amend the Bylaws, the full effectiveness of the Bylaw provisions relating exclusively to listed company status being conditional upon the admission to trading of the Company's shares; and, additionally, Articles 9.3, 18.1, 30.4 and 31.3, subject to administrative authorisation from the Bank of Spain.

- Approve the Regulations of the General Shareholders' Meeting, which will come into force when the Company's shares are admitted to trading.

Following this approval by the General Meeting, Unicaja Banco announced, by means of a Significant Event submitted to the CNMV on 1 June 2017, its intention to make a share subscription offer targeting qualified investors and to apply for admission to trading in the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges, as well as inclusion in the Spanish Electronic Trading System (SIBE or continuous market), of all Company's ordinary shares. On 15 June 2017, the CNMV approved the share subscription offer prospectus and the application for admission to trading of the ordinary shares in the above-mentioned stock exchanges.

On 20 June 2017, the Entity submitted a Significant Event to the CNMV, stating that, during the bookbuilding process undertaken by Unicaja Banco through national and international investments, demand fully covered the share subscription offer (both the initial amount and the greenshoe option), non-binding investment proposals having been received within the indicative, non-binding price range.

On 28 June 2017, the Entity published a Significant Event stating that, after consulting Morgan Stanley & Co. International plc and UBS Limited (the Global Coordinating Agents), it agreed to set the definitive offer price at €1.10 per share, entailing an initial stock market capitalisation of €1,703 million for Unicaja Banco. Additionally, after setting the offer price, Unicaja Banco entered into an underwriting agreement with the Global Coordinating Agents and with Citigroup Global Markets Limited, Credit Suisse Securities (Europe) Limited, Alantra Capital Markets, S.V., S.A.U., Fidentiis Equities, S.V., S.A. and Stifel Nicolaus Europe Limited (which operates as Keefe, Bruyette & Woods) (together with the Global Coordinating Agents, the Placement Agents), the underwriting proportions being as indicated in the Prospectus.

On 29 June 2017, Unicaja Banco's share capital was increased by a par value of €625,000 through the issuance of 625,000,000 new shares with a par value of one euro each and a total share premium of €62,500 thousand (€0.1 per share). Incremental costs directly attributable to the issuance of the new shares were recognised in "Other reserves" in equity in the consolidated balance sheet, pursuant to IFRS-EU, for €33,979 thousand (€23,786 after the tax effect).

The Company's shares were admitted to trading in the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges on 30 June 2017, once the CNMV had verified the fulfilment of the admission requirements and the approval of the admission to trading by the Stock Market Governing Companies.

On 25 July 2017, Unicaja Banco, S.A.'s share capital was increased by 62,500,000 shares, as agreed by the Annual General Meeting on 26 April 2017 to complement the capital increase of 625,000,000 shares carried out on 29 June 2017 and the admission to trading of the Bank's shares, as forseen in the Prospectus for Unicaja Banco's share subscription offer, as a purchase option granted to the stabilising agent, on behalf of the members of the placement syndicate, so as to cover overallotment (greenshoe). These shares were fully subscribed by means of cash contributions, having a par value of €1 each and a share premium of €0.10 per share, entailing an increase of €62,500 thousand in the Bank's capital and €6,250 thousand in the share premium. The shares receive the same treatment in all respects as the shares previously issued and were acquired on the same terms and conditions, forming a single class of shares for all purposes. As a result, the Bank's share capital totals €1,610,302 thousand, consisting of 1,610,302,121 registered shares with a par value of one euro each (Note 22.1). At the date on which these annual accounts are authorised for issue, the Unicaja Banco Group has completed all the formalities for these shares to be included in CET1 capital (Note 1.9.1).

As explained in the prospectus, funds obtained in the subscription offer, were to be used to strengthen the solvency position following the repurchase of the contingently convertible bonds subscribed for by the Fund for Orderly Bank Restructuring (FROB) (€604 million) and to fund the acquisition from the FROB of its shareholding in EspañaDuero (€63 million). The remaining was to be employed for other general business purposes.

1.2.2 Repurchase of the EspañaDuero contingently convertible bonds

On 31 August 2017, after obtaining the relevant administrative authorisations and adopting the necessary corporate resolutions, Unicaja Banco repurchased the contingently convertible bonds issued by its subsidiary Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero) from the FROB, in the amount of €604 million. The mentioned bonds had initially been subscribed for by the FROB (Note 17.4.3), pursuant to the EspañaDuero resolution plan approved on 19 December 2012 by the FROB and the Bank of Spain, and on 20 December 2012 by the European Commission, thus fulfilling in advance the repayment commitment stipulated in the European Commission's decision of 27 January 2017. Through this repurchase, Unicaja Banco became the owner of the above-mentioned bonds.

Additionally, on 14 December 2017, Unicaja Banco and EspañaDuero acquired from the FROB the shares held in EspañaDuero for €20 million and €43 million, respectively. Because of these transactions, the Unicaja Banco Group's shareholding in EspañaDuero rose from 69.38% to 76.68% in par value terms and EspañaDuero's treasury share portfolio increased from 2.43% to 19.94%. The Unicaja Banco Group's effective shareholding in EspañaDuero therefore rose from 71.11% at end-2016 to 95.77% at end-2017.

1.3 Basis of presentation of the consolidated annual accounts

The Group's Consolidated annual accounts are presented in accordance with International Financial Reporting Standards adapted by the European Union (hereinafter, "IFRS – EU"), considering Circular 4/2004 from Bank of Spain, of 22 December, which is the development and adaptation to the Spanish credit entity sector of the International Financial Reporting Standards approved by the European Union, and its subsequent amendments.

In this report, abbreviations "IAS" and "IFRS" are used to refer to International Accounting Standards and International Financial Reporting Standards, respectively. The abbreviations "ICIFRS" and "CAS" refer to interpretations from the Interpretations Committee on International Financial Reporting Standards and the former Interpretations Committee respectively, all of these having been approved by the European Union (hereinafter, "EU"), is the basis on which these consolidated annual accounts were prepared.

The present consolidated annual accounts were prepared applying the total of the accounting and valuation principles and norms of compulsory application that have a significant effect on these, so that they reflect fair image of the equity and of the financial situation of the Group as at 31 December 2017 and the results of operations, changes in net equity and cash flows that have arisen in the Group in the financial year ended on that date.

Note 2 summarises the principles and polices and the most significant valuation criteria applied in the preparation of consolidated annual accounts of the Group for the year 2017.

The consolidated annual accounts have been prepared based on the accounting records of the Bank and other Group entities. Nonetheless, given that the accounting principles and standards applied in the preparation of the Group's consolidated annual accounts for 2017 may differ from those used by some of the consolidated entities, during the consolidation process the necessary adjustments and reclassifications have been made to standardise such principles and standards and bring them into line with the IFRS-EU applied by the Entity.

Unless otherwise stated, these consolidated annual accounts are presented in thousand euros.

1.4 Responsibility for the information and estimates

The information contained in the present consolidated annual accounts is the responsibility of the Directors of the Parent Company.

In the consolidated financial statements of the Group for the year 2017, estimates were occasionally made by the Directors of the Group to quantify some of the assets, liabilities, income, expenses and obligations reported herein. These estimates refer to:

- Impairment losses on certain assets (Notes 9, 10, 12, 13, 14 and 15).
- Assumptions used in actuarial calculations of liabilities and commitments relating to post-employment benefits and other long-term commitments with employees (Notes 2.12 and 41).
- Useful life of property, plant and equipment and intangible assets (Notes 2.14, 2.15, 13 and 14).
- Measurement of goodwill on consolidation (Notes 2.16 and 4).
- Estimation of the probability of occurrence of events classed as contingent liabilities and, if applicable, estimation of the provisions necessary to cover these events (Notes 2.18 and 19).
- The reversal period and recoverability of deferred tax assets arising from temporary differences (Notes 2.13 and 24).
- Fair value of certain unlisted assets (Note 26).
- Fair value of certain guarantees related to assets collection (Notes 27 and 47).

These estimates were made based on the best information available at 31 December 2017 concerning the facts analysed. Nonetheless, future events could generate significant adjustments (upward or downward) in coming years, which would be made prospectively, in accordance with prevailing regulations, to recognize the impact of the change in the estimate on the consolidated income statement for the years in question.

1.5 Changes in accounting policies, errors and comparative information

1.5.1 Changes in accounting principles and errors

Policy changes that occurred for the year 2017 (Note 1.12) have not affected the comparability of the Group financial information, so it has not been necessary adaptation or reclassification of quantitative information pertaining to 2016 which was published in the consolidated annual accounts at the previous year end. Neither there have been mistakes that have required rectification of the comparative information for the year 2017.

For its part, in the immediately preceding year there have not been any regulatory changes that have affected the comparability of the Group's financial information, nor have any errors leading to a rectification of the information disclosed been made.

1.5.2 Comparative information

In accordance with IAS 1 the comparative information contained in these consolidated annual accounts for 2015 is presented solely and exclusively for the purpose of comparison with the information at 31 December 2017 and therefore does not constitute the Unicaja Banco Group's 2016 annual accounts.

1.6 Investments in credit institutions

In accordance with Article 20 of Royal Decree 84/2015, of 14 July, there follows a list of the Group's share in domestic and foreign credit institutions that exceed 5% of their capital or voting rights:

	% share	
Entity	**2017**	**2016**
Banco Europeo de Finanzas, S.A. (*)	40.72%	40.72%
Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (**)	76.68%	69.38%

(*) Direct investment of 1.20% and direct investment of 39.52% through Alteria Corporación Unicaja S.L.U.

(**) Direct interest of 76.63% and indirect interest of 0.05% through Unicartera Gestión de Activos, S.L.U. (69.33% and 0.05%, respectively, at 31 December 2016).

At 31 December 2017 and 2016, no Spanish or foreign credit institution (or group, in the meaning of Article 4 of the Securities Market Act, that contains any Spanish or foreign credit institution) holds an interest of more than 5% of the capital or voting rights of any credit institution that is member of the Bank's Group.

1.7 Agency agreements

At 31 December 2016, the following agents of the Group's Parent entity meet the requirements of Article 22 of RD 1245/1995 and Bank of Spain Circular 4/2010:

1) Entity's Authorized Signatories:

Name	**Geographic Area**
Agustín Sánchez Hidalgo	Sorihuela del Guadalimar (Jaén)
Ana María Ureña Asensio	Valenzuela De Calatrava (Ciudad Real)
Ángel Maigler Unguetti	Montizón y Venta De Los Santos (Jaén)
Antonia Castellano Yeste	Hijate (Almería)
Antonia María Manso Sánchez	Tahivilla (Cádiz)
Antonio Ayuso Serrano	Torre De Juan Abad (Ciudad Real)
Antonio Jesús Cano Aceituno	Frailes (Jaén)
Antonio Sánchez Escobar	La Joya (Málaga)
Antonio Sánchez Ruiz	Villarrodrigo (Jaén)
Aplagest Consulting, S.L.	Campo De Criptana (Ciudad Real)
Asesoría Tremp, S.L.	Fregenal De La Sierra (Badajoz)
Cavar Mediación, S.L.	Peñarroya-Pueblonuevo (Córdoba)
Constr. y Prom. Taberno Gestión Inmobiliaria, S.L.	Taberno (Almería)
Cristina Barba Ciudad	Corral De Calatrava (Ciudad Real)
Dolores Ayala Salguero	Pruna (Sevilla)
Eulalia Romero Baleta	Pontones (Jaén)
Evangelina Martínez Romero	Iznatoraf (Jaén)
Francisca Navarro Lao	Gérgal (Almería)
Francisco Javier Ramírez Martínez	María y Topares (Almería)
Francisco Jesús Jiménez Romero	La Guardia De Jaén (Jaén)
Gelihar Asesores, S.L.	Beas (Huelva)
Gema Ayala López	Alboloduy y Alhabia (Almería)
Gestión 3 Uleila, S.L	Uleila Del Campo (Almería)
Gestión Integral de Empresas Pozo Alcon.	Pozo Alcón (Jaén)
H&O Recursos Económicos S.L.	Luque (Córdoba)
Ismael Barea Jiménez	Villaluenga Del Rosario (Cádiz)
Jesús Torres Sánchez	San Carlos Del Valle (Ciudad Real)
José Antonio Arrebola Benítez	Salinas (Málaga)
José Manuel Alcaraz Forte	Instinción y Ragol (Almería)
José Manuel Orozco Pastor	Coripe (Sevilla)
José Manuel Rodríguez García	Jerez De Los Caballeros (Badajoz)
José Velasco Palomo	Cabezarrubias (Ciudad Real)
Luis Miguel Segura Rodríguez	Benatae (Jaén)

Name	Geographic Area
Manuel Jesús Jiménez Lara	Brenes (Sevilla)
María Amalia Martos Pastor	Oria (Almería)
María De Los Ángeles Granados López	Mures (Jaén)
María del Carmen Martos Miras	Lijar y Albanchez (Almería)
María del Carmen Piedras Redondo	Saceruela (Ciudad Real)
María del Pilar Salas García	El Gastor (Cádiz)
María Del Sol Ojeda Cazorla	Segura de La Sierra (Jaén)
María Dolores Asensio Águila	Bayarcal y Paterna del Río (Almería)
María Eugenia Sánchez Berjaga	Hornos de Segura (Jaén)
María Isabel Juárez Padilla	Rioja (Almería)
María Luz Benítez Montero	Zahara de la Sierra (Cádiz)
María Muñoz Sánchez	Retuerta del Bullaque (Ciudad Real)
Mario Gala Moraleda	Ballesteros de Calatrava (Ciudad Real)
Martina Diezma de la Fuente	Horcajo de Los Montes (Ciudad Real)
Mayo Abellán Berruezo	Mojácar (Almería)
Miguel Sancho Aguilera	El Saucejo (Sevilla)
Natalia Naranjo Fernández	Benamahoma (Cádiz)
Pablo Fernández Enríquez	Alcolea (Almería)
Pablo Fernández Rivera	Fondón (Almería)
Pedro José Gómez Rodríguez	Cartaojal (Málaga)
Rosa María Botello Barrero	Olivenza (Badajoz)
Rubén Gómez López	Níjar (Almería)
Segurtojar, S.L.	Fuente-Tójar Y Almedinilla (Córdoba)
Simón & Garcia Servicos Financieros, S.L.	Lubrin y Zurgena (Almería)
Susana Vozmediano Pizarro	Hinojosas De Calatrava (Ciudad Real)
Yasmina María González Martínez	Genave (Jaén)

2) List of Bank nominees for customer retention or promotion and marketing operations or services.

Name	Geographic Area
Alfredo González Ávila	Granada
Antonio Acosta Oller	Tijola (Almería)
Atlas Formación Contunua, S.L.	Albolote (Granada)
Avances Tecnológicos y Diseño, S.L.	Marbella (Málaga)
Carlos Jesús Checa Martin	Torre Del Mar (Málaga)
Carlos Lorente Martínez	Iznalloz (Granada)
Daimiel Asesores Inmobiliarios, S.L.	Daimiel (Ciudad Real)
Francisco Javier Arroyo Lorca	Valverde Del Camino (Huelva)
Francisco Javier Bazán Virtudes	El Atabal (Málaga)
Grupo Inmobiliario Soto Jiménez, S.L.	Atarfe (Granada)
Jara-Inversiones e Intermediación, S.L.	Aguadulce (Almería)
Manuel Fuentes Rejón	Churriana De La Vega (Granada)
Manuel Jesús Molina Martínez	Linares (Jaén)
Manuela Joyar Montilla	Jaén
Manuela Jurado Ollero	Marmolejo (Jaén)
Mario Navarro Díaz	Estepona (Málaga)
Matilde Cuerva Tortosa	Almería
Sistema Asesores Málaga, S.L.	Málaga
Sistemas Interactivos Malagueños, S.L.	Torremolinos (Málaga)
Viada Asesores, S.L.	Puertollano (Ciudad Real)

1.8 Environmental impact

The Unicaja Banco Group entities global transactions are subject to environmental protection regulations (environmental laws). The Entity considers that the Group substantially meets the requirements of environmental laws and that it has procedures in place to guarantee and encourage compliance.

The Entity considers that the Group has adopted the necessary measures with respect to the protection and improvement of the environment and the minimisation of environmental impact, where applicable, in accordance with current environmental laws. In 2017 and 2016 the Entity did not make any significant environmental investments and did not identify any need to make provision for environmental risks and charges or any significant contingencies in connection with environmental protection and improvement.

1.9 Minimum ratios

1.9.1 Minimum Equity Ratio

Up until 31 December 2013 Bank of Spain Circular 3/2008 on the calculation and control of minimum equity established legislation governing capital requirements for Spanish credit institutions, on an individual and financial group level.

On 27 June 2013 the Official Journal of the European Union published the new regulations regarding capital requirements (called CRD-IV), which was applicable starting on 1 January 2014 and consist of:

- European Parliament and Council Directive 2013/36/EU (26 June) relating to access to credit institution and investment company activities and the prudent supervision of those entities, which amends Directive 2002/87/EC and repeals Directives 2006/48/EC and 2006/49/EC.

- Regulation (EU) No. 575/2013 (hereinafter CRR) (26 June 2013), issued by the European Parliament and Council, on prudent requirements for credit institutions and investment companies, which amends Regulation (EU) No. 648/2012.

The Directives have to be transposed into Spanish legislation while the European Union regulations are immediately applicable after entering into force. In Spain, Royal Decree-Law 14/2013 (29 November) on urgent measures to adapt Spanish laws to European Union legislation governing the supervision and solvency of financial institutions, partially transposed Directive 2013/36/EU into Spanish law and Final Provision Five empowered the Bank of Spain to make use of the options attributed to the competent national authorities under Regulation (EU) No. 575/2013.

Therefore starting on 1 January 2014 the provisions of Bank of Spain Circular 3/2008 that go against the aforementioned European legislation were repealed. In addition, on 5 February 2014 Bank of Spain Circular 2/2014 (31 January) was published and which, in accordance with the authority that Regulation (EU) No. 575/2013 grants to the competent national authorities, the Bank of Spain made use of some of the permanent regulatory options established by that Regulation, and that subsequently was amended, regarding the treatment of the deduction of the intangible assets during the transitional period, by the Circular 3/2014, of 30 July, of Bank of Spain.

That Regulation (EU) No. 575/2013 establishes uniform standards to be met by entities in relation to: 1) the own resources regulatory requirements relating to items of credit risk, market risk, operational risk and liquidy risk; 2) requirements aimed at limiting large exposures; 3) hedge of liquidity risk in relation with fully quantifiable element, uniforms and standard, once developed by a delegate of the Commission Act; 4) the establishment of the leverage ratio and 5) information and public disclosure requirements.

The regulation introduces a review of the concept and components of own resources required regulatory institutions requirements. These are composed of two elements: the capital of level 1 (or Tier 1) and capital of level 2 (or Tier 2). At the same time, Tier 1 is equal to the sum of the capital level 1 ordinary (or Common Equity) and additional capital of level 1. Thus, capital of level 1 is formed by those instruments that are able to absorb losses when the entity is in operation, while the elements of the capital of level 2 will absorb losses mainly when the entity is not viable.

Law 10/2014 (26 June) on the organization, supervision and solvency of credit institutions continued to transpose the CRD-IV into the Spanish legal system, and it was later supplemented by the Royal Decree 84/2015, of 13 February, which develops law 10/2014, which adapt the Spanish legal system to European standards on the unique mechanism of Supervision (MUS).

On the other hand, at 9 February 2016 the Circular 2/2016, on 2 February, the Bank of Spain, to credit institutions, supervision and solvency, to complete the adaptation of the Spanish legal system directive 2013/36/UE and Regulation (EU) No. 575/2013 regarding options not exercised by 22014 circulars and Bank of Spain 32014 has been published in the Official Board. In addition, the Circular 2/2016 develops some aspects of the transposition of the directive 2011/89/UE of the European Parliament and of the Council of 16 November 2011, as regards the supplementary supervision of financial entities in a financial conglomerate, and introduces the definition of authority component, which will be the European Central Bank or Bank of Spain, according to the allocation and distribution of powers laid down in the Regulation (EU) No. 1024/2013, and which is completed in the Regulation (EU) No. 468/2014 of the European Central Bank, on April 16, 2014.

On 24 March 2016 Regulation (EU) 2016/445 of the European Central Bank on the exercise of options and discretions available in Union law was published, which specifies certain of the options and discretions conferred on competent authorities under Union law concerning prudential requirements for credit institutions that the ECB is exercising. It will apply exclusively with regard to credit institutions classified as significant in accordance with Article 6(4) of Regulation (EU) No 1024/2013, and Part IV and Article 147(1) of Regulation (EU) No 468/2014. By means of this regulation the ECB seeks to extend the harmonisation of regulations governing institutions under its direct supervision, while other institutions will continue to apply the criteria adopted in each case by national authorities.

Finally, on 31 January 2018, the European Central Bank's Opinion of 8 November 2017 on amendments to the European Union framework for capital requirements of credit institutions and investment firms was published in the Official Journal of the European Union on 31 January 2018. The opinion addresses matters of particular relevance to the European Central Bank, divided into two sections: (i) changes to the existing Union regulatory and supervisory framework, and (ii) implementation of internationally agreed supervisory standards. In particular, amendments proposed regarding Pillar 2 requirements of the Basel III framework in the Capital Requirements Directive (Directive 2013/36/EU) seek to achieve greater supervisory convergence in the European Union, by clearly defining the capital structure elements, by introducing Pillar 2 guidance on additional own funds, as well as by significantly tightening the conditions under which competent authorities may exercise their supervisory powers in this context.

All of the above constitutes the current legislation in force regulating the equity that must be maintained by credit institutions both individually and as consolidated groups, and stipulates how this capital is measured. This includes the processes to be followed for the self-assessment of capital and the information to be made public.

According this regulation, required equity ratios for 2017 are:

- A ratio of capital of 1 ordinary level of 4.5%.
- A ratio of Tier 1 (ordinary and additional) of 6%.
- A total of 8% capital ratio (including levell 2).
- An additional capital buffer conservation of 1.25%.

In regards to the capital buffer of counter-cyclical capital laid down in article 45 of the law 10/2014, the Bank of Spain has agreed to fix in 0% this buffer for credit exposures in Spain from 1 January 2016.

Regarding these requirements, for year 2017, the European Central Bank (ECB) required the Unicaja Banco Group, to achieve a minimum CET1 ratio of 7.25% and a minimum total capital ratio of 10.75% (both phased-in), following the Supervisory Review and Evaluation Process (SREP). These requirements include the Pillar I minimums of 4.5% and 8%, respectively, a Pillar II requirement of 1.50% and a capital conservation buffer of 1.25%.

Also be noted that for 2018, the European Central Bank has required Unicaja Banco Group, within the framework of the SREP, to achieve a minimum CET1 ratio of 8.125% and a minimum total capital ratio of 11.625% (both phased-in). These requirements apply to 2018 and include the minimums of 4.50% and 8%, respectively, required by Pillar I, a Pillar II requirement of 1.75% and a capital conservation buffer of 1.875%.

As a consequence of these requirements, the CET1 phase-in and total phase-in capital ratios mentioned above are also established as the minimum levels below which Unicaja Banco would be compelled to calculate the maximum distributable amount (MDA) that would limit its distributions in the form of dividends and variable remuneration.

The Unicaja Banco Group’s CET1 ratio is 13.77% on 31 December 2017 and total capital ratio is 14.57% (both including the retained result of the profit for the year). As a result, within de current capital levels, Unicaja Banco Group has hedged capital requirements established by ECB and, therefore, there is not any limitation for the dividend distribution out of the related in Regulation (EU) No. 575/2013.

As of December 31, 2017 and 2016, Unicaja Banco Group's equity amounted to €3,568,811 thousand and €3,509,803 thousand, respectively, of which €3,468,591 thousand and €3,479,892 thousand are part of the Common Equity Tier 1 (CET1). This represents a surplus on own resources requirements, in accordance with the regulation of Directive 2013/36 / EU (CRD-IV) and EU Regulation no. 575/2013 (CRR) of €1,396,317 thousand at December 31, 2017, including a capital preservation buffer of 1.25% (€1,396,317 thousand at December 31, 20156, including a buffer of 0,625%).

At 31 December 2017, the CET1 surplus over the required minimum amounts to €2,138,024 thousand, including a capital conservation buffer of 1.25% (€2,177,688 thousand at 31 December 2016, including a buffer of 0.625%).

The total capital surplus taking into account the additional requirements demanded of the Unicaja Banco Group as a result of the 2017 SREP amounts to €1.044.688 thousand as of December 31, 2017, while the surplus of CET 1 considering the requirements of the SREP of 2017 amounts to €1,774,435 thousand at the same date.

	Thousand euros	
	2017	**2016**
Ordinary Tier 1 computable capital (a)	3 531 781	3 468 591
Aditional Tier 1 computable capital (b)	42 134	29 077
Tier 2 computable capital (c)	76 493	71 144
Risks (d)	24 239 256	25 188 346
Ordinary capital Level 1 Ratio (CET 1) (A)=(a)/(d)	14.57%	13.77%
Aditional capital Level 1 Ratio (AT 1) (B)=(b)/(d)	0.17%	0.12%
Capital Ratio level 1 (Tier 1) (A)+(B)	14.74%	13.89%
Capital Ratio level 2 (Tier 2) (C)=(c)/(d)	0.32%	0.28%
Total capital ratio (A)+(B)+(C)	**15.06%**	**14.17%**

	Thousand euros	
	2017	**2016**
Tier capital 1 (a)	3 573 915	3 497 668
Exposure (b)	57 366 221	57 061 921
Leverage ratio (a)/(b)	**6.23%**	**6.13%**

Common Equity Tier 1 basically includes capital, share premium, Bank's reserves net of deductions (intangible assets) and the portion of profits for 2017 and 2016, respectively, that will be taken to reserves (if applicable).

Unicaja Banco Group rigorously attends to the management of the capital self-assessment process and solvency risk in order to maintain a prudent risk profile and balance, adequately preserving solvency, profitability and liquidity targets. Risk management processes are guided by the following basic principles:

- Permanent rigorous action to maintain a prudent and balanced risk profile, preserving the objectives of solvency, profitability and adequate liquidity.
- Active participation and supervision by Senior Management, which approves the general business strategies and policies applied by the Entity and establishes the general lines of risk management and control at the Entity.
- General internal control environment.
- Segregation of duties and the process of measuring and controlling the Entity's risk is completely independent from the risk taking function.
- The prudent management of exposure to credit risk, particularly by avoiding projects of uncertain viability and a quantitative limitation of investments based on sufficient guarantee parameters.
- Selection of adequate risk measurement methodologies.

The Entity's policies, methods and procedures relating to Overall Risk Management are approved by the Board of Directors. The Audit Committee, the Risk Committee, the Asset, Liability and Budget Committee (ALBC), the Internal Audit Department and the Comprehensive Risk Control Department at the Bank is responsible for ensuring adequate compliance with those policies, methods and procedures, ensuring that they are adequate, are effectively implemented and reviewed on a regular basis.

1.9.2 Minimum reserves ratio

At 31 December 2017 and 2016, the Entity complied with the minimum reserves ratio imposed by applicable Spanish regulations.

1.10 Deposit Guarantee Fund

Group credit institutions form part of the Credit Institution Deposit Guarantee Fund. In 2017 and 2016 the cost of ordinary, additional and extraordinary contributions to this organization totalled €48,591 thousand and €43,249 thousand, respectively. These amounts were recognised under “Other operating expense” in the accompanying consolidated income statement (Note 39).

With regard to the ordinary contributions, dated November 7, 2015 has been published the Royal Decree 1012/2015, of November 6, which develops the 11/2015 Act, of June 18, recovery and resolution of credit institutions and investment service companies, and amending the Royal Decree 2606/1996 , of 20 December, on deposits of credit guarantee funds. Among the changes incorporated, changes the definition of the heritage of the Credit Institution Deposit Guarantee Fund, FGDEC from now on, indicating that the Management Committee shall determine the annual contributions from organizations affiliated to the Fund, according to the criteria laid down in article 6 of the Royal Decree-Law 162011, on 14 October, which created the FGDEC. To this end, the basis of calculation of the contributions that entities must be done at each compartment of the Fund shall be:

a) In the case of contributions to the compartment of guarantee of deposits, the deposits guaranteed, as defined in article 4.1.

b) In the case of the contributions to the guarantee values compartment, 5 per 100 of the value of quote of the last trading day of the year, in the corresponding secondary market, guaranteed values, as defined in article 4.2, existing at the end of the year. When among the latter listed securities and financial instruments that are not traded in a secondary market, Spanish or foreign, its calculation basis will be given by their nominal value or the refund, which is more appropriate to the type of value or financial instrument concerned, unless it has been declared or recorded another most significant value for the purposes of your deposit or registration.

At the meeting on July 19, 2017, the Deposit Guarantee Fund (FGDEC) Management Committee, pursuant to Article 6 of Royal Decree-Law 16/2011 and Article 3 of Royal Decree 2606/1996, set the annual contributions of member entities for 2017, in the following terms:

- Annual contribution to the FGDEC’s deposit guarantee compartment equal to 1.8 per mille of the calculation base for contributions to that compartment defined in Article 3.2.a) of Royal Decree 2606/1996, at June 30, 2017, each entity's contribution being calculated based on the amount of deposits guaranteed and its risk profile.
- Annual contribution to the FGDEC's securities guarantee compartment equal to 2 per mille of the calculation base, which is equal to 5% of the amount of securities guaranteed, as indicated in Article 3.2.b) of Royal Decree 2606/1996, at 31 December 2017.

Moreover, with regard to extraordinary contributions, the Management Committee of the FGDEC in order to restore capital adequacy of the Fund pursuant to the provisions of Article 6.2 of Royal Decree-Law 16 / 2011 of 14 October, 30 July 2012 agreed to carry out an apportionment between seconded member institutions, distributed according to the result of contributions as of December 31, 2011, payable by ten equal annual fees. The amount of fees that must be entered on each date will be deducted from the regular annual contribution, if any, meets the entity on the same date, till the amount of ordinary share. At 31 December 2017 and 2016, the current value of the outstanding amount disbursed for this item amounts to €77,865 thousand and €79,531 thousand, respectively.

1.11 Contributions to resolution fund

During the year 2017, expenses recorded by the group, under the heading of "Other operating charges" of count attached consolidated income, for the contributions to the resolution funds corresponding to the own contribution of the 2017 period, amounts to 13.987 thousand euros (note 39), meanwhile 2016 amounted for 18.339 thousand euros.

On 1 January 2016 the Single Resolution Fund came into operation. It is administered by the Single Resolution Board, which is also responsible for the calculation of the contributions that must be made by credit institutions and investment service companies defined in Article 2 of said Regulation, in accordance with the rules laid down in Delegated Regulation (EU) 2015/63 of the Commission of 21 October 2014 which completed Directive 2014/59/EU of the European Parliament and the Council, with respect to the contributions ex ante the resolution financing mechanisms.

In accordance with Article 4 of Delegated Regulation (EU) 2015/63, the resolution authorities shall determine the annual contributions to be made by each institution in proportion to its risk profile based on the information provided by the entity in accordance with Article 14 of said Delegated Regulation, applying the methods described therein. The resolution authority will determine the annual contribution on the basis of the annual level of financing of the resolution financing mechanism and taking into account the level of financing to be reached by 31 December 2024 at the latest, in accordance with Article 102.1, of Directive 2014/59/EU and on the basis of the average guaranteed deposits for the preceding year calculated on a quarterly basis for all financial institutions authorised in its territory.

Moreover, in accordance with Article 103 of Directive 2014/59 / EU, the financial resources available to be taken into account to achieve the target level for the Single Resolution Fund may include commitments irrevocable payment fully backed by guarantees low risk assets free of charges by third party rights, freely available and allocated for the exclusive use of the resolution authorities for the purposes specified in the Directive. The share of irrevocable payment commitments shall not exceed 30% of the total amount raised through ex ante contributions.

1.12 Changes in the International Financial Reporting Standards.

During 2017 the following International Financial Reporting Standards and interpretations became mandatory and have therefore been applied in the preparation of the Unicaja Banco Group's 2017 consolidated annual accounts:

Standards, amendments and interpretations	**Description**	**Mandatory application Periods commencing on or after**
Amendment IAS 7	Disclosure initiative	1 January 2017
Amendment IAS 12	Recognition of deferred tax assets for unrealised losses	1 January 2017
IFRS improvements	Cycle 2014-2016	(*)

At the date of preparation of the consolidated annual accounts, the following standards and interpretations (the most important adopted to that date) that had been published by the IASB had not come into effect either because their effective date is subsequent to the date of the consolidated financial statements or because they have not yet been adopted by the European Union:

Standards, amendments and interpretations	**Description**	**Mandatory application Periods commencing on or after**
IFRS improvements	Cycle 2014-2016	(*)
Amendment IFRS 2	Classification and measurement of share-based payments	1 January 2018
IFRS 15	Revenue from contracts with customers	1 January 2018
Clarifications to IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
Amendment IFRS 4	Application of IFRS 9 on Financial Instruments with IFRS 4 on Insurance contracts	1 January 2018
Amendment IAS 40	Investment property	1 January 2018
IFRIC 22	Foreign currency transactions and advance consideration	1 January 2018
IFRS 16	Leases	1 January 2019
IFRIC 23	Uncertainty over the treatment of income tax	1 January 2019
Amendment IAS 28	Long-term interests in associates and joint ventures	1 January 2019
Amendment IFRS 9	Prepayment features with negative compensation	1 January 2019
IFRS improvements	Cycle 2015-2017	1 January 2019
Amendment IAS 19	Plan amendment, curtailment or settlement	1 January 2019
IFRS 17	Insurance contracts	1 January 2021
Amendment IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	(*)

(*) These IFRS improvements come into force in periods starting on or after 1 January 2017 for IFRS 12 and on or after 1 January 2018 for IFRS 1 and IAS 28.

(**) At the end of 2015, the IASB decided to postpone the effective date of these amendments without setting a new date, as it is planning a broader revision that could result in a simplification of the accounting treatment of these transactions and other aspects of the recognition of associates and joint ventures.

The Administrators of the Savings Bank believe that the application of the majority of these norms will not have an important impact on the Group's consolidated annual accounts.

1.12.1 Standards and interpretations taking effect this year

During 2017 the following amendments to IFRS or interpretations (IFRIC) entered into force but have not had a significant impact on the consolidated financial statements:

- IAS 7 (Amendment) "Disclosure initiative": Companies are required to disclose information that enables users to understand changes in liabilities that arise from financing activities. This includes changes that arise from: (i) cash flows, such as loan disposals and repayments; and (ii) non-cash changes, such as acquisitions, sales and unrealized exchange differences. The liabilities that arise from financing activities are liabilities for which cash flows were or will be classified in the cash flow statement as cash flows from financing activities. New information to be disclosed also includes changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows of those financial assets were included or if future cash flows will be included in cash flows from financing activities. The amendment suggests that the disclosure requirement would be fulfilled by including a reconciliation between the opening and closing balances for liabilities that arise in financing activities, although it does not lay down a specific format. These amendments are applicable in financial years starting on or after 1 January 2017.

- IAS 12 (Amendment) "Recognition of deferred tax assets due to unrealized losses". This amendment clarifies how to account for deferred tax assets related to investments in debt instruments measured at fair value. Decreases in the carrying amount below cost of fixed interest debt instruments carried at fair value, where the tax base remains at cost, give rise to deductible temporary differences. The estimate of likely future tax benefits may include the recovery of some of a company's assets at higher than carrying value, if sufficient evidence to this effect is available. The amendment will be effective for financial years starting on or after 1 January 2017; early application is permitted. In general, it will be applied retrospectively. However, on the date of initial application of the amendment, the option exists of recording the change under equity for the comparative period against the opening balance of the reserve for retained earnings. This amendment is applicable in financial years starting on or after 1 January 2017.

- Annual improvements to IFRS, 2014-2016 Cycle. The improvements included in this cycle affect IFRS 1 "First-time adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters"; IFRS 12 "Disclosure of interests in other entities: Clarification of the scope of the Standard"; and IAS 28 "Investments in associates and joint ventures: Fair-value measurement of investments in an associate or joint venture". The amendments to IFRS 12 came into force in periods starting on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are applicable in periods starting on or after 1 January 2018.

Application of these accounting standards and interpretations have not material effect on the condensed consolidated interim financial statements of the Group.

1.12.2 Standards and interpretations that have been issued but have not yet entered into force

At the date these consolidated annual accounts were prepared new International Financial Reporting Standards and the relevant interpretations had been published but none were mandatory for the years commencing on or after 1 January 2015. In December 2017, they are still not mandatory. The analysis of any future impact that could arise due to adopting these standards has not yet been completed, although no significant impacts are expected when they enter into force. These standards are as follows:

- Annual improvements to IFRS, 2014-2016 Cycle. The improvements included in this cycle affect IFRS 1 “First-time adoption of International Financial Reporting Standards: Deletion of short-term exemptions for first-time adopters”; IFRS 12 “Disclosure of interests in other entities: Clarification of the scope of the Standard”; and IAS 28 “Investments in associates and joint ventures: Fair-value measurement of investments in an associate or joint venture”. The amendments to IFRS 12 came into force in periods starting on or after 1 January 2017, while amendments to IFRS 1 and IAS 28 are applicable in periods starting on or after 1 January 2018

- IFRS 2 (Amendment) “Classification and valuation of share-based payments”. The amendment to IFRS 2, which was developed through the IFRIC, clarifies how to account for certain kinds of share-based payments. In this respect, it provides requirements for the recognition of:

  - The effects of irrevocability conditions in the valuation of share-based payments settled in cash;
  - Share-based payment transactions with net settlement features for obligations to withholding taxes; and
  - A modification in the terms and conditions of a share-based payment, which changes with the classification of the transaction from cash-settled to equity-settled.

  The amendment will be effective for financial years starting on or after January 1, 2018; early application is permitted.

- IFRS 15 "Revenue from contracts with customers": In May 2014, the IASB and the FASB jointly issued a converged standard regarding the recognition of revenue from contracts with customers. Under this standard, revenue is recognised when a customer obtains control over the good or service sold, i.e. when it has the capacity both to direct the use of and to obtain benefits from the good or service. This standard includes new guidelines to determine whether to recognise revenue over time or at a particular time. IFRS 15 requires extensive information on both recognised revenue and revenue expected to be recognised in the future in relation to existing contracts. Quantitative and qualitative information is also required about the significant judgments made by management in determining recognised revenue, as well as any changes in these judgments. IFRS 15 will be effective for financial years starting on or after 1 January 2018, although early adoption is permitted.

  Given the Group’s main activities and the fact that the standard is not applicable to financial instruments and other contractual rights or obligations under the scope of IAS 39, the Group does not expect any significant impact from the future application of this standard.

- Clarifications to IFRS 15: “Revenue from Contracts with Customers”. The clarifications to IFRS 15 seek to reduce the cost and complexity of implementation of the standard and to clarify how some of its principles are to be applied, as identifying an obligation in a contract, determining whether the company is the principal or the agent and determining whether the concession revenue must be recognised on a specific date or over a period of time. This clarification comes into force at the same time as IFRS 15.

- IFRS 9 "Financial instruments". This standard addresses the classification, measurement and recognition of financial assets and liabilities. The full version of IFRS 9 was published in July 2014 and replaces the guidance in IAS 39 on classification and measurement of financial instruments. IFRS 9 keeps but simplifies the mixed valuation model and establishes three main categories of measurement for financial assets: amortised cost, fair value through profit or loss and fair value through other comprehensive income. The basis of classification depends on the entity's business model and the characteristics of the contractual cash flows of the financial asset. It requires investments in equity instruments to be measured at fair value through profit or loss with the irrevocable option at the outset to present the changes in fair value in non-recyclable other comprehensive income, provided that the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are reported in profit or loss.

  In relation to financial liabilities, there are no changes regarding classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities carried at fair value through profit or loss. Under IFRS 9, there is a new impairment loss model that applies an expected loss approach, replaces the current incurred loss model under IAS 39, and will give rise to the recognition of losses earlier than under the current IAS 39 approach. IFRS 9 eases the requirements for hedges to be effective. Under IAS 39, hedge must be highly efficient both prospectively and retrospectively. IFRS 9 replaces this approach by requiring an economic relationship between the hedged item and the hedging instrument, and that the ratio covered is the same as that actually used by the entity in its risk management. Contemporaneous documentation is still required but is different from that which was prepared under IAS 39. Finally, extensive information is required, including a reconciliation between the initial and final amounts of the provision for expected credit losses, assumptions and data, and a reconciliation at the transition between the categories of the original classification under IAS 39 and the new classification categories under IFRS 9.

  IFRS 9 will be effective for financial years starting on or after 1 January 2018; early application is permitted. IFRS 9 is to be applied retroactively but will not require comparative figures to be restated. If an entity chooses to apply IFRS 9 early, it must implement all the requirements simultaneously. Entities applying the standard before 1 February 2015 still have the option to apply it in stages.

  A detailed description of the impacts of this standard is provided at the end of this note.

- IFRS 4 (Amendment) “Application of IFRS 9 “Financial Instruments” with IFRS 4 “Insurance contracts””: The amendments to IFRS 4 published by the IASB in September 2016 introduce two optional approaches for insurance companies:

  - A temporary exemption until 2021 with respect to IFRS 9 for companies that meet specific requirements (applied on a reporting entity level); and
  - The “overlay” approach: this will provide all insurance companies with the option of recognising the volatility that could arise when IFRS 9 “Financial Instruments” is applied before the new standard on insurance contracts is published in other comprehensive income instead of profit/(loss) for the year.

  IFRS 4 (including recent amendments) will be replaced by the forthcoming standard on insurance contracts. As a result, both the temporary exemption and the overlay approach are expected to cease being applied when the new insurance standard comes into effect. This amendment is in force in financial years starting on or after 1 January 2018.

- IAS 40 (Amendment) “Transfers of investment property”. This amendment clarifies that to transfer to or from investment properties there must be a change in use. To conclude that there has been a change in use, it must be assessed whether the property meets the definition of an investment property. This change must be duly evidenced. The IASB confirmed that a change in intent, on an isolated basis, is not sufficient to support a transfer. The amendment will have effect in financial years starting on or after 1 January 2018, according to the IASB, although early adoption is possible. In any case, this amendment has not yet been adopted by the European Union.

- IFRIC 22 “Transactions and advance payments in foreign currency”: IFRIC 22 concerns how to determine the transaction date when applying IAS 21 on transactions in foreign currency. The interpretation applies when an enterprise pays or receives consideration in advance for contracts denominated in foreign currency. The transaction date determines the exchange rate to be used in the initial recognition of the relevant asset, expense or income. The interpretation provides guidelines for when a single payment is made or received and for situations in which there are multiple payments or receipts. The aim of the guidelines is to reduce diversity in practice. The interpretation will be effective for financial years starting on or after 1 January 2018; early application is permitted. In any case, this interpretation has not yet been adopted by the European Union.

- IFRS 16 “Leases”. In January 2016, the IASB published a new standard on leases which supersedes IAS 17 "Leases", as a result of a joint project with the FASB. The IASB and FASB have reached the same conclusions in many areas related to lease recognition, including the definition of a lease, the requirement, as a general rule, to reflect leases on the balance sheet and the measurement of lease liabilities. The IASB and the FASB also agreed not to incorporate substantial changes into the accounting treatment by the lessor, maintaining requirements that are similar to those of the former standards. There are still differences between the IASB and FASB regarding the recognition and disclosure of expenses related to leases in the income statement and in the cash flow statement. IFRS 16 is mandatorily applicable as from 1 January 2019. Enterprises can choose to apply IFRS 16 early, but only if IFRS 15 "Revenue from contracts with customers" is also applied.

  The impact of the future application of this standard on the Unicaja Banco Group’s equity is not expected to be material.

- IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or contribution of assets between an investor and its associate or joint venture". These amendments clarify the accounting treatment of sales and contributions of assets between an investor and its associates and joint ventures, which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". The investor will recognise the full gain or loss when the non-monetary assets constitute a "business”. If the assets do not meet the definition for a business, the investor recognises the gain or loss to the extent of the interests of other investors. The amendments will only apply when an investor sells or contributes assets to its associate or joint venture. Originally, these amendments to IFRS 10 and IAS 28 were prospective and applicable for years starting on or after 1 January 2016. However, at the end of 2015 the IASB decided to postpone the effective date of the amendments (without setting a new date) as it is planning a broader revision that could result in a simplification of the accounting treatment of these transactions and other aspects of the recognition of associates and joint ventures. In any case, these amendments have not yet been adopted by the European Union.

- IFRIC 23 “Uncertainty over income tax treatments”. The purpose of the interpretation is to reduce diversity in the recognition and measurement of a tax liability or asset where there is uncertainty over income tax treatments. This interpretation is applicable when determining taxable profits or losses, tax bases, unrealized tax losses, unrealized tax credits and tax rates, where there is uncertainty over income tax treatments under IAS 12. IFRIC 23 will be applicable in financial years starting on or after 1 January 2019. In any case, this interpretation has not yet been adopted by the European Union.

- IFRS 9 (Amendment) “Prepayment features with negative compensation”: The terms of instruments with prepayment features with negative compensation, where the lender could be required to accept a prepayment substantially lower than the amounts of unpaid principal and interest, were incompatible with the idea of “reasonable additional compensation” for the early termination of a contract as per IFRS 9. Consequently, these instruments would not have contractual cash flows consisting solely of payments of capital and interest, which led them to be recognised at fair value through profit or loss. The amendment to IFRS 9 clarifies that a party may pay or receive a reasonable compensation when a contract is terminated in advance, which could allow the instruments to be measured at amortised cost or at fair value through other comprehensive income. The amendment will have effect in financial years starting on or after 1 January 2019, although early adoption is possible. In any case, this amendment has not yet been adopted by the European Union.

- IAS 28 (Amendment) "Long-term interests in associates and joint ventures”. This limited-scope amendment clarifies that long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but are not equity-accounted are recognised in accordance with IFRS 9 “Financial instruments”. The IASB has also published an example illustrating how the requirements of IAS 28 and IFRS 9 must be applied to such long-term interests. The amendment will have effect in financial years starting on or after 1 January 2019, although early adoption is possible. In any case, this amendment has not yet been adopted by the European Union.

- Annual improvements to IFRS 2015-2017 Cycle. The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and will apply to annual periods starting on or after 1 January, all subject to their adoption by the EU. The main amendments relate to:

  - IFRS 3 “Business combinations”: An interest previously held in a joint venture is remeasured when control over the business is acquired.
  - IFRS 11 “Joint arrangements”: An interest previously held in a joint venture is not remeasured when control over the business is acquired.
  - IAS 12 “Income taxes”: All the tax consequences from dividend’s payment are accounted for in the same manner.
  - IAS 23 “Borrowing costs”: Any specific loan originally made to develop a qualifying asset is treated as part of general loans when the asset is ready for use or sale.

  These amendments have not yet been adopted by the European Union.

- IAS 19 (Amendment) “Plan amendment, curtailment or settlement”: This amendment specifies how enterprises must determine pension costs when there are changes in a defined benefit plan. The amendment will have effect as from 1 January 2019, subject to adoption by the European Union. In any case, this amendment has not yet been adopted by the European Union.

- IFRS 17 “Insurance contracts”: IFRS 17 requires a present value model in which estimates are remeasured in each reporting period. Contracts are measured using the basic components of: (I) probability-weighted discounted cash flows; (ii) an explicit risk adjustment; and (iii) a contractual service margin (CSM) representing the unearned profit from the contract, recognised on a consistent basis. The standard provides the option of recognising changes in discount rates in the income statement or directly in other comprehensive income. IFRS 17 will be mandatory in financial years starting on or after 1 January 2021. In any event, this standard has not yet been adopted by the European Union.

The Bank's directors consider that the majority of these standards will not have a relevant impact on the Group's consolidated financial statements when they come into effect. As regards the Unicaja Banco Group's adoption of IFRS 9 “Financial instruments”, there follows a detailed description of the impacts of this standard:

a) Implications of the application of IFRS 9

On July 24, 2014, the IASB issued IFRS 9 “Financial instruments”, which is in force for financial years starting on or after 1 January 2018, superseding IAS 39 as from that date. The requirements of IFRS 9 must be applied retrospectively, adjusting the opening balance sheet at 1 January 2018, not being necessary to restate the comparative financial statements.

This new international standard is in line with the European Banking Authority (EBA)’s credit risk guidelines and with Bank of Spain Circular 4/2017, which replaces Bank of Spain Circular 4/2004 for periods commencing on or after 1 January 2018.

Since the first drafts of the standard were published, the Group has been analysing the implications it would have as from 2018 in terms of both portfolio classification and the financial instrument measurement models, particularly those for calculating impairment of financial assets using expected loss models.

The plan for adapting to IFRS 9 was approved on 27 January 2017 by the Board of Directors of Unicaja Banco, as the Group’s parent entity. The plan laid down three basic lines for analysis on which work has been performed to implement the standard: (i) accounting and risk classification of financial instruments, (ii) measurement of significant credit risk impairment and estimation of carrying amounts, and (iii) hedge accounting.

The implementation plan was prepared throughout year 2017, involving all departments affected and the Group's senior management. Moreover, the most relevant aspects of the implementation process have been approved by the Strategy Committee and by the Board of Directors of Unicaja Banco, as the parent company.

In the course of the adaptation works, the following main impact areas have been identified: (i) recognition of non-performing loan provisions for the Unicaja Banco and EspañaDuero’s loan portfolio (ii) the accounting classification of financial assets, particularly with respect to debt securities, and (iii) hedge accounting treatment.

The Group has completed most of the activities necessary to implement IFRS 9 in the final quarter of 2017. At present, the Group departments involved in the IFRS 9 implementation plan are focused on perfecting the processes affected by the new content of the standard.

There follows a description of the aspects addressed by the Unicaja Banco Group for the first-time adoption of IFRS 9:

<u>*(i) Accounting classification of financial instruments: Business models and SPPI test*</u>

Financial assets: debt securities and equity instruments

The entry into force of IFRS 9 in 2018 will entail the classification and measurement of financial assets on the basis of the following aspects:

- In the case of debt securities:

    - The business model applied by the Group to manage the assets.

    - Fulfilment, or non-fulfilment, based on the asset's contractual cash flows, of the SPPI (Solely Payment of Principal and Interest) test, i.e. contracts that only generate principal and interest payment), as described late in this note.

- In the case of equity instruments, it depends on the irrevocable choice made by the enterprise to present, in other comprehensive income, subsequent changes in the fair value of an investment in an equity instrument, which is within the scope of IFRS 9 and is not held for trading.

As a result, debt securities will be included, for measurement purposes, in one of the following portfolios: financial assets at amortised cost, financial assets at fair value through other comprehensive income or financial assets at fair value through profit or loss. The standard therefore eliminates the IAS 39 categories held-to-maturity investments, loans and receivables and available-for sale financial assets.

The classification of debt securities in an amortised cost or fair value category is subject to two tests: the business model and the SPPI test. The purpose of the SPPI test is to determine whether, based on the instrument's contractual features, its cash flows represent only the repayment of principal and interest, mainly as time value of money and credit risk compensation.

- A financial instrument will be classified in the amortised cost portfolio when it is managed under a business model the purpose of which is to hold the financial assets in order to collect contractual cash flows, provided they also pass the SPPI test.

- A financial instrument will be classified in the portfolio of financial assets at fair value through other comprehensive income if it is managed under a business model the objective of which combines the receipt of contractual cash flows and sales, provided they also pass the SPPI test.

- A financial instrument will be classified as at fair value through profit or loss provided that it should not be classified in either of the portfolios described above on the basis of the enterprise's business model used to manage it or the features of its contractual cash flows.

During 2017, as part of the IFRS 9 implementation plan, the Group revised its business models for the purposes of classification in accordance with the standard, taking into account the types of financial assets in the balance sheet.

The Group has defined criteria to determine the acceptable frequency of and reasons for sales, so that the instrument may remain in the held to collect contractual flows category.

Irrespective of the frequency and significance of sales, under the new standard, certain types of sales are not incompatible with the held to collect contractual flows category. This types are sales due to a decline in credit quality, sales close to the maturity date of operations such that fluctuations in market prices do not have a significant effect on the financial asset's cash flows, sales in response to a change in regulations or taxation, sales in response to a significant internal restructuring or business combination, or sales derived from the implementation of a liquidity crisis plan where the crisis event may not be reasonably foreseen.

The Group has segmented the financial instruments portfolio for the purposes of the SPPI test, distinguishing standard-contract products (all the instruments having the same contractual features), for which the Group has performed the SPPI test by reviewing the standard framework contract and the specific contractual features. Finally, financial instruments having non-standard contractual features have been analysed individually.

As a result of these analyses, certain financial assets that do not pass the SPPI test will no longer be carried at amortised cost based on the features of the relevant business model and will be carried at fair value through profit or loss.

Certain financial assets will no longer be carried as “available-for-sale financial assets” and will be classified in the “amortised cost” category based on the features of the relevant business model.

Similarly, and also on the basis of the business model in which they have been classified, and depending on whether or not they pass the SPPI test, some financial assets that were classified as “held-to-maturity investments” under IAS 39 will be included in the portfolio of financial assets at fair value through other comprehensive income under IFRS 9.

As regards investments in equity instruments, at December 31, 2017 the Group held assets of this kind classified as “available for sale””, which, under IFRS 9, will be designated as “financial assets at fair value through other comprehensive income” as from 2018. Consequently, all fair value gains and losses on these instruments will be reported in the item “accumulated other comprehensive income”, impairment losses will not be recognised in the income statement and gains or losses will not be reclassified to the consolidated income state because of the sale.

These changes in the classification and measurement of debt securities and equity instruments are estimated to increase the Group's equity by €197 million, without considering the tax effect.

Financial assets: loan portfolio

As regards the loan portfolio, the Group considers that most operations will be classified under the business model in which the assets are held to maturity to collect flows. In view of the contractual features of the loans granted by the Group and based on the analysis carried out, no significant portfolio reclassifications are envisaged due to the failure to pass the SPPI test. The Group's contracts do not include features and peculiarities having a significant effect on flows and the SPPI test would be passed, applying a “de minimis” or “non genuine” approach, with very few exceptions.

Additionally, the Group has implemented a sale business model for loans in which the book value is expected to be recovered through a sale to a third party prior to maturity. These loans will be classified as “financial assets at fair value through profit or loss”, without any significant effect on the Group's equity due to the first-time application of IFRS 9.

Financial liabilities

IFRS 9 largely maintains the IAS 39 requirements for the classification of financial liabilities. However, under IAS 39 all fair value changes to financial liabilities at fair value through profit or loss are recognised in the income statement, while IFRS 9 stipulates that fair value changes to financial liabilities to which the fair value option is applied must generally be presented as follows:

- The amount of the fair value change attributable to changes in the liability's credit risk is presented in “Accumulated other comprehensive income”.

- The remaining amount of fair value changes is presented in the income statement.

The Unicaja Banco Group does not envisage any significant impact from the first-time adoption of the standard due to changes in the classification or measurement of financial liabilities.

(ii) Credit risk classification and impairment

Specifically, with respect to the recognition of NPL provisions, under IFRS 9 there is a change in the treatment of impairment losses, entailing the adoption of an expected credit loss model which replaces the current incurred loss model under IAS 39.

IFRS 9 differentiates three categories for classifying risk with respect to provisions for expected losses: (i) Stage 1: risks considered healthy or low risks, for which expected losses are calculated at 12 months; (ii) Stage 2: risks that have increased significantly since initial recognition, for which expected losses will be calculated over the operation’s life; and (iii) Stage 3, impaired risks, for which expected losses will also be applied over the life of the operation.

Therefore, the most significant impacts of IFRS 9 in this regard will occur as a result of the implementation of criteria to determine the operations in which there has been a significant increase in credit risk since initial recognition, and the application of an expected loss model for the entire life of the operation concerned. For the purposes of implementation, models have been developed for projecting scenarios, which incorporate forward-looking information in order both to identify a significant increase in credit risk and to estimate total expected losses on the assets.

The Unicaja Banco Group, in the process of adapting its internal methodologies for the estimation of collective NPL provisions, has developed automatic classification criteria that form part of the classification algorithm and allow the identification of objective default situations, insolvencies, forbearance criteria and the drag-along effect. Additionally, in this same process, the Group has set individual and collective triggers which allow the early identification of weaknesses and of objective evidence of impairment.

These improvements, in the form of triggers that the Group transferred as mass criteria, anticipated a large part of the population considered Stage 2 under IFRS 9, despite the fact that the new standard bases the classification on a significant increase on risk and not in weaknesses.

Moreover, on the basis of the collective classification indicators that the Group has developed in the framework of its internal provision estimation methodologies, debt instruments are deemed to be part of Stage 2 in the following circumstances:

- Risks past due for over 30 days. Default for over 30 days is a presumption that may be refuted in cases in which the entity considers, based on reasonable, documented information, that the default does not entail a significant increase in risk.

- Risks that are subject to special oversight by risk units because they show negative credit quality signs, even where there is no objective evidence of impairment.

- Refinanced and restructured risks that show no evidence of impairment.

For these Stage 2 credit risks, the Group calculates higher collective provisions than for Stage 1 risks.

Furthermore, the collective classification indicators are being modified to reflect the significant increase in risk due to the deterioration of probabilities of life-time default, taking as a reference the first estimate of PD (probability of default) for the operations and, on first-time application, using an absolute PD threshold. This trigger would comply fully with the IFRS 9 approach.

As regards the changes brought in by IFRS 9 to the calculation of financial asset impairment, the Group has evolved its internal provisioning models to include the “expected loss” concept instead of the IAS 39 “incurred loss”.

In this way, the purpose for the new models is to recognise expected credit losses throughout the asset’s life in relation to financial instruments in which there has been a significant rise in credit risk since initial recognition, considering the change in the risk of default over the financial instrument's remaining life and using for this purpose all reasonable, well-founded information, including prospective information.

So, as from the initial recognition of an operation, until there is a significant increase in the risk, the value adjustment for losses will be calculated in an amount equal to the expected credit losses for the following 12 months. Should the risk associated with the instrument rise significantly, the value adjustment for losses will increase to cover the expected credit losses throughout the asset’s life.

When estimating the expected loss referred to above, as from the entry in force of IFRS 9, the Group plans to consider different possible loss scenarios, weighting each scenario based on probability of occurrence.

Impairment will be calculated (i) individually for exposures that show objective evidence of impairment and relate to individually significant borrowers; and (ii) collectively for all other exposures.

At January 1, 2018, the impact estimated by the Group, regarding an increase in impairment provisions, amounts to €137 million, not including the tax effect. In view of the Unicaja Banco Group's loan portfolio structure, most of this impact is concentrated in the mortgage loan portfolio and in the portfolio of small- and medium-sized enterprises (SMEs) and self-employed persons.

(iii) Hedge accounting

Hedge accounting also undergoes changes in the framework of IFRS 9, the new standard seeking to align the accounting treatment with the economic management of risk, through a different approach to that of IAS 39. IFRS 9 will also enable hedge accounting to be applied to a wider range of risks and hedging instruments.

In any event, the new standard does not address the accounting treatment of so-called macro hedges. So as to avoid any conflicts between the present accounting model for macro hedges and the new general hedge accounting regime, IFRS 9 includes an option whereby the enterprise may continue to apply hedge accounting as per IAS 39.

The Group's governing bodies have analysed the hedge accounting implications of IFRS 9 and have decided to continue to account for these financial instruments under IAS 39 for the moment.

b) Estimated impact of the adoption of IFRS 9

In the framework of the implementation plan, the Unicaja Banco Group has assessed the impact of the first-time adoption of IFRS 9 on its consolidated financial statements. The estimated impact of the adoption of this standard on the Group's equity at 1 January 2018, based on the assessments performed to date, is summarised below. The actual impacts of the adoption of the standards to 1 January 2018 may differ, since:

- Additional tests are planned for the new computer systems and models developed, as well as the assessment of related controls.
- The new accounting policies, methodologies and parameters are subject to changes until the Group presents its first financial statements including the definitive impact of IFRS 9 at the initial application date.

In any event, at the date of these consolidated annual accounts, the total estimated average impact on the phased-in CET1 ratio would be an increase of some 30 basis points, net of the effects described in this note, less the tax effect, if applicable, in each case.

The Group will apply the five-year transition period provided by Regulation (EU) 2017/2395, whereby Regulation (EU) 575/2013 (CRR) is amended in connection with the transitional provisions to mitigate the impact of the introduction of IFRS 9 in the portion relating to expected loan portfolio losses.

1.13 Labour agreements in EspañaDuero

Under the provisions of the Restructuring Plan for EspañaDuero and the Term Sheet relating to the reduction in its structure, in terms of both the number of branches and personnel, in order to receive the public aid necessary for its recapitalisation, an agreement was concluded on 8 May 2013 between the trade unions and the management of EspañaDuero concerning the redundancy proceedings, suspension of contracts, transfers and indemnities that were being carried out. This agreement envisaged the implementation of personnel reduction measures affecting 1,230 employees, within an implementation period lasting until 31 December 2014.

In addition, the second amendment to the EspañaDuero Restructuring Plan established certain additional commitments and limitations in relation to the future activity of EspañaDuero that amended those initially provided for in the Term Sheet, including a further reduction of 5% of the workforce to be enforced by 31 December 2016. In this respect, on 5 April 2016 negotiations commenced with the employees' representatives in order to carry out a further restructuring of the workforce, seeking formulas to minimize the impact of the process on the number of jobs. As a result of this negotiation, on 20 May 2016 an agreement was reached concerning the lay-off of a maximum of 850 workers, some of whom can be relocated in the Unicaja Group. In order to minimize the impact of the restructuring process on the volume of employment, the agreement includes accompanying social measures which are summarised as follows:

a) More favourable severance compensation for older persons.
b) Voluntary adoption mechanisms as one of the selection criteria for staff affected by the lay-offs.
c) Geographical mobility under Article 40 of the Workers' Statute as an alternative to dismissal.
d) Transfers to positions in other Group companies.
e) Protection measures concerning financial aid for those affected.
f) Outplacement plan improving the requirements of current legislation to protect and promote outplacement or self-employment.

According to the labour agreement, the compensation for termination of contract may not be less than twenty days' salary per year of service up to a limit of twelve monthly payments, and may not exceed €200 thousand. At 31 December 2017 the impact, resulting from this labour agreement has been fully provided for.

1.14 Vertical merger of EspañaDuero into Unicaja Banco

On October 27, 2017, Unicaja Banco's Board of Directors resolved to propose to Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero) the vertical merger of EspañaDuero (as the target company) into Unicaja Banco (as the acquiring company).

On January 26, 2018, the Boards of Directors of Unicaja Banco and EspañaDuero approved the joint plan for the merger of Unicaja Banco and EspañaDuero. EspañaDuero's Board entrusted the merger study and decision-making process to an ad hoc Board committee formed by four independent directors (the Merger Committee). At EspañaDuero's Board Meeting of January 26, 2018, the Merger Committee Chairperson expressed the Committee's favourable opinion on the merger.

As described in the joint plan for the merger of Unicaja Banco and EspañaDuero, this completes the integration of the two entities, which began with the acquisition of EspañaDuero by the Unicaja Group in March 2014. As a result of that transaction, EspañaDuero became a subsidiary of the Group, which is now its main shareholder, owning a nominal 76.68% stake at 31 December 2017 (95.77% effective shareholding). The merger will entail the successful completion of EspañaDuero's restructuring and recapitalisation process.

Additionally, in recent years process has also been made in the technological and operational integration of EspañaDuero and Unicaja Banco. Unicaja Banco has gradually taken over tasks and procedures in different areas of EspañaDuero's central services and work is currently ongoing to consolidate the areas that support the commercial business and network so as to complete the full operational integration of the two entities, following the merger.

Additionally, following the repurchase by Unicaja Banco, in August 2017, of the contingently convertible bonds issued by EspañaDuero, which had been subscribed by the FROB, and following the agreed repurchase of the shares in EspañaDuero held by the FROB, in December 2017 (both repurchases are described in Note 1.2.2 above), the Unicaja Group, temporarily and pending the planned merger, under Article 7 of Regulation (EU) no. 575/2013 (CRR), asked the European Central Bank to grant an exemption to EspañaDuero from fulfilment of its individual solvency requirements. Authorisation was granted by the European Central Bank on November 27, 2017. Since then, Unicaja Banco has guaranteed all the obligations acquired by EspañaDuero with third parties. This omnibus guarantee is a further step in the process referred to above, since it entails, de facto, integrating EspañaDuero's commitments and obligations vis-à-vis third parties with the Bank's own commitments and obligations.

As regards the strategic purpose of the merger, the integration of the two entities will allow the Unicaja Group to improve efficiency, obtaining the portion of synergies existing to date that could not be leveraged due to the subsistence of two separate structures. The merger of the two entities is merely the natural culmination of the gradual process of legal, operational and technological integration that began when EspañaDuero joined the Unicaja Group in 2014. The integration of the two structures will complete: (i) unification in a single corporate centre and a single management structure; (ii) integration of intermediate structures; and (iii) now, the full integration of back offices, information systems and operations that was not previously possible. This will streamline the cost structure and optimise the Unicaja Group's resources.

Additionally, the merger is undertaken following the successful share flotation and raising of capital (described in Note 1.2.1), so that during this final phase of the integration process Unicaja Banco's solvency has been considerably strengthened and there are liquid shares to hand over to the target company's shareholders. Indeed, the shareholders of both Unicaja Banco and EspañaDuero will benefit from the operation:

- EspañaDuero’s shareholders become shareholders of Unicaja Banco, where the shares will be fully liquid, as it is a listed company. EspañaDuero’s shareholders will also benefit from the merger synergies, as shareholders of Unicaja Banco, without forgetting the fact that the synergies to be generated in the future have been taken into account in the share exchange equation.

- For Unicaja Banco’s shareholders, the merger represents a low execution risk and will bring integration synergies.

The exchange equation will be one Unicaja Banco share for every five EspañaDuero shares. The joint merger plan is expected to be submitted to the respective Annual General Meetings of Unicaja Banco and EspañaDuero for approval in April 2018.

1.15 Sale of foreclosed real estate assets

During 2017, the Unicaja Banco Group made certain divestments of real estate foreclosed assets or received in settlement of debts, under the plan for the management of assets not used in the business. Together with the asset recovery and sale activities (in a granular manner and in portfolios), this has allowed the Group to reduce its unproductive assets by €1,201 million since the end of 2016, representing 21% of unproductive assets (doubtful loans plus foreclosed real estate assets) at that date. The most relevant divestments completed in 2017 are described below:

- Sale of a land portfolio in 2017, entailing a reduction of €100 million in foreclosed assets (in gross terms) and a gross profit of €20 million for the Unicaja Banco Group.

- Sale in December 2017 of 75% of two real estate holding companies, retaining the remaining 25%. The real estate asset portfolios involved in the transaction comprise over 4,000 properties. The sale of the shares reduced foreclosed assets by €252 million (in gross terms) and did not significantly affect the Unicaja Banco Group’s consolidated income statement.

1.16 Subsequent events

During the period from 31 December 2017 to the issue date of these consolidated annual accounts, there have been no particularly relevant events that are not referred to in the notes to the accounts.

