Pillar 3 Disclosure

Unicaja Banco Group

December 2018

This document is a free translation of the Pillar 3 disclosure originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails

Unicaja Banco

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Introduction

1. INTRODUCTION

1.1. Executive summary

The objective of Pillar 3 disclosure information is to comply with the transparency and market reporting requirements of Unicaja Banco Group, established in Part Eight of Regulation (EU) No. 575/2013 (hereinafter Regulation or CRR), of the European Parliament and of the Council, on the prudential requirements of credit institutions and investment banks. Regulation (EU) 575/2013 and Directive 2013/36/EU (hereinafter Directive or CRD), of the European Parliament and of the Council, on access to the activity of credit institutions and their prudential supervision, constitute the solvency and supervision regulations applicable to European credit institutions.

The Regulation, Part Eight Title I, establishes that credit institutions must publish relevant information at least once a year, to market participants so that they know their risk profile, within the framework of Pillar III of the Basel Capital Accord.

With the objective of complying with current legislation on disclosure, Unicaja Banco Group presents the required information in this report.

Unicaja Banco Group maintains its vocation of regional leadership in Andalucía and Castilla y León. At 31 December 2018, the Group has a network of 1,154 branches: 1,153 offices in 38 provinces in Spain and in the autonomous regions of Ceuta and Melilla; and 1 correspondent office in the United Kingdom.

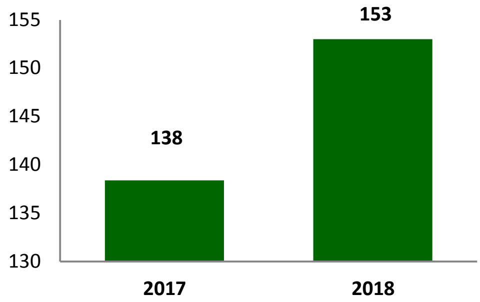
Unicaja Banco Group develops its activity in commercial, retail and corporate banking, applying solid risk management and control standards, and finances its credit activity mainly by attracting customer deposits and, to a lesser extent, through the issue of long-term mortgage bonds. Credit risk and liquidity risk are, as in any credit institution focused on commercial banking, the main risks that the Group must manage.

The most important aspects of Unicaja Banco Group in the year 2018 are described below:

Capacity to generate profits

Unicaja Banco Group maintained high levels of profit generation in 2018, which allow it to reach a net profit figure of €153 million. The main factors that allow this high capacity to generate profits to be maintained are the improvement in the interest margin, the reduction of operating costs within the framework of a policy to improve efficiency and the reduction of write-off needs, due to both a decline in the volume of non-performing assets and the high levels of coverage that have been obtained.

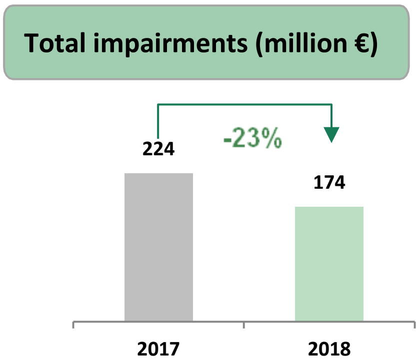
Illustration 1: Evolution of consolidated profits during the period (million €)



The interest margin increased by 3.1% compared to December 2017 as a result of new credit production, which contributes to stabilising income, the contribution of the fixed income portfolio and the decrease in financing costs. The aggregate amount of interest margin and fees is €820 million (+2.1%) and it grows even further (+2.9%) using a constant scope (excluding the accounting consolidation of the insurance companies Unión Duero Vida and Duero Pensiones that took place during the first quarter of 2018). In these terms, fees increased by 2.4% during the period of reference.

The strict cost rationalisation policy that the Entity has been implementing is reflected in the 2.2% reduction in operating costs.

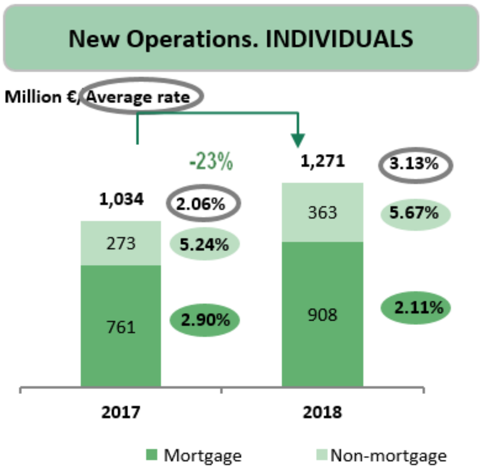
Finally, in 2018 Unicaja Banco Group reduced the need to recognise impairments. The Entity applied €174 million to this heading throughout the year, which is 23% less than that reported during the same period in 2017. Moreover, the high coverage levels and the continuous reduction of non-performing loans allowed it to obtain the net recoveries of credit write-offs during the year.

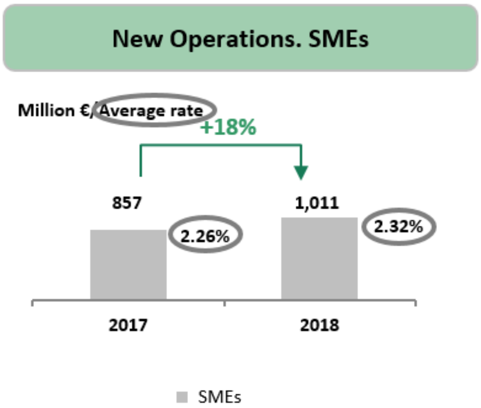


Growth of retail activities: credit momentum and growth in customer funds obtained

The dynamics in the retail area allowed the Entity to continue increasing the volume of credit transactions in the individual and SME segments and to continue with the increase in customer funds obtained, particularly through savings insurance and on-demand deposits.

New loan originations amounted to €3,248 million. The SME segment saw 18% growth compared to 2017 while credit granted to individuals increased by 23%, mortgages increased by 19% and consumer and other loans increased by 33%. This increase in volumes was accompanied by an increase in profitability. In 2018 new loan originations for large companies and public entities amounted to €965 million.

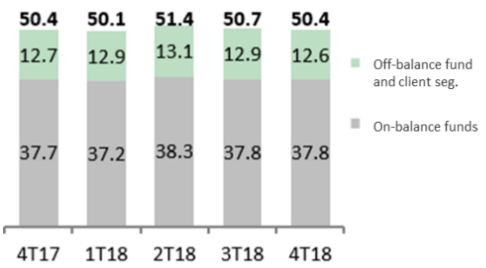




The resources managed by the Group (excluding valuation adjustments) amounted to €55,507 million, in a difficult year for resource management given the negative evolution of financial markets and its effects on the valuation of assets under management. The entity has combined two strategies: taking advantage of the high liquidity levels that are available, it has applied a prudent strategy, particularly during the last quarter, with respect to financial conditions for on-balance sheet corporate customer resources, although this has given rise to a certain reduction in balances.

It has also taken into consideration customer preferences to reorient savings towards products that are less affected by market volatility, such as on-demand accounts or savings insurance facilities. This gave rise to a 7.7% increase in on-demand balances and 15.6% in savings insurance, while decreasing investment funds, term-deposits and public entities. This has all resulted in an increase in on-balance sheet amounts by 0.2% and a decline in off-balance sheet items and insurance by 0.9%. This means that total customer funds remain practically at the same levels as at the start of the year. However, if the market performance of investment funds is eliminated, those resources would have grown by around 1%. Retail customer funds in the private sector increased slightly (0.1% more in year-on-year terms), driven by savings insurance and on-demand deposits.

Total retail customer funds (billion €)

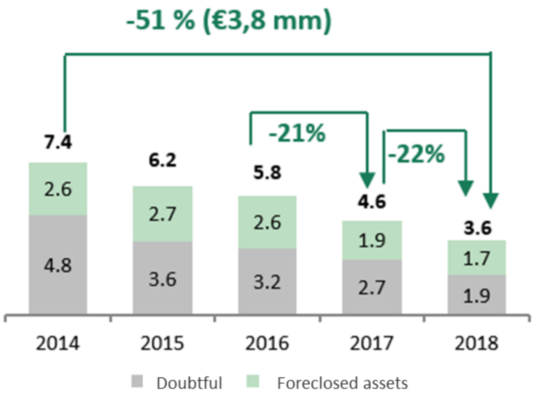


Decline of non-productive and high coverage assets

The persistent and accelerated reduction of non-performing assets (NPAs) is notable (non-performing assets and foreclosed properties), which fell by €995 million (21.7%) over the past 12 months. There was a net decline of €785 million in non-performing assets (-29.0%) and €210 million in foreclosures (-11.2%). At the end of 2018 the Group's non-performing assets declined to €1,926 million and foreclosed properties fell to €1,661 million. The decline in non-performing assets translates into a 2.0% reduction in the default rate during the year, now standing at 6.7%.

Significant reduction in non-performing assets (NPAs)

Evolution of non-produtive assets (€ billions)



Unicaja Banco Group's coverage levels remain among the highest in the sector. Coverage of non-performing assets stood at 57.3% at the end of December 2018, while non-performing risks came in at 53.0% and foreclosed properties at 62.2%.

Non-performing asset balance, net of provisions, was €1,533 million, representing 2.7% of the Group's assets at the end of December 2018, compared to 3.6% at the end of December 2017. This represents a 0.9% decrease.

High levels of solvency, which allow the distribution of dividends to increase while maintaining comfortable liquidity.

At the end of December 2018 Unicaja Banco Group presented a Common Equity Tier 1 capital ratio of 15.4% and a total capital ratio of 15.7%. This is among the highest in the sector and represents a year-on-year increase of 0.9 p.p. and 0.6p.p. respectively.

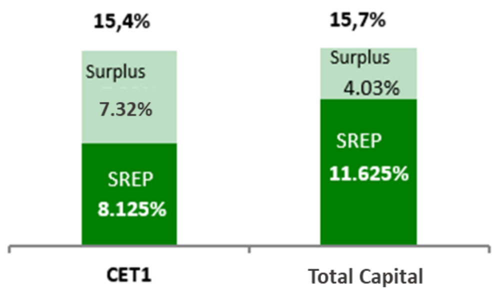
In fully-loaded terms (as calculated once the transitory period of application of solvency regulations has ended), Unicaja Banco has a CET1 ratio of 13.5% and a total capital of 13.7%. This represents a year-on-year increase of 0.7 p.p. in the CET1 ratio and 0.4 p.p. in total capital.

These levels easily exceed the requirements established by the ECB within the SREP framework for 2018 and place the CET 1 ratio for Unicaja Banco at 8.125% and total capital at 11.625%. The Group therefore has a surplus of 732 basis points above the CET1 requirements, which is equivalent to €1,674 million and 403 basis points above total capital requirements, equivalent to €922 million. This reveals the high capitalisation of the Entity. There were increases in the surplus in both cases compared to the end of 2017 (7.2% and 10.7%, respectively).

31/12/2018		
	Phase in	Fully Loaded
Common Equity Tier 1 (CET 1)	15.4%	13.5%
Total Capital	15.7%	13.7%
Requirement SREP 2018 CET -1	8.13%	N.A
Requirement SREP 2018 Total Capital	11.63%	N.A
Excess CET 1 over SREP 2018	7.32%	N.A
Excess total capital over SREP 2018	4.03%	N.A

The quality of the balance sheet and the Entity's solvency levels have allowed it to consider proposing to the General Shareholders Meeting a cash dividend consisting of 40% of the Group's net profits, anticipating the expectation for the stock market listing planned for 2020 by two years. This will distribute to all shareholders a total cash dividend of €61 million, compared to the €34.6 million distributed against 2017 profits, equivalent to 3.8 cents per share compared to the 2.1 cents paid by charging last year's profits, and representing a 76% increase.

Solvency, SREP requirements and surpluses



Unicaja Banco Group maintains solid and excellent levels of liquidity, as well as a high degree of financial autonomy.

The available liquid assets (public debt for the most part) and rediscountable to the ECB, net of the assets used, rise to 13,939 million euros at December 2018, representing 24.2% of the Group's total balance. The customer funds used to finance the Entity comfortably exceed its credit investments, as is reflected by the loan to deposit (LTD) ratio, which is 73%.

Other actions in 2018

In 2018 Unicaja Banco continued with the training of employees to obtain financial assessment and marketing certificates, in compliance with the MiFID II Directive. A high percentage of Unicaja Banco employees engaged in the sale of financial products (80%) have already obtained those certificates.

At the end of the year the Entity concluded the collective bargaining process, with the majority support of trade unions, for all of the Bank's employees. The agreement focused on efficiency and is in line with the rest of the sector. This agreement covers a voluntary and progressive redundancy process involving early retirements and incentivize resignations that will gradually take place over three years, as well as the establishment of certain criteria for applying internal flexibility measures.

In September 2018, Unicaja Banco Group completed the merger of its subsidiary Caja España de Inversiones, Salamanca y Soria, S.A., hereinafter called as EspañaDuero (legal merger and IT integration of the subsidiary), which is another milestone on its roadmap to allow the Entity to continue making advances in the direction marked by its Strategic Plan 2017-2020. This plan covers its territories of origin, notably including Andalucía and Castilla León, where Unicaja Banco is the market leader.

1.2. Financial and economic environment

Throughout the last quarter of 2018, economic activity on the international arena was influenced by increased uncertainty and the likelihood that possible risks in trade flows could materialise. Nevertheless, on balance the year has been positive for both the global and the Spanish economy. The latest reports from the OECD and the European Commission indicate that the growth rate in global production was 3.7% in 2018, while Gross Domestic Product (GDP) is expected to grow by 3.5% in 2019.

Concerns about trade relations, together with persistent political risks, have created lack of clarity that has impacted on the decisions being taken by economic agents. This has coincided with political tensions in Europe that have focused particularly on Italy and Brexit negotiations. In the first case, uncertainty about the Italian government's economic policy triggered the sale of Italian sovereign debt and has damaged confidence in the country. Approval for the Brexit pre-deal reached between London and Brussels, meanwhile, has not been backed up by the British Parliament, so that uncertainty has not been dispelled.

Another potential risk derives from a hike in the oil price. Despite the significant increase in US and Russian production, the price of Brent crude has remained high since the beginning of the year, driven mainly by constant increase in demand, alterations in supply from Venezuela and uncertainties around the impact on Iranian production in the face of US sanctions. The possible slowdown in the demand for crude over the next few quarters also creates high price volatility.

The OECD believes that in the short term the policies adopted and the increase in employment will continue to support domestic demand. However, forecasts point to increasingly tight macroeconomic policies, difficulties resulting from trade tensions – especially between the US and China –, less stable financial conditions and higher oil prices. For these reasons, GDP growth in the OECD area is expected to slow gradually.

These projections are similar to those of the European Commission, which emphasises that the EU's economy is still growing, for its sixth consecutive year, forecasting that in 2019 and 2020 GDP will grow in all Member States. But it also acknowledges that the rate of expansion has tapered –the peak was reached in 2017– and expects this moderate slowdown to continue for the next two years. Specifically, GDP growth is expected to have slowed by 0.3 p.p., from a rate of 2.4% in 2017 to 2.1% in 2018. Furthermore, GDP in the Eurozone is projected to moderate to 1.9% in 2019, itself a slight correction to the downside from pre-summer expectations.

The Commission anticipates that inflation will rise in the next two years, although price tensions are not expected to weigh on monetary policy decisions. Conditions in the job market are forecast to continue improving and the downward trend in the unemployment rate to continue over the forecast horizon, bringing the average unemployment rate in the EU as a whole down to 7.5% and in Spain to 13.3%, by 2020.

The European executive's report stresses that the slowdown in expansion is accounted for by exogenous factors: weaker global trade due to the greater obstacles to transactions, the increase in uncertainty and more expensive oil. It argues that

Europe's internal growth drivers ought to enable activity to maintain its momentum and create employment. Investment is also referenced as providing structural support for the real economy's expansionary profile in the Eurozone since, despite expectations about economic confidence, financing terms will be favourable.

At its last board meeting, in mid-December, the Eurozone's monetary authority confirmed that it was stopping its net asset purchase programme that very month. Nevertheless, it decided to keep interest rates on the main refinancing transactions, the marginal lending facility and the deposit facility unchanged at 0.00%, 0.25% and minus 0.40%, respectively, committing to maintain these rates until at least the summer of 2019 and, in any event, as long as is necessary to stick to the targets set by the ECB. Similarly, its statement reiterated its intention to reinvest all the principal on the securities bought under this programme that mature for an extended period of time.

Meanwhile, the Federal Reserve has already raised the official interest rate by 225 base points since the end of 2015. At the same time, it has begun to gradually reduce its sovereign debt and mortgage securities positions, although this process of absorbing such a large amount of money in circulation is still incipient. In fact, expectations that benchmark interest rates still have upside over the next few months has caused a spike in short-term yields.

Against this international backdrop, the Spanish economy continues to report high, although slightly moderating, growth rates. This trend also began crossing over into the performance over time of growth forecasts throughout the year, with a GDP forecasts increase in the final months of the year of around 2.6% for 2018. In mid-December the Bank of Spain set its forecast at 2.5%, which was 0.1 p.p. below most forecasting institutions' estimates, and also below the Spanish Government's own estimate, made in October. Projections for 2019 put GDP growth at around 2.2% or 2.3%.

Once again, in 2018-2019 the Spanish economy is forecast to grow faster than the average for the Eurozone, which will help to mitigate the convergence gap. Furthermore, the data profile up to the third quarter of 2018 shows how GDP growth has been exceptionally expansive since the end of the crisis. On the contrary, the rising profile of employment –apart from the more seasonal an effect on performance– has still not reached its pre-crisis level. Meanwhile, the signs of retrenchment visible in the active population (work force) since 2013represent a risk for the potential growth of the Spanish economy.

When we look at the Bank of Spain's forecasts of a gradual moderation in the momentum of domestic private demand, these are compatible with an increase in spending (1.9% and 1.5% in 2019 and 2020, respectively), that will be supported by job creation and wage improvements, as well as by investment (with expansion rates in the last item of 4.7% and 3.6% over the next two years). The negative contribution of net external demand to GDP growth –which in 2018 was somewhat affected by the deterioration of international trade– will tend to diminish.

Nevertheless, we should bear in mind that –as with any forecast– the macroeconomic outlook predicted is based on a series of hypotheses and certain technical assumptions; should these suffer alterations, this would also affect the behaviour of the national economy's main aggregates. Thus, average short-term interest rates (Euribor 3 months) in 2019 will remain negative, with rates similar to those of 2018. Yields on long-term debt will tick up slightly (1.4% in 2019) and edge up gradually over the next two years (to 1.9% in 2021). Oil prices will slide a little, with the price of Brent crude estimated at just under USD 70. Restraint in energy prices and other commodities, coupled with weakening domestic demand, will put pressure to the downside on inflation over the EMU area as a whole.

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We should emphasise that the high levels of unemployment are forecast to drop, with the average annual rate falling to below 14% in 2019, according to most bodies, thanks to the sustained annual job creation. Inflation is also expected to rise, although no faster than in 2018, when the rate of price variation was about 1.8%.

The Spanish economy’s external surplus is forecast to shrink too, because of a less favourable external outlook, and more expensive energy imports. But in any case, the forecasts do not anticipate that the Spanish economy’s current account balance will move into the red from its current positive position, but merely that some of the surplus will be shaved off.

Looking at public accounts, the forecast consensus appears to indicate that the deficit target for 2018 (-2.7%) may have been achieved, while forecasts for 2019 come in at -2.4%. From the private-sector perspective, the Spanish economy has cut its indebtedness significantly and, although the principal risks come from abroad, we should not forget that structural problems persist that could also prevent a more solid expansion in the next few years. A hypothetical deterioration of the turbulence in international markets or an episode of greater uncertainty could undermine household and corporate confidence, affecting domestic demand. Indeed, private spending has been fundamental to the Spanish economy’s healthy expansion rate, but is expected to slow in the next few quarters.

The information available about the situation in the fourth quarter of 2018 suggests a very similar rate of productive activity growth to the third quarter and is based on the (non-trending) acceleration in indicators such as labour affiliation, industrial production, the service sector PMI, retail sales and confidence indicators. The tendency of these supports the forecasts of a gentle slowdown for the Spanish economy, since the positive performance in the final months of 2018 is compatible with forecasts of a slightly slower rate of growth in 2019.

When we look at the information on employment, the figure for those in work retains a fairly expansionary curve, with an estimated year-on-year growth rate of 2.5% in the third quarter. For the next few quarters, employment figures are expected to continue performing well (with a related fall in unemployment), but losing some momentum, given the expected flattening out of the Spanish economy’s growth rate.

1.3. Prudential regulatory framework

With the publication, in December 2010, of the global regulatory framework for international capital standards (Basel III), by the BCBS, the requirements established in the previous frameworks were reinforced (Basel I, Basel II), in order to increase the quality, consistency and transparency of the capital base and improve the risk coverage.

On June 26, 2013, the Basel III legal framework was incorporated into European legislation through Directive 2013/36/EU (known as CRD IV), regarding access to the activity of credit institutions and investment companies, and the prudential supervision of these entities, amending Directive 2002/87/EC and Directives 2006/48/EC and 2006/49/EC are repealed; and Regulation (EU) No. 575/2013 (known as CRR), on the prudential requirements of credit institutions and investment firms, amending Regulation (EU) No. 648/2012.

The regulatory framework established by Basel is based on three pillars: Pillar I, which defines the minimum capital requirements, and can use internal ratings and models for the calculation of risk-weighted exposures; Pillar II, which establishes a supervisory review system for capital adequacy based on the risk profile and the internal management the risks; and Pillar III, which refers to information disclosure and market discipline.

The final review of the Basel III framework, published by the Basel Committee in December 2017, aims to restore the credibility of the calculation of risk-weighted assets (RWA) and improve the comparability of bank capital ratios as follows:

- Improving the soundness and sensitivity to risk of the standard methods for credit risk, credit valuation adjustment risk (CVA) and operating risk;
- Restricting the use of methods based on internal models, by introducing limits on some of the parameters used to calculate the capital requirements in the internal ratings based (IRB) method for credit risk and eliminating the use of methods based on internal models for CVA risk and operating risk;
- Introducing a buffer of the leverage ratio to further limit leverage in global systemically important banks (G-SIB); and
- Substituting Basel II's current minimum floor over the bottom floor with a more robust risk-sensitive floor based on Basel III's revised standard methods.

At the national level, CRD IV was transposed through Law 10/2014, on regulation, supervision and solvency of credit institutions, and its subsequent regulatory development through Royal Decree 84/2015, of February 13, 2015, which is another step in terms of access to the activity, solvency requirements and supervision regime of these entities; and Circular 2/2016 of the Bank of Spain, on supervision and solvency, which completes the adaptation of the Spanish legal system to Directive 2013/36 / EU and Regulation (EU) No. 575/2013.

This Royal Decree 84/2015 aims not only at the completion of the regulatory development of Law 10/2014, but also at the recasting into a single text of those regulations on the organisation and discipline of credit institutions.

The main aspects contemplated are access, suitability and corporate governance requirements. Likewise, entities are required to carry out a self-assessment process of their capital levels, taking into account the nature, scale and complexity of their activities, as well as clarifying the capital buffer regime. The "capital buffers" that it establishes are:

- Capital conservation buffer: it applies, in a phased manner way, from 2016 onwards.
- Counter-cyclical capital buffer: it is specific for each entity; it applies in a phased manner from 2016 onwards.
- Buffers for entities of global systemically important banks (G-SIB) and other systemically important banks (O-SIB).
- Buffer against systemic risks: it will be set to cover non-cyclical systemic or macroprudential risks.

The Bank of Spain has decided to keep at 0% the value of the countercyclical capital buffer applicable to credit exposures in Spain of Spanish credit institutions during the fourth quarter of 2018. This macroprudential policy decision is adopted in the framework of the powers granted to the Bank of Spain by Law 10/2014, on regulation, supervision and solvency of credit institutions, and by Royal Decree 84/2015 and the Circular 2/2016 of the Bank of Spain, which develop it.

Finally, the scope of the supervisory function of the Bank of Spain and the collaboration framework with other supervisors is developed, in particular, with the ECB within the Single Supervisory Mechanism (SSM).

On February 5, 2014, Bank of Spain Circular 2/2014 (31 January) was published, whereby, in accordance with the powers granted by Regulation (EU) No.575/2013 to the competent national authorities, the Bank of Spain made use of some of the permanent regulatory options provided for in the aforementioned Regulation, and which was subsequently modified, during the transitional period, by Circular 3/2014, of July 30, of the Bank of Spain. These circulars allow a progressive adaptation of the regulations through a phased implementation calendar.

Additionally, the Bank of Spain published, on February 9, 2016, Circular 2/2016, which completes the adaptation of the Spanish legal system to European regulations. This Circular repeals for the most part Circular 3/2008 (in force for questions relating to minimum own funds and mandatory referral information of reciprocal guarantee companies of Circular 5/2008), on determination and control of own funds; as well as a section of Circular 2/2014, referring to the exercise of various regulatory options contained in the CRR.

On November 23, 2016 the European Commission published a draft of the new CRR and CRD IV where it incorporates different Basel standards such as the Fundamental Review of the Trading Book for Market Risk, the Net Stable Funding Ratio for liquidity risk or the SA-CCR for the calculation of the EAD for counterparty risk. Likewise, it introduces modifications related to the treatment of the central clearing houses, the MDA, Pillar II and the leverage ratio, among others.