2. Accounting principles and policies and measurement methods applied

During the preparation of the consolidated annual accounts for 2017 and 2016, the following accounting principles, policies, and measurement methods were applied:

2.1 Consolidation

2.1.1 Subsidiaries

“Subsidiaries” are defined as companies over which the Parent has the capacity to exercise effective control; control is, in general but not exclusively, presumed to exist when the Parent owns directly or indirectly more than half of the voting power of the investee, or even if this percentage is lower or zero, when there are other circumstances or agreements that give the Confederation Control. In accordance with IAS 27, control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities. In accordance with the IFRS 10, is considered that an associate company is controlled if and only if it satisfies all of the following elements: (i) power over the investee, (ii) exposure, or rights, to variable yields from their involment with the associate company, and (iii) ability to use its power over the associate company to influence the amount of investor yields.

To December 31, 2017 and 2016 are considered entities of the group, those subsidiaries of EspanaDuero take account of Unicaja Banco participation on that entity, is considered that there is control over them (see details in annex I).

The subsidiaries annual accounts are consolidated with those of the Entity using the full consolidation method, in accordance with the consolidation procedure described in IAS 27. Consequently, all significant balances deriving from transactions between the fully-consolidated companies have been eliminated during consolidation. Additionally, third-party interests in the:

- Group’s equity is presented in “Minority interests” in the consolidated balance sheet (Note 21).

- Consolidated results for the year are presented in “Surplus attributed to minority interests” in the consolidated income statement (Note 21).

Results generated by subsidiaries acquired by the Group during the year are consolidated taking into account only the amounts for the period running from the acquisition date to the year-end. Additionally, results generated by subsidiaries sold during the year are consolidated taking into account only the amounts for the period running from the beginning of the year to the date of sale.

Note 12.2 provides information about acquisitions, divestitures and most significant movements that have taken place in the year 2016 of subsidiaries.

At 31 December 2017 and 2016, the Unicaja Banco Group has no outstanding securitisation balances or any other type of transfer of financial assets or interest in unconsolidated structured entities.

Appendix I provide relevant information on these entities.

2.1.2 Joint ventures (jointly-controlled entities)

“Joint ventures” are investments in entities that are not subsidiaries but are controlled jointly by two or more unrelated entities.

In accordance with IFRS 11 "Joint Arrangements" arise when a participant has the right to the results obtained or to the net assets of the company in which the interest is held and therefore uses the equity method to recognize its stake in the company. Jointly-controlled entities are classified as joint ventures in the consolidated financial statements and for the purposes of IFRS 11 they are measured using the "equity method".

Note 12.2 provides information about acquisitions, divestitures and most significant movements that have taken place in the year 2017 of jointly controlled entities.

Appendix II provides relevant information on these entities.

2.1.3 Associates

“Associates” are all the entities over which the Entity has significant influence but not control or joint control. Significant influence generally accompanies a direct or indirect shareholding of 20% or more of the voting rights.

At 31 December 2017 and 2016 Group associates are considered to be entities in which at least 20% of the voting rights are held: Alestis Aerospace, S.L. and Deoleo, S.A. Moreover, they receive this consideration those partners of associates companies considering the participation of Unicaja Banco on such associates companies are considered significant influence on them (see details in Appendix III).

The main reasons why the Group is considered to have significant influence over those companies are as follows:

- Regarding Alestis Aerospace, S.L., Unicaja Banco has an agreements with the shareholders dated in 18 of December of 2013, that allow it to form part of the Board of Directors, participle in the organization and operations of the governing bodies and participle in, or in some cases block, business decisions.

- As a result of its interest in Deoleo, S.A., Unicaja Banco Group is entitled to appoint a total of two Directors.

In both cases, the shareholding affords Unicaja Banco Group significant influence but does not entail control or joint control over the companies.

In the consolidated financial statements, associates are consolidated using the equity method, as defined in prevailing legislation (IAS 28).

If as a result of losses incurred by an associate its equity is negative, in the consolidated balance sheet would appear of the Group with a nil value, unless the Group is required to provide financial support.

Note 12.2 provides information about acquisitions, divestitures and most significant movements that have taken place in the year 2017 of associates.

Appendix III provides relevant information on these entities.

2.2 Financial instruments

2.2.1 Initial recognition of financial instruments

Financial instruments are initially recognized in the consolidated balance sheet when the Group becomes party to the relevant contract, in accordance with the terms of that contract. Specifically, debt instruments such as loans and deposits in cash are recognized as from the date on which the legal right to receive or the legal obligation to pay the cash is generated, respectively. In general, derivative financial instruments are recognized on the date they are contracted.

Purchases and sales of financial assets arranged through conventional contracts (contracts under which the parties reciprocal obligations must be fulfilled within a timeframe established by regulations or market convention and which may not be settled by differences), such as stock market contracts or currency forwards, are accounted for from the date on which the benefits, risks, rights and duties inherent in all ownership are transferred to the acquirer. Depending on the type of financial asset purchased or sold, this may be the contract date or the settlement or delivery date. Specifically, transactions effected on the foreign exchange spot market are recognized at the settlement date, transactions effected using equity instruments traded in Spanish securities markets are recorded at the contract date and transactions effected using debt instruments traded on Spanish securities markets are recognized at the settlement date.

2.2.2 Disposal of financial instruments

A financial asset is written off the consolidated balance sheet in any of the following circumstances:

- The contractual rights to the cash flows generated have expired; or

- The financial asset, together with its substantial risks and rewards, is transferred, or control is transferred, even where risks and rewards are not substantially transferred or retained.

A financial liability is written off the balance sheet when the obligations generated have been extinguished or when it has been re-purchased by the Group for either re-placement or settlement.

2.2.3 Fair value and amortized cost of financial instruments

The fair value of a financial instrument at a given date is understood to be the amount at which it may be purchased or sold at that date between duly informed parties in an arm's length transaction. The most objective and common reference value for a financial instrument's fair value is the price that would be paid in an organized, transparent and deep market ("quoted price" or "market price").

In the absence of a market price for a specific financial instrument, its fair value is estimated on the basis of recent transactions involving similar instruments or, failing this, using valuation techniques that are acceptable to the international financial community, taking into account the specific features of the instrument to be measured and, above all, the different types of associated risks.

Specifically, the fair value of held-for-trading derivative financial instruments traded in organized, transparent and deep markets is the same as their daily market price. If, in exceptional circumstances, the price cannot be established on a given date, they are measured using similar methods to those applied to derivatives not traded in organized markets.

The fair value of derivatives not traded in organized markets, or traded in organized markets that are not deep or transparent, is equal to the sum of the future cash flows generated by the instrument, discounted at the measurement date ("present value" or "theoretical close"), employing valuation techniques accepted by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortized cost is the acquisition cost of a financial asset or liability adjusted (upward or downward) for capital and interest repayments and, where applicable, for the (higher or lower) portion (recognized in the consolidated income statement by applying the effective interest method) of the difference between the initial amount and the repayment value of the financial instruments. The amortized cost of financial assets also includes impairment adjustments.

The effective interest rate is the discount rate that brings the initial value of a financial instrument exactly into line with total estimated cash flows throughout its residual life. In the case of fixed-income financial instruments, the effective interest rate is equal to the contractual rate defined on acquisition, adjusted for commissions and transaction costs that must be included in the calculation of the effective interest rate, under IAS 39. The effective interest rate for variable-rate financial instruments is estimated in the same way as for fixed-income transactions and is recalculated at each interest review date stated in the contract, taking into consideration changes in the transactions future cash flows.

2.2.4 Classification and valuation of financial assets and liabilities

Financial instruments are classified into the following categories in the Group's consolidated balance sheet:

- **Financial assets and liabilities at fair value through profit or loss:** This category includes financial instruments for trading and other financial assets and liabilities classified as at fair value through profit or loss:

  - **"Financial assets held for trading"** are assets acquired in order to be realized in the short term or which form part of a portfolio of financial instruments identified or managed jointly, for which there is evidence of recent actions taken to obtain short-term gains, and derivative financial instruments not designated as hedge instruments, including instruments segregated from hybrid financial instruments (IAS 39).

  - **"Financial liabilities held for trading**" are liabilities issued for repurchase in the near future or that form part of a portfolio of financial instruments identified or managed jointly for which there is evidence of recent actions to obtain short-term gains, short positions in securities arising from sales of assets acquired under non-optional repurchase agreements and loans of securities, and derivative financial instruments not designated as hedge instruments, including instruments segregated from hybrid financial instruments.

  - **"Other financial assets or liabilities at fair value through profit or loss"** they are designated as financial assets or liabilities in their initial recognition, the fair value of which can be estimated in a reliable manner and this designation can be applied to:

    (i) hybrid assets and liabilities for which the implicit derivatives cannot be separately valued in a reliable manner, the separation of these is obligatory,

    (ii) hybrid financial assets and liabilities as a whole, designated from their initial recognition, except when the implicit derivatives do not significantly modify the cash flows that, in another way, the instrument would have generated or when the hybrid instrument was first considered the prohibition of separating from the implied derivatives was evident,

    (iii) financial assets and liabilities on which more relevant information is obtained because with this there is a significant reduction in the incoherencies in the recognition or valuation (also called accounting asymmetries) that would arise in the valuation of the assets or liabilities, or through the recognition of gains or losses with different criteria,

(iv) financial assets and liabilities on which more relevant information is obtained due to the existence of a group of financial assets or liabilities in each case from which more relevant information is obtained because there is a group of financial assets, or of assets and financial liabilities that are managed and their yield is valued based upon their fair value, in accordance with a documented management risk or investment strategy and the information on this group is also supplied based upon the fair value to the key management personnel.

- **Held-to-maturity investments**: it includes debt securities with fixed maturities and identified or identifiable cash flows that are classified by the Entity at initial date and subsequently, with the intention and financial capacity to hold them until maturity date.
The debt securities included in this category are initially carried at fair value, as adjusted for transaction costs directly attributable to the acquisition of the financial asset, which are recognized in the income statement using the effective interest method as defined in IAS 39. They are subsequently carried at amortized cost, calculated based on the effective interest rate.

- **Loans and receivables**: this category includes unlisted debt securities, financing provided to third parties arising from the ordinary credit and loan activities carried out by the Entity, and debts incurred by asset buyers and by service users. It also includes finance lease transactions where the entities are the lessors.

The financial assets included in this category are initially carried at fair value, as adjusted for commissions and transaction costs directly attributable to the acquisition of the financial asset and which, under IAS 39, must be recognized in the income statement using the effective interest method, to maturity. Following acquisition, the assets are carried at amortized cost.

Assets acquired at a discount are recorded at the cash amount paid and the difference between the repayment value and that cash amount is recognized as financial income applying the effective interest method during the period to maturity.

In general terms it is the intention of the consolidated companies hold the loans and credits granted to maturity, and therefore presented in the consolidated balance sheet at amortized cost.

The interest accrued on these assets, calculated using the effective interest method, is recognized in the caption “Interest and Similar Income” in the income statement. Exchange differences on securities denominated in foreign currency other than the Euro are registered as mentioned in Note 2.4. Possible impairment losses on these assets are recorded as indicated in Note 2.7. Debt securities included in fair value hedged transactions are recorded as mentioned in Note 2.3.

- **Available-for-sale financial assets**: this category includes debt securities not classified as held to maturity, such as loans and receivables, or as at fair value through Profit or loss, and equity instruments owned by Unicaja relating to entities which are not subsidiaries, joint ventures or associates, and which have not been classified at fair value through profit or loss.

The instruments included in this category are initially measured at fair value, adjusted for transaction costs, which are recognized until maturity in the income statement using the effective interest method. In the case in which the financial assets have no fixed maturities, they are accounted to the income statement when they become impaired or written off the balance sheet. Following acquisition, the financial assets included in this category are carried at fair value.

Nonetheless, equity instruments, which fair value cannot be determined in a sufficiently objective manner, are carried at cost in these annual accounts, net of impairment as explained in Note 2.7.

Balancing entries are registered in “Interest and Similar Income” (calculated using the effective interest method) and “Return on Equity Instruments” in the income statement, with respect to changes in the fair value of financial assets classified as available for sale, relating to interest or dividends accrued, respectively. Impairment losses on these instruments are recorded as mentioned in Note 2.7. Exchange differences on financial assets denominated in foreign currency other than the euro are accounted as mentioned in Note 2.4. Changes in the fair value of financial assets covered by fair value hedges are registered as mentioned in Note 2.3.

A balancing entry is made in “Valuation Adjustments”, in the Entity’s equity, with respect to the remaining changes to the fair value from the acquisition date of available-for-sale financial assets until the financial asset is written off, when the balance is taken to “Gains (Losses) on non-current assets held for sale not classified as discontinued operations” in the income statement.

- **Financial liabilities at amortized cost**: this category of financial instruments relates to financial liabilities that are not included in any of the previous categories. Financial liabilities included in this category are initially carried at fair value adjusted for transaction costs that may be directly attributable to the issue of the financial liability, which will be allocated to the consolidated income statement to maturity, using the effective interest rate method defined in IAS 39. They are subsequently valued at amortized cost, calculated using the effective interest rate method defined in IAS 39.

The liabilities issued by the consolidated entities which, having the legal nature of capital, do not fulfil the conditions to be classified as equity under IAS 32, i.e., basically shares issued by the consolidated entities that do not carry voting rights and entitle the holders to dividends in the event that certain conditions are met, are classified as financial liabilities at amortized cost except if the Group has designated them as financial liabilities at fair value through profit or loss and provided that the relevant conditions are met.

Accrued interest on these securities, calculated through the effective interest rate method is reflected under “Interest and similar charges” in the consolidated income statement. Exchange differences on securities denominated in a currency other than the euro, included in this portfolio, is reflected in accordance with Note 2.4. Financial liabilities in fair value hedging transactions are reflected in accordance with Note 2.3.

Nonetheless, financial instruments which should be considered as non-current assets held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued activities" are reflected in the consolidated financial statements as mentioned in Note 2.20.

Reclassifications between financial instruments portfolios are made according to the following assumptions:

i. Except in the case iv) stated below, the financial instruments may not be reclassified into or out of the category assessed at fair value through profit and loss, once acquired, issued or assumed.

ii. A financial asset, which intent or financial capacity changes, is classified from “Held-to-maturity investments” to "Available-for-sale financial assets". In this case, the same treatment is applied to all financial instruments held-to-maturity except under the circumstances stated by the applicable law (sales close to maturity date, or once received major part of the financial assets principal, or sales attributed to a non-recurring event that could not have been anticipated by the Entity).

   No operation or reclassification such as those described in this point was completed in 2017 or 2016.

iii. If a reliable valuation of a financial asset or liability becomes available, for which no such valuation had been previously available, and if it were obligatory to value them a fair value, such as non-quoted capital instruments and the derivatives that these have as underlying assets, these financial assets or financial liabilities will be valued at their fair value and the difference from their carrying amount will be treated in line with what is established for their portfolio class.

   During the years 2017 and 2016 there has been no significant reclassification as described above.

iv. If, as a result of a change in the intention or in the financial capacity of the Entity or, the expiry of the two year penalty period imposed by the applicable norm for the case of the sale of financial assets classified in the investment portfolio as at due date, financial assets (debt instruments) included in the category of “financial assets available for sale” may be reclassified to the “investment portfolio at due date”. In this case, the fair value of these financial instruments on the date of the transfer becomes their new amortized cost and the difference between this amount and their reimbursable value is charged to the consolidated profit and loss account applying the interest rate method applicable, during the residual life of the instrument.

   During the years 2017 and 2016 there has been no significant reclassification as described above.

v. A financial asset that is not a derivative may not be classified under “financial assets held for trading” if ceased to be maintained for the purpose of short term sale or repurchase, when one of the following circumstances takes place:

   - In rare and exceptional circumstances, unless the assets could have been susceptibly included in the heading “Loans and receivables”. Rare and exceptional circumstances are those that arise from a particular event, which is unusual and highly unlikely to recur in the foreseeable future.

   - When the Entity's intention and financial capacity to maintain the financial asset in the foreseeable future or until maturity, provided that it fulfilled the definition of “Loans and receivables” at its initial recognition.

   In these situations, the assets are classified at the reclassification date fair value, without reversing the results, and considering this value as their cost or amortized cost. In no case, these assets may turn to be reclassified as “Financial assets held for trading”.

   During the years 2017 and 2016 there has been no significant reclassification as described above.

2.3 Hedging and mitigation of risks

The Group uses financial derivatives as part of its strategy to limit its exposure to interest rate, market and foreign exchange risks, inter alia. When the transactions fulfil the requirements of IAS 39, they are treated as hedges.

When the Group designates a transaction as a hedge, it does so as from the time of inception of the transactions or the instruments included in the hedge, which is appropriately documented. When documenting these hedge transactions, the hedged instrument(s) and hedging instrument(s) are duly identified together with the nature of the risk which is intended to be hedged and the criteria or methods followed by the Entity to measure the effectiveness of the hedge over the hedge term, taking into account the risk to be covered.

Only transactions that are considered highly effective throughout the hedge term are treated as hedge transactions. A hedge is considered highly effective if during the specific term any changes in fair value or cash flows attributed to the risk covered by the hedge of the financial instrument or instruments are virtually fully offset by the changes in fair value or cash flows, as appropriate, of the hedging instrument or instruments.

In order to measure the effectiveness of designated hedges, the Group analyses whether, from inception and to the end of the defined hedging period, changes in fair value or cash flows of the hedged item that are attributable to the hedged risk may prospectively be expected to be offset almost completely by changes in fair value or cash flows, as applicable, of the hedging instrument or instruments and whether, retrospectively, the hedge results have fluctuated within a range of 80% to 125% with respect to the results of the item hedged.

The Entity’s hedges are classified as follows:

- Fair value hedges: These hedges cover exposure to changes in the fair value of financial assets and liabilities or of Groups’ commitments not yet recognized, or of an identified portion of such assets, liabilities and the Group’s commitments, attributable to a specific risk, provided it might affect the consolidated income statement.

- Cash-flow hedges: These hedges cover changes in cash flows attributed to a specific risk associated with a financial asset or liability or a highly probable transaction, provided it may affect the income statement.

As regards the specific financial instruments designated as hedged items and hedging instruments, measurement differences are recognized as described below:

- For fair value hedges, differences in hedges and hedged items (depending on the type of the hedged risk) are recognized directly in the consolidated income statement.

- For cash flow hedges, measurement differences arising on the effective portion of the hedge are temporarily recorded in the equity item “Valuation adjustments - Cash flow hedges”. The financial instruments covered by cash flow hedges are recognized as explained in Note 2.2 and no adjustments are made due to the fact that they are classified as hedged items.

In the latter case, measurement differences are not recognized in the income statement until the gains or losses on the hedged item are recognized or, in the case of the hedge was related to a highly probable future transaction whose consequence is the recognition of a not financial asset or liability, these measurement differences would be recognized as part of the acquisition cost or until the maturity date of the hedged item.

Measurement differences on the hedging instrument relating to the ineffective portion of cash flow hedges are recognized directly in “Gains/ (losses) on financial assets and liabilities (net)” in the consolidated income statement.

The Group interrupts the hedge accounting when the instrument expires or is sold, when a hedge no longer meets the criteria for the hedge accounting or when the transaction ceases to be classed as a hedge.

Where the hedge fair value is interrupted as stated in the previous paragraph, in the case of hedged items carried at amortized cost, the adjustments made for the hedge accounting purposes are recognized in the income statement until the maturity date of the hedged items, applying the effective interest rate as recalculated on the interruption date.

Where cash flow hedge accounting is interrupted, the gain or losses accumulated on the hedging instrument recognized in the equity caption “Accumulated other comprehensive income - Cash flow hedges” in the consolidated balance sheet remains in that heading until the hedged expected transaction takes place, when the amount in question is taken to the consolidated income statement or, when the hedged item is an expected transaction that results in the recognition of a financial asset or liability, an adjustment is made to the acquisition cost of the asset or liability. In the case of expected transactions, when the transaction is not expected to be effected, the relevant amount recognized in the equity item “Accumulated other comprehensive income - Cash flow hedges” is immediately taken to the consolidated income statement.

2.4 Foreign currency transactions

2.4.1 Functional currency

The Group’s functional currency is the euro. All balances and transactions denominated in currencies other than the euro are considered as foreign currency balances and transactions.

The total equivalent value in euros of the Entity’s foreign currency assets and liabilities at 31 December 2017 was €78,089 thousands and €34,292 thousands, respectively (€78,007 thousands and €53,163 thousand, respectively, at 31 December 2016). The 82% and 75%, respectively at 31 December 2017 was denominated in US dollars (78% and 79%, respectively at 31 December 2016) and 8% and 10%, respectively at 31 December 2017 in pounds sterling (10% and 8% respectively, at 31 December 2016), and the remainder in other foreign currencies traded in the Spanish market.

2.4.2 Foreign currency translation

Foreign currency transactions effected by the Group are initially recognized in the financial statements at their equivalent value in euros, using the exchange rates prevailing at the dates of the transactions. The Entity subsequently translates the monetary balances in foreign currency to the functional currency using the year-end exchange rate. Additionally:

- Non-monetary items carried at historical cost are translated into the functional currency using the exchange rate prevailing at their acquisition date.

- Non-monetary items carried at fair value are translated into the functional currency using the exchange rate in force at the date on which fair value was determined.

2.4.3 Exchange rates applied

The exchange rates used by the Entity to translate balances denominated in the main foreign currencies to euros when preparing the annual accounts at 31 December 2017 and 2016 are the rates published by the European Central Bank.

2.4.4 Accounting for exchange differences

Exchange differences arising from the translation of foreign currency balances into the Group's functional currency are generally recognized at their net amount in "Exchange differences (net)" in the consolidated income statement, except for differences in financial instruments carried at fair value through the income statement, which are recognized in the consolidated income statement together with any other change in fair value.

In 2017, exchange differences recognized in the Bank's consolidated income statement totaled a net gain of €402 thousand, as compared with a net gain of €968 thousand in 2016.

Exchange differences in non-monetary items which fair value is adjusted by means of a balancing entry in equity are recognized in "Accumulated other comprehensive income - Exchange differences" in the consolidated balance sheet, until they are realized. Exchange differences arising on non-monetary items whose fair value is adjusted against the consolidated equity.

In 2017 and 2016, exchange differences recognized in the consolidated statement of recognized income and expenses as "Other recognized income (expenses)" amounted to €163 thousand and €126 thousand, respectively, relating in both cases to net gains on measurement.

2.5 Recognition of income and expense

Set out below is a summary of the most significant accounting policies employed by the Group to recognize income and expense:

2.5.1 Interest income and expense, dividends and similar items

In general, interest income and expense and similar items are accounted in an accruals basis, applying the effective interest method defined in IAS 39. Dividends received from other companies are recognized in the income statement when the Entity becomes entitled to receive them.

2.5.2 Commissions, fees and similar items

Income and expense relating to commissions and similar fees, which are not included in the calculation of the effective interest rate of operations and/or do not form part of the acquisition cost of financial assets or liabilities, except for those carried at fair value through the income statement, are recognized in the income statement using different methods depending on their nature. The most significant methods used are explained below:

- Amounts associated with the acquisition of financial assets and liabilities carried at fair value through the income statement are recognized in the consolidated income statement at the payment date.

- Amounts arising from long-term transactions or services are recognized in the consolidated income statement over the term of the transactions or services.

- Amounts relating to a one-off event are recorded in the consolidated income statement when that event takes place.

2.5.3 Non-financial income and expense

These amounts are accounted in an accruals basis.

2 5.4 Deferred collections and payments

Deferred collections and payments are carried at the amount obtained by discounting expected cash flows at market rates.

2.6 Offset of balances

Only debtor and creditor balances arising from transactions which, under contract or legislation, provide for possible offset and are to be settled at their net amount, or simultaneously realized and paid, are offset and therefore presented in the consolidated balance sheet at their net amount.

For this purpose, the presentation according to IFRS-EU in these consolidated annual accounts of financial assets subject to valuation adjustments for depreciation or impairment, net of these concepts is not considered a "offset balances”.

2.7 Financial asset impairment

(In accordance with IAS 39 "financial instruments: recognition and measurement" the carrying value of financial assets is generally adjusted against the consolidated income statement when there is objective evidence that there are impairment losses. This is the case where:

- For debt instruments, i.e. loans and debt securities, when following their initial recognition there is an event or various events which have a negative impact on the relevant future cash flows.

- For equity instruments, when following their initial recognition there is an event or various events making it impossible to recover their carrying amount.

In the event that the recovery of any amount in respect of the impairment recorded is considered remote, such impairment is written off the consolidated balance sheet, although the Group may take the necessary actions to secure collection until the final extinguishment of its debt claims due to lapsing, remission or other reasons.

In the case of debt instruments carried at amortized cost, the amount of impairment losses is equal to the difference between their carrying amount and the present value of forecast future cash flows discounted at the instrument’s original effective interest rate, where a fixed rate was contracted, or at the effective interest rate at the date of the financial statements, determined based on the contractual terms, in the case of a variable rate. For listed debt instruments, the market value may be used, provided it is sufficiently reliable to be representative of the amount that may be recovered by the Group.

Objective evidence of impairment will be determined individually for all debt instruments that are significant, and individually or collectively for groups of debt instruments which are not individually significant. Whenever a specific instrument cannot be included in any group of assets with similar risk characteristics, it will be analysed exclusively on an individual basis in order to ascertain whether it is impaired and, whenever this is the case, to estimate the impairment loss.

The collective assessment of a group of financial assets to estimate impairment losses is as follows:

- Debt instruments are included in groups with similar credit risk characteristics, indicative of debtor capacity to pay all amounts, principal and interest, in accordance with contractual terms. The characteristics of credit risk which are taken into account in order to group together assets are, inter alia, instrument type, debtor’s business sector, geographical location of the activity, type of guarantee, age of amounts overdue and any other factor that may be relevant when estimating future cash flows.

- Future cash flows in each group of debt instruments are estimated based on the Entity’s experience of historical losses for instruments with similar credit risk characteristics to those of the respective group, following the necessary adjustments to adapt historical data to current market conditions.

- Impairment losses in each group are the difference between the carrying value of all the Entity's debt instruments and the present value of its estimated future cash flows.

Debt instruments not measured at fair value with changes in profit and loss account, contingent risks and contingent commitments are classified according to the risk attributable to the customer or to the operation insolvency. Similarly, these financial instruments are analyzed to determine their credit risk by reason of country risk, meaning the same, one who attends to customers resident in a specific country due to circumstances other than usual commercial risk.

The evaluation process and calculation of possible impairment losses on these assets is carried out:

- Individually, for all significant debt instruments and for which, although not material, are not susceptible to being classified in homogeneous groups of instruments with similar characteristics, depending on the type of instrument, industry debtor and geographical area of activity , type of guarantee, age of past-due amounts, etc.

- Collectively, for other debt instruments, establishing different classifications of operations, according to the nature of the obligors and the conditions of the country in which they reside, transaction status and type of collateral that counts, days overdue, etc., setting for each of these risk groups impairment losses are recognized in the consolidated annual account.

The calculation of collective coverage is done through internal methodologies, based on the experience of historical losses for assets with similar risk characteristics and adjusted from observable data to reflect the effect of current conditions not affecting the period of historical experience is extracted, and to remove the effects of conditions in the historical period that do not exist today. The methodology used estimates impairment losses through the link between historical default data group and severity with other observable data and macroeconomic variables. Historical loss rates and severity apply to defined groups with similar characteristics, consistent with the groups for which observed the above historical rates. Finally, the loss incurred is estimated based on the risk parameters PD (probability of default), LGD (severity) and EAD (exposure at default).

The recognition in the income statement of interest accrued on the basis of the contractual terms is interrupted for all debt instruments classified individually as impaired and for those for which impairment losses have been calculated collectively because the amounts involved are more than ninety days past due.

The amount of impairment losses incurred in debt securities and equity instruments included in the item "Available-for-sale financial assets" is equal to the positive difference between their acquisition cost, net of principal repayments, and their fair value less any impairment loss previously recognized in the consolidated income statement.

When there is objective evidence that the decline in fair value is attributable to impairment, the latent losses recognized directly as measurement adjustments in equity are recorded immediately in the consolidated income statement. If subsequently all or part of the impairment losses are recovered, the amount involved is recognized, in the case of debt securities, in the income statement for the recovery period and, in the case of equity instruments, as valuation adjustments in consolidated equity.

In order to draw conclusions as to the existence of objective evidence of impairment of listed and unlisted debt instruments, the Group analyses any loss-causing events, such as circumstances causing significant financial difficulties for the issuer or obligor, breaches of contractual clauses, such as defaults or delays in the payment of principal or interest, increase in the probability of the issuer becoming insolvent or undergoing any other type of financial restructuring, disappearance of an active market for the financial instrument in question, due to financial difficulties, and a credit rating cut, which could be a sign of impairment if considered together with other available information.

In the specific case of listed equity instruments, the Group analyses whether a prolonged or significant fall in the investment's fair value below cost is objective evidence of impairment. For the purposes of determining when there is objective evidence that the price fall is due to impairment, in the event of exceptional circumstances in the markets that determine the price, the price effects derived from general market movements are analysed separately from the movements relating to factors specifically attributable to the issuer. Where there are no exceptional market circumstances but there are prolonged falls below the carrying amount, representing a relevant percentage, the Group also analyses evidence of impairment. Unless more specifically endurable criteria, the Group finds that the lack of recoverability of asset may come as evidenced by a prolonged or significant fair value reduction, notwithstanding that it may be necessary to recognize an impairment loss before there after that time or lowered the price by that percentage, and presumed, unless proved otherwise, that there is indication of impairment when the decline occurs prolonged for a year and a half or significantly if the share price falls 40 percent. An analysis is also performed to determine whether there are objective reasons to consider that the security's price does not reflect its fair value and, therefore, is not a valid figure for quantifying potential impairment. Objective reasons in this case may be related to a very low free float, prolonged speculative actions affecting the share price, etc., all of which could distort the price of equity instruments.

For debt and equity instruments classified under non-current assets held for sale, the losses recorded previously in equity are considered to be realized and are recognized in the consolidated income statement at the date of their classification.

For investments in subsidiaries, jointly-controlled entities and associates, the Institution estimates impairment losses by comparing the recoverable amount with the carrying amount. Such impairment losses are recorded in the consolidated income statement for the period in which they arise while subsequent recoveries are recorded in the consolidated income statement for the recovery period.

2.8 Financial guarantees and related provisions

Financial guarantees are contracts in which an entity undertakes to pay specified sums for the account of a third party in the event that payment is not made by the third party, irrespective of the form of the obligation: guarantee deposit, financial or technical guarantee, irrevocable documentary credit issued or confirmed by the Entity, etc.

In accordance with IFRS-EU and the Group generally considers the financial guarantee contracts provided to third parties as financial instruments within the scope of IAS 39.

At the time of their initial recognition the Group reflects financial guarantees provided under liabilities on the consolidated balance sheet at fair value plus the transaction costs that may be directly attributable, which generally is equal to the amount of the premium received, plus, if appropriate, the present value of commissions and interest to be received on such contracts over their term, with a balancing entry, under assets, of the amount of the likened commissions and interest collected at inception and accounts receivable for the present value of the commissions and interest receivable. Subsequently, these contracts are carried under liabilities on the consolidated balance sheet at the higher of the following two amounts:

- The amount calculated in accordance with IAS 37. In this respect, the financial guarantees, irrespective of the holder, arrangement or other circumstances, are analysed regularly to determine the credit risk to which they are exposed and if appropriate, estimate the need for provision, determined by applying criteria similar to those established to quantify impairment losses on the debt instruments valued at amortized cost.

- The amount initially reflected for these instruments less amortization of this amount which, under IAS 18, is charged on a straight-line basis over the term of such contracts to the consolidated income statement.

Provisions for financial guarantees are recorded in the item “Provisions - Provisions for contingent risks and commitments” under liabilities in the consolidated balance sheet. A balancing entry is made in the caption “Provisions (net)” in the consolidated income statement.

When a provision is required for financial guarantees, commissions pending accrual on the guarantees, carried on the liabilities in the consolidated balance sheet in the caption “Accrual accounts”, are reclassified to the relevant provision.

2.9. Accounting for leases

2.9.1 Finance leases

Finance leases are those in which substantially all the risks and rewards carried by the leased asset are transferred to the lessee.

Whenever the Entity acts as the lessor of an asset in a finance lease transaction, the sum of the present values of the amounts that will be received from the lessee plus the guaranteed residual value (usually the purchase option price when the lease expires) are recorded as financing provided to third parties and therefore included in the caption “Loans and receivables” in the consolidated balance sheet, in accordance with the nature of the lessee.

When the Entity acts as the lessee in a finance lease operation, the cost of the leased assets is recorded in the balance sheet on the basis of the nature of the asset leased and a liability is carried in the same amount (the lower of the fair value of the leased asset and the sum of the present values of the amounts payable to the lessor plus, if appropriate, the purchase option exercise price). These assets are depreciated at similar rates to those applied to the Group’s property, plant and equipment for own use (Note 2.14).

In both cases, the financial income and expense on finance leases is credited and charged, respectively, to the consolidated income statement captions “Interest income” and “Interest expense”, applying the effective interest rate on the lease, calculated in accordance with the new regulations, to estimate accrual.

In relations with finance lease developed by Unicaja Banco Group, quantitative information at 31th December 2017 and 2016 is detailed below:

(a) Gross investment (call option included) and current value at 31th December 2017 and 2016 reconciliation is the following:

	Thousand euros	
	2017	**2016**
Accounts receivable Nominal Value	83 312	64 321
Purchasing operations Nominal Value	5 781	3 266
Total nominal Value at the end	**89 093**	**67 587**
Unearned finance incomes	4 522	4 372
Current value at close	**93 615**	**71 959**

(b) The present value of minimum lease payments at 31th December 2017 and 2016 and their residual terms distribution is the following:

	Thousand euros	
	2017	**2016**
Less than a year	22 826	18 668
Between one and five years	53 865	40 736
More than five years	10 674	8 915
	87 365	**68 319**

(c) The unguaranteed residual values accruing to the benefit of the lessor at 31th December 2017 are €5,781 thousands (€3,266 thousands at 31 December 2016).

(d) The accumulated allowance for uncollectible minimum lease payments receivable at 31th December 2017 amount to €4,010 thousands (€3,262 thousands at 31th December 2016).

2.9.2 Operating leases

In operating leases, ownership of the leased asset and substantially all risks and benefits of ownership are retained by the lessor.

Where the Group acts as the lessor in operating lease agreements, the acquisition cost of the leased asset is carried under “Property, plant and equipment” in “Investment property” or “Other assets leased out under operating leases”, depending on the nature of the leased assets. Such assets are depreciated in accordance with the policies adopted for similar property, plant and equipment for own use and the revenue from lease contracts is recognized in the consolidated income statement on a straight-line basis in the caption “Other operating income”.

Where the Group acts as the lesser in operating lease agreements, the lease costs, including any incentives granted by the lessor, are charged on a straight-line basis to the consolidated income statement caption “Other general administrative expenses”.

2.10 Managed assets

Managed assets by the consolidated entities and owned by third parties are not recognized in the consolidated balance sheet. Fees generated by this activity are recorded in the item “Fees and commission income” in the consolidated income statement. Note 31.4 provides information on third-party assets managed by the Group during the years ended 31 December 2017 and 2016.

2.11 Investment funds managed by the Group

Investment funds managed by the consolidated entities are not recognized in the Group’s consolidated balance sheet as the fund assets are owned by third parties. Fees accrued during the year for services rendered to the funds by the Group entities (asset management, portfolio depository services, etc.) are recorded in “Fee and commission income” in the consolidated income statement.

2.12 Staff costs

2.12.1 Post-employment commitments

2.12.1.1 General description of commitments

Under the prevailing collective bargaining agreement, the Group must supplement the social security benefits of its employees or their beneficiaries in the event of retirement, widowhood, orphanhood, permanent disability or major disability.

During 2002 Unicaja reached an agreement with its employees to modify and transform the pre-existing pension supplement arrangements for retirement and related contingencies and for occupational hazard contingencies. As a consequence of that agreement, a part of the pension commitments with employees were externalized to the fund Unifondo Pensiones V, Fondo de Pensiones. The remaining pension commitments covered by the internal fund at 31 December 2001 were covered by insurance policies during 2004 and 2005 (Note 41.1).

The basic terms of the agreement entail a shift from a mixed company pension arrangement to group defined contribution and defined benefit arrangements. As a consequence, the pension plan contemplated in the agreement encompasses five groups into which the employees are classified based on their length-of-service, post and applicable collective bargaining agreement. Depending on the group, the benefits consist of minimum guaranteed sums for death and disability, and defined contributions or benefits for the retirement and related contingencies.

As a result of the merger of Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga y Antequera (actually, Fundación Bancaria Unicaja) and Caja Provincial de Ahorros de Jaén (Caja de Jaén), on 13 April 2011 the "Employment Agreement for the Integration of the Employment Pension Plans at Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén" was signed, and compliance was obtained through the "Employment Agreement regarding the Procedure for Integrating the Employment Pension Plant at Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén" dated 26 July 2011.

The purpose of this agreement was to establish the foundation on which the Employment Pension Plan for all Unicaja employees would be regulated as a result of the merger and the procedure for unifying the existing Employment Plans at both entities by integrating the Pension Plan for Employees of Caja de Jaén into the Unicaja Employee Pension Plan, which has resulted in the termination and liquidation of the former and the creation of a new group consisting of the employees of that entity.

On 20 September 2011, the Employee Pension Plan Control Committee at Unicaja approve the amendment of the Pension Plan Specifications to adjust to the wording established in the aforementioned employment agreement, immediately accepting the integration of participants and their consolidated rights and the beneficiaries of the Caja de Jaén Employee Pension Plan that registered with the new plan on 26 October 2011.

As a result of the creation of a bank at Unicaja, the Unicaja Employee Pension Plan Control Committee agreed to modify this plan in a joint promotion plan whose specifications have been updated in November 2016.

Finally, during 2014 Unicaja Banco Group acquired the majority of Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero) share capital which, in accordance with its current employment agreements, must pay a supplement for Social Security benefits relating to its employees, or their heirs, in the case of retirement, widowhood, orphan hood, permanent disability or serious disability. EspañaDuero' post-employment commitments with its employees are treated as "defined-contribution commitments" when it makes predetermined contributions to a separate entity, without any real or effective obligation to make additional contributions if the separate entity is unable to pay benefits to the employees for the services rendered in the current year and in prior years. Post-employment commitments that do not fulfil the above-mentioned conditions are treated as "defined-benefit commitments". Note 41.1.1 includes the post-employment commitments falling to EspañaDuero after the date on which Unicaja Banco Group took control.

At 31 December 2017 and 2016, the actuarial study calculations for the defined benefit systems have been carried out using the following assumptions:

	2017	**2016**
Wage growth	2%	2%
Social security coverage growth	1%	1%
Pension review rate	1%	1%
Mortality tables	PERMF 2000-P	PERMF 2000-P

The commitments accruing to retired employees or beneficiaries at 31 December 2017 and 2016 are externalized to the fund Unifondo Pensiones V, Fondo de Pensiones and covered by an insurance policy that applies an insured interest rate of 5.406% to 31 July 2041 and 2.5% as from that date, and the PERMF 2000-P mortality tables.

- Defined contribution commitments

The contribution accrued during the year is recognized under the caption "staff costs" in the consolidated income statement.

At 31 December 2017 and 2016 there were no pending contribution to external defined contribution plans.

- Defined benefit commitments

In the heading "Provisions – Provisions for pensions and similar liabilities" on the liabilities side of the consolidated balance sheet (or on the assets side, in the caption "Other assets – Other", depending on whether the difference is positive or negative and provided the conditions laid down in applicable regulations IAS 19 and to IFRIC 14, for its registry are fulfilled), the Group recognizes the present value of its defined benefit pension commitments, net of the fair value of the assets that qualify as plan assets and of deferred past service costs.

"Plan assets" are assets allocated to a specific defined-benefit commitment that will be directly used to settle these obligations and that fulfil the following conditions:

- they are not owned by the Group's entity but rather by a legally independent third party,
- they may only be used to pay or finance employees post-employment remuneration and
- they may not be returned to the Group's entity, except when the remaining plan assets are sufficient to comply with all the obligations of the plan or the entity related to current or past employee benefits, or to reimburse employee benefits already paid by the Group.
- are not transferable financial instruments issued by the Group.

Where the Group is able to demand that an insurance company pay part or all of the disbursement required to settle a defined benefit obligation, it being practically certain that insurance company will reimburse some or all of the payments required to settle that obligation, but the insurance policy does not qualify as a plan asset, the Entity recognizes its reimbursement right on the assets side of the balance sheet in “Insurance contracts linked to pensions” and treats the balance in this item as a plan asset in all other respects.

Actuarial gains and losses derive from differences between prior actuarial assumptions and actual fact, and from changes in the actuarial assumptions used.

Pursuant to IAS 19, the Group recognizes actuarial gains or losses that may arise in connection with its post-employment commitments with employees in the period in which they arise, by charging or crediting the consolidated statement of recognized income and expenses, through “Other recognized income and expenses”, which are treated for such purposes as items that will not be taken to the income statement.

The “Cost of past services" arising from changes to existing post-employment remuneration or from the inclusion of new benefits is the cost of improving the benefits, relating to the years of service of each employee, based on a linear distribution of the cost using the projected credit unit method; it is recognized immediately in the consolidated income statement for the period in question.

Post-employment benefits are recorded in the consolidated income statement as follows:

- Current service costs, i.e. the increase in the present value of the obligations arising from the services provided by employees in the current year, are recognized in “Staff costs";

- Interest costs, i.e. the increase in the present value of the obligations that occurs during the year due to the pass of time, are recognized in "Interest expenses and similar charges". Whenever the obligations are presented liabilities, net of related plan assets, the cost of the liabilities recorded in the consolidated income statement will correspond solely to the obligations recognized on the liabilities side.

- The expected return on assets assigned to cover commitments and related losses and gains, less any administrative costs and taxes, is recognized under “Interest and similar income”.

2.12.1.2 Criteria used in post-employment benefits

Concerning the criteria used and the method of determining the discount rates applied for post-employment benefits, the following should be noted:

- For insured commitments: The criteria applied are those laid down in IAS 19 and Bank of Spain regulations, specifically for determining the discount rate, the provisions of paragraph B.3)10.d) of Standard 35 of Bank of Spain Circular 4/2004. At the end of 2016, for commitments insured under insurance policies, the fair value of the assets and the obligations has been calculated by applying a discount rate based on the average duration of the commitments.

- For uninsured commitments: The market reference rate used is the rate for issuances of corporate bonds with high credit ratings, taking as a reference the IBOXX AA Corporate curve (i.e. the curve relating to highly rated corporate bonds in the euro zone) at 31 December 2017.

2.12.1.3 Defined-benefit post-employment commitments

At year-end 2017, the Unicaja Banco and EspañaDuero defined-benefit post-employment commitments are grouped into different plans, as described below:

Definition of Plan 1 of Unicaja Banco

a) Defined-benefit post-employment remuneration externalized under an employee pension plan named “Plan de Pensiones de Promoción Conjunta de los empleados de Unicaja Banco S.A. y de la Fundación Bancaria Unicaja”, which includes serving employees and employee beneficiaries who already receiving post-employment benefits.

b) Defined-benefit post-employment remuneration externalized under an insurance policy qualifying for the externalization of commitments pursuant to Royal Decree 1588/1999, as the legal limits on pension plan contributions preclude the financing of these commitments under the pension plan.

Definition of Plan 2 of Unicaja Banco

a) Defined-benefit post-employment remuneration externalized under an insurance policy qualifying for the externalization of commitments pursuant to Royal Decree 1588/1999, covering pension commitments derived from the Collective Bargaining Agreements for Savings Banks and for Private Banking for employees not covered by the pension plan named “Plan de Pensiones de Promoción Conjunta de los Empleados de Unicaja Banco S.A. y de la Fundación Bancaria Unicaja”.

b) Defined-benefit post-employment remuneration externalized under an insurance policy qualifying for the externalization of commitments pursuant to Royal Decree 1588/1999, covering pension commitments for a group of early-retired employees.

c) Defined-benefit post-employment remuneration externalized under an insurance policy qualifying for the externalization of commitments pursuant to Royal Decree 1588/1999, covering pension commitments for a group of early retired employees.

EspañaDuero Plan 1

All of these commitments originate from Caja de Ahorros de Salamanca y Soria.

a) Externalized defined post-employment benefits that have been externalized through an employment system pension plan for employees originating from Caja de Ahorros de Salamanca y Soria, called "Pension Plan for Employees of Caja de Ahorros de Salamanca y Soria", including active personnel and beneficiary personnel that are already receiving the post-employment benefit.

b) Defined post-employment benefits externalized through an insurance policy eligible for such commitments in accordance with Royal Decree 1588/1999, policy number PD 80 01/000002 and PD 80 01/000003, since the legal limits applicable to pension plan contributions do not allow them to be financed through the Pension Plan itself.

EspañaDuero Plan 2

Commitments originate from Caja de Ahorros de Salamanca y Soria:

a) Defined post-employment benefits externalized through an insurance policy eligible for such commitments in accordance with Royal Decree 1588/1999, policy numbers PD 80 01/000002, PD 80 01/000003, RV 80 02/000002 and PD 80 07/000072.

b) Defined post-employment benefits in an internal fund to cover retirement income.

Commitments originating from Caja de Ahorros y Monte de Piedad:

a) Defined post-employment benefits externalized through insurance policies eligible for such commitments in accordance with Royal Decree 1588/1999, policy number 8118, under which the benefits payable relate to the flows from the associated financial assets in terms of both their amount and the payment schedule (*cash flow matching*).

b) Defined post-employment benefits externalized through insurance policies eligible for such commitments in accordance with Royal Decree 1588/1999, policy number PCP-1001, under which the benefits payable relate to the flows from the associated financial assets in terms of both their amount and the payment schedule (*cash flow matching*).

c) Defined post-employment benefits externalized through insurance policies eligible for such commitments in accordance with Royal Decree 1588/1999, policy number 10/78, under which the benefits payable relate to the flows from the associated financial assets in terms of both their amount and the payment schedule (*cash flow matching*). The commitment externalized under this policy was satisfied in 2014 and the relevant obligation was settled and the insurance policy was surrendered.

2.12.2 Other long-term remuneration - Phased early retirement

During the years 2017 and 2016, the Group reached some agreements individually consistent, mainly in early retirement agreements through contract suspensions, whose commitments are adequately covered in each of the above dates.

In order to calculate the commitments with employees coming from these agreements, the Group has been based on assumptions applied according to the market conditions and using the covered group specifications.

2.12.3 Death and disability

The commitments assumed by the Group to cover current employee death and disability contingencies by means of insurance policies contracted with Unicorp Vida, Insurance and Reinsurance Company, S.A. under the pension plan (Note 2.12.1) are recognized in the consolidated income statement in an amount equal to the insurance premiums accrued during the year.

2.12.4 Length-of-service awards

Unicaja Banco has taken its commitment to meeting employees a benefit to the same amount of €1,647.46 and €2,040.2 in the event that the employee meets 20 and 35 years of service in the institution, respectively.

Pre-retirement commitments are recognized, for all applicable purposes, using the same criteria explained above for defined benefit commitments, except that the entire cost of past services and the actuarial gains or losses are recorded immediately when they arise.

2.12.5 Severance indemnities

Under current legislation, the consolidated Spanish companies and some foreign companies are required to make severance payments to employees terminated without just cause. The Group is required to pay indemnities to employees who, under certain conditions, are dismissed from the Company.

2.12.6 Plan of voluntary redundancies

Dated 21 December 2015, the Bank launched a new plan of voluntary redundancies, which provides the continuity of existing early retirement scheme, as well as this may cause low in the Bank by termination of contract by mutual agreement. The voluntary redundancies plan is voluntary foster care by Unicaja Banco's employees and has a maximum of 300 people in a period of two years, starting from 1 January, 2016. The placement period ends on March 31, 2016. In the case of the early retirement, are eligible for the Unicaja Banco employees who reach the age of 58 years or older within the period of two years from January 1, 2016. In the course of the termination of the employment contract by mutual agreement, eligible employees who, because of age, may not request the foster care tailored to early retirement.

2.13 Income tax

Income tax expense is recognized in consolidated the income statement, except where it derives from a transaction whose results are taken directly to equity, in which case a balancing entry for income tax is also made in the Group's equity.

Income tax expense for the year is calculated as tax payable on taxable income for the year, as adjusted for variations during the year in asset and liability balances arising from temporary differences, tax deductions and allowances, and any tax-loss (Note 24).

The Group considers that there is a temporary difference when there is a difference between the carrying amount and the taxable amount of an asset or liability. The amount attributed to an asset or liability for tax purposes is treated as the tax base. A taxable temporary difference is a difference that will generate a future obligation for the Group to make a payment to the relevant authority. A deductible temporary difference is a difference that will generate a refund right or a reduction in a payment to be made to the relevant authority in the future.

Tax credits for deductions and allowances and tax credits for tax-loss carry forwards are amounts that, though generated on the completion of an activity or obtainment of a result, are not applied for tax purposes in the relevant tax return until the conditions stipulated in tax legislation are fulfilled, and provided the Group considers that application in future years is probable.

Current tax assets and liabilities are amounts that the Entity expects to recover from or pay to the corresponding tax authority within 12 months as from the date on which they are recognized. Deferred tax assets and liabilities are amounts that the Entity expects to recover from or pay to the corresponding tax authority in future years.

Deferred tax liabilities are recognized for all taxable temporary differences. Nonetheless, deferred tax liabilities resulting from the recording of goodwill are not recognized.

The Group only records deferred tax assets arising from deductible temporary differences, tax credits for deductions or allowances or for tax losses when the following conditions are fulfilled:

- Deferred tax assets are only recognized in the event that the Group will probably record sufficient tax gains in the future to offset the relevant amounts; and

- Deferred tax assets deriving from tax losses have arisen due to causes identified as unlikely to arise again.

Deferred tax assets and liabilities are not recognized when an asset or liability is initially recorded in the accounts, which does not result from a business combination and, at the recognition date, which does not affect reported results or taxable income.

At each accounting close, deferred tax assets and liabilities are analysed to ensure that they remain valid and any necessary adjustments are made accordingly.

The Bank taxed in arrangements of fiscal consolidation referred to in Title VII of Royal Legislative Decree 4/2004, of 5 March, approving the revised text of the above tax law societies. The criterion applied by the group is to record, by each entity taxed in that system, the expenditure in respect of income tax that would have corresponded him submitting his statement individually, adjusted by the negative taxable basis amount, deductions or credits, generated by each society that are exploited by other Group companies, considering to make fiscal consolidation.

Moreover noted that on November 30, 2013 was published in the Official State Bulletin Royal Decree-Law 14/2013, of 29 November, on urgent measures for the adaptation Spanish law to the regulations of the European Union in terms of supervision and solvency of financial institutions, among other things, introduced amendments in the revised text of the law of corporation tax approved by Royal Legislative Decree 4/2004 , 5 March, , establishing, for tax periods beginning from 1 January 2011 a new concerning the inclusion in the tax bases, with certain limits, for tax periods beginning on or after the year 2014, certain temporary differences with origin in provisions for impairment of loans treatments or other assets derived from the possible insolvency of debtors not related to the taxable person and the corresponding to allocations to contributions to systems of forecast social and, in its case, pre-retirement, as well as for their conversion in credits with the Administration in certain alleged as are the made of that an entity could present losses accounting or in them cases of existence of liquidation or insolvency judicially declared, establishing the possibility, of way additional, that these temporary differences can be redeemed for asset values such debt deferred tax one After the period of compensation of tax losses established in the applicable regulations elapsed.

2.14 Tangible assets

2.14.1 Property, plant and equipment for own use

Property, plant and equipment for own use comprise assets owned or being acquired under finance leases that the Group holds for current or future use for purposes other than community projects or for the production or supply of goods and which are expected to be used for more than one financial year. Among other assets, this category includes property, plant and equipment received by the Group to fully or partially settle financial assets representing debt claims against third parties and which the Group plans to use itself on a continuous basis.

Property, plant and equipment for own use are carried at acquisition cost in the consolidated balance sheet, which is the fair value of any consideration provided plus the total amount of cash payments made or committed, less accumulated depreciation and any estimated losses determined by comparing the carrying amount of each item with its recoverable amount. The acquisition cost of the material assets elements for own use and freely available includes the valuation of these that was made on 1 January 2004 at fair value. This fair value as at 1 January 2004 was obtained on the basis of valuations performed by independent experts.

To this end, the acquisition cost of assets awarded to the Group and included in property, plant and equipment for own use is equal to the carrying amount of the financial assets provided in exchange for the award.

Depreciation is calculated using the straight-line method based on the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand is understood to have an indefinite life and is therefore not depreciated.

A balancing entry for annual depreciation charges for property, plant and equipment is recognized in "Amortization equipment" in the consolidated income statement. Depreciation is charged at the following rates, based on average estimated useful lives:

	Annual rate
Buildings	1% to 3%
Furniture and installations	8% to 13%
Machinery and electronic equipment	13% to 27%

At each accounting close, the Group checks for internal or external indications that the carrying amount of property, plant and equipment exceeds the recoverable amount, in which case the carrying amount of the asset in question is written down to its recoverable amount and future depreciation charges are adjusted in proportion to the adjusted carrying amount and the new residual useful life, if a new estimate is necessary. If applicable, this write-down of property, plant and equipment is charged to the consolidated income statement caption "impairment or (-) reversal of impairment".

Similarly, where there are indications that the value of impaired property, plant and equipment has been recovered, the Group recognizes the reversal of the impairment loss shown in previous periods by crediting the income statement caption "Impairment or (-) reversal of impairment on non-financial assets" and adjusting future depreciation charges accordingly. The reversal of the impairment loss on an asset in no event may entail an increase in its carrying amount in excess of the amount that would be carried if no impairment loss had been recognized in prior years.
Additionally, the estimated useful lives of property, plant and equipment for own use are reviewed at least yearly to detect significant changes. If necessary, adjustments are made to depreciation charges for future years in the income statement on the basis of the new useful lives.

Repair and maintenance costs for property, plant and equipment for own use, are charged to the consolidated income statement during the financial period in which they are incurred, in the caption "Other general administrative expenses". Financial costs incurred to finance property, plant and equipment for own use are recognized in the consolidated income statement when they accrue and do not form part of the acquisition cost of the assets.

2.14.2 Investment property

"Investment property" in the consolidated balance sheet includes the carrying amounts of land, buildings and other structures held for rental or to obtain a gain on the sale of the property as a result of future market price increases.

The same methods applied to property, plant and equipment for own use (Note 2.14.1) are used to recognize the acquisition cost, depreciation, estimated useful life and impairment losses on investment property.

2.14.3 Other assets leased out under operating leases

The consolidated balance sheet line "Other assets leased out under operating leases" records the carrying amounts of property, plant and equipment other than land and buildings leased out by the Group under operating leases.

The same methods applied to property, plant and equipment for own use (Note 2.14.1) are used to recognize the acquisition cost of assets leased out, depreciation, estimated useful life and any impairment losses.

2.14.4 Recoverable amount of tangible assets

The tangible assets for own use and investment property are carried at acquisition cost, recognizing impairment adjustments if the assets recoverable amount is lower than cost. According to IAS 36, the recoverable amount is the higher of fair value less costs to sell and the value in use of the assets. Where there is no reliable measurement of fair value, the value in use of the assets is used as the recoverable amount, entailing the estimation of future cash inflows and outflows derived from the continued use of the assets and from their final sale or disposal through other means; a suitable discount rate is then applied to the cash flows calculated.

According to IAS 36, an assets value in use must be determined, in general, as follows:

- Future cash flow projections must be based on reasonable assumptions that represent managements best estimate of the economic conditions that will exist over the assets residual life and on the most recent budgets or financial forecasts approved by management, excluding any future estimated cash inflow or outflow that is expected from future restructurings or from improvements in the return on assets originally planned. The estimates based on these budgets or forecasts must cover a maximum period of five year, unless a longer period may be justified.

- Cash flows projected beyond the period covered by the most recent budgets or financial forecasts, to the end of the assets useful life, must be estimated by extrapolating the projections referred to previously, applying a constant or decreasing growth rate, unless an increasing rate may be justified which, in any event, must not exceed the long-term average growth rate for the relevant products or industries, the country in which the entity operates and the market in which the asset is used, unless a higher growth rate may be justified.

The discount rate used is a pre-tax rate that reflects the current market evaluation of the time value of money and specific risks affecting the asset that have not already been adjusted in the estimates of future flows.

A rate that reflects the current market evaluation of the time value of money and specific risks affecting the asset is deemed to be the yield that investors would require were they to choose an investment that generates cash flows the amounts, timing and risk profile of which are equivalent to the flows that the Group expects to obtain from the asset in question. This discount rate is estimated on the basis of the rate implicit in current market transactions involving similar assets. Where the discount rate for a specific asset is not directly available from the market, substitutes are used to estimate the discount rate.

2.15 Intangible assets

Intangible assets are identifiable non-monetary and non-physical assets that arise from legal business or have been developed internally by the Group. Intangible assets are only recognized when their cost may be reliably and objectively estimated and the Group considers they will probably generate future economic benefits.

Intangible assets are initially recognized at acquisition or production cost and are subsequently measured at cost less, where appropriate, any accumulated depreciation and impairment losses they experienced.

Intangible assets are carried in the consolidated balance sheet at acquisition or production cost, net of accumulated amortization and any impairment losses.

Intangible assets can have an "indefinite life" when, on the basis of an analysis of all relevant factors, we conclude that there is no foreseeable limit to the period over which is expected to generate net cash flows for consolidated companies, or "finite useful life" in the remaining cases.

Intangible assets with indefinite useful lives are not amortized, but rather at the end of each year, the consolidated companies revise their remaining useful lives in order to ensure that they are still indefinite or otherwise proceed accordingly.

Intangible assets with finite lives are amortized over the methods similar to those adopted for the amortization of tangible assets criteria. The annual amortization of intangible assets with finite useful lives is recognized under "Amortization - Intangible Assets" in the consolidated income statement.

For intangible assets with indefinite useful lives and the finite useful life, the consolidated companies recognize any loss that may have occurred in the carrying amount of these assets due to impairment, using a balancing entry in "Impairment or (-) reversal of impairment on non-financial assets – intangible assets" of the consolidated income statement. The criteria for recognizing impairment losses on these assets and, where appropriate, the reversal of impairment losses recognized in prior years are similar to those used for tangible assets for own use (Note 2.14.1).

2.16 Goodwill

2.16.1 Accounting for goodwill

The excess of the cost of shareholdings in entities measured using the equity method over their acquired carrying amounts, adjusted at the date of first consolidation, is allocated as follows:

- Where the excess may be allocated to specific components of the acquired company's equity, the value of assets (or liabilities) whose fair values are higher (or lower) than the carrying amounts at which they were recognized in the balance sheets of the acquired companies is increased (or reduced) accordingly.

- Where the excess may be allocated to specific intangible assets, it is recognized directly in the consolidated balance sheet provided the fair value may be reliably measured at the acquisition date.

- Any remaining differences are carried as goodwill, which is allocated to one or more specific cash-generating units.

Goodwill is only recognized when acquired for valuable consideration and therefore represents advance payments made by the acquiring entity in respect of future economic benefits deriving from the acquired entity's assets that cannot be individually and separately identified and recognized.

As from 1 January 2013, the Group has recognized goodwill in associates as part of the acquisition cost of the entities acquired, in the consolidated balance sheet item “Equity investments - Associates”, as explained in Note 4.

Goodwill acquired as from 1 January 2004 is carried at acquisition cost and goodwill acquired prior to that date is carried at the net amount recognized at 31 December 2003, calculated in accordance with the regulations previously applied by the Group (Bank of Spain Circular 4/1991, 14 June). In both cases, at each accounting close, an estimate is made to identify any impairment that would reduce the recoverable amount to below the net cost recognized; if so, the goodwill is written down through the item “Impairment losses on other assets (net)” in the consolidated income statement.

Goodwill impairment losses are not subsequently reversed.

2.16.2 Negative goodwill

Negative differences between the cost of the shareholdings in consolidated entities and associates with respect to the relevant carrying amounts, adjusted at the date of the first consolidation, are recognized as follows:

- Where the excess may be allocated to specific components of the acquired company's equity, the value of liabilities (or assets) whose fair values are higher (or lower) than the carrying amounts at which they were recognized in the balance sheets of the acquired companies, is increased (or reduced) accordingly.

- The remaining amounts which may not be allocated are recorded under "Other gains" in the consolidated income statement for the year in which capital is acquired in the consolidated entity or associate.

2.17 Inventories

This category of the consolidated balance sheet records non-financial assets that the Group:

- hold for sale in the ordinary course of business;
- is currently producing, building or developing for this purpose, or
- plans to consume in the production process or in the provision of services.

Therefore "Inventories" include land and other properties the Group maintains for sale or for its real estate activities.

Inventories are measured at the lowest cost, which incorporates all the outlays made for their acquisition and subsequent transformation; the direct and indirect costs incurred to obtain their current condition and location; the financial costs directly attributable to them, provided they need a period of time longer than one year for their sale (taking into account the previously-mentioned criteria for the capitalization of financial costs of tangible assets for own use); and their "realisable net value". The realisable net value is understood to be the estimated price of their disposal during the ordinary course of business, less the estimated costs for finishing their production and the necessary costs for carrying out their sale.

Both the reductions as well as, if applicable, the subsequent recoveries in the realisable net value below their net book value are recorded in the income statement for the year in which they take place under the caption "Impairment losses on rest of assets (net)".

The carrying value of sold inventories is written off and recorded as an expense under the caption "Other operating expenses" on the consolidated income statement.

The assets allocated by the Group, considering these as those assets that the Group receives from its borrowers or other debtors to satisfy , totally or partially, financial assets that represent collection rights against these, independently of the manner in which the property rights are acquired, and that, in line with their nature and the end to which they are applied, are classified as inventories by the Group, are booked initially at their acquisition cost, understanding this to be the net book value of the debts from which they originated, calculating this net value in line with the norm applicable to the Savings Bank. Afterwards the allocated assets are subject to the estimation of the corresponding impairments that, as may be the case, arise on these, calculated in line with the general determination criteria for the inventories indicated earlier.

2.18 Provisions and contingent liabilities

When preparing the consolidated entities annual accounts, their respective Directors distinguish between:

- Provisions: creditor balances that cover obligations in force at the balance sheet date deriving from past events that could give rise to financial losses for the entities. Although such losses are regarded as probable and are specific in nature, the amount and/or settlement date involved cannot be determined, and

- Contingent liabilities: possible obligations deriving from past events which may materialize subject to one or more future events beyond the control of the consolidated entities.

The Group's consolidated annual accounts include all significant provisions for obligations that are deemed more likely to arise than not to arise. Contingent liabilities are not recognized in the consolidated financial statements, although information is provided in accordance with applicable regulations In accordance with IAS 37 (Note 18).

Provisions quantified using the best information available regarding the consequences of the event in question, and re-estimated at the year end, are applied to meet the specific obligations for which they were originally recognized and fully or partially reversed should such obligations cease to exist or decrease.

At year-end 2017 and 2016, a number of legal proceedings and claims had been instigated against the consolidated entities, arising in the ordinary course of business. The Group's legal advisors and directors consider that the outcome of these proceedings and claims will not have a significant impact on the consolidated annual accounts for the years in which the judgements are issued.

Provisions deemed necessary as stated above are charged or credited to the consolidated income statement caption “Provisions (net)”.

Paragraph 92 of IAS 37 "Provisions, contingent liabilities and contingent assets" allows, in cases where the breakdown in the financial statements for detailed information on specific provisions or contingent liabilities disputes with third parties could affect them or harm seriously the position of the Bank, is chosen not to disclose this information in detail.

2.19 Transfers of financial assets

The accounting treatment of transfers of financial assets is subject to the manner in which the risks and returns associated with the assets are transferred to third parties.

- If all the risks and benefits of the assets transferred are substantially transferred to third parties, such as in unconditional sales, sales under repos at fair value on the repurchase date, sales of financial assets with a call option acquired or put option issued deeply “out of the money”, asset securitization in which the assignor retains no subordinated financing and nor grants any type of credit enhancement to the new holders and other similar situations, the financial instrument transferred is written off the consolidated balance sheet and at the same time any right or obligation retained or created as a result of the transfer is recognized.

- If the risks and benefits associated with the financial asset transferred are substantially retained, such as in sales of financial assets under repos at a fixed price or at the selling price plus interest, security lending contracts under which the borrower is required to return the same or similar assets, the securitization of financial assets in which subordinated financing is maintained or other types of credit enhancement that substantially absorb expected credit losses on securitized assets and other analogous cases, the financial asset transferred is not written off the consolidated balance sheet and continues to be measured using the same criteria as those used prior to the transfer. Conversely, the following items are recognized and not offset:

- A financial liability associated with an amount equal to the benefit received; which is later valued at its amortized cost;

- Both revenue from the financial asset transferred but not written off and expense from the new financial liability.

- If neither the risks nor benefits associated with the financial asset transferred are substantially transferred or retained, as in the sale of financial assets with a call option acquired or a put option issued which are not deeply “in the money” or “out of the money”, financial asset securitization in which the assignor assumes subordinated financing or other types of credit enhancements for part of the asset transferred and other similar cases, the following distinction is made:

  - Where the assignor does not retain control of the transferred financial asset: in this case, the asset transferred is written off the consolidated balance sheet and any right or obligation retained or created as a result of the transfer is recognized.

  - Where the assignor retains control of the transferred financial asset: the asset continues to be recognized in the consolidated balance sheet at an amount equal to its exposure to value changes that could arise, also recognizing an associated financial liability. The net amount of the asset transferred and associated liability will be the amortized cost of the rights and obligations retained if the asset transferred is measured at amortized cost or the fair value of the rights and obligations retained, if the asset transferred is measured at fair value.

According to the above, financial assets are only written off the balance when they are extinguished cash flows generated or when substantially transferred to third parties the risks and benefits that are implicit.

2.20 Non-current assets held for sale

The caption "Non-current assets held for sale" in the consolidated balance sheet includes the carrying amount of games operations, individual or integrated into a whole, "disposal group" or as part of a business unit earmarked for disposal " discontinued "whose sale is highly likely to take place under the conditions in which these assets are currently in a period of one year from the date to which the consolidated financial statements.

They are also considered as non-current assets held for sale investments in associates or joint ventures that meet the requirements mentioned in the preceding paragraph.

Consequently, the carrying amount of these items, which may be financial or non-financial in nature, will foreseeable be recovered through their selling price rather than through continued use.

Specifically, investment property or other non-current assets received by the consolidated entities from their debtors in full or partial settlement of obligations are treated as non-current assets held for sale unless the consolidated entities have decided to use these assets on a continuous basis.

Symmetrically, the Caption “liabilities associated with non-current assets for sale” includes the creditor balances associated to the groups at disposal or to the interrupted operations of the Group.

Non-current assets held for sale are generally measured at the lower of their carrying amount when they are recognized as such and their fair value net of estimated costs of sales. In order to determine these values, the Group has developed certain internal methodologies that allow asset’s fair value to be estimated at the current time, based on the latest appraisals received and forecast costs to sell. While included in this category, property, plant and equipment, and intangible assets subject to depreciation and amortization by nature are not depreciated or amortized.