The Basel committee continued to work on the following matters in 2018:

- Market Risk: a consultation regarding minimum capital requirements for market risk was launched in March in order to complete the review of the market risk standard by June 2018.
- Securitisations: simple, transparent and comparable over the short-term. In May the Basel Committee published: i) Standards for identifying simple, transparent and comparable securitisations over the short-term, together with the IOSCO and ii) Treatment of capital for simple, transparent and comparable securitisations over the short-term.

In March 2018 the Committee published its package of measures concerning high levels of non-performing loans (NPLs). Along these lines, the Committee published a proposal for regulating the minimum coverage of losses deriving from exposure to non-performing assets that is expected to be approved during the beginning part of 2019.

1.3.1. Solvency

The CRR and the CRD IV involve the transposition of the solvency regulation, known as Basel III, to European regulations. The purpose of this regulation is to define the levels of capital and the composition of own funds with which credit institutions must operate, since it establishes eligible own funds and additional capital buffer requirements above the minimum regulatory levels.

In order to guarantee the implementation of the new regulations in a homogeneous manner throughout the European Union, the European Banking Authority (EBA) publishes a series of more specific guidelines in which it develops specific aspects of the CRR.

In this regard, in December 2016 the EBA published the Final Report on the Guidelines on disclosure requirements under Part Eight of Regulation 575/2013. These guidelines are based on the update of the Pillar III a requirement published by the Basel Committee in January 2015 and has the objective to improve and increase the consistency and comparability of institutional disclosures and ensure market discipline.

1.3.2. Liquidity ratios

Regulation (EU) No 575/2013, Part Six, Title I, introduces the Liquidity Coverage Ratio (LCR). Its objective is for entities to have a diversified reserve of liquid assets that can be used to satisfy their liquidity needs in the event of a short-term liquidity crisis (Articles 411-426).

In October 2014 the European Commission published Delegated Regulation (EU) 2015/61, which complements Regulation (EU) No 575/2013, with regard to the liquidity coverage requirement applicable to credit institutions. This regulation applies since February 6, 2015. Commission Delegated Regulation (EU) 2018/1620 was published on 13 July 2018 and amends Regulation 2015/61 to increase harmonisation with international standards and facilitate more efficient liquidity management by credit institutions.

Likewise, in Part Six, Title III, of Regulation 575/2013, the Net Stable Funding Ratio (NSFR) is established as a complementary measure to the liquidity ratio. Its objective is for institutions to adopt a stable longer-term financing structure (Articles 427-428).

In June 2015, the Basel Committee on Banking Supervision (BCBS) published final standards specifying disclosure requirements NSFR. The objective was to improve the transparency of regulatory financing requirements, strengthen the principles for the adequate management and supervision of liquidity risk, strengthen market discipline and reduce uncertainty in the markets.

In February 2017, the EBA published the final document "Guidelines on ICAAP and ILAAP information collected for SREP purposes". These Guidelines definitively fix a common approach and specify what information about ICAAP and ILAAP should be collected by the competent authorities.

In accordance with the regulations described, entities must determine what information is being disclosed about liquidity, including content, granularity, frequency and references. On the other hand, it must evaluate the impact of the information disclosed in the capital and financing objective in the liquidity profile. Likewise, deviations must be explained between the information disclosed, the internal information (ICAAP-ILAAP) and the information reported to the competent authorities.

Likewise, in order to continue developing the liquidity regulations, the EBA published two consultations in 2016 so as to determine the disclosure of the Liquidity Coverage Ratio (LCR) and the asset encumbrance. Finally, on March 8, 2017, the final document on disclosure of the Liquidity Coverage Ratio (LCR) was published. On the other hand, the European Commission consulted on the definition and development of the NSFR that served as preparation for the proposal of the Commission to modify the CRR, which includes a proposal to implement the NSFR in Europe.

In June 2017, the EBA published the Guidelines on the disclosure of the liquidity coverage ratio in order to complement the information on liquidity risk management in accordance with Article 435 of Regulation (EU) No. 575/2013.

1.3.3. Unencumbered assets

In accordance with Article 443.1 of Regulation (EU) No. 575/2013, the European Banking Authority (EBA) published guidelines relating to disclosures concerning encumbered and unencumbered assets on 27 June 2014.

On 4 September 2017 the Commission published Commission Delegated Regulation (EU) 2017/2295, which supplements Regulation (EU) 575/2013 of the European Parliament and of the Council regarding technical regulatory standards regarding disclosures of encumbered and unencumbered assets.

1.3.4. Leverage ratio

Regulation (EU) No 575/2013, Part Seven, article 429, defines the Leverage Ratio (LR) in order to limit the excess leverage in the financial system and complement the requirements with a measure of risk calculated on gross exposure.

In January 2014, the final version of the "Basel III: leverage ratio framework and disclosure requirements" was published, with the aim of increasing the prudence of the entities in their financing structures, limiting excessive leverage and thus avoiding the destabilisation of the economy and the banking system.

The European Commission published in October 2014 the Delegated Regulation (EU) 2015/62 by which it amends Regulation (EU) No 575/2013 of the European Parliament and the Council concerning the leverage ratio.

On February 15, 2016, the Regulation (EU) 2016/2004 was published, establishing technical execution rules regarding the publication of entity's leverage ratio, in accordance with the Regulation (EU) No. 575/2013. In January 2018 the EBA published Guidelines concerning the uniform disclosure of information in accordance with Article 473 (b) of Regulation (EU) No. 575/2013 concerning transitional provisions to mitigate the impact of IFRS 9 on own funds.

1.3.5. Bank restructuring and resolution

In 2014, with regard to the creation of the European Banking Union, Directive 2014/59/EU of the European Parliament and of the Council, of May 15, 2014 was approved, which establishes a framework for the restructuring and resolution of credit institutions and European investment services.

The purpose of this Directive 2014/59 is to harmonise the procedures to resolve the crises of financial institutions in Europe, minimising the cost for the taxpayer. Likewise, it provides the Competent Authorities with a series of credible instruments to intervene sufficiently early and quickly in an entity with solid or unviable problems, adopt the restructuring or resolution measures deemed appropriate and protect financial stability in all Member States affected.

The Directive includes the obligation of entities to maintain a Minimum Requirement for own funds and Eligible Liabilities (MREL) to guarantee their capacity to absorb losses. This minimum requirement will be established for each entity by the Resolution Authority and will reflect the resolution strategy that has been considered appropriate for the entity, in accordance with its resolution plan.

Member States shall ensure that entities always comply with the minimum requirement for own funds and eligible liabilities. The minimum requirement will be calculated as the amount of own funds and eligible liabilities expressed as a percentage with respect to the Bank's total liabilities and equity.

The MREL requirement came into force in January 2016. However, taking into account the great impact of this requirement on banks, the EBA has proposed a transitional period for full compliance with these requirements.

On June 18, 2015, Law 11/2015, on the recovery and resolution of credit institutions and investment service companies was published. The main aspects considered are, on the one hand, the creation of the National Resolution Fund and, on the other hand, the establishment of the instruments that can be used in resolution. The rules for internal recapitalisation came into effect on January 1, 2016.

Since January 1, 2016, the National Resolution Fund is called to integrate with the rest of the National Funds of the Member States of the Euro Zone during an 8-year transitory phase in a European-scale fund (Single European Resolution Fund).

The period for progressive mutualisation within the Single Resolution Fund managed by the Single Resolution Board will allow the switch from National Resolution Funds, which are in place in several Euro Zone countries until 2016, to the Single Resolution Fund that will be fully implemented in 2024. The financing objective of the Single Resolution Fund is 1% of guaranteed deposits in 2024. The first year was calculated at 60% based on a national scope (BRRD scope) and 40% based on a Euro Zone scope (SRM scope). In 2017 these percentages inverted, and the financing is 40% BRRD scope and 60% SRM scope. In 2018 the financing was 33% BRRD scope and 67% SRM scope. The SRM scope will progressively increase to 100% in 2024.

On March 14, 2016, Regulation (EU) 2016/445, of the European Central Bank, on the exercise of options and powers offered by Union law was published. The European Central Bank assumes the powers and an obligation granted to the competent authorities in accordance with the applicable law of the Union and, in particular, is empowered to exercise the options and powers offered by Union law.

In July 2016, the Commission published Delegated Regulation 2016/1075, on the restructuring and resolution plans, in accordance with the Bank Recovery and Resolution Directive (BRRD). This regulation details the content that the plans must have and the minimum criteria that the competent authority must evaluate, establishing the banking resolution framework, from the planning stage of the restructuring and resolution of an entity, through the early action phase, to when the resolution measure is adopted.

1.3.5. Single Supervisory Mechanism and Single Resolution Mechanism

As a step prior to the entry into force of the Single Supervisory Mechanism (hereinafter SSM), European credit institutions, in the context of the evaluation process of the "Comprehensive Assessment" based on the revision of the AQRs and the stress test, have undergone a rigorous evaluation of their solvency by the ECB, in collaboration with the national supervisors and the European Banking Authority (hereinafter EBA).

At November 4, 2014, the SSM was established, consisting of the European Central Bank (hereinafter ECB) and the competent national authorities of the participating European Union countries, among which is the Bank of Spain. It was constituted as the new system of financial supervision of credit institutions in the Euro Zone, based on principles and rules jointly agreed by different European bodies.

The SSM, and particularly the ECB, assumed the supervisory functions, including the authorisation, revocation or imposition of sanctions on credit institutions, which traditionally had been carried out by national authorities.

The ECB therefore assumed the supervision of the entire banking system, exercising direct supervision over the most significant entities and indirect supervision over the least significant ones.

The relevance of the SSM implementation for Spain was seen in the fact that 14 groups of credit institutions were identified as significant, representing more than 90% of the assets of the system, among which was Unicaja Banco Group.

During 2015 the SSM developed the first exercise of the Supervisory Review and Evaluation Process (SREP), although it was in 2016 when it applied the final SREP methodology published by the EBA in December of 2014.

In addition, during 2016 the SSM made great efforts aimed, on the one hand, at the harmonisation of supervisory policies between countries and, on the other, at the transparency of its expectations.

Regarding the Single Resolution Mechanism (SRM), it is responsible for preparing for the possibility of entry into resolution, in order to ensure that the situation can be resolved in an orderly manner with minimum costs for contributors. From January 1, 2016 the SRM is in force and enters a period of progressive mutualisation until the year 2022.

1.4. Pillar III disclosure

This report intends to comply with Part Eight Title I of Regulation (EU) No. 575/2013, which establishes that entities will make public the relevant information for the adequacy of their risk profile.

Annex V presents a list of the disclosure requirements established by Part Eight of the CRR, indicating what point of this report or public document issued by the Group shows compliance.

In addition to the aforementioned regulatory text, the following standards and guidelines published by the European Banking Authority (EBA) and by the Basel Committee on Banking Supervision (BCBS) are worth mentioning:

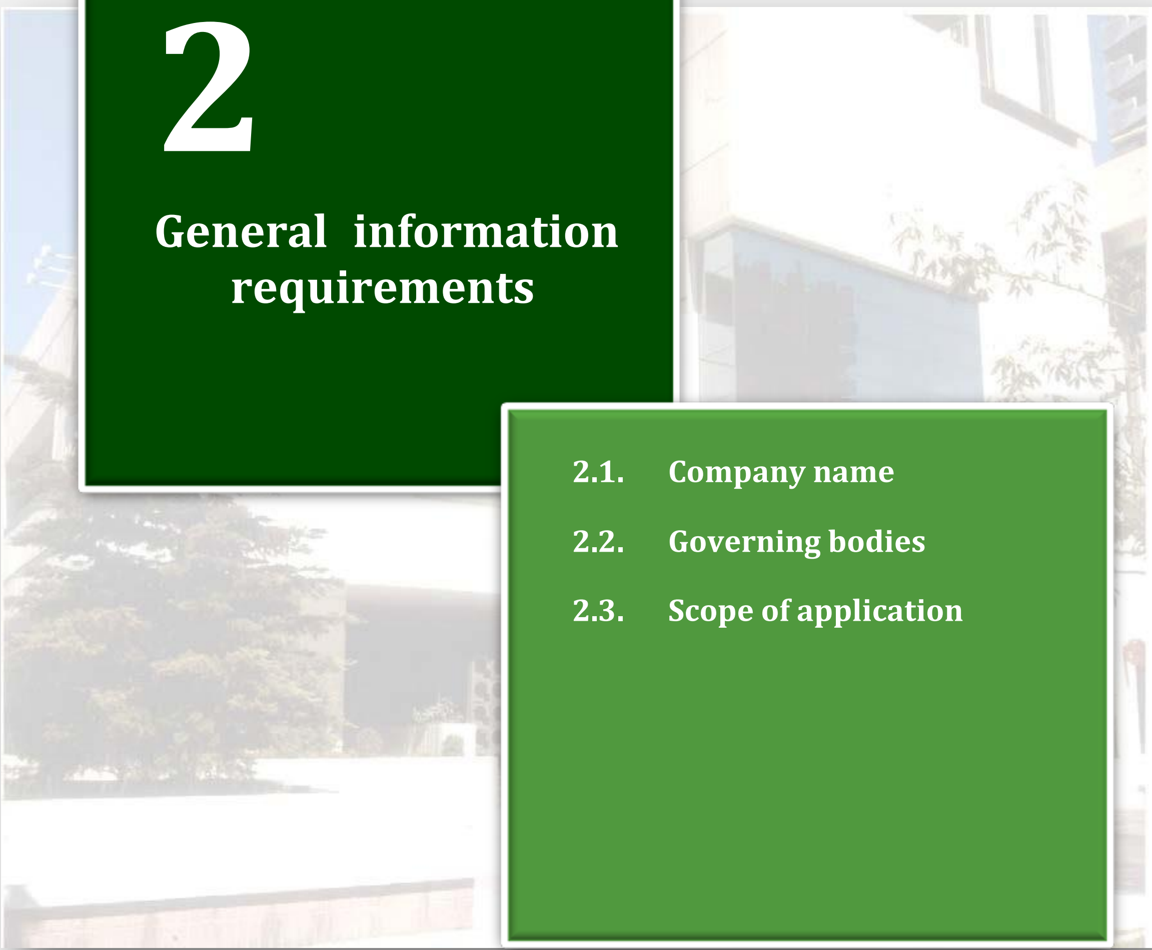
- *Guidelines on Materiality, Proprietary and Confidentiality and on Disclosure Frequency*" (EBA GL/2014/14)
- "*Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013*" (EBA GL/2016/11).