In the event that the carrying amount exceeds the fair value of the assets, net of costs of sales, the Group adjusts the carrying amount of the assets by the amount of the excess and makes a balancing entry in the caption “Asset impairment losses (net) - Non-current assets held for sale” in the consolidated income statement. In the event that the fair value of the assets increases at a subsequent date, the Group reverses the losses previously recorded in the accounts, increasing the carrying amount subject to the limit of the amount prior to their impairment, against “Asset impairment losses (net) - Non-current assets held for sale” in the consolidated income statement

Profits arising from the sale of non-current assets for sale are presented under the heading “Gains (losses) on non-current assets for sale not classified as interrupted operations” in the consolidated profit and loss account.

Notwithstanding the above, financial assets, assets arising from employee retributions, assets from deferred taxes and assets from insurance contracts that are part of a group at disposal or of an interrupted operation, will not be valued as explained in the preceding paragraphs, but in accordance with the principles and norms applicable to these concepts, that have been explained in previous section of Note 2.

2.21 Profit/ losses from discontinued operations

Income and expense, regardless of their nature, including those relating to impairment adjustments that arise during the year from a component of Group operations that has been classified as discontinued, even if generated before that classification, are presented net of the tax effect in the consolidated income statement as a single amount under the heading "Results from discontinued operations (net)", both if the component remains in the consolidated balance sheet and if eliminated. This heading also includes the results from the sale or other disposal of those operations.

The breakdown of these results for the years 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Caja España Vida Compañía de Seguros y Reaseguros, S.A.	-	1 400
Duero Pensiones, E.G.F.P.	-	766
Unión del Duero Compañía de Seguros de Vida, S.A.	-	8 039
	-	**10 205**

In 2017, there are no profits or losses from discontinued operations carried in the consolidated income statement, since revenue generated in 2016 is due to equity instruments classified as held for sale, representing the shareholdings in Caja España Vida, Compañía de Seguros y Reaseguros, S.A., Duero Pensiones, E.G.F.P., S.A. and Unión del Duero, Compañía de Seguros de Vida, S.A., which have been reclassified to the item “Investments in joint ventures and associates” as a result of the completion of the restructuring of the banking-insurance agreements described in Note 12.2. As indicated in IAS 28 “Investments in associates and joint ventures”, the equity method has been applied to these shareholdings with retroactive effect to the date they were classified as assets held for sale.

2.22 Business combinations

Business combinations are operations in which two or more entities or economic units of the same entity or group of companies are combined.

Those business combinations completed as from 1 January 2004 in which the Group acquires control of an entity are recognized as follows:

- The Group estimated the cost of business combinations, defined as the fair value of the assets delivered, of the liabilities incurred and of the capital instruments issued, as may be the case, by the acquiring entity.

- The fair value of the assets, liabilities and contingent liabilities of the target entity is estimated, including any intangible assets that may not have been recognized by target company, which are included in the consolidated balance sheet.

- The difference between the net fair value of the assets, liabilities and contingent liabilities of the target entity or economic unit and the cost of the business combination is recognized in these consolidated annual accounts as follows:

  - Where the difference between the net fair value of the assets, liabilities and contingent liabilities of the target entity or economic unit and the cost of the business combination is negative, it is recognized in "Intangible assets – Goodwill" on the assets side of the consolidated balance sheet, in the event that the business combination has resulted in the merger or absorption of the target entities or an economic unit other than an entity has been acquired.

  - Where the difference between the net fair value of the assets, liabilities and contingent liabilities of the target entity or economic unit and the cost of the business combination is positive, will be registered a goodwill of consolidation that in no case will be amortized, but will be subject to annual impairment analysis set out in the International Financial Reporting Standards.

For acquisitions of shares in stages over a particular entity, for which, under one of the purchases, control over the investee is acquired, the following accounting policies applied by the Group:

- The cost of the business combination is the sum of the cost of each individual transaction.

- For each acquisition of shares effected to the moment in which the Group gains control over the investee entity, the goodwill or negative consolidation difference is calculated separately for each transaction, following the procedure described previously in this note.

- Any difference between the fair value of the assets and liabilities of the investee entity at each of the successive acquisition dates and their fair value on the date the Group gains control over the entity is recognized as an adjustment to the value of the assets and liabilities.

2.23 State of recognized income and expense consolidated

This financial statement income and expenses generated by the Group as a result of its activity are presented during the year, distinguishing between those recognized as results in the consolidated income statement and losses and other income and expenses, in accordance with provisions of the current regulations, directly in equity distinguishing among the latter, in turn, among those items that may be reclassified to income in accordance with the provisions of the applicable regulations and which are not. Therefore, this statement presents:

a) The result of the exercise.
b) The net amount of income and expenses recognized directly and transiently during exercise as accumulated other comprehensive income in equity.
c) The net amount of recognized income and expenses recorded during the direct exercise and definitely in equity as accumulated other comprehensive income, if any.
d) The tax accrued on the items specified in subparagraphs b) and c) benefits.
e) Total recognized income and expense, calculated as the sum of points a) to d) above.

Variations in income and expenses recognized in equity as accumulated other comprehensive income temporarily until reversed in the profit and loss are broken down into:

- Profits (losses): includes the amount of income, net of expenses incurred during the year, recognized directly in equity. The amounts recognized during the year as accumulated other comprehensive income are recorded under this heading, although in the same year they are transferred to the consolidated income statement, the initial value of other assets or liabilities or are reclassified to another heading.

- Amounts transferred to the consolidated income statement: includes the amount of earnings or valuation losses previously recognized in equity, even in the same year, which are recognized in the consolidated income statement.

- Amounts transferred to initial value of hedged items: includes the amount of valuation earnings or losses previously recognized in equity, even in the same year, which are recognized in the initial value of the assets or liabilities as a result of hedging cash flow.

- Other classifications: includes the amount of the transfers made during the year between accumulated other comprehensive income in accordance with the criteria established in the regulations.

The amounts of these items are presented by their gross and the corresponding tax effect under the heading "Income tax relating to items that may be reclassified to income benefits" of the state.

2.24 Statement of changes in consolidated equity

In the statement of changes in consolidated equity all changes in equity, including those arising from changes in accounting policies and corrections of errors occur. This statement therefore shows a reconciliation of the carrying amount at the beginning and end of the exercise of all items comprising equity, grouping movements based on their nature into the following items:

- Adjustments for changes in accounting policies and correction of errors: that includes changes in equity that arise as a result of the retrospective restatement of the balances in the financial statements due to changes in accounting policies or correction of errors

- Income and expense recognized in the year: includes, in aggregate, the total of the items recorded in the statement of recognized income and expenses indicated above.

- Other changes in equity: includes the remaining items recognized in equity, as can the distribution of profit, transactions involving own equity instruments, payments with equity instruments, transfers between equity items and any other increases or decreases equity.

2.25 Consolidated cash flow statements

The terms employed in the Group consolidated cash flow statements corresponding to the years 2017 and 2016 have the following meanings:

- Cash flows: Inflows and outflows of cash and cash equivalents (short-term, highly-liquid investments in respect of which the risk of value fluctuations is low).

- Operating activities: typical credit institution activities and other activities that may not be classified as investing or financing activities.

- Investing activities: acquisition, sale or disposal through other means of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that cause changes in the size and composition of equity and liabilities and do not form part of operating activities.

As part of the cash flows from operating activities, certain adjustments are included to obtain the amount of those flows on the basis of consolidated results for the period. At 31 December 2017 and 2016, "Other adjustments" are included, in addition to depreciation and amortization, relating to consolidated income statement items that do not generate cash flows.

When preparing the consolidated cash flow statement, “cash and cash equivalents” consist of highly-liquid current investments in respect of which the risk of value fluctuations is low. Accordingly, the Group Unicaja Banco treats the following financial assets and liabilities as cash or cash equivalents:

- The Group’s own cash, which is recognized in the consolidated balance sheet caption “Cash, cash balances at Central Banks and other demand deposits”. At 31 December 2017, the Group’s own cash amounted to €346,589 thousand (€323,291 thousand at 31 December 2016).

- The balances held with Central Banks, which are booked under the heading “Cash, cash balances at Central Banks and other demand deposits” on the asset side of the consolidated balance sheet , which as at 31 December 2017 amounted to €3,352,231 thousand (€338,422 thousand at 31 December 2016).

- Net demand deposits at credit institutions other than the balances at central banks and excluding mutual accounts. Demand deposits at credit institutions other than central banks are recognized, among other items, in “Loans and receivables – Deposits at credit institutions” on the consolidated balance sheet, amounting to €107,567 thousand at 31 December 2017 (€199,994 thousand at 31 December 2016) (Note 7).

During 2016 the Unicaja Banco Group changed the policy for drawing up the consolidated cash flow statement with respect to the consideration of sight creditor balances with credit institutions other than central banks, in line with Bank of Spain Circular 5/2014 on the structure of the consolidated financial statements. Under the new policy, only sight debtor balances with credit institutions are considered for the purposes of the cash flow statement, without netting them against the creditor balances mentioned above. This change has been applied retroactively in accordance with the regulatory framework described in Note 1.3.

3. Distribution of the Parent Entity’s surplus

The proposal for the distribution of the Parent Entity’s net income for 2017 that the Board of Directors will submit to the General Meeting of Shareholders for approval is set out below along with the already approved for 2016 is as follows:

	Thousand euros	
	2017	**2016**
Cash dividends	34 605	17 000
Interim dividends paid	-	-
Dividends pending payment	*34 605*	*17 000*
Legal reserve	20 197	19 174
Law 27/2014 capitalization reserve	1 500	6 600
Voluntary reserves	145 672	148 969
Net profit	**201 974**	**191 743**

In accordance with Legislative Royal Decree 1/2010 (2 July), which approves the Spanish Companies Act 2010, companies that obtain profits must allocate 10% of profits for the year to a Legal reserve. Appropriations must be made until the legal reserve reaches 20% of paid up share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased capital stock amount. Until the balance exceeds the 20% threshold, the legal reserve may only be used to offset losses, in the event of other available reserves being insufficient for this purpose.

The distribution of the result of the Parent Company for the current year includes the provision to the Reserve Capitalization governed by Article 25 of Law 27/2014, of 27 November, the corporate income tax. According to the above standard, this reserve must appear on the balance with absolute separation and appropriate title, and will be unavailable for a period of 5 years from the end of the year 2015, except that it should be used in the compensation of financial losses Bank in case of separation of partners, during disposal operations as a result of the application resulting from the special tax regime established in Chapter VII of Title VII of Law 27/2014 (mergers, demergers and other operations corporate) restructuring or if the bank was forced to apply the aforementioned book by mandate of a legal nature. The allocation of the reserve, part of the Bank's willingness to strengthen their capital base, will allow you to apply a reduction in the tax base of corporate income tax, within the limits and requirements laid down in that Article 25 of Law 27/2014 (Note 23.1).

At the date annual accounts were prepared and after determining that the conditions established in the prospectus were met, the Board of Directors of Unicaja Banco adopted a resolution to make payment of the discretional compensation for the Perpetual Contingent Convertible Bonds (PeCoCos) issued by the bank for the gross total amount of €6,850 thousand, on 21 march 2018 (in the last period, a discretional remuneration of €6.850 thousands was agreed in relation to the outstanding "PeCoCos in 24 march 2017).

Earnings per share for the Parent

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Bank by the weighted average number of outstanding shares for the year, excluding the average number of treasury shares held during the year.

Diluted earnings per share are determined in a similar manner to basic earnings per share, but the weighted average number of outstanding shares is adjusted to account for the potentially dilutive effect of stock options, warrants and convertible debt in force at the year end.

Set out below are Unicaja Banco Group's basic and diluted earnings per share for the financial years ended 31 December 2017 and 2016:

	2017	**2016**
Profit attributable to Parent Company (thousand euros)	142 375	142 117
Adjustment: Finance costs of mandatory emissions convertible (in thousand euros)	-	-
Adjusted Profit (thousand euros)	142 375	142 117
On which: Continued Operations Profit (minority net)	142 375	131 912
On which: Discontinued Operations Profit (minority net)	-	10 205
Average number of ordinary shares outstanding reduced by the own (thousand)	1 265 097	922 802
Profit per share for continuous activities (euros)	0.113	0.143
Profit per share for discontinuous activities (euros)	-	0.011
Earnings per share (euros)	**0.113**	**0.154**

	2017	2016
Profit attributable to Parent Company (thousand euros)	142 375	142 117
Adjustment: Finance costs of mandatory emissions convertible (in thousand euros)	-	-
Adjusted Profit (thousand euros)	142 375	142 117
On which: Continued Operations Profit (minority net)	142 375	131 912
On which: Discontinued Operations Profit (minority net)	-	10 205
Average number of ordinary shares outstanding reduced by the own (thousand)	1 265 097	922 802
Average number of shares from the conversion of Bonds (thousand)	41 254	41 458
Adjusted total average number of shares for calculation of diluted profit per share (thousand)	1 306 351	964 260
Diluted profit per share for continuous activities (euros)	0.109	0.137
Diluted profit per share for discontinuous activities (euros)	-	0.011
Diluted Earnings per share (euros)	**0.109**	**0.147**

As a result of the acquisition process involving EspañaDuero described in Note 1.2, Unicaja Banco Group maintains instruments with a potentially diluting effect. Unicaja Banco Group has issued Perpetual Contingent Convertible Bonds (PeCoCos) that are recorded under the heading "Other equity instruments" and the discretional compensation is subject to compliance with a series of conditions (Note 22.2).

In accordance with IAS 33 "Earnings per share" the average number of shares and other outstanding instruments during 2017 and 2016 was used. Perpetual Contingent Convertible Bonds (PeCoCos) have only been taken into consideration with respect to diluted earnings.

It should also be noted that the calculation of the average outstanding number of shares includes the capital increases carried out on June 29 and July 25, 2017 (Note 22.1), both since the respective date.

Dividends paid and return on other equity instruments

Dividends paid by Unicaja Banco, S.A. during the years ended 31 December 2017 and 2016 are as follows:

						Thousand euros
			2017			2016
	% of nominal amount	Euro per share	Amount	% of nominal amount	Euro per share	Amount
Ordinary shares	1,84%	0.02	17 000	2.06%	0.02	19 000
Other shares (non-voting, redeemable, etc.)	-	-	-	-	-	-
Total dividends paid	**-**	**-**	**17 000**	**-**	**-**	**19 000**
Dividends charged to profits	-	-	17 000	-	-	19 000
Dividends charged to reserves or share premium account	-	-	-	-	-	-
In-kind dividends	-	-	-	-	-	-

This calculation has been made taking into account the number of shares existing at the date on which the dividend was paid, without including dilutive convertible instruments.

On March 24, 2017, Unicaja Banco’s Board of Directors included the payment of dividends amounting to €17,000 thousand in the proposal for the distribution of 2016 profits (which was approved by the shareholders at the Annual General Meeting held on April 26, 2017, and was paid on 10 May 2017). On March 18, 2016, the Board of Directors included the payment of a dividend amounting to €19,000 thousand in the proposal for the distribution of 2015 profits (which was approved by the shareholders at the Annual General Meeting on 22 April 2016 and was paid on May 4, 2016).

On March 24, 2017, Unicaja Banco’s Board of Directors, once verified that the issue prospectus conditions had been met, agreed to the payment of discretionary remuneration on the perpetual contingently convertible bonds (PeCoCos) issued by the Bank for a total gross amount of €6,850 thousand for the period March 29, 2016, to March, 28, 2017, which was paid on March 24, 2017. On March 18, 2016, the Board of Directors agreed to the payment of discretionary remuneration on the necessarily and contingently convertible bonds (NeCoCos) and the perpetual contingently convertible bonds (PeCoCos) issued by the Bank for a total gross amount of €17,124 thousand, paid on March 29,2016.

Finally, due to the conversion into shares of the necessarily and contingently convertible bonds (NeCoCos) on June 30, 2016, the remuneration for the period March 29, 2016 to June 30, 2016 was paid in the amount of €2,626 thousand.

4. Goodwill of the Equity Method entities

At 31 December 2017 and 2016, the Bank recorded goodwill in equity method associates pending impairment in the amount of €27,674 thousand and €32,416 thousand, respectively. This goodwill was generated basically through a comparison with the net fair value of the assets, liabilities and contingent liabilities acquired by the Bank when it invested in the companies Autopistas del Sol, S.A., Concesionaria España, S.A. and Hidralia, Gestión Integral de Aguas de Andalucía, S.A., through the company Hidrocartera, S.L. in the latter case. At 31 December 2014, the goodwill is recognized as part of the acquisition cost of the target companies in the consolidated balance sheet item “Equity investments - Associates”. The amount pending impairment derives from the profits expected by the Bank's directors from the target companies, based on the strength of their customer base and on their average income per customer.

As described in Note 2.16, goodwill in equity-consolidated companies became impaired in the amount of €1,794 thousand in 2017 (€1,907 thousand in 2016).

As described in Note 2.16, goodwill in equity-consolidated companies became impaired in the amount of €1,794 thousand in 2017 (€1,907 thousand in 2016).

The following table shows the dates of initial recognition and the initial gross amounts of the goodwill in associates, as well as cumulative impairment losses and the net amounts of goodwill at 31 December 2017 and 2016:

						Thousand euros
			Accumulated loss provisions		Net amount	
	Initial amount	Initial registration date	2017	2016	2017	2016
Autopista del Sol, C.E.S.A.	34 833	Sep. 2005	11 045	10 195	23 788	24 638
Hidralia, G.I.A.A., S.A.	20 467	Jun. 2005	16 629	12 689	3 838	7 778
	55 300		**27 674**	**22 884**	**27 626**	**32 416**

As this goodwill relates to administrative concessions and licenses held by the target companies for a certain period of time, the Bank's directors consider that, barring other evidence of impairment, the recoverable value of the goodwill recognized decreases in proportion to the number of years remaining to the end of the administrative concession or license. The Group measures goodwill periodically based on the recoverable amount so as to check whether there is any impairment in addition to that caused by the passage of time, pursuant to IAS 36.

5. Segment information

The Group is engaged mainly in the retail banking business. Virtually all its business is conducted in Spain and the directors consider that customer types are similar throughout its territorial area of influence. Consequently, in compliance with prevailing regulations, the information on the Group's business and geographical segments is not deemed to be relevant.

Set out below are details of the relative significance of the Unicaja Banco Group's operating segments at 31 December 2017 and 2016, for each of the segmentation types or parameters defined in paragraphs 32 to 34 of IFRS 8.

Sector information (products and services)

There follows a breakdown of the Unicaja Banco Group's consolidated balance sheet by sector at 31 December 2017 and 2016, including the same sector information reported to the Bank of Spain.

At December 31, 2017, the credit institutions sector accounts for 99.87% of total consolidated assets and 99.98% of consolidated equity. To this end purposes, according to section 2 of Rule 70 of Bank of Spain Circular 4/2004, "Credit institutions sector" includes the information on the consolidated group of credit institutions defined in Rule 1 of Bank of Spain Circular 4/2004.

a) Consolidated balance sheet at December 31, 2017:

		Distribution (thousand euros)			
ASSETS	**Total**	**Sector banks**	**Insurance companies**	**Other entities**	**Adjustments and eliminations**
Cash, cash balances at central banks and other demand deposits	3 806 391	3 811 529	-	39 513	(44 651)
Financial assets held for trading	31 462	31 462	-	-	-
Available for sale financial assets	3 701 538	3 706 703	-	44	(5 209)
Loans and receivables	32 407 257	32 444 971	-	41 479	(79 193)
Held to maturity investments	10 634 320	10 634 320	-	-	-
Hedging derivatives	456 829	456 829	-	-	-
Investments in subsidiaries, joint ventures and associates	482 943	399 255	-	-	83 688
Insurance or reinsurance assets	-	-	-	-	-
Tangible assets	1 290 684	1.279.277	-	13 611	(2 204)
Intangible assets	1 882	581	-	1 280	21
Tax assets	2 613 094	2 606 345	-	4 839	1 910
Other assets	466 455	452 767	-	68 958	(55 270)
Non-current assets and disposal groups held for sale	439 053	439 053	-	-	-
Total Assets	**56 331 908**	**56 263 092**	**-**	**169 724**	**(100 908)**

		Distribution (thousand euros)			
LIABILITIES AND EQUITY	**Total**	**Sector banks**	**Insurance companies**	**Other entities**	**Adjustments and eliminations**
Financial liabilities held for trading	27 412	27 412	-	-	-
Financial liabilities measured at amortized cost	50 940 743	50 964 784	-	88 648	(112 689)
Hedging derivatives	31 385	31 385	-	-	-
Liabilities under insurance contracts	4 290	4 290	-	-	-
Provisions	935 351	937 179	-	2 735	(4 563)
Tax Liabilities	208 984	209 271	-	2	(289)
Other liabilities	281 405	283 421	-	11 215	(13 231)
			-		
Total Liabilities	**52 429 570**	**52 457 742**	**-**	**102 600**	**(130 772)**
Shareholders' funds	3 855 750	3 855 751	-	67 135	(67 136)
Accumulated other comprehensive income	16 910	16 910	-	(12)	12
Minority Interest (Non-controlling interest)	29 678	29 189	-	-	489
Total Equity	**3 902 338**	**3 901 850**	**-**	**67 123**	**(66 635)**
Total Liabilities and Equity	**56 331 908**	**56 359 592**	**-**	**169 723**	**(197 407)**

b) Consolidated balance sheet at December 31, 2016:

		Distribution (thousand euros)			
ASSETS	**Total**	**Sector banks**	**Insurance companies**	**Other entities**	**Adjustments and eliminations**
Cash, cash balances at central banks and other demand deposits	861 711	863 512	-	23 175	(24 976)
Financial assets held for trading	78 330	78 330	-	-	-
Available for sale financial assets	5 403 336	5 408 025	-	512	(5 201)
Loans and receivables	31 642 958	31 701 719	-	80 271	(139 032)
Held to maturity investments	12 907 583	12 910 601	-	-	(3 018)
Hedging derivatives	606 362	606 362	-	-	-
Investments in subsidiaries, joint ventures and associates	294 099	534 933	-	12 655	(253 489)
Insurance or reinsurance assets	-	-	-	-	-
Tangible assets	1 437 840	1 315 334	-	124 967	(2 461)
Intangible assets	782	699	-	95	(12)
Tax assets	2 585 726	2 576 511	-	11 740	(2 525)
Other assets	659 851	644 360	-	61 963	(46 472)
Non-current assets and disposal groups held for sale	762 250	528 076	-	-	234 174
Total Assets	**57 240 828**	**57 168 462**	**-**	**315 378**	**(243 012)**

LIABILITIES AND EQUITY	Total	Sector banks	Insurance companies	Other entities	Adjustments and eliminations
		Distribution (thousand euros)			
Financial liabilities held for trading	50 820	50 820	-	-	-
Financial liabilities measured at amortized cost	52 729 470	52 672 642	-	217 325	(160 497)
Hedging derivatives	49 902	38 152	-	11 750	-
Liabilities under insurance contracts	3 992	3 992	-	-	-
Provisions	707 015	704 938	-	2 233	(156)
Tax Liabilities	239 107	236 478	-	2 916	(287)
Other liabilities	277 399	278 866	-	8 735	(10 202)
Total Liabilities	**54 057 705**	**53 985 888**	**-**	**242 959**	**(171 142)**
Shareholders' funds	2 918 429	2 918 429	-	62 687	(62 687)
Accumulated other comprehensive income	34 648	34 647	-	9 732	(9 731)
Minority Interest (Non-controlling interest)	230 046	229 498	-	-	548
Total Equity	**3 183 123**	**3 182 574**	**-**	**72 419**	**(71 870)**
Total Liabilities and Equity	**57 240 828**	**57 168 462**	**-**	**315 378**	**(243 012)**

Geographic area information

The Unicaja Banco Group operates in Spain; customer types are similar throughout the country. The Group therefore considers a single geographic segment for its operations, the information breakdown required by paragraph 33 of IFRS 8 not being applicable.

For illustrative purposes, the distribution of interest income by geographical area for the years ended 31 December 2017 and 2016 is as follows:

	Thousand euros			
	Geographical distribution of interest income			
	Individual		Consolidated	
	2017	**2016**	**2017**	**2016**
Domestic market	574 889	623 799	852 818	1 010 971
Export				
European Union	-	-	-	-
OECD countries	-	-	-	-
Other countries	-	-	-	-
Total	**574 889**	**623 799**	**852 818**	**1 010 971**

Main customer information

The Unicaja Banco Group is engaged mainly in the retail banking business and has no customers accounting for over 10% of the Group's ordinary income; the Group thus considers that the information breakdown required by paragraph 34 of IFRS 8 is not applicable.

6. Remuneration of the Board of Directors and Senior Management

6.1 Board of Directors' remuneration of the Parent Entity.

The following table provides a breakdown of remuneration accrued to the members of the Board of Directors of the Parent Entity, Unicaja Banco, S.A.U., exclusively in their capacity as Board directors during the periods 2017 and 2016, consisting of per diems and fixed remuneration relating solely to their roles as non-executive Board directors:

	Thousand euros	
	2017	**2016**
Atencia Robledo, Manuel	47	45
Azuaga Moreno, Manuel	47	30
Domínguez-Adame Cobos, Eloy	85	80
Fraile Cantón, Juan	81	80
Jiménez Sánchez, Guillermo	73	76
Lombardero Barceló, Mª Luisa	16	14
López López, Antonio	68	63
Martín Castellá, Isabel	35	-
Mateos-Aparicio Morales, Petra	87	80
Medel Cámara, Braulio	-	8
Molina Morales, Agustín	44	46
Sánchez del Villar Boceta, Enrique	47	8
Torre Colmenero, José Mª de la	64	64
Valle Sánchez, Victorio	86	80

6.2 Parent Entity's Senior Management remuneration.

For the purposes of preparing these consolidated annual accounts, senior management is considered to be made up of fifteen people (seventeen people in 2016), who has described these effects as key personnel, including three Executive Directors (four in 2016). The compensation received by the members of this group in the years 2017 and 2016 amounted to €4,015 thousand and €3,513 thousand, respectively. The obligations assumed based on these guidelines in terms of post-employment benefits deriving exclusively from their status as employees or bank executives totalled to €534 thousand in 2017, having been charged €301 thousand in 2016, amounts covered entirely by the relevant funds.

6.3 Other Parent Entity´s transactions performed with Board Directors and Senior Management

Note 45 on related parties provides the asset and liability balances of transactions effected with the Group's Board Directors and senior management at 31 December 2017 and 2016, including a breakdown of income and expenses recognized in the 2017 and 2016 consolidated income statements in respect of such transactions, excluding the amounts referred to in Notes 6.1 and 6.2.

6.4 Post-employment benefits of former members of the Group's Board of Directors and Senior Management

The consolidated income statements for 2017 and 2016 contain no charges for pension and similar obligations relating to former members of the Group's Board and senior management, as such commitments were entirely covered in previous years by insurance policies.

7. Cash, cash balances at Central Banks and other demand deposits

An analysis of the balances in this balance sheet caption at 31 December 2017 and 2016 is as follows:

	Thousands euros	
	2017	**2016**
Cash	346 589	323 291
Cash balances at Bank of Spain	3 352 231	338 422
Other demand deposits	107 567	199 994
Measurement adjustments – Accrued interests	4	4
	3 806 391	**861 711**

During 2017, there is no interest accrued in relation to these concepts.The interest accrued during the year 2016 for these deposits have been of €11 thousand and are included in "Interest and similar income" in the consolidated income statement (Note 32).

8. Financial assets held for trading

8.1 Breakdown of the balance and maximum credit risk – debtor balances

The following table contains a breakdown of the financial assets included in this category at 31 December 2017 and 2016, classified by type of counterparty and by type of instrument:

	Thousand euros	
	2017	**2016**
By counterparty type -		
Credit institutions	1 890	5 927
Resident, public administrations	12 980	36 674
Non-resident, public administrations	-	-
Resident, other sectors	16 592	35 729
Non-resident, other sectors	-	-
	31 462	**78 330**
By instrument type -		
Listed shares	-	-
Listed bonds and debentures	12 980	37 542
Derivatives traded on organized markets	1 608	1 992
Derivatives not traded on organized markets	16 874	38 796
	31 462	**78 330**

The carrying amounts shown in the above table represent the credit risk exposure borne by the Group at each year end with respect to the financial instruments indicated.

The interest accrued during the years 2017 and 2016 for debt instruments classified in the trading portfolio have been of €772 thousand and €884 thousand, respectively, and are included in "Interest and similar income" in the profit and loss account statement (Note 32).

The average effective interest rate on debt instruments classified in this portfolio at 31 December 2017 was 2.91% (2.89% at 31 December 2016).

The positive flow included in the 2017 consolidated cash flow statement in respect of balances receivable from financial assets and liabilities held for trading amounted to €46,868 thousand (positive flow of €15,682 thousand in 2016).

8.2 Breakdown of the balance - creditor balances

The following table contains a breakdown of the financial liabilities included in this category at 31 December 2017 and 2016, classified by type of counterparty and by type of instrument:

	Thousand euros	
	2017	2016
By counterparty type -		
Credit institutions	13 286	17 278
Other resident sectors	14 126	33 542
	27 412	**50 820**
By instrument type -		
Derivatives traded on organized markets	880	344
Derivatives not traded on organized markets	26 532	50 476
	27 412	**50 820**

The negative flow included in the 2017 consolidated cash flow statement in respect of balances payable from financial assets and liabilities held for trading amounted to €23,408 thousand (negative flow of €74,460 thousand in 2016).

8.3 Derivative financial instruments held for trading

Set out below is a breakdown by type of derivative of the fair value of the Group's derivatives held for trading and their notional value (on the basis of which future payments and collections are calculated) at 31 December 2017 and 2016:

								Thousand euros
	2017				2016			
	Debtor balances		Creditor balances		Debtor balances		Creditor balances	
	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value	Notional Value	Fair Value	Notional Value
Un-matured currency purchases/sales:	**1 701**	**39 978**	**963**	**23 648**	**1 282**	**12 195**	**1 186**	**11 837**
Currencies purchased against euro	1 595	19 649	179	11 641	68	679	1 186	11 837
Currencies sold against euro	106	20 329	784	12 007	1 214	11 516	-	-
Equity and interest rate futures	-	-	-	**301**	-	-	-	-
Purchased	-	-	-	152	-	-	-	-
Sold	-	-	-	149	-	-	-	-
Equity options:	**4 957**	**565 161**	**15 961**	**2 563 687**	**5 619**	**778 514**	**16 421**	**2 888 911**
Purchased	1 636	558 480	3 321	3 321	2 336	771 433	3 299	4 246
Issued	3 321	6 681	12 640	2 560 366	3 283	7 081	13 122	2 884 665
Interest rate options	**73**	**290 115**	**186**	**60 065**	-	**283 971**	-	**261 036**
Purchased	73	98 322	-	-	-	283 971	-	-
Sold	-	191 793	186	60 065	-	-	-	261 036
Other equity transactions	-	-	-	-	-	-	-	-
Equity swaps	-	-	-	-	-	-	-	-
Forward transactions	-	-	-	-	-	-	-	-
Currency options:	-	-	-	-	-	-	-	-
Purchased	-	-	-	-	-	-	-	-
Issued	-	-	-	-	-	-	-	-
Other currency options	-	-	-	-	**18 797**	**19 030**	**18 820**	**19 030**
Currency swaps	-	-	-	-	18 797	19 030	18 820	19 030
Other interest rate transactions	**11 751**	**120 970**	**10 302**	**121 388**	**15 090**	**77 075**	**14 393**	**322 290**
Interest rate swaps	11 751	120 970	10 302	121 388	15 090	77 075	14 393	322 290
Other products	-	-	-	-	-	-	-	-
	18 482	**1 016 224**	**27 412**	**2 769 089**	**40 788**	**1 170 785**	**50 820**	**3 503 104**

The notional amount of the contracts concluded does not represent the actual risk assumed by the Group, since the net position in these financial instruments is obtained by offsetting and/or combining the relevant amounts.

Note 11 provides the methods applied by the Group to measure the financial instruments classified in this category.

9. Available-for-sale financial assets

9.1 Breakdown of the balance and maximum credit risk

The following table contains a breakdown of the financial assets included in this category at 31 December 2017 and 2016, classified by type of counterparty and by type of instrument:

	Thousand euros	
	2017	**2016**
By counterparty type		
Credit institutions	85 938	149 623
Resident, public administrations	1 879 972	4 091 766
Non-resident, public administrations	960 785	150 056
Resident, other sectors	503 076	908 635
Non-resident, other sectors	276 188	119 663
	3 705 959	5 419 743
(Impairment losses) (*)	(78)	(78)
Other measurement adjustments	(4 343)	(16 329)
	3 701 538	**5 403 336**
By instrument type		
Debt securities:	3 165 476	4 754 099
Spanish government securities	1 729 580	3 865 482
Treasury bills	-	-
Government bonds and debentures	*1 729 580*	*3 865 482*
Other Spanish public administration	150 392	226 284
Foreign government securities	960 785	150 056
Issued by financial institutions	63 945	131 018
Other fixed-income securities	265 195	397 666
(Impairment losses) (*)	(78)	(78)
Other measurement adjustments	(4 343)	(16 329)
Other equity instruments:	536 062	649 237
Shares in listed Spanish companies	37 970	217 364
Shares in unlisted Spanish companies	236 313	258 100
Shares in listed foreign companies	131 544	93 467
Shares in unlisted foreign companies	27	-
Shares in investment funds	130 208	80 306
	3 701 538	**5 403 336**

(*) At 31 December 2017 and 2016 this amount relates to impairment losses recognized to cover credit risk.

The carrying amount shown in the table above represents the level of credit risk exposure of the Group at the end of those years in relation to financial instruments included.

The total in the table above as "Other equity instruments" includes the December 31, 2017 a balance of €128,918 thousand corresponding to impairment losses of the elements included in this section (€162,937 thousand at 31 December 2016), having recorded over exercise 2017 a net recovery of this correction, not including other movements or transfers, amounting to €11,967 thousand, collected under the heading "impairment losses on financial assets (net) "in the consolidated income statement (€45.338 thousand at December 31,2016).

With respect to debt securities classified as financial assets available for sale, there has been no net recovery of impairment losses in 2017. Net recovery of impairment losses in 2016 amounted to €2 thousand, also collected under the heading of "losses impairment (net) "in the consolidated income statement.

Among the most significant movements in the "Available-for-sale financial assets" portfolio in 2017 are the following Group transactions:

- Sale of 38,423,908 shares in Iberdrola, S.A. for €265,336 thousand, generating a profit of €32,780 thousand.
- Sale of 860,198 shares in DB X-Trackers II Iboxx Eur High Yield Bond Ucits ETF for €15,623 thousand, generating a profit of €623 thousand.
- Sale of 888,093 shares in Lico Leasing, S.A. for €7,592 thousand, no significant result having been generated on the sale.
- Sale of 2,430,469 shares in Enel SPA for €10,480 thousand, generating a profit of €335 thousand.
- Acquisition of 3,159 shares in Caja SICAV Class IV Fund for €20,000 thousand.
- Acquisition of 2,256,625 shares in Enel SPA for €14,082 thousand.
- Acquisition of 1,051,330 shares in Unilever for €10,297 thousand.
- Acquisition of 651,590 shares in Royal Dutch Shell for €10,153 thousand.

In the year 2016, among the most significant movements in the portfolio of equity instruments classified as available-for-sale financial assets were the following operations by the Group:

- Acquisition of 47,927,890 shares in Iberdrola, S.A., for €282,763 thousand, which has meant a profit of €2,775 thousand and an impairment recovery of €49,454 thousand.
- Disposal of 330.000 shares in ETFI shares Euro Stoxx 50 UCITS, for €10,087 thousand, which has meant a profit of €284 thousand.
- Disposal of 209,434 shares in Grupo Hoteles Playa, S.A., for €11,000 thousand, which has meant a loss of €20,791 thousand and reversal of impairments of €20,791 thousand.
- Acquisition of 325,430 shares in ETF Ishares Euro Stoxx 50 UCITS, for €10,087 thousand.

These amounts are registered under the "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss. Net" in the consolidated at December 31, 2017 and 2016 income statement, accounting for equity instruments classified as financial assets available for sale (Note 38).

The interest accrued during the years 2017 and 2016 for debt instruments classified as financial assets available for sale have been of €86,842 thousand and €95,743 thousand, respectively, are included in "Interest and yields assimilated "in the consolidated income statement (Note 32).

The average effective interest rate on debt instruments classified in this portfolio at 31 December 2017 was 1.59% (1.11% at 31 December 2016).

The positive flow included in the statement of consolidated cash flows for the year 2017 on financial assets available for sale in this caption amounts €2,444,161 thousand (positive flow of €4,406,719 thousand in 2016).

9.2 Credit risk coverage - Available-for-sale financial assets

Set out below are movements during 2017 and 2016 in impairment losses recorded to cover credit risk and cumulative impairment losses recognized at the beginning and end of 2017 and 2016 in respect of debt instruments classified as available-for-sale financial assets:

	Thousand euros
Balance at 1 January 2016	**80**
Net appropriations for the year	-
Prior-year provisions available	(2)
Other	-
Balance at 31 December 2016	**78**
Net appropriations for the year	-
Prior-year provisions available	-
Other	-
Balance at 31 December 2017	**78**

A balancing entry is recorded under the heading “Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss” in the accompanying consolidated income statement.

9.3 Accumulated other comprehensive income – assets held for sale

Set out below is the reconciliation of opening and closing balances of accumulated other comprehensive income from available-for-sale financial assets in equity on the consolidated balance sheets for 2017 and 2016, against the amounts recognized in the consolidated income statement as gains/ (losses) on financial assets and liabilities and as impairment losses on financial assets, and against the amounts recognized in the consolidated statement of recognized income and expenses.

	Thousand euros	
	2017	**2016**
Accumulated other comprehensive income- Elementos que pueden reclasificarse en resultados - Activos disponibles para la venta al 1 de enero	**32 689**	**115 435**
Transfer to results	**(88 431)**	**(137 427)**
Portion allocated to the consolidated income statement	(126 640)	(133 585)
Change in fair value of the securities sold in the year from 1 January or from the date of purchase to date of sale	38 209	(3 842)
Other changes in fair value	**44 797**	**19 218**
Income tax	**13 090**	**35 463**
Accumulated other comprehensive income – Items to be reclassified to income- Available-for-sale financial assets at 31 December 2016	**2 145**	**32 689**

Set out below is a breakdown of the amount taken to the consolidated income statement during 2017 and 2016:

	Thousand euros	
	2017	**2016**
Result of financial transactions (Note 38)	(96 052)	(84 080)
Impairment of available for sale registered at fair value	(30 588)	(49 505)
	(126 640)	**(133 585)**

9.4 Held-to-maturity investment portfolio

At 31 December of 2017 and 2016 the heading "Held-to-maturity investment portfolio" mainly records Spanish public debt and guaranteed debt securities issued by credit institutions. As a result of the recent evolution of debt markets, as well as the Group's intention and financial capacity to maintain those investments to maturity, it decided to modify its investment strategy classifying assets that were initially classified under "Held-to-maturity Investment Portfolio" to that heading.

Below is a breakdown of the financial assets included in this category at December 31, 2017 and 2016, classified by type of counterparty and type of instrument:

	Thousand euros	
	2017	**2016**
By counterparty type		
Credit institutions	82 856	181 454
Resident, public administrations	8 151 922	7 994 745
Non-resident, public administrations	1 608 175	1 268 289
Resident, other serctors	771 880	3 443 198
Non-resident, other sectors	19 487	19 897
	10 634 320	**12 907 583**
By instrument type -		
Spanish government securities	7 699 773	7 577 937
Treasury bills	-	-
Other Spanish public administration	*7 699 773*	*7 577 937*
Foreign government securities	452 149	416 808
Issued by financial institutions	1 608 175	1 268 289
Other fixed-income securities	82 856	181 454
Spanish government securities	791 367	3 463 095
	10 634 320	**12 907 583**

The book value shown in the table above represents the level of credit risk exposure to the Bank at the end of those years in relation to financial instruments included therein.

Interest accrued in 2017 and 2016 on these securities totalled €114,767 thousand and €145,543 thousand, respectively and is included under the heading "Interest and similar charges" in the accompanying consolidated income statement (Note 32).

The effective average interest rate of the debt instruments classified in this portfolio at 31 December 2017 and 2016 stood at 1.12% and 1.20%, respectively.

Net payments recorded in the consolidated cash flow statement for 2017 in relation to held-to-maturity investments included under this heading amount to €2,168,720 thousand (net receipts of €5,651,638 thousand in 2016).

10. Loans and receivables

10.1 Breakdown of the balance and maximum credit risk

The following table contains a breakdown of the financial assets included in this category at 31 December 2017 and 2016, classified by type of counterparty and by type of instrument:

	Thousand euros	
	2017	**2016**
By counterparty type		
Credit institutions	332 156	357 193
Resident, public administrations	1 524 271	2 159 691
Non-resident, public administrations	-	-
Resident, other sectors	31 688 979	30 890 813
Non-resident, other sectors	258 944	279 570
	33 804 350	33 687 267
(Impairment losses)	(1 355 112)	(1 999 360)
Other measurement adjustments	(41 981)	(44 949)
	32 407 257	**31 642 958**
By instrument type		
Variable-rate credit lines and loans	25 388 221	28 073 972
Fixed-rate credit lines and loans	3 230 283	2 192 121
Debt securities	2 585 205	786 499
Securities acquired under repurchase agreements	2 221 239	2 077 611
Term deposits at credit institutions	120 069	73 202
Other deposits at credit institutions	-	-
Other financial assets	259 333	483 862
	33 804 350	33 687 267
(Impairment losses)	(1 355 112)	(1 999 360)
Other measurement adjustments	(41 981)	(44 949)
	32 407 257	**31 642 958**

The carrying amounts shown in the above table represent the credit risk exposure borne by the Group at each year end with respect to the financial instruments indicated.

The interests accrued during 2017 and 2016 for loans to customers have been €607,996 thousand and €735,194 thousand, respectively, and are included in "Interest and similar income" in the consolidated income statement (Note 32). Meanwhile, interest earned on deposits with credit institutions amounted to €760 thousand and €4,483 thousand, respectively, and is included also in "Interest and similar income" in the accompanying income statement (Note 32).

Interests accrued during 2017 and 2016 on debt instruments held in the portfolio of loans and receivables amounted to €9,958 thousand and €8,831 thousand, respectively, and are included in “Interest income” in the consolidated income statement (Note 32).

The average effective interest rate of the debt instruments classified in this portfolio at December 31, 2017 for customer loans has been 2.04% (2.49% at December 31,2016) and for deposits credit institutions was 0,17% (0,07% at December 31, 2016).

The negative cash flow included in the statement of consolidated cash flows for the year 2017 by credit investments recorded under this heading amounted €764,299 thousand (negative flow of €2,657,107 thousand in 2016).

Refinancing operations, refinances and restructured

At December 31 2017 and 2016, the detail of refinanced and restructured operations is as follows:

				Thousand euros
	2017		2016	
	Total	Of which: non-performing	Total	Of which: non-performing
Gross amount	**2 382 293**	**1 521 075**	**2 948 942**	**1 912 015**
Asset impairment adjustments	**848 151**	**768 281**	**1 036 957**	**816 832**
Of which: collective	695 351	615 481	855 696	635 571
Of which: individual	152 800	152 800	181 261	181 261
			-	-
Net amount	**1 534 142**	**752 794**	**1 911 985**	**1 095 183**
Of which: granted to customers	1 534 142	752 794	1 911 985	1 095 183
Value of guarantees received	**1 541 316**	**961 390**	**1 839 901**	**1 105 627**
Of which: Real-estate security	1 541 316	961 390	1 839 901	1 105 627
Of which: other security	-	-	-	-

The reconciliation of the carrying amounts of refinanced and restructured operations at 31 December 2017 and 2016 is as follows:

		Thousand euros
	2017	2016
Opening balance	**1 911 985**	**3 190 253**
Refinancing and restructuring in the period	92 881	272 987
Debt repayment	(284 670)	(397 301)
Repossessions	(134 968)	(120 988)
Derecognised (reclassification to non-performing)	(99 192)	(218 146)
Other changes (*)	48 106	(814 820)
Of which: Changes in gross balance	*(140 700)*	*(968 940)*
Of which: Changes in impairment adjustments	*188 806*	*154 120*
Balance at the end of the year	**1 534 142**	**1 911 985**

Variations in the gross balance of the heading “Other changes” basically correspond to the derecognition of refinanced operations due to the application of the cure criteria described above. The effect on provisions is not significant, since most of these operations were classified as performing and only the refinancing balance has been eliminated, in compliance with the cure criteria described below.

At 31 December 2017, refinanced and restructured operations according to the criteria of Bank of Spain Circular 5/2014 were as follows:

	Thousand euros						
	31 December 2017						
	Total						
	Secured				Sin garantía real		
			Maximum real-estate guarantee that may be considered				
	No. operations	Gross amount	Secured on real estate	Other	No. operations	Gross amount	Accumulated impairment or losses in fair value due to credit risk
Credit institutions	-	-	-	-	-	-	-
Public Administrations	22	89	89	0	23	31 744	(5)
Other financial companies and individual entrepreneurs (financial business activity)	3	246	237	0	7	2 713	(1 774)
Non-financial companies and individual entrepreneurs (non-financial business activity)	4 491	889 130	527 353	82 139	1 857	289 577	(400 746)
Of which: financing of construction and real-estate promotion (including land)	794	321 307	188 695	11 181	94	26 930	(181 694)
Other residential	14 671	1 147 986	904 821	16 487	2 861	20 808	(445 626)
	19 187	**2 037 451**	**1 432 500**	**98 626**	**4 748**	**344 842**	**(848 151)**
Additional information							
Financing classified as non-current assets and disposal groups of items classified as held for sale	-	-	-	-	-	-	-

	Thousand euros						
	31 December 2017						
	Of which: Default incurred/ non-performing						
	Secured				Unsecured		
			Maximum real-estate guarantee that may be considered				
	No. operations	Gross amount	Secured on real estate	Other	No. operations	Gross amount	Accumulated impairment or losses in fair value due to credit risk
Credit institutions	-	-	-	-	-	-	-
Public Administrations	16	84	84	-	5	1 073	(5)
Other financial companies and individual entrepreneurs (financial business activity)	1	70	70	-	1	2 359	(1 764)
Non-financial companies and individual entrepreneurs (non-financial business activity)	2 793	614 009	333 033	58 286	612	125 787	(371 161)
Of which: financing of construction and real-estate promotion (including land)	*564*	*240 011*	*116 225*	*7434*	*57*	*19 981*	*(172 184)*
Other residential	8 893	770 129	552 448	11 055	819	7 564	(395 351)
	11 703	**1 384 292**	**885 635**	**69 341**	**1 437**	**136 783**	**(768 281)**
Additional information							
Financing classified as non-current assets and disposal groups of items classified as held for sale	-	-	-	-	-	-	-

At 31 December 2016, refinanced and restructured operations according to the criteria of Bank of Spain Circular 5/2014 were as follows:

	Thousand euro						
	31 December 2016						
	Total						
	Secured				Unsecured		
			Maximum real-estate guarantee that may be considered				Accumulated impairment or losses in fair value due to credit risk
	No. operations	Gross amount	Secured on real estate	Other	No. operations	Gross amount	
Credit institutions	-	-	-	-	-	-	-
Public Administrations	29	48	33	-	173	28 792	-
Other financial companies and individual entrepreneurs (financial business activity)	3	273	269	-	4	21 389	(4)
Non-financial companies and individual entrepreneurs (non-financial business activity)	4.959	1 232 775	450 429	396 477	2 331	400 853	(662 284)
Of which: financing of construction and real-estate promotion (including land)	*662*	*462 479*	*175 936*	*85 662*	*92*	*63 430*	*(227 512)*
Other residential	15 097	1 240 025	901 346	44 094	2 944	24 787	(374 669)
	20 088	**2 473 121**	**1 352 077**	**440 571**	**5 452**	**475 821**	**(1 036 957)**
Additional information							
Financing classified as non-current assets and disposal groups of items classified as held for sale	-	-	-	-	-	-	-

	Thousand euros						
	31 December 2016						
	Del cual: Con incumplimientos / Dudosos						
	Secured				Unsecured		
			Maximum real-estate guarantee that may be considered				Accumulated impairment or losses in fair value due to credit risk
	No. operations	Gross amount	Secured on real estate	Other	No. operations	Gross amount	
Credit institutions	-	-	-	-	-	-	-
Public Administrations	16	32	32	-	139	8 446	-
Other financial companies and individual entrepreneurs (financial business activity)	1	79	79	-	1	2 283	-
Non-financial companies and individual entrepreneurs (non-financial business activity)	2 984	832 225	269 938	255 423	692	225 720	(537 083)
Of which: financing of construction and real-estate promotion (including land)	*475*	*268 094*	*89 890*	*63 824*	*30*	*34 587*	*(168 654)*
Other residential	9 180	833 974	543 095	24 744	718	9 256	(279 749)
	12 181	**1 666 310**	**813 144**	**280 167**	**1 550**	**245 705**	**(816 832)**
Additional information							
Financing classified as non-current assets and disposal groups of items classified as held for sale	-	-	-	-	-	-	-

Although control over refinanced risks has always formed part of the Unicaja Banco's prudential monitoring of the loan portfolio, the Bank has adapted its systems for managing, identifying and monitoring transactions involving credit exposure to the definitions contained in Bank of Spain Circular 4/2014, including latest amendments, which entered into force on 1 October 2016. Specifically, the Bank has policies for refinancing, restructuring, renewing and renegotiating loans which detail the requirements, terms and situations in which a broad range of measures are available to help customers that are in financial difficulties.

In general terms, these renegotiated loans do not include changes to conditions deemed substantial, besides an increase in the term of loans, the inclusion or extension of grace periods, or the improvement of loan collateral, so that, for accounting purposes, this does not entail the write-off of the original assets or the recognition of new assets at fair value.

As regards the accounting treatment of renegotiated loans, the Group complies the provisions of paragraph AG84 of IAS 39 on changes in the conditions of the debt instruments because of financial difficulties of the borrower or debtor. According to the procedure laid down in Grupo Unicaja Banco, if the new operation cancels any doubtful risk, this new operation will always be born as doubtful, unless the criteria in IAS 39 are met.

The policies and procedures applied when managing exposures allow the itemized monitoring of loans. In this regard, any loan the terms of which must be modified due to the deterioration of borrower solvency already has the relevant impairment provision at the novation date. Consequently, as the transactions are correctly measured, no additional impairment provisioning requirements are applicable to the refinanced loans.

As regards the accounting treatment of interest, the Group does not recognize in the income statement interest accrued after loans are reclassified as doubtful. If outstanding interest is received as a result of a doubtful loans refinancing or restructuring, the interest is recognized as income in the income statement for the year.

Where the Bank is reasonably certain that the customer will comply with the payment schedule following the refinancing of a loan, the loan is classed as a performing loan. Various factors are considered, such as the contribution of new effective collateral. Consequently, in such cases, the need to hedge credit exposure on the loan might be reduced.

Negotiated or refinanced assets are classified according to their risk based on aspects such as determining the payment capacity of borrowers, the date of the guarantees provided assessment and, in addition, other factors such as waiting periods of operations or the number of times an operation has been restructured.

Following the initial classification, prudent cure criteria are applied so that subsequent developments may allow reclassification to performing loan status. These criteria are applicable where repayments have effectively been made on the loan refinanced, such that doubts are dissipated as to collection, taking into account both the amount repaid and the period in which the borrower has been meeting payment obligations.

The cure criteria for the refinancing operations of the Group are in line with Annex IX of Bank of Spain Circular 4/2004. A summary of these criteria is set out below:

To reclassify doubtful exposure to monitored performing exposure:

- All the criteria that, in general, determine the classification of the operations in this category are verified.

- One year has elapsed from the date of refinancing or restructuring.

- The interested party has paid the principal and interest accrued, reducing the renegotiated principal, since the date on which the restructuring or refinancing operation was formally agreed or, if later, since the date of reclassification thereof to doubtful categories. Therefore, there can be no overdue payments in the operation concerned. In addition, it will be necessary for the interested party to have paid by means of regular payments an amount equivalent to all principal and interest that were past due at the date of the restructuring or refinancing operation or were derecognised as a consequence thereof.

- The interested party is not involved in any other operation with amounts overdue by more than 90 days at the date of reclassification of the refinancing, refinanced or restructuring operation to the monitored performing risk category.

To reclassify the exposure from monitored performing exposure to performing exposure:

- The conclusion has been reached, following a thorough review of the interested party's financial situation, that it is not foreseeable that it will have financial difficulties and it is therefore highly likely that it will meet its obligations with respect to the institution in due time and form.

- A minimum of two years has elapsed from the formalisation of the restructuring or refinancing operation or, if later, from the date of reclassification from the category from doubtful exposures.

- The interested party has paid the principal and interest accrued, since the date on which the restructuring or refinancing operation was formally agreed or, if later, since the date of reclassification from the doubtful category. In addition, the interested party must have paid through regular payments an amount equivalent to all amounts (principal and interest) that were past due or written down at the date of the restructuring or refinancing operation.

- The borrower must not have any other operations involving amounts overdue by more than 30 days at the end of the trial period.

10.2 Past-due and impaired assets

Set out below is a breakdown of financial assets classified as loans and receivables and considered to be impaired due to credit risk at 31 December 2017 and 2016, and items that are not considered to be impaired but include amounts that are past due at that date, classified by counterparty and by age:

Impaired assets at 31 December 2017

					Thousand euros
	Up to 180 days	**Between 180 and 270 days**	**Between 270 days and 1 year**	**Over 1 year**	**Total**
By counterparty type					
Resident, public administrations	28	714	4	1 523	2 269
Resident, other sectors	1 081 032	76 100	66 588	1 455 725	2 679 445
Non-resident, public administrations	-	-	-	-	-
Non-resident, other sectors	13 079	150	221	15 045	28 495
	1 094 139	**76 964**	**66 813**	**1 472 293**	**2 710 209**

Impaired assets at 31 December 2016

	Up to 180 days	Between 180 and 270 days	Between 270 days and 1 year	Over 1 year	Total
					Thousand euros
By counterparty type					
Resident, public administrations	2 543	90	-	7 023	9 656
Resident, other sectors	1 180 021	106 598	143 225	1 713 215	3 143 059
Non-resident, public administrations	-	-	-	-	-
Non-resident, other sectors	16 601	1 984	1 348	42 480	62 413
	1 199 165	**108 672**	**144 573**	**1 762 718**	**3 215 128**

Past-due balances not deemed to be impaired at 31 December de 2017

	Less than one month	Between 1 and 2 months	Between 2 months and 90 days	Total
				Thousand euros
By counterparty type				
Credit institutions	33	-	5	38
Resident, public administrations	918	5	2 908	3 831
Resident, other sectors	-	-	-	-
Non-resident, public administrations	33 590	5 971	15 475	55 036
Non-resident, other sectors	41	30	27	98
	34 582	**6 006**	**18 415**	**59 003**

Past-due balances not deemed to be impaired at 31 December de 2016

	Less than one month	Between 1 and 2 months	Between 2 and 3 months	Total
				Thousand euros
By counterparty type				
Credit institutions	37	-	-	37
Resident, public administrations	703	53	4 865	5 621
Resident, other sectors	-	-	-	-
Non-resident, public administrations	39 562	8 150	27 115	74 827
Non-resident, other sectors	49	49	46	144
	40 351	**8 252**	**32 026**	**80 629**

10.3 Credit risk coverage

Set out below are movements for 2017 and 2016 in impairment losses recorded to cover credit risk on debt instruments classified as loans and receivables at the beginning and end of 2017 and 2016, together with cumulative impairment losses.

Movements in impairments losses on the years 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Balance at 1 January	**1 999 360**	**2 344 570**
Charged to the income for the year	397 565	788 996
Recovered and credited to the surplus for the year	(337 889)	(681 141)
Other movements (*)	(703 924)	(453 065)
Balance at 31 December	**1 355 112**	**1 999 360**
Of which:		
Determined individually	191 857	317 570
Determined collectively	1 163 255	1 681 790
	1 355 112	**1 999 360**

The donations are recognized under "Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss - Loans and receivables" in the accompanying consolidated income statement.

Set out below is a breakdown by nature of the item “Other movements” for the periods 2017 and 2016, based on the amounts presented in the previous table:

	Thousand euros	
	2017	**2016**
Utilization due to reclassification to non-performing charged to asset impairment adjustments	(237 941)	(343 892)
Utilization due to repossession of tangible and other assets	(65 244)	(117 659)
Other movements	(400 739)	8 486
	(703 924)	**(453 065)**

The item “Other movements” for 2017 includes the transfer of the provisions recorded for litigation and claims related to clauses limiting interest rate fluctuations to the heading “Provisions” in the consolidated financial statements (Notes 18 and 27).

11. Hedging derivatives

At 31 December 2017 and 2016, contracted derivatives designated as hedges and the items hedged consisted basically of:

- Interest rate swaps hedging mortgage bonds issued by Unicaja and third-party bonds acquired by the Group.

- Futures on listed equities hedging changes in the share price prior to the sale of the shares.

The valuation methods used to determine the fair values of OTC derivatives have been the discounted cash flow valuations of derivatives to interest rate and Montecarlo technical simulation method, used to measure structured products having an optional component. For those operations officially listed, it has been considered the share price as an indicator of fair value.

There follows a breakdown by product type of the fair values of receivables and payables relating to derivatives designated as hedging instruments in fair value hedges and cash flow hedges at 31 December 2017 and 2016, indicating hedge types, hedging instruments and hedged items.

Type and countable cover hedging instrument	2017 Debtor fair value	2017 Creditor fair value	2017 Notional	2016 Debtor fair value	2016 Creditor fair value	2016 Notional	Hedged item
						Thousand euros	
Fair value hedges:							
Buy sell currencies against euros	**5 386**	**1 043**	**1 436 717**	**18 455**	**10 480**	**1 344 885**	
Sales of foreign exchange euros	5 386	1 043	1 436 717	18 455	10 480	1 344 885	Debt securities
Other operations in securities	**-**	**-**	**-**	**18 135**	**9 781**	**2 015 542**	
Financial swaps on securities	-	-	-	-	-	-	
Options on securities	-	-	-	-	-	-	
Forward transactions	-	-	-	18 135	9 781	2 015 542	
Currency options	**2 171**	**908**	**64 537**	**698**	**-**	**32 745**	
Purchased currency options	-	-	-	-	-	32 745	Hedge Exchange
Currency options issued	2 171	908	64 537	698	-	-	
Other operations on interest rates	**448 948**	**3 887**	**3 067 054**	**565 914**	**1 439**	**3 049 059**	
Financial interest rate swaps (IRS bonds)	448 948	2 165	2 507 433	565 103	743	2 857 133	Loan agreement and bonds issued
Financial interest rate swaps (IRS fixed term deposits)	-	-	-	390	-	5 300	
Financial interest rate swaps (IRS loan portfolio)	-	-	-	-	-	-	Cash flow of Credits
Financial interest rate swaps (IRS balances with central banks)	-	-	-	-	-	-	Balances with central banks
Financial interest rate swaps (IRS Fixed)	-	1 721	556 300	324	-	76 300	Debt securities
Financial interest rate swaps (IRS Client deposits)	-	1	3 321	97	696	110 326	Client deposits
Other derivatives	**-**	**-**	**-**	-			
Equity swap & embedded derivative	-	-	-	-	-	-	Structured products
Subtotal	**456 505**	**5 838**	**4 568 308**	**603 202**	**21 700**	**6 442 231**	
Cash flow hedges:							
Futures on Securities and interest rate	**-**	**-**	**-**	**-**	**-**	**-**	
Purchases of future interest rate	-	-	-	-	-	-	
Otras operaciones sobre tipos de interés	**324**	**25 547**	**750 000**	**3 160**	**28 202**	**424 075**	
Financial interes rate swaps (IRS loan portfolio)		-	-	-	11 750	74 075	Credits
Financial interes rate swaps (IRS balances with central banks)	-	25 547	700 000	-	16 452	100 000	Balances with central banks
Financial interes rate swaps (IRS bonds)	324	-	50 000	3 160	-	250 000	Debt securities
Subtotal	**324**	**25 547**	**750 000**	**3 160**	**28 202**	**424 075**	
Total	**456 829**	**31 385**	**5 318 308**	**606 362**	**49 902**	**6 866 306**	

At 31 December 2017 and 2016, the Unicaja Banco Group does not record financial instruments that must be classed as hedges of net investments in foreign operations.

The Unicaja Banco Group only treats hedges deemed to be highly effective throughout the term of the hedge as “hedging transactions”. A hedge is deemed highly effective if, during the forecast hedge term, any changes in the fair value or cash flows attributed to the financial instruments hedged are almost entirely offset by changes in the fair value or cash flows, as applicable, of the hedging instruments.

Designated “cash flow hedges” cover changes in the cash flows attributed to a specific exposure to a financial asset or liability, or a highly probable forecast transaction, provided the consolidated income statement might be affected. Set out below is the information required by paragraph 23 of IFRS 7 in connection with these cash flow hedges:

- Periods in which the flows are expected to occur: flows related with debt securities will occur up to October 2017 (for a notional amount of €250,000 thousand), up to fourth quarter of 2024 (for a notional amount of €100,000 thousand) and to the fourth quarter of 2030 (for a notional amount of €74,075 thousand).
- Periods in which the income statement is expected to be affected: Same periods in which the cash flows are expected to occur.
- Amount recognized in the past year in the consolidated income statement item “Interest income” to rectify income from hedging transactions: Profit of €6,970 thousand (€2.425 thousand in 2016).
- Amount recognized in the past year in the consolidated income statement item “Interest expense and similar charges” to rectify expense from hedging transactions: € 114,157 thousands (loss of €129,854 thousand in 2016).
- Cash flow hedge ineffectiveness recognized in results for the year: no Cash flow hedge ineffectiveness has been recognized in 2017 and 2016.

Net loss on measurement recognized in the consolidated statement of recognized income and expenses for 2017 in respect of cash flow hedges amounted to €9,283 thousand (gains of €16,371 thousand, in 2016). Additionally, in 2017 net gains of €10,863 thousand were taken to the consolidated income statement (net gains of €706 thousand in 2016).

Designated "fair value hedges" cover exposure to changes in the fair value of financial assets and liabilities or of firm commitments not yet recognized, or of an identified portion of such assets, liabilities or firm commitments, attributable to a particular exposure, provided the consolidated income statement might be affected. Set out below is the information required by paragraph 24 of IFRS 7 in connection with these fair value hedges:

- Losses and gains on hedging instruments: See accompanying table showing a breakdown of losses and gains on hedging instruments during 2017 and 2016.
- Losses and gains on the hedged item attributable to the exposure hedged: See accompanying table showing a breakdown of losses and gains on hedged items that are actually attributable to the hedged exposure during 2017 and 2016.
- Ineffectiveness of hedges of net investments in foreign operations recognized in results for the year: The Group has no hedges of this kind.

								Thousand euros
	2017				2016			
	Results on hedging instruments		Hedged results		Results on hedging instruments		Hedged results	
Hedging instrument	**Loss**	**Profit**	**Loss**	**Profit**	**Loss**	**Profit**	**Loss**	**Profit**
Buying and selling of foreign currencies against euro	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Sales of foreign currency on securities	-	-	-	-	-	-	-	-
Other operations on values	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Swaps values	-	-	-	-	-	-	-	-
Options on Securities	-	-	-	-	-	-	-	-
Operations in term	-	-	-	-	-	-	-	-
Currency options	**1 064**	**973**	**-**	**-**	**459**	**375**	**-**	**84**
Purchased currency options	-	-	-	-	459	375	-	84
Currency options issued	1 064	973	-	-	-	-	-	-
Other operations on interest rates	**104 772**	**15 334**	**15 333**	**105 041**	**71 393**	**29 085**	**29 083**	**71 649**
Financial interest rate swaps (IRS warrants)	104 557	-	-	104 826	59 117	-	-	59 116
Financial interest rate swaps (IRS client deposits)	215	-	-	215	226	-	-	226
Financial interest rate swaps (IRS bonds)	-	1 210	1 209	-	12 050	21 110	21 108	12 307
Options over interest rates (bonds)		14 124	14 124		-	-	-	-
Equity swap & embedded derivative	-	-	-	-	-	7 975	7 975	-
	105 836	**16 307**	**15 333**	**105 041**	**71 852**	**29 460**	**29 083**	**71 733**

The notional amount of the contracts formalized does not represent the actual risk assumed by the Group in relation to such instruments.

The Group applies fair value hedge accounting basically to transactions in which it is exposed to changes in the fair value of certain assets and liabilities that are sensitive to interest rate fluctuations, i.e. assets and liabilities linked to a fixed interest rate, which is converted into a variable rate by means of the relevant hedges.

In the opinion of the Directors of the Parent Company as of December 31, 2017 and 2016 there is no doubt about the occurrence of anticipated transactions.

12. Investments

12.1 Investments - Equity Entities

Appendix II and III contain a breakdown of the Group's shareholdings in associates and jointly-controlled entities at 31 December 2017 and 2016 indicating the percentage held and other relevant information.

The contribution from the main associates and jointly-controlled entities to the consolidated balance sheet item "Investment in subsidiaries, joint ventures and associates" at 31 December 2017 and 2016 are as follows:

	Thousand euros	
	2017	**2016**
Caja España Vida, Compañía de Seguros y Reaseguros, S.A.	119 350	-
Hidralia, Gestión Integral de Aguas de Andalucía, S.A.	27 311	48 325
Autopista del Guadalmedina, Concesionaria Española, S.A.	14 871	14 201
Autopista del Sol, Concesionaria España, S.A.	21 643	22 051
Deoleo, S.A.	21 261	37 743
Ingeniería de Suelos y Explotación de Recursos, S.A.	7 992	6 773
Sociedad Municipal de Aparcamientos y Servicios, S.A.	10 013	9 514
Santa Justa Residencial, S.L.	7 548	-
Propco Malagueta, S.L.	21 146	-
Unicorp Vida, Compañía de Seguros y Reaseguros, S.A.	64 305	81 756
Unión del Duero, Compañía de Seguros de Vida, S.A.	58 695	-
Banco Europeo de Finanzas, S.A.	38 760	38 687
Ahorro Andaluz, S.A.	23 460	-
Espacio Medina, S.L.	12 935	9 675
Proyecto Lima, S.L.	10 558	-
Hidrocartera, S.L.	-	4 166
Muelle Uno-Puerto de Málaga, S.A.	8 279	8 426
Madrigal Participaciones, S.A.	13 108	11 687
Cartera Perseidas, S.L.	116	249
Other entities	1 592	846
	482 943	**294 099**

Set out below is the reconciliation between the opening and closing balances of "Investments in subsidiaries, joint ventures and associates" in the consolidated balance sheets for 2017 and 2016:

	Thousand euros	
	2017	**2016**
Net book value at 1 January	**294 099**	**359 131**
Additions for the year	39 912	-
Disposals and other transfers	(22 149)	(25 060)
Outcome equity	48 969	35 180
Impairment losses (Note 42)	(27 247)	(27 330)
Distributed dividends	(68 936)	(16 100)
Differences in valuation adjustments	15 153	(20 209)
Changes in accounting classification (Note 16)	227 453	-
Other movements	(24 311)	(11 513)
Net book value at 31 December	**482 943**	**294 099**

Donations are recorded in the caption "Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates" in the accompanying consolidated income statement.

The item "Other movements" relates basically to capital increases and reductions in associates, which are not recognized as additions or disposals provided the percentage shareholding does not change.

In 2017, the item “Accounting classification changes” amounting to €227,453 thousand reflects the value of the shareholdings in Caja España Vida, Compañía de Seguros y Reaseguros, S.A., Duero Pensiones, E.G.F.P., S.A. and Unión del Duero, Compañía de Seguros de Vida, S.A., which have been reclassified from “Non-current assets and disposals groups classified as held for sale” (Note 16) to “Investments in joint ventures and associates” as a result of the completion of the restructuring of the banking-insurance agreements described in Note 12.2 to these consolidated annual accounts.

At 31 December 2017 and 2016 the Group recorded an amount of €27,247 thousand and €27,330 thousand, respectively, in respect of impairment of investments in associates, being recorded in the caption “Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates” (Note 42).

The balance of the caption "Investments in subsidiaries, joint ventures and associates" in the consolidated balance sheets at December 31, 2017 and 2016 includes €27,674 thousand and €32,416 thousand, respectively, related to goodwill associated with this type of shares. Note 4 sets out information relating to this goodwill.

12.2 Notification of shareholdings acquired and disposal

Here are the notifications of acquisitions and sales of shareholdings in group entities, associates and jointly-controlled entities that have been submitted in accordance with Article 86 of the Spanish Companies Act and Article 53 of Stock Market Act 24/1988.

In 2017 the main acquisitions and disposals of shareholdings in associated companies were as follows:

Shareholders acquisitions in 2017

Entity Name	Category	Operation date	Net acquisition price	% acquired voting rights	% total voting rights after acquisition
Parque Científico Tecnológico de Almería, S.L.	Associated	31/03/2017	660	0.17%	30.08%
Ahorro Andaluz S.A	Associated	01/06/2017	84	50%	50%

Shareholdings acquisitions in 2016:

Entity Name	Category	Operation date	Net acquisition price	% acquired voting rights	% total voting rights after acquisition
Parque Científico Tecnológico de Almería, S.L.	Associated	01/01/2016	448	0.04%	29.91%

Disposals of shareholding 2017

Entity Name	Category	Operation date	Net acquisition price	% acquired voting rights	% total voting rights after acquisition
A.I.E. Naviera Olimpia	Associated	31/01/2017	26.00%	0.00%	-
Global Duero, S.A.	Joint venture	08/03/2017	34.69%	0.00%	-
Hidrocartera, S.L.	Joint venture	27/11/2017	70.00%	0.00%	-
Hidralia, Gestión Integral de Aguas de Andalucía, S.A.	Associated	27/11/2017	15.00%	20.00%	8 815
Propco Malagueta, S.L.	Associated	14/12/2017	75.00%	25.00%	-
Proyecto Lima, S.L.	Associated	14/12/2017	75.00%	25.00%	-
Centro de Tecnologías Informáticas, S.A.	Associated	03/11/2017	20.00%	0.00%	-

Disposals of shareholding in 2016:

Acquired, merged or extinct Entity name	Category	Operation date	% disposed voting rights	% total voting rights after disposal	Generated profit/ loss
Corporación Uninser, S.A.U. (*)	Group	01/01/2016	100.00%	0.00%	-
Unicorp Corporación Financiera, S.L.U. (*)	Group	01/01/2016	100.00%	0.00%	-
Proinsur Mediterráneo, S.L.U.	Associated	13/01/2016	15.18%	0.00%	-
Residencial El Beato, S.L.	Associated	20/01/2016	15.18%	0.00%	-
Qualia Lácteos, S.L.U.	Associated	28/03/2016	16.63%	1.20%	-
Fonteduero, S.A.U.	Group	31/03/2016	60.70%	0.00%	-
Iniciativas y Desarrollo Industriales de Jaén, S.A.	Associated	01/06/2016	30.00%	0.00%	81
Unión del Duero Seguros Generales, S.A.U.	Group	14/06/2016	60.70%	0.00%	23 185
Privándalus Inversiones I SICAV, S.A. (**)		21/06/2016	1.17%	26.03%	-
Pagos Minería U.T.E	Joint venture	21/06/2016	12.14%	0.00%	-
Grupo Tecopy Cartera Empresarial, S.L.	Associated	30/06/2016	12.14%	0.00%	2
Privándalus Inversiones I SICAV, S.A. (**)	Associated	11/07/2016	9.21%	16.82%	(43)
Privándalus Inversiones I SICAV, S.A. (**)	Associated	15/07/2016	8.41%	8.41%	(39)
Privándalus Inversiones I SICAV, S.A. (**)	Associated	22/07/2016	8.41%	0.00%	(39)
A.I.E. Naviera San Simón	Associated	18/11/2016	26.00%	0.00%	-
A.I.E. Naviera Malpica	Associated	18/11/2016	26.00%	0.00%	-
Cortijo de la Loma, S.L.	Associated	18/10/2016	20.00%	0.00%	(42)
Soria Futuro, Sociedad de Inversiones, S.A.	Joint venture	21/11/2016	27.62%	0.00%	(607)
Ahorro Gestión Inmuebles, S.L.	Associated	30/11/2016	17.51%	0.00%	(1 149)
Bruesa Duero, S.L.	Group	30/11/2016	50.18%	0.00%	(313)
San Marcos CIPSA, S.L.	Joint venture	30/11/2016	30.35%	0.00%	-
Barrancarnes Transformación Artesanal, S.A.	Associated	05/12/2016	24.28%	0.00%	-
Dibaq Diproteg, S.A.	Associated	05/12/2016	20.06%	0.00%	-
Edigroup Producción TV, S.A.	Associated	05/12/2016	13.41%	0.00%	(981)
Marcos Sotoserrano, S.L.U.	Associated	05/12/2016	19.90%	0.00%	-
Capredo Investments GMBH	Joint venture	05/12/2016	30.35%	0.00%	-
Corporación Hotelera Oriental	Joint venture	05/12/2016	30.35%	0.00%	-
Metales Extruidos, S.L.	Associated	07/12/2016	13.47%	0.00%	-
Promotora Vallisoletana Mercados, S.A.	Associated	09/12/2016	17.41%	0.00%	-
Prodesur, Mediterráneo, S.L.	Associated	19/12/2016	15.18%	0.00%	-
M-Capital, S.A.	Associated	28/12/2016	22.01%	0.00%	-
Oleomedia, S.L.	Associated	28/12/2016	40.00%	0.00%	-
Servicios Funerarios Indálicos, S.A.	Associated	28/12/2016	20.00%	0.00%	-
Sociedad de Investigación y Explotación Minera de Castilla y León, S.A.	Associated	29/12/2016	29.74%	0.00%	-
ADE Capital Sodical, S.C.R. S.A.	Associated	28/12/2016	6.06%	0.00%	4 503
ADE Gestión Sodical, S.G.E.I.C S.A.	Associated	28/12/2016	6.07%	0.00%	5

Regarding the restructuring of the banking-insurance business of Unicaja Banco Group, on 9 May 2017 Unicaja Banco, EspañaDuero and Aviva Europe SE (Aviva) entered into an agreement to terminate their strategic business partnership for the joint marketing and distribution, under the banking-insurance arrangement in Spain, of personal insurance and pension plans through the network of Unicaja Banco and of EspañaDuero, which was derived from the former Caja España (hereinafter the “Termination Agreement”).

Simultaneously with the Termination Agreement, Unicaja Banco, EspañaDuero and Santa Lucía, S.A. ("Santa Lucía") entered into a partnership agreement with a specific duration and on an exclusive basis for the development, joint marketing and distribution, under the banking-insurance arrangement in Spain, of life insurance and pension plans of Unicorp Vida and Caja España Vida (the "Partnership with Santa Lucía").

The mentioned agreements came into force on 14 September 2017, once the relevant regulatory authorisations had been obtained, entailing the exit of Aviva from the capital of Unicorp Vida, Compañía de Seguros y Reaseguros, S.A. (Unicorp Vida) and of Caja España Vida, Compañía de Seguros y Reaseguros, S.A. (Caja España Vida), as well as the termination of the agreements between Unicaja Banco, EspañaDuero and Aviva in connection with those companies. The partnership between Unicaja Banco and Aviva, as regards the interest in Caja de Granada Vida, Compañía de Seguros y Reaseguros, S.A., was not affected by this agreement and was subsequently sold on 22 February 2018.

Additionally, on 8 June 2017, EspañaDuero entered into a purchase and sale agreement with Mapfre Vida, S.A. de Seguros y Reaseguros sobre la Vida Humana ("Mapfre") whereby it will acquire 50% of the share capital of Unión del Duero, Compañía de Seguros de Vida, S.A. and Duero de Pensiones, E.G.F.P. At the end of 2017, the effectiveness of this agreement was subject to the fulfilment of certain conditions precedent, consisting in the obtainment of the relevant regulatory authorisations. These authorisations were received on 27 February 2018 and the transaction was settled on 14 March 2018.

In this restructuring of the banking-insurance agreements, the variable price agreed in the 2008 sale by EspañaDuero of the 50% of its stake in Unión del Duero Vida, Compañía de Seguros y Reaseguros, S.A. and Duero Pensiones, E.G.F.P., S.A. totalling €25 million was collected, which has been recognised as income in the consolidated income statement under the heading "Other operating income" (Note 39.1).

The restructuring of the banking-insurance agreements at the level of Unicaja Banco Group will not have a relevant impact on its equity, once the agreements come into effect following receipt of the relevant authorisations, in view of the provisions already posted by the Group. In this regard, the Group has recorded a provision of €70.8 million charged to the item "Provisions/reversal" (Note 18) and an impairment loss on shareholdings of €27.2 million charged to "Impairment or reversal of impairment of investments in joint ventures or associates" (Note 42). In view of the income of €25.3 million due to the variable price agreed in the 2008 sale, referred to above, and considering a total tax effect of €22.1 million, the net impact of the restructuring process totals €50.5 million.

13. Tangible assets

13.1. Property, plant and equipment

13.1.1 Tangible assets movement

Movements of “property, plant and equipment” in this balance sheets of 2017 and 2016 are as follows:

			Thousand euros
	For own use	Investment property	Total
Cost			
Balance at 31 December 2016	**2 056 154**	**674 384**	**2 730 538**
Additions	24 137	115	24 252
Disposals and other write-offs	(201 153)	(51 929)	(253 082)
Other transfers and other movements	(10 768)	31 022	20 254
Balance at 31 December 2017	**1 868 370**	**653 592**	**2 521 962**
Accumulated depreciation			
Balance at 31 December 2016	**(999 597)**	**(85 755)**	**(1 085 352)**
Disposals and other write-offs	85 686	2 738	88 424
Charges	(32 754)	(9 338)	(42 092)
Other transfers and other movements	10 827	5 903	16 730
Balance at 31 December 2017	**(935 838)**	**(86 452)**	**(1 022 290)**
Impairment losses			
At 31 December 2017	(59 896)	(149 092)	(208 988)
Net property, plant and equipment			
Balance at 31 December 2017	**872 636**	**418 048**	**1 290 684**

			Thousand euros
	For own use	Investment property	Total
Cost			
Balance at 31 December 2015	**2 068 488**	**665 401**	**2 733 889**
Additions	10 299	247	10 546
Disposals and other write-offs	(113 752)	(40 519)	(154 271)
Other transfers and other movements	91 119	49 255	140 374
Balance at 31 December 2016	**2 056 154**	**674 384**	**2 730 538**
Accumulated depreciation			
Balance at 31 December 2015	**(992 732)**	**(73 701)**	**(1 066 433)**
Disposals and other write-offs	40 004	3 476	43 480
Charges	(36 135)	(8 685)	(44 820)
Other transfers and other movements	(10 734)	(6 845)	(17 579)
Balance at 31 December 2016	**(999 597)**	**(85 755)**	**(1 085 352)**
Impairment losses			
At 31 December 2015	(46 107)	(161 239)	(207 346)
Net property, plant and equipment			
Balance at 31 December 2016	**1 010 450**	**427 390**	**1 437 840**

The above tables identify “Other transfers and other movements" in both the cost and accumulated depreciation of the assets. Set out below is a breakdown by nature of these movements in 2017 and 2016:

	Thousand euros			
	2017		2016	
	For own use	Investment Property	For own use	Investment Property
Transfers from non-current assets held for sale	-	25 232	107 203	10 201
Transfers between own use and investment properties	5 299	(5 299)	(7 210)	7 210
Transfers from inventories	-	11 234	(26 532)	27 012
Other movements	(5 240)	5 758	6 924	(2 013)
	59	**36 925**	**80 385**	**42 410**

The Group has taken out several insurance policies to cover risks that are subject property, plant and equipment. The coverage of these policies is considered sufficient.

The net charges recorded in the statement of consolidated cash flows for the year 2017 by tangible assets recorded under this heading amounted to €140,406 thousand (net charges of €26,584 thousand in 2016).

13.1.2 Property, plant and equipment for own use

Set out below is a breakdown by nature of this balance sheet caption at 31 December 2017 and 2016:

	Thousand euros			
	Cost	Accumulated depreciation	Impairment losses	Net balance
Data processing equipment and installations	183 459	(171 705)	-	11 754
Furniture, vehicles and other installations	739 308	(601 478)	(2)	137 828
Buildings	1 014 668	(208 348)	(15 294)	791 026
Work in progress	431	-	-	431
Other	118 288	(18 066)	(30 811)	69 411
Balance at 31 December 2016	**2 056 154**	**(999 597)**	**(46 107)**	**1 010 450**
Data processing equipment and installations	161 434	(141 248)	-	20 186
Furniture, vehicles and other installations	595 782	(563 725)	(26 484)	5 573
Buildings	994 152	(205 980)	(33 412)	754 760
Work in progress	395	-	-	395
Other	116 607	(24 885)	-	91 722
Balance at 31 December 2017	**1 868 370**	**(935 838)**	**(59 896)**	**872 636**

As part of the net balance as of December 2017 and 2016 contained in the above table, there are no headings (€2,269 thousand at December 31, 2015) corresponding to plant and equipment net worth societies Group are acquired under leasing.

At 31 December 2017 and 2016, property, plant and equipment for own use having a gross value of approximately €702,757 thousand (€705,780 thousand at 31 December 2016) was fully depreciated.

13.2 Investment property

The consolidated balance sheet item “Investment property” generally reflects the net values of land, buildings and other structures held in order to be leased. Investment property is carried in the consolidated balance sheet at acquisition cost, which is formed by the fair value of any consideration paid plus all cash outlays made or committed, less accumulated depreciation and any estimated losses calculated by comparing the net value of each item with its recoverable amount. Under IAS 36, the recoverable amount is the higher of fair value less costs to sell and the value in use of the assets.

As these assets generate rental income and their value in use may be estimated, the Group does not follow the same appraised value update criteria applicable to irregular properties held exclusively for sale. The Group calculates the recoverable amount of investment property based on the value in use derived from the rent generated by the assets.

The Unicaja Banco does not have a reliable measurement of the fair value of investment property. As there is no reliable measurement of the fair value of investment property, the Group does not report on the requirements of letters (d) and (e) of IAS 40, paragraph 75.

Direct operating expenses (including repairs and maintenance) recognized in the consolidated income statements for 2017 and 2016 in relation to investment property, showing property that generates rent separately from property that does not, are as follows:

	Thousand euros	
	2017	**2016**
Expenses associated with investment property that generates rent	2 947	2 329
Expenses associated with investment property that does not generate rent	1 218	2 318
	4 165	**4 647**

As regards the investment property for which the Group acts as a lessor, regulations applicable to each lease are observed, particularly the provisions of Law 29/1994 (24 November) on Municipal Leases and Law 4/2013 (4 June) on measures to develop and enhance the flexibility of the home rental market.

In 2017 and 2016, income from leased out under operating lease (investment property) owned by the Group totalled €17,170 thousand and €15,135 thousand, respectively (Note 39.1).

With respect to the information required by IAS 27, paragraph 56, in 2017 and 2016 the Group's annual income from non-cancellable operating leases, i.e. under the former lease regime, totalled €142 thousand and €157 thousand, respectively.

13.3 Impairment losses

Set out below is a summary of movements in impairment losses affecting property, plant and equipment during 2017 and 2016:

	Thousand euros		
	Own use	**Investment property**	**Total**
Balance at 1 January 2016	**18 598**	**157 960**	**176 558**
Endowments	(933)	4 313	3 380
Recoveries, sales	(8 917)	(16 195)	(25 112)
Other recoveries	-	-	-
Other transfers and reclassifications	37 359	15 161	52 520
Balance at 31 December 2016	**46 107**	**161 239**	**207 346**
Endowments	19 549	995	20 544
Recoveries, sales	(3 396)	(20 570)	(23 966)
Other recoveries	-	-	-
Other transfers and reclassifications	(2 364)	7 428	5 064
Balance at 31 December 2017	**59 896**	**149 092**	**208 988**

The donations are recorded in the caption "Impairment losses on other assets (net)" in the accompanying consolidated income statement.

14. Intangible assets

At 31 December 2017 and 2016, virtually the entire balance of "Intangible assets" in the consolidated balance sheet relates to computer software using in the course of business by the companies of the Unicaja Banco Group.

	Thousand euros	
	2017	**2016**
Goodwill	184	184
Other intangible assets	1 698	598
	1 882	**782**

It is provided below the breakdown of the category "Goodwill" on 31 December, 2017 and 2016, for each society that generates it:

	Thousand euros	
	2017	**2016**
Unigest, S.G.I.I.C., S.A.	122	122
Caja España Mediación, Operador Banca-Seguros Vinculado, S.A.	62	62
	184	**184**

The category "Other intangible assets" of the consolidated balance sheet basically records computer applications used by Grupo Unicaja Banco's entities.

Movements in "Intangible assets" in the consolidated balance sheet during the periods ended 31 December 2017 and 2016 are as follows:

	Cost	Accumulated depreciation	Net book value
			Thousand euros
Balance at January 1, 2016	**21 327**	**(20 133)**	**1 194**
Aditions cost/ depreciation	91	(413)	(322)
Disposals cost/ depreciation	(650)	522	(128)
Other movements(*)	46	(8)	38
Balance at December 31, 2016	**20 814**	**(20 032)**	**782**
Aditions cost/ depreciation	101	(223)	(122)
Disposals cost/ depreciation	(130)	129	(1)
Other movements (*)	1 406	(183)	1 223
Balance at December 31, 2017	**22 191**	**(20 309)**	**1 882**

The amount recognized in the consolidated income statement item “Amortization - Intangible assets” totals €223 thousand at 31 December 2017 (€413 thousand at 31 December 2016). The amounts carried in “Other movements” relate basically to changes in the Group's consolidation scope.

Fully-amortized intangible assets still in use at 31 December 2017 and 2016 amount to €14,492 thousand and €14,485 thousand, respectively.

Net collections on intangible assets recognized in the consolidated cash flow statement totals €29 thousand at 31 December (€412 thousand at 31 December 2016).

15. Other assets

A breakdown of the balances in this consolidated balance sheet caption at 31 December 2017 and 2016 is set out below:

	2017	2016
		Thousand euros
Insurance contracts linked to pensions	131 103	138 198
Inventories	266 596	480 450
Other	68 756	41 203
	466 455	**659 851**

At 31 December 2017 and 2016, the consolidated balance sheet item “Insurance contracts linked to pensions” totals €131,103 thousand and €138,198 thousand, respectively; corresponding to post-employment benefits (note 41).

At 31 December 2017 and 2016, the consolidated balance sheet item “Other” relates basically to prepayments and accrued income.

The consolidated balance sheet item “Inventories” includes non-financial assets that are held for sale by the consolidated entities in the ordinary course of business, are being produced, built or developed for that purpose, or are expected to be consumed in the production process or in the provision of services. Consequently, land and other properties held for sale or for inclusion in a housing development, are treated as inventories.

Inventories are carried at the lower of cost, which includes all outlays to acquire and transform the inventories, direct or indirect costs incurred to bring them to their current condition and location, and directly attributable financial costs, provided more than one year must elapse before they are sold, and net realisable value. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to be incurred to complete the production and sale of the inventories.

In accordance with paragraph 36 of IAS 2 “Inventories”, both decreases and, if applicable, subsequent recoveries of the net realisable value of inventories below their carrying amount are recognized in the consolidated income statement in the period in which they occur, in the item “Impairment losses on other assets (net) - Other assets”.

Breakdown of entities balances in this consolidated balance sheet caption “Inventories” at 31 December 2017 and 2016 is set out below:

	Thousand euros	
	2017	**2016**
Inmobiliaria Acinipo, S.L.U.	731	791
Gestión de Inmuebles Adquiridos, S.L.U.	232 812	451 518
Pinares del Sur, S.L.U	28 995	23 865
Other entities	4 058	4 276
	266 596	**480 450**

Set out below are movements in the consolidated balance sheet item "Other assets - Inventories" during 2017 and 2016:

	Thousand euros	
	2017	**2016**
Net book value at 1 January	**480 450**	**542 054**
Additions for the year	68 508	100 411
Disposals and other transfers	(526 861)	(163 287)
Transfers to investment property	(11 234)	(27 012)
Transfers from non-current assets held for sale	-	11 776
Transfers from own use	-	26 532
Change in impairment losses	257 285	(9 408)
Other movements	(1 552)	(616)
Net book value at 31 December	**266 596**	**480 450**

Impairment losses on inventories are recognized in the consolidated income statement item “Impairment losses on other assets (net)”.

Set out below is a breakdown of inventory sales completed during 2017 and 2016 by the Unicaja Banco Group, stating the selling price, cost of sales, use of impairment provisions and other items:

	Thousand euros	
	2017	**2016**
Sale price	238 774	150 608
Cost of sales	(415 226)	(165 331)
Using deteriorations	244 878	82 628
Commissions for sale	(2 376)	(2 617)
	66 050	**65 288**

The increase in sales during 2017 includes the sales of foreclosed real estate assets described in Note 1.15.

As regards the appraisals of properties recognized in "Inventories", in accordance with prevailing legislation on the use of appraised values, the Unicaja Banco Group's policy is based on the following criteria:

- In general, the appraisals used by the Bank and its Group, both for properties securing loans and for assets that are foreclosed or received as payment for debts, must be performed by a valuation company authorized by the Bank of Spain and in accordance with the requirements of Order ECO/805/2003 (27 March).

- In general, the Bank requests appraisals when loans are being granted, furnishing the necessary documentation on all the assets securing the loan.

- The Unicaja Banco Group has a procedure for selecting valuation companies that restricts assignments to appraisals that are performed solely through electronic means by valuation companies with an internal code of conduct that complies with applicable legislation, among other requirements.

- With respect to the review of appraisal quality, the Unicaja Banco Group has procedures in place to review the appraisal report, particularly in relation to the determining factors; if there are doubts as to the appraised value and/or determining factors, it is compared with values recently obtained for properties that are similar and/or in the same zone. Internal controls are also in place to review the consistency and adequacy of the valuations performed by each valuers.

- In the professional relationships with valuation companies, in order to safeguard valuer independence and avoid conflicts of interest, the Group has put in place adequate mechanisms and barriers to preclude the possibility of their activities being influenced, for purposes unrelated to the assurance of valuation quality, by the Bank's operating units or subsidiaries.

- As regards of the frequency of appraisal reviews, that fulfil the requirements of Annex IX of Circular 4/2004 from Bank of Spain, and its amendments, specially arising from Circular 4/2016 from Bank of Spain depending on the location of the operation and the type of asset, the value of assets subject to mortgage, foreclosed assets and those received in payment of debts by the group.

- For appraisals that need not fulfil the requirements of Annex IX of Circular 4/2004, the Credit Committee is responsible for establishing a procedure that can combine both valuations performed under Order ECO 805/2003 without visiting the interior of the property and the estimation of the appraised value using statistical or other methods permitted by regulations.

Finally, at 31 December 2017 and 2016 the Unicaja Banco Group records no inventories in the consolidated balance sheet that are pledged to secure the settlement of debts.

16. Non-current assets and disposal groups held for sale

Set out below is a breakdown of the item "Non-current assets and disposal groups held for sale", which includes the carrying amount of assets that do not form part of the Group's operating activities and the carrying amount of which will foreseeably be recovered through the transfer price. These assets amount to €439,053 thousand at 31 December 2017 (€762,250 at 31 December 2016).

The Group has estimated the fair value of these assets based upon the value obtained in an updated valuation, in line with the content of OM/805/2003, by a valuers authorized by the Bank of Spain. Set out below is a breakdown of non-current assets classified by purpose at the end of the years 2017 and 2016:

	Thousand euros	
	2017	**2016**
Equity instruments	**-**	**234 174**
Residential assets	**269 828**	**324 727**
Finished Properties	**104 554**	**145 832**
Dwelling	28 581	52 383
Rest	75 973	93 449
Properties under construction	**17 213**	**15 519**
Dwelling	17 213	14 699
Rest	-	820
Land	**47 458**	**41 998**
	439 053	**762 250**

In 2017, the shares in Caja España Vida, Compañía de Seguros y Reaseguros, S.A., Duero Pensiones, E.G.F.P., S.A. and Unión del Duero, Compañía de Seguros de Vida, S.A., having a total carrying amount of €227,453 thousand, were reclassified from “Non-current assets and disposals groups classified as held for sale” to “Investments in joint ventures and associates” as a result of the completion of the restructuring of the banking-insurance agreements described in Note 12.2 of these consolidated annual accounts.

No net gains recognized in the 2017 and 2016 consolidated statement of recognized income and expenses on equity instruments classed as non-current assets and disposal groups held for sale.

Set out below is the reconciliation between the opening and closing balances of tangible assets included in the consolidated balance sheet item “Non-current assets and disposal groups held for sale” for 2017 and 2016:

	Thousand euros		
	Gross Amount	**Value adjustments for impairment**	**Net book value**
Balances at January 1, 2016	**1 041 735**	**(188 833)**	**852 902**
Additions for the year	129 349	(10 649)	118 700
Disposals and other transfers	(103 092)	8 535	(94 557)
Allocated to income (Note 44)	(4 133)	(12 692)	(16 825)
Transfers to inventories	(12 162)	386	(11 776)
Transfers to investment property	(10 202)	969	(9 233)
Transfers to own use	(107 203)	30 430	(76 773)
Other movements	777	(965)	(188)
Balances at December 31, 2016	**935 069**	**(172 819)**	**762 250**
Additions for the year	162 510	(2 620)	159 890
Disposals and other transfers	(288 616)	81 147	(207 469)
Allocated to income (Note 44)	(1 964)	(15 729)	(17 693)
Transfers to inventories	-	-	-
Transfers to investment property	(25 232)	(5 240)	(30 472)
Transfers to own use	-	-	-
Changes in registration (note 12.1)	(227 453)	-	(227 453)
Other movement	-	-	-
Balances at December 31, 2017	**554 314**	**(115 261)**	**439 053**

Donations made on non-current of this heading assets, except for equity instruments, are recorded under the heading "Gains (losses) on non-current assets held for sale not classified as discontinued operations" in the consolidated income accompanying consolidated income. For its part, the impact on results of equity instruments of this heading are recorded directly under "Profit from discontinued operations (net)" in the consolidated income statement.

The net charges recorded in the cash flow statement for the year 2017 by the non-current assets held for sale recorded under this heading amounted to 623,056 thousand euros (€81,672 thousand in 2016).

Impairment losses recognized in the consolidated income statement in 2017 and 2016 on non-current assets and disposable groups held for sale total €15,729 thousand and €12,692 thousand, respectively; they are recognized in the item “Gains/ (losses) on non-current assets for sale not classified as discontinued operations” (Note 44).

Under the heading "Non-current assets and disposal groups held for sale" in the consolidated balance sheet tangible assets that have been received by the Group or other consolidated for the satisfaction of all or part of the payment obligations to companies they are registered them of their debtors. In addition, this heading are recorded equity instruments for which the Group considers recover its value through sale rather than exploiting them.

The Unicaja Banco Group applies market terms in buyer financing granted for the purchase of properties. Loans granted in 2017 for initial financing total €6,218 thousand (€9,764 thousand in 2016). At 31 December 2017, gains on these loans pending recognition amount to €16,638 thousand (€15,922 thousand in 2016).

Fair Value Hierarchy

Concerning the valuation of "Non-current assets and disposal groups classified as held for sale", Unicaja Banco Group sets the fair value hierarchy levels indicated in paragraph 93 of IFRS 13 "Fair value measurement". In this way, the residential assets and finished properties which make up the majority of non-current assets held for sale have been classified as level 2 in the fair value hierarchy established by IFRS 13, characterised by the use of observable market variables such as the price per square metre of comparable assets, while properties under construction and land have been classed as level 3, due to the use of non-observable variables.

In this respect, Unicaja Banco Group has a corporate policy that guarantees the professional competence, independence and objectivity of the external valuation companies, as stipulated in the relevant regulations which require that the valuation companies comply with the requirements of neutrality and credibility so that the use of their estimates does not undermine the reliability of their valuations. This policy establishes that all valuation companies with which the Group works in Spain must be registered in the Official Registry of Bank of Spain and their valuations must be carried out following the methodology established in Order ECO/ 805/2003 of 27 March 2003.

In relation to properties under construction and land, which are classified at level 3 of the fair value hierarchy, the valuation criteria used by the valuation companies are those provided for in Order ECO/ 805/2003 using, based on the situation of each asset, the methods indicated in Article 15 of the Order. To determine the appraisal value, the necessary checks are made to ascertain the characteristics and actual situation of the assets, which, according to Article 7 of the Order, shall include: (I) physical identification of the property, through its location and visual inspection, checking the facade and other observable characteristics, the existence of visible easements and its apparent state of construction or conservation, (ii) the occupation of the property and its use or exploitation, (Iii) the public and architectural protection regime, and (iv) the property's compliance with current urban planning, and, if applicable, the existence of urban development rights. In the specific case of property under construction, it should be noted that the valuation is carried out considering the current situation of the property and not considering its final value.

The main valuation company that issues reports on the Unicaja Banco Group's assets is Tasaciones Inmobiliarias, S.A. (Tinsa). The following companies also issue valuation reports on the Group's assets: Sociedad de Tasación, S.A. (Sotasa), UVE Valoraciones, S.A., Técnicos de Tasación, S.A. (Tecnitasa) and Eurovaloraciones, S.A. (Euroval).

17. Financial liabilities at amortized cost

17.1 Deposits from Central Banks

A breakdown of this consolidated balance sheet heading at 31 December 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Other Central Banks	3 340 420	-
Valuation adjustments - Accrued interests	(10 386)	-
	3 330 034	**-**

At 31 December 2017, the amounts recognised in the item “Other central banks” relate to funding obtained by the Group through the second series of Targeted Longer-Term Refinancing Operations (TLTRO II). In 2017, interest income accrued on these operations totalled €10,386 thousand under “Interest income” in the accompanying consolidated income statement (Note 32).

During 2017, no interest expense accrued on these deposits, while in 2016 the amount of €1,139 thousand accrued and was recognised in the heading “Interest expense” in the accompanying consolidated income statement (Note 33).

17.2 Deposits from credit institutions

Set out below is a breakdown by nature of transactions of the consolidated balances in this balance sheet caption at 31 December 2017 and 2016:

	Thousand euros	
	2017	**2016**
Term deposits	383 452	358 951
Assets sold under repurchase agreements	153 963	1 882 480
Other accounts	177 265	225 975
Valuation adjustments - Accrued interests	193	(3 236)
	714 873	**2 464 170**

The interest accrued during the years 2017 and 2016 for these deposits have been of €3,140 thousand and €7,361 thousand, respectively, and are included in "Interest expense and similar charges" in the consolidated income statement (Note 33).

The average effective interest rate on the debt instruments classified in this caption at 31 December 2017 was 0.40% (0.14% at 31 December 2016).

17.3. Deposits from customers

Set out below is a breakdown by nature of transactions and counterparty of the customers balances at 31 December 2017 and 2016:

	Thousand euros	
	2017	**2016**
By nature		
Current accounts	12 131 781	8 166 874
Savings accounts	15 589 667	14 190 793
Fixed-term deposits	14 436 053	19 995 231
Assets sold under repurchase agreements	3 156 833	5 318 017
Other	58 899	39 080
Measurement adjustments:	667 932	821 968
Of which:		
Micro-hedging transactions	*524 963*	*644 016*
Interest accrued	*264 084*	*303 361*
Other adjustments	*(121 115)*	*(125 409)*
	46 041 165	**48 531 963**
By counterparty		
Resident public administrations	2 637 694	2 310 937
Other resident sectors	42 496 830	45 108 250
Other non-resident sectors	238 709	290 808
Measurement adjustments	667 932	821 968
Of which:		
Micro-hedging transactions	*524 963*	*644 016*
Interest accrued	*264 084*	*303 361*
Other adjustments	*(121 115)*	*(125 409)*
	46 041 165	**48 531 963**

The interest accrued during the years 2017 and 2016 for these deposits have been €327,395 thousand and €436,498 thousand, respectively, and are included in "Interest expense and similar charges" in the consolidated income statement (Note 33).

The average effective interest rate on the debt instruments classified in this caption at 31 December 2017 was 0.47% (0.93% at 31 December 2016).

Fixed-term deposits include unique mortgage bonds issued in accordance with the provisions of Law 2/1981 (25 March), as detailed below:

			Thousand euros	
Issue date	Maturity date	Nominal interest rate	Nominal 31/12/2017	Nominal 31/12/2016
02/12/2003	30/11/2018	(a) 4,757%	16 258	16 258
02/12/2003	30/11/2018	(a) 4,757%	67 742	67 742
16/11/2004	16/11/2019	(a) 4,257%	53 659	53 659
16/11/2004	16/11/2019	(a) 4,257%	8 049	8 049
16/11/2004	16/11/2019	(a) 4,257%	52 317	52 317
24/11/2004	27/11/2019	(b) 4,125%	200 000	200 000
29/03/2005	29/03/2020	(a) 4,003%	58 333	58 333
29/03/2005	29/03/2020	(b) 4,003%	58 333	58 333
29/03/2005	29/03/2020	4,003%	58 334	58 334
18/05/2005	21/05/2025	(a) 3,875%	200 000	200 000
15/06/2005	16/06/2017	(a) 3,500%	-	150 000
15/06/2005	16/06/2017	3.500%	-	100 000
10/06/2005	13/06/2020	(b) 3.510%	150 000	150 000
28/06/2005	28/06/2025	(a) 3.754%	76 923	76 923
28/06/2005	28/06/2025	(b) 3.754%	76 923	76 923
28/06/2005	28/06/2025	3.754%	128 205	128 205
16/11/2005	21/05/2025	(a) 3.875%	200 000	200 000
12/12/2005	12/12/2022	(a) 3.754%	51 852	51 852
12/12/2005	12/12/2022	(b) 3.754%	100 000	100 000
20/02/2006	20/02/2018	Euribor 3 months + 0.12%	90 000	90 000
22/03/2006	22/03/2021	(a) 4.005%	100 000	100 000
06/04/2006	08/04/2021	(a) 4.125%	200 000	200 000
25/05/2006	08/04/2021	4.125%	100 000	100 000
26/05/2006	24/05/2017	Euribor 3 months + 0.09%	-	100 000
12/06/2006	12/06/2018	(a) 4.255%	100 000	100 000
12/06/2006	12/06/2018	(a) 4.255%	100 000	100 000
19/10/2006	19/10/2018	(a) 4.000%	300 000	300 000
23/10/2006	24/05/2017	Euribor 3 months + 0.09%	-	100 000
23/10/2006	23/10/2023	(b) 4.254%	200 000	200 000
23/10/2006	23/10/2023	4.254%	100 000	100 000
23/11/2006	08/04/2031	4.250%	400 000	400 000
16/03/2007	16/03/2017	(a) 4.004%	-	200 000
23/03/2007	26/03/2027	(b) 4.250%	150 000	150 000
23/03/2007	08/04/2031	4.250%	100 000	100 000
20/04/2007	08/04/2021	(a) 4.125%	200 000	200 000
23/05/2007	22/05/2019	Euribor 3 months + 0.09%	200 000	200 000
23/05/2007	23/05/2027	(a) 4.755%	50 000	50 000
23/05/2007	23/05/2027	(b) 4.755%	100 000	100 000
23/05/2007	23/05/2027	(a) 4.755%	50 000	50 000
29/06/2007	08/04/2031	(a) 4.250%	400 000	400 000
20/07/2007	26/03/2027	4.250%	100 000	100 000
19/10/2007	19/10/2017	Euribor 3 months + 0.17%	-	250 000
19/10/2007	08/04/2021	4.125%	60 000	60 000
19/10/2007	26/03/2027	4.250%	110 000	110 000
19/10/2007	08/04/2031	4.250%	180 000	180 000
23/10/2007	19/10/2017	Euribor 3 months + 0.17%	-	200 000
05/12/2007	20/02/2018	Euribor 3 months + 0.13%	145 000	145 000
10/04/2008	10/04/2048	(a) 5.280%	22 000	22 000
26/12/2008	19/10/2017	Euribor 3 months + 0.19%	-	200 000
30/11/2009	30/11/2019	4.511%	154 000	154 000
			5 267 927	**6 567 927**

(a) The fixed interest rate borne by the Entity has been converted to a variable rate by contracting swaps on the nominal amount.
(b) The fixed rate supported by the Group has been made variable by financial swaps on the nominal amount. After that, these swaps were canceled.

17.4 Marketable debt securities

A breakdown of this consolidated balance sheet heading at 31 December 2017 and 2016 is as follows:

	Thousand euros	
	2017	2016
Mortgage securities	130 000	1 200 000
Other non-convertible securities	-	700 000
Subordinated convertible debt	-	604 000
Own securities	-	(1 700 000)
Valuation adjustments – Accrued interests	(152)	10 010
	129 848	**814 010**

Interest accrued on debits represented by marketable securities (not including the convertible subordinated debt described in Note 17.4.3) for the year ended 31 December 2017 and 2016 amounted to €167 thousand and €6,652 thousand, respectively, which are recognized under "Interest expense" of the consolidated income statement (Note 33).

The detail and movement of issuance, repurchases or repayments of debt securities, including convertible subordinated debt, made in the nine-month period ended December 31, 2017, by the Parent Company itself and by other Group companies is as follows:

	Thousand euros				
	Balance at 01/01/2017	Issues	Repurchases/ repayments	Exchange rate and other adjustments	Balance at 31/12/2017
Debt securities issued in a state member of the European Union, which have required the registration of an informative brochure	814 010	-	(679 862)	(4 300)	129 848
Debt securities issued in a state member of the European Union, which have not required the registration of an informative brochure	-	-	-	-	-
Debt securities issued out of a state member of the European Union	-	-	-	-	-
TOTAL	**814 010**	**-**	**(679 862)**	**(4 300)**	**129 848**

There are no issues of debt instruments in 2017 carried out by associates or joint ventures rated by the equity method or by entities outside the Group that are not guaranteed by any Group entity.

The detail and movement of issues, repurchases or repayments of debt securities, including convertible subordinated liabilities, carried out in 2016 by both the Parent Company and other Group companies is as follows:

	Thousand euros				
	Balance at 01/01/2016	**Issues**	**Repurchases/ repayments**	**Exchange rate and other adjustments**	**Balance at 31/12/2016**
Debt securities issued in a state member of the European Union, which have required the registration of an informative brochure	1 294 888	-	(459 216)	(21 662)	814 010
Debt securities issued in a state member of the European Union, which have not required the registration of an informative brochure	-	-	-	-	-
Debt securities issued out of a state member of the European Union	-	-	-	-	-
TOTAL	**1 294 888**	**-**	**(459 216)**	**(21 662)**	**814 010**

There are no issues of debt instruments in 2016 carried out by associates or joint ventures rated by the equity method or by entities outside the Group that are not guaranteed by any Group entity.

17.4.1 Mortgage securities

A detail of the mortgage bonds issued at December 31, 2017 and 2016 is as follows:

			Thousand euros				
Issue	**ISIN code**	**Issue date**	**Issue amount**	**Saldo al 31/12/2017**	**Saldo al 31/12/2016**	**Maturity date**	**Interest rate**
8ª Emisión Unicaja	ES0464872078	17/12/2009	70 000	-	70 000	17/12/2017	Euribor 6m + 0.69%
9ª Emisión Unicaja	ES0464872086	17/12/2009	30 000	30 000	30 000	17/12/2021	Euribor 6m + 0.75%
2ª Emisión Unicaja	ES0458759018	22/11/2010	70 000	70 000	70 000	22/11/2018	Euribor 6m + 2.00%
3ª Emisión Unicaja	ES0458759026	22/11/2010	30 000	30 000	30 000	22/11/2022	Euribor 6m + 2.00%
Céd. Hipotec. Caja España Nov. 2011-2	ES0458673045	17/11/2011	500 000	-	500 000	17/04/2017	5.5%
Céd. Hipotec. Caja España Nov. 2011-3	ES0458673052	17/11/2011	500 000	-	500 000	17/05/2019	6.00%
				130 000	**1 200 000**		

These issues are admitted for negotiation on the fixed income market AIAF, and are guaranteed by a mortgage on all those that at any time are registered in favour of the issuing entity and are not subject to the issue of mortgage bonds, in addition to the overall equity liability for these.

On 17 August 2017, the Group redeemed in advance the entire issue of the covered bonds named "Cédulas Hipotecarias Noviembre 2011-3", ISIN code ES0458673052, for a nominal sum of €500,000 thousand, being EspañaDuero at that early redemption date the holder of all the covered bonds.

The average effective interest rate for these debt instruments at 31 December 2017 is 0.08% (2.11% at 31 December 2016).

17.4.2 Other non-convertible securities

Other non-convertible securities at 31 December 2017 and 2016 relates to the outstanding balance of the Group's bond and debenture issues.

Set out below is an analysis of outstanding bond and debenture issues at 31 December 2017 and 2016:

			Thousand euros				
Issue	**ISIN code**	**Issue date**	**Nominal amount**	**Balance at 31/12/2017**	**Balance at 31/12/2016**	**Interest rate**	**Maturity issue date**
Cédulas Territoriales Unicaja Banco 1ª Emisión	ES0480907007	27/03/2012	700 000	-	700 000	4.203%	27/03/2017
			700 000	**-**	**700 000**		

All these financial instruments are denominated in euros.

At 31 December 2017, no average effective interest rate of the debt instruments classified in this item was generated, due to the redemption of the first issue of territorial covered bonds, for a nominal value of €700,000 thousand.

17.4.3 Subordinated liabilities

Set out below is a breakdown of the balances and main features of subordinated liabilities in the consolidated balance sheet at 31 December 2017 and 2016, consisting of the Group's issue of subordinated debt:

		Euros	Thousand euros			
Issue	**No. of securities**	**Nominal Amount per unit**	**Balance at 31/12/17**	**Balance at 31/12/16**	**Nominal interest rate**	**Maturity**
Obligaciones Contingentes Convertibles EspañaDuero	6 040	100 000	-	604 000	10,25%	Perpetua
Accumulated other comprehensive income			-	10 165		
			-	**614 165**		

The "Contingently Convertible Bond" issue of EspañaDuero was initially subscribed by the Fondo de Reestructuración Ordenada Bancaria (FROB), as a recapitalisation instrument under Article 29.1.b) of Law 9/2012, in accordance with the execution of the resolution plan of EspañaDuero approved on 19 December 2012 by the FROB and the Bank of Spain, and on 20 December 2012 by the European Commission, as well as in order to guarantee the normal business performance and that the financial commitments of EspañaDuero could be fulfilled and its own funds could be maintained.

On 31 August 2017, having obtained the relevant administrative authorisations and adopted the necessary corporate resolutions, Unicaja Banco repurchased from the FROB the €604 million in contingently convertible bonds issued by EspañaDuero, thus fulfilling in advance the repayment commitment contained in the European Commission's decision of 27 January 2017 (Note 1.2.2). Following this repurchase, Unicaja Banco became the holder of the above-mentioned bonds, and became an intragroup balance eliminated during the consolidation process.

At 31 December 2017, no average effective interest rate of the debt instruments classified in this item was generated, due to the repurchase by Unicaja Banco from the FROB of €604,000 thousand in contingently convertible bonds issued by EspañaDuero (9.75% at 31 December 2016).

17.5 Other financial liabilities

This balance in the balance sheets at 31 December 2017 and 2016 breaks down as follows:

	Thousand euros	
	2017	**2016**
Amounts payable (*)	131 398	133 886
Collection accounts	91 404	118 863
Special accounts	28 608	68 999
Financial guarantees	1 777	2 319
Bails receives	471 636	595 260
	724 823	**919 327**

(*) A balance of 77,865 thousand euros at December 31, 2017 (79,531 thousand euros at December 31, 2016) for the outstanding balance of the extraordinary contribution to the Fund Deposit Guarantee estimated on the basis of contributions to 31 is included December 2011 (Note 1.10).

The amount registered by the Entity as at 31 December 2017 and 2016 under the heading of guarantees received corresponds, principally, to guarantees in favour of the Entity deposited in other financial entities as a result of its operation in derivative coverage products.

The negative flow included in the statement of consolidated cash flows for the year 2017 on financial liabilities at amortized cost amounts to €1,145,219 thousand (negative flow of €2,847,859 thousand in 2016).

18. Provisions

Set out below are the changes in provisions in 2017 and 2016 and the purpose of the provisions recorded in the consolidated balance sheets at 31 December 2017 and 2017:

	Thousand euros				
	Pensions and other post-employment commitment	**Other long-term staff retributions**	**Contingent liabilities and commitments**	**Other provisions**	**Total**
Balance at 1 January 2016	**178 978**	**133 111**	**106 251**	**329 624**	**747 964**
Provision charged to income:	3 051	8 675	45 179	199 598	256 503
Charge to provisions (*)	-	*8 549*	*45 179*	*199 598*	*253 326*
Interest costs (Note 33)	*3 051*	*126*	-	-	*3 177*
Recovery against income	-	(28 001)	(39 247)	(82 041)	(149 289)
Provisions used	(22 602)	(19 677)	-	(118 824)	(161 103)
Other movements(**)	14 827	57 995	3 792	(63 674)	12 940
Balance at 31 December 2016	**174 254**	**152 103**	**115 975**	**264 683**	**707 015**
Provision charged to income:	3 800	8 879	10 309	158 706	181 694
Charge to provisions (*)	*1 848*	*8 730*	*10 309*	*158 706*	*179 593*
Interest costs (Note 33)	*1 952*	*149*	-	-	*2 101*
Recovery against income	(2 039)	-	(22 494)	(16 218)	(40 751)
Provisions used	(12 535)	(33 567)	-	(240 292)	(286 394)
Other movements	-	-	448	373 339	373 787
Balance at 31 December 2017	**163 480**	**127 415**	**104 238**	**540 218**	**935 351**

(*) See note 2.12 related to charge to provisions for pension funds and similar obligations.
(**) The item "Other movements" includes in 2017 the amount of €370,480 thousand relating to the reclassification of provisions associated to limiting interest rate fluctuations agreements.

The provisions recognized by the Group reflect best estimates of future obligations. The Bank's directors consider that there is no significant risk, taking into account the amount of these provisions, that such obligations could give rise to a material adjustment to the carrying amount of the Group's assets and liabilities in the following accounting period. The financial effect estimated in provision calculations and provisions recovered in 2017 and 2016 were immaterial.

The Bank quantifies provisions taking into account the best information available on the consequences of the event giving rise to the provisions, which are re-estimated at each accounting close and are used to cover the specific obligations for which they were originally recognized. Provisions are fully or partially reversed if such obligations decrease or are eliminated.

The Group periodically reassesses the risks to which its activities are exposed on the basis of economic circumstances. Following the initial measurement and recognition of provisions, they are reviewed at each balance sheet date and adjusted, if applicable, to reflect best estimates at that time.

Provisions recognized are used to cover the specific obligations for which they were originally recognized and are fully or partially cancelled when such obligations cease to exist or decrease.

Pensions and other post-employment commitments

The breakdown of "Provisions for pensions and similar obligations" corresponds to the amount of commitments with employees of the Group described in Notes 2.12 and 41.1.

Contingent liabilities and commitments

This caption from the consolidated balance sheet includes the amount of the provisions registered to cover contingent risks, understood as those transactions where the Group secures third-party obligations resulting from the financial guarantees granted or other types of contracts and contingent commitments, understood as irrevocable commitments which may lead to the recognition of financial assets.

Set out below is a breakdown by nature of the balance in the item "Provisions for contingent exposures and commitments" at 31 December 2017 and 2016, and a breakdown of the related item "Other movements" during 2017 and 2016:

				Thousand euros
	Balance at end		Other movements (*)	
	2017	2016	2017	2016
Provisions for contingent liabilities	98 053	105 756	448	2 517
Provisions for contingent commitments	6 185	10 219	-	1 275
	104 238	**115 975**	**448**	**3 792**

In 2017 and 2016 "Other movements" basically include increases and decreases in the provisions recognized for contingent exposures due to reclassifications between amounts utilized and contingent exposures.

The item "Provisions for contingent liabilities" includes provisions operations in which the Group secures third-party obligations under financial guarantees furnished or other types of agreements, while the item "Provisions for contingent commitments" includes provisions for irrevocable commitments that could give rise to the recognition of financial assets, there being a zero balance at 31 December 2017 and 2016.

Other provisions

Set out below is a breakdown by nature of the balance in the item "Other provisions" at 31 December 2017 and 2016, and a breakdown of the related item "Other movements" during 2017 and 2017:

				Thousand euros
	Balance at end		Other movements (*)	
	2017	2016	2017	2016
Coverage for legal contingencies	368 208	149 873	356 943	(65 789)
Coverage contingencies associated with investees	54 408	10 513	16 000	(10 909)
Coverage of other contingencies	117 602	104 297	396	13 024
	540 218	**264 683**	**373 339**	**(63 674)**

The main items included in “Other provisions” are described below:

- “Coverage of legal contingencies and similar”: This relates to provisions for legal and other similar (Note 2.12.6) proceedings in respect of which there is likely to be an outflow of funds affecting profits. It covers customer claims and lawsuits with public administrations, among other items. The definitive date of the outflow of funds depends varies; in some cases, obligations have no fixed settlement period and, in other cases, this depends on legal proceedings in progress. The amounts to be provisioned are calculated using best estimates of the sum necessary to settle the claim based, among other aspects, on an itemized analysis of the facts and on legal opinions of internal and external advisors.

  At 31 December 2017 and 2016 EspañaDuero had created a fund totalling €20 million and €45 million, respectively, for legal contingencies to cover the possible costs deriving from the legal claims relating to the subscription or acquisition of preferred shares or subordinated obligations issued by the Savings Banks that transferred their financial activity to EspañaDuero. This provision was created based on the best estimates possible, taking into consideration available information regarding the legal claims that had been received and the judgments that had taken place up until that time. In general, the outcome of the judgments is determined by the specific circumstances of each customer with respect to the marketing of the products involved in the claim and their personal circumstances (knowledge and investing experience with this type of product).

  To establish the most likely court judgment in each case for those claims that have not yet been completed, or if the judgment is not yet final, the Directors of EspañaDuero have taken into account the judgments already received and the opinion of the Bank's legal advisers. The evaluation of this contingency has taken into account the Compensation Mechanism approved by the FROB within the framework of the bid to acquire EspañaDuero by Unicaja Banco (Note 1.2). In accordance with this mechanism, the negative effects that could arise from the claims from the holders of mandatory and contingent convertible bonds in EspañaDuero that do not accept the Offer would be assumed by the FROB at 71%, up to a maximum of €241 million, net of any compensation that the FROB may receive.

  Additionally, the balance of “Other provisions” includes the provision for litigation and claims related to clauses limiting interest rate fluctuations (Note 27). These provisions were included in the item “Loans and receivables” in consolidated balance sheet assets (Note 10.3), on the basis of the Unicaja Banco Group’s assessment of the application of measures brought in by Royal Decree-Law 1/2017, on the understanding that this would have an impact on the financial asset's estimated future cash flows. However, during 2017 the Group’s management reassessed the classification of these provisions based on judgements received and the way in which agreements are being reached with customers in relation to Royal Decree-Law 1/2017, transferring these provisions to the consolidated balance sheet item “Provisions”. At the time of transfer, the provisions amounted to €370 million.

  In the view of those responsible for the Group at year end are constituted the necessary coverage to address the outcomes of the risks and contingencies that may arise from these processes.

- “Coverage of contingencies relating to investees”: This includes contingencies related to the Group's equity investments that are not due to impairment of the fair value or recoverable amount of investments but to other types of contingencies that may arise from the holding of the shares. The timing of the outflow of funds depends on each particular contingency and is estimated by Group management using the best information available at the accounting close.

- “Coverage of other contingencies”: This includes various risks for which provisions have been made covering unresolved aspects that the Group expects will result in an outlay of funds, and probable outlays envisaged by the Group in the ordinary course of business. The amounts to be provisioned are calculated based on the best estimate of the funds that the Group will be required to pay to settle the contingencies identified, also taking into account the timing of the fund outflows expected to be caused by the obligation.

19. Other liabilities

An analysis of the balance in this consolidated balance sheet caption at 31 December 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Accrued un-matured expenses	109 386	105 019
Operations in process	42 812	68 667
Other	129 207	103 713
	281 405	**277 399**

20. Assets and liabilities under insurance or reinsurance contracts

At 31 December 2017 and 2016, the Group records no balances in the balance sheet item "Assets covered by insurance or reinsurance contracts". At 31 December 2017 and 2016, the Group's "Liabilities covered by insurance or reinsurance contracts" amount to €4,290 thousand and €3,992 thousand, respectively.

These items, which only appear in the consolidated balance sheet, include the amounts relating to insurance or reinsurance contracts, as defined in the applicable financial reporting framework.

21. Non-controlling interests and income attributable to minority interests

A breakdown by consolidated company of the balances in the captions "Non-controlling interests" and "Income attributed to minority interests" in the consolidated balance sheet and income statement for 2017 and 2016 is as follows:

	Thousand euros			
	2017		**2016**	
	Non-controlling interests	**Income attributed to minority interests**	**Non-controlling interests**	**Income attributed to minority interests**
Banco de Caja España de Inversiones, Salamanca y Soria, S.A.	29 189	(3 924)	229 438	(6 633)
Viajes Caja España, S.A.	(63)	-	(64)	-
Conexiones y Servicios Duero, S.A.	-	(1)	61	(413)
Parque Industrial Humilladero, S.L.	552	(11)	611	(15)
	29 678	**(3 936)**	**230 046**	**(7 061)**

As regards to paragraph B10 of IFRS 12, the Group considers that significant non-controlling interests are those that generate higher minority interests 0.5% of consolidated equity, this is €19,512 thousand at 31 December 2017 (€15,916 thousand at 31 December 2016).

As a result, at 31 December 2017 and 2016 only Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero) has significant non-controlling interests, amounting to €29,189 thousand and €229,438 thousand, respectively. As a result of the acquisition by the Group of EspañaDuero shares previously held by the FROB (Note 1.2.2), non-controlling interests generated by EspañaDuero decreased significantly during 2017.

During the years 2017 and 2016, none of the subsidiaries composing the chapter of minority interests has made dividend distribution.

As it regards the summary financial information on the companies that make up the chapter of minority interests of consolidated balance sheet, and in consideration of the above as to the materiality of minority interests, in Annex IV to this document the summary financial information on EspañaDuero detailed.

22. Capital, share Premium and other capital instruments

The breakdown and movements recorded under the heading “Equity” in the consolidated balance sheet during the years ended the 31 December 2017 and 2016 are presented in the accompanying consolidated statements of total changes in equity, together with an explanation of all movements that took place in this account during those years

22.1 Share capital and share premium

The Bank's share capital at 31 December 2016 amounted to €922,802 thousand, consisting of 922,802,121 fully-subscribed and paid-up ordinary shares with a par value of €1 each. At that date, 86.7% of share capital was held by Fundación Bancaria Unicaja. At 31 December 2016, the share premium amounted to €1,140,673 thousand.

The share capital of the Bank at 31 December 2016 amounted to €922,802 thousand, consisting of 922,802,121 fully-subscribed and paid-up ordinary shares with a par value of €1 each. At that date, 86.7% of share capital was held by Fundación Bancaria Unicaja. At 31 December 2016, the share premium amounted to €1,140,673 thousand.

On 29 June 2017, as a result of the share subscription offer, the Bank's share capital was increased by a par value of €625,000 through the issuance of 625,000,000 new shares with a par value of one euro each and a total share premium of €62,500 thousand (€0.1 per share).

On 25 July 2017, share capital was increased by a par value of €62,500 thousand through the issuance of 62,500,000 new shares with a par value of one euro each and a total share premium of €6,250 thousand (€0.1 per share), supplementing the capital increase of 625,000,000 shares carried out on 29 June 2017.

The share capital of the Bank at 31 December 2017 amounted to €1,610,302 thousand, consisting of 1,610,302,121 fully-subscribed and paid-up ordinary shares with a par value of €1 each. At that date, Fundación Bancaria Unicaja held 49.68% of share capital. As a result of the capital increases on 29 June 2017 and 25 July 2017, the share premium increased by €68,750 thousand. At 31 December 2017, the share premium amounts to €1,209,423 thousand.

Since 30 June 2017, all the shares of the Bank have been listed in the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and are included in the Spanish Electronic Trading System (SIBE or Continuous Market).

22.2 Other equity instruments

The heading "Other equity instruments-Compound financial instruments" records the active balance for Mandatory and Contingent Convertible Bonds (NeCoCos) and Perpetual Contingent Convertible Bonds (PeCoCos) issued by Unicaja Banco at 31 December 2017 and 2016. Details of these issues at 31 December 2017 and 2016 are as follows:

			Euros	Thousand euros			
Issues	ISIN Code	Number of securities issued	Nominal amount	2016	2015	Nominal interest rate	Expiration date
Perpetual Bonds Contingently Convertible (PeCoCos)	ES0280907009	49 275 058	49 275 058	49 021	49 263	13,8824%	Perpetuo
				49 021	**49 263**		

The PeCoCos are bonds that are convertible into ordinary shares in Unicaja Banco with a par value of one euro each, respectively pertaining to a single class and series and represented by book entries. The conversion ratio for these bonds will be that resulting from the quotient of the unit face value of each of the bond issues and the value attributed to the ordinary shares in Unicaja Banco, which is established at €1.18827 per share, with the share premium considered to be the difference between the face value of the bonds being converted and the par value of the shares that are received in return. At 31 December 2017 and 2016 these issues are not listed for trading on any type of secondary market.

Both types of bonds grant their holders the right to discretional, predetermined and noncumulative compensation upon conversion into ordinary shares in Unicaja Banco, subject to certain conversion situations and the voting rights that derive from pertaining to the respective bond syndicates. The shares that will be obtained upon the conversion of those bonds will grant their holders the same rights as the shares in Unicaja Banco that are currently outstanding.

The accrual of the discretional compensation is subject to the four following conditions being met simultaneously: (i) the existence of distributable profits after covering the items established by Law and the bylaws of Unicaja Banco; (ii) the absence of limitations imposed by Spanish or European legislation regarding current or future equity that may be applicable; (iii) the Board of Directors of Unicaja Banco, at its sole discretion and based on the solvency situation of Unicaja Banco or Unicaja Banco Group, does not decide to declare no interest payment with the estimation that it is necessary to not make any such payments for an unlimited period, and in any event unpaid interest will not be cumulative; and (iv) the Bank of Spain has not required the cancellation of such payments based on the financial situation and solvency of Unicaja Banco or Unicaja Banco Group, in accordance with applicable law. In the event that part of the conditions established in paragraphs (i) through (iv) above are applicable, Unicaja Banco may proceed, at its sole discretion, to make partial payment of interest or to declare that no interest will be paid. If for any reason the interest is not paid in full or in part to the Bondholders on a payment date, they will not be entitled to claim that interest.

At 31 December 2017 PeCoCos bonds will necessarily be converted into shares in full in the events indicated below, and partially in the amount required to recover, if necessary, the balance in equity in the amount fixed by the competent authority in all other events:

- Total mandatory early conversion: The bonds will be converted into shares in the following cases: (i) if Unicaja Banco takes any measure aimed at its voluntary or involuntary dissolution and liquidation, or if it is declared to be insolvent, or (ii) if Unicaja Banco takes any measure resulting in the approval of a capital reduction in accordance with Article 320 et seq. of the Spanish Companies Act 2010 or Article 343 by reference to Article 418.3 of the Spanish Companies Act 2010.
- Contingency events: The bonds will be converted into shares if the quarterly capital ratios of the Unicaja Banco Group are below the limits indicated in the registration document relating to the issuance of these instruments (Note 1.2).

- Viability events: The bonds will be converted into shares in the following cases: (i) if the Bank of Spain determines that the Entity would not be viable unless the instruments were converted or (ii) if the decision is taken to inject public capital or any other financial support measure without which the Entity would not be viable.

- Regulatory event: The bonds will be converted into shares in the following cases: (i) if, following the entry into force and application of the equity eligibility standards known as Basel III (CRD IV/ CRR) in 2014, the bonds cease to be eligible, at least, as additional tier 1 capital; (ii) if the bonds cease to be eligible as core capital; or (iii) if the bonds cease to be eligible as ordinary capital.

Given the above, the directors of the parent entity consider that these convertible instruments do not entail an unconditional contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities under conditions that are potentially unfavorable to the Group, and therefore they should be classified as equity instruments and recorded in full in equity under the heading "Equity instruments issued other than capital" on the consolidated balance sheet.

22.3 Treasury shares

At 31 December 2017 and 2016 the Bank did not hold any treasury shares. During 2017 no operations were carried out involving the Bank's treasury shares.

23. Retained earnings and other equity elements

23.1 Retained earnings

The accompanying consolidated statement of changes in equity includes a reconciliation of the carrying amount at the beginning and end of the 12-month periods ended December 31, 2017 and 2016 under "Equity" of the consolidated balance sheets, which explains all movements in this heading over the aforementioned periods.

The breakdown of retained earnings and other reserves as of December 31, 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Retained earnings	871 757	535 674
Revaluation reserves	-	-
Other reserves	(27 128)	127 900
Retained earnings or losses from investments in subsidiaries, joint ventures and associates	*(406 640)*	*(234 954)*
Other	*379 512*	*362 854*
	844 629	**663 574**

"Retained earnings" includes the net amount of the accumulated profit or loss recognized in previous years through the income statement and which, in the distribution of the profits of the parent company or other Group companies, were allocated to equity. Therefore, it includes legal, statutory and voluntary reserves originating from profit distributions.

Other reserves includes reserves or accumulated losses relating to investments in equity method consolidated companies (joint ventures and associates), as well as other reserves not recognized under other equity headings. During 2017, these reserves decreased by €33,979 thousand (€23,786 thousand including the tax effect) due to the expenses incurred in the capital increases and in the share subscription offer (Note 1.2.1). These costs were deducted from reserves as incremental costs directly attributable to the issuance of own equity instruments, in accordance with the applicable financial reporting framework.

The breakdown of these reserves by company is incorporated below.

	Thousand euros	
	2017	**2016**
Parent Company reserves	663 834	519 725
Legal Reserves	86 772	67 597
Rserves due to regularizations	(6 825)	(4 563)
Capitalization reserves	17 501	10 901
Free disposition reserves	566 386	445 790
Consolidated reserves from the parent Company, consolidated societies and investment in group´s business	180 795	143 849
	844 629	**663 574**

Set out below is a breakdown by consolidated entity of the balances recognized in "Equity - Reserves – Retained earnings" in the consolidated balance sheets at 31 December 2017 and 2016, relating to the part of that balance resulting from the consolidation process:

	Thousand euros	
	2017	2016
Unicaja Banco, S.A. (matriz)	1 942 165	1 643 947
Gestión de Inmuebles Adquiridos, S.L.U. (*)	(667 338)	(637 232)
Grupo EspañaDuero (*)	(167 814)	(100 334)
Deoleo, S.A. (*)	(121 891)	(103 870)
Inmobiliaria Acinipo, S.L.U. (*)	(107 635)	(105 895)
Autopista del Sol Concesionaria Española, S.A. (*)	(43 062)	(41 113)
Alteria Corporación Unicaja, S.L.U.	35 745	30 431
Alestis Aerospace, S.L. (*)	(31 226)	(30 176)
Unicartera Gestión de Activos, S.L.U.	22 183	22 203
Other entities (*)	(16 498)	(14 387)
	844 629	**663 574**

(*) Negative balances represent accumulated losses.

23.2 Other income or expenses on investments in jointly-controlled entities and associates

The breakdown by consolidated company of the balances at 31 December 2017 and 2016, with respect to the portion of said balance disclosed as part of the consolidation process, broken down for each company carried using the equity method, is as follows:

	Thousand euros			
	Consolidated Balance		Earnings (losses) Due to valuation	
	2017	2016	2017	2016
Ahorro Andaluz, S.A.	1 765	-	2 521	-
Alestis Aerospace, S.L.	(3 602)	(1 989)	(2 304)	(656)
Autopista del Guadalmedina, Concesionaria Española, S.A.	(6 650)	(8 775)	3 035	(2 571)
Unicorp Vida, Compañía de Seguros y Reaseguros, S.A.	24 072	24 004	97	(4 851)
Ingeniería e Integración Avanzadas, S.A.	-	(30)	43	40
Caja España Vida Compañía de Seguros y Reaseguros S.A.	14 367	-	20 524	-
Deoleo, S.A.	(1 686)	(777)	(1 298)	(258)
Duero Pensiones, E.G.F.P., S.A.	296	-	424	-
Cartera Perseidas, S.L.	-	-	-	(11 840)
Capredo Investments GMBH	-	-	-	1 223
Corporación Hotelera Oriental	-	-	-	(1 314)
Unión del Duero Compañía Seguros de Vida, S.A.	(5 522)	-	(7 889)	-
Other entities	-	-	-	18
	23 040	**12 433**	**15 153**	**(20 209)**

24. Tax situation

24.1 Consolidated tax group

The Bank is the parent company of tax consolidated group number 660/10 and files corporate income tax returns under the special tax consolidation scheme provided by Title VII, Chapter VI of Law 27/2014 of 27 November on Corporate Income Tax (CIT Act).