- "Revised Pillar 3 disclosure requirements", January 2015 (BCBS).
- "Pillar 3 disclosure requirements- consolidated and enhanced framework", March 2017 (BCBS).
- "Pillar 3 disclosure requirements – updated framework", December 2018.

In accordance with the information disclosure policy of Unicaja Banco Group, this report, prior to its publication, has been verified by Internal Audit and, with the favourable report from the Audit and Compliance Committee, and has been approved by the Board of Directors at March, 22 2019.

This "Pillar 3 Disclosure" may be consulted on the Bank's website (www.unicajabanco.com). Certain information required by the current regulations, that must be included in this report, is referenced to the 2018 consolidated annual accounts and Directors' Report for Unicaja Banco Group (available on the bank's website), since it would be redundant to include it in this report.

In accordance with Article 433 of Regulation (EU) nº 575/2013 and the disclosure requirements established by the European Banking Authority, since the first quarter of 2018 a quarterly information set is published, which may also be consulted on the corporate website of Unicaja Banco.



2

General information requirements

2. GENERAL INFORMATION REQUIREMENTS

2.1. Company name

Unicaja Banco, S.A. (hereinafter Unicaja Banco, the Entity, the Bank or the Company) is a credit institution established for an unspecified period of time on December 1, 2011. It commenced its activities following approval by the General Assembly of Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera and Jaén - Unicaja (now Unicaja Banking Foundation) of indirect financial business conducted through a bank.

Unicaja Banco is a listed company since June, 30 2017, when the Company's shares were admitted for trading on the stock exchanges in Madrid, Barcelona, Bilbao and Valencia.

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.

On 28 March 2014 control of EspañaDuero was acquired through an offer to swap shares, Unicaja Banco bonds necessarily and contingently convertible into shares and perpetual contingently convertible Unicaja Banco bonds, to be subscribed by the owners of EspañaDuero shares and bonds necessarily and contingently convertible into shares. This operation was authorised by the National Stock Market Commission (CNMV) on 26 November 2013 within the EspañaDuero TermSheet covering the "Restructuring Plan".

After executing all the commitments in the EspañaDuero restructuring plan and, in particular, the repayment on August, 31 2017 of the outstanding amount of the assistance received, on September, 21 2018 EspañaDuero was merged into Unicaja Banco.

The Bank is the parent of a subgroup of subsidiaries that engage in diverse activities and make up Unicaja Banco Group. The details of the subsidiaries that make up the Group can be found in the notes to the consolidated annual accounts.

Unicaja Banco S.A. is an entity subject to the regulations of banking entities operating in Spain. Additional public information about the Entity can be consulted both on the Bank's official website (www.unicajabanco.com) and at its registered office (Avenida Andalucía, 10 and 12, Malaga).

2.2. Governing bodies

The major bodies that make up the corporate governance system are detailed in accordance with article 435.2 of the CRR, as well as the policies implemented to ensure the suitability of its members:

2.2.1. Board of Directors

Functions

The Board of Directors has the broadest powers for the administration and management of the Company and, except in matters legally or statutorily reserved for the competence of the General Board, it is the highest decision-making body of the Company.

In any case, the following matters will correspond to the Board of Directors, by the adoption of resolutions to be approved in each case, as per that established by the Law or the Bylaws, and they are established as a formal list of matters reserved to its exclusive competence:

(a) the preparation of the annual accounts, the management report and the proposal to allocate the Company's result, as well as, if applicable, the consolidated annual accounts and management report;

(b) the approval of the Annual Report on Corporate Governance, for it to be presented at the General Meeting, and the approval of the Report on the remuneration of Directors;

(c) the call of the General Shareholders' Meeting;

(d) the appointment of Directors by co-option, and the submission of proposals to the General Meeting regarding the appointment, ratification, re-election or removal of Directors, as well as being informed of the resignation of Directors, all that in accordance with that established in the corporate Bylaws and in the present Regulations;

(e) the appointment and renewal of the internal positions of the Board of Directors and its Committees;

(f) the pronouncement on any takeover bid (*oferta pública de adquisición*) made on securities issued by the Company;

(g) the delegation of powers to any of its members, as well as the revocation thereof under the terms established by the Law, the Company Bylaws and these present Regulations;

(h) the annual assessment, pursuant to that established in the Law, the Company Bylaws and these present Regulations, and prior the mandatory reports, of the performance and activity of the Board itself, its Chairman and its Committees;

(i) the distribution among the Directors of the remuneration they are entitled to due to their role as such, considering the functions and responsibilities assigned to each Director, their belonging to Committees and other objective circumstances deemed as relevant, all in accordance with the remuneration policy approved by the General Meeting;

(j) the previous approval of the contracts to be entered into between the Company and the Directors with executive functions, where the concepts for which they can get a remuneration for the performance of the said functions are included, and the remuneration to be received under the said contracts is set, always in accordance with that established in the Law and in the remuneration policy approved by the General Meeting;

(k) the approval of the Company's general policies and strategies, and especially:

(i) the strategic or business plan, as well as the annual management targets and Budget;

(ii) the investment and financing policy;

(iii) the definition of the structure of the Group;

(iv) the corporate governance policy;

(v) the corporate social responsibility policy;

(vi) the remuneration policy and the assessment of performance of Senior Managers;

(vii) the dividend policy, as well as that of treasury shares and, especially, its limits; and

(viii) The risk control and management policy, including fiscal risks, as well as the regular monitoring of the internal information and control systems.

(l) The adoption of the following decisions:

(i) The financial information that the Company must disclose regularly;

(ii) the investments or operations of all type which, due its high amount or special characteristics, have a strategic nature or special fiscal risk, unless its approval corresponds to the General Meeting; and

(iii) the creation or acquisition of stakes in special purpose companies or domiciled in countries or territories considered as tax havens, as well as any other transactions or similar operations which, due to their complexity, may impair the Group transparency.

(m) The examination and approval of operations that the Company enters into with Directors, Senior Managers, significant shareholders or represented at the Board, or with people related to them (“**related operations**”), prior favorable report by the Audit and Regulatory Compliance Committee.

(n) The authorization or waiver of the obligations arising from the duty of loyalty established in the Law (unless the decision on the said authorization or derogation from the obligation corresponds by law to the General Meeting).

(o) The approval and amendment of the present Regulations; and

(p) Other powers that the Board cannot delegate and established by the law on companies, the laws specific to credit institutions, the Bylaws and these Regulations.

Composition

On 31 December 2018 the Board of Directors consists, transitional, of 12 members after the vacancy arising due to the resignation of the Independent Director Mr. Eloy Domínguez-Adame Cobos, reported to the Board of Directors on December, 21 2018.

The Board consists of persons who meet the suitability requirements necessary for the exercise of the position. In particular, they have recognised commercial and professional honourability, have adequate knowledge and experience to carry out their duties and are in a position to exercise good governance of the Entity. In addition, the general composition of the Board as a whole is appropriate.

Hereafter the composition of the Board of Directors at December, 31 2018:

- two executive directors
- five proprietary directors
- five independent directors

Table 1: Composition of the Board of Directors

Composition	
Position	%
% of executive directors	16.7
% of proprietary directors	41.7
% of independent directors	41.7
% of other external	-
Number of meetings in 2018	17

Table 2: Members of the Board of Directors

Director	Position	Category
Mr. Manuel Azuaga Moreno	Chairman	Executive
Mr. Enrique Sánchez del Villar Boceta	CEO	Executive
Mr. Juan Fraile Cantón	Vice-chairman	Proprietary
Mr. Victorio Valle Sánchez	Vice-chairman	Independent
Mrs. Isabel Martín Castellá	Coordinating Counselor	Independent
Mrs. Teresa Sáez Ponte	Secretary of the Board of Directors	Proprietary
Mrs. Ana Bolado Valle	Member	Independent
Mr. Manuel Conthe Gutiérrez	Member	Independent
Mrs. Petra Mateos-Aparicio Morales	Member	Proprietary
Mr. Agustín Molina Morales	Member	Proprietary
Mr. Manuel Muela Martín -Buitrago	Member	Proprietary
Mrs. María Antonia Otero Quintas	Member	Independent

The Annual Corporate Governance Report (section C.1.10 and C.1.11) provides information regarding the Directors that hold management or executive positions in other Group companies and other listed companies.

Operation

The Board of Directors convenes in ordinary meeting with the frequency provided by law and whenever it is deemed appropriate by its Chair, who has the power to convene it, on his own initiative or at the request of at least one third of the Directors. The Coordinating Director is specially empowered, among other actions, to request a meeting of the Board.

The Board of Directors has five support committees engaging in the supervision, reporting, counselling and proposal of matters in the areas of their competency: Audit and Compliance Committee, Appointments, Remuneration, Risks and Technology and Innovation, the composition, function and operation of which are summarised below.

2.2.2. Audit and Compliance Committee

Operation

The Audit and Compliance Committee exercises functions related to internal information and control systems, external auditing, compliance with corporate governance rules and regulatory compliance.

Specifically, the following functions correspond to the Audit and Compliance Committee:

(a) With regard to information and internal control systems:

(i) Continuously oversee the process of preparation and presentation of the financial information related to the Institutions and its Group, as well as its integrity. This oversight function may be performed on an ad hoc basis at the request of the Board of Directors.

(ii) Oversee compliance with the regulatory requirements, the adequate delimitation of the scope of consolidation and the correct application of accounting principles, presenting, if applicable, recommendations or proposals to the Board aimed at ensuring the integrity of the financial information.

(iii) Oversee, analyse and comment with the senior management, internal auditor or, when applicable, statutory auditor, the financial information that the Company must disclose regularly or must submit to the regulatory or supervisory bodies, in order to confirm that the said information is reliable, easy to understand, relevant and that the accounting principles of the annual accounts have been followed and, to that aim, to consider the convenience of a limited review of the statutory auditors, to inform the Board of Directors prior to its approval or preparation.

(iv) Oversee the effectiveness of the Financial Information Internal Control System (FIICS). This includes receiving reports from the heads of internal control and internal audit and also reaching conclusions on the confidence and reliability levels of the system, with proposals of improvement actions.

(v) Oversee the operation of the mechanism (Compliance Channel) implemented to allow the employees, among others, to report in full confidentiality those irregularities – especially of rules of conduct, financial and accounting- of potential transcendence that they notice within the Institution, and to propose the appropriate actions to improve its operation and to reduce the risk of potential irregularities in the future.

(vi) Check that the financial information published on the Institution's corporate website is permanently updated and matches the information prepared by the Institution's Board of Directors and published, when applicable, on the website of the CNMV.

(vii) Inform the Board of Directors in advance about all the topics established by the law, By-laws, Board of Directors Regulations or Committee Regulation and, in particular, about the financial information that the Institution must disclose regularly, the creation or acquisition of shares in special-purpose entities or domiciled in countries or territories considered as tax havens.

(viii) Maintain, through its Chairman, an ongoing dialogue with the responsible for the financial information function.

(b) With regard to the internal auditor:

(i) Preserve the independence of the unit which assumes the internal audit function; propose the selection, appointment, re- election and removal of the head of the internal audit service; ensure that the profiles of the internal audit staff are suitable and that they can perform their work with objectivity and independence.