The consolidated Tax Group was formed by the following entities in 2017:

- Unicaja Banco, S.A.
- Fundación Bancaria Unicaja
- Inmobiliaria Acinipo, S.L.U.
- Unigest, S.G.I.I.C., S.A.
- Gestión de Actividades y Servicios Empresariales, S.A.U.
- Andaluza de Tramitaciones y Gestiones, S.A.U.
- Alteria Corporación Unicaja, S.L.U.
- Unimediterráneo de Inversiones, S.L.U.
- Analistas Económicos de Andalucía, S.L.U.
- Unicorp Patrimonio, Sociedad de Valores, S.A.U.
- Mijas Sol Resort, S.L.U.
- Unicartera Caja 2, S.L.U.
- Inmobiliaria Uniex Sur, S.A.U.
- Unicartera Gestión de Activos, S.L.U.
- Unicartera Internacional, S.L.U.
- Unimediación, S.L.U.
- Unicartera Renta, S.L.U.
- Gestión de Inmuebles Adquiridos, S.L.U.
- Segurándalus Mediación, Correduría de Seguros, S.A.U.
- Parque Industrial Humilladero, S.L.
- Altos de Jontoya Residencial para Mayores, S.L.U.
- Unicaja Gestión de Activos Inmobiliarios, S.A.U.
- Cartera de Inversiones Agroalimentarias, S.L.U.
- Uniwindet, S.L.
- La Algara Sociedad de Gestión, S.L.U.
- Pinares del Sur, S.L.U.
- Banco de Caja España de Inversiones, Salamanca y Soria, S.A.
- Caja España Mediación Operador de Banca Seguros Vinculado, S.A.U.
- Finanduero Sociedad de Valores, S.A.U.
- Grupo de Negocios Duero, S.A.U.
- Viproelco, S.A.U.

In 2017, the share of Fundación Bancaria Unicaja in Unicaja Banco, S.A. fell to below 50% and, pursuant to Article 58 of the CIT Act, Unicaja Banco, S.A. became the parent company of the Group 660/10 with effect as from 1 January 2017, while Fundación Bancaria Unicaja became a subsidiary from a tax viewpoint. The company "Baloncesto Málaga, S.A.D.", wholly owned by Fundación Bancaria Unicaja, ceased to be a subsidiary and was excluded from Tax Group 660/10, with effect as from 1 January 2017.

Additionally, during 2017 the share of Unicaja Banco, S.A. in Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero) rose to above 75%, entailing the inclusion of EspañaDuero in the tax consolidated group, together with the entities forming its tax group to that date ("Caja España Mediación Operador Banca Seguros Vinculado, S.A.U.", "Finanduero Sociedad de Valores, S.A.U.", "Grupo de Negocios Duero, S.A.U." and "Viproelco, S.A.U."). "Grupo de Negocios Duero, S.A.U." merged into EspañaDuero in 2017, so this was the last year in which it was included in the tax consolidated group.

A comparison of the consolidation scope at year-end 2017 and 2016 shows that the following companies exited the tax consolidated group: “Propco Rosaleda, S.L.” (now “Santa Justa Residencial, S.L.”), “Uniwindet Parque Eólico Tres Villas, S.L.”, “Uniwindet Parque Eólico Las Lomillas, S.L.”, “Uniwindet Parque Eólico Loma de Ayala, S.L.” and “Uniwindet Parque Eólico Los Jarales, S.L.” In all cases, the reason was the sale of shares by the Group.

During 2016, the companies “Pinares del Sur, S.L.U.” and “Propco Rosaleda, S.L. (now Propco Malagueta, S.L.)” joined the tax consolidated group. Also in 2016, the companies “Unicorp Corporación Financiera, S.L.U.” and “Corporación Uninser, S.A.U.” merged into “Alteria Corporación Unicaja, S.L.U.”, 2016 being the final year in which they were included in the tax group.

24.2 Financial years open to tax inspection

At the time of preparation of these consolidated financial statements, the Bank is subject to audit by tax authorities all tax obligations of state administration, since its inception in 2010.

As for the remaining taxes regional and local management, is subject to administrative review the fiscal years 2017, 2016, 2015 and 2014.

Due to the different possible interpretations of the tax regulations applicable to the business of financial institutions, tax liabilities that may not be objectively quantified at the present time may arise in the event of a tax inspection. The Group’s Directors and tax advisors consider, however, that the possibility of any significant liabilities, in addition to the amounts recorded in the accounts, is remote.

24.3 Reconciliation of the accounting and tax results

Set out below is the reconciliation between income tax expenses calculated at the general tax rate applicable in Spain and reported tax expense in 2017, as well as the comparative data for 2016:

	Thousand euros	
	2017	**2016**
Profit before tax	139 780	190 964
Income tax (tax rate of 30%)	41 934	57 288
Due to eliminations in the consolidation process.	(14 691)	-
Positive permanent differences	8 420	5 392
Negative permanent differences	(27 023)	(27 507)
Royal Decrete - Law 3/2016	(4 871)	31 000
Deductions and allowances		
Other deductions	(2 428)	(60)
Income tax expense	**1 341**	**66 113**

Negative permantent diferences include dividend and capital gains exemptions regulated by Law 27/2014, 27 November, about income tax.

With respect to the main income tax expense/ income in the consolidated income statement (which resulted in a total expense of €1,341 thousand in 2017 and an expense totalling €66,113 thousand in 2016), relates to the current expense/ (income) for the year. No adjustments have been made for current or deferred taxes in this year or in prior years, or for any other circumstances established by tax legislation.

Set out below is a breakdown of income tax credits recognized in the consolidated income statements for 2017 and 2016:

	Thousand euros	
	2017	**2016**
Expense/ (income) from temporary differences of birth	(26 308)	(5 346)
Expense/ (income) tax loss carry forwards to offset	34 617	68 831
Expense/ (income) and deductions unapplied credited	(6 968)	2 628
Total expense/ (income) income tax	**1 341**	**66 113**

With respect to the income tax recognized in the statements consolidated of recognized income and expenses for 2017 and 2016, the Group charged to consolidated equity a positive amount of €7,602 thousand and €46,142 thousand, respectively, for the following items:

	Thousand euros	
	2017	**2016**
Actuarial gains and losses on defined benefit plans	(571)	(182)
Valuation of financial assets available for sale	13 090	35 463
Valuation of derivatives hedging of cash flows	(420)	4 808
Valuation of the exchange differences	49	(9)
Valuation of non-current assets for sale	-	-
Valuation of entities using the equity method	(4 546)	6 062
Total expense / (income) income tax	**7 602**	**46 142**

A lower rate was not applied in any of these adjustments and there are no deductible timing differences, losses or tax credits in respect of which deferred tax assets have not been recognized in the balance sheet.

24.4 Temporary differences

In the consolidated balance sheets at 31 December 2017 and 2016, deferred tax assets amount to €2,538,016 thousand and €2,534,637 thousand, respectively, and deferred tax liabilities amount to €186,191 thousand and €225,529 thousand, respectively.

In accordance with current Spanish tax legislation, quantification of assets and deferred tax liabilities is performed by applying to the temporary difference or credit corresponding to the tax rate that is expected to be recovered or settled, with currently applicable to the Group 30%.

Set out below is a breakdown of current and deferred tax assets and liabilities recognized in the consolidated balance sheets at 31 December 2017 and 2016:

				Thousands
		2017		2016
	Assets	Liabilities	Assets	Liabilities
Current Taxes	**75 078**	**22 793**	**51 089**	**13 578**
Deferred Taxes	**2 538 016**	**186 191**	**2 534 637**	**225 529**
Loss Carryforwards	681 539	-	646 922	-
Unused tax credits	2 526	-	9 494	-
Temporary differences-insolvencies	1 309 785	-	1 323 282	-
Temporary differences-pensions	90 583	-	73 361	-
Temporary differences-foreclosed assets	77 025	-	76 012	-
Other items	376 558	-	405 566	-
Revaluations	-	186 191	-	225 529
	2 613 094	**208 984**	**2 585 726**	**239 107**

In this respect, the Bank's directors consider that the deferred tax assets recorded will be realised in the coming years as the tax group to which it belongs obtains taxable profits, as is assumed will occur in the coming years. Most of the tax credits for loss carryforwards pending offset by the Group are due to extraordinary and non-recurring prior year losses that were mainly due to the write-down of loans and real estate assets. In accordance with the Unicaja Banco Group's business plan, which has been approved by the parent entity Board, and according to the projections of taxable profits derived from the business plan and the provision for the absorption of deferred tax assets adjusted to the latest changes in tax legislation, the Bank and its tax group will make profits for tax purposes in the coming years that will allow them to be recovered in reasonably short period (no more than 10 years for non-monetisable tax assets and no more than 14 years for all deferred tax assets), without any risk of the expiration of the right to take advantage of deferred tax assets due to loss carryforwards since the maximum term for offsetting those losses has been eliminated.

The most significant estimates in the business plan are the following: (i) the expected profits for each year included in the forecasts, which are consistent with the reports used by the Bank for internal management and for reporting to supervisors, and (ii) the reversibility of the main tax assets recorded on the balance sheet. The basic assumptions of the business plan of Unicaja Banco Group are based on the latest forecasts for the Spanish economy and also take into account the specific circumstances that affect the Group, and are consistent with the risk appetite framework and other documents on which the Group's strategy is based. In addition to the base scenario used to estimate the recoverability of deferred tax assets, the Bank has made a sensitivity analysis, defining more stressed scenarios, based on the inclusion of additional stress on the main macroeconomic forecasts, which do not substantially alter the recovery period for the deferred tax assets mentioned above.

There follows a description of the most relevant aspects taken into account in the business plan and to conclude on the recoverability of deferred tax assets:

- Tables of macroeconomic variables used in the business plan:

	2017E	2018E	2019E	2020E
Actual Gross Domestic Product ARC (*)	3,1	2,7	2,2	2,2
Average annual unemployment rate (%)	16,8	14,7	13,2	11,7
Consumer Price Index ARC (*)	1,9	1,2	1,6	2,0
Housing prices ARC (*)	4,3	4,3	4,3	4,3

The sources used to determine these variables are reports on macroeconomic forecasts prepared by organisations or entities of recognized prestige in the sector. “ARC” refers to the Annual Rate of Change.

- Forecast for a market interest rate scenario of between 1.8% for 2017 and 2.6% for 2020 (measured in terms of the yield on 10-year government securities).

- In this context, it has been estimated that the Group's results will reflect a clear improvement in its business as well as an increase in its profitability. The other assumptions used, relating to margin trends and risk costs, are consistent with the macroeconomic assumptions described, with the Risk Appetite Framework of Unicaja Banco Group and with the other documents on which the Group's strategy is based.

- Corporate income tax rate remaining at 30% and various scenarios involving limits on the inclusion of tax losses and adjustments to the tax base pending reversal or implementation in the medium term.

The effectiveness of Royal Decree-Law 14/2013 (29 November) on urgent measures to bring Spanish law into line with European Union regulations on the supervision and solvency of financial institutions basically entails that certain deferred tax assets recognized in the accompanying balance sheet may, subject to certain conditions, be converted into receivables payable by the Tax Administration.

With effect from FY 2016, this regime will be continued through the introduction of a charge that will basically entail the payment of an annual amount of 1.5% of assets eligible to be guaranteed by the Spanish State generated prior to 2016. The accompanying consolidated income statement reflects the effect of this charge.

Unicaja Banco Group has made an initial estimate of the amount of deferred tax assets that could be converted into receivables from the Tax Administration and are thus guaranteed by the Spanish authorities, which total €1,477,393 thousand as at December 31, 2017 (€1,472,655 thousand as at December 31, 2016).

The charge paid by the Group in connection with the monetisation of these deferred tax assets is recognised in the item “Other operating expenses” (Note 39.2).

24.5 Income included in the Tax Regime for Holding Entities of Foreign Securities

In line with what is established in article 118.3 of the Revised Test of the Corporate Income Tax Law, it is stated that in the tax settlement of CIT corresponding to the tax period of 2017, exemption was declared from certain income obtained by Unicartera Internacional, S.L., applying the Tax Regime for Holding Entities of Foreign Securities, amounting to €1.107 thousand. In the year 2016, the corresponding amount was €426 thousand.

Unicartera Internacional, S.L. has paid taxes abroad amounting to €128 thousand in 2017 and €100 thousand in 2016.

24.6 Reporting obligations derivating from segregation

a) Information regarding the Special Tax System for Segregation with respect to Corporate Income Tax

In 2011, the General Assembly of Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén (Unicaja) which approved the indirect carrying out of its financial equity through Unicaja Banco S.A. and its incorporation to the segregation of part of its equity, adopted a resolution to apply the Special System for Mergers, Spin-off, Asset Contributions and Share Swaps to the transaction, as regulated by Chapter VII of Title VII of the LIS (above, at the time of application, Chapter VIII of Title VII of TRLIS).

The choice to apply the Special Tax System has been reported to the State Tax Agency in accordance with the provisions of Article 42 of the Corporate Income Tax Regulations.

b) Accounting obligations

The Bank acted as acquirer, in respect of that operation under the special regime for mergers, transfers of assets and exchanges of securities corporate restructuring under Chapter VII of Title VII of the LIS. The information requirements established by this legislation contained in the memory part of the financial statements of the entities involved, for the year 2011.

24.7 Information on the procedure for the state aid recovery declared by the European Commission in relation to the “tax lease system” for the shipbuilding financing.

On 30 October 2013, the Bank received formal notification from European Commission's Directorate General for Competition informing Unicaja Banco of the definitive Decision adopted on 17 July 2013 on the tax regime applicable to certain finance lease agreements, also known as the Spanish tax lease system, classifying the system as "state aid” and urging Spain to take steps to recover the aid from the beneficiaries, which include Unicaja Banco.

The Bank has filed an appeal against this Decision, together with Spain and other institutions affected, at the European Court of Justice, which is pending a ruling.

State Tax Administration Agency has already initiated procedures for the recovery of that State aid with inspection reports to structured, and the refund amount of State aid corresponds to the provisioned by the Bank.

The General Court of the European Union, Judgment of December 17, 2015, annulled the decision of the European Commission on the consideration of "State aid" to the Spanish Tax Lease tax regime for ship financing. This judgment has been appealed by the European Commission before the High Court of Justice of the European Union.

However, one effect of the judgment of the General Court of the European Union is the suspension of the proceedings initiated by the State Tax Agency to settle the repayment of state aid.

The opinion of the Directors and tax advisors of the Group is that the possibility of material liabilities arising from this procedure, in addition to those already provisioned is remote.

25. Financial instruments liquidity risk

The Asset and Liability and Budget Committee (COAPP), formed by senior executives, is responsible for managing liquidity risk affecting the business and the financial instruments to ensure that there is sufficient liquidity at all times to meet payments on its liabilities at the due dates without undermining the Group’s capacity to respond rapidly to strategic market opportunities.

Liquidity risk is centralized using integrated software tools to analyse liquidity risk based on cash flows estimated by the Group for assets and liabilities, and on collateral or other instruments available to guarantee additional sources of liquidity as needed (e.g. liquidity lines not used by the Group). The Group's liquidity risk position is determined by analysing a variety of scenarios. These analyses taken into account both ordinary market circumstances and extreme conditions that could arise and could affect the flow of collections and payments, due to market factors or internal factors within the Group.

Regarding the compliance with the information requirements of IFRS 7 "Financial instruments: Disclosures", maturities at 31 December 2017, including actual residual contractual flows from the Group's assets and liabilities are set out below.

	Outstanding	Up to 1 month	More than 1 onth and up to 3 months	More than 3 months and up to a year	More than 1 year and up to 5 yeras	More than five years	Total
TOTAL ENTRIES	551 299	2 836 955	722 604	2 700 899	13 869 485	22 739 370	43 420 612
Deposits in Credit Institutions	116 574	109 345	4 168	5 178	18	843	236 126
Loans to other financial institutions	-	2 525	5 028	34 380	222 425	43 248	307 606
Values and loan values´temporary acquisitions	-	2 220 885	-	-	-	-	2 220 885
Loans	434 725	455 800	487 908	2 382 121	7 418 103	14 406 768	25 585 425
Securities portfolio liquidation	-	48 400	225 500	279 220	6 228 939	8 288 511	15 070 570
TOTAL OUTPUTS	(27 789 029)	(3 876 587)	(2 108 643)	(5 266 738)	(7 718 128)	(2 868 045)	(49 627 170)
Wholesale emisions	-	-	(235 000)	(654 000)	(1 864 876)	(2 644 051)	(5 397 927)
Deposits in credit institutions	(186 276)	-	-	-	-	-	(186 276)
Deposits from other financial institutions and international bodies	(1 103 115)	(152 199)	(409 318)	(1 167 632)	(51 722)	(200 435)	(3 084 421)
Deposists of big non financial companies	(714 277)	(21 450)	(70 532)	(179 944)	(3)	-	(986 206)
Financing from the rest of the clients	(25 785 361)	(768 221)	(1 156 083)	(3 431 464)	(2 195 489)	(737)	(33 337 355)
Credit mediation funds	-	(2 912)	(4 557)	(23 977)	(65 059)	(22 822)	(119 327)
Collateral securities financing	-	(2 931 877)	(231 410)	(13 377)	(3 461 652)	-	(6 638 316)
Currency Swaps (net)	-	-	-	-	-	-	-
Derivatives (net)	-	264	5.054	156 219	-	-	161 537
Other outputs (net)	-	(192)	(6 797)	47 437	(79 327)	-	(38 879)
LIQUIDITY GAP	**(27 237 730)**	**(1 039 632)**	**(1 386 039)**	**(2 565 839)**	**6 151 357**	**19 871 325**	**(6 206 558)**
ACCUMULATED GAP	**(27 237 730)**	**(28 277 362)**	**(29 663 401)**	**(32 229 240)**	**(26 077 883)**	**(6 206 558)**	**-**
Pro-Memoriam							
Contingency Risks	**1 056 588**	**-**	**-**	**-**	**-**	**-**	**1 056 588**
Available for third parties	**2 786 416**	**-**	**-**	**-**	**-**	**-**	**2 786 416**
With immediate availability	2 185 673	-	-	-	-	-	2 185 673
With conditioned availability	600 743	-	-	-	-	-	600 743
Total Contingency risks and available for third parties	**3 843 004**	**-**	**-**	**-**	**-**	**-**	**3 843 004**

Set out below are maturities at 31 December 2016, including actual residual contractual flows from the Group's assets and liabilities:

	Outstanding	Up to 1 month	More than 1 onth and up to 3 months	More than 3 months and up to a year	More than 1 year and up to 5 yeras	More than five years	Total
TOTAL ENTRIES	787 731	1 873 269	1 291 322	3 599 641	11 592 460	26 608 651	45 753 074
Deposits in Credit Institutions	192 287	14 552	5 437	52 807	152	2 537	267 772
Loans to other financial institutions	-	1 321	3 379	14 111	68 836	33 284	120 931
Values and loan values´temporary acquisitions	-	1 321 792	754 476	-	-	-	2 076 268
Loans	595 444	485 604	459 330	2 708 153	7 553 324	14 843 932	26 645 787
Securities portfolio liquidation	-	50 000	68 700	824 570	3 970 148	11 728 898	16 642 316
TOTAL OUTPUTS	(24 520 281)	(7 397 856)	(3 356 817)	(7 634 912)	(5 321 204)	(3 659 279)	(51 890 349)
Wholesale emisions	-	-	(200 000)	(1 170 000)	(2 572 024)	(3 429 903)	(7 371 927)
Deposits in credit institutions	(154 129)	-	-	-	-	-	(154 129)
Deposits from other financial institutions and international bodies	(780 747)	(262 704)	(474 802)	(1 023 788)	(82 901)	(200 000)	(2 824 942)
Deposists of big non financial companies	(388 631)	(15 189)	(92 673)	(183 085)	(2 301)	-	(681 879)
Financing from the rest of the clients	(23 196 774)	(947 791)	(1 461 702)	(4 765 813)	(2 414 038)	(1 438)	(32 787 556)
Credit mediation funds	-	(3 594)	(3 140)	(24 951)	(49 357)	(27 938)	(108 980)
Collateral securities financing	-	(6 034 733)	(892 969)	(52 861)	(200 583)	-	(7 181 146)
Currency Swaps (net)	-	-	-	-	-	-	-
Derivatives (net)	-	(548)	(14 749)	(81 353)	-	-	(96 650)
Other outputs (net)	-	(133 297)	(216 782)	(333 061)	-	-	(683 140)
LIQUIDITY GAP	**(23 732 550)**	**(5 524 587)**	**(2 065 495)**	**(4 035 271)**	**6 271 256**	**22 949 372**	**(6 137 275)**
ACCUMULATED GAP	**(23 732 550)**	**(29 257 137)**	**(31 322 632)**	**(35 357 903)**	**(29 086 647)**	**(6 137 275)**	**-**
Pro-Memoriam							
Contingency Risks	**1 065 777**	**-**	**-**	**-**	**-**	**-**	**1 065 777**
Available for third parties	**2 505 065**	**-**	**-**	**-**	**-**	**-**	**2 505 065**
With immediate availability	2 151 558	-	-	-	-	-	2 151 558
With conditioned availability	353 507	-	-	-	-	-	353 507
Total Contingency risks and available for third parties	**3 570 842**	**-**	**-**	**-**	**-**	**-**	**3 570 842**

The criteria used to present the above information is as follows:

- o The data presented are static, without any estimated scenarios of business growth, early repayments or renewal of operations, and only including contractual flows of operations currently contracted and accounted for in the consolidated balance sheet.
- o The data presented correspond to actual residual contractual flows, that is, they systematically reflect the cash flows on the operation.
- o For derivative financial instruments (the majority of which are subject to margin requirements), the Group reports the net settlement of the contracts envisaged for a period of one year.
- o The cash outflows indicated in the maturity table are those established under contract.
- o In the framework of its liquidity management, the Unicaja Banco Group includes some cases of drawdowns of available balances by third parties but, on the basis of historical experience, this does not significantly affect the Group's structural maturity profile.
- o Finally, the maturity table does not include a forecast of future interest flows, since the presentation of these flows would imply assumptions and estimates concerning rate curves and the structure of liabilities. However, the Group does not consider this information to be essential for the analysis of its liquidity risk, since interest is not significant with respect to the balance sheet total.

The Group manages liquidity risk to ensure that its payment commitments are honored, by adequately controlling cash flows and the assets that are available to cover any liquidity mismatches. The Group thus considers that the maturity tables present the most relevant picture of its liquidity situation at a given date.
The Bank establishes product policies and objectives addressing both ordinary market circumstances and contingency plans for stress or crisis situations occurring internally or in the market. Three basic approaches are combined to meet these objectives:

- Asset management: analysis of maturities, possibility of sale, degree of liquidity, potential use as collateral, among other aspects.
- Liability management: analysis of maturities, diversification of business sources, maturities that differ from contractual maturities, behavior in the event of interest rate movements, etc.
- Market access: financing capacity in wholesale markets and time required to obtain such financing, among other aspects.

The Group ensures that its consolidated balance sheet assets include a significant volume of liquid assets, allowing liquidity risk to be easily managed, the main liquid assets being:

- Balances held at call with central banks and credit institutions.
- Assets acquired under short-term repo agreements.
- Fixed income securities discountable at the European Central Bank.
- Listed equity securities.

The Group also has the capacity to issue covered bonds and territorial bonds to obtain new funding if the need arises.

26. Fair value

26.1 Fair value of financial assets and liabilities not carried at fair value

The estimate of the fair value at 31 December 2017 and 2016 of the financial assets and liabilities carried in the consolidated balance sheet at amortized cost is performed as follows:

- For financial assets and liabilities referenced to a variable interest rate, the Group considers that their carrying amount does not differ significantly from their fair value, as the initial counterparty credit risk conditions have not varied significantly.

- In the case of un-hedged fixed-rate financial assets and liabilities, their fair value each year is obtained by discounting cash flows at the risk-free interest rate (the rate for Spanish government securities) for each period, adjusted to account for the credit spread on the instrument. In view of the maturity period and relative balance of these instruments, the difference between their amortized cost and fair value is not significant at 31 December 2017 and 2016.

26.2 Listed instruments at amortized cost

At 31 December 2017 and 2016, the estimated fair value of financial assets and liabilities carried at amortized cost in the balance sheet while listed on markets does not differ significantly from the carrying amounts of the instruments.

Set out below is a breakdown at 31 December 2017 and 2016 of the carrying amount and fair value of the Unicaja Banco Group's financial instruments carried at amortized cost that are listed on markets:

		Thousand euros			
		2017		2016	
Section of the balance	**Type of instrument**	**Book value**	**Fair value**	**Book value**	**Fair value**
Loans and receivables	Debt securities	2 585 205	2 609 789	786 499	804 778
Held-to-maturity investments	Debt securities	10 634 320	11 014 314	12 907 583	13 235 197
Financial liabilities at amortized cost	Marketable debt securities	129 848	129 848	814 010	814 010

26.3 Financial instruments carried at cost because there is no active market.

The equity instruments in the portfolio of available-for-sale financial assets the fair value of which cannot be determined in a sufficiently reliable manner are carried in the Unicaja Banco Group's consolidated annual accounts at cost, net of any impairment losses calculated as described in Note 2.7.

The consolidated carrying amount of these equity instruments at 31 December 2017 and 2016 totals €203,656 thousand and €226,139 thousand, respectively. The following should be noted in connection with these instruments:

- No information is disclosed in the notes to the consolidated annual accounts on the fair value of the instruments since it cannot be reliably calculated.

- These equity instruments have no listed price on active markets or reasonable measurement of fair value (i.e. it is not possible to reliably apply a cash-flow discounting method, a comparable company multiple or an adjusted equity value that is sufficiently objective), and no market transactions or acquisition bids have recently been completed or made.

There is no sufficiently liquid active market for the instruments in this situation. However, the Group does not plan to hold them for trading or to sell or dispose of them by other means.

In any event, the Group applies certain tests to determine the possible impairment of these equity instruments in accordance with the rules described in IAS 36 “Impairment of assets”, based on the information available when the consolidated financial information is prepared.

26.4 Information on equity instruments

At year-end 2017, there are no investments in listed equity instruments in the portfolio of available for sale financial assets that meet any of the conditions of Note 2.7 to be considered as impaired. At year-end 2016, investments in listed equity instruments that fulfilled, separately, any of the ranges indicated in Note 2.7.

At December 31, 2017 and 2016, there are no quoted equity instruments for which has not been taken as a reference to fair value its stock price.

26.5 Fair value of the financial assets and liabilities registered at fair value

The following shows a breakdown of the fair values of the headings on the balance sheets as at 31 December 2017 and 2016, divided by classes of assets and liabilities and at the following levels:

- Level 1: Financial instruments the fair value of which is determined by taking the quoted prices on active markets or that correspond to recent transactions (latest twelve months) that have been updated to the current conditions.

- Level 2: Financial instruments the fair value of which is estimated on the basis of quoted prices in organized markets for similar instruments or applying valuation techniques in which all the significant inputs employed are based upon data that are directly or indirectly observable on the market.

- Level 3: Financial instruments the fair value of which is estimated on the basis of valuation techniques in which some inputs are not based on data observable on the market.

					Thousand euros
					2017
					Fair value
	Book value	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets					
Financial assets held for trading	31 462	31 462	14 588	16 846	28
Debt securities	12 980	12 980	12 980	-	-
Equity instruments	-	-	-	-	
Derivatives	18 482	18 482	1 608	16 846	28
					-
Available-for-sale financial assets (Note 26)	3 701 538	3 497 882	3 385 103	112 779	-
Debt securities	3 165 476	3 165 476	3 085 445	80 031	-
Equity instruments	536 062	332 406	299 658	32 748	-
Hedging derivatives	456 829	456 829	-	456 476	353
Liabilities					
Financial liabilities held for trading	27 412	27 412	-	26 532	880
Derivatives	27 412	27 412	-	26 532	880
Hedging derivatives	31 385	31 385	-	31 385	-

	Book value	Fair value Total	Level 1	Level 2	Level 3
					Thousand euros
					2016
Assets					
Financial assets held for trading	78 330	78 330	39 529	38 695	106
Debt securities	37 542	37 542	37 542	-	-
Equity instruments	-	-	-	-	-
Derivatives	40 788	40 788	1 987	38 695	106
Available-for-sale financial assets (Note 26.3)	5 403 336	5 177 197	5 073 107	104 090	-
Debt securities	4 754 099	4 754 099	4 681 970	72 129	-
Equity instruments	649.237	423 098	391 137	31 961	-
Hedging derivatives	606 362	606 362	-	603 728	2 634
Liabilities					
Financial liabilities held for trading	50 820	50 820	-	50 454	366
Derivatives	50 820	50 820	-	50 454	366
Hedging derivatives	49 902	49 902	-	49 902	-

Set out below are movements during 2017 and 2016 in the fair value of the different types of financial instruments classed in Level 3 under IFRS 13:

	Financial assets held for trading			Available-for-sale financial assets	Thousand euros
	Debt securities	Derivatives (assets)	Derivatives (liabilities)	Debt securities	Equity instruments
Balance at 31/12/2016	**-**	**106**	**366**	**-**	**-**
Instruments aditions	-	-	-	-	-
Instruments disposals	-	-	(77)	-	-
Fair value changes recognized in income	-	(77)	591	-	-
Fair value changes recognized in equity	-	-	-	-	-
Level transfers	-	-	-	-	-
Loans and receivables transfers	-	-	-	-	-
Transfer to held-to-maturity investments	-	-	-	-	-
Balance at 31/12/2017	**-**	**29**	**880**	**-**	**-**

					Thousand euros
	Financial assets held for trading			Available-for-sale financial assets	
	Debt securities	Derivatives (active)	Derivatives (liabilities)	Debt securities	Equity instruments
Balance at 01/01/2016	**-**	**105**	**38**	**4 486**	**-**
Instruments aditions	-	-	350	-	-
Instruments disposals	-	-	-	(3 513)	-
Fair value changes recognized in income	-	1	(22)	-	-
Fair value changes recognized in equity	-	-	-	(494)	-
Level transfers	-	-	-	(479)	-
Loans and receivables transfers	-	-	-	-	-
Transfer to held-to-maturity investments	-	-	-	-	-
Balance at 31/12/2016	**-**	**106**	**366**	**-**	**-**

Changes in fair value recognized in income are recorded in the consolidated income statement under the heading "Gains or (-) losses on financial assets through profit or loss", while adjustments in fair value recognized in equity are recognized under financial assets available for sale in the statement of recognized income and expense consolidated

For the valuation of financial instruments Level 3 in the fair value hierarchy, characterized by using unobservable inputs on market data, the Bank uses models generally accepted as standard methods including credit institutions, among which the Model Hull & White, the Longstaff and Schwartz method, the Monte Carlo method or the Black-Scholes model.

These theoretical valuation models are fed largely with observed data directly from the market through connections with Bloomberg and Reuters, in relation to the volatility of the underlying, the curves of interest rates, the correlations between the underlying, dividends and CDS (Credit Default Swaps), etc. As for the unobservable data, the Group uses generally accepted in the market for its estimate assumptions, including, among others:

- Have implied volatilities derived from options.
- Determine zero coupon curves from deposits and swaps traded in each currency from a process of "bootstrapping".
- Get the discount factors or implicit rates required for valuations under an assumption of no arbitrage opportunity (AOA).
- Resorting to historical data for the evaluation of correlations, generally using the weekly yields of the underlying during a historical period between 1 and 4 years.
- Build the curve estimated from future asset dividend in the event that they are liquid traded and dividends.
- Estimate dividends from dividends implicit in options on that asset (stock or index) listed on the market.
- Use the dividends forecast by market providers (Bloomberg, Reuters or DataStream) if there are no dividends futures or options quotes the asset.

Upon the valuation of financial instruments Level 3, the effect on fair value would be a variation within a reasonable range, the assumptions used in the valuation, concluding in each case measured the sensitivity of the fair value changes in the unobservable variables is not significant at December 31, 2016 and 2015, thereby applying no breakdown of information in memory on reasonably possible alternative assumptions in the valuation.

26.6 Valuation methods used

The following methods were used by the Unicaja Banco Group to calculate the fair value of the main financial instruments recognized in the balance sheet:

- **Debt securities**: The fair value of listed debt instruments is determined on the basis of their price in official markets (Bank of Spain's Book-Entry System), AIAF, AIAF panels (credit institutions), or by applying prices obtained from information service providers, mainly Bloomberg and Reuters, whose prices are built using the prices notified by contributors.

- **Equity instruments**: The fair value of listed equity instruments is determined based on their price in official markets. The fair value of unlisted equity instruments is determined taking into account independent expert valuations performed using the following methods, among others:

    - Discounted cash flows (free operating cash flows or dividends), applying a discount rate based on each investee's operational and financial exposure, calculated using a risk-free rate and including a risk premium.

    - Multiple of comparable listed companies (EV/EBITDA, PER, Price/Book value, Price/Premiums), less an illiquidity discount.

    - NAV (Adjusted Net Asset Value): Obtained by adding capital gains, calculated as the difference between the market value and carrying amount of assets, to reported shareholders' funds. For venture capital entities, NAV is calculated by the management companies and generally estimated applying European Venture Capital Association regulations and the provisions of CNMV Circular 5/2000 (19 September).

    - Price resulting from market transactions or acquisition bids made or received near to the valuation date.

- **Derivative instruments**: The fair value of interest rate derivatives is determined, for optional financial instruments (mainly swaps), by discounting future flows using implied money market curves and the swap curve; for optional interest-rate derivatives, generally accepted valuation methods based on the Black-Scholes model and implicit volatility matrices are used. In the case of derivatives on equity instruments or stock market indices contracted to hedge customers structured deposits containing an embedded derivative, and currency derivatives without optional components, the fair value is obtained by discounting cash flows estimated using forward curves for the relevant underlying instrument, listed on the market; for options, generally accepted methods based on the Black-Scholes model are used, allowing options on these underlying instruments to be valued applying a closed formula and using only market inputs. Where applicable, models and severities in line with the market are used to calculate CVA and DVA. In order to obtain Unicaja Banco's spread, generic spread vs. swap curves are calibrated on a recurring basis using ratings for different debt issues by Spanish financial institutions with differing priority levels, including senior debt.

26.7 Tangible assets fair value

On 1 January 2004, the Group availed itself of the provisions of IFRS 1 “First time Adoption of International Financial Reporting Standards”, under which to restate the majority of its real estate assets, generating a gross gain of €227,811 thousand.

Subsequently, on June 21, 2013 tax efficiency to revaluation reserves recorded in connection with the entry into force of Circular 4/2004 Bank of Spain, corresponding to 516 properties for own use is granted, with a revaluation associated with same of €54,850 thousand, already recorded in equity.

At December 31 of 2017 and 2016, the Group considers that there are no significant differences between the book value and the fair value of these assets.

27. Credit risk exposure

Credit risk refers to the losses that the Group would incur in the event that a customer or counterparty failed to comply with the contracted payment obligations. This risk is inherent in the financial system's traditional banking products (loans, credit lines, financial guarantees provided) and in other types of financial assets.

Credit risk affects both financial assets carried at amortized cost in the financial statements and assets carried at fair value. Irrespective of the accounting method used to record the Group's financial assets in these financial statements, the Parent Entity applies the same credit risk control policies and procedures.

The Group's credit risk control policies, methods and procedures are approved by the Entity's Board of Directors. The Entity's Control Committee, Audit Committee and Internal Supervision and Risk Control Department are responsible, among other functions, for ensuring compliance with these policies, methods and procedures, as well as for monitoring their adequacy, effective implementation and regular review.

The Group's credit risk control activities are carried out by the Risk Control Department, which reports to the Group's Planning and Control Division. This unit is responsible for implementing the credit risk control policies, methods and procedures approved by the Group's Board of Directors. It monitors counterparty risk by establishing, among others, the credit quality parameters to be assigned to the Group's operations, and credit risk hedging requirements, in accordance with the Entity's internal policies and applicable legislation. The Risk Control Unit is also responsible for applying the Entity's risk concentration limits, approved by the Board of Directors.

The Group has policies and procedures to limit counterparty risk concentration for both individual counterparties and groups of companies. The Group establishes risk concentration limits taking into account factors such as the counterparty's business activities, geographical location and other common features. The Group performs sensitivity analyses to estimate the effects of possible changes in non-performing loan ratios in each risk concentration group, imposing limits on concentration based on the findings.

The Group did not maintain concentrations of risk of a significant nature to December 31, 2017 and 2016. Total mortgage-backed risk remained with the private sector living in Spain amounted to €17,655,675 thousand and €18,625,462 thousand at 31 December 2017 and 2016, respectively.

The Unicaja Banco Group has tools allowing the correct classification of risk. They are scoring and rating models that facilitate acceptance and monitoring processes. Estimates of PD, LGD and EAD, as part of the expected loss calculation, play a role in efficient risk management. The senior management of the Group, using the necessary review systems to assure they are always correctly updated, approves the criteria on which the models and estimates are based.

The maximum credit risk to which Unicaja Banco Group is exposed is measured at nominal value for financial assets carried at amortized cost. The measurement of the Group's maximum credit risk takes into account offset agreements concluded with certain counterparties.

Notes 8, 9 and 10 provide details of the Bank's maximum credit risk exposure. As the Bank's credit risk information provided in these notes does not take into account guarantees received, derivative financial instruments contracted to hedge credit risk and other similar hedges, these data differ from the Bank's internal analyses of exposure to credit risk.

Internally, the Bank classifies financial assets subject to credit risk based on the characteristics of each operation, taking into account the specific counterparty and guarantees obtained, among other aspects.

The cumulative amount of expired products and uncollected financial assets, according to the criteria explained in Note 2.7, have not been accounted for accrued as of December 31, 2017 and 2016 amounted to €82,660 thousand and €95,319 thousand, respectively.

Regarding lending operations Unicaja Banco Group retail mortgage segment have limits on the variation of interest rates, consider the statements that various courts are taking place regarding the validity of these agreements, respect concrete entities, following the judgment of the Supreme Court dated May 9, 2013 and following the judgment of the Court dated July 16, 2014 and March 25, 2015, under which, once declared void by court ruling , those agreements limited to changes in interest rates lack of transparency, the borrower shall refund the interest rate differential would have paid in implementation thereof from the date of publication of the judgment of May 2013.

Particular attention should be paid to the judgement delivered by Commercial Court No. 11 of Madrid dated 7 April 2016 following a collective action presented on 11 November 2010 by the Spanish Association of Users of Banks, Savings Banks and Insurance (ADICAE) and a high number of additional claimants against practically all Spain's financial institutions (Unicaja Banco and EspañaDuero among them), which had included conditions of this kind in their mortgage loan contracts with individuals, requiring that financial institutions eliminate certain opaque limits on interest rate fluctuations on the grounds that they are abusive, and to reimburse the amounts unduly paid to consumers as from the date of the Supreme Court judgement of 9 May 2013, plus interest at the legal rate. This judgement has been appealed against before the Madrid Provincial Court, and its provisional enforcement has not been ordered. Also worthy of attention is the judgement of 13 April 2016 by the Provincial Court of León following a collective action brought by the Association of Banking Service Users (AUSBANC) against EspañaDuero in relation to conditions of this kind included in mortgage loans arranged in the past by Caja España de Inversiones. The ruling obliges certain limits on interest rate fluctuations contained in loan agreements signed by Caja España de Inversiones to be annulled due to a lack of transparency.

These judgements corroborate the view that, once a certain covenant on the limitation of interest rate fluctuations has been declared null and void, the refund to the borrower should consist of the difference between the rates involved accruing since the date of publication of the Supreme Court judgement in May 2013. In this respect, on 13 July 2016 the Advocate General of the Court of Justice of the European Union issued a non-binding opinion stating that the application of retroactivity under the Supreme Court's approach (i.e. calculating the interest rate differential since May 2013) was compatible with EU legislation.

In any event, in relation to the scope of the rulings delivered in proceedings involving collective actions, the judgements of the Supreme Court of 19 September 2016 and 12 December 2016 must also be noted, indicating that the automatic extension of a res judicata effect derived from the upholding of a collective action, as well as not being envisaged in the regulations governing collective actions, could undermine the autonomy of consumers who do not want this nullity to apply to their contracts, or curtail the possibilities of an individual challenge if the class suit is dismissed. Therefore, if the amounts in question are actually to be refunded to consumers, it is necessary for individual actions to be brought and judgments to be delivered on this issue by the relevant courts.

Notwithstanding the foregoing, the doctrine of the Supreme Court on the limitation of the effects of the nullity of certain covenants limiting fluctuations in interest rates resulted in a number of preliminary rulings being requested from the European Court of Justice to determine whether that approach is compatible with European Union law.

Finally, on 21 January 2017 Royal Decree-Law 1/2017 was published in the Official State Gazette, which lays down measures aimed at protecting consumers whose mortgage loan contracts contain limits on interest rate fluctuations, in order to facilitate the possibility of coming into an agreement with credit institutions to resolve the controversies that have arisen as a result of recent court rulings on this matter. These measures are additional to those laid down in the relevant legislation, which envisages an out-of-court arrangement, which can be used voluntarily by consumers without any additional costs.

At 31 December 2017, provisions have been recorded as deemed necessary to cover possible capital losses on assets and the outcomes of risks and contingencies that might affect the Group (Note 18). In this respect, the Group has provisioned the amount of €268 million at 31 December 2017. Unicaja Banco has obtained an independent expert report to verify the provisions posted to cover this risk. It has been updated to the date of authorisation for issue of these consolidated annual accounts, no significant differences having been identified with respect to the amounts provisioned by the Group.

Practices for the responsible granting of loans and credit facilities to consumers.

Order EHA/2899/2011 (28 October) on banking service customer transparency and protection enables the general principles established by Law 2/2011 on Sustainable Economy, with respect to the responsible granting of loans and credit facilities to consumers, such that the relevant obligations are introduced so that the Spanish financial system improves the levels of prudence applied to granting these types of transactions, to the benefit of customers and market stability.

Bank of Spain Circular 5/2012 (27 to June) defines the concept of "responsible lending", and establishes the responsible lending policies and procedures that are summarised below:

- When entities offer and grants loans or credit facilities to customers they must act with honesty, impartiality and professionalism, in accordance with the personal and financial situation of customers, together with their preferences and objectives.

- The entities that grant loans or credit facilities to the customers referred to by Rule Two of Circular 5/2012 must have specific policies, methods and procedures for studying and granting such loans or credit facilities to those customers, and they must be adequately documented and justified, approved by the Board of Directors or equivalent body, and include the general principles mentioned in Appendix 6 to that Circular. The aforementioned policies, methods and procedures, which must remain up-to-date, as well as the supporting documents regarding their approval by the entity's Board of Directors or equivalent body, must be available at all times to the Bank of Spain.

- The general principles referred to in the preceding section must be applied by entities and understood by its customers in a responsible way, such that the latter must provide the former with complete and accurate information regarding their financial situation and their desires and needs with respect to the purpose, amount and other conditions of a loan or credit facility, and the entities must appropriately inform its customers as to the characteristics of its products that adapt to their requests.

Unicaja Banco has detailed policies, methods and procedures to ensure that loans and credit facilities are granted responsibly to consumers. The principles that have been developed for this purpose are in line with the Bank's current situation, with the "Credit Risk Policy, Task and Procedures Manual" approved by the Bank's Board Directors on 29 December 2016, as well as with the regulatory requirements established by the Bank of Spain, and includes the following points:

- Criteria for the granting of credit associated with the borrower's payment capacity.
- A transaction repayment plan that meets the needs of the customer.
- Prudent relationship between the amount of the transaction and the value of any collateral.
- Transaction marketing policy.
- Collateral appraisal policy.
- Consideration of the variability of interest rates and exchange rates when granting loans denominated in a foreign currency.
- Hedging of interest rate risk
- Policy of exceptions to transaction conditions.
- Customer warnings regarding the failure to comply with payment obligations.
- Debt renegotiation policy (Note 10.1).
- Information regarding the cost of services associated with the granting of the credit transaction.
- The obligation to inform homebuyers when subrogating to a developer loan.
- Other aspects of the policies and procedures for granting responsible loans.

To ensure compliance with those principles and criteria the Group has implemented diverse control procedures when managing risks, most importantly the existence of various approval areas that ensure adequate levels of examination of decisions in accordance with their complexity and the proper evaluation of the customer risk profile and payment capacity.

Remote recovery financial assets

Set out below are movements during 2017 and 2016 in the Entity's impaired financial assets that are not carried in the balance sheet consolidated since the probability of recovery is deemed to be remote, even though the Group has not discontinued actions to recover the amounts receivable:

	Thousand euros	
	2017	**2016**
Remote recovery financial assets balance at 1 January	**2 114 885**	**2 471 582**
Additions-	**310 624**	**420 628**
Through impairment assets value adjustments (Note 10.3)	237 941	343 892
Through profit and loss	62 650	43 171
Uncollected expired products	10 033	33 565
Other	-	-
Recoveries-	**(129 158)**	**(113 819)**
Write-offs sale	(73 246)	(109 494)
Foreclosed Assets	(55 912)	(4 325)
Disposals	**(679 517)**	**(663 506)**
Due to sales of failed assets	(473 842)	(280 099)
Other	(205 675)	(383 407)
Remote recovery financial assets balance at 31 December	**1 616 834**	**2 114 885**

During 2017, the Group completed the sale of non-performing loans amounting to €475,624 thousand, granted to individuals and small- and medium-sized enterprises (this figure includes non-manageable NPLs amounting to €1,782 thousand).

During 2016, the Group completed the sale of non-performing loans amounting to €449,887 thousand, granted to individuals and small- and medium-sized enterprises (this figure includes non-manageable NPLs amounting to €169,788 thousand).

In 2017 and 2016, the recovery movement identified as "for other causes" relates mainly to loans that cease to be treated as remote recovery assets when the Group rules out any possibility of recovery**.**

The net amount in the consolidated income statement for the years 2017 and 2016 as a result of movements in these assets amounts a negative amount of €10,596 thousand and a negative amount of €21,686 thousand, respectively. These amounts are due mainly to:

- o Loans that were classified during the period as "remote recovery assets" and had not been provisioned; they were therefore written off the consolidated balance sheet directly through the income statement, having a negative impact of €62,650 thousand and €43,171 thousand in 2017 and 2016, respectively.

- o Loan classified as "remote recovery assets" in the previous period in respect of which amounts have been collected, having a positive effect of €73,246 thousand and €64,857 thousand in 2017 and 2016, respectively.

Regarding the criteria used to derecognise operations involving loans the recovery of which is remote (NPLs), the Unicaja Banco Group records these derecognitions when all likelihood of recovery is ruled out. This involves a series of powers that depend on the type and volume of the operations in question. The Group carries out regular monitoring of these balances in order to determine whether the requirements for derecognition have been met and to assess whether there are new circumstances that could alter the chances of recovery of the balances.

Exposure to sovereign risk

With respect to sovereign risk, the breakdown of credit risk exposures to central governments held by the Group at December 31, 2017 and 2016 is as follows:

				Thousand euros
				2017
	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables
Spain	12 980	1 729 580	7 699 773	-
Italy	-	661 442	1 608 175	-
Portugal	-	299 343	-	-
	12 980	**2 690 365**	**9 307 948**	**-**

				Thousand euros
				2016
	Financial assets held for trading	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables
Spain	26 575	3 842 615	7 577 937	-
Italy	-	99 256	1 268 288	-
Portugal	-	50 800	-	-
	26 575	**3 992 671**	**8 846 225**	**-**

Debt securities credit quality

Set out below is the accounting classification by portfolio of the debt securities recognized in the Unicaja Banco Group's consolidated annual accounts at 31 December 2017 and 2016:

		Thousand euros
	2017	2016
Financial assets held for trading	12 980	37 542
Available-for-sale financial assets	3 165 476	4 754 099
Loans and receivables	2 585 205	786 499
Held-to-maturity investments	10 634 320	12 907 583
	16 397 981	**18 485 723**

At 31 December 2017 and 2016, the balances included in the above table were not classed as doubtful, impairment adjustments having been recognized only for general coverage purposes in the amount of €78 thousand and €80 thousand, respectively. Set out below is a breakdown of these securities by credit rating at 31 December 2017 and 2016:

	Thousand euros	
	2017	**2016**
Rating Aaa	-	-
Rating Aa1-Aa3	164 187	113 508
Rating A1-A3	618 739	544 687
Rating Baa1-Baa3	15 516 448	14 896 572
Rating Ba1-Ba3	7 484	84 603
Rating B1-C	25 726	37 940
Sin rating crediticio (*)	65 397	2 808 413
	16 397 981	**18 485 723**

Loans and advances to customers quality

The Unicaja Banco Group determines the credit quality of loans and advances to customers based essentially on the accounting classification, sector, existence of default, level of provisions, collateral received and LtV ratio.

Set out below loans and receivables portfolio details at 31 December 2017 and 2016:

	Thousand euros			
	2017		**2016**	
	Total	***Of which*: Non-performing**	**Total**	***Of which*: Non-performing**
Gross balance	31 036 578	2 710 209	32 729 529	3 215 128
Value adjustments for asset impairment	(1 355 112)	(1 139 300)	(1 999 360)	(1 262 230)
Of which: calculated individually	(191 857)	(191 857)	(317 570)	(317 570)
Of which: calculated collectivelly	(1 163 255)	(947 443)	(1 681 790)	(944 660)
Net balance	**29 681 466**	**1 570 909**	**30 730 169**	**1 952 898**

The change in the amount of asset impairment adjustments in 2017 with respect to 2016 is due largely to the transfer to the consolidated balance sheet item "Provisions" of the provisions recorded for litigation and claims related to clauses limiting fluctuations in interest rates (Note 18).

On the other hand, as regards the guarantees received and the financial guarantees granted, the following are detailed as of December 31, 2017 and 2016:

	Thousand euros	
Collateral received	**2017**	**2016**
Value of securities	20 311 749	21 048 718
Of which: guarantees non-performing risks	*1 734 665*	*1 887 869*
Value other guarantees	2 011 813	1 994 088
Of which: guarantees non-performing risks	*108 422*	*99 742*
Total value of colateral received	**22 323 562**	**23 042 806**

Financial securities granted	Thousand euros 2017	2016
Loan commitments	2 786 416	2 505 065
Of which amount classified as non-performing	63 508	88 160
Amount at balance sheet liability	6 185	10 219
Financial securities granted	101 757	90 079
Of which amount classified as non-performing	-	-
Amount at balance sheet liability	98 053	105 756
Other granted commitments	1 793 667	1 372 401
Of which amount classified as non-performing	264 022	285 956
Amount at balance sheet liability	-	-
Total value of financial securities granted	**4 681 840**	**3 967 545**

Risk concentration by activity and geographic area

Set out below is the carrying amount of the Unicaja Banco Group's total financing granted to customers at 31 December 2017 and 2016, excluding exposures to public administrations, broken down by counterparty type, collateral type and LTV ratio.

				Thousand euros				
				LTV Ratio of credit with real guarantee (e)				
Balance at 31/12/2017	**Total (a)**	**Of which: Mortgage collateral(d)**	**Of which: Other collateral(d)**	**Not exceeding or equal 40%**	**Exceeding 40% but not exceeding or equal 60%**	**Exceeding 60% and less or equal to 80%**	**Exceeding 80% and less or equal to 100%**	**Exceeding 100%**
Financial institutions	2 692 030	21 797	2 375 744	4 826	90	5 808	11 209	2 375 608
Non-financial companies and sole traders	6 016 925	2 016 341	400 251	1 009 154	689 841	325 913	118 078	273 606
Property construction and development (b)	674 618	569 846	35 224	173 588	152 906	104 805	32 059	141 712
Civil engineering construction	198 542	7 151	6 218	8 258	476	95	1 887	2 653
Other purposes	5 143 765	1 439 344	358 809	827 308	536 459	221 013	84 132	129 241
Large companies (c)	1 887 270	85 902	37 978	22 414	26 629	27 851	16 059	30 927
SMEs and sole traders (c)	3 256 495	1 353 442	320 831	804 894	509 830	193 162	68 073	98 314
Other households and ISFLSH	19 406 374	17 689 534	173 802	4 746 219	6 464 186	5 846 809	475 154	330 968
Householding	17 088 934	16 699 876	82 226	4 214 611	6 186 403	5 681 951	430 456	268 681
Consumption	460 523	12 696	3 082	10 694	3 053	1 358	343	330
Other purposes	1 856 917	976 962	88 494	520 914	274 730	163 500	44 355	61 957
Total	**28 115 329**	**19 727 672**	**2 949 797**	**5 760 199**	**7 154 117**	**6 178 530**	**604 441**	**2 980 182**
Memory: Refinancing, refinanced and restructured operations	**1 534 142**	**1 256 717**	**120 478**	**328 829**	**313 577**	**380 878**	**125 123**	**228 788**

Balance at 31/12/2016	Total (a)	Of which: Mortgage collateral(d)	Of which: Other collateral(d)	LTV Ratio of credit with real guarantee (e): Not exceeding or equal 40%	Exceeding 40% but not exceeding or equal 60%	Exceeding 60% and less or equal to 80%	Exceeding 80% and less or equal to 100%	Exceeding 100%
								Thousand euros
Financial institutions	2 555 101	23 631	2 428 804	3 219	2 979	17 718	-	2 428 519
Non-financial companies and sole traders	5 978 630	1 670 254	1 164 376	1 166 214	845 058	326 651	163 391	333 316
Property construction and development (b)	812 075	574 885	237 190	208 185	237 871	125 050	80 973	159 996
Civil engineering construction	106 716	1 776	227	170	419	-	1 223	191
Other purposes	5 059 839	1 093 593	926 959	957 859	606 768	201 601	81 195	173 129
Large companies (c)	1 963 932	54 381	129 850	33 569	58 623	13 969	17 262	60 808
SMEs and sole traders (c)	3 095 907	1 039 212	797 109	924 290	548 145	187 632	63 933	112 321
Other households and ISFLSH	19 992 245	17 981 258	494 239	4 765 051	6 461 014	6 347 806	571 941	329 685
Householding	17 446 742	16 986 560	157 793	4 158 637	6 100 041	6 182 465	523 216	179 994
Consumption	807 419	14 753	3 187	12 020	4 603	871	271	175
Other purposes	1 738 084	979 945	333 259	594 394	356 370	164 470	48 454	149 516
Total	**28 525 976**	**19 675 143**	**4 087 419**	**5 934 484**	**7 309 051**	**6 692 175**	**735 332**	**3 091 520**
Memory item: Refinancing, refinanced and restructured operations	**1 911 985**	**1 312 338**	**394 273**	**367 078**	**433 249**	**490 464**	**173 022**	**242 798**

(a) The definition of loans and advances to customers and the scope of the information included in this table are as used to prepare the balance sheet. The carrying amount of the loans is used, i.e. after value adjustments made to provision specific loans.

(b) This item includes all activities related to property construction and development, including the financing of land for property development.

(c) Non-financial companies are divided into "Large companies" and "SMEs", in accordance with the definition applicable to SMEs when calculating shareholders' funds. Sole trader activities are performed by individuals in the course of their business activities.

(d) Includes the carrying amount of all loans secured by real property and by other property guarantees, irrespective of the LTV ratio.

(e) Loan-to-value (LTV) is a ratio obtained by dividing the loan's carrying amount at the reporting date by the amount of the latest appraised value of the collateral.

There follows aggregate information at 31 December 2017 and 2016 on the Unicaja Banco Group's risk concentration by geographic area and business segment, excluding exposures to public administrations.

31 December 2017	Total (a)	Spain	Rest of European Union	America	Rest of World
					Thousand euros
Financial institutions	4 340 748	4 204 106	134 766	1 332	544
Other financial institutions	6 632 758	6 512 365	116 048	-	4 345
Non-financial companies and sole traders	7 919 006	7 696 853	198 836	22 341	976
Property construction and development (b)	852 436	850 435	1 958	-	43
Civil engineering construction	198 543	198 543	-	-	-
Other purposes	6 868 027	6 647 875	196 878	22 341	933
Large companies (c)	3 276 119	3 061 801	194 245	20 073	-
SMEs and sole traders (c)	3 591 908	3 586 074	2 633	2 268	933
Other households and ISFLSH	19 420 117	19 265 864	121 977	11 900	20 376
Housing	17 088 934	16 941 155	116 603	11 527	19 649
Consumption	460 541	460 002	194	23	322
Other purposes	1 870 642	1 864 707	5 180	350	405
	38 312 629	**37 679 188**	**571 627**	**35 573**	**26 241**

31 December 2016	Total (a)	Spain	Rest of European Union	America	Rest of World
					Thousand euros
Financial institutions	1 601 988	1 500 051	81 616	812	19 509
Other financial institutions	7 695 920	7 695 920	-	-	-
Non-financial companies and sole traders	7 750 023	7 700 654	46 753	570	2 046
Property construction and development (b)	1 030 956	1 029 929	936	35	56
Civil engineering construction	106 726	106 726	-	-	-
Other purposes	6 612 341	6 563 999	45 817	535	1 990
Large companies (c)	3 090 212	3 049 295	40 917	-	-
SMEs and sole traders (c)	3 522 129	3 514 704	4 900	535	1 990
Other households and ISFLSH	20 218 020	20 040 454	77 886	15 793	83 887
Housing	17 447 143	17 339 123	76 209	11 978	19 833
Consumption	811 724	794 906	233	2 685	13 900
Other purposes	1 959 153	1 906 425	1 444	1 130	50 154
	37 265 951	**36 937 079**	**206 255**	**17 175**	**105 442**

(a) The definition of risk for the purposes of this table includes the following balance sheet items: Loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, Trading derivatives, Hedging derivatives, Equity investments and Contingent exposures. The amounts of the assets reflect the carrying amounts of the loans, i.e. after value adjustments made to provision specific loans. Business is distributed by geographic area based on the country or autonomous region of residence of the lenders, securities issuers and counterparties of derivatives and contingent exposures.

(b) This item includes all activities related to property construction and development, including the financing of land for property development.

(c) Non-financial companies are classed as "Large companies" and "SMEs", in accordance with the definition of SMEs contained in Commission Recommendation 2003/361/EC (6 May 2003) on the definition of micro-enterprises, small companies and medium-sized companies. Loans to sole traders relate exclusively to loans to individuals to finance their business activities, whether performed directly as sole traders or through entities without legal personality.

There follows a breakdown of the Unicaja Banco Group's loans and advances to customers at 31 December 2017 and 2016 by autonomous region and by business segment, excluding exposures to public administrations:

31 December 2017	Total (a)	Andalucía	Madrid	Castilla (*)	Levante (*)	Rest Regions
						Thousand euros
Financial institutions	4 204 106	-	4 204 106	-	-	-
Other financial institutions	6 512 365	472 354	5 869 575	130	170 278	28
Non-financial companies and sole traders	7 696 853	3 699 403	1 581 901	1 793 366	240 931	381 252
Property construction and development (b)	850 435	633 566	92 837	93 849	2 033	28 150
Civil engineering construction	198 543	126 139	54 508	9 138	82	8 676
Other purposes	6 647 875	2 939 698	1 434 556	1 690 379	238 816	344 426
Large companies (c)	3 061 801	1 266 853	1 186 390	334 156	183 201	91 201
SMEs and sole traders (c)	3 586 074	1 672 845	248 166	1 356 223	55 615	253 225
Other households and ISFLSH	19 265 864	9 718 641	2 151 415	5 176 759	411 179	1 807 870
Housing	16 941 155	8 518 193	1 990 905	4 401 259	383 612	1 647 186
Consumption	460 002	325 318	15 587	96 654	1 750	20 693
Other purposes	1 864 707	875 130	144 923	678 846	25 817	139 991
	37 679 188	**13 890 398**	**13 806 997**	**6 970 255**	**822 388**	**2 189 150**

31 December 2016	Total (a)	Andalucía	Madrid	Castilla (*)	Levante (*)	Rest Regions
						Thousand euros
Financial institutions	1 500 051	117 174	988 553	394 258	66	-
Other financial institutions	7 695 920	50 783	7 625 405	18 149	1 567	16
Non-financial companies and sole traders	7 700 654	4 030 318	1 593 415	1 485 729	237 433	353 759
Property construction and development (b)	1 029 929	752 060	116 749	91 962	7 354	61 804
Civil engineering construction	106 726	86 676	4 737	15 283	30	-
Other purposes	6 563 999	3 191 582	1 471 929	1 378 484	230 049	291 955
Large companies (c)	3 049 295	1 490 795	1 129 125	214 510	172 057	42 808
SMEs and sole traders (c)	3 514 704	1 700 787	342 804	1 163 974	57 992	249 147
Other households and ISFLSH	20 040 454	9 914 186	2 255 190	5 477 799	452 337	1 940 942
Housing	17 339 123	8 651 230	2 077 791	4 425 527	421 381	1 763 194
Consumption	794 906	483 454	15 903	272 733	2 057	20 759
Other purposes	1 906 425	779 502	161 496	779 539	28 899	156 989
	36 937 079	**14 112 461**	**12 462 563**	**7 375 935**	**691 403**	**2 294 717**

(*) The geographical area called “Castilla” includes Castilla-La Mancha and Castilla y León, and the geographical area called “Levante” includes Cataluña, Comunidad Valenciana and Murcia.

(a) The definition of risk for the purposes of this table includes the following balance sheet items: Loans and advances to credit institutions, Loans and advances to customers, Debt securities, Equity instruments, Trading derivatives, Hedging derivatives, Equity investments and Contingent exposures. The amounts of the assets reflect the carrying amounts of the loans, i.e. after value adjustments made to provision specific loans. Business is distributed by geographic area based on the country or autonomous region of residence of the lenders, securities issuers and counterparties of derivatives and contingent exposures.

(b) This item includes all activities related to property construction and development, including the financing of land for property development.

(c) Non-financial companies are classed as "Large companies" and "SMEs”, in accordance with the definition of SMEs contained in Commission Recommendation 2003/361/EC (6 May 2003) on the definition of micro-enterprises, small companies and medium-sized companies. Loans to sole traders relate exclusively to loans to individuals to finance their business activities, whether performed directly as sole traders or through entities without legal personality.

28. Interest rate risk exposure

Interest rate risks are controlled on an integrated basis by the Asset and Liability and Budget Committee (COAPP). This unit is responsible for implementing procedures to ensure that Group complies at all times with the interest rate risk control and management policies approved by the Board of Directors.

Sensitivity measurement and scenario analysis methods are used to analyse, measure and control the Group’s significant interest rate risks.

The Group hedges interest rate exposure on an individual basis for all significant financial instruments that could generate equally significant risks.

The following table shows a maturity matrix or revisions shown grouping the carrying value of assets and liabilities based on repricing dates of interest rates or maturity; depending on which of them is nearer in time, corresponding to the balances of the main entities of the group (in this case, Unicaja Banco and EspañaDuero) as of December 31, 2017 and 2016.

31 December 2017								Thousand euros
Assets	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 and 12 months**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Between 3 and 4 years**	**Between 4 and 5 years**	**Over 5 years**
Financial assets	11 612 149	7 619 690	14 765 196	828 542	1 122 139	3 125 209	588 124	8 296 107
After hedging adjustments	11 612 149	7 675 990	14 765 196	828 542	1 622 139	3 805 296	592 344	7 089 807

31 December 2017								Thousand euros
Liabilities	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 and 12 months**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Between 3 and 4 years**	**Between 4 and 5 years**	**Over 5 years**
Financial liabilities	5 326 372	2 307 561	5 529 568	1 315 156	1 289 647	4 552 567	228 587	2 949 607
After hedging adjustments	5 427 753	2 518 211	7 140 669	1 201 132	1 231 314	4 052 567	176 735	1 750 684

31 December 2016								Thousand euros
Assets	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 and 12 months**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Between 3 and 4 years**	**Between 4 and 5 years**	**Over 5 years**
Financial assets	10 682 598	9 008 522	15 137 551	1 618 896	764 708	767 148	3 037 748	6 968 900
After hedging adjustments	10 432 598	9 164 822	15 387 551	1 618 896	764 708	767 148	3 037 748	6 812 600

31 December 2016								Thousand euros
Liabilities	**Up to 1 month**	**Between 1 and 3 months**	**Between 3 and 12 months**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Between 3 and 4 years**	**Between 4 and 5 years**	**Over 5 years**
Financial liabilities	9 586 301	3 425 106	7 161 010	1 661 426	619 045	1 237 540	1 240 633	2 771 024
After hedging adjustments	9 687 682	3 635 756	9 363 732	1 073 805	501 021	1 179 206	740 633	1 520 249

The above tables reflect, for each period, the adjustments to fixed-rate assets and liabilities derived from the relevant derivative financial instruments contracted by Unicaja for hedging purposes, in order to present overall exposure to interest rate fluctuations.

At 31 December 2017 and 2016, the sensitivity of the entity's balance sheet to an unfavourable horizontal movement in the interest rate curve totalling 100 basis points and a scenario of maintaining the balance sheet is as follows:

	2017	2016
Financial income expected in 12 months	Lower than 4%	Lower than 6%
Economic value	Lower than 4%	Lower than 3%

29. Exposure to other market risks

Market risk relates to the losses that the Group could incur in the event of changes in the value of its trading portfolio and available-for-sale financial assets as a result of unfavourable fluctuations in market prices or foreign exchange rates, or price volatility.

Such changes depend mainly on factors such as interest rates, in the case of fixed-income instruments. Options are subject to a number of risk factors, one of the most relevant being volatility.

The Group’s market risk control policies, methods and procedures are approved by the Board of Directors. The responsibilities of the Risk Control Department, through its Market Control Unit, include the supervision of compliance with the Group’s risk control policies, methods and procedures to ensure their adequacy, effective implementation and regular review.

The unit responsible for financial risk monitoring and control is the Markets and Models Unit, which is basically entrusted with ensuring that risks assumed are correctly identified, analysed, valued and reported, cooperating in the implementation of suitable risk management tools, improving position valuation models to bring them into line with the actual market context, and controlling compliance with the risk limits defined. This unit also systematically controls and monitors treasury and capital market transactions.

In order to ensure adequate market risk management, the Group uses a software application to define market risk calculations and authorized limits. For each group of portfolios managed, limits are defined for “Open positions”, “Stop losses” and “VaR” so as to avoid any significant adverse impact on solvency or on results, in view of the complexity of the risks assumed.

Exposure to market price fluctuations

Price risk is the risk that the fair value of equity securities may decline as a result of changes in market indices or stock prices. Price risk arises on positions in financial assets or liabilities held for trading and in available-for-sale financial assets.

Set out below is an analysis of price risk sensitivity derived from the Group's equity positions in financial markets at 31 December 2017 and 2016:

			Thousand euros
Decrease in market price (quotations)	**Impact on income**	**Impacto on valuation adjustments**	**Total impacto n equity**
Impact at 31 December 2017 of a 1% decrease in the market price	-	2 327	2 327
Impact at 31 December 2016 of a 1% decrease in the market price	-	2 962	2 962

One percent variance in the relevant equity price fluctuation risk variables was assumed because this “impact” is a standard measurement in both the financial sector and in the Unicaja Banco Group to ascertain the level of risk exposure.

In the current context of high market volatility, it is very difficult to determine what constitutes a “reasonably possible change” in risk variables. However, we consider it to be appropriate to report on sensitivity to a 1% "impact" so that public information users may rescale this effect based on their market expectations.

The above table does not include equity instruments recognized in the portfolio of available-for-sale financial assets for which there is no active market and that are carried in the consolidated annual accounts at cost, net of any impairment losses, since their fair value cannot be determined in a sufficiently objective manner. The consolidated carrying amount of these instruments at 31 December 2017 and 2016 totals €203,656 thousand and €226,139 thousand, respectively.

Rate Exchange fluctuations risk

Structural foreign exchange risk arises basically from exposure to exchange rate fluctuations on securities investments in non-euro currencies.

The Unicaja Banco Group manages structural foreign exchange risk to minimize potential adverse impacts of foreign exchange fluctuations on capital adequacy ratios and on contributions to the results of foreign currency investments.

At 31 December 2017 and 2016, exposure to foreign exchange fluctuations in the Unicaja Banco Group is immaterial, since there are no significant assets or liabilities in the consolidated balance sheet that are denominated in non-euro currencies. The equivalent value in euros of the Group's total assets and liabilities denominated in foreign currencies at 31 December 2017 and 2016 is analysed below:

	Thousand euros	
	2017	**2016**
Equivalent value of foreign currency assets	**78 089**	**78 007**
Of which:% in U.S. dollars	82%	78%
Of which:% in sterling	8%	10%
Of which:% quoted in other currencies in the Spanish market	10%	12%
Equivalent value of foreign currency liabilities	**34 292**	**53 163**
Of which:% in U.S. dollars	75%	79%
Of which:% in sterling	10%	8%
Of which:% quoted in other currencies in the Spanish market	16%	13%

The equivalent value in euros of assets denominated in foreign currencies accounts for 0.14% and 0.14% of total consolidated assets at 31 December 2017 and 2016, respectively, while the equivalent value in euros of liabilities denominated in foreign currencies represents 0.07% and 0.10% of total consolidated assets at the respective dates.

30. Loyalty duties of the Directors of the Parent Company

Pursuant to article 229 of Law 31/2014 of December 3, which amends the Consolidated Text of the Capital Companies Act for the improvement of corporate governance, and in order to strengthen the Transparency of public limited companies, the Directors have informed the entity that, during the year 2017, they or their related persons, as defined in article 231 of the Revised Text of the Capital Companies Act:

a) They have not carried out transactions with the entity, excluding ordinary transactions carried out under standard customer conditions and of little relevance, with the understanding that the information for such transactions is not necessary to fairly express the value of the equity, financial situation and profits.

b) They have not used the name of the Company or invoked their position as Director to unduly influence private transactions.

c) They have not used of business assets, including the Company's confidential information, for private purposes.

d) Business opportunities with the entity have not been taken.

e) No advantages or compensations from third parties other than the Company and its group have been obtained with respect to the performance of their duties, except when involving merely courtesy gifts.

f) No activities have been carried out on their own behalf or the behalf of a third party that represent effective competition, whether actual or potential, with the entity or which, in any other way, places them in permanent conflict with the entity's interests.

31. Other significant information

31.1 Contingent exposures

Set out below is a breakdown of contingent exposures assumed by the Group at 31 December 2017 and 2016:

	Thousand euros	
	2017	**2016**
Financial guarantees	77 230	90 078
Technical guarantees	966 796	968 044
Credit derivatives sold	-	-
Irrevocable documentary credits	8 682	6 083
Other commitments	3 880	1 572
	1 056 588	**1 065 777**

A significant portion of these guarantees will expire without any payment obligation for the entities and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Institution to third parties.

Income from guarantee instruments is recognized under “Fee and commission income” and “Interest and similar income” (in the actualized amount of the value of the commissions) in the income statement for the years 2017 and 2016 and is calculated by the rate established in the related contract to the nominal amount of the guarantee.

Provisions registered to cover these guarantees provided, which have been calculated applying similar principals used for impairment losses on financial assets valued at amortized cost, are recognized under the heading “Provisions - provisions for contingent exposure and commitments” in the consolidated balance sheet (Note 18).

31.2 Assets assigned and accepted as collateral

At 31 December 2017 and 2016 assets owned by the Group were used as a guarantee for operations, liabilities and contingent liabilities assumed. The carrying value of the financial assets delivered as guarantee of these liabilities and contingent liabilities and similar at 31 December 2017 and 2016 was as follows:

	Thousand euros	
	2017	**2016**
Pledge of securities	5 824 243	5 740 549
Pledge of non-mortgage loans	-	493 357
	5 824 243	**6 233 906**

At 31 December 2017 and 2016, these amounts relate mostly to pledged securities and non-mortgage loans, under the Bank of Spain policy, for the obtainment of long-term financing maturing in 2017 and 2016.

Regarding the pledge terms and conditions, they will not affect the guarantees constituted by Unicaja Banco in favour of the Bank of Spain, and will be extensive, by express and irrevocable agreement between the parties, to any automatic or express extensions, renewals or novations of any type that could affect the secured commitments and they will remain in force until their full cancellation and of any commitments into which they may be novated or replaced

The Bank has not received any assets as collateral that it is authorized to sell or pledge, irrespective of whether or not there is any default on the part of the asset owner. Consequently, the breakdown required by IFRS 7, paragraph 15 is not applicable.

31.3 Drawable by third parties

At 31 December 2017 and 2016 the limits on financing contracts granted and the amounts utilized, for which the Group has assumed any credit commitment above the amount recognized in assets in the balance sheet at those dates, are set out below:

				Thousand euros
		2017		2016
	Available amount	Granted limit	Available amount	Granted limit
With immediate availability -	**2 185 673**	**3 005 391**	**2 151 558**	**2 906 070**
Credit institutions	236	266	536	563
Public entities	155 471	224 940	115 925	137 147
Other sectors	2 029 966	2 780 185	2 035 097	2 768 360
Available subject to conditions -	**600 743**	**1 858 226**	**353 507**	**1 827 243**
Public entities	31 866	171 799	32 862	144 484
Other sectors	568 877	1 686 427	320 645	1 682 759
	2 786 416	**4 863 617**	**2 505 065**	**4 733 313**

31.4 Party funds under management by the Group and securities held in custody

The breakdown of the funds out of balance managed by the Group at 31 December 2017 and 2016 is as follows:

		Thousand euros
	2017	2016
Mutual funds	5 934 074	5 465 646
Investment funds	116 191	110 954
Other financial instruments	68 674	118 735
Assets under management	898 864	864 157
	7 017 803	**6 559 492**

Set out below is a breakdown of off-balance sheet customer funds marketed by the Group in 2017 and 2016:

		Thousand euros
	2017	2016
Mutual funds	5 980 624	5 482 347
Investment funds	116 191	110 954
Pension funds	2 273 650	2 211 124
Assets under management	898 864	864 157
Insurance products	3 429 340	2 966 284
	12 698 669	**11 634 866**

Additionally, following is a breakdown of the fair value of third-party funds held in custody of the Group at 31 December 2017 and 2016:

	Thousand euros	
	2017	2016
Debt securities and equity instruments	4 255 513	3 436 701
Other financial instruments	-	-
	4 255 513	**3 436 701**

31.5. Financial instrument reclassifications

During 2017 and 2016 there have been no reclassifications within the Group of certain debt securities.

31.6 Asset securization

At December 31, 2017 and 2016, no transfers of financial assets through securization instruments have been made.

31.7 Netting arrangements and collaterals

In addition to the amounts that may be offset in the accounts under IAS 32, there are other netting agreements and guarantees which, though not netted in the accounts because the necessary requirements are not fulfilled, effectively reduce credit risk.

There follows a breakdown at 31 December 2017 and 2016 of derivative financial instruments (Notes 8 and 11) in the situation described, showing separately the effects of these agreements and collateral received and/or furnished by the Group:

	Thousand euros			
	2017		2016	
Derivative financial instruments	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Gross exposure (book value)	**475 312**	**58 798**	**865 263**	**102 814**
Netting agreements and collaterals	**(434 090)**	**(36 090)**	**(772 378)**	**(40 712)**
Netting arrangements	-	-	-	-
Collateral received/furnished	(434 090)	(36 090)	(772 378)	(40 712)
Net exposure	**41 222**	**22 708**	**92 885**	**62 102**

The amounts of collateral in the form of cash and financial instruments reflect fair values. The netting rights depend on counterparty default and relate to collateral in the form of cash and financial instruments.

In connection with the Group's asset reverse repos and repos, there are other agreements entailing the receipt and/or submission of the following guarantees in addition to the guarantee built into these operations:

	Thousand euros			
	2017		2016	
Guarantees associated with acquisitions and temporary assignment of assets	**Given**	**Taken**	**Given**	**Taken**
In cash	-	-	124 605	13 227
In stock	-	-	-	-
	-	**-**	**124 605**	**13 227**

32. Interest income

Set out below is a breakdown of the origin of the most significant interest and similar income accrued by the Group in 2017 and 2016:

	Thousand euros	
	2017	2016
Cash, cash balances at central banks and other demand deposits (Note 7)	-	11
Deposits with credit institutions (Note 10.1)	760	4 483
Money market operations through counterparties (Note 10.1)	-	-
Loans and advances to customers (Note 10.1)	581 880	707 001
Debt securities	212 339	250 989
Non-performingl assets (Note 10.1)	26 116	28 193
Rectification of revenues arising from accounting hedges	6 970	2 425
Insurance contracts related to pensions and similar obligations	1 550	2 153
Other revenues	23 203	15 716
	852 818	**1 010 971**

Set out below is a breakdown of the amounts recognized in "Interest and similar income" in the consolidated income statements for 2017 and 2016, classified on the basis of the relevant financial instrument portfolio:

	Thousand euros	
	2017	2016
Financial assets held-for-trading (Note 8)	772	884
Available-for-sale financial assets (Note 9)	86 842	95 743
Held-to-maturity investment portfolio (Note 9.4)	114 767	145 543
Loans and receivables	618 714	748 508
Money market operations through counterparties	-	-
Rectification on income resulting from accounting hedge	6 970	2 425
Other income	24 753	17 868
	852 818	**1 010 971**

33. Interest expense

The breakdown of the balance of this caption in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand euros	
	2017	2016
Deposits from central banks (Note 17.1)	-	1 139
Deposits from credit institutions (Note 17.2)	3 140	7 361
Money market operations through counterparties (Note 17.3)	-	-
Deposits from customers (Note 17.3)	327 395	436 498
Debt securities issued (Note 17.4)	39 893	58 070
Subordinated liabilities (Note 17.4.3)	167	6 552
Rectification of costs arising from accounting hedges	(114 157)	(129 855)
Costs attributable to pension funds arranged (Note 18)	2 101	3 177
Other interests	11 516	8 250
	270 055	**391 192**

Set out below is a breakdown of the amounts recognized in “Interest expense and similar charges” in the consolidated income statements for 2017 and 2016, classified on the basis of the relevant financial instrument portfolio:

	Thousand euros	
	2017	**2016**
Financial liabilities at amortized cost	370 595	509 620
Rectification of costs arising from accounting hedges	(114 157)	(129 855)
Other interests	13 617	11 427
	270 055	**391 192**

34. Dividend income

The breakdown of the balance of this caption in the consolidated income statements for 2017 and 2016 by portfolio and nature of the financial instruments is as follows:

	Thousand euros	
	2017	**2016**
Equity instruments classified as:		
Financial assets held for trading	-	-
Available-for-sale financial assets	22 881	27 446
	22 881	27 446
Equity instruments having the nature of:		
Shares	18 881	27 098
Investments in Institutions of Collective Investment	4 000	348
	22 881	**27 446**

35. Equity-method consolidated entities income

A breakdown by company of this consolidated income statement caption for 2017 and 2016 is as follows:

	Thousand	
	2017	**2016**
Autopista del Sol, Concesionaria Española, S.A.	521	(1 020)
Unicorp Vida, Compañía de Seguros y Reaseguros, S.A.	20 277	22 527
Hidralia, Gestión Integral de Aguas de Andalucía, S.A.	4 304	4 470
Deoleo, S.A.	(784)	(3 232)
Sociedad Municipal de Aparcamientos y Servicios, S.A.	939	702
Ingeniería e Integración Avanzadas, S.A. (Ingenia)	194	50
Autopista del Guadalmedina, Concesionaria Española, S.A.	(1 371)	(1 357)
Capredo Investments GMBH	-	(145)
Ahorro Andaluz, S.A.	2 469	-
Gestión e Investigación de Activos, S.A.	185	163
Unión del Duero Seguros de Vida, S.A.	10 089	-
Caja España Vida, Compañía de Seguros y Reaseguros	11 323	-
Madrigal Participaciones, S.A.	444	103
Inversiones Alaris,S.L.	-	12 710
Rest of entities	379	209
	48 969	**35 180**

36. Fee and commission income

Set out below is fee revenue accrued in 2017 and 2016, classified taking into account the main items involved, together with the consolidated income statements for those years in which such revenue has been recorded:

	Thousand euros	
	2017	**2016**
Interest and similar revenues		
Origination fees	26 795	27 542
	26 795	**27 542**
Fees received		
Fees relating to contingent risks	7 061	7 727
Fees relating to contingent commitments	2 550	2 603
Fees relating to collection and payment services	130 404	115 108
Fees relating to investment and complementary activities	43 251	42 275
Fees relating to foreign currency and note exchange	354	410
Fees relating to marketing of non-bank financial products	50 123	47 505
Other	6 822	10 208
	240 565	**225 836**
Other operating income		
Compensatory fees of direct costs (Note 39)	3 288	3 042
	3 288	**3 042**

37. Fee and commission expense

Set out below is fee and commission expense accrued in 2017 and 2016, classified taking into account the main items involved, together with the consolidated income statements for those years in which such expense has been recorded:

	Thousand euros	
	2017	**2016**
Fee expense		
Commissions paid to intermediaries	767	742
Other commissions	411	778
	1 178	**1 520**
Commission expense		
Debit and credit operations	801	511
Commissions ceded to other Banks and correspondent banks	10 555	10 368
Commission expense on securities transactions	2 243	2 577
Other commissions	6 819	4 940
	20 418	**18 396**

38. Gains and losses on financial operations

The breakdown of the balance of this caption in the consolidated income statements for 2017 and 2016 by portfolio of the financial instruments involved is as follows:

	Thousand euros	
	2017	**2016**
Financial assets held for trading	1 675	(7 061)
Available-for-sale financial assets	94 132	84 080
Equity instruments	*46 808*	*1 355*
Debt	*47 324*	*82 725*
Loans and receivables	299	-
Held-to-maturity investments	1 621	-
Financial liabilities at amortized cost	-	-
Hedging derivatives	179	258
	97 906	**77 277**

In the years 2017 and 2016, the amount collected under the heading "Gains or losses on financial assets and liabilities designated at fair value through profit or loss. Net" mainly comprises disposal operations described in Note 9.1.

In 2017 and 2016, no profits recognized in relation to held-to-maturity securities (Note 2.2.4).

39. Other operating income/ expense

39.1 Other operating income

The breakdown of the balance of this caption in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Income from property investments (Note 13.2)	17 170	15 135
Commissions offsetting direct costs (Note 36)	3 288	3 042
Sales and income from non-financial services	16 574	32 352
Variable Price 2008, Unión Duero Vida, Compañía de Seguros y Reaseguros y Duero Pensiones (E.G.F.P) (Note 12.2)	25 325	-
Other	101 532	181 492
	163 889	**232 021**

In 2017, this heading included the income generated from the sale of fixed assets inventories by the group´s societies. In 2016, it included the sale, through Mijas Sol Resort, S.L.U., of a number of plots and urban development rights associated with land under development.

39.2 Other operating expense

This breakdown of this heading in the consolidated income statements for 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Expense from property investments (Note 13.2)	2 947	2 329
Contribution to the Deposit Guarantee Fund (Note 1.10)	48 591	43 249
Contribution to the National Resolution Fund (Note 1.11)	13 987	18 339
Other	74 381	51 940
	139 906	**115 857**

The heading "Other" includes the cost of the sales services that constitute the core activity of the non-financial subsidiaries consolidated with the Group. In 2017 and 2016 included, the charge paid by the Group for the monetisation of deferred tax assets for €16,363 thousand and €15,300 thousand respectively.

40. Income/ expense on insurance and reinsurance contracts

No income or expenses arose on insurance or reinsurance contracts during 2017.

The heading "Income from assets under insurance or reinsurance contracts" on the consolidated income statement for 2017 and 2016, amounting to €17,394 thousand and €41,659 thousand, respectively, includes insurance premiums collected and income for insurance or reinsurance accrued by Group companies.

The heading "Expenses from liabilities under insurance or reinsurance contracts" on the consolidated income statement for 2016 amounting to €12,529 thousand, includes benefits paid and other expenses directly associated with insurance contracts, premiums paid to third parties for reinsurance and net appropriations made to provide for risks relating to the insurance contracts accrued by Group companies.

41. Administrative expenses

41.1 Staff costs

The breakdown of "Staff costs" in the consolidated income statements for the years 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Wages and salaries	297 243	313 529
Social security costs	81 103	87 260
Appropriations to defined benefit pension plans	197	214
Appropriations to defined contribution pension plans	10 037	11 371
Compensations	347	1 754
Staff training expenses	1 332	892
Other staff costs	10 814	11 500
	401 073	**426 520**

The average number of Group's employees, by professional category, at 31 December 2017 and 2016 is as follows:

	Average number of employees			
	2017		2016	
	Men	Women	Men	Women
Group 1	**2 186**	**1 753**	**2 255**	**1 729**
Level I	13	-	12	-
Level II	29	2	29	3
Level III	130	25	135	20
Level IV	286	81	290	76
Level V	678	318	680	302
Level VI	197	98	246	111
Level VII	335	333	335	312
Level VIII	296	399	299	385
Level IX	48	143	50	135
Level X	77	163	67	166
Level XI	75	158	98	192
Level XII	8	14	8	14
Level XIII	14	19	6	13
Group 2	**16**	**5**	**17**	**5**
Level I	1	-	2	-
Level II	11	5	10	5
Level III	3	-	4	-
Level IV	1	-	1	-
Level V	-	-	-	-
Cleaning staff	**-**	**7**	**-**	**9**
Total Parent	**2 202**	**1 765**	**2 272**	**1 743**
Other subsidiaries	**1 591**	**1 642**	**1 851**	**1 694**

The table below details a breakdown by concepts of the amounts recognized in the headings "Provisions - provisions for pensions and similar obligations" and "Insurance contracts linked to pensions" in the consolidated balance sheets at 31 December 2017 and 2016:

	Thousand euros	
	2017	2016
Provisions for pensions and similar obligations	**290 895**	**326 357**
Pensions and other post-employment commitments	163 480	174 254
Other long-term staff retributions	127 415	152 103
Insurance contracts linked to pensions	**131 103**	**138 192**
Post-employment retributions	131 103	138 192

Changes in the provisions recognized by the Group during the years ended 31 December 2017 and 2016 are detailed in Note 18.

41.1.1 Post-employment commitments

During 2002 the Parent Company agreed with its employees to modify and transform the employee pension supplement system into a mixed model of defined contribution and defined benefit, establishing a pension plan externalized employment was formalized in Unifondo Pensiones V, Fondo de Pensiones. To finish this modification and transformation, the Entity surrendered the insurance policies that before covered the actuarial liabilities. Simultaneously, funds were appropriated to the internal pension fund, a part of which was subsequently externalized to Unifondo V, Fondo de Pensiones.

At 31 December, 2017 and 2016, the balance of Unifondo Pensiones V, Fondo de Pensiones amounted to €299,881 thousand and €304,156 thousand, respectively. This amount covers needs of defined contribution and defined benefits commitments calculated in Note 2.12.

During 2014 Unicaja Banco Group acquired 60.70% in the share capital of Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero) which, in accordance with its current employment agreements, must pay a supplement for Social Security benefits relating to its employees, or their heirs, in the case of retirement, widowhood, orphan hood, permanent disability or serious disability. EspañaDuero' post-employment commitments are included in the consolidated financial statements for Unicaja Banco starting on the date control was acquired (on 28 March 2014, as is stated in Note 1.2).

41.1.1.1 General information on post-employment commitments

Set out below are different commitments of post-employment, such as defined contribution and defined benefit commitments assumed by the Group:

Defined benefit plans

The contributions made by the Group to the fund of external pension funds in 2017 amounted to €10,037 thousand (€11,371 thousand in 2016) and are recognized in “Staff costs” in the income statement.

Defined contribution plans

The present value of the commitments has been defined by qualified actuaries as follows:

- Calculation method: “projected credit unit method”, whereby each year of service an additional unit of right to benefits is generates and valued separately.

- Actuarial assumptions used: unbiased and mutually compatible

- Estimated retirement age of employees: calculated for each employee using the best information available at the reporting date.

The fair value of non-plan assets covering pension commitments includes the fair value of the insurance policy taken out by the Group with the insurer Unicorp Vida, Compañía de Seguros y Reaseguros, S.A. to cover commitments with employees who are guaranteed a supplementary benefit on retirement, as explained previously. As this insurance policy is contacted with a company related to the Bank (Note 12), it is recognized at fair value in the item “Insurance contracts linked to pensions" in assets, as it is not deemed to be a “plan asset”. The policy's fair value has been calculated using actuarial methods, discounting payments flows stipulated in the policy at the discount rate applicable according to the IBOXX AA Corporate curve, based on the financial term of the commitments.
At 31 December 2017 and 2016 the fair value of the assets allocated to cover post-employment remuneration is as follows:

	Thousand euros	
	2017	**2016**
Nature of assets allocated to Commitments Hedging		
Assets of the plan covered by insurance policy	93 890	102 523
Insurance policies hired by the Plan linked to defined contribution plans commitments hedging	133 808	140 830
Uninsured defined contribution pension plan	4 297	4 661
External defined contribution pension plan	420 048	432 162

41.1.1.2 Information on defined-contribution post-employment commitments

Pension commitments arranged under defined contribution plans are settled by means of annual payments made by the Group to beneficiaries, who are almost exclusively serving employees. The contributions are charged to the consolidated income statement for the period (Note 2.12.1) and do not therefore entail the recognition of a liability in the accompanying consolidated balance sheet.

The amounts recognized in the accompanying consolidated income statement in respect of contributions made to these plans in 2017 and 2016 totalled €10,037 thousand and €11,371 thousand, respectively (Note 41.1.1.1).

41.1.1.3 Information on defined-benefit post-employment commitments

The total amount of actuarial gains and losses on defined benefit plans that have been recorded in the statement of recognized income and expense consolidated profit for 2017 will not be reclassified to income amounted to €1,904 thousand gross earnings (€607 thousand in 2016), which after the tax effect of €1,333 thousand represent net earning (€425 thousand in 2016).

Set out below is the reconciliation between the opening and closing balances of the present value of Unicaja Banco's defined benefit commitments for 2017 and 2016:

					Thousand euros
2017	**Plan 1 Unicaja**	**Plan 2 Unicaja**	**Plan 1 BCeiss**	**Plan 2 BCeiss**	**Total**
Present value of obligations at January 1, 2017	**101 118**	**38 442**	**8 538**	**95 792**	**243 890**
(i) Cost of current services	124	-	-	-	124
(ii) Borrowing costs	1 181	505	91	1 104	2 881
(iii) Contributions made by plan participants	-	-	-	-	-
(vi) Actuarial losses and gains	1 833	(2 124)	(60)	1 491	1 140
iv.1. Due to changes in demographic assumptions	(646)	(2 890)	232	(1 057)	(4 361)
iv.2. Due to changes in financial assumptions	2 479	766	(292)	2 548	5 501
iv.3. Adjustments due to experience	-	-	-	-	-
(v) Exchange rate changes	-	-	-	-	-
(vi) Benefits paid	(8 266)	(1 459)	(662)	(6 329)	(16 716)
(vii) Cost of past services	-	-	-	-	-
(viii) Business combinations (Note 1.13)	-	-	-	-	-
(ix) Reductions	-	-	-	-	-
(x) Plan settlements	-	-	-	-	-
Present value of obligations at December 31, 2017	**95 990**	**35 364**	**7 907**	**92 058**	**231 319**

					Thousand euros
2016	**Plan 1 Unicaja**	**Plan 2 Unicaja**	**Plan 1 BCeiss**	**Plan 2 BCeiss**	**Total**
Present value of obligations at January 1, 2016	**105 708**	**38 757**	**9 408**	**99 036**	**252 909**
(i) Cost of current services	214	-	-	12	226
(ii) Borrowing costs	1 585	639	135	1 468	3 827
(iii) Contributions made by plan participants	-	-	-	-	-
(vi) Actuarial losses and gains	1 688	518	185	1 734	4 125
iv.1. Due to changes in demographic assumptions	(689)	(266)	25	527	(403)
iv.2. Due to changes in financial assumptions	2 377	784	160	1 207	4 528
iv.3. Adjustments due to experience	-	-	-	-	-
(v) Exchange rate changes	-	-	-	-	-
(vi) Benefits paid	(7 582)	(1 472)	(712)	(6 458)	(16 224)
(vii) Cost of past services	-	-	-	-	-
(viii) Business combinations (Note 1.13)	-	-	-	-	-
(ix) Reductions	-	-	-	-	-
(x) Plan settlements	(495)	-	(478)	-	(973)
Present value of obligations at December 31, 2016	**101 118**	**38 442**	**8 538**	**95 792**	**243 890**

Set out below is the reconciliation between the opening and closing balances of the fair value of the plan assets and the opening and closing balances of any reimbursement rights capitalized by Unicaja Banco in 2017 and 2016:

					Thousand euros
2017	**Plan 1 Unicaja**	**Plan 2 Unicaja**	**Plan 1 BCeiss**	**Plan 2 BCeiss**	**Total**
Present value of obligations at January 1, 2017	**103 518**	**29 660**	**7 429**	**71 025**	**211 632**
(i) Cost of current services	-	-	-	(1 748)	(1 748)
(ii) Borrowing costs	1 115	383	221	796	2 515
(iii) Contributions made by plan participants	345	276	-	-	621
(iv) Actuarial losses and gains	1 437	(991)	153	2 744	3 343
iv.1. Due to changes in demographic assumptions	(206)	603	91	(480)	8
iv.2. Due to changes in financial assumptions	1 643	(1 594)	62	3 224	3 335
iv.3. Adjustments due to experience	-	-	-	-	-
(v) Exchange rate changes	-	-	-	-	-
(vi) Benefits paid	(8 266)	(1 459)	(662)	(4 679)	(15 066)
(vii) Cost of past services	-	-	-	-	-
(viii) Business combinations	-	-	-	-	-
(ix) Reductions	-	-	-	-	-
(x) Plan settlements	-	-	-	-	-
Present value of obligations at December 31, 2017	**98 149**	**27 869**	**7 141**	**68 138**	**201 297**

					Thousand euros
2016	**Plan 1 Unicaja**	**Plan 2 Unicaja**	**Plan 1 BCeiss**	**Plan 2 BCeiss**	**Total**
Present value of obligations at January 1, 2016	**106 698**	**29 805**	**8 428**	**73 500**	**218 431**
(i) Cost of current services	262	(15)	44	(113)	178
(ii) Borrowing costs	1 491	480	(10)	1 066	3 027
(iii) Contributions made by plan participants	-	-	-	-	-
(iv) Actuarial losses and gains					
iv.1. Due to changes in demographic assumptions	(725)	(273)	(460)	(800)	(2 258)
iv.2. Due to changes in financial assumptions	3 858	1 136	599	2 168	7 761
iv.3. Adjustments due to experience	-	-	-	-	-
(v) Exchange rate changes	-	-	-	-	-
(vi) Benefits paid	(7 582)	(1 473)	(712)	(4 796)	(14 563)
(vii) Cost of past services	-	-	-	-	-
(viii) Business combinations	-	-	-	-	-
(ix) Reductions	-	-	-	-	-
(x) Plan settlements	(484)	-	(460)	-	(944)
Present value of obligations at December 31, 2016	**103 518**	**29 660**	**7 429**	**71 025**	**211 632**

Set out below is the reconciliation of the present value of the defined-benefit post-employment commitments and the fair value of the plan assets (excluding insurance contracts linked to pensions), against the assets and liabilities recognized in Unicaja Banco's balance sheet at 31 December 2017 and 2016:

					Thousand euros
2017	**Plan 1 Unicaja**	**Plan 2 Unicaja**	**Plan 1 BCeiss**	**Plan 2 BCeiss**	**Total**
Present value of obligations at December 31, 2017	**95 990**	**35 365**	**7 907**	**92 058**	**231 320**
(i) Cost of past services not recognized in balance sheet	-	-	-	-	-
(ii) Any amount not capitalized	-	-	-	2 354	2 354
(iii) Fair value of any reimbursement right capitalized	1 481	-	-	-	1 481
(iv) Other amounts recognized in balance sheet	-	(35 365)	(905)	(31 220)	(67 489)
Fair value of assets at December 31, 2017	**97 471**	**-**	**7 002**	**63 192**	**167 665**

2016	Plan 1 Unicaja	Plan 2 Unicaja	Plan 1 BCeiss	Plan 2 BCeiss	Total
					Thousand euros
Present value of obligations at December 31, 2016	**101 118**	**38 442**	**8 538**	**95 792**	**243 890**
(i) Cost of past services not recognized in balance sheet	-	-	-	-	-
(ii) Any amount not capitalized	-	-	-	3 785	3 785
(iii) Fair value of any reimbursement right capitalized	1 771	-	-	-	1 171
(iv) Other amounts recognized in balance sheet	-	(38 442)	(1 245)	(33 437)	(73 124)
Fair value of assets at December 31, 2016	**102 889**	**-**	**7 293**	**66 140**	**175 722**

Set out below is a breakdown of the total expense recognized in the consolidated income statements for 2017 and 2016:

Definition	**According to IAS 19**
a) Cost of current services	Staff costsl
b) Borrowing costs	Interest expense
c) Expected return on assets	Interest income
d) Cost of past services recognized during the period	Provisions/ reversal of provisions

2017	Plan 1 Unicaja	Plan 2 Unicaja	Plan 1 BCeiss	Plan 2 BCeiss	Total
					Thousand euros
a) Cost of current services	124	-	-	-	124
b) Borrowing costs	74	505	-	385	964
c) Expected return on assets	(8)	(383)	(130)	52	(469)
d) Cost of past services recognized in the year	396	(1 132)	(213)	(1 254)	(2 203)
e) Past service costs recognized in the year	-	-	-	-	-

2016	Plan 1 Unicaja	Plan 2 Unicaja	Plan 1 BCeiss	Plan 2 BCeiss	Total
					Thousand euros
a) Cost of current services	214	-	-	12	226
b) Borrowing costs	105	639	148	505	1 397
c) Expected return on assets	(10)	(480)	(3)	(65)	(558)
d) Cost of past services recognized in the year	-	-	-	-	-
e) Past service costs recognized in the year	(11)	-	(17)	-	(28)

Set out below are the main actuarial assumptions used by Unicaja Banco at 31 December 2017:

Plan 1 Actuarial assumptions:

- Updated tables: PERMF 2000-P
- Discount rates:
  - Corporate curve at 31 December 2017 for highly-rated Eurozone corporate bonds.
  - Each commitment has a term of between 18.76 and 9.36 for the commitments and between 12.71 and 3.48 for the assets.
  - The rates applied to each commitment fluctuate between 1.39% and 1.19% for the commitments and 1.30% and 0.41% for the assets.
- Salary growth rate: 2%
- Social Security pension growth rate: 0%
- Contribution base growth rate:
  - Contribution bases increase until they reach the actual salaries, up to the limits of the maximum contribution base for each rate group.
  - Maximum contribution base growth rate: 1%
- Pension increase rate: 1%

- o Expected yield on plan assets:
  - o For assets covering commitments insured under the Group II policy (Defined Benefit. Collective Bargaining Agreement for Savings Banks. Former Unicaja), a rate of 0.73% is applied.
  - o For assets covering commitments insured under the Group III policy (Defined Benefit. Employees from Banco Urquijo), a rate of 0.73% is applied.
  - o For assets covering commitments insured under the Group VI policy (Plan beneficiaries) with cash-flow matching, a rate of 1.52% is applied.
  - o For assets covering commitments insured under the policy for Beneficiaries from Groups I (Mixed. General System), II and III that receive actuarial income, a rate of 1.65% is applied.
  - o For assets covering commitments insured under the policy for benefits not financed by the Plan due to contribution limits, a rate of 0.42% is applied and a rate of 1.63% for the liabilities.
- o Estimated retirement age: 65, except for participants in respect of whom the retirement age is brought forward.
- o Rotation: No

Plan 2 Actuarial Assumptions of Unicaja Banco:

- o Updated tables: PERMF 2000-P
- o Discount rates:
  - o Market rate as per the financial term of commitment flows and applying the IBOXX AA Corporate curve at 31 December 2016 for highly-rated Eurozone corporate bonds.
  - o Each commitment has a term of between 19.28 and 9.79 for the commitments and between 14.74 and 1.29 for the assets.
  - o The rates applied to each commitment fluctuate between 1.54% and 1.33% for the commitments and 1.35% and -0.07% for the assets.
- o Salary growth rate: 5%
- o Social Security pension growth rate: 3%
- o Contribution base growth rate:
  - o Contribution bases increase until they reach the actual salaries, up to the limits of the maximum contribution base for each rate group.
  - o Maximum contribution base growth rate: 3%
- o Pension increase rate: 3%
- o Expected yield on plan assets:
  - o For assets covering commitments insured under the policy for commitments arising from the Collective Bargaining Agreements for Savings Banks and Banks, a rate of 0.14% is applied and a rate of 1.70% for the liabilities.
  - o For assets covering commitments insured under the policy for early-retired employees with cash-flow matching, a rate of 1.68% is applied.
  - o For assets to cover obligations insured income policy, the applied rate is 1.55%.
- o Return rate on any recognized reimbrusement right: 0%
- o Estimated retirement age: 65.
- o Rotation: No

On the other hand, the main actuarial assumptions used by EspañaDuero related to 31 December 2016 are the below:

Plan 1 of EspañaDuero Actuarial Assumptions:

- o Updated tables: PERMF 2000P
- o Discount rates:

  - The interest rate applied to obtain the present value of the accounting obligation is the market rate reflecting the financial duration of the flows from the commitments and the IBOXX rate curve at 01/12/2017 for high-credit-quality corporate bonds (AA).

- Interest rates and financial durations in each group are as follows:
For uninsured benefits of Plan beneficiaries, 0.74% and 6.36 years, respectively. For benefits of Plan beneficiaries insured under policy no. RV81 12000017, 1.09% and 15.91 years, respectively. For benefits of Plan members, 1.08% and 15.54 years, respectively.

- o Salary growth rate: 3.5%
- o Social Security pension growth rate: 0%
- o Contribution base growth rate: 2.5%
- o Pension increase rate: 2.5%
- o Expected yield of plan assets:
  - For Plan assets and liabilities: 4.21%.
  - For liabilities secured under the Plan: 1.36%
  - For Plan members: 0.2%
  - For Plan policy surpluses: 0.2%
- o Estimated retirement age: 65

Plan 2 of EspañaDuero Actuarial Assumptions:

Commitment resulting from Caja Duero:

- o Updated tables: PERMF 2000P
- o Discount rates:
  - The interest rate applied to obtain the present value of the accounting obligation is the market rate reflecting the financial duration of the flows from the commitments and the IBOXX rate curve at 01/12/2017 for high-credit-quality corporate bonds (AA).
  - Interest rates and financial durations in each group are as follows:
  - For benefits of assets not adhered to the Caja Duero employee pension plan, 1.12% and 18.64 years, respectively.
  For benefits under liability policy 02/02, the policy liabilities show 0.80% and 7.16 years, respectively; the spread of liabilities guaranteed under the Plan is 0.99% and the financial duration is 10.94 years, while the spread of liabilities insured under the Plan is 1.09% and the financial duration is 15.91 years.
  For benefits under asset policy 07/72, (0.13)% and a financial duration of 0.58 years.
  For benefits under liability policy 1440001, 0.76% and 6.39 years, respectively.
  Internal fund, 0.96% and a financial duration of 10.47 years.
- o Salary growth rate: 3.5%
- o Social Security pension growth rate: 0
- o Contribution base growth rate: 2.5%
- o Pension increase rate: 2.5%
- o Expected yield of plan assets:
  - For assets not covered by the Plan: 0.43%.
  - For policy 02/02: 1.05%
  - For asset policy 07/2, (0.07)%
  - For liability policy 1440001: 0.98%
- o Estimated retirement age: 65.
- o Rotation: No

Commitment resulting from Caja España:

- o Updated tables: PERMF 2000P
- o Tipo de descuento:
  - Market rate as per the financial duration of commitment flows and applying the IBOXX AA Corporate curve at 1 December 2017 for highly-rated corporate bonds (AA).
  - Interest rate and financial duration for each group:
  - Benefits of beneficiaries, policy 8.118: 1.09% (financial duration of 14.51 years).
  - Benefits of beneficiaries, policy PCP-1.001: 1.42% (financial duration of 0.96 years).

- Salary growth rate: 3.5%
- Social Security pension growth rate: 0
- Contribution base growth rate: 2.5%
- Pension increase rate: 2.5%
- Appreciation rate for pensions:
  - Policy 8.118: 2%
  - Policy PCP-1.001: 2.91%
- Expected yield of plan assets:
  - For assets related to policy 8.118: a cash flow matching of 1.22%
  - For assets related to policy 8.118: a cash flow matching of 1.10%.
- Estimated retirement age: 65.
- Rotation: No

Set out below are the amounts for 2017 and for the preceding four annual periods representing the present value of defined benefit commitments, the fair value of plan assets and experience adjustments under paragraph 120A, letter (f) of IAS 19 arising from plan assets and liabilities.

	Thousand euros				
	Present value of liabilities				
	Plan 1 Unicaja	Plan 2 Unicaja	Plan 1 BCeiss	Plan 2 BCeiss	Total
Year 2013					
Experience adjustments	(1 725)	567	-	-	(1 158)
Value at December 31, 2013	105 074	36 378	-	-	141 452
Year 2014					
Experience adjustments	-	-	-	-	-
Value at December 31, 2014	114 083	41 346	7 438	108 364	271 231
Year 2015					
Experience adjustments	-	-	-	-	-
Value at December 31, 2015	105 708	38 757	9 408	99 036	252 909
Year 2016					
Experience adjustments	-	-	-	-	-
Value at December 31, 2016	101 118	38 442	8 538	95 792	243 890
Year 2017					
Experience adjustments	-	-	-	-	-
Value at December 31, 2017	95 990	35 365	7 907	92 057	231 319

	Thousand euros				
	Present value of liabilities				
	Plan 1 Unicaja	Plan 2 Unicaja	Plan 1 BCeiss	Plan 2 BCeiss	Total
Year 2013					
Experience adjustments	639	(137)	-	-	502
Value at December 31, 2013	104 078	28 019	-	-	132 097
Year 2014					
Experience adjustments	-	-	-	-	-
Value at December 31, 2014	112 922	31 324	6 557	79 122	229 925
Year 2015					
Experience adjustments	-	-	-	-	-
Value at December 31, 2015	106 698	29 853	8 428	73 501	218 480
Year 2016					
Experience adjustments	-	-	-	-	-
Value at December 31, 2016	103 518	29 660	7 429	71 025	211 632
Year 2017					
Experience adjustments	-	-	-	-	-
Value at December 31, 2017	98 148	27 869	7 141	68 139	201 297

Set out below are sensitivity data for the present value of the commitments at 31 December 2017 and 2016 in relation to interest rate and salary growth fluctuations:

2017	**Percentage changes**	
	Increase	**Decrease**
Change in present value of commitments in the event of a 0.5% fluctuation in salaries	0.13%	(0.10%)
Change in present value of commitments in the event of a 50 bp interest rate fluctuation	(5.35%)	5.90%

2016	**Percentage changes**	
	Increase	**Decrease**
Change in present value of commitments in the event of a 0.5% fluctuation in salaries	0.14%	(0.14%)
Change in present value of commitments in the event of a 50 bp interest rate fluctuation	(5.45%)	5.99%

Based on the mortality tables used, the remaining life expectancy for a person who would retire at year-end 2017 is 26.79 years and 22.30 years respectively for women and men (same for 2016). Also, life expectancy for a person who would retire 20 years after the end of the year 2017 is 24 years and 29 years respectively for women and men.

The main categories of assets financed by third parties as a percentage over total assets are as follows:

	Thousand euros			
	2017	**%**	**2016**	**%**
Equity instruments	76 054	19.46%	84 134	20.19%
Debt Instruments	188 877	48.32%	201 184	48.28%
Investment funds	106 991	27.37%	78 741	18.90%
Financial derivatives	(20 274)	(5.19%)	(11 423)	(2.74%)
Other assets	39 251	10.04%	64 056	15.37%
	390 899	**100,00%**	**416 692**	**100,00%**

In all cases, the instrument contracted is an insurance policy.

The fair value of plan assets includes the following financial instruments issued by the Unicaja Banco group:

	Thousand euros	
	2017	**2016**
Equity instruments	-	-
Debt Instruments	-	-
Deposits and current accounts	2 759	2 492
	2 759	**2 492**

Estimated payments of post-employment commitment benefits in the coming 10 years are as follows:

						Thousand euros
	2018	2019	2020	2021	2022	2023-2027
Post-employment benefit	7 711	7 655	7 579	7 505	7 384	34 151
Other long-term benefit	26 158	24 054	20 012	14 505	9 705	8 306
Total benefits	**33 869**	**31 709**	**27 591**	**22 010**	**17 089**	**42 457**

As regards benefits estimated for the following year:

- For the defined retirement benefit, the amount of contributions will be equal to the ordinary cost and supplementary cost, if applicable, identified in the latest actuarial valuation performed by the plan actuary at the previous year end.

- For the disability, widowhood and orphanhood defined benefits of defined benefit groups, contributions will be equal to the annual premium necessary for coverage purposes, under a group life insurance policy, the amount of which is budgeted based on the amounts paid in the previous year.

- For the disability, widowhood and orphanhood defined benefits of defined contribution groups, contributions will be equal to the cost of the insurance premium for these benefits stipulated by the insurer, in the amount necessary to reach the amount of the benefits, net of capitalization funds formed. In general, they are estimated based on the amounts paid in the previous year.

41.1.2 Death and disability

The amount accrued by defined contribution insurance policies to cover employee death and disability of employees amounted to €319 thousand in 2017 (€2,775 thousand in 2016) and is recognized in “Staff costs” in the income statement (Note 2.12.3 and 41.1).

41.1.3 Age awards

The amounts recognized for commitments with employees that reach 20 and 35 years of service at the Group amounted to approximately €5,015 thousand and €4,867 thousand, respectively at 31 December 2017 and 2016 and are recognized in “Provisions – Other long-term staff retributions” in the balance sheets.

41.1.4 Other benefits

The amount of these commitments and assets included in the table above was calculated by qualified actuaries as follows:

- Actuarial assumptions used: for the calculation of commitments to employees resulting from that agreement, the Bank applied the market rate according to the financial duration of flows of commitment and curve IBOXX AA Corporate corresponding to corporate bonds with high credit ratings Euro zone.
- The duration for each commitment varies between 8.99 and 0.29.
- Rates applied for each commitment ranging from 0.89% and -0.13%.
- The stimated retirement age for each employee is agreed.

41.2 Other administrative expenses

The breakdown of this consolidated income statement line for 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Buildings and facilities	28 358	26 439
Rent	7 930	8 609
Information technologies	34 100	36 149
Communications	20 871	20 836
Advertising	14 330	10 767
Legal costs	1 359	4 849
Technical reports	17 553	9 989
Security services	8 725	8 483
Insurance premiums	1 256	1 466
Governing bodies	3 851	3 065
Representation costs	4 628	3 657
Association charges	5 682	5 030
Outsourcing	7	26
Taxes	31 641	35 763
Other items	9 117	8 981
	189 408	**184 109**

The heading "Other administrative expenses" includes the fees paid by the Group to PricewaterhouseCoopers Auditores, S.L. for auditing the annual accounts, amounting to €1,152 thousand in 2017 (€843 thousand in 2016). In 2017, the fees for services rendered to the Group by companies operating under the PricewaterhouseCoopers brand for other assurance and regulatory work amount to €2,346 thousand (€1,924 thousand in 2016), and for other services to €236 thousand (€957 thousand in 2016).

42. Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates

The breakdown of this headings in the consolidated income statement for the years 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Impairment or reversal of impairment of investments in subsidiaries, joint ventures and associates (Note 12)	**27 247**	**27 330**
Impairment or reversal of impairment on non-financial assets	**46 716**	**96 937**
Goodwill (Note 4)	1 794	1 907
Other assets	44 922	95 030
	73 963	**124 267**

There follows an itemized breakdown of the consolidated balance sheet caption "Impairment or reversal of impairment on non-financial assets" for 2017 and 2016:

	Thousand euros	
	2017	**2016**
Impairment losses of tangible assets (Note 13.1)	6 431	(933)
Impairment losses on investment property (Note 13.2)	(623)	4 313
Impairment losses on inventories (Note 13.3)	39 114	91 650
	44 922	**95 030**

Impairment losses on inventories include amounts provided by the Group under impairment on assets in subsidiaries' concept, mostly on those whose activity relates to real estate business.

43. Gains (losses) on derecognition of non-financial assets and subsidiaries

The breakdown of this heading in the consolidated income statements for the years 2017 and 2016 is as follows:

				Thousand euros
		2017		2016
	Gains	Losses	Gains	Losses
On disposal of tangible assets	6 326	(1 025)	8 097	(2 951)
On disposal of investments	13 407	(13)	26 893	(7 423)
Other items	217	(175)	427	(34)
	19 950	**(1 213)**	**35 417**	**(10 408)**

44. Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The breakdown of this heading in the consolidated income statements for the years 2017 and 2016 is as follows:

				Thousand euros
		2017		2016
	Gains	Losses	Gains	Losses
On disposal of tangible assets	34 412	(18 826)	26 639	(14 439)
On disposal of shares	-	-	-	-
Provision to impairment loses on non-current assets held for sale (Note 16)		(15 729)	-	(12 692)
Other items	-	-	-	-
	34 412	**(34 555)**	**26 639**	**(27 131)**

At 31 December 2017 and 2016, "Other items" mainly includes results associated with equity instruments classified as non-current assets held for sale, and not considered discontinued operations.

45. Related parties

In addition to the information presented in Note 6 relative to the balances and transactions with the members of the Controlling Company's Board of Directors and key management personnel, set out below is the detail of the accounts registered in the consolidated balance sheets and income statements for the years 2017 and 2016 arising from transactions with related parties:

					Thousand euros
					2017
Expenses, income and other transactions	**Significant shareholders**	**Administrators and Directives**	**Individuals, companies or Group entities**	**Other related parties**	**Total**
Financial expenses	-	(10)	(876)	(16)	(902)
Management or collaboration agreements	-	-	(4 915)	-	(4 915)
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	-	-	-	-
Reception of services	-	-	-	-	-
Purchase of goods (completed or in progress)	-	-	-	-	-
Valuation corrections for bad debts	-	-	-	-	-
Loss on assets' disposal	-	-	-	-	-
Other expenses	-	-	-	-	-
	-				
Total expenses	**-**	**(10)**	**(5 791)**	**(16)**	**(5 817)**
Financial expenses	-	26	4 099	98	4 223
Management or collaboration agreements	368	-	5 335	-	5 603
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Provisions of services	-	-	-	-	-
Sale of goods (completed or in progress)	-	-	-	-	-
Profit on assets' disposal	-	-	8 851	-	8 851
Other income	-	-	-	-	-
Total income	**268**	**26**	**18 285**	**98**	**18 677**
Purchase of tangible, intangible or other assetss	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	33	1 567	151 017	73 322	225 939
Financial lease contracts (landlord)	-	-	-	-	-
Amortization or cancellation of credits and leases (landlord)	-	-	-	-	-
Sale of tangible, intangible or other assets	-	-	-	-	-
Financing agreements loans and capital contributions (borrower)	71 673	6 019	167 358	3 561	248 611
Financial lease agreement (lease)	-	-	-	-	-
Amortizaton or cancellation of loans and leases (lessee)	-	-	-	-	-
Guarantees and collaterals provided	-	168	117 607	24 102	141 877
Guarantees and collaterals received	-	-	-	-	-
Commitments	-	-	-	-	-
Cancelled commitments/guarantees	-	-	-	-	-
Dividends and other distributed profits	14 738	-	-	-	14 738
Other operations	-	-	-	-	-
	86 444	**7 754**	**435 982**	**100 985**	**631 165**

Expenses, income and other transactions	Significant shareholders	Administrators and Directives	Individuals, companies or Group entities	Other related parties	Total
					Thousand euros 2016
Financial expenses	-	(15)	(2 263)	(40)	(2 318)
Management or collaboration agreements	-	-	(2 405)	-	(2 405)
R&D transfers and licensing agreements	-	-	-	-	-
Leases	-	-	-	-	-
Reception of services	-	-	-	-	-
Purchase of goods (completed or in progress)	-	-	-	-	-
Valuation corrections for bad debts	-	-	-	-	-
Loss on assets' disposal	-	-	(163)	-	(163)
Other expenses	-	-	-	-	-
Total expenses	**-**	**(15)**	**(4 831)**	**(40)**	**(4 886)**
Financial expenses	-	32	4 476	129	4 637
Management or collaboration agreements	-	-	6 149	-	6 149
R&D transfers and licensing agreements	-	-	-	-	-
Dividends received	-	-	-	-	-
Leases	-	-	-	-	-
Provisions of services	-	-	-	-	-
Sale of goods (completed or in progress)	-	-	-	-	-
Profit on assets' disposal	-	-	81	-	81
Other income	-	-	-	-	-
Total income	**-**	**32**	**10 706**	**129**	**10 867**
Purchase of tangible, intangible or other assetss	-	-	-	-	-
Financing agreements: loans and capital contributions (lender)	433	2 110	126 741	72 155	201 439
Financial lease contracts (landlord)	-	-	-	-	-
Amortization or cancellation of credits and leases (landlord)	-	-	-	-	-
Sale of tangible, intangible or other assets	-	-	-	-	-
Financing agreements loans and capital contributions (borrower)	76 095	4 499	263 032	3 069	346 695
Financial lease agreement (lease)	-	-	-	-	-
Amortizaton or cancellation of loans and leases (lessee)	-	131	72 899	6 224	79 254
Guarantees and collaterals provided	-	-	180	-	180
Guarantees and collaterals received	-	-	-	-	-
Commitments	-	-	-	-	-
Cancelled commitments/guarantees	-	-	-	-	-
Dividends and other distributed profits	17 247	-	-	-	17 247
Other operations	-	-	-	-	-
	99 775	**6 740**	**462 852**	**81 448**	**644 815**

The information in the table above has been presented in an aggregate manner since, in all cases, transactions with related parties are not significant in terms of quantity or relevance for an adequate understanding of the financial information provided.

The transactions with related parties have been made under normal market conditions.

46. Mortgage market information

Article 12 of Law 2/1981 of 25 March, regulating the Mortgage Market, amended by Law 41/2007 of December 7 and by Law 1/2013, of 14 May, states that "the entity issuing mortgage bonds shall keep a special accounting register of loans and credits that serve as collateral for mortgage bonds and, if any, of the replacement assets frozen to cover them, as well as derivative financial instruments linked to each emission. Such special accounting register must also identify, for the purposes of calculating the limits laid down in Article 16, of all loans and credits registered, those who meet the conditions required in the second of this Law section. Accounts of the issuer collected in the manner determined by regulation, the essential data that record. "

The Board of Directors declares that the Group has specific policies and procedures encompassing all the activities performed in the context of the mortgage market issues carried out, guaranteeing rigorous compliance with the mortgage market regulations applicable to these activities.

The policies and procedures include the following criteria:

- Relationship between the amount of the loan and the appraised value of the mortgaged building, including the effect of other collateral and selection of valuation companies.
- Relationship between the debt and the borrower's income, as well as the verification of the information furnished by the borrower and the borrower's solvency.
- Avoidance of imbalance between the flows from the underlying portfolio and the payment flows on the securities issued.

Article 3 of Law 41/2007 (7 December) stipulates that valuation companies providing services to credit entities of the same group of entities must have adequate mechanisms in place to favour the independence of the valuation activity and avoid conflicts of interest, provided that any of the group's credit entities have issued and outstanding mortgage-backed securities.

On 29 July 2014, it has been sold 100% shares of Unicaja Banco Group in Tasaciones Andaluzas, S.A.U. (TASA), which at December 31,2016 Unicaja Group has no involvement in any appraisal company.

As an issuer of mortgage covered bonds and ordinary mortgage bonds, there follows certain relevant information related to Unicaja Banco Group pursuant to the provisions of mortgage market regulations:

A) Active operations

At 31 December 2017 and 2016 the breakdown of the nominal value of mortgage loans and credit supporting the issue of mortgage bonds or which have been included in mortgage shares or mortgage transfer certificate, is as follows:

	Thousand euros	
	2017	**2016**
Transferred loans held in assets	**-**	**-**
Mortgage participations	-	-
Mortgage transfer certificates	-	-
Affects mortgage loans as collateral for loans received	**-**	**-**
Loans backing bonds and mortgage bonds issuance	**21 934 278**	**23 506 003**
Loans ineligible	4 738 945	5 248 679
Meet the eligibility requirements, except for the limit Article 5.1 of Royal Decree 716/2009	1 353 040	1 508 352
Other	3 385 905	3 740 327
Eligible loans	17 195 333	18 257 324
Amounts not eligible	70 558	76 780
Amounts eligible	17 124 775	18 180 544
Mortgage bonds hedging loans	-	-
Mortgage bonsds hedging eligible loans	*17 124 775*	*18 180 544*
	21 934 278	**23 506 003**

At December 31, 2017 and 2016, the nominal value of outstanding loans and mortgage loans backing the issue of mortgage bonds totals to an amount of €21,934,278 thousand and €23,506,003 thousand, respectively, and the value outstanding principal of loans and mortgages that meet the characteristics of being eligible under the issuance of such support mortgage amounts to an amount of €17,195,333 thousand and €18,257,324 thousand, respectively. On the other hand, in 2017 and 2016, the Entity has not issued ordinary mortgage bonds.

As of December 31, 2017 and 2016, non-mortgage operations, appearing in the portfolio, had been mobilized through mortgage participations or mortgage transfer certificates are maintained.

The nominal value of all ineligible mortgage loans and credit that do not meet the limits established by Article 5.1 of Royal Decree 716/2009 which, however, comply with the rest of the requirements for eligible items, as indicated in Article 4 of that Law, totals €1,353,040 thousand at 31 December 2017 and €1,508,352 thousand at 31 December 2016.

The breakdown of loans that support the issue of mortgage bonds classified in accordance with diverse criteria at 31 December 2017 and 2016 is as follows:

	Thousand euros	
	2017	
	Loans backing the issuance of bonds and mortgage bonds	Of which: Eligible loans
Nominal value of the total outstanding mortgage loans and credits	**21 934 278**	**17 195 333**
By origin:	21 934 278	17 195 333
- Entity	21 674 755	16 988 479
- Surrogate for other entities	259 523	206 854
- Rest	-	-
By currency:	21 934 278	17 195 333
- In euros	21 932 646	17 193 712
- Other currency	1 632	1 621
According the payment situation:	21 934 278	17 195 333
- Normality	21 530 142	17 195 333
- Other situations	404 136	-
According to the average maturity:	21 934 278	17 195 333
- To 10 years	10 072 707	6 555 495
- More than 10 years and to 20 years	7 885 198	7 224 603
- More than 20 years and to 30 years	3 794 381	3 306 548
- More than 30 years	181 992	108 687
According to the interest manner:	21 934 278	17 195 333
- Fixed	537 821	361 424
- Variable	21 396 457	16 833 909
- Mixed	-	-
Holders:	21 934 278	17 195 333
- Legal entities and individuals	3 425 521	1 498 275
Of which: property development	427 296	166 030
- Households	18 508 757	15 697 058
Depending on the warranty:	21 934 278	17 195 333
- Assets/ buildings completed	19 799 300	16 163 699
- Residential	19 013 231	15 749 304
Of which: official protection	923 243	878 966
- Commercial	631 605	360 344
- Rest	154 464	54 051
- Assets/ buildings under construction	322 626	238 330
- Residential	299 309	220 342
Of which: official protection	5 607	5 514
- Commercial	20 308	15 842
- Rest	3 009	2 146
- Lands	1 812 352	793 304
- Urbanized	746 901	169 117
- Rest	1 065 451	624 187

	Thousand euros	
		2016
	Loans backing the issuance of bonds and mortgage bonds	Of which: Eligible loans
Nominal value of the total outstanding mortgage loans and credits	**23 506 003**	**18 257 324**
By origin:	23 506 003	18 257 324
- Entity	23 219 456	18 025 146
- Surrogate for other entities	286 547	232 178
- Rest	-	-
By currency:	23 506 003	18 257 324
- In euros	23 504 008	18 255 803
- Other currency	1 995	1 521
According the payment situation:	23 506 003	18 257 324
- Normality	23 026 526	18 257 324
- Other situations	479 477	-
According to the average maturity:	23 506 003	18 257 324
- To 10 years	10 570 572	6 671 073
- More than 10 years and to 20 years	8 284 154	7 596 440
- More than 20 years and to 30 years	4 292 665	3 760 212
- More than 30 years	358 612	229 599
According to the interest manner:	23 506 003	18 257 324
- Fixed	490 875	265 957
- Variable	23 015 128	17 991 367
- Mixed	-	-
Holders:	23 506 003	18 257 324
- Legal entities and individuals	4 073 871	1 774 812
Of which: property development	575 800	210 157
- Households	19 432 132	16 482 512
Depending on the warranty:	23 506 003	18 257 324
- Assets/ buildings completed	20 863 787	17 099 462
- Residential	20 004 396	16 608 842
Of which: official protection	1 021 746	983 807
- Commercial	721 778	408 024
- Rest	137 613	82 596
- Assets/ buildings under construction	382 011	231 853
- Residential	311 988	215 958
Of which: official protection	6 367	6 173
- Commercial	19 980	15 224
- Rest	50 043	671
- Lands	2 260 205	926 009
- Urbanized	846 889	201 477
- Rest	1 413 316	724 532

At 31 December 2017 and 2016 the breakdown of the nominal value of all eligible mortgage loans, based on the ratio between the amount of the transactions and the appraised values in accordance with the latest available appraisal of respective mortgage assets, is as follows:

						Thousand euros
						2017
	Less or equal to 40%	Greater than 40% and less or equal to 60%	Greater than 60% and less or equal to 80%	Greater than 80% and less or equal to 100%	Greater than 100%	Total
Eligible loans						
- On housing	4 520 781	6 218 834	5 230 031	-	-	15 969 646
- On other goods	722 678	472 609	30 400	-	-	1 225 687
	5 243 459	**6 691 443**	**5 260 431**	**-**	**-**	**17 195 333**

						Thousand euros
						2016
	Less or equal to 40%	Greater than 40% and less or equal to 60%	Greater than 60% and less or equal to 80%	Greater than 80% and less or equal to 100%	Greater than 100%	Total
Eligible loans						
- On housing	4 584 562	6 388 307	5 851 930	-	-	16 824 799
- On other goods	831 654	549 254	51 617	-	-	1 432 525
	5 416 216	**6 937 561**	**5 903 547**	**-**	**-**	**18 257 324**

Information relating to the nominal value of mortgage loans and credit that have been eliminated or added to the portfolio in 2017 and 2016 is set out below:

				Thousand euros
		2016		2015
	Eligible loans	Not eligible loans	Eligible loans	Not eligible loans
Beginning balance	**18 257 324**	**5 248 679**	**19 973 598**	**5 280 198**
Disposals	**(1 967 717)**	**(854 659)**	**(3 049 265)**	**(1 116 086)**
Cancellations at maturity date	(37 279)	(5 853)	(31 224)	(16 222)
Advanced cancellations	(382 675)	(300 236)	(404 404)	(245 695)
Subrogation from other entities	(3 323)	(102)	(5 072)	(394)
Other	(1 544 440)	(548 468)	(2 608 565)	(853 775)
Additions	**905 726**	**344 925**	**1 332 991**	**1 084 567**
Originated by Group	37 490	12 160	50 196	20 706
Subrogation from other entities	709	1 107	3 055	2 464
Other	867 527	331 658	1 279 740	1 061 397
Final balance	**17 195 333**	**4 738 945**	**18 257 324**	**5 248 679**

The movements included in the item “Other”, when associated with “Disposals for the year”, relate basically to the following flows that generate changes in the nominal balance of eligible and non-eligible loans and are applicable to movements in both 2017 and 2016:

- Transfers between the eligible and non-eligible portfolios, representing additions to the item "eligible loans" and disposals from the "non-eligible loans" portfolio or vice versa. This change is common to movements associated with “Additions for the year” (with the opposite sign). Transfers are due to changes in the fulfilment of eligibility requirements in accordance with applicable regulations (mainly the change in the LTV ratio for the utilization/repayment of loans or the review/update of appraisals).

- Repayment of loans that remain outstanding with respect to the total loans declared in the previous period and are not therefore treated as repayments at maturity or early repayments.

The movements included in the item “Other”, when associated with “Additions for the year”, relate basically to the following flows that generate changes in the nominal balance of eligible and non-eligible loans and are applicable to movements in both 2017 and 2016:

- Transfers between the eligible and non-eligible portfolios, representing additions to the item "eligible loans" and disposals from the "non-eligible loans" portfolio or vice versa. This change is common to movements associated with “Disposals for the year” (with the opposite sign). Transfers are due to changes in the fulfilment of eligibility requirements in accordance with applicable regulations (mainly the change in the LTV ratio for the utilization/repayment of loans or the review/update of appraisals).

The available balance of mortgage loans that support the issue of mortgage bonds at 31 December 2017 and 2016 is as follows:

	Thousand euros	
	2017	**2016**
Potentially eligible	176 150	188 958
Ineligible	156 272	138 156
	332 422	**327 114**

The nominal value of the available amounts (committed amounts not drawn down) relating to all mortgage loans and credit potentially eligible at 31 December 2017 and 2016 totals €176,150 thousand €188,958 thousand, respectively, and the amount that is not potentially eligible totals €156,272 thousand €138,156 thousand, respectively.

At 31 December 2017 and 2016 the Group does not have any replacement assets associated to issues of mortgage bonds or debentures.

B) Liability transactions

The breakdown at 31 December 2017 and 2016 of the nominal aggregate value of mortgage bonds in force issued by the Group and the mortgage funds and mortgage transfer certificates that are active at that date, based on their residual terms, is as follows:

	Thousand euros	
	2017	**2016**
Mortgage bonds	**-**	**-**
Mortgage bonds issued	**5 397 928**	**7 767 928**
Issued for public offering	-	1 000 000
- Residual maturity up to 1 year	-	500 000
- Residual maturity greater than 1 year and up to 2 years	-	-
- Residual maturity greater than 2 years and up to 3 years	-	500 000
- Residual maturity greater than 3 years and up to 5 years	-	-
- Residual maturity greater than 5 years and up to 10 years	-	-
- Residual maturity greater than 10 years		
Rest of issues	130 000	200 000
- Residual maturity up to 1 year	70 000	70 000
- Residual maturity greater than 1 year and up to 2 years	-	70 000
- Residual maturity greater than 2 years and up to 3 years	-	-
- Residual maturity greater than 3 years and up to 5 years	60 000	30 000
- Residual maturity greater than 5 years and up to 10 years	-	30 000
- Residual maturity greater than 10 years	-	-
Deposits	5 267 928	6 567 928
- Residual maturity up to 1 year	819 000	1 300 000
- Residual maturity greater than 1 year and up to 2 years	668 024	819 000
- Residual maturity greater than 2 years and up to 3 years	325 000	668 025
- Residual maturity greater than 3 years and up to 5 years	811 852	985 000
- Residual maturity greater than 5 years and up to 10 years	1 542 052	1 133 903
- Residual maturity greater than 10 years	1 102 000	1 662 000
Shares issues mortgage	**-**	**-**
Issued by public offering	-	-
Other issues	-	-
Mortgage transfer certificates issued	**-**	**-**
Issued by public offering	-	-
Other issues	-	-
	5 397 928	**7 767 928**

47. Information transparency in connection with financing for construction, property development, home buying and assets acquired in payment of debts

47.1 Qualitative information

The following should be noted in relation to the minimum information that must be disclosed by consolidated groups of financial institutions and by individual financial institutions that do not form part of a group:

- With respect to the financing of construction and property development, financial institutions are asked to disclose their policies and strategies implemented in connection with problematic assets in this industry, with a view to the short, medium and long term. These exposures must also be evaluated in terms of the resistance tests published before the summer, if the entity participated in them.

- Financing needs in the markets and in the short, medium and long-term strategies implemented must also be evaluated (without prejudice to the fact that the Bank of Spain may send at a later date details relating to minimum information on financing and liquidity needs).

Unicaja Banco, as part of its risk policy, particularly in connection with construction and property development, has a number of specific policies and strategies in place to favour the fulfilment of borrower obligations and mitigate the Group's exposure. Alternatives are sought to permit the completion and sale of property developments, analyzing the renegotiation of exposures if this improves the Group's credit position and basically to allow the borrower to continue to do business.

This takes into account prior experience with the borrower, compliance record, declared intention to pay, capacity to generate cash flows and new collateral furnished before existing guarantees are exceeded.

Firstly, provided there is a certain payment capacity and after exhausting all possibilities of collecting the past due debt, the Group studies the grant of principal grace periods to allow development of the land financed, completion of property under development and sale of finished units. The analysis performed prioritises project feasibility so as to avoid an increase in the investment in properties for which future sales are clearly possible.

If support measures are not possible or sufficient, other alternatives are sought, such as dation in payment or asset purchase, the final option being a court claim and the subsequent repossession of the properties through the enforcement of the mortgage guarantees. All irregular assets included in the Group's consolidated balance sheet are managed ultimately for the purposes of divestment or leasing.

To this end, the Unicaja Banco Group has special-purpose companies specialized in the management of property development projects, selling of properties and leasing of investment properties (Note 1.1.3). The Group also has specific units responsible for developing these strategies and coordinating the actions of the special-purpose subsidiaries, office network and other agents involved. Finally, the Group has the website *www.unicajainmuebles.com*, one of the main tools employed to present these assets to the general public.

47.2 Quantitive information

Set out below is a breakdown of construction and property development financing and its hedges (1), at 31 December 2016 and 2015:

	Thousand euros			
	2017			
	Gross book value (2)	Excess over collateral value (3)	Accumulated impairment (4)	Net value
Construction and property development financing (including floors) (Business in Spain)	1 073 118	301 160	240 423	832 695
Of which non performing	346 430	169 349	219 993	126 437
Memorandum ítem				
Bad assets (5)	407 581			

	Thousand euros			
	2016			
	Gross book value (2)	Excess over collateral value (3)	Accumulated impairment (4)	Net value
Construction and property development financing (including floors) (Business in Spain)	1 178 615	225 699	366 540	812 075
Of which non performing	506 010	160 566	282 293	223 717
Memorandum ítem				
Bad assets (5)	716 697			

Memorandum item: Consolidated group data (5)	Book value	
	2017	2016
Customer loans, Public Administrations excluded (Business in Spain) (book value) (6)	25 705 696	26 139 531
Total consolidated assets (total businesses) (book value) (7)	56 331 908	57 240 828
Impairment and provisions on exposured classified as normal (total businesses) (8)	111 053	111 550

(1) The financing classification in this statement will be made according to its purpose, and not with the debtor's CNAE. This entails, for example, that if the debtor is: (a) a property company that uses the financing granted for a purpose other than construction or property development, it will not be included in this table; and (b) a company whose core business is not construction or property development, but the credit is employed to finance buildings for use in property development, it will be included in this table.

(2) Amount before deducting, where appropriate, value adjustments for impairment of assets.