(ii) Assess and approve annually the action plan of the internal audit function, which identifies the audit goals and the works to be performed, verifying that the said plan considers the main financial and non-financial business risk areas; setting and identifying its responsibilities, functions and resources so as to ensure that they are suitable for the real needs of the Institution and for the risks it has to face. It will also receive regular information about the activities of the function.

(iii) Verify that the Senior Management takes into account the conclusions and recommendations of its reports.

(c) With regard to the statutory auditor:

(i) Submit to the Board, for it to be then submitted to the General Meeting of Shareholders, the proposals to select, appoint, re-elect or replace the statutory auditor, being responsible for the selection process, as well as for terms of engagement, and to get regularly from the statutory auditor information on the audit plan and its implementation, in addition to preserve its independence in the exercise of its functions.

(ii) Define a procedure for the selection of the statutory auditor including the criteria or parameters to be considered.

(iii) Establish the appropriate relations with the statutory auditor to receive information about those issues which may threaten its independence, for them to be analysed by the Committee, and about any other issue related to the development of the accounts auditing and, when applicable, to authorize the provision of services by the auditor other than those prohibited, under the terms set in the applicable regulations, as well as to receive those communications provided for in the accounts audit legislation and regulations. In any case, the statutory auditors shall provide on an annual basis:

(i written statement of their independence with regard to the Institutions or to institutions directly or indirectly related to it;

(ii detailed and individualized information on additional services of any kind provided to these institutions by the said auditor, or by persons or institutions related to it in accordance with that established in the regulations on the activity of accounts auditing

(iv) Issue, on an annual basis, prior to the accounts audit report being issued, a report expressing an opinion on whether the statutory auditor's independence is compromised. This report must contain, in any event, a reasoned assessment of the provision of each of the additional services referred to in the preceding paragraph.

(v) In case of resignation of the statutory auditor, examine the circumstances leading to it.

(vi) Ensure that the remuneration of the statutory auditor's work does not compromise its quality or its independence.

(vii) Discuss with the statutory auditor the significant weaknesses of the internal control system detected during the audit, without breaking its independence, and submitting, when appropriate, recommendations or proposals to the Board of Directors, along with the corresponding monitoring terms.

(viii) Oversee that the Company notifies as relevant fact (*hecho relevante*) to the CNMV the replacement of the auditor and that it submits a statement on the eventual existence of disagreements with the leaving auditor and,if there were any, to include its contents.

(ix) Ensure that the statutory auditor has an annual a meeting with the Board of Directors in full to inform them of the work undertaken and of the assessment of the Institution's accounting and risk situation

(x) Ensure that the Institution and the statutory auditor respect the regulations in force on the provision of non-audit services, limits on the concentration of the auditor's business and, in general, all the regulations concerning auditors independence.

(d) With regard to compliance with corporate governance rules:

(i) Oversight of compliance with the internal codes of conduct and with the Company's corporate governance rules.

(ii) Oversight of the relation and communication strategy with shareholders and investors, including small and medium shareholders.

(iii) Periodic assessment of the suitability of the Institution's corporate governance system, for it to fulfil its mission of promoting the corporate interest and to take into account, as corresponding, the legitimate interests of the other stakeholders.

(iv) Review of the Institution's corporate social responsibility policy, arranging for it to be focused on the creation of value.

(v) Monitoring the corporate social responsibility strategy and practices, and the assessment of its degree of achievement.

(vi) Oversight and assessment of the processes of relations with the different stakeholders.

(vii) Assessment of all those matters related to the Company's non-financial risks –including operational, technology, legal, social, environmental, political and reputational risks.

(viii) Coordination of the process of reporting non-financial information and information on diversity, according to the applicable regulations and to the international standards of reference.

(ix) Inform the Board of Directors, in advance, of the transactions that the Company enters into with Directors, Senior Managers, significant shareholders or shareholders represented at the Board, or with persons related to them ("related-party transactions") in accordance with that established in the applicable regulations, in the By-laws, in the Board of Directors Regulations and in the "Policy for the identification and management of conflicts of interest and of related-party transactions of directors, significant shareholders and senior managers". To that aim, it may request reports from experts when deemed necessary.

(e) With regard to regulatory compliance:

(i) Arrange for compliance with the applicable national or international regulations on issues related to money laundering prevention, conduct in securities markets, personal data protection and criminal risk prevention, among others, carrying out a monitoring of the main legal risks applicable to the Institution in those matters under its remit.

(ii) Know the degree of regulatory compliance by the different units and departments of the Institution, as well as the corrective measures recommended by the internal audit in previous actions, informing the Board in those cases which may entail a significant risk for the Company.;

(iii) Review the drafts of ethical and conduct codes and their respective amendments, which may have been prepared, and to issue an opinion prior to the submission of proposals to the Board of Directors

(iv) Oversee compliance with the Internal Rules of Conduct in Securities Market and the development of the functions assigned to the Regulatory Compliance Directorate, and to be aware of the reports and proposals sent by the said Directorate;

(v) Approve the annual work plan of the regulatory compliance function and the report or annual report of activities, to receive regular information on its activities, to reply to the information requests and to check that the senior management takes into account the conclusions and recommendations of its reports.

(f) With regard to structural and corporate modification transactions that the Institutions plans to carry out, the Committee shall be informed of them, so that it can analyse the transaction and report to the Board of Directors beforehand on its economic conditions and accounting impact and especially, when applicable, the proposed exchange ratio.

Composition

The Audit and Compliance Committee consists of a minimum of 3 and a maximum of 5 directors, appointed by the Board of Directors, and must be directors who do not perform executive functions in the Entity. Most of them and, in any case, the President, must be independent. All its members, and especially its president, are appointed taking into account their knowledge and experience in accounting, auditing, or risk management.

The composition of the Audit and Compliance Committee at December, 31 2018 is as follows:

Table 3: Members of the Audit and Compliance Committee (*)

Director	Position	Category
Mrs. Petra Mateos-Aparicio Morales	Secretary	Proprietary
Mr. Manuel Conthe Gutiérrez	Member	Independent
Mr. Manuel Muela Martín -Buitrago	Member	Proprietary
Mr. Victorio Valle Sánchez	Member	Independent

* At 31 December 2018, the Committee's reported composition was transitional in nature due to the vacancy left by the resignation of the Committee Chair and Independent Director Mr. Eloy Domínguez – Adame Cobos. The Board of Directors received this information at the meeting held on 21 December 2018. On 24 January 2019, The Board of Directors adopted a resolution to designate Mr. Manuel Conthe Gutiérrez as the Committee Chairman and Mrs. Isabel Martín Castellá as a Member, thus returning the Committee to five members, specifically 40% proprietary Directors and 60% independent Directors and the Chair is an independent Director. The Committee did not hold any meetings while the vacancy remained unfilled.

Table 4: Composition of the Audit and Compliance Committee

Composition	
Position	%
% of executive directors	-
% of proprietary directors	50
% of independent directors	50
% of other external	-
Number of meetings in 2018	14

Operation

The Committee will meet at least quarterly and any time called by the Chair when deemed appropriate or required by Committee decision, or at the request of two members.

The Chair of the Committee reports the decisions adopted at the first Board meeting held after the Committee meeting.

Annually, the Committee presents an action plan for the year to the Board of Directors.

2.2.3. Appointments Committee

Operation

The Appointments Committee has, among other functions, to propose and report on appointments and dismissals of Directors and Senior Executives.

Specifically, the Appointments Committee has, among others, the following functions:

- To assess the competencies, diversity, balance of knowledge and experience required in the Board. For those purposes, it will define the functions and skills to be fulfilled by the candidates to cover each vacancy, and will assess the dedication required for the good performance of their duties.

- To identify and recommend, via the relevant corresponding report, in the case of executive and proprietary Directors, or to propose, in the case of independent Directors, candidates to cover the vacancies of the Board, with a view to approval by the Board of Directors or by the General Meeting.
- To assess regularly, and at least once a year, the structure, size, composition and performance of the Board of Directors, making recommendations to it regarding possible changes.
- To assess regularly, and at least once a year, the suitability of the different members of the Board of Directors and of the board as a whole, and to report to the Board of Directors accordingly.
- To ensure that non-executive Directors have enough time availability for the correct performance of their functions.
- To inform of the appointment and separation proposals of Senior Officers, as well as of the basic conditions of their contracts.
- To examine and to organize the succession of the Chairman of the Board of Directors and, if applicable, of the Company’s first executive, making proposals to the Board so that the said succession takes place orderly and as planned.
- To review annually the compliance with the policy for the selection of Directors and to inform on that in the Annual Corporate Governance Report.
- To review regularly the Board of Directors’ policy on selection and appointment of Senior Officers and to make recommendations in relation to it.
- To establish a goal for representation of the less-represented gender on the Board of Directors and to develop guidance on how to achieve that goal.
- To inform of the appointments of the Vice-Chairmen of the Board, of the Chief Executive Officer, the Leading Director and the Committee’s Chairmen.
- To inform of the appointment and removal of the Secretary and Vice-Secretary of the Board of Directors.

In the exercise of its functions, the Appointments Committee takes into account, insofar as possible and continuously, the need to ensure that the decision making of the Board of Directors is not dominated by an individual or a reduced group, in such a way that the interests of the Entity as a whole are adversely affected.

Composition

The Appointments Committee will be composed of a minimum of three Directors and a maximum of five, who do not perform executive functions at the Entity. A majority and, in any case, the Chair, must be independent directors. The members of the Appointments Committee will be appointed by the Board of Directors taking into account the knowledge, experience and skills necessary for the functions to be performed.

The composition of the Appointments Committee at December, 31 2018 is as follows:

Table 5: Members of the Appointments Committee

Director	Position	Category
Mrs. Ana Bolado Valle	Chairwoman	Independent
Mr. Manuel Muela Martín - Buitrago	Secretary	Proprietary
Mrs. María Antonia Otero Quintas	Member	Independent
Mr. Victorio Valle Sánchez	Member	Independent
Mr. Juan Fraile Cantón	Member	Proprietary

Table 6: Composition of the Appointments Committee

Composition	
Position	%
% of executive directors	-
% of proprietary directors	40
% of independent directors	60
% of other external	-
Number of meetings in 2018	9

Operation

The Committee meets with the frequency determined by the Committee itself and each time it is convened by its Chair or requested by two of its members. Annually, the Committee presents an action plan for the year to the Board of Directors.

The Committee Chair reports the decisions adopted in the first plenary meeting of the Board after the meeting of the Committee.

2.2.4. Remuneration Committee

Operation

The Remuneration Committee is in charge of reporting on remuneration matters.

Specifically, the Remuneration Committee has, among others, the following functions:

- To arrange for the observance of the remuneration policy established by the company.
- To prepare the decisions related to remunerations, including those having an effect on the Company's risk and risk management, which shall be adopted by the Board of Directors.
- To propose to the Board of Directors the remuneration policy for Board Members and Senior Officers, as well as the individual remuneration and other contractual conditions of the executive Directors and Senior Officers, and to arrange for their observance.
- To prepare a specific report accompanying the proposal of the remuneration policy for the Board of Directors.
- To review regularly the remuneration policy applied to Directors and Senior Officers, including the remuneration schemes with shares and their application, as well as to ensure that their individual remuneration is proportionate to that of the other Directors and Senior Officers of the Company.
- To arrange for the eventual conflicts of interest not to cause a prejudice to the independence of the external advice provided to the Committee.

- To verify the information on remunerations of Directors and Senior Officers included in the different corporate documents, including the annual report on remuneration of Directors.

When making their decisions, the Remuneration Committee shall take into account the long-term interests of the shareholders, investors and other stakeholders of the Entity, as well as the public interest.

Composition

The Remuneration Committee consists of a minimum of three and a maximum of five Directors appointed by the Board of Directors, taking into account the knowledge, experience and skills necessary for the functions to be performed. They cannot perform executive functions in the Entity and the majority of these members, and in any case, the Chair, must be independent directors.

The Remuneration Committee presents the following composition at December, 31 2018:

Table 7: Members of the Remuneration Committee (*)

Director	Position	Category
Mr. Manuel Conthe Gutiérrez	Chairman	Independent
Mr. Agustín Molina Morales	Secretary	Proprietary
Mrs. Ana Bolado Valle	Member	Independent
Mrs. Petra Mateos-Aparicio Morales	Member	Proprietary

* The Committee's reported composition was transitional in nature due to the vacancy left by the resignation Independent Director Mr. Eloy Domínguez – Adame Cobos. The Board of Directors received this information at the meeting held on 21 December 2018. On January, 24 2019, the Board of Directors adopted a resolution to designate Mr. Victorio Valle Sánchez as the Committee Chairman, thus returning the Committee to five members, specifically 40% proprietary Directors and 60% independent Directors and the Chairman is an independent Director. The Committee did not hold any meetings while the vacancy remained unfilled.