(3) It is the amount of the excess of the gross carrying amount of each transaction over the value of the real rights that may have been received as collateral, calculated in accordance with the provisions of Schedule IX of Circular 4 / 2004. Therefore, the value of the real rights is the result of weighing the smallest amount between the cost of the assets and the value of their valuation in its current state weighted by the percentages that correspond to them according to the nature of the mortgaged assets.

(4) Amount endowed by the entity to cover financing operations for the construction and real estate development.

(5) Includes all financing, in the form of loans, with or without mortgage guarantee, and debt securities, intended for construction and real estate development, corresponding to activity in Spain (business in Spain).

(6) Gross amount of financing for construction and real estate development (business in Spain) derecognised for being classified as default.

(7) Amount recorded on the asset side of the balance sheet after deducting, if applicable, the amounts constituted for hedging.

(8) Total amount of the value adjustments and provisions that have the nature of generic coverage for credit risk established for the risks classified as normal, as indicated in Annex IX of Circular 4/2004, corresponding to their total activity (total business).

Set out below is a breakdown of Financing for construction and property development, operations recognized by credit entities (business in Spain) at 31 December 2017 and 2016:

	Thousand euros	
	Gross book value (6)	
	2017	**2016**
Without mortgage	327 418	586 811
With mortgage (breakdown by asset received under warranty) (1)	745 700	591 804
Buildings and other completed constructions (2)	466 998	525 563
Housing	389 920	364 678
Rest	77 078	160 885
Buildings and other under construction (3)	62 567	61 646
Housing	61 338	48 774
Rest	1 229	12 872
Land	216 135	4 595
Consolidated urban land	169 116	-
Other land	47 019	4 595
Total (4)	**1 073 118**	**1 178 615**

(1) Amount before deduction, if any, of the accumulated impairment.

(2) All real estate collateral transactions, regardless of the manner in which the guarantee is insured, are included regardless of the percentage of the amount of the transaction over the last loan appraisal amount.

(3) If residential purposes (housing) or other purposes meet in a building, financing is included in the predominant purpose category.

(4) This amount coincides with the gross carrying amount of the line "Financing for construction and real estate development (including land) (business in Spain)" of the state PC 7-1.

Set out below is a breakdown at 31 December 2017 and 2016 of collateral's received and financial awarded related to construction and property development financing, operations recognized by credit entities (business in Spain):

	Thousand euros	
Collaterals received	**2017**	**2016**
Value of security rights	639 385	772 680
Of which: Default / Non-performing	*172 209*	*240 453*
Value of other colaterals	-	-
Of which: Default / Non-performing	-	-
Total value of collaterals received	**639 385**	**772 680**

	Thousand euros	
Financial guarantees granted	**2017**	**2016**
Financial guarantees granted in relation to construction and real estate promotion	420 191	403 814
Amount recorded in balance sheet liabilities	*29 664*	*45 730*

Set out below is a breakdown at 31 December 2017 and 2016 of Home-buyer loans, operations recognized by credit entities (business in Spain):

				Thousand euros
		2017		2016
	Gross (2)	Of which: Non-performing	Gross (2)	Of which: Non-performing
Loans for home purchase (1)	17 029 041	1 251 685	17 753 370	1 277 353
Without real estate mortgage	316 110	11 636	393 117	16 044
With real estate mortgage (3)	16 712 931	1 240 049	17 360 253	1 261 309

(1) Loans, with or without guarantee of mortgage real estate, to the homes for acquisition of housing corresponding to businesses in Spain.

(2) Amount before deducting, if appropriate, the accumulated impairment.

(3) All transactions with real estate mortgage guarantee, regardless of the percentage involved, will be included in the amount of the last valuation available.

Set out below is a breakdown of Home-buyer mortgage credit showing total risk as a percentage of the latest-available appraised value (LTV), operations recognized by credit entities (business in Spain) at 31 December 2017 and 2016:

						31 December 2017
	LTV≤40%	40%<LTV≤60%	60%<LTV≤80%	80%<LTV≤100%	LTV>100%	Total
Gross book value (2)	3 973 086	6 080 204	5 701 978	442 284	515 379	16 712 931
Of which: non-performing(2)	89 265	224 930	415 779	119 287	390 788	1 240 049

						31 December 2016
	LTV≤40%	40%<LTV≤60%	60%<LTV≤80%	80%<LTV≤100%	LTV>100%	Total
Gross book value (2)	3 942 549	6 131 191	6 446 308	578 493	261 711	17 360 252
Of which: non-performing(2)	77 337	241 746	594 151	157 207	190 867	1 261 308

(1) The loan to value is the ratio resulting from dividing the gross carrying amount of the operation at the date of the information between the amount of the last available valuation.

(2) Amount before deducting, if appropriate, the accumulated impairment. The amounts declared in the column 'Total' for the lines 'Book balance' and 'Of which: non-performingl' in this state coincide with the amounts shown in the line 'With real estate mortgage' of PC 7-3.

Set out below is a breakdown of assets awarded to the consolidated group entities (business in Spain) (1) at 31 December 2017 and 2016:

						Thousand euros
			2017			2016
	Gross book value (2)	Accumulater impairment losses	Net value	Gross book value (2)	Accumulater impairment losses	Net value
Foreclosed property assets or under debt pay	**1 871 698**	**(1 196 962)**	**674 736**	**2 567 435**	**(1 593 677)**	**973 758**
Property assets arising from financing provided to construction and property development companies (3)	1 069 831	(769 426)	300 405	1 521 907	(1 020 308)	501 599
Completed buildings	212 768	(111 472)	101 296	418 740	(212 566)	206 174
Residential	151 933	(76 323)	75 610	278 405	(141 751)	136 654
Other	60 835	(35 149)	25 686	140 335	(70 815)	69 520
Buildings under construction	139 313	(80 992)	58 321	182 812	(105 746)	77 066
Residential	137 767	(80 129)	57 638	180 502	(104 725)	75 777
Other	1 546	(863)	683	2 310	(1 021)	1 289
Land	717 750	(576 962)	140 788	920 355	(701 996)	218 359
Developed land	461 865	(357 747)	104 118	686 340	(501 737)	184 603
Other land	255 885	(219 215)	36 670	234 015	(200 259)	33 756
Property assets from home purchase mortgage loans to households	530 069	(260 241)	269 828	660 742	(336 015)	324 727
Other forclosed property assets (4)	271 798	(167 295)	104 503	384 786	(237 354)	147 432
Foreclosed equity instruments or under debt pay	**20 434**	**(19 147)**	**1 287**	**20 434**	**(15 233)**	**5 201**
Investments in real estate companies	**-**	**-**	-	**-**	**-**	**-**
Equity instruments from foreclosed property assets entities or under debt pay (5)	**-**	**-**	-	-	-	-
Financing to foreclosed property assets entities or under debt pay (5)	**-**	**-**	-	-	-	-
			-			
	1 892 132	**(1 216 109)**	**676 023**	**2 587 869**	**(1 608 910)**	**978 959**

(1) This will include assets awarded, acquired, purchased or exchange for debt deriving from financing granted by the group companies during business in Spain, and shares in and financing granted to non-consolidated entities holding such assets.

(2) Amount before, when applicable, accumulated impairment losses.

(3) All real estate assets arising from financing for construction and real estate development, irrespective of the sector and main economic activity of the individual enterprise or entrepreneur who delivered the asset, shall be included.

(4) This will include real estate assets that do not derive from loans to construction and property development companies, or home-buyer loans.

(5) All assets of this kind will be recognized, including share capital and financing to entities holding foreclosed property assets or received in payment of debts.

As shown in the table above, as of December 31, 2017 the gross acquisition cost of foreclosed assets amounted to €1,892,132 thousand, with a total coverage provision of €1,216,109 thousand, representing a level of coverage of the cost of acquisition of 64.3% gross.

48. Information on the deferral of payments to suppliers. Additional Provision Three - Duty of information - Law 15/2010 (5 July)

In accordance with Law 15/2010 (5 July), which amended Law 3/2004 (29 December) on measures to combat late payment in commercial transactions, as further developed by the Ruling of 29 December from the Institute of Accounting and Auditing (ICAC) on information to be included in the notes to annual accounts in connection with the deferral of payments to suppliers in commercial transactions, the following should be noted:

- In view of the Entity's core activities, the information on the deferral of debt relates basically to payments to supplier for services and sundry supplies received, other than payments to deposit holders and holders of securities issued by the Entity, which have been made, in any event, in strict compliance with contractual and legal deadlines in each case, whether debts payable on demand or on a deferred basis.

- Payments made by Unicaja Banco Group to suppliers solely for the provision of sundry services during 2017 totalled €473,471 thousand (€538,696 thousand in 2016); the services were provided within the legal deadlines and as contractually stipulated. At 31 December 2017 and 2016, the balance pending payment to suppliers is immaterial and complies with the payment period requirements of Law 15/2010 (5 July).

According to the provisions of the second final provision of Law 31/2014, of December 3, in which the third additional provision of Law 15/2010 is modified, and in relation to information to be incorporated into memory the annual accounts on deferred payments to suppliers in commercial transactions calculated based on the provisions of the Resolution of 29 January 2016 the Institute of Accounting and Auditing, the average period of payment to suppliers of the Group during years 2017 and 2016 of 20.49 and 20.98 days, while the ratio of paid operations and the ratio of outstanding payment transactions amounted to 39.21 days and 15.38 days, respectively.

The average payment period is within the legal limits established in the regulations, so it does not apply the inclusion in the management report of the measures provided for in paragraph 1 of Article 262 of the Revised Text of the Companies Act Capital.

49. Customer service

In compliance with Article 17.2 of Order ECO/734/2004, of 11 March, on customer departments and services and protection of financial institutions, a brief summary is provided of the contents of the report of the Group Customer Service Department 96.11% of complaints and claims received in 2017 were resolved (87.59% at 31 December 2016). The remaining percentage pending at 31 December 2017 are expected to be resolved during the first two months of the following year at the most, in accordance with the Order and Unicaja's regulations governing the protection of customer.

APPENDIX I
SUBSIDIARIES AT 31 DECEMBER 2017

Company Name	Registered domicile	Activity	% Share owned by Group		
			% Share		Total share
			Direct	Indirect	
Alqlunia Duero, S.L.U.	C/ Marqués de Villamagna 6-8 , Madrid	Real estate development	0.00%	76.68%	76.68%
Alteria Corporación Unicaja, S.L.U.	C/ Bolsa nº 4, planta 5ª, Málaga	Investment in assets, securities and financial companies	100.00%	0.00%	100.00%
Altos de Jontoya Residencia para Mayores, S.L.U.	Plaza Jaén por la Paz nª2 Jaén	Geriatric care	0.00%	100.00%	100.00%
Analistas Económicos de Andalucía, S.L.U.	C/ Granada 32, Entreplanta	Study and analysis economic activity	100.00%	0.00%	100.00%
Andaluza de Tramitaciones y Gestiones, S.A.U	C/ Angosta del Carmen 2 Entreplanta, Málaga	Management and settlement documents and deeds	0.00%	100.00%	100.00%
Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero)	C/ Titán, 8, Madrid	Credit institution	76.63%	0.05%	76.68%
Caja España Mediación OBSV, S.A.U.	Plaza de los Bandos 15-17, Salamanca	Insurance broker	0.00%	76.68%	76.68%
Cartera de Inversiones Agroalimentarias, S.L.U.	Plaza Jaén por la Paz, 2. Jaén	Food industry	100.00%	0.00%	100.00%
Desarrollo de Proyectos de Castilla y León, S.L.U.	Av. Madrid, 120 Edificio El Portillo, León	Real estate development	0.00%	76.68%	76.68%
Finanduero Sociedad de Valores, S.A.U.	C/ Titán 8 - 2º, Madrid	Stockbroker	0.00%	76.68%	76.68%
Gestión de Actividades y Servicios Empresariales S.A.U.	C/ Federico Orellana Toledano, 14, Málaga	Electronic recording and processing of data and documents	0.00%	100.00%	100.00%
Gestión de Inmuebles Adquiridos, S.L.U.	C/ Mauricio Moro Pareto nº 6, 6ª planta, Edificio Eurocom, Málaga	Real estate development	0.00%	100.00%	100.00%
Inmobiliaria Acinipo, S.L.U.	C/ Mauricio Moro Pareto nº 6, Bajo, Edificio Eurocom, Málaga	Real estate development	100.00%	0.00%	100.00%
Inmobiliaria Uniex Sur, S.L.U.	C/ Mauricio Moro Pareto nº 6, Bajo, Edificio Eurocom, Málaga	Real estate development	0.00%	100.00%	100.00%
La Algara Sociedad de Gestión, S.L.U.	C/ Bartolomé de Medina, 24 Loc, Sevilla	Turism industry	0.00%	100.00%	100.00%
Mijas Sol Resort, S.L.U.	Avda. Andalucía, 10-12, Málaga	Real estate development	0.00%	100.00%	100.00%
Parque Industrial Humilladero, S.L.	C/ Miguel Hernández, 1, Humilladero, Málaga	Development of industrial land	0.00%	86.98%	86.98%
Pinares del Sur, S.L.U.	Avenida Portugal Edificio Abarzuza, bajo (Esquina Avda. Juan Carlos). Cádiz	Real estate development	0.00%	100.00%	100.00%
Segurándalus Mediación, Correduría de Seguros, S.A.U.	C/ Cuarteles nº 51 Ptl.1 Entreplanta. Málaga	Insurance broket	0.00%	100.00%	100.00%

APPENDIX I
SUBSIDIARIES AT 31 DECEMBER 2017

Company Name	Registered domicile	Activity	% Share owned by the Group		
			% Share		Total Share
			Direct	Indirect	
Unicaja Gestión de Activos Inmobiliarios, S.A.U.	Avda. Andalucía, 10-12, Málaga	Holding real estate	100.00%	0.00%	100.00%
Unicartera Caja 2, S.L.U.	C/ Mauricio Moro Pareto nº 6, 6ª planta, Edificio Eurocom, Málaga	Promotion or Funding of R&D in the field of medicine	100.00%	0.00%	100.00%
Unicartera Gestión de Activos, S.L.U.	C/ San Agustín nº 2-1º A, Madrid	Recovery procedures and management of disputes	0.00%	100.00%	100.00%
Unicartera Internacional, S.L.U.	Avda. Andalucía, 10-12, Málaga	Investment in assets, securities and financial companies	100.00%	0.00%	100.00%
Unicartera Renta, S.L.U.	Avda. Andalucía, 10-12, Málaga	Investment in assets, securities and financial companies	100.00%	0.00%	100.00%
Unicorp Patrimonio, Sociedad de Valores, S.A.U.	C/ Bolsa, Nº 4, 1ª planta, Málaga	Wealth management	0.00%	100.00%	100.00%
Unigest, S.G.I.I.C., S.A.	C/ Bolsa, Nº 4, 5ª planta, Málaga	Management of Collective Investment Institutions	0.00%	89.60%	89.60%
Unimediación, S.L.U.	C/ Bolsa nº 4, planta 2, Málaga	Insurance broker	0.00%	100.00%	100.00%
Unimediterráneo de Inversiones, S.L.U.	C/ Mauricio Moro Pareto nº 6, 6ª planta, Edificio Eurocom, Málaga	Investment in assets, securities and financial companies	100.00%	0.00%	100.00%
Uniwindet, S.L.	C/ Bolsa, Nº 4, 5ª planta, Málaga	Wind power	20.62%	79.38%	100.00%
Viajes Caja España, S.A.	Avenida Madrid 120, León	Travel agency	0.00%	38.34%	38.34%
Viproelco, S.A.U.	Avenida Madrid 120, León	Property development	0.00%	76.68%	76.68%

APPENDIX II
JOINT VENTURES AT 31 DECEMBER 2017

Thousand euros

Company Name	Registeres domicile	Activity	% Share owned by the Group			Individual profit/ loss for the year	Non-current assets	Current assets	Non-current liabilities	Current liabilities	Total revenue	Total expenditure
			% Share		Total share							
			Direct	Indirect								
Banco Europeo de Finanzas, S.A. (2)	C/La Bolsa, 4, piso 1. Málaga.	Credit institution	1,20%	39,52%	40,72%	180	2 859	92 541	45	168	933	(753)
Cartera Perseidas, S.L. (2)	Paseo de Recoletos,29 Madrid	Investment in assets, securities and financial companies	2,36%	32,90%	35,26%	(56)	599	263	593	13	-	(56)
Dolun Viviendas Sociales, S.L. (3)	C/ Muñoz Olivé 1, portal 1-1-C Sevilla	Real estate development	0,00%	40,00%	40,00%	-	-	-	-	-	-	
Espacio Medina, S.L. (4)	Pº de la Castellana (Torre Espacio) 259.Madrid	Real estate development	0,00%	30,00%	30,00%	(942)	-	87 342	5 296	38 764	-	(942)
Muelle Uno-Puerto Málaga, S.A. (5)	Avda. de Andalucía 21-Entreplanta, Málaga	Real estate development	0,00%	39,74%	39,74%	(207)	50 338	2 385	23 652	4 827	4 241	(4 448)
Sociedad de Gestión San Carlos, S.A. (2)	C/ Almirante Faustino Ruiz, 2 A-1.Cadiz	Real estate development	0,00%	53,29%	53,29%	(423)	-	14 339	7 828	787	-	(423)
Cerro del Baile, S.A. (1)	Av. Bruselas, 15 - 4º , Arroyo de la Vega (Alcobendas) - Madrid	Real estate development	0,00%	61,34%	61,34%	(8)	-	23 596	179	47 090	-	(8)
Lares Val de Ebro, S.L. (6)	Avda. Talgo 155 Madrid	Real estate development	0,00%	25,56%	25,56%	(292)	-	19 277	2	21 381	-	(292)
Madrigal Participaciones, S.A. (2)	C/ Santiago 7 - 1º E, Valladolid	Investment in assets, securities and financial companies	0,00%	58,03%	58,03%	586	15 284	8 043	6 000	7	816	(231)
Rochduero, S.L. (7)	C/ Armas 10-A Jerez de la Frontera (Cádiz)	Real estate development	0,00%	41,48%	41,48%	(359)	0	35 758	420	36 535	25	(385)

(1) Financial data at 30 June 2017.
(2) Financial data at 31 December 2017.
(3) Data not available. Company under liquidation
(4) Financial data at 30 November 2017.
(5) Financial data at 31 August 2017
(6) Financial data at 30 June 2016. Society under liquidation
(7) Financial data at 31 August 2016

Note: The financial information used for equity participation in jointly controlled entities that are presented in this Annex is the last available by the Bank to the date of preparation of these financial statements. In cases where this financial information does not correspond with the December 31, 2017, it is because it has been used instead, information on a date very close to the end of 2017, or because the entity jointly controlled It has no relevant activity that may have a significant impact on these financial statements (for being in liquidation or other reasons that produce similar effect

APPENDIX III
ASSOCIATES AT 31 DECEMBER 2017

Thousand euros

Company name	Registeres domicile	Activity	% Share owned by the Group			Financial Statements at year end				
			% Share		Total	Total assets	Equity	Profit for the year	Current liabilities	Operating profit
			Direct	Indirect						
Ahorro Andaluz, S.A. (15)	Avenida Andalucía , 10 - 12; Málaga	Holding securities	42,40%	7,60%	50,00%	43 508	43 502	(10)	6	-
Alestis Aerospace, S.L. (14)	C/ Ingeniero Rafael Rubio Elola Nº 1 (Parque Tecnológico y Aeronáutico de Andalucía-AEROPOLIS). La Rinconada-Sevilla.	Aerospace industry	12,19%	1,85%	14,04%	449 782	(14 597)	(13 685)	464 379	5 739
Andalucía Económica, S.A. (15)	C/ Diego de Riano nº 11, Piso 2º. Sevilla	Publishing, graphic arts and television	23,80%	0,00%	23,80%	738	530	39	208	-
Autopista del Guadalmedina. Concesionaria Española, S.A. (16)	Carretera A-45 (AP 46 Km 6.200), Casabermeja-Málaga.	Highways	30,00%	0,00%	30,00%	376 238	81 177	(2 055)	301 358	4 014
Autopista del Sol Concesionaria Española, S.A. (16)	Plaza Manuel Gómez-Moreno (Edf.Alfredo Mahou), 2.Madrid	Highways	20,00%	0,00%	20,00%	684 512	(8 194)	2 604	684 512	30 190
B.I.C. Euronova, S.A. (15)	Avenida Juan López Peñalver,21 (Parque Tecnológico Andalucía). Campanillas-Málaga	Investment services and promotion	20,00%	0,00%	20,00%	1 372	857	(75)	515	(77)
Creación de Suelo e Infraestructuras, S.L. (7)	C/ Ibiza, 35 -5ºA. Madrid	Real estate development	0,00%	24,98%	24,98%	57	(12 341)	(3)	12 398	(3)
Deoleo, S.A. (14)	Autovía Madrid-Cádiz KM 388. Alcolea-Córdoba	Food industry	9,99%	0,06%	10,05%	1 160 112	311 055	(7 801)	849 057	10 668
Desarrollo Urbanísticos Cerro de Medianoche, S.L. (15)	Plaza Jaén por la Paz, 2. Jaén	Real estate development	0,00%	24,72%	24,72%	3 562	3 562	(4)	-	(4)
Gestión e Investigación de Activos, S.A. (10)	Paseo General Martínez Campos, 46-2ªplanta. Madrid	Real estate development	0,00%	42,61%	42,61%	21 313	11 180	438	10 133	692
Hidralia, Gestión Integral de Aguas de Andalucía, S.A. (15)	C/ Alisios.Edf Ocaso, nº 1, Sevilla	Integrated wáter cycle	20,00%	0,00%	20,00%	273 019	118 048	12 297	154 971	20 786
Ingeniería de Suelos y Explotación de Recursos, S.A. (13)	Paseo del Coso S/N. Minas de Riotinto-Huelva	Mining industry	30,00%	0,00%	30,00%	70 167	26 640	5 890	43 527	7 041
Ingeniería e Integración Avanzadas, S.A. (14)	C/ Severo Ochoa 43 (Parque Tecnológico de Andalucía). Campanillas-Málaga	New technologies	40,00%	0,00%	40,00%	13 369	5 569	485	7 800	685
La Reserva de Selwo Golf, S.L. (10)	Pasaje Linaje 3, Planta 1, Piso 1. Málaga	Real estate development	0,00%	35,00%	35,00%	535	(3 831)	(9)	4 366	(9)

APPENDIX III
ASSOCIATES AT 31 DECEMBER 2017

Thousand euros

Company name	Registeres domicile	Activity	% Share owned by the Group			Financial Statements at year end				
			% Share		Total	Total assets	Equity	Profit for the year	Current liabilities	Operating profit
			Direct	Indirect						
Malagaport, S.L. (10)	Edificio Instituto de Estudios Portuarios, Puerto de Málaga (Muelle de Cánovas), S/N. Málaga	Community services	26,07%	0,00%	26,07%	384	357	(35)	26	(35)
Obenque, S.A. (10)	C/ Zurbano, 76.Madrid	Real estate development	0,00%	26,98%	26,98%	8 066	2 300	(1 866)	5 766	(1 559)
Parque Científico-Tecnológico de Almería, S.A. (15)	Avda. de la Innovación, nº15, Edificio Pitágoras, Almería	Real estate development	0,00%	30,08%	30,08%	47 992	26 622	(1 145)	21 370	(298)
Propco Malagueta, S.L. (15)	C/ Mauricio Moro Pareto (Edificio Eurocom Norte), 6 Málaga	Real estate development	0,00%	25,00%	25,00%	91 342	84 585	(76)	6 757	(76)
Santa Justa Residencial, S.L. (15)	Calle Miguel Indurain, 32; Málaga	Real estate development	0,00%	49,50%	49,50%	79 394	15 248	(634)	64 146	(835)
Sociedad Municipal de Aparcamientos y Servicios, S.A. (15)	Plaza Jesús "El Rico" 2-3. Málaga	Car parks	24,50%	0,00%	24,50%	67 128	40 870	3 832	26 258	7 039
Uncro, S.L. (11)	C/ Ibiza Nª 35 5ª A,Madrid	Real estate development	0,00%	25,00%	25,00%	874	(9 597)	(27)	10 470	(27)
Unema Promotores Inmobiliarios, S.A. (12)	C/ Strachan, nº1, planta 1. Málaga	Real estate development	0,00%	40,00%	40,00%	37	(1 669)	(22)	1 706	-
Unicorp Vida, Compañía de Seguros y Reaseguros, S.A. (15)	C/ Bolsa, Nº4, 3ª planta. Málaga	Insurance	42,40%	7,60%	50,00%	2 255 759	160 968	40 554	2 094 791	42 083
Ala Ingeniería y Obras, S.L. (2)	Crta. De la Estación, naves 7 y 8 - Meco (Madrid)	Manufacturing metal structures	0,00%	15,37%	15,37%	8 889	(5 005)	(1 178)	13 894	(1 275)
Caja España Vida Cía. de Seguros y Reaseguros S.A. (15)	C/ Santa Nonia, 4 - 3ª Planta, León	Insurance and reinsurance	0,00%	38,34%	38,34%	1 337 749	105 579	22 645	1 232 171	16 742
Camping El Brao, S.A. (6)	C/ Uría, 56 - 2 C , Oviedo (Asturias)	Real estate development	0,00%	19,17%	19,17%	5	(10)	(4)	15	(4)
Compañía de Servicios de Castilla y León, S.A. (1)	C/ Pico del Urbión, 4 Valladolid	Development administrative work	0,00%	21,52%	21,52%	141	(801)	(667)	942	(659)
Cuatro Estaciones INM Siglo XXI, S.L. (4)	Plaza del Mío Cid 6 - 3º, Burgos	Real estate development	0,00%	15,34%	15,34%	1 787	(632)	(10)	2 419	(10)
Duero Pensiones, E.G.F.P., S.A. (15)	Pº de la Castellana, 167 Madrid	Management pension funds	0,00%	38,34%	38,34%	9 253	8 245	977	1 008	1 113
Inversiones Alaris, S.L. (8)	Av. Carlos III El Noble,8 Pamplona / Iruña Navarra	Share holding	0,00%	25,56%	25,56%	18 109	15 493	(102)	2 616	(102)

APPENDIX III
ASSOCIATES AT 31 DECEMBER 2017

Thousand euros

Company Name	Social domicile	Activity	% Share owned by the Group			Financial Statements at year end				
			% Share		Total	Total assets	Equity	Profit for the year	Current liabilities	Operating profit
			Direct	Indirect						
Mejor Campo Abonos y Cereales, S.A. (6)	Callejón de San Francisco, 1 - Bajo Medina del Campo (Valladolid)	Commercial fertilizer and feed	0.00%	20.70%	20.70%	3	(58)	-	61	-
Numzaan, S.L. (5)	C/ Doctor Casas, 20 Zaragoza	Real estate development	0.00%	16.46%	16.46%	1 375	(65 020)	(833)	66 395	(27)
Patrimonio Inmobiliario Empresarial, S.A. (3)	C/ Santa Engracia, 69 Madrid	Real estate development	0.00%	22.31%	22.31%	26 857	(21 423)	(566)	48 280	-
Proyecto Lima, S.L. (15)	C/ Mauricio Moro Pareto (Edificio Eurocom Norte), 6 Málaga	Real estate development	0.00%	19.17%	19.17%	46 118	42 357	(61)	3 885	(61)
Unión del Duero Compañía Seguros de Vida, S.A. (15)	Pº de la Castellana, 167 Madrid	Life insurance	0.00%	38.34%	38.34%	744 823	30 085	20 179	714 738	26 904

(*)The participation in this entity is classified under the heading "Non-current assets held for sale" in the consolidated balance sheet.

(1) Financial data at 31 August 2013. Company in liquidation.
(2) Financial data at 31 December 2013. Company in liquidation.
(3) Financial data at 31 March 2014. Company in liquidation.
(4) Financial data at 31 October 2014. Company in liquidation.
(5) Financial data at 31 December 2015.
(6) Financial data at 31 December 2016. Company in liquidation.
(7) Financial data at 31 Semptember 2016. Company in liquidation.
(8) Financial data at 31 January 2017. Company with no activity
(9) Financial data at 30 April 2017.
(10) Financial data at 30 September 2017. Company in liquidation.
(11) Financial data at 30 September 2017. Company banckrupcy declarated.
(12) Financial data at 31 September 2017. Company in liquidation
(13) Financial data at 30 October 2017.
(14) Financial data at 30 November 2017
(15) Financial data at 31 December 2017.
(16) Financial data at 31 December 2017. Under IFRS Regulations

Note: The financial information used for equity participation in associates presented in this Annex is the last available by the Bank to the date of preparation of these financial statements. In cases where this financial information does not correspond with the December 31, 2017, it is because it has been used instead, information on a date very close to the end of 2076, or because the associated entity It has no relevant activity that may have a significant impact on these financial statements (for being in liquidation or other reasons that produce similar effects).

APPENDIX III
FINANCIAL STATEMENTS ESPAÑA DUERO

a) Balance sheet for the years ended 31 December 2017 and 2016

	Thousand euros	
	2017	**2016**
Cash, cash balances at central banks and other demand deposits	1 468 354	356 694
Financial assets held for trading	5 868	24 950
Available-for-sale financial assets	4 853 934	1 522 676
Loans and receivables	14 350 487	12 745 549
Held-to-maturity investments	-	7 461 806
Hedging derivatives	12 306	40 772
Investments in subsidiaries, joint ventures and associates	240 872	52 964
Tangible assets	696 532	710 782
Tax assets	1 963 579	1 963 790
Other assets	60 244	20 283
Non-current assets and disposal groups held for sale	183 101	491 663
Total assets	**23 835 277**	**25 391 929**
Financial liabilities held for trading	7 673	25 969
Financial liabilities measured at amortized cost	22 409 065	24 001 048
Hedging derivatives	1	11 176
Provisions	418 852	335 393
Tax liabilities	174 296	158 813
Other liabilities	126 345	128 962
Total liabilities	**23 136 232**	**24 661 361**
Accumulated other comprehensive income	74 984	18 715
Shareholders' funds:	624 061	711 853
Capital	253 552	253 552
Share Premium	760 656	760 656
Retained earnings	(640 613)	(614 832)
Other reserves	383 344	362 855
Less: treasury shares	(96 261)	(24 596)
Profit or loss attributable to parent	(36 617)	(25 782)
Total equity	**699 045**	**730 568**
Total equity and total liabilities	**23 835 277**	**25 391 929**
Financial guarrantees given	325 910	368 917
Contingents commitments	923 039	810 700
Total written-off the Balance Sheet	**1 248 949**	**1 179 617**

APPENDIX III
FINANCIAL STATEMENTS ESPAÑA DUERO

b) Income statements for the years ended 31 December 2017 and 2016

	Thousand euros	
	2017	**2016**
Interest income	301 046	391 026
Interest expense	(215 408)	(259 096)
	-	
Net interest income	**85 638**	**131 930**
Dividend income	43 579	56 479
Fee and commission income	98 276	92 178
Fee and commission expenses	(9 155)	(9 711)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss. Net	29 587	9 642
Gains or (-) losses on financial assets and liabilities held for trading. Net	(1 203)	855
Gains of (-) losses from hedge accounting. Net	-	-
Exchange differences (losses). Net	689	784
Other operating income	40 065	51 901
Other operating expenses	(68 530)	(69 420)
Gross income	**218 946**	**264 638**
Administration costs	(239 956)	(254 022)
Amortization	(17 551)	(16 924)
Provisions or (-) reversal of provisions	(37 142)	(95 241)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss	(5 712)	(55 132
Net operating income	**(69 982)**	**(46 417)**
Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates	2 561	(43 243)
Impairment or (-) reversal of impairment on non-financial assets	280	2 152
Gains (losses) on derecognized of non financial assets and subsidiaries. Net	(4 633)	16 863
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	1 391	(10 142)
Operating profit before tax	**(69 581)**	**(80 787)**
Tax expense or (-) income related to profit or loss from continuing operations	**32 964**	44 800
Profit from continuing operations	**(36 617)**	**(35 987)**
Profit from discontinued operations (net)	**-**	10 205
Total recognized income/expenses	**(36 617)**	**(25 782)**

APPENDIX III
FINANCIAL STATEMENTS ESPAÑA DUERO

c) Cash flow statements for the years ended 31 December 2017 and 2016

	Thousand euros	
	2017	**2016**
Cash flows from operating activities	**(6 561 371)**	**5 308 854**
Profit for the year	(36 617)	(25 782)
Adjustments to obtain cash flow from operating activities	18 159	248 146
Net increase/decrease in operating assets	(5 141 967)	(4 231 104)
Net increase/decrease in operating liabilities	(1 433 910)	(1 298 441)
Collection/ payments for income tax	32 964	(1 673)
Cash flows from investing activities	**7 599 903**	**(4 027 680)**
Payments	(187 909)	(4 178 957)
Collections	7 787 812	151 277
Cash flows from financing activities	**71 665**	**88 743**
Payments	(521)	(145 000)
Collections	72 186	233 743
Efect of exchangge rate changes	**686**	**-**
Net increase (decrease) in cash and cash equivalents	**1 110 886**	**(785 583)**
Cash and cash equivalents at beginning of the year	357 468	1 143 051
Cash and cash equivalents at end of period	1 468 354	357 468

APPENDIX IV
BANK ANNUAL REPORT FOR THE YEAR 2017

Information for compliance with Article 89 of European Parliament Directive 2013/36/EU and its transposition into Spanish Legislation through Law 10/2014

In accordance with the provisions of Article 9 of European Parliament and Council Directive 2013/36/EU (26 June 2013), relating to accessing credit institution activities and the prudent supervision of credit institutions and investment companies, and in accordance with the provisions of Article 7 of Law 10/2014 (26 June) on the organization, supervision and solvency of credit institutions, which transposes this legislation into Spanish Law, the information relating to the annual bank report prepared by Unicaja Banco for the year ended 31 December 2017 is set out below.

	Business Volume (*) (thousand euros)	Number of employees (**)	Gross income before taxes (thousand euros)	Profit tax (thousand euros)
Spain	997 051	7 200	139 780	1 341
Rest of European Union	-	-	-	-
Rest of world	-	-	-	-
Total	**997 051**	**7 200**	**139 780**	**1 341**

(*) It has been considered the gross consolidated income as business volume.
(**) Number of full-time equivalent employees, obtained from Company's workforce of the Unicaja Banco Group, with activity in each judicature.

At 31 December 2017 the performance of the assets held by Unicaja Banco Group, calculated as the quotient of "consolidated profits for the year" in the consolidated income statement and "Total assets" in the consolidated balance sheet, is 0.25%.

Detailed information regarding the companies within the scope of consolidation of Unicaja Banco Group that operate in each jurisdiction, including their name, geographic location and the nature of their activity, is available in Appendices I-II-III of these notes to the annual accounts.

As may be observed in those appendices, practically all of the activity carried out by the Group takes place in Spain and in the financial sector, notably the retail banking activity carried out by the credit institutions Unicaja Banco, S.A. (Unicaja Banco) and Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero).

Unicaja Banco has not received any subsidies or public assistance.

UNICAJA BANCO, S.A. AND ITS' SUBSIDIARIES
(UNICAJA BANCO GROUP)

CONSOLIDATED DIRECTOR'S REPORT FOR THE YEAR 2017

1. Introduction

This Consolidated Directors' Report sets out relevant figures and events for 2017 to provide a view of the situation of Unicaja Banco, S.A. and subsidiaries (Unicaja Banco Group or the Group) and its business performance. The consolidated financial statements for 2017 to which this Consolidated Directors' Report relates have been drawn up in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU), taking into account Bank of Spain Circular 4/2004 of 22 December 2004 and amendments thereto.

Unicaja Banco, S.A. (hereinafter Unicaja Banco, the parent company or the Bank) is a credit institution that was incorporated for an indefinite period on 1 December 2011. Its business activity commenced as the indirect exercising, through a bank, of the financial activity of Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén - Unicaja (currently Fundación Bancaria Unicaja) following the entry into force of Law 26/2013 of 27 December.

The Bank is subject to legislation and regulations governing banking institutions operating in Spain. Further public information on the Bank can be consulted on its web site (www.unicajabanco.es) or at its registered office (Avenida Andalucía, 10 y 12, Malaga).

The Bank's corporate objects consist of the performance of all kinds of activities, transactions, acts, contracts and services pertaining to the banking business in general or related directly or indirectly thereto, or which are complementary thereto or develop the same, provided that they are allowed, or not forbidden, by prevailing legislation.

The Bank's objects include the provision of investment services and other services that are ancillary thereto, and the performance of activities pertaining to insurance agents, as an exclusive or related operator, without exercising both activities simultaneously.

In accordance with its By-laws, the activities that comply with Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions and that are covered by its objects may be carried out fully or in part, indirectly, in any legally admitted form and, in particular, through the ownership of shares or interests in companies or in other entities whose objects are identical, analogous or complementary to such activities.

The Bank is entered in the Mercantile Register of Malaga and is registered as a credit institution on the Bank of Spain's Special Register, number 2103. The Bank holds a licence to carry out banking activities granted by the Ministry of Finance in accordance with Article 1 et seq. of Royal Decree 1245/1995.

At 31 December 2017, following the stock market flotation, 49.68% of the Bank's share capital belongs to Fundación Bancaria Unicaja, the ultimate parent entity of the Bank and parent of the Unicaja Group. Both the Bank and its controlling entity are domiciled in Malaga, are subject to Spanish legislation and file their financial statements with the Mercantile Registry of Malaga.

The Bank is the parent of a subgroup of subsidiaries devoted to various activities that make up the Unicaja Banco group. These subsidiaries include Banco de Caja España de Inversiones, Salamanca y Soria, S.A. (EspañaDuero), in which Unicaja Banco Group holds an interest (not including treasury shares) of 95.77% (76.68% if treasury shares are included).

2. Financial highlights and indicators

Balance sheet	Million euros Dec. 2017	Dec. 2016	Accumulated variation Absolute	Relative
Total assets	56 332	57 241	(909)	-1.6%
Loans and advances to customers - performing (excluding valuation adjustments)[1]	25 908	27 051	(1 143)	-4.2%
Customer deposits (excluding valuation adjustments)	45 373	47 710	(2 337)	-4.9%
Retail customer deposits on the balance sheet	37 718	36 543	1 175	3.2%
Off-balance sheet funds	12 699	11 635	1 064	9.1%
Resources managed	58 202	60 149	(1 947)	-3.2%
Of which: customers (non-market)[2]	*50 417*	*48 178*	2 239	4.6%

(1) Not including doubtful loans, assets acquired under repurchase agreements through counterparty entities or involving financial intermediaries, or other financial assets (mainly guarantee deposits linked to market transactions).

(2) Not including assets sold with repurchase commitments through counterparty entities or involving financial intermediaries, or market issuances.

Profit/(loss)	Million euros Dec. 2017	Dec. 2016	Interanual variation Mill. euros	%
Net interest income	582.8	619.8	(37.0)	(6.0%)
Gross margin	997.0	1 089.1	(92.1)	(8.5%)
Pre-provision profit	364.3	433.3	(69.0)	(15.9%)
Impairments and other income	224.5	242.3	(17.8)	(7.4%)
Profit before tax	139.8	191.0	(51.2)	(26.8%)
Consolidated profit/(loss) for the year	*138.4*	135.1	3.4	2.5%
Profit/(loss) attributed to the parent entity	142.4	142.1	0.3	0.2%

Net return and Efficiency	Percentage Dec. 2017	Dec. 2016	Accumulated variation Mill. euros	%
ROE (attributed income/average equity)	4.2%	4.9%	n.a.	(0.7pp)
ROTE (attributed income/average tangible equity)	4.2%	4.9%	n.a.	(0.7pp)
ROA (net income/total average assets)	0.2%	0.2%	n.a.	-
RORWA (net income/APRs)	0.6%	0.5%	n.a.	0.1 pp
Operating efficiency (unamortised operating expenses /gross margin)	59.2%	56.1%	n.a.	3.2 pp

Solvency	Million euros Dec. 2017	Dec. 2016	Accumulated variation Mill. euros	%
Equity	3 902	3 183	719	22.6%
Total capital	3 650	3 569	81	2.3%
CET 1 capital	3 532	3 469	63	1.8%
Additional Tier 1	42	29	13	44.9%
Tier two qualifying capital Tier 2	76	71	5	n.s.
Capital requirements	1 757	1 826	(69)	(3.8%)
RWAs	24 239	25 188	(949)	(3.8%)
Total capital ratio	15.1%	14.2%	n.a.	0.9 pp
CET-1 ratio	14.6%	13.8%	n.a.	0.8 pp
Fully-loaded CET-1 ratio*	12.8%	11.8%	n.a.	1.0 pp

(*) In 2016 included convertible contingent bonds issued by EspañaDuero and subscribed by the FROB.

Risk management	Million euros Dec. 2017	Dec. 2016	Accumulated variation Mill. euros	%
Non-performing loans	2 710	3 215	(505)	(15.7%)
NPL ratio	8.7%	9.8%	n.a.	(1,1 pp)
NPL coverage ratio	50.0%	50.0%	n.a.	-
Cost of ordinary credit risk	0.15%	0.25%	n.a.	(0,1 pp)
Foreclosed properties available for sale (net)	675	974	(299)	(30.7%)
Foreclosed asset coverage ratio	6.0%	62.1%	n.a.	1,9 pp

Liquidity	Million euros Dec. 2017	Dec. 2016	Accumulated variation Mill. euros	%
Gross liquid assets	20 829	21 861	(1 032)	(4.7%)
Net liquid assets	14 177	14 544	(367)	(2.5%)
Net liquid assets/total assets	25.2%	25.4%	n.a.	(0,2 pp)
LtD ratio	76%	83%	n.a.	(6.9 pp)
Liquidity coverage ratio (LCR)	701%	410%	n.a.	290.8 pp
Net stable funding ratio (NSFR)	134%	125%	n.a.	9.0 pp

Additional information	Units Dic. 2017	Dic. 2016	Accumulated variation Num.	%
Branch offices	1 228	1 280	(53)	(4.1%)
ATMs	1 515	1 525	(10)	(0.7%)
Average employees (FTEs)	7 200	7 560	(360)	(4.8%)

Credit rating	December 2017	
Fitch	Short term	F3
	Long term	BBB-
	Outlook	Estable
Moody´s	Long-term deposits	Ba2
	Short term	NP
	Outlook	Positiva

3. Business performance and results

3.1. Economic and financial environment

Early developments in the new year continue to point to a relatively positive economic situation in both international and domestic terms. The information published in January reflects the major progress made towards the end of 2017, highlighting the improvement in perspectives in the international market that emerges from the latest update to world forecasts by the IMF, as well as the optimism of the main international leaders at the Davos Forum. On the domestic front, the estimates by the National Statistics Institute of the quarterly national accounts indicate that the slow-down in the fourth quarter was only one tenth (compared to the preceding quarter), which gives an annual growth of 3.1% for the full year in 2017.

Based on projections by International Monetary Fund specialists, the growth rate of the Spanish economy in 2017 surpassed the advanced economies as a whole (2.3%) although it was below world GDP, the growth rate of which was estimated at 3.7%, the highest rate in the last five years. The consolidation of business growth, which may be noted in most of the main geographical areas, is based on the maintenance of accommodative monetary policies and highly favourable financial conditions, with a less restrictive approach in fiscal policy.

These signs of reactivation have been accompanied by a strengthening of world trade with a growth rate which, in contrast to the situation in recent years (post-recession period), is higher than the increase in GDP. However, perhaps the most agreeable surprise in the recent situation has been the acceleration of the European economy, particularly the Eurozone, which as well as reducing the dispersion among EMU countries, has achieved year-on-year growth of 2.7% (provisionally on 4th quarter) with reduced levels of inflation (1.4% in December).

In this context, the IMF outlook for the next two years, 2018 and 2019, envisages a fairly positive scenario for the world economy which could grow close to 4% and continue to consolidate the recovery. The main advanced economies, including the Eurozone as a whole, Japan and the USA, will achieve growth rates which are faster than expected at the end of the year (previous revisions published in October 2017). The upgrade has been considerable in the case of the USA (up 0.4%) as its economy will benefit from the major stimulus derived from the fiscal reform. With respect the risks, the IMF considers that they are balanced in the short term but highlights a potential adjustment in financial markets and political and geopolitical conflicts as issues that need to be monitored.

In the case of Spain, the IMF expects actual GDP to increase by 2.4% in 2018, one tenth less than forecast in the previous estimate, due to the impact of the increase in political uncertainty on confidence and demand. In contrast, the 2019 forecast has been adjusted upwards to 2.1%. In this respect, the report that accompanies the forecasts indicates that the growth rates in many Eurozone economies have been revised upwards, especially those of Germany, Italy and the Netherlands, thanks to the recovery of domestic and external demand. In contrast, growth in Spain, which would have been well above the potential figure, has been adjusted slightly downwards (one tenth) in 2018.

This slowdown might start being felt in the labour market, although the general trend continues to be favourable. In the fourth quarter of 2017 the results of the Active Population Survey (EPA) published by the National Statistics Institute indicate that job creation in the Spanish economy slowed in the last quarter to 2.6%, two tenths down on the preceding quarter. From an unemployment viewpoint, the unemployment figure rose in the last quarter of the year for seasonal reasons to 16.6%, 2.1 points below the figure at end-2017.

In any case, other employment indicators reflect a solid upward trend, without any signs of exhaustion. In this respect, together with the synthetic activity indicator prepared by the Finance Ministry, we should note the upward trend in the Business Turnover Index (ICNE), which has been accelerating in recent months due to the improved performance of the trade index, as well as industrial orders and industrial output and the rise in the use of installed productive capacity (79.1% in the fourth quarter of 2017).

This expansive cycle stage, aside from spending control policies, is allowing a reduction in levels of public debt in both Spain and the EMU area as a whole. Based on 2017 third quarter data, public debt fell to 88.1% of GDP in the Eurozone as a whole, compared with 89.7% a year previously. The highest levels of public debt with respect to GDP in the third quarter of 2017 pertain to Greece (177.4%), Italy (134.1%) and Portugal (130.8%), and the lowest to Estonia (8.9%), Luxembourg (23.4%) and Bulgaria (25.6%). In Spain, the indebtedness of the public administrations as a whole stood at 98.7%, a reduction of 1.2% on the level one year previously.

The draft budgets for 2018 project a further reduction in the public deficit of EMU countries to 0.9% of GDP, following the 1.1% estimated for 2017. Public debt will also be reduced this year and is expected to reach 86% of GDP, compared to 88% estimated for 2017. In structural terms the public balance will hardly change in 2018 and therefore fiscal policy remains practically neutral, which is considered appropriate by the European Commission.

3.2. Financial year highlights

The Unicaja Banco Group made a net profit of €138 million in 2017, 2.5% up on 2016, and will increase the dividend per share by 17%. The Group's net profit without considering the impact of the insurance business reorganisation is calculated at €189.3 million.

Unicaja Banco has achieved this result improving the essential indicators of its banking activity:

- Net interest income fell by 6% in the year with a change in trend in the last quarter when it rose by 6.9% and net fees confirmed the overall improvement during the year with a rise of 6.1%.
- Operating expenses fell by 3.5% during the year.
- Total impairments, excluding the impact of the insurance business reorganisation, decreased by almost half compared with the previous year.

Commercial activity continued to improve, strengthening customer relations:

- New loans granted have increased by 44% for companies and 22% for individuals, compared with 2016.
- Customer funds increased with respect to the previous year, with annual variation rates of 13.2% in sight resources and 9.1% in off-balance-sheet resources. The sight/term deposit mix continued to improve compared with 2016.

Risk indicators have remained positive and coverage levels has been maintained:

- NPAs fell by 20.8% (€-1,201 million) in the year. Non-performing loans declined by 15.7% and foreclosed assets fell by 27.1% during the year.
- The NPL ratio fell by 1.1% in the year to 8.7%. The coverage levels for doubtful loans and foreclosed assets were maintained, at 50% and 64% respectively.

Financial strength and high solvency levels:

- The Group has a comfortable liquidity position with net liquid assets that represent 25.2% of the balance sheet.

- Improvement of 0.8% in regulatory CET1, with an excess of 645 basis points over the SREP requirements for 2018.
- The proposed distribution of the surplus for the year involves a dividend per share that is 17% higher than in 2016.

3.3. Profitability and impairments

At the end of 2017, the Group's net profit stood at €138 million. In the previous half-year, the restructuring of the banking-insurance agreements was completed, entailing a negative accounting impact without which the Group's net profit would have totalled €189 million.

The profit of €138 million derives, initially, from net interest and fee income of €803 million, representing 1.4% of average total assets. The inter-quarterly trend in both net interest income and net fee income is favourable, with growth of 6.9% and 2.0%, respectively.

Income statement - Unicaja Banco Group	**Dec. 2017**	**Dec. 2016**	**Absolute Variation**	**Relative Variation**
Net interest income	**582.8**	**619.8**	**(37.0)**	**(6.0%)**
Fees	220.1	207.4	12.7	6.1%
Dividends and Associates income	71.9	62.6	9.2	14.7%
Trading income + exchange differences	98.3	78.2	20.1	25.6%
Other operating income/expenses	24.0	121.0	(97.0)	(80.2%)
Gross margin	**997.0**	**1 089.1**	**(92.1)**	**(8.5%)**
Operating expenses	(632.8)	(655.9)	(23.1)	(3.5%)
Operating margin (before write-downs)	**364.3**	**433.3**	**(69.0)**	**(15.9%)**
Total impairments and other income	(224.5)	(242.3)	(17.8)	(7.4%)
Profit before tax	**139.8**	**191.0**	**(51.2)**	**(26.8%)**
Corporate income tax	(1.3)	(66.1)	(64.8)	(98.0%)
Profit /(loss) from discontinued operations	-	10.2	(10.2)	n.s.
Consolidated profit/(loss) for the year	**138.4**	**135.1**	**3.4**	**2.5%**
Profit/(loss) attributed to parent entity	***142.4***	***142.1***	***0.3***	***0.2%***

The customer margin fell slightly in the year due to the evolution of the Euribor in 2017 and the impact on the retail mortgage portfolio of the treatment of claims concerning pacts limiting interest rate fluctuations under Royal Decree-Law 1/2017 and, to a lesser extent, due to the maturities of public-sector operations. In the last quarter, however, there has been an improvement due to the lowering of financing costs for EspañaDuero (derived mainly from the repurchase from the FROB of the contingently convertible bonds issued by EspañaDuero) and the maintenance of the portfolio's profitability, despite the claims relating to pacts limiting interest-rate fluctuations.

Yield and costs

Millions euros / %

Variation Breakdown (17/16)

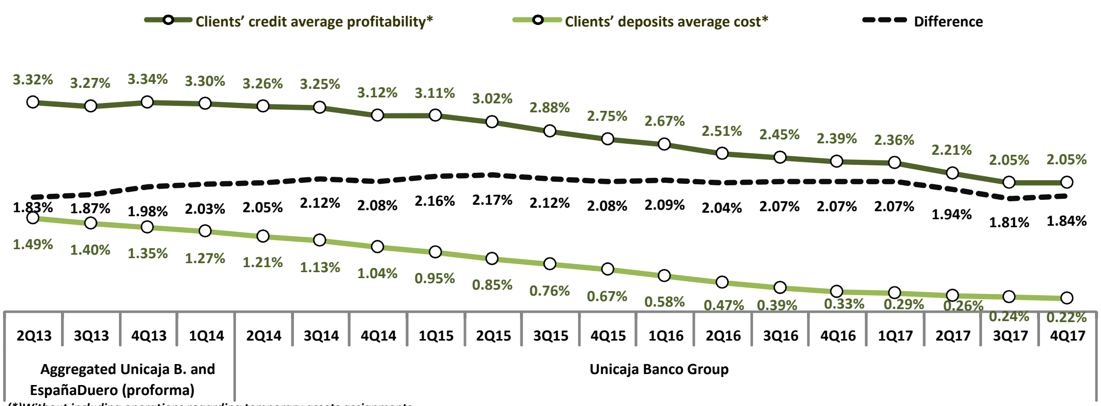
	December 2017			December 2016			Var. Dic17-Dic16					
	Av. balance	**IF/CF**	**Rate (%)**	**Av. balance**	**IF/CF**	**Rate (%)**	**Av. Balance**	**IF/CF**	**Rate (%)**	**Balance Effects**	**Price Effects**	**Comb. Effect.**
Fiinancial Intermediaries	3,661	-8	-0.22	2,698	-2	-0.06	963	-6	-0.15	-1	-4	-1.5
Fixed-income portfolio	17,418	219	1.26	18,815	254	1.35	-1,397	-34	-0.09	-19	-17	1.2
Performing loans *	**26,825**	**582**	**2.17**	**27,895**	**699**	**2.51**	**-1,071**	**-118**	**-0.34**	**-27**	**-94**	**3.6**
Other receivables (including doubtful)	8,406	31	0.37	9,331	41	0.44	-925	-10	-0.07	-4	-6	0.6
TOTAL ASSETS	56,310	824	1.46	58,740	992	1.69	-2,429	-168	-0.23	-41	-132	5.5
Financial Intermediaries	6,836	-11	-0.17	7,137	5	0.07	-300	-17	-0.24	0	-17	0.7
Debt securities	6,023	116	1.92	7,068	132	1.87	-1,046	-17	0.05	-20	4	-0.5
F.C Customer Deposits*	**36,585**	**92,5**	**0.25**	**37,319**	**164**	**0.44**	**-734**	**-72**	**-0.19**	**-3**	**-70**	**1.4**
From which: Sight deposits S.P.	23,840	15	0.06	21,659	21	0.10	2,180	-7	-0.04	2	-8	-0.8
Term deposits	10,490	76	0.73	13,656	140	1.03	-3,166	-64	-0.30	-33	-41	9.6
F.C Subordinated Liabilities	376	40	10.66	611	58	9.50	-235	-18	1.16	-22	7	-2.7
F.C Other liabilities	6,490	5	0.07	6,604	13	0.19	-114	-8	-0.12	0	-8	0.1
TOTAL LIABILITIES AND EQUITY	56,310	242	0.43	58,740	373	0.63	-2,429	-131	-0.21	-15	-120	5.0
CUSTOMER SPREAD			1.92			2.07			-0.15			
NET INTEREST MARGIN	56,310	583	1.03	58,740	620	1.06	-2,429	-37	-0.02	-26	-12	0.5

F.I.:Financial Income
FC.: Financial Costs
S.PPrivate Sector

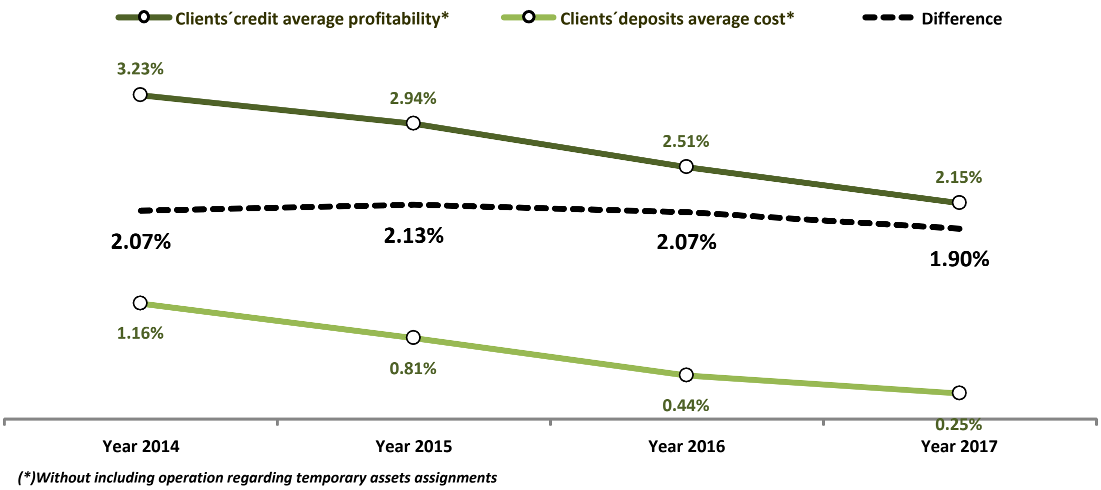
Customers Business differential evolution (quarterly) Unicaja Banco Group

	Agregated Unicaja and EspañaDuero				Unicaja Banco Group																		
	2T13	3T13	4T13	1T14	2T14	3T14	4T14	1T15	2T15	3T15	4T15	1T16	2T16	3T16	4T16	1T17	2T17	3T17	4T17	Av. Rate. 2014	Av. Rate 2015	Av. Rate 2016	Av. Rate 2017
Clients´credit average profitability *	3.32%	3.27%	3.34%	3.30%	3.26%	3.25%	3.12%	3.11%	3.02%	2.88%	2.75%	2.67%	2.51%	2.45%	2.39%	2.36%	2.21%	2.05%	2.05%	3.23%	2.94%	2.51%	2.15%
Average clients' deposits cost *	1.49%	1.40%	1.35%	1.27%	1.21%	1.13%	1.04%	0.95%	0.85%	0.76%	0.67%	0.58%	0.47%	0.39%	0.33%	0.29%	0.26%	0.24%	0.22%	1.16%	0.81%	0.44%	0.25%
Difference	1.83%	1.87%	1.98%	2.03%	2.05%	2.12%	2.08%	2.16%	2.17%	2.12%	2.08%	2.09%	2.04%	2.07%	2.07%	2.07%	1.94%	1.81%	1.84%	2.07%	2.13%	2.07%	1.90%

(*)Without including operations regarding temporary assets assignment



(*)Without including operations regarding temporary assets assignments



The positive evolution of fees and commissions received in 2017 compared with the previous year (+6.5%) is due mainly to collection and payment services (+8.5%) and to the marketing of off-balance-sheet products (+3.7%), in line with the Entity's strategic objectives. Net fees have also increased with respect to the preceding quarter.

Trading income and exchange differences, amounting to €98 million, 25.6% higher than the previous year, mainly derive from fixed income investments in the first quarter of 2017 and equity income investments in the rest of the year.

Dividends and profits of equity-method companies have also risen considerably, driven by the reorganisation of the banking-insurance agreements. These have led to the reclassification of certain investments in non-current assets held for sale to associated companies, and therefore the net profits of these companies are disclosed under equity method companies in 2017 while in 2016, only the dividends paid by them were recorded under profits from discontinued operations.

Other operating income/(expenses) fell by 80.2% on the previous year, strongly affected by the reorganisation of banking-insurance agreements that began in 2016 with the sale to Caser of non-life insurance marketing rights, generating income of €98 million in this item in 2016. In 2017, it was the turn of life insurance, generating income of €25 million in this item. Revenues from the real estate activity recorded under this heading, as well as the costs of the Single Resolution Fund and the Deposit Guarantee Fund and the commission paid for the deferred monetisable tax assets, have been similar to those of the previous year. The remainder of the negative fluctuation is mainly due to the recognition of various non-recurring items at the end of 2016.

The strict cost containment and cutting policy implemented under the plan to enhance efficiency and achieve the synergies envisaged in the Business Plan continues to bear fruit, operating costs (administrative expenses plus depreciation/amortisation) have improved by 3.5%, entailing a reduction of €23 million.

Finally, loan and foreclosed asset impairments in 2017 represent 51% of those made in 2016. Cost of risk stands at 0.15% at the end of 2017, considerably below the 0.25% recorded in 2016.

				Million euros
Breakdown of total impairments and other results	**Dec. 2017**	**Dec. 2016**	**Absolute Variation**	**Relative Variation**
Loan impairments	48.6	83.8	(35.2)	(42.0%)
Foreclosed asset impairments	44.9	95.5	(50.6)	(53.0%)
Provisions	132.5	104.0	28.4	27.3%
Other results	(1.5)	(41.1)	39.6	(96.4%)
Total impairmentsand other income	**224.5**	**242.3**	**(17.8)**	**(7.3%)**

3.4. Major business figures

Resources managed by the Group at the end of 2017 amount to €58,202 million.

					Million euros
Customer funds Unicaja Banco Group (without value adjustments)	**Dec. 2017**	**Compos.**	**Dec. 2016**	**Interanual variation**	**Interanual Variation %**
Balance sheet funds	**45 503**	**78.2%**	**48 514**	**(3 011)**	**(6.2%)**
Customer deposits	**45 373**	**78.0%**	**47 710**	**(2 337)**	**(4.9%)**
Public Administrations	**2 638**	**4.5%**	**2 311**	**327**	**14.1%**
Private sector	**42 736**	**73.4%**	**45 399**	**(2 664)**	**(5.9%)**
Sightdeposits	25 356	43.6%	22 397	2 960	13.2%
Termdeposits	14 222	24.4%	17 684	(3 462)	(19.6%)
Repo agreements	3 157	5.4%	5 318	(2 161)	(40.6%)
Issuances	**130**	**0.2%**	**804**	**(674)**	**(83.8%)**
Promissory notes	-	-	-	-	-
Mortgage securities	130	0.2%	200	(70)	(35%)
Other securities	-	-	-	-	-
Subordinated liabilities	-	-	604	(604)	(100.0%)
Off-balance sheet customer funds	**12 699**	**21.8%**	**11 635**	**1 064**	**9.1%**
Total managed resources	**58 202**	**100.0%**	**60 149**	**(1 947)**	**(3.2%)**
Of which:					
Customer funds (retail)	**50 417**	**86.6%**	**48 178**	**2 239**	**4.6%**
Of which: On balance sheet	*37 718*	*64.8%*	*36 543*	*1 175*	*3.2%*
Markets	**7 785**	**13.4%**	**11 971**	**(4 186)**	**(35.0%)**

The majority of funds managed consist of customer deposits (€45,373 million), of which €25,356 million are sight deposits made by private sector customers, €14,222 million are time deposits (including €5,093 million in non-marketable covered bond issues) and €3,157 million are assets sold with repurchase agreements. Off-balance-sheet funds managed amount to €12,699 million, mainly comprising customer funds captured through investment funds (€6,067 million), pension funds (€2,274 million) and insurance savings (€3,429 million). The issuances balance included in the aggregate of funds managed is limited to €130 million and consists of issuances of mortgage securities held by third parties.

By origin, 87% (€50,417 million) relates to banking business with customers, while the remaining 13% (€7,785 million) comprise the funds raised in wholesale markets through issues or assets sold with repurchase agreements.

The relative importance of retail customer funds managed has increased in year-on-year terms. The variation in customer funds reflects the entity's strategy to improve its margins with respect to the capturing of funds. The total of retail customer funds managed has increased by 4.6% in the year; the total balance of funds managed on the balance sheet has risen by 3.2%, with an increase in sight accounts of 13.2% while off-balance sheet items have risen by 9.1% in the year, the most notable increases being in insurance savings and investment funds.

The total balance sheet funds have decreased solely due to the fall in market resources, which have been replaced essentially by financing that takes advantage of the TLTRO programme, which is less costly and involves longer terms.

Customer loans and advances (not including valuation adjustments) amounted to €31,038 million at end-2017. The most significant item in the loan portfolio is secured private sector loans, representing 57% of total loans.

					Million euros
Unicaja Banco Group customer loans and advances	**Dec. 2017**	**Compos.**	**Dec. 2016**	**Absolute Variation**	**Relative Variation**
Public Administrations	**1 524**	**4.9%**	**2 160**	**(635)**	**(29.4%)**
Private sector	**29 513**	**95.1%**	**30 570**	**(1 056)**	**(3.5%)**
Trade credit	336	1.1%	275	61	22.3%
Secured loans	17 811	57.4%	18 794	(984)	(5.2%)
Repos	2 221	7.2%	2 078	144	6.9%
Other financial assets	198	0.6%	386	(188)	(48.7%)
Other term receivables	5 377	17.3%	4 959	419	8.4%
Demand loans and other	3 570	11.5%	4 079	(509)	(12.5%)
Total loans and advances to customers excluding valuation adjustments	**31 038**	**100.0%**	**32 730**	**(1 692)**	**(5.2%)**
Impairment and other adjustments per valuation	(1 399)		(2 044)	643	(31.5%)
Total loans and advances to customers	**29 639**		**30 686**	**(1 048)**	**(3.4%)**
Memorandum items:					
Loans and advances to customers - performing (excluding value adjustments) (*)	***25 908***		***27 051***	***(1 143)***	***(4.2%)***

(*) Not including doubtful loans, assets acquired under repurchase agreements through counterparty entities or involving financial intermediaries, or other financial assets (mainly guarantee deposits in market transactions).

It should be noted that the relative importance of lending to developers has again fallen this year and now represents only 1.8% of total performing loans to the private sector extended by the Group.

					Million euros
Loans by credit risk rating (*)	**Dec. 2017**	**Compos.**	**Dec. 2016**	**Absolute Variation**	**Relative Variation**
Performing loans to Public Administrations	**1 522**	**4.9%**	**2 150**	**(628)**	**(29.2%)**
Performing private sector loans	**24 386**	**78.6%**	**24 902**	**(515)**	**(2.1%)**
Companies	**6 144**	**19.8%**	**5 765**	**379**	**6.6%**
Real-estate development and construction	572	1.8%	672	(100)	(14.9%)
Other companies	5 572	18.0%	5 093	479	9.4%
SMEs and self-employed	3 518	11.3%	3 457	60	1.7%
Large companies	1 864	6.0%	1 341	522	38.9%
Civil works	191	0.6%	294	(104)	(35.2%)
Private individuals	**18 242**	**58.8%**	**19 136**	**(894)**	**(4.7%)**
Mortgages	15 900	51.2%	16 745	(845)	(5.0%)
Consumer and other	2 343	7.5%	2 391	(49)	(2.0%)
Doubtful loans	**2 710**	**8.7%**	**3 215**	**(505)**	**(15.7%)**
Repos and other	**2 419**	**7.8%**	**2 463**	**(44)**	**(1.8%)**
Total loans and advances to customers	**31 038**	**100.0%**	**32 730**	**(1 692)**	**(5.2%)**

(*) Without valuation adjustments

The balance of the entity's performing loans amounts to €28,327 million. Of these loans, €1,522 million relates to loans to public administrations, €24,386 million to private sector loans and €2,419 million to repos and other unclassified balances, mainly relating to guarantees for financing and derivative operations. Concerning portfolio types, the main portfolios are retail mortgage loans, accounting for 56% of total performing loans, and the SME and self-employed portfolio, which accounts for 12%.

Performance in the lending area is characterised by an increase in loan arrangements, particularly for private sector loans, where new loans amounting to €3,080 million have been arranged, an increase of 36% on 2016. The balance of performing private sector loans has decreased by 2.1% compared with the end of 2016. Under this heading, in the large company segment business has increased by 108% compared with the previous year, giving rise to an increase in the performing loan balance in this segment of 39% compared with end-2016.

The SMEs and self-employed segment has grown by 1.7% during the year. In the individual customer segment new operations grew by 22%, of which mortgage loans grew by 23% and the remainder by 19%. However, the growth in business did not offset maturities in the private individual segment, and therefore there was a 4.7% decrease in performing balances in this segment compared with end-2016.

3.5. Credit quality

Maintaining the recovery trend and the favourable evolution already reflected since the end of 2014, the balance in the Group's non-performing assets stands at €2,710 million at the end of 2017, with an accumulated decline of €2,104 million since the end of 2014 (44%).