Table 8: Composition of the Remuneration Committee

Composition	
Position	%
% of executive directors	-
% of proprietary directors	50
% of independent directors	50
% of other external	-
Number of meetings in 2018	6

Operation

The Committee meets with the frequency determined by the Committee itself and each time it is convened by its Chair or requested by two of its members.

The Chair of the Committee reports the decisions adopted at the first Board meeting held after the Committee meeting.

Annually, the Committee presents an action plan for the year to the Board of Directors.

2.2.5. Risk Committee

Functions

The Risk Committee fulfils the risk management function.

Specifically, the Risk Committee has, among others, the following functions:

- To advise the Board of Directors on the global risk appetite, current and future, of the Company and its strategy in this regard, and to assist the Board in overseeing the implementation of the mentioned strategy.
- To ensure the good functioning of the risk control and management systems and, in particular, the adequate identification, management and quantification of all the important risks affecting the Company.
- To arrange for the risk control and management systems to properly mitigate the risks within the framework of the policy defined by the Board of Directors.
- To assess whether the prices for assets and liabilities offered to customers take full account the business model and risk strategy of the Company. If the Committee notices that prices do not reflect risks properly in accordance with the business model and the risk strategy, it shall submit a correction plan to the Board of Directors.
- To determine, together with the Board of Directors, the nature, amount, format and frequency of the information on risks to be received by the Committee itself and by the Board of Directors.
- To collaborate to establish rational remuneration policies and practices. For that purpose, the Risk Committee shall assess, without prejudice to the duties of the Remuneration Committee, whether the foreseen incentive policy takes account of risk, capital, liquidity, probability and timing of profits.
- To participate actively in the preparation of the Company's policy for risk management, trying for it to identify at least:
  (a) The different kinds of risks, financial and non-financial (such as operational, technological, legal, social, environmental, political and reputational risks) that the Company faces, including among the economic or financial risks contingent liabilities and other off-balance sheet risks.
  (b) The setting of the risk level that the Company deems acceptable.
  (c) The measures foreseen to mitigate the impact of the identified risks, should they materialize.
  (d) The internal information and control systems which will be used to control and manage the mentioned risks, including contingent liabilities or off-balance sheet risks.

Composition

This Committee consists of a minimum of three members and a maximum of five designated by the Board of Directors from among the Directors who do not perform executive functions, and who possess the appropriate knowledge, capacity and experience to fully understand and control the Entity's risk strategy and risk appetite. The majority of these members and, in any case, the Chair must be independent directors.

The composition of the Risk Committee at December, 31 2018 is as follows:

Table 9. Members of the Risk Committee

Director	Position	Category
Mrs. Isabel Martín Castellá	Chairwoman	Independent
Mrs. María Teresa Sáez Ponte	Secretary	Proprietary
Mrs. Ana Bolado Valle	Member	Independent
Mr. Juan Fraile Cantón	Member	Proprietary
Mrs. María Antonia Otero Quintas	Member	Independent

Table 10. Composition of the Risk Committee

Composition	
Position	%
% of executive directors	-
% of proprietary directors	40
% of independent directors	60
% of other external	-
Number of meetings in 2018	12

Operation

The Committee meets, at least quarterly and, in addition, as many times as necessary, as determined by the Chair for the fulfilment of the functions it performs, or if requested by two of its members.

The Chair of the Committee reports the decisions adopted at the first Board meeting held after the Committee meeting.

Annually, the Committee presents an action plan for the year and an annual report on its operations to the Board of Directors.

2.2.6. Technology and Innovation Committee

At a meeting of the Board of Directors held on May, 11 2018 it unanimously adopted a resolution to create the Technology and Innovation Committee.

Operation

The Technology and Innovation Committee has the following functions, among others:

(i) To assist the Board of Directors in decisions that affect technology, management of the information and data and the Company's telecommunications structures, informing of strategic plans and actions and submitting the appropriate proposals.

(ii) To overview the optimization of the technological support for the treatment of the information and the development of systems and applications, ensuring their smooth running and data security.

(iii) To monitor the Company's process of technological transformation, paying special attention to its impact on the business model.

(iv) To monitor the technological risk, in general.

(v) To arrange for the identification of the potential innovation ways existing in the Company, as well as to overview and monitor the innovation initiatives which have an impact on the business model.

(vi) To provide the assistance that may be required, within the framework of their respective competences, by the Audit and Regulatory Compliance Committee and by the Risk Committee, and to act in coordination with both Committees to the extent that may be necessary for the exercise of its own competences.

Composition

The Committee consists of a minimum of three and a maximum of five non-executive Directors appointed by the Board of Directors, taking into account the knowledge, experience and skills necessary for the functions to be performed.

The Technology and Innovation Committee presents the following composition at December, 31 2018:

Table 11: Member of the Technology and Innovation Committee (*)

Director	Position	Category
Mrs. María Antonia Otero Quintas	Chairwoman	Independent
Mr. Agustín Molina Morales	Secretary	Proprietary
Mrs. Isabel Martín Castellá	Member	Independent
Mrs. María Teresa Sáez Ponte	Member	Proprietary

*****On January, 24 2019 the Board of Directors adopted a resolution to designate Mrs. Isabel Martín Castellá as a member of the Audit and Compliance Committee, and the Technology and Innovation Committee was then made up of three members.

Table 12: Composition of the Technology and Innovation Committee

Composition	
Position	%
% of executive directors	-
% of proprietary directors	50
% of independent directors	50
% of other external	-
Number of meetings in 2018	2

Operation

The Committee will meet with the frequency determined by the Committee itself and each time it is convened by its Chair or requested by two of its members.

The Committee Chair reports the decisions adopted, at the first Board meeting held after the Committee meeting.

Annually, the Committee presents an action plan for the year and an annual report on operations to the Board of Directors.

2.2.7. Procedures to ensure the suitability of the members of the Governing Bodies

In order to comply with the regulations governing the organisation, supervision and solvency of Credit Institutions, Unicaja Banco has developed a policy intended to establish thestandards and criteria which Unicaja Banco will take into account during the process of selecting and continuously assessing the suitability of Directors, Senior Management and similar personnel that are responsible for internal control functions and those with key duties.

The initial and continuous evaluation of the suitability of all members of the Identified Group will be based on criteria of business and professional integrity and honesty, as well as knowledge, experience and skills appropriate to their functions.

Members of the Board of Directors must also act independently, particularly with respect to their ideas, when assessing and effectively questioning the decisions taken by the governing body with respect to management and other relevant decisions, when necessary, as well as effectively supervising and monitoring management decisions.

The Company will exercise due diligence before appointments, and on a continuous basis, to ensure that it has the full and transparent cooperation of interested parties through the contribution of information, documentation and background that can be presented to the supervising authority with all required data, notwithstanding any verification or other checks that the Company or those authorities may directly carry out.

Continuous assessment means that the Company will provide the competent supervising authorities with all necessary information in an appropriate and precise manner in order to assess suitability in all cases (new appointments, new relevant circumstances, changes in functions, etc.). These requirements will also be applied to any individuals that represent legal person Directors on the Board of Directors.

When assessing the individual suitability of a member of the Board of Directors the suitability of the Board taken as a whole will also be evaluated, together with the overall composition of the Board's Committees. In particular, the knowledge, competencies and experience provided by a candidate to the suitability of the Board taken as a whole must be evaluated.

This policy ("Policy for Assessing the Suitability of the Members of the Board of Directors, Senior Management and similar key personnel for the financial activity carried out by Unicaja Banco, S.A.", hereinafter the "Suitability Policy") was updated in July 2018 in order to adapt to the guidelines regarding the assessment of the suitability of members of the governing bodies and other key personnel (EBA/GL/2017/12), thereby repealing the approved policy that had been in force up until then.

Unicaja Banco also has a Policy for Selecting and Appointing Directors of Unicaja Banco, S.A. that supplements and partially develops the Suitability Policy, with respect to the selection procedures for the members of Board.

Unicaja Banco has also worked during 2018 on the preparation of a Policy for selecting and appointing key personnel, which defines the system for selecting and appointing the members of the Key Personnel group.

The Entity has a "Procedure for Assessing the Operation of the Board Directors of Unicaja Banco, S.A and its Committees and certain members" in order to regularly evaluate the effectiveness of the corporate governance system and the adoption of adequate measures to resolve any weaknesses.

The initial and continuous evaluation of the suitability of the members of the Identified Group (members of the Board of Directors, General Managers and similar personnel, and other key personnel for financial activity) is based on criteria of business and professional integrity, as well as knowledge, experience and skills appropriate to their functions. Members of the Board of Directors must also act independently, particularly with respect to their ideas, when assessing and effectively questioning the decisions taken by the governing body with respect to management and other relevant decisions, when necessary, as well as effectively supervising and monitoring management decisions.

2.2.8. Diversity information

In accordance with Article 6.2 of the Regulation, when performing its duties to make proposals to the General Meeting and appoint directors though co-option, the Board of Directors shall endeavour, among other things, that the composition of the Board favour gender, experiences and knowledge diversity and be free of implicit biases that may lead to any kind of discrimination and, in particular, facilitate the selection of female directors.

In 2018 the process of renewing directors that started in 2017 was completed and gender and age diversity was taken in consideration. The Board of Directors now includes 5 female directors, of which 3 are independent and 2 are proprietary.

As a result of the adaptation to the guidelines established by EBA/GL/2017/12 on the assessment of the suitability of the members of governing bodies and key personnel, in 2018 the Bank developed a Diversity Policy for the Board of Directors that is intended to ensure that the procedure for selecting directors encourages a diverse and balanced composition of the Board of Directors and its Committees based on matters such as training and professional experience, age, gender, disability, independence and measures to be adopted for their implementation, if necessary.

Specifically, the following criteria regarding age, gender and disability are taken into account in this Policy:

- Age. The Company must promote a Board consisting of members of different age ranges such that, both individually and collectively, a balance is obtained with respect to knowledge, experience and areas of competency. The process for selecting directors must include candidates in different age ranges.

- Gender: The company will ensure that the less represented gender on the Board of Directors has access to the Board and that the selection process includes a sufficient number of candidates of that gender to maintain an adequate balance in terms of diversity and to guarantee that it is maintained continuously at the Entity in terms of female representation on the Board of Directors so that it complies with the established diversity standards established by the competent authorities at all times, as well as the recommendations for good corporate governance that the Company receives. In terms of gender, the competencies of the Appointments Committee include the establishment of a representation objective for the less represented gender on the Board of Directors and to establish guidelines as to how to increase the number of persons of the less represented gender in order to attain that objective. This objective is established by recommendation 14 of the Code of Good Governance for listed companies and should be obtained no later than 2020. The objective establishes 30% female representation on the Board of Directors and the Company assumes this commitment with respect to both the composition of the Board of Directors as a whole as respect to its supporting Committees. This quantitative 30% objective has already been met by the Company.

  In particular, diversity matters will avoid any type of difficulty relating to the appointment of female directors that could impede compliance with the objective by the Company so that in 2020 the number of female directors continues to represent at least 30% of the total number of members of the Board of Directors.

- Disability: The selection procedures applied by the Company establish that the designation of a suitable candidate will not be conditioned by the existence of any type of disability.

More information can be found in this regard in the Annual Corporate Governance Report for 2018 published on the CNMV website (www.cnmv.es) and the Entity's website (www.unicajabanco.com) and in particular, in sections c.1.5, c.1.6 and c.1.7.

2.3. Scope of application

In accordance with article 436 of Regulation (EU) nº 575/2013, the quantitative information presented in this report corresponds to Unicaja Banco Consolidated Group, prepared in accordance with prudential requirements.

Annexes I, II and III of the 2018 consolidated annual accounts list the entities included in the public scope of consolidation, indicating their consolidation method and their main business, among other things.

A summary is presented below of the main differences related to the scope of consolidation, and the different consolidation methods applied in the public scope of consolidation, defined in the consolidated annual accounts in accordance with the provisions of International Financial Reporting Standards (IFRS) adopted by the EU and the prudential consolidation scope defined in Chapter 2 of Regulation (EU) nº 575/2013:

- **Subsidiaries**. When preparing the consolidated annual accounts for Unicaja Banco Group, all the subsidiaries have been consolidated using the full consolidation method, regardless of whether or not they meet the requirements for consolidation due to their activity.

  However, for the application of the prudential solvency requirements, in the consolidated information corresponding to Unicaja Banco Consolidated Group, only the subsidiaries that are, in turn, "entities eligible for consolidation due to their activity" have been consolidated using the full consolidation method, according to the provisions of chapter 2 of Regulation (EU) nº. 575/2013.

When preparing this information, Unicaja Banco Group entities that are not eligible for consolidation due to their activity have been measured through the application of the equity method, as defined in the IFRS-EU.

Details at December, 31 2018 of the subsidiaries of Unicaja Banco Consolidated Group, to which the full consolidation method has been applied for solvency purposes, are presented hereinafter in accordance with the aforementioned criteria.

Table 11: Subsidiaries to which the full consolidation method has been applied for solvency purposes

Entity name	Activity	Ownership interest
Alteria Corporación Unicaja. S.L.U.	Investment in assets and financial companies	100%
Banco Europeo de Finanzas, S.A.	Credit institution	100%
Finanduero Sociedad de Valores, S.A.U.	Investment in assets and financial companies	100%
Gestión de Actividades y Servicios Empresariales, S.A.U.	Electronic recording and data and doc. processing	100%
Gestión de Inmuebles Adquiridos, S.L.U.	Real estate development	100%
Inmobiliaria Acinipo, S.L.U.	Real estate development	100%
La Algara Sociedad de Gestión S.L.U.	Tourism sector	100%
Propco Blue 1, S.L.	Real estate development	100%
Unicaja Gestión de Activos Inmobiliarios, S.A.U.	Real estate holding company	100%
Unicartera Caja 2, S.L.U.	Promotion or funding of R&D in the field of medicine	100%
Unicartera Gestión de Activos, S.L.U.	Recovery procedures and management of disputes	100%
Unicartera Internacional, S.L.U.	Investment in assets and financial companies	100%
Unicartera Renta, S.L.U.	Investment in assets and financial companies	100%
Unicorp Patrimonio, Sociedad de Valores, S.A.U.	Asset management	100%
Unigest, S.G.I.I.C., S.A.U.	Management of collective investment undertakings	100%
Unimediterráneo de Inversiones, S.L.	Investment in assets and financial companies	100%

- **Joint ventures (jointly-controlled entities).** When preparing the consolidated annual accounts for Unicaja Banco Group, the jointly controlled entities have been valued using the equity method. For the preparation of the solvency information, interests in jointly controlled entities have been consolidated using the proportional consolidation method, except for those that cannot be consolidated due to their activity, which have been valued using the equity method.

Below is the breakdown at December, 31 2018 of the jointly-controlled entities of Unicaja Banco Group, to which the proportional consolidation method has been applied for the preparation of prudential consolidated information.

Table 12: Jointly-controlled entities to which the proportional consolidation method has been applied for solvency purposes

Entity name	Activity	Ownership interest
Cartera Perseidas, S.L.	Investment in assets and financial companies	45.27%
Madrigal Participaciones, S.A.	Investment in assets and financial companies	75.68%

- **Subsidiaries or jointly-controlled entities that are not consolidated or deducted.** The subsidiaries or jointly controlled entities of Unicaja Banco Consolidated Group are presented below which, when preparing solvency information, have not been consolidated through the full consolidation method or the proportional consolidation method, and they have not been deducted from the Group's capital.

Table 13: Subsidiaries of jointly-controlled entities that are not consolidated or deducted

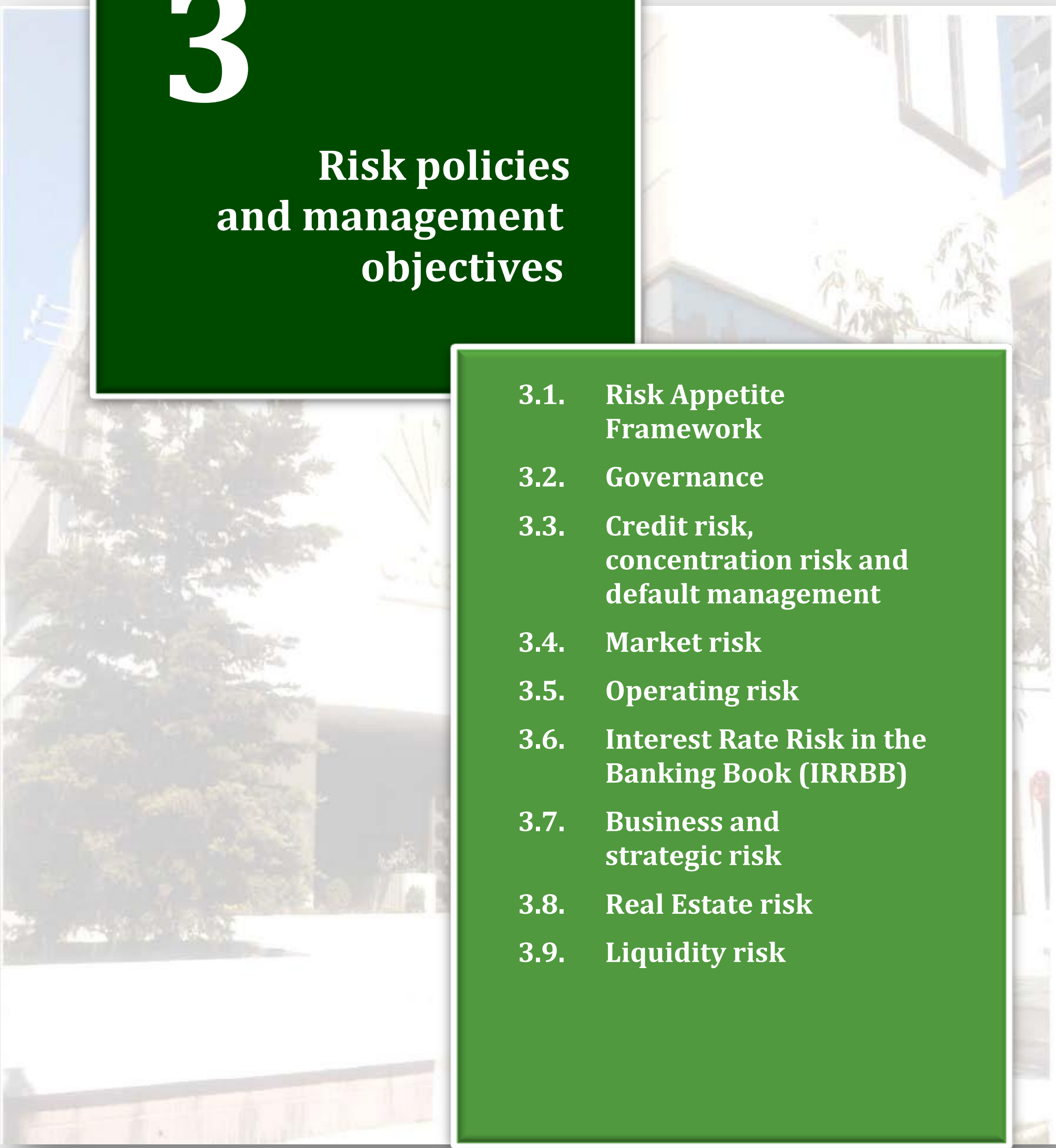
Entity name	Activity	Ownership interest
Alqlunia Duero, S.L.U.	Real estate development	100%
Analistas Económicos de Andalucía, S.L.U.	Study and analysis of economic activity	100%
Andaluza de Tramitaciones y Gestiones, S.A.U.	Management and settlement of documents and deeds	100%
Cerro del Baile, S.A.	Real estate development	80%
Desarrollo de Proyectos de Castilla y León S.L.U.	Real estate development	100%
Dolun Viviendas Sociales, S.L.	Real estate development	40%
Espacio Medina, S.L.	Real estate development	30%
Inmobiliaria Uniex Sur, S.L.U.	Real estate development	100%
Lares Val de Ebro, S.L.	Real estate development	33.33%
Muelle Uno - Puerto de Málaga, S.A.	Real estate development	39.74%
Parque Industrial Humilladero, S.L.	Industrial land development	89.77%
Pinares del Sur, S.L.U.	Real estate development	100%
Rochduero, S.L.	Real estate development	54.09%
Segurándalus Mediación, Correduría de Seguros, S.A.U.	Insurance brokerage	100%
Sociedad de Gestión San Carlos, S.A.	Real estate development	53.29%
Unimediación, S.L.U.	Insurance brokerage	100%
Uniwindet, S.L.	Renewable energy	100%
Viajes Caja España, S.A.	Travel agency	50%
Viproelco, S.A.U.	Real estate development	100%

At December, 31 2018 there is no subsidiary not included in the consolidation with own funds lower than the minimum required by the applicable regulations.

Additionally, there are no current or anticipated significant practical or legal impediments to the rapid transfer of own funds or the reimbursement of liabilities between the Entity and its subsidiaries.

- **Entities deducted from Tier I capital**: The entities owned by the Consolidated Group at 31 December 2018 that are considered to be significant, according to article 43 of Regulation 575/2013 and therefore are subject to deduction of ordinary Tier 1 capital (CET 1) are: Caja España Vida, Compañía de Seguros y Reaseguros, S.A., Unión del Duero, Compañía de Seguros de Vida, S.A., Unicorp Vida, Compañía de Seguros y Reaseguros S.A, Duero Pensiones, Entidad Gestora de Fondos de Pensiones, S.A, Mastercajas, S.A., Inversiones Alaris, S.L and Ahorro Andaluz S.A.

Annexes I, II and III of the consolidated annual accounts for Unicaja Banco Group present Group, jointly controlled and associated entities at 31 December 2018.



3
Risk policies and management objectives

3. RISK POLICIES AND MANAGEMENT OBJECTIVES

Unicaja Banco Group pays rigorous attention to keeping a prudent and balanced risk profile while preserving solvency, profitability and liquidity objectives.

The main figures that reflect the Group's risk profile are included in the consolidated Directors' Report.

The risk management and control system implemented by Unicaja Banco Group, follows the basic guidelines indicated below:

- A system of governance and organisation of the risk function, based on the participation and active supervision of Senior Management, which approves the general business strategies and policies of the Entity, and outlines the risk management and control objectives.
- A Risk Appetite Framework (RAF), configured within the Group as a fundamental instrument in the implementation of the risk policy.
- A prudent risk management model in which Unicaja Banco Group maintains rigorous attention to permanently maintain a prudent and balanced risk profile, preserving the solvency, profitability and liquidity objectives, which translates into a robust and coherent risk culture.
- A selection of appropriate identification, measurement, management and risk control methodologies, in continuous improvement process and in line with the regulatory requirements, adapting at the same time the requirements of own funds to the level of real risks derived from the banking activity.
- A supervision model based on three lines of defence, in line with the expectations of the regulatory and supervisory authorities.

In Unicaja Banco Group, the policies, methods and procedures related to overall risk management and control are approved by the Entity's Board of Directors.

Based on the regulatory framework in force, Unicaja Banco's organisational structure includes the Corporate Directorate of Global Risk Control, dependent on the General Directorate of Control, Strategy and Relationship with Supervisors, functionally separated from the areas that generate the exposures. The Corporate Directorate of Global Risk Control has among its functions the control of all the risks incurred by the Entity, from a global perspective. The Management of Unicaja Banco Group has an internal structure, perfectly defined, which serves as support and enables the materialisation of the different decisions adopted.

3.1 Risk Appetite Framework

The risk management and control of the Group is arranged, among others, through the "Risk Appetite Framework", which is approved by the Entity's Board of Directors.

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) formally develop a risk appetite statement; (ii) specify the Group’s risk objectives in line with its corporate strategy, serving as a reference guiding the activities carried out; (iii) formally develop the supervision and monitoring mechanism for risks such that compliance with the risk appetite is ensured; (iv) integrate all risk management and control processes into a common framework and (v) reinforce and communicate the risk culture. The development of this framework as the Group’s general risk policy is a fundamental element of management and control at the

Entity, providing the Board of Directors and Senior Management with an integral framework that determines the risks that the Entity is willing to assume in order to attain its business objectives.

Furthermore, this framework establishes different metrics quantification, control and monitoring of risks to allow it to react to certain levels or situations. These cross-sectional metrics characterise the objective behaviour of Unicaja Banco Group, allowing the risk appetite culture to be transmitted at all levels in a systematic and understandable manner. In turn, they summarise the objectives and limits of the Group, so they are useful for communication, where appropriate, to the stakeholders, and are homogeneous, given that they are applied throughout the organisation.

The Group has a process for identifying material risks, in which methodologies are established for the quantification of all the risks to which the Entity is exposed. It also defines criteria for the selection of material risks that must be managed and controlled more intensively. This management and control involves, among other things, the allocation of internal capital within the Internal Capital Adequacy Assessment Process (ICAAP), or in the case of liquidity risk, the allocation of liquidity management buffer, evaluated within the Internal Liquidity Adequacy Assessment Process (ILAAP). The process of quantifying and identifying material risks is done on a recurring basis, allowing the Entity to identify emerging risks at all times.

Based on this process, within the Risk Appetite Framework, at least for each of the material risks, the appetite and tolerance are established through a qualitative statement, risk indicators or metrics are selected, and a calibration methodology is defined, allowing the establishment of thresholds, early warnings and limits.

Corporate Directorate of Global Risk Control monitors compliance with the Risk Appetite Framework through the existing metrics for each risk type. This monitoring is submitted to Senior Management and the Governing Bodies.

Lastly, the Entity has integrated the RAF into the Business Plan, ICAAP, ILAAP, the corporate risk policies and the Recovery Plan, among others.