The decrease has been 15.7% (€505 million in absolute terms) compared with December 2016, resulting in a further improvement in the NPL ratio, which stands at 8.7%. During 2017 new doubtful assets (gross) decreased, falling in the last quarter below 100 million per quarter which is 25% lower than the average for the other quarters in the year. In addition, recoveries continue to be significant which means that, without considering reclassifications to non-performing, the entity has accumulated seven consecutive quarters (eliminating the effect of Bank of Spain Circular 4/2016 in the 4th quarter of 2016) of net recoveries.

The Unicaja Banco Group also maintains its coverage of doubtful exposures at 50%. In addition, the Unicaja Group has adapted its method for calculating the need to provide for asset impairment in view of the adoption of IFRS 9 on 1 January 2018. The application of the new standard will lead to an increase of €137 million in provisions, which means increasing coverage by 55% if funds existing at 31 December 2017 are taken into account.

3.6. Foreclosed assets

At end-2017 the balance of foreclosed assets net of provisions stands at €675 million (€1,872 million in terms of gross value), which is only 1.2% of the Unicaja Banco Group's total assets. 55% of the foreclosed properties at carrying value are completed new residential properties and used residential property.

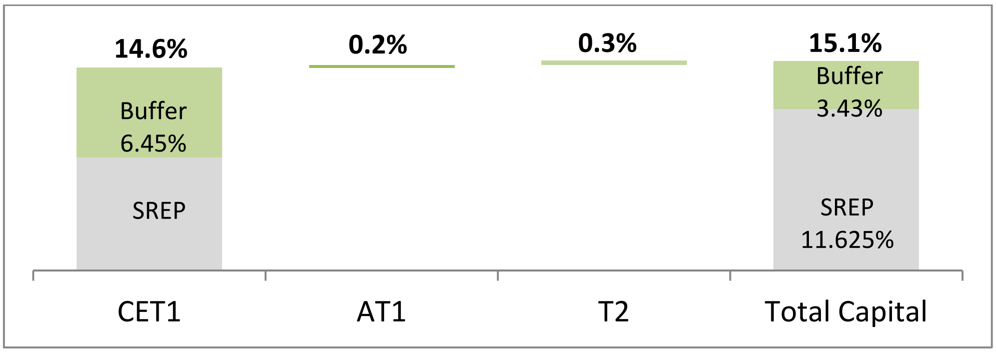
				Million Euros
Foreclosed assets **Unicaja Banco Group - December 2017**	**Net book Value**	**Value Corrections (*)**	**Gross Value**	**Coverage(%)**
Properties derived from construction and real estate development	**300**	**769**	**1 070**	**71.9%**
Finished buildings	101	111	213	52.4%
Buildings under construction	58	81	139	58.1%
Land	141	577	718	80.4%
Buildings derived from home purchase financing	**270**	**260**	**530**	**49.1%**
Other properties	**105**	**167**	**272**	**61.6%**
Total foreclosed assets	**675**	**1 197**	**1 872**	**64.0%**

(*) The amount of the provision includes both impairment adjustments associated with foreclosed assets and provisions prior to the acquisition of the assets which covered the impairment of the credit instruments from which they derive.

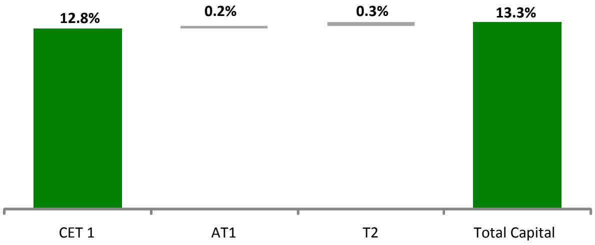
In line with Unicaja Banco Group's prudent approach, provisions for foreclosed assets amounted to €1,197 million at end-2017, which entails a coverage level of 64.0%.

3.7. Solvency

The Unicaja Banco Group shows a CET1 ratio of 14.6% and a total capital ratio of 15.1%. Compared with the end of 2016 this is an increase of 0.8% in CET1 and 0.9% in total capital, basically resulting from the capital increase and subsequent acquisition from the FROB of the contingently convertible bonds issued by EspañaDuero and the profit for the year, which has offset the application of the phase in, in addition to the purchase of the EspañaDuero shares held by the FROB.



In fully loaded terms, Unicaja Banco has a CET1 ratio of 12.8% and a total capital ratio of 13.3%. This is an increase of 1.0% in the CET1 ratio and 0.9% in the total capital ratio, compared with December 2016.



The restructuring of the life insurance and pension agreements entails certain corporate operations that are awaiting the necessary administrative authorisation from the competent authorities. Once completed, a negative impact on capital of 27 basis points is expected.

It should be noted that the supervisory authorities have informed the Entity of the SREP requirements for 2018, placing the CET1 ratio at 8.125% and the total capital ratio at 11.625%, meaning that at end-2017 the Group has a surplus of 645 basis points over the CET1 requirements and 343 basis points over the total capital requirements, highlighting the Entity's high capitalisation and low risk profile.

The Texas ratio stands at 72.4% at the year end. This ratio measures the percentage represented by the sum of non-performing and foreclosed assets over the aggregate of i) NPL provisions ii) foreclosed asset provisions and iii) capital. The lower this ratio, the better the entity's balance sheet and solvency situation. In the Group's case, the ratio has fallen by 22.3% compared with the end of 2016 and 4.2% in the last quarter, which again confirms the quality of the Group's balance sheet and its solvency.

It should finally be mentioned that the implementation of IFRS 9 is expected to have a positive impact on phased-in CET1 of about 30 basis points, relating to the net of the negative impact of higher write-downs and unrealised capital gains.

3.8. Liquidity

At 31 December 2017, the Unicaja Banco Group has a liquid and discountable asset position with the European Central Bank, net of utilised assets, of €14,177 million, which represents 25.2% of the total balance sheet figure. This significant volume of liquid assets means that forthcoming bond maturities (€889 million in 2018 and €668 million in 2019) can be managed comfortably.

Unicaja Banco Group discountable liquid assets	Million euros Dec. 2017	Dec. 2016
Liquid assets:		
Cash surplus (*)	3 073	55
Discountable assets acquired under repurchase agreements	2 222	2 196
Fixed income portfolio and other discountable assets in the European Central Bank	15 534	19 610
Total liquid assets (ECB discount value)	**20 829**	**21 861**
Liquid assets utilised:		
In European Central Bank	3 340	-
Assets sold with repurchase agreements	3 311	7 317
Total liquid assets utilised	**6 652**	**7 317**
Available discountable liquid assets	**14 177**	**14 544**
% of total assets	**25,2%**	**25,4%**

(*) Interbank deposits plus surplus balance in ECB and operating accounts.

Maturities of financing on markets for 2018-2019	Million euros Issuancesf
FY 2018	889
FY 2019	668
Total	**1 557**

The Group's high liquidity levels are reflected in an LTD (Loan to Deposit) ratio of 76% at end-2017, which is lower than the figure at the end of 2016 due to growth in customer deposits and the fact that the performing loan balances have been maintained.

Unicaja Banco LTD ratio (*)	Ratio %
End FY 2013	109%
End FY 2014	91%
End FY 2015	82%
End FY 2016	83%
End FY 2017	76%

(*) loans to deposits (without valuation adjustments in both cases). Both loans and deposits exclude balances of operations on wholesale markets.

3.9. Branch network

Unicaja Banco Group operates only in Spain mainly in Andalusia and Castilla y León, as well as in the Autonomous Regions of Madrid and Murcia, the provinces of Albacete, Alicante, Badajoz, Barcelona, Ciudad Real, Toledo and Valencia and the Autonomous Cities of Ceuta and Melilla. 82% of its branches are concentrated in Andalusia and Castilla y León. Málaga (16%), León (8%) Almería (7%) and Valladolid (7%) are the most important provinces in the Group's business. At 31 December 2017, Unicaja Banco Group had a network of 1,228 branches: 1,227 branches in Spain, covering 38 provinces and Ceuta and Melilla, and one correspondent branch in the UK (according to Bank of Spain criteria from June 2010, offices open to the public include desks in other locations and branches abroad).

BUSINESS NETWORK DISTRIBUTION					
Country	Autonomous Region	Operating Branches at 31/12/2017		Operating Branches at 31/12/2016	
		Number of Branches	Distribution (%)	Number of Branches	Distribution (%)
SPAIN	Andalucía	584	47.6%	618	48.3%
	Aragón	1	0.1%	1	0.1%
	Asturias	3	0.2%	3	0.2%
	Cantabria	1	0.1%	1	0.1%
	Castilla y León	419	34.1%	431	33.7%
	Castilla-La Mancha	66	5.4%	72	5.6%
	Cataluña	2	0.2%	2	0.2%
	Ceuta	1	0.1%	1	0.1%
	Comunidad Valenciana	4	0.3%	4	0.3%
	Extremadura	52	4.2%	52	4.1%
	Galicia	6	0.5%	6	0.5%
	La Rioja	1	0.1%	1	0.1%
	Madrid	80	6.5%	80	6.3%
	Melilla	3	0.2%	3	0.2%
	Murcia	2	0.2%	2	0.2%
	Navarra	1	0.1%	1	0.1%
	País Vasco	1	0.1%	1	0.1%
Total number of branches located in national territory		**1,227**	**99.9%**	**1,279**	**99.9%**
Country	City	Operating Branches at 31/12/2017		Operating Branches at 31/12/2016	
		Number of Branches	Distribution (%)	Number of Branches	Distribution (%)
United Kingdom	London	1	100.0%	1	100.0%
Total number of branches Abroad		**1**	**0.1%**	**1**	**0.1%**
Total Branches		**1,228**	**100%**	**1,280**	**100%**

At 30 September 2017, according to the FI-132 statement published by the Bank of Spain, market share in the Autonomous Regions of Andalusia and Castilla y León with respect to the share in customer deposits stand at 13.3% and 22.3%, respectively, while market share in relation to customer loans stand at 10.0% and 14.9%, respectively. With regard to branches, Unicaja Banco Group's share in Andalusia is 13.1% and in Castilla y León is 20.5%, according the latest available Bank of Spain figures at 30 September 2017.

4. Risk management

The risk management and control system implemented by the Unicaja Banco Group is structured along the following basic lines:

- A risk function governance and organisation system based on the involvement and active supervision of senior management, which approves the Entity's general business strategies and policies and lays down the general lines for the Entity's risk management and control.
- A Risk Appetite Framework or RAF, which is regarded in the Unicaja Banco Group as an essential instrument in the implementation of the risk policy.
- A prudent risk management model in which the Unicaja Banco Group strives to permanently maintain a prudent and balanced risk profile and comply with its solvency, profitability and liquidity objectives.
- A selection of adequate information, measurement, management and risk control methods in a continuous improvement process in line with regulatory requirements, while adapting the requirements of its own resources to the level of actual risk derived from its banking activity.
- A supervision model based on three lines of defence, in line with the expectations of the regulatory and supervisory authorities.

In the Unicaja Banco Group, the policies, methods and procedures related to global risk management and control are approved by the Entity's Board of Directors.

Based on the current regulatory framework, the organisational structure of Unicaja Banco includes the Overall Risk Control Department, which reports to the Control, Strategy and Supervisor Relations Department, functionally separate from the areas that generate exposures.

Said Department's functions include overall control of all the risks incurred by the Entity. Unicaja Banco Group's management is organised around a perfectly defined internal structure that provides support and allows decisions to be put into practice.

4.1. Risk Appetite Framework

The Group’s risk management and control is arranged, in addition to other measures, through the Risk Appetitive Framework, which is approved by the Entity's Board of Directors.

The Unicaja Banco Group uses the RAF as an instrument for the implementation of the Group's risk policy and as a key management and control tool that allows it to: (i) formalise the risk appetite statement; (ii) formalise the risk supervision and oversight mechanism to assure compliance with the risk appetite; and (iii) strengthen its risk culture.

The development of the RAF as the Group's general risk policy is a fundamental aspect of the Entity's management and control as it equips the Board of Directors and senior management with an integrated framework determining the risks that the Institution is willing to accept to achieve its business objectives and establishes different metrics for risk quantification, control and monitoring that allow the Entity to react to certain levels or situations. These metrics characterise the objective behaviour of the Unicaja Banco Group and are transversal to the organisation, allowing the risk appetite culture to be disseminated at all levels in a systematised and understandable manner. They synthesise Group's objectives and limits and therefore are useful for communication, where appropriate, with stakeholders, and are consistent as they are applied throughout the organisation.

The Group has a material risk identification process that includes methodologies to quantify all the risk to which the Entity is exposed. A criterion has also been defined to select risks that are material and must thus be managed more intensively. This intensive management entails, among other aspects, the allocation of internal capital within the Internal Capital Adequacy Assessment Process (ICAAP) or, in the case of liquidity risk, the assignment of a liquidity management buffer, which is evaluated during the Internal Liquidity Adequacy Assessment Process (ILAAP). Material risk quantification and identification is a recurring process that allows the Entity to identify emerging risks at all times.

Based on this process, within the Risk Appetite Framework, for each material risk at least, the appetite and tolerance are established through a qualitative statement, risk indicators or metrics are selected and a calibration method is defined to establish thresholds for targets, early alerts and ceilings.

The Group's Risk Appetite Framework considers the impact of all subsidiaries and particularly of EspañaDuero, due to its significance and relevance to the Group in terms of solvency.

The Chief Risk Officer (CRO) monitors compliance with the Risk Appetite Framework through the existing metrics for each type of risk. This risk monitoring is passed on to the Risk Committee and the Board of Directors.

Finally, the Risk Appetite Framework is integrated with other key processes: the Business Plan, the ICAAP, the ILAAP, corporate risk policies and the Recovery Plan, among others.

4.2. Risk governance framework

The risk management and control model requires a robust and effective organisational structure. This requires the effective involvement of the Board of Directors and senior management, as well as being efficiently implemented across the Organisation.

The bodies directly involved are listed below, indicating their main functions and responsibilities related to risk management and control.

- *Board of Directors*

The policies, methods and procedures related to global risk management and control are approved by the Entity's Board of Directors. With regard to risk management and control, the main functions attributed to this body are:

- Approving the risk control and management policy, including tax risks, and periodic follow-up of internal information and control systems.
- Approving the RAF and any subsequent changes to it, at the proposal of the Risk Committee.
- Analysing, at least every six months, a report from the Risk Committee on the application of the RAF, without prejudice to the information that may be required at any time.
- Taking the RAF into account in the day-to-day management of the Entity and particularly in the adoption of strategic decisions.
- Adopting the relevant corrective ensures, where appropriate, when there is an actual breach of a threshold or when this is foreseeable.

- Risk Committee

Its main functions include:

- Advising the Board on the Entity's current and future overall risk appetite and its strategy in this area, as well as assisting the Board in the oversight of the application of said strategy.
- Ensuring the proper functioning of the risk control and management systems and, in particular, adequately identify, manage and quantify all important risks affecting the Entity.
- Ensuring that the control and risk management systems adequately mitigate risks within the framework of the policy defined by the Board of Directors.
- Participating actively in the preparation of the Entity's risk management policy, ensuring that it at least identifies:
  - The different types of financial and non-financial risks (operational, technological, legal, social, environmental, political and reputational) that the Entity faces, including, among the financial or economic risks, contingent liabilities and other off-balance-sheet risks;
  - The determination of the risk level the Entity regards as acceptable;
  - Measures in place to mitigate the impact of identified risks should they occur;
  - The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance- sheet risks.
- In particular, within the RAF:
  - Proposing the approval of the RAF to the Board of Directors.
  - Informing the Board of Directors, at least semi-annually or at any time upon request, on RAF monitoring.
  - Requesting, when it deems appropriate, information regarding the RAF from the various Departments.

- Audit and Regulatory Compliance Committee

The Audit and Regulatory Compliance Committee must supervise internal audit, which must oversee the proper functioning of information systems and internal control.
In addition to the functions laid down by law and in the Bylaws, the Audit and Regulatory Compliance Committee is responsible for:

- internal control and information systems,
- external auditor,
- compliance with corporate governance rules,
- regulatory compliance.

These functions include the evaluation of all the company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.

- Management/Strategy Committee

Its functions include the following related to the RAF:

- Informing the rest of the Entity of the main RAF criteria, whether original or subsequently amended, through the Departments responsible for each area, in order to ensure a solid risk culture in Unicaja Banco.
- Informing the Unicaja Banco Group companies of the main RAF criteria through the competent Departments.

- Evaluating the implications of the RAF in their respective areas of competence in coordination, among others, with the following Committees which report to the competent Departments if necessary:
    - Assets, Liabilities and Budget Committee
    - Business Committee
    - Credit Committee
    - New Product Committee
    - Treasury Committee
    - Real Estate Committee
    - Money Laundering and Terrorism Financing Prevention Committee
    - Criminal Risk Prevention Committee.

- *Overall Risk Control Department*

Its functions include overall control of all the risks incurred by the Entity.

In particular, with regard to the Risk Appetite Framework, the following functions should be noted:

- Developing and applying the management function for controlling all of the Entity's risks, in the context of the Risk Appetite Framework.
- Preparing and presenting RAF update proposals.
- Monitoring and tracking the RAF metrics and indicators at least quarterly.
- Reporting at least quarterly to the Risk Committee and senior management on RAF monitoring ("Risk Appetite Framework Monitoring and Control Report").
- Issuing an alert as swiftly as possible when a limit is activated.
- Verifying compliance with the RAF and its main criteria in the Unicaja Banco Group.

- *Internal Audit Department*

Its functions include:

- Carrying out the functions and tasks pertaining to the third line of defence in matters of Governance as specialised resources of the Entity.
- Performing ongoing control and monitoring of the Entity's activities to ensure compliance with internal and external regulations.

In relation to the RAF, the following functions are indicated:

- Auditing compliance with the RAF and its main criteria across the Entity.
- Evaluating the design and effectiveness of the RAF, as well as its implementation.
- Risk control model

4.3. Risk control model

The risk control model adopted by the Entity includes, among others, the following risks:

- Credit risk.
- Market risk.
- Operational risk.
- Behavioural risk.
- Interest Rate Risk in the Banking Book (IRRBB)
- Business and strategic risk.
- Real estate risk.
- Liquidity risk.

- Credit risk

Credit risk is defined as the risk of incurring losses as a result of the non-payment of amounts owed to it. The risk is inherent to the Entity's day-to-day activity.

Unicaja Banco has a Manual of Policies, Functions and Procedures for Customer Credit Risk approved by the Board of Directors, which is established as an appropriate control and management framework for the credit risks inherent to the Entity's lending activities.

It defines the mandatory risk policies and procedures, details the activities and tasks to be performed, defines the responsibilities of the different areas involved in operation granting and monitoring processes, establishes the risk appetite decided by the Entity and its design through risk limits and types of operation, and documents all general and specific aspects related to a major part of the lending activity in a structured and unified manner.

The Unicaja Banco Group has tools allowing the correct classification of risk. They are scoring and rating models that facilitate acceptance and monitoring processes. Estimates of PD, LGD and EAD, as part of the expected loss calculation, play a role in efficient risk management. The criteria on which the models and estimates are based are approved by the Group's senior management using the necessary review systems to assure they are always correctly updated.

Additionally, the granting of credit operations must be subject, based on borrower, nature, amount, term, guarantees and characteristics, to a decentralised approval process based on the collective powers of the following decision-making bodies:

- Board of Directors.
- Credit Committee.
- Credit Risk Department Credit Committee.
- Corporate Banking Credit Committee.
- Point of Sale Financing Credit Committee.
- Regional Management Unit Credit Committees.
- Regional Management Unit Area Credit Committees.
- Branch Credit Committees.

In addition, the credit risk control functions and methodologies are applied at both the acceptance stage and in the follow-up of loan operations.

In accordance with current regulations, the Unicaja Banco Group has a refinancing, restructuring, renewal or renegotiation policy aimed at separating the management of problematic risks from actions related to risks without any impact on payments.

Additionally, the Unicaja Banco Group has methodologies, procedures, tools and rules of conduct for the control and recovery of irregular assets.

- Market risk

Market risk is defined as the possibility of incurring losses on positions held in the market resulting from adverse movements in financial variables or risk factors which determine the value of such positions.

Although for solvency purposes market risk is assigned to trading positions, the Unicaja Banco Group has developed policies, processes and tools for managing market risk corresponding to the entire portfolio of securities recognised at fair value, which include sovereign exposures and shareholdings.

To properly manage market risk, the Group has tools that allow the definition, calculation and monitoring of market risks and the limits authorised for them, in particular "Value at Risk" (VaR) and operative limits for credit/counterparty risk that affect the Unicaja Group's operations in capital markets.

The evaluation and analysis of market risk is based on the following functions:

- Management of market data.
- Identification and measurement.
- Control.

By means of the limits and diversification structure the Group controls exposure to market risk, defining an action framework for the Entity's operations in the financial markets, such that these operations are performed within said framework. The limit structure is also used as a diversification measure to avoid exposures to market risk that are excessively concentrated.

Responsibility for the identification and control of the risk ultimately falls to the governing bodies of the Unicaja Banco Group. Senior management is responsible for and must participate actively in the entire risk management process (planning, approval, valuation and control of all the risks inherent to the positions taken by the Entity in financial markets).

- *Operational risk*

Operational risk is viewed as the risk of loss due to the inadequacy or failure of procedures, personnel or internal systems, or due to external events. Legal and tax risk are included as operational risk, and strategic risk is excluded.

The Unicaja Banco Group has in place a number of procedures to capture operating loss events. These provide the Group with the necessary information to be able to implement the corresponding mitigation instruments within the operational risk management policy. It has also developed the Operational Risk Framework, which has been approved by the Board of Directors and has been distributed and implemented in the Organisation.

Additionally, in December 2017 the Standard Method was adopted as a methodology for quantifying operational risk in terms of capital with the aim of improving operational risk management in line with the Entity's risk culture.

Operational risk includes technological risk, which is the risk associated with technological tools, operating systems and new technologies. This is a broad risk, encompassing all IT and technology-related actions.

Operational risk also includes reputational risk, understood as the risk of loss due to deterioration in the Entity’s image resulting from events occurring in the Entity itself or from external events (macro-environment) that affect the reputation of the banking sector in general.

The Unicaja Banco Group has traditionally been very demanding in relation to reputational risk management. Customer satisfaction and the Entity's positive image are permanent objectives of all its employees and the highest levels of governance and management.

This constant effort is rooted in its global culture and is reflected, inter alia, in the following:

- The Entity's strategic objectives.
- The Code of Conduct and the Corporate Social Responsibility Policy approved by the Board of Directors.
- Actions in the three lines of defence.

- Compliance with the general regulatory framework and, in particular, with market regulations on financial instruments and investor protection ("MiFID").
- The continuous training of employees in all areas in which they carry out their activities, which includes, specifically, training related to ethical matters in accordance with the Code of Conduct.

- Behavioural risk

Either behavioural risk refers to the risk of internal malpractice by the Entity at the time of origin of the relevant event, knowingly (with awareness of the action or bad faith by the infractor) or due to ignorance, which does not, exempt the party concerned from proper compliance.

The Unicaja Group ensures the correct creation, issuance and distribution of products, as well as the provision of services, guaranteeing compliance with current legislation.

- Interest Rate Risk in the Banking Book (IRRBB)

The interest rate risk in the banking book (IRRBB) is defined as the possibility of suffering diminished margins or losses in the Entity's equity due to averse movements in interest rates with respect to the Entity's banking portfolio positions.

The control functions and methodologies implemented by the Entity include the definition of the limit structure, limit control, control over the effectiveness of on-balance sheet hedges as mitigation instruments and the use of stress testing measures. In this way, in the analysis, measurement and control of interest rate risk assumed by the Group, sensitivity measurement techniques and analyses of scenarios that could significantly affect the Group are used.

Based on the structural interest rate risk exposure results presented by the Unicaja Banco Group on each analysis date, a number of actions are implemented to mitigate this exposure and redirect it towards the acceptable levels defined by the Entity's risk profile.

The Group uses hedging operations to manage interest rate risk on its balance sheet.

The stages of the interest rate risk management process are clearly distributed into different units. Accordingly, for the management of structural interest rate risk on the balance sheet, the following Unicaja Banco Group structure is in place:

- The Board of Directors approves the Entity's global risk management strategy and lays down the general lines and control measures for said management.
- The Asset, Liability and Budget Committee (COAPP) designs the strategy within the framework and limits established by the Board of Directors.

- Business and strategic risk

Defined as the risk of incurring losses due to the erroneous analysis of the market in which it operates or to its lack of knowledge thereof, which may threaten the viability and sustainability of the Entity's business model.

In order to analyse the solidity of its business model the Group carries out an exercise to identify potential vulnerabilities in it, both internal and external, bearing in mind the probability of occurrence and impact and identifying mitigating measures to combat them.

- Real estate risk

This is the risk associated with the decline in value of real-estate assets held by the Entity.

Unicaja Banco Group lays down limits on real-estate risk relative to assets received in settlement of debts in order to supervise this exposure and keep it within suitable levels.

These assets are managed in the Entity with the ultimate aim of their divestment or lease. In this respect, the Group has special purpose companies, specialising in development project management, real estate sales and real estate asset leasing. It also has specific units to develop these strategies and coordinate actions by the special purpose subsidiaries.

The Entity also has a decentralised governance structure which, through a framework of attributed authority, ensure the proper management and control thereof.

- Liquidity risk

Liquidity risk in a financial institution can be defined as the risk of not meeting its obligations as they fall due or of having to meet the same at a cost which is unsustainable for the Entity.

The Entity establishes prudent policies and objectives that cover not only normal market conditions but also contingency plans for stress or crisis situations, concerning both the Bank itself and the market.

The Unicaja Banco Group has established limits to liquidity risk to control exposure thereto and maintain said exposure within the authorised levels. In general terms, liquidity is considered adequate if the potentially liquid assets and financing capacity are higher than the needs derived from the business and refinancing in markets. The greater this difference, the greater the available liquidity.

The Unicaja Banco Group also follows a diversification policy in order to avoid excessively concentrated exposures to structural liquidity risk. Similarly, when managing liabilities it diversifies its sources of financing, guaranteeing that they are diversified by market, duration and product, in order to avoid difficulties at particular times of crisis or in relation to the markets.

5. Events after the balance sheet date

Since the year end at 31 December 2017 to the date of this consolidated directors' report, there have been no relevant subsequent events other than those mentioned in the notes to the accounts.

6. Research and development

During 2017 and 2016, the Unicaja Banco Group has not carried out any research and development activities involving significant amounts.

7. Environmental impact

The Group’s operations as a whole are subject to environmental protection legislation. The parent company considers that it largely meets environmental regulations and has procedures in place designed to encourage and assure such compliance.

The parent company considers that it has taken the necessary measures to protect and improve the environment and to minimize environmental impact, if applicable, in compliance with current environmental legislation. During 2017 and 2016, the Group has not made any environment-related investments and neither has it considered necessary any provisions for liabilities and charged related to environment-related actions. Nor does it consider that there are any significant environment-related contingencies.

8. Treasury shares

At 31 December 2017 and 2016, the Bank holds no treasury shares. No transactions involving treasury shares have taken place in 2017 or 2016.

9. Delay in payment to suppliers

Payments made by the Unicaja Banco Group to suppliers only for provisions or services and sundry services during 2017 amounted to €473,471 thousand (€538,696 thousand in 2016), which were made within the legally and contractually established time limits. The term of the balance pending payment to suppliers at 31 December 2017 and 2016 is shorter than the period stipulated by Law 15/2010.

Under Final Provision Two of Law 31/2014 of 3 December, which amended Additional Provision Three of Law 15/2010, and in relation to the information to be included in the notes to the annual accounts on delays in payment to suppliers in business operations calculated on the basis of the Ruling of 29 January 2016 by the Spanish Institute of Accountants and Auditors, the average supplier payment period for the Group during 2017 and 2016 is 20.49 and 20.98 days, respectively, while the transactions paid ratio for those years was 20.47 days and 21.60 days, respectively and the transactions pending payment ratio stood at days and 15.38 days, respectively.

The Group's average payment period is within the legally established limit and therefore there is no need to disclose the measures envisaged in Article 262.1 of the Spanish Companies Act 2010 in the directors' report.

10. Non-financial information and social responsibility

Regarding non-financial information, Royal Decree-law 18/2017 of 24 November, which amended the Commercial Code, the revised Companies Act approved by Legislative Royal Decree 1/2010 of 2 July and Law 22/2015 of 20 July on Auditing, with respect to non-financial information and diversity, as well as Directive 2014/95/EU of the European Parliament and of the Council of 22 October, have been taken into account.

The content of the "Guidelines for preparing management reports of listed companies" published by the National Securities Market Commission on 29 July 2013 and the "Guidelines on the presentation of non-financial reports" of the European Commission dated 26 June 2017 have been taken into consideration when preparing said information, as well as the international framework of the Ten Principles of the Global Compact of the United Nations.

Since it started operating the parent company of the Unicaja Banco Group has reported detailed information on its non-financial indicators under international standards in its Social Responsibility Report, available for each year in the Corporate Social Responsibility section of its website www.unicajabanco.com.

In relation to 2017, a summary of these indicators is included in the Consolidated Management Report of the Unicaja Banco Group.

In 2018, the "Social Responsibility Report" of the Unicaja Banco Group will be approved, which will develop the content of this section of the Consolidated Management Report of the Unicaja Banco Group. This report will be available on the corporate website of Unicaja Banco.

The information provided in this section relates, unless otherwise indicated, to the aggregate of Unicaja Banco and EspañaDuero (hereinafter the Group), entities which together represent practically all of the Group's consolidated assets.

10.1. Business model

The Unicaja Banco Group business model is based on the development of a business policy centred on customers and based on offering comprehensive personalised, professional, quality attention and maintaining a range of products and services that seeks to be diverse and competitive and which meets the requirements of the Group's varying types of customer over their life or business cycle. Through the implementation of this model the Unicaja Banco Group aims to achieve the full satisfaction of its customers, by going beyond the fulfilment of their needs, seeking to exceed their expectations in order to strengthen relations and retain the confidence placed in the Group, also generating value for shareholders and investors and for other stakeholders. The Entity's commitment to Corporate Social Responsibility (CSR) seeks to contribute to the creation of sustainable value for the stakeholders it operates with, for which reason it implements actions that contribute to development in the economic, social and environmental areas.

10.2. Social Responsibility Policy and scope of application

The Unicaja Banco Group's CSR Policy, approved by the Board of Directors of Unicaja Banco in 2017, is based on the fulfilment of the following principles:

- Complying with current legislation and regulations, promoting best practices in all areas of action as a means of continuous improvement.
- Including fiscal responsibility as part of CSR.
- Developing good governance practices that ensure a relationship framework based on transparency and trust, rejecting any practices involving bribery or corruption, and respecting the rules of free competition.
- Maintaining at the disposal of all the Group's employees, managers and directors the Compliance Channel of the Code of Conduct, through which the members of these categories may, in addition to communicating specific situations in which a criminal risk is appreciated, make inquiries concerning the interpretation or application of the Code of Conduct, or report its non-fulfilment.
- Identifying and managing all risks (financial and non-financial) in a prudent manner, in accordance with the mechanisms included in the Risk Appetite Framework.
- Respecting human rights and labour rights in all the territories in which the Group is present, through the development of a favourable framework for relations based on equal opportunities, non-discrimination, personal data protection, respect for diversity, freedom of union representation and communication with the human team.
- Encouraging professional development through training and career plans for personnel, as well as the reconciliation of work and family life, applying the necessary measures to achieve the highest level of safety and health in all work posts.
- Providing users and investors with clear and accurate information about the products and services offered.
- Establishing transparent, objective and impartial processes with suppliers.
- Contributing to economic, social and environmental development in its field of action, especially in the geographical areas in which its business is most highly concentrated, serving strategic productive sectors and promoting synergies with organisations and companies in the field.
- Promoting socially responsible actions in investee companies and suppliers through recruitment and hiring processes, ensuring their alignment with the CSR Policy, improving processes and customer satisfaction and enhancing the Company's image.
- Maintaining constant communication with all stakeholders that enables social expectations to be included in the Group's business values.
- Strengthening sustainable development and respect for the environment by minimising the direct environmental impact of its activity and encouraging information and training in this culture.

These principles are aligned with those established in the United Nations Global Compact and the "Global Reporting Initiative" (GRI), and seek to contribute, among other aims, to the achievement of the United Nations Sustainable Development Goals (SDGs).

The Board of Directors of Unicaja Banco is the highest body responsible for the Entity's Social Responsibility policy. The Board is therefore responsible for laying down the guidelines for its management.

10.3. Stakeholders identification of material issues

In order to comply with the principles that govern the CSR Policy, the Group uses different lines of dialogue with the various stakeholder groups, of an open and institutionalised nature. To implement this two-way dialogue the Group uses two types of channels: those that are developed to detect the stakeholders' needs and those for communicating actions carried out in response to those needs. All these actions are continuous and make up the networks in place for attending to their needs and expectations.

The identification of stakeholder needs offers opportunities to strengthen present and future links with the community. By efficiently and systematically developing processes for ascertaining and analysing the expectations that emerge, the Unicaja Banco Group ensures that it maintains a balanced management model and also that it implements and consolidates an ongoing business and social development model. These processes, defined within the various annual planning systems, are reflected in a set of specific internal and external channels which transcend dialogue with stakeholders by contributing, with other public and private organisations, to finding out the community's needs.

From the analysis of its surroundings, taking as a reference significant public information on the economic, financial and social context which is subsequently checked and extended using the results of internal studies and reports, a number of key issues have been identified that are relevant to the Group and of interest to the people with whom it operates, including the following: financial solidity, strong solvency, comfortable liquidity position, quality balance sheet, responsible marketing, corporate governance, secure information, innovation and multi-channel approach, education and financial inclusion, encouragement of entrepreneurship and talent management.

10.4. Commitment to people

a) Customers and users

The proposal of the Unicaja Banco Group to its current and potential customers is based on the provision of a personalised quality service, based on the provision of solutions tailored to their preferences and needs through a wide range of products, services and channels, in order to establish relationships of trust and long-term commitment, which create shared value.

Improvement in the quality of the products and services offered and each of the processes through which its business is carried out has been one of the traditional foundations of the Group's strategic planning and commercial positioning in the financial market.

In compliance with this strategic line, the Group monitors customers' opinions in order to quantify the degree of satisfaction and perceived quality level. In this way, the continuous coverage of customer expectations is ensured, tailoring the range of products and services to their needs and preferences at all times.

Knowledge of customer satisfaction is obtained through a model for measuring the overall quality of the service offered. This model evaluates all aspects of the service that the customer consider relevant, is organised into qualitative and quantitative processes and is validated on a regular basis. Its application enables the identification of customer service expectations and the relative importance and contribution to their satisfaction that they assign to each of the factors analysed.

Customer satisfaction surveys are carried out periodically, based on the aforementioned model. This system allows customer satisfaction with the service received to be ascertained on a branch level and therefore facilitates the preparation of continuous improvement plans. At the same time, controls are carried out on the implementation of customer care protocols (face-to-face, telephone and e-mail), which enhance the diagnosis and detection of areas for improvement.

Likewise there are four quality management systems, certified under ISO 9001, following the external audits performed and certification has been obtained under UNE 71502 and ISO/IEC 27001 for its Electronic Banking services, Univía, through both fixed and mobile networks, through which the management system for good practices in information security is regulated.

It is also a member of the Association for the Self-Regulation of Advertising (Autocontrol), part of the European Advertising Standards Alliance, and therefore has the ethical commitment to exercise the freedom to advertise responsibly and contribute to strengthening advertising self-regulation as a means of ensuring respect for consumer rights and competition.

For the Unicaja Banco Group the Customer Service Department is not only an organisational requirement laid down by law but is an instrument for establishing and consolidating relationships of trust with customers, as well as obtaining their opinions on the service offered. The Customer Service Department has a process quality management system certified under ISO 9001:2008.

Again this year a number of measures have continued to be developed - renegotiation of conditions, restructuring and refinancing of debts, dation in payment and social rent - aimed at facilitating the capacity of customers in difficult economic situations to meet their obligations under home mortgage loans, from which more than 3,200 families have benefited.

Adaptation to new technologies is compatible with the availability of a commercial network organised through branches, desks in other locations and financial agents which decisively contributes to financial inclusion in its area of action and to the application of a banking approach based on close customer relations. Unicaja Banco and its subsidiary Banco EspañaDuero are the only providers of financial services through permanent branches in 67 municipalities with very low-populations and therefore very small markets. In 2017, 44% of the branch network was located in municipalities with less than 10,000 inhabitants.

b) Shareholders and investors

The Group parent company has a Communication Policy for shareholders and investors, under which it undertakes to: 1) Safeguard the legitimate interests of shareholders, keeping updated information about the Company available to them; 2) Oversee the transparency and equal treatment of all shareholders that are in the same position; and 3) Ensure strict compliance with regulations on the treatment of insider information and the regulations on market abuse.

c) Personnel

The employees are a key factor in the Group's business as they act as a direct interface with customers.

The Unicaja Banco Group seeks to consolidate a motivated, integrated and well trained professional team, capable of executing the policies that develop the guidelines on which its activity is based and complying with the principles that underpin its commitment to the community and respect for the environment. In this respect, one of the Group's priority objectives is the management of human capital and talent, promoting continuous improvement in the ethical standards that affect employees in the fields of equal opportunities, professional and personal development, promotion and improvement of their teamwork capacity, the work environment and their degree of satisfaction, one of its purposes being the development of their sense of belonging and sharing in the Group's values.

Workforce profile

At the end of 2017, the joint workforce of Unicaja Banco and EspañaDuero stood at 6,452 employees. 99.9% of jobs are structural in nature. The average age of the workforce is 45.5 years and the average length of service is 18.6 years, although 19.1% of employees have a length of service of less than 10 years, increasing to 22.1% in the case of women. Women make up 45.2% of the workforce. This percentage has increased in recent years due to the combination of a higher number of women among the new recruits and to the fact that retirements mainly affect male workers.

90.7% of the Group's employees work in the Autonomous Regions of Andalusia and Castilla y León, in line with the geographical distribution of the Group's operating and commercial structure.

Business is conducted mainly in Spain. No record is kept as to whether employees belong to a minority as the human resource policy is based on the principle of non-discrimination.

Training and career plans

For the Group, training represents a commitment towards it human team and is therefore viewed as an investment aimed at providing responses to the needs shown by customers and covering the individual expectations of all the professionals working in the Entity in order to facilitate ongoing personal and professional development and growth, and to take advantage of the knowledge and individual and collective potential of the workforce. In this respect, each year the Group makes a considerable effort in the training area which is reflected in the Annual Training Plan, under which training has been offered to practically the entire workforce involving around 310,000 training hours.

The main training actions have been arranged around three main axes:

1. Financial advice: in line with the provisions of MiFID II, in order to provide a comprehensive, personalised and quality service to customers.
2. Regulatory requirements: in order to anticipate and adapt operational structures proactively to customers' new requirements and needs.
3. Professional career plans: to encourage employees' professional development.

In 2017 the development of Uniecampus has continued, this being a large virtual knowledge management facility capable of bringing together, systematising, inter-relating, promoting, attracting, integrating and publicising the main training sources related to the Group's business activity.

The Group has collaboration agreements with several universities in the provinces in which it operates through which, during 2017, 29 students who are studying degrees related to financial activities had the opportunity to complete practical training to complement their theoretical knowledge.

The Group also enhances the recognition of performance through the implementation of different career development systems and plans for the branch network and for the business support units, in which skills and professional competence management programmes are included which are independent of those envisaged in the collective agreement and are intended to facilitate professional improvement. In addition, the Management and Commercial Talent Banks have been maintained, which systematically identify the professionals with the best development potential, irrespective of their current position.

Remuneration policy

The current remuneration policy associated with risk management applicable to the so-called “Identified Group” is in line with the provisions of Directive 2013/36/EU and Spanish legislation derived from it. The "Identified Group" is made up of the members of the Board of Directors, senior management and the categories of employees whose professional activities have a significant impact on the risk profile on a Group, parent company and subsidiary level.

In addition, due to the referral in the Law on the organisation, supervision and solvency of credit institutions and also owing to the fact that the Company is listed, the provisions of the Spanish Companies Act 2010 are taken into account in relation to the directors.

The general remuneration policy of the Unicaja Banco Group is also designed based on the conditions laid down in the applicable collective agreement and internal labour agreements adopted with trade union representatives. This policy is also based on the level of responsibility of work positions and the professional evolution of each employee, avoiding discrimination of any kind. There are no salary differences due to gender.

The objectives pursued through these remuneration practices are the retention and attraction of talent and, in general, an adequate compensation for individual effort, from the viewpoint of both the achievement of results and the employees’ behaviour in such achievement.

In 2017, thanks to existing systems, the entire workforce is subject to the application of incentive schemes. Variable remuneration is not currently linked to compliance with environmental objectives.

Diversity

Diversity is a guiding principle of the Human Resources policies of the Unicaja Banco Group and is included in its Code of Conduct to guarantee non-discrimination.

Diversity and inclusion are basic references in the Entity's management, with the conviction that the integration of professionals with varied profiles helps to create original approaches and greater value for the Unicaja Banco Group within the framework of established decision-making processes and procedures. The Company seeks to attract and retain female talent and promote gender equality, and is also committed to the policy of inclusion of people with disabilities in the Entity's human resources.

Regarding the persons who make up the Board of Directors and certain key management positions, it is ensured that the selection procedures favour diversity in experiences and knowledge, facilitate the selection of directors of the less represented gender and, in general, exclude implicit biases that could imply discrimination.

Health and safetyat work

The Group considers the promotion of occupational safety and health as a basic principle and fundamental objective, addressed through continuous improvement in working conditions, guaranteeing the best levels of safety and health, and informing and training all employees about the risks their jobs involve and about the measures that can be taken to prevent them. In view of the above, the Entity has a prevention management system based on the international certification standard OHSAS 18001, which is regularly updated.

Work-related accidents are very rare, in line with the activities concerned. The preventive practices put into practice have a major influence as is shown by the fact that working days lost due to vocational accidents or accidents while travelling to work represent 0.05% of the total theoretical days, with an incidence rate in 2017 of 0.36%. Labour absenteeism caused by common illnesses and non-work-related accidents is also low, standing at 3.7% of theoretical days in 2017, equivalent to 35,628 days' work.

In addition, the Group has a protocol of actions to be followed in the event of violence and external aggressions and a Protocol for the prevention of moral and/or psychological harassment at work.
Prevention of unethical practices

At the Unicaja Banco Group, the rules of conduct related to the prevention of unethical practices and money laundering are strictly fulfilled. These rules are included, basically, in the codes of conduct, the plan for the prevention of criminal risk and reaction to non-compliance, the internal rules of conduct in relation to the securities market and the regulations for the prevention of money laundering, compliance with which is regularly reported to the Board of Directors.

To ensure compliance with these rules, an annual monitoring plan has been implemented which extends to the actions carried out in the commercial network, centralised business units, business support units and companies, the design and supervision of which are entrusted to the Audit and Regulatory Compliance Committee.

No labour penalties were imposed in 2017 relating to breaches of the general regulations or internal codes for the prevention of dishonest practices and corruption, for which reason it was not necessary to adopt any measures in this respect.

Welfare benefits

The Group's workforce enjoy a number of welfare benefits that exceed those established by law, including leave of absence to look after children, voluntary leave of absence, forced leave of absence, common fund for cash shortfalls, payment cards with special conditions, low-rate mortgage and personal loans, salary advances and welfare advances, complementary group life insurance, assistance for marriage, childbirth, studies, children and nurseries.

In 2017, 1,219 loans were granted under the collective agreement (welfare advances, social loans and housing loans laid down in the collective agreement) amounting to €43.9 million and 990 free loan operations to employees were also approved, for an amount of €19.5 million.

d) Suppliers

When selecting and maintaining its suppliers, the Unicaja Banco Group takes into consideration aspects related to social responsibility, emphasising those connected with conduct and actions in the area of human rights, child labour, corruption and environmental conservation.

The quality of the products and services provided and the financial solvency of the suppliers are subjected to a continuous evaluation process. A key factor in the Group's commitment to its suppliers is the payments and conditions agreed in the relevant contracts, without any incidents having occurred in this respect in 2017. Payment conditions are negotiated individually with each supplier. In addition, certain Units carry out supplier satisfaction surveys internally and on a regular basis, with highly satisfactory results.

In 2017, goods and services purchased by the Group totalled €184.1 million. 40.1% of the total corresponds to suppliers whose billings have been under €1.5 million. Almost all suppliers have an operational base in Spain and, in particular, utilise local suppliers in their dealings with the Group whenever possible.

During 2017, the average supplier payment period, calculated under the Resolution of 29 January 2016 of the Institute of Accountants and Auditors, was 20.5 days, which is less than the legal maximum of 60 days stipulated in Law 31/2014.

10.5. Human Rights

The Unicaja Banco Group expresses its commitment to Human Rights in its Corporate Social Responsibility Policy. Its principles include respecting human rights and labour rights in Spain and Portugal, the territories in which the Group mainly operates, through the development of a favourable framework for relations based on equal opportunities, non-discrimination, personal data protection, respect for diversity, freedom of union representation and communication with the human team. In addition, human rights and workers' rights are incorporated into the Group's Code of Conduct.

When approving suppliers the Group appreciates those that show a commitment towards their employees, quality and the environment, among other matters, and it avoids doing business with suppliers that have reportedly breached legal, tax, labour, environmental, security, health and safety, or human rights legislation.

10.6. Commitment to territories

a) Support to enterprises and entrepreneurs

The Unicaja Banco Group supports enterprises and entrepreneurs. The channelling of aid granted by the public authorities is added to Bank's own products, which include the granting of microcredit. This includes agreements with the European Investment Bank (EIB), Official Credit Institute (ICO), Iberaval and SAECA, among others.

As part of its commitment to the business community, the Group has collaborated financially in the development of multiple initiatives channelled through business organisations.

Overall, the Group has provided financing to SMEs and independent contractors with an outstanding balance in excess of €4,200 million.

b) Shareholdings

As well as its role in covering financing needs and providing a range of services to the business sector, the Group is directly involved in production activities through the creation and promotion of business initiatives and the holding of shares. At the end of 2017, the Group's direct shareholding portfolio was made up of 138 companies, mostly SMEs, with a total investment of more than €2,058 million.

Applying criteria of economic efficiency and the search for profitable investment alternatives, compatible with the development of significant regional business projects, the Group has acquired holdings in national and regional companies in sectors of strategic interest for Andalusia, Castilla y León and Spain as a whole, with a high potential for generating wealth and employment. In this respect, it invests in companies in sectors such as aeronautics, agri-food, infrastructure, public services, energy, venture capital companies, tourism and technology parks, among others.

The Group's commitment towards the development of infrastructures is evident through its involvement in transport network and communications projects, and the provision of integrated services (car parks, water, cleaning, local promotion, consulting, etc.)

The Group also contributes to strengthening the agri-food industry through its holdings in large groups with the scope and size required to operate in international markets and in research companies focused on this sector as well as companies devoted to improving international product marketing circuits.

It also promotes projects in the tourist industry, which is of key importance to the Spanish economy, holding shares in companies related to these tertiary activities.

It is also committed to the development of the financial services sector by expanding its supply capacity to economic agents through subsidiaries and holdings of Corporación Alteria, which is an integral part of the Unicaja Group. In its policy of support for the business sector, Unicaja Banco invests in companies centred on the creation and consolidation of innovative ventures and projects, in technology parks, and in real estate projects, mainly through the Acinipo subgroup.

The Group complements the above initiatives through its involvement in projects that contribute to sustainable development, such as those related to the generation of renewable energies.

10.7. Commitment with society

a) Social housing

During the year, the Unicaja Banco Group has developed lines of financing and support for families, including those related to social housing. The Group has developed a number of measures - renegotiation of conditions, restructuring and refinancing of debts, dation in payment and social rent - aimed at facilitating the capacity of customers in difficult economic situations to meet their obligations under home mortgage loans, from which more than 3,000 families have benefited.

The Group adheres to the Code of Good Practice provided for in Royal Decree-Law 6/2012 of 9 March on urgent measures to protect mortgage borrowers without resources, as amended under Law 1/2013 of 14 May, Royal Decree-Law 1/2015 of 27 February and Royal Decree-Law 5/2017 of 17 March.

The Group also adheres to the Social Housing Fund (FSV) agreement, intended to provide rental accommodation for families in a particularly vulnerable situation, to which it has contributed 350 dwellings which can be occupied on a rental basis for €150 and €400 per month, depending on the lessees' income, by families that have lost their homes due to the non-payment of their mortgage loans and are in a situation of particular vulnerability.

b) Taxes and social security contributions

The total tax contribution method measures the total impact represented by the payment of taxes by a company, a corporate group or a business sector. This measurement is made from the viewpoint of the total contribution of taxes paid directly or indirectly as a result of companies' business activities. It has been quantified using a cash method.

During 2017, the Unicaja Banco Group's tax contribution amounted to €164.52 million. This amount includes corporate income tax, tax on credit institution deposits, non-deductible VAT, Social Security contributions and local or regional taxes such as business tax and property tax.

c) Employment of persons with disabilities

At 31 December 2017 Unicaja Banco complied with the provisions of Legislative Royal Decree 1/2013 of 29 November which approved the revised General Law on the Rights of Persons with Disabilities and their social inclusion, which provides for the reservation of work positions equivalent to 2% of the workforce in companies with more than 50 employees and the obligation to promote the social and employment integration of people with disabilities, in addition to reinforcing the concepts of equality of opportunities, non-discrimination and universal accessibility. The Group also collaborates with public utility associations that encourage professional training, work placement and job creation in favour of disabled persons.

At 31 December 2017, EspañaDuero held a Certificate of Declaration of Exceptionality and Adoption of Alternative Measures issued by the Ministry of Employment and Social Security for the alternative fulfilment of the reserve quota in favour of workers with disabilities in accordance with the provisions of Royal Decree 364/2005 of 8 April through the adoption of alternative measures. Said Certificate was approved on 07/15/2015, with a validity of 3 years.

d) Promotion of financial education

The Group has again developed a broad programme of financial education activities within Edufinet, which in 2017 celebrated its tenth anniversary. The project promotes financial education among citizens, paying particular attention to students of Secondary Education, Baccalaureate and Vocational Training Cycles, business persons and entrepreneurs. The Edufinet financial education portal has been visited by 6.8 million people from 180 countries. Since its creation 117,500 persons have taken part in presential meetings which include Financial Education sessions for young people, and a number of informative works have been published including the Financial Guide (5 editions), the Financial Guide for Businesses and Entrepreneurs (2 editions) and the comic “Financial Education in the City” (1 edition). This project received an award in 2017 from the financial publication “Actualidad Económica” for its work in promoting financial education.

It also takes part, through the CECA, in the Spanish Financial Education network.

e) Collaborations

The Unicaja Banco Group maintains collaborative activities with different institutions and associations for the promotion of economic, financial, academic, social and sports activities and, in general, territorial and economic development.

f) Research and development

During 2017 the Unicaja Banco Group has not carried out any research and development activities involving significant amounts.

10.8. Environmental commitment

a) Environmental management programmes

The parent company considers that it has taken the necessary measures to protect and improve the environment and to minimise environmental impact, if applicable, in compliance with current environmental legislation. During 2017 the Group has not made any environment-related investments and neither has it considered necessary any provisions for liabilities and charges for environment-related actions. Nor does it consider that there are any significant environment-related contingencies.

In addition, the Group is aware of the importance of protecting the environment and seeks to encourage initiatives and actions that are aimed at environmental conservation and protection. This commitment is reflected in the Environmental Policy, published on the corporate website, which is based on the following principles:

- Ensure compliance with applicable environmental legislation and regulations, as well as other requirements that are complied with voluntarily.
- Promote continuous improvement in the environment area, adopting sustainable practices and contributing to the improvement of the Entity's social responsibility.
- Develop all our activities within a global environmental protection framework, promoting the principle of pollution prevention and control, as well as the efficient use of natural and energy resources.

- Rapid and responsible action in the correction of incidents that may pose a risk to health, safety or the environment, informing the authorities and parties concerned on a timely basis.
- Promote the involvement and environmental awareness of all the Group's personnel, integrating the environmental variable into our daily activity and relations with stakeholders, encouraging the reuse and recycling of materials.
- Provide training to employees in the environment area according to their level of responsibility, providing them with the necessary knowledge for the implementation and monitoring of good environmental practices.
- Collaborate with our customers, suppliers, other financial institutions, public administrations and with society in general in all matters related to reducing environmental risks and promoting sustainable development.
- Incorporate environmental criteria into decision-making on the awarding of service contracts.
- Establish programmes in which annual objectives and goals are set, which are voluntarily assumed by the Entity, leading to the continuous improvement of environmental performance, carrying out audits and rigorous self-assessments on compliance with our Environmental Policy and issuing follow-up reports.
- Make the "Environmental Policy" available to all interested parties.

The environmental policy is certified under the UNE-EN ISO14001:2004 standard, which accredits the correct management of the waste generated, as well as the systematisation of the monitoring of environmental aspects, related, among others, to the consumption of natural resources (paper, cardboard, water, energy) and the avoidance of environmental annoyance (such as noise).

There is also an Environmental Operating Committee in charge of the management, coordination and supervision of this environmental policy.

b) Consumption

Paper and waste collection

Paper is the only material with a consumption (467,324 kilogrammes in 2017) that could have a relevant environmental impact. To reduce the impact, chlorine-free ecological paper is used, with FSC and PEFC certificates, which guarantee its origin from sustainable forestry operations in accordance with international standards, and consumption is contained through the intense application of information technologies. In this area, the accessibility to services, information and operations through the website, the transfer of internal and external information via email and the facilities for sending messages to mobile phones should be highlighted. In addition, the issuing of employee salary statements and tax certificates on paper has been suspended and replaced by the online salary consultation service through the employee portal.

Properly identified containers have also been made available for the collection of paper, plastic, organic waste and print toner. Concerning waste from IT systems (hard drives, storage cards, keyboards, etc.), the total volume generated by Unicaja Banco in 2017 was 6,800 kg.

Electrical energy

In 2017 various actions were carried out aimed at ensuring efficient consumption and raising awareness among employees. These include the following:

- Replacement of air conditioning and lighting equipment with eco-efficient models.
- Installation of presence detectors.
- Implementation of systems for controlling equipment activation and deactivation and the installation of LED-type luminaires.

Annual consumption stands at 45,568 MWh. The emissions of greenhouse gases associated with this electricity consumption (indirect emissions) have been estimated at 3,567.30 t CO_2, this being 1.06 t CO_2 per employee.

Water

The volume of water consumed is 74,825 m3 which is not a significant figure considering the size of the business, the number of employees and the number of branches in the commercial network, as well as the character of office activities. However, a number of practices have been implemented to reduce consumption in the Entity's area of activity, such as the installation of taps with timed opening "eco" models, the use of dual discharge tanks and the incorporation of air diffuser nozzles in taps and regular reviews of the facilities to monitor possible leaks, in the network and in appliances and toilet facilities.

10.9. Other actions

Fiscal responsibility

In 2017, the Fiscal Strategy was approved by the parent company Board of Directors pursuant to Article 529.3.1.i of the Companies Act 2010.

The Fiscal Strategy includes the following principles that govern the Entity's actions as a taxpayer:

1. Fiscal responsibility is part of the Entity's corporate social responsibility.
2. The Entity respects tax regulations in its actions, without resorting to aggressive tax strategies.
3. Prudence, understood basically as a precautionary principle in the assumption of risk.
4. Integrity, a reflection of the Entity's ethical behaviour in its relations with customers, investors and shareholders, as well as with any other party with which business relations are maintained.
5. Optimisation of the Entity's tax burden.
6. Accuracy and veracity of tax information.
7. Cooperation with the Administration in its compliance with tax obligations.
8. Efficiency in its compliance with tax obligations.

Since December 2017, Unicaja Banco, S.A. has adhered to the Code of Good Tax Practices approved by the Forum of Major Companies in accordance with the text proposed by the Spanish Administration Tax Agency (AEAT). It has thereby adopted all good practices enabling the prevention and reduction of tax and reputational risks in order to generate greater legal and economic security for the Entity and for society.

Struggle against corruption and bribery

In this respect, the Group has the following internal regulations:

- Unicaja Banco Group Code of Conduct.
- Manual for the Prevention of Criminal Risk and Response to Non-compliance.
- Internal Protocol for the Prevention and Detection of Criminal Offenses.
- Compliance Channel.

The main risks related to this area have been described in the risk map of the Internal Protocol. The Unicaja Banco Group is studying the adoption of a complete frame of reference in accordance with international compliance standards.

APPENDIX I
ALTERNATIVE PERFORMANCE MEASURES (APM)

The information contained in this appendix has been prepared in accordance with International Financial Reporting Standards as adapted by the European Union (EU-IFRS). In addition, the Unicaja Banco Group believes that certain Alternative Performance Measures (APM), as defined by the Directive on Alternative Performance Measures published by the European Securities Market Authority (ESMA) on 5 October 2015 (ESMA/2015 /1415en), provide additional information that may be useful for analysing the financial performance of the Group.

The Group considers that the APM included in this Appendix meet the ESMA Guidelines. These APM have not been audited and under no circumstances replace financial information prepared under IFRS. In addition, the definition that the Group uses for these APM may differ from similar measures calculated by other companies and therefore may not be comparable.

Following the recommendations of said Directive, set out below is a detail of the APM used by the Unicaja Banco Group (€ million).

ALTERNATIVE PERFORMANCE MEASURES		2017	2016
Cost of risk	Impairment in value or (-) reversal of impairment in value of loans and receivables to customers	48.6	83.8
	Average between start/end of period for loans and receivables from the customer base (excluding valuation adjustments)	31 884	34 082
	Ratio	**0.15%**	**0.25%**
Cost to income(Operating expenses without amortisation/gross margin)	Administrative expenses	590	611
	Gross operating income	997	1 089
	Ratio	**59.2%**	**56.1%**
Customer spread	Yields on non-doubtful loans and advances to customers (excluding repos) over average quarterly balances of loans and non-doubtful advances to customers (without valuation adjustments and excluding repos and other financial assets)	2.15%	2.51%
	Cost in the year of customer deposits (excluding repos) over average quarterly balances for the year of customer deposits (without valuation adjustments and excluding repos)	0.25%	0.44%
	Difference between yield and cost	**1.90%**	**2.07%**
Coverage of foreclosed assets	Impairment of accumulated value of properties awarded or received in settlement of debts.	1 197	1 594
	Gross carrying amount of properties awarded or received in settlement of debts.	1 872	2 567
	Ratio	**64.0%**	**62.1%**
Net Interest Margin	Net interest income	583	620

	Total average assets (mean of average quarterly balances)	56 413	58 830
	Ratio	**1.03%**	**1.05%**

ALTERNATIVE PERFORMANCE MEASURES		**2017**	**2016**
NPL coverage ratio	Credit risk cover (In December 2016: excluding extraordinary provisions related to pacts limiting interest rate fluctuations)	1 355	1 608
	Gross impaired assets	2 710	3 215
	Ratio	**50.0%**	**50.0%**
NPL ratio	Gross impaired assets	2 710	3 215
	Customer loans and receivables (excluding valuation adjustments)	31 038	32 730
	Ratio	**8.7%**	**9.8%**
ROA	Net consolidated profit	138.4	135.1
	Total average assets (average quarterly balances)	56 413	58 830
	Ratio	**0.2%**	**0.2%**
ROE	Profit/(loss) attributed to parent entity	142.4	142.1
	Average shareholders' funds (excluding adjustments to other accumulated comprehensive income) (mean of average quarterly balances)	3 397	2 919
	Ratio	**4.2%**	**4.9%**
RoRWA (management)	Consolidated profit/(loss) for the year	138.4	135.1
	Risk Weighted Assets (RWAs)	24 239	25 188
	Ratio	**0.6%**	**0.5%**
RoTE	Profit/(loss) attributed to parent entity	142.4	142.1
	Average shareholders' funds (excluding adjustments to other accumulated comprehensive income) less average intangible assets (mean of average quarterly balances)	3 397	2 918
	Ratio	**4.2%**	**4.9%**
Performing loans and advances to customers (excluding valuation adjustments)	1. Loans and receivables Credit facilities and loans at variable interest rates	25 388	28 074
	2. Loans and receivables Credit facilities and loans at fixed interest rates	3 230	2 192
	3. Loans and receivables Impaired assets	2 710	3 215
	Data (1+2-3)	**25 908**	**27 051**
Total customer funds	1. Financial liabilities at amortised cost Customer deposits (excluding valuation adjustments)	45 373	47 710
	2. Debt securities issued (excluding valuation adjustments)	130	804
	3. Funds managed through off-balance-sheet instruments	12 699	11 635
	Ratio	**58 202**	**60 149**

ALTERNATIVE PERFORMANCE MEASURES		2017	2016
Retail customer funds	1. Funds under management	58 202	60 149
	2. Multi-user mortgage covered bonds under the heading "Term savings"	5 291	6 568
	3. Customer deposits. Repos (excluding valuation adjustments)	3 157	5 318
	4. Customer deposits. Other (excluding valuation adjustments)	59	39
	5. Debt securities issued (excluding valuation adjustments)	130	804
	6. Repos controlled by retail customers . *Management data*	852	758
	Data (1-2-3-4-5+6)	**50 417**	**48 178**
Wholesale funds	1. Multi-user mortgage covered bonds under the heading "Term savings"	5 291	6 568
	2. Customer deposits. Repos (excluding valuation adjustments)	3 157	5 318
	3. Customer deposits. Other (excluding valuation adjustments)	59	39
	4. Debt securities issued (excluding valuation adjustments)	130	804
	5. Repos controlled by retail customers . *Management data*	852	758
	Data (1+2+3+4-5)	**7 785**	**11 971**
Loans-to-Deposits (LtD)	1. Loans and receivables Credit facilities and loans at variable interest rates	25 388	28 074
	2. Loans and receivables Credit facilities and loans at fixed interest rates	3 230	2 192
	(1+2) NUMERATOR. Loans and advances to customers -excluding valuation adjustments-	**28 618**	**30 266**
	1. Financial liabilities at amortised cost Customer deposits (excluding valuation adjustments)	45 373	47 710
	2. Multi-user mortgage covered bonds under "Term savings"	5 291	6 568
	3. Customer deposits. Assets sold with repurchase agreements (excluding valuation adjustments)	3 157	5 318
	4. Customer deposits. Other (excluding valuation adjustments)	59	39
	5. Repos controlled by retail customers. *Management data*	852	758
	(1-2-3-4+5) DENOMINATOR. Customer deposits (non-market) -excluding valuation adjustments-	**37 718**	**36 543**
	Ratio	**75.9%**	**82.8%**

ALTERNATIVE PERFORMANCE MEASURES		2017	2016
Gross liquid assets	1. Cash surplus (interbank deposits + cash surplus in ECB and operating accounts)	3 073	55
	2. Discountable reverse repos	2 222	2 196
	3. Fixed income portfolio and other discountable assets in the ECB	15 534	19 610
	Data (1+2+3)	**20 829**	**21 861**

Aggregate of:
-Surplus/deficit in Bank of Spain deposits with respect to the minimum reserve ratio in effect on that date and the surplus/deficit in operating accounts with credit institutions with respect to the average for the last 12 months.
-Position net of interbank deposits with other credit institutions.
-Portfolio of discountable fixed income securities in the ECB, both permanent and under repo agreements, including own portfolio issued for use as collateral in the ECB and pledged loans, all calculated at discounted ECB value.

		2017	2016
Net liquid assets	1. Gross liquid assets	20 829	21 861
	2. Taken in ECB	3 340	-
	3. Repos	3 311	7 317
	Data (1-2-3)	**14 177**	**14 544**

The portion being used as security for financing with respect to the ECB, assets sold with repo agreements or other pledges is deduced from the gross liquid assets.

		2017	2016
Total performing loans	1. Loans and receivables (excluding valuation adjustments)	33 804	33 687
	2. Debt securities	2 585	786
	3. Credit institution loans and advances	184	170
	4. Impaired assets	2 710	3 215
	Data (1-2-3-4)	**28 326**	**29 514**

		2017	2016
Performing loans to Public sector	1. Resident public administrations, loans and assets receivable	1 524	2 160
	2. Resident public administrations, impaired assets	2	10
	Data (1-2)	**1 522**	**2 150**

		2017	2016
Performing loans to private sector	1. Loans and receivables (excluding valuation adjustments)	33 804	33 687
	2. Debt securities	2 585	786
	3. Term deposits at credit institutions	120	73
	4. Other financial assets	259	484
	5. Performing loans to Public Administrations	1 522	2 150
	6. Reverse repos	2 220	2 078
	7. Impaired assets	2 710	3 215
	Data (1-2-3-4-5-6-7)	**24 386**	**24 901**

		2017	2016
Operating expenses	1. Administrative expenses	590,5	610,6
	2. Amortisation/depreciation	42,3	45,2
	Data (1+2)	**632,8**	**655,9**

		2017	2016
Credit and loan impairments	Impairment or (-) reversal of impairment of Customer loans and receivables	48.6	83.8

ALTERNATIVE PERFORMANCE MEASURES		2017	2016
Provisions	Provisions or (-) reversal of provisions	132.4	104.0
Pre-provision profit	1. Gross margin	997.0	1.089.1
	2. Administrative expenses	590.5	610.6
	3. Amortisation/depreciation	42.3	45.2
	Data (1-2-3)	**364.2**	**433.3**
Provisions and impairments and other results	1. Provisions or (-) reversal of provisions	132.4	104.0
	2. Impairment or (-) reversal of impairment of financial assets not carried at fair value through profit or loss	36.7	38.5
	3. Impairment or (-) reversal of impairment of investments in joint ventures or associates	27.2	27.3
	4. Impairment or (-) reversal of impairment in non-financial assets	46.7	96.9
	5. Gain/(loss) on derecognition of non-financial assets and shareholdings, net	18.7	25.0
	6. Negative goodwill recognised on the income statement	-	-
	7. Gain/(loss) on non-current assets and disposal groups of items classified as held for sale not qualifying as discontinued operations	-0.1	-0.5
	Data (1+2+3+4-5-6-7)	**224.5**	**242.3**
Net fee income	1. Fee income	240.6	225.8
	2. Fee expenses	20.4	18.4
	Data (1-2)	**220.2**	**207.4**
Trading income + exchange differences	1. Gain/(loss) on derecognition of financial assets and liabilities not carried at fair value through profit or loss, net	96.1	84.1
	2. Gain/(loss) on financial assets and liabilities held for trading, net	1.7	-7.1
	3. Gain/(loss) on financial assets and liabilities designated at fair value through profit or loss, net	-	-
	4. Gain/(loss) from hedge accounting, net	0.2	0.3
	5. Exchange differences (gain or (-) loss), net	0.4	1.0
	Data (1+2+3+4+5)	**98.3**	**78.2**
Other operating income/expenses	1. Other operating income	163.9	232.0
	2. Other operating expenses	139.9	115.9
	3. Income from assets under insurance or reinsurance contracts	-	17.4
	4. Expenses from liabilities under insurance or reinsurance contracts	-	12.5
	Data (1-2+3-4)	**24.0**	**121.0**