3.2 Governance

The risk management and control model requires a robust and effective organisational structure. Accordingly, the effective participation of the Board of Directors and senior management is necessary, and it must be properly articulated throughout the organisation.

Hereinafter, a list of the directly involved areas is provided, indicating their primary functions and responsibilities with respect to risk management and control, notwithstanding other functions established by law, Bylaws and the Entity’s regulations and manuals, if appropriate.

Board of Directors

The policies, methods and procedures related to overall risk management and control are approved by the Entity's Board of Directors. Thus, with regard to this area, the main functions attributed to this body are:

- Approve the risk control and management policy, including fiscal risks, as well as the periodic monitoring of the internal information and control systems.
- Approve the RAF and its subsequent modifications, based on the proposal of the Risk Committee.
- Receive information regarding the monitoring of the RAF at least on a quarterly basis from the Risk Committee, notwithstanding any information that may be requested at any time.
- Take the RAF into consideration in the ordinary management of the Bank and, in particular, when adopting strategic decisions
- Adopt any pertinent correction measures when deemed advisable.

Risk Committee

Among its main functions are:

- Advise the Board of Directors regarding the Bank's current and future overall risk appetite and its strategy in this area, and assist the Board with monitoring the application of that strategy.
- Ensure the proper operation of risk control and management systems and, in particular, the adequate identification, management and quantification of all significant risks affecting the Company.
- Ensure that the risk control and management systems adequately mitigate risks within the framework of the policy defined by the Board of Directors.
- Actively participate in the preparation of the Company's risk management policy, ensuring that it identifies at least:
    - The various types of financial and non-financial risks (among others, operating, technological, legal, social, environmental, political and reputational) faced by the Company, including financial risks such as contingent liabilities and other off-balance sheet risks.
    - The establishment of the level of risk that the Company deems acceptable.
    - The measures established to mitigate the impact of the identified risks in the event that they materialise.
    - The reporting and internal control systems that will be used to control and manage the aforementioned risks, including contingent liabilities and off-balance sheet risks.

- In particular, within the RAF framework:
    - Propose the approval of the RAF and subsequent amendments to the Board of Directors.
    - Inform the Board of Directors about RAF monitoring at least quarterly, or whenever the Board requests such information.
    - Request, when deemed appropriate, information on the RAF from the different Departments.
    - Propose any pertinent correction measures when deemed advisable.

Audit and Compliance Committee

In addition to the functions set forth in the Law and the Bylaws, the Audit and Compliance Committee is responsible for:

- internal control and reporting systems, supervising the effectiveness of the internal control over financial reporting (ICFR) system.
- internal auditor
- external auditor
- compliance with corporate governance rules,
- regulatory compliance
- Whit regard to the structural and corporate modification transactions intended to be carried out by the Institution, the Committee will be informed, for it to analyse them and report the Board of Directors beforehand, on their economic conditions and accounting impact and, especially, if applicable, on the proposed exchange ratio

Among these functions, the evaluation of the entity's non-financial risks, including operating, technological, legal, social, environmental, political and reputation risk, is of special significance.

Technology and Innovation Committee

The monitoring of general technological risk is included among the functions assigned to this Committee.

Strategy Committee

Among its functions, the following relating to the RAF are notable:

- Validate and communicate, if necessary, to the governing bodies any proposals for documents relating to strategic planning at the Entity, including the RAF.
- Transfer the main RAF criteria, whether those initially established or any subsequent adaptations, to the rest of the Bank through the Departments responsible for each area in order to maintain a solid risk culture at Unicaja Banco.
- Evaluate the repercussions of the RAF, in their respective areas of competence, in coordination, among others, with the following Committees, which will, in turn, transfer to the responsible Directorates if necessary.

Corporate Directorate of Global Risk Control

Its functions include assuming control, from a global perspective, of the totality of the risks incurred by the Entity.

In particular, the following functions stand out concerning the Risk Appetite Framework:

- Develop and apply the control management function to all of the Bank's risks within the context of the Risk Appetite Framework.
- Prepare and present the proposals to update the RAF.
- Monitor and follow up on the metrics and indicators in the RAF at least on a quarterly basis.
- Inform, at least once a quarter, the Risk Committee and senior management about RAF monitoring, through the Risk Appetite Framework Control and Monitoring Report.
- Issue an alert of the activation of a limit as quickly as possible.
- Verify observance of the RAF and the main RAF criteria within Unicaja Banco Group.

Internal Audit Directorate

Its functions include:

- Perform all functions and tasks falling to the third line of defence in terms of Governance and the Bank's specialised resources.
- Constantly control and monitor the Bank's businesses in order to ensure compliance with internal and external regulations.
- Perform an independent and objective review of the quality and efficiency of the Bank's internal control system and risk appetite framework, verifying compliance and the effectiveness of the corporate policies that have been established.

The following functions stand out concerning the RAF:

- Audit compliance with the RAF and the main RAF criteria throughout the Bank.
- Evaluate the design and effectiveness of the RAF, as well as its implementation.

The Corporate Governance Report of Unicaja Banco Group, published on the website (www.unicajabanco.com) identifies the Bodies of the Entity responsible for the preparation and execution of the risk management system, indicating the main risks that may affect the achievement of the business objectives, identifying the risk tolerance level of the Entity as well as the action and supervision plans for the main risks of the Entity.

3.3 Credit risk, concentration risk and default management

Credit risk is defined as the risk of incurring losses as a result of a breach of payments due to the Entity. This risk is inherent to its business.

Unicaja Banco has a Customer Credit Policy, Operations and Procedures Manual, approved by the Board of Directors, which is established as a framework of control and adequate management of the credit risks inherent to the Institution's credit investments.

This manual defines the policies and procedures of mandatory compliance for risks, details the activities and tasks to be performed, defines the responsibilities of the different areas involved in the processes of operations granting and monitoring, establishes the predisposition to the risk decided by the Entity and its articulation through risk limits and types of operations, and all general and specific aspects related to a large part of the credit investment operation are documented in a structured and unified manner.

The policies, methods and procedures related to the control of credit risk are approved by the Board of Directors, and the Risk Committee, the Audit and Compliance Directorate, the Internal Audit Directorate, the Corporate Directorate of Global Risk Control and the Corporate Credit Risk Management Directorate at Unicaja Banco are responsible for proper compliance, ensuring that they are appropriate, effectively implemented and regularly reviewed.

Unicaja Banco Group carries out a business that is essentially focused on commercial, retail and corporate banking, and applies robust risk management and control standards. The Governing Bodies prepare and regularly review the Risk Appetite Framework (RAF) in order to monitor that the credit risk profile is coherent with the business strategy. The main figures that reflect the Group's credit risk profile are set out in the consolidated annual accounts and in the presentations of quarterly results.

In addition, Unicaja Banco Group has tools that allow adequate risk classification. They consist of scoring and rating models that enable the admission and follow-up processes. The PD, LGD and EAD estimates intervene in the efficient management of risk as part of the calculation of expected loss. The criteria on which those models and estimates are based are approved by Senior Management, which has the review systems that are necessary to ensure that they are adequately updated at all times.

The standards on which those models and estimates are based are approved by Senior management.

Regarding the granting of credit operations, Unicaja Banco has detailed policies, methods and procedures to ensure the responsible granting of loans and credit to consumers.

The principles developed for this purpose are aligned with the current situation of the Bank, through Manual of Policies, Operations and Procedures for Credit Risk to Clients and with the regulatory requirements established by the regulations in force, collecting the following points:

- Concession criteria linked to the borrower's ability to pay.
- Customer-specific amortisation plan of the operation.
- Prudent relationship between the amount of the transaction and the value of the collateral.
- Transaction commercialisation policy.
- Collateral valuation policy.
- Consideration of the volatility of the interest rate, and of the exchange rate in the granting of loans denominated in foreign currency.
- Interest rate risk coverage.
- Policy on exceptions to transaction terms.
- Warning to the customer about failing to comply with their payment obligations.
- Debt renegotiation policy.
- Information on the cost of services linked to the granting of the credit operation.
- Obligation of information to the purchasers of housing by subrogation to a developer loan.

On the other hand, Unicaja Banco has implemented systems for compliance with Law 5/2015 on the promotion of business activity, which recognises rights that cannot be waived for SMEs and the self-employed in those cases in which a credit institution decides to cancel or reduce the flow of financing.

The granting of credit transactions must be subject to, based on the beneficiaries, nature, amount, term, collateral and characteristics, a decentralised approval process based on consensus decisions made by the following decision bodies:

- Board of Directors.
- Credit Committee.
- Credit Committee in the Corporate Credit Risk Department.
- Corporate Banking Credit Committee.
- Point-of-Sale Financing Credit Committee.
- Territorial Loan Department Committees.
- Territorial Area Credit Department Committees.
- Branch Credit Committees.

The functions and methodologies for the control of credit risk are also applied, both in the admission phases and in the follow-up of credit transactions. The monitoring consists of analysing the evolution of the risk of the operation itself and of the client, and its risk group. In this way, a control and monitoring of the credit risk of the financial investment is carried out through several controls:

- Preventive supervision of operations and borrowers.
- Supervision of impaired, non-performing or defaulting transactions.

In accordance with the regulations in force, Unicaja Banco Group has a policy of refinancing, restructuring, renewal or renegotiation in order to separately manage actions regarding problematic risks linked to risks without payment problems.

Additionally, Unicaja Banco has methodologies, procedures, tools and rules of action for the control and recovery of irregular assets.

Unicaja Banco has traditionally been very prudent with respect to the identification and accounting classification of refinancing and restructuring transactions. Finally, in the credit risk framework, Unicaja Banco Group specifically includes exposures to sovereign risk and participation risk in its risk management and control model.

3.4 Market risk

Market risk is defined as the possibility of loss in the Entity due to the maintenance of positions in the markets, as a result of adverse movements of the financial variables or risk factors that determine the value of those positions.

Although, for solvency purposes, market risk is assigned to trading positions, Unicaja Banco Group has developed policies, processes and tools for market risk managing in the entire portfolio of securities recorded at fair value, among which are the sovereign exposures and equity participations.

For the adequate management of market risk, the Group has tools that allow the definition, calculation and monitoring of market risks and the limits authorised for it, in particular "Value at Risk" (VaR) and operating limits for credit/counterparty risk that affect the Group's operations in capital markets.

The process of evaluation and analysis of market risk is based on the development of the following functions:

- Market data management
- Measurement
- Control

By establishing limits and diversification structures the Group controls its exposure to market risk, defining an action framework for the various transactions that the Entity carries out in financial markets in order to ensure that they take place within that framework.

The limits structure is also used as a means of diversification in order to avoid excessively concentrated exposures to market risk.

The responsibility in risk identification and control corresponds ultimately to the Governing Bodies of Unicaja Banco Group, in such a way that Senior Management is responsible and must participate actively in the entire risk management process (planning, approval, valuation and control of all the risks inherent in the positions taken by the Entity in financial markets).

3.5 Operating risk

Operating risk is defined as the risk of suffering losses due to inadequate or faulty processes, personnel and internal systems or due to external events. Operating risk includes reputation, model, ICT, conduct, legal and tax risk but excludes strategic risk.

Unicaja Banco assumes the following types of operating risk, according to Regulation 575/2013 (CRR), in order to maintain a uniform and parameterized risk management:

- Internal fraud
- External fraud.
- Human Resources
- Sales practices
- Damage to physical assets
- Technology
- Management and control processes

Unicaja Banco Group has established a series of procedures to capture operating loss events. They allow the Group to obtain the information that is necessary to implement the appropriate operating risk management policy mitigation instruments. It has also has an operating risk framework, which has been approved by the Board of Directors, and has been disseminated and implemented throughout the Organisation.

Additionally, since December 2017, the Standard Method has been used as a methodology for quantifying operating risk in terms of capital, with the objective of improving its operating risk management, in line with the Entity's risk culture.
Operating risk includes technology risk, reputation risk and conduct risk.

Within operating risk, there is technological risk, which is the risk associated with technological tools, operating systems and new technologies. It is a broad risk, covering all computer and technological actions.

Reputation risk is defined as the risk of loss due to a deterioration in the image of the entity, either due to events occurring in the entity itself or due to external events (macro-environment) that affect the reputation of the sector in general. Reputation risk can be a consequence derived from other risks: reputation losses deriving from other events, which are known as an "Opportunity Cost".

Unicaja Banco Group has traditionally been very demanding in aspects related to reputation risk management. Customer satisfaction and the good image of the Entity are permanent objectives of all its employees and of the highest levels of governance and management of the Entity.

This constant effort is based on the overall culture and is translated, among other concrete manifestations, into:

- The Entity’s strategic objectives.
- The Code of Conduct and the Corporate Social Responsibility Policy approved by the Board of Directors.
- The actions of the three lines of defence.
- Compliance with the general regulatory framework and, in particular, with Market in Financial Instruments Directive ("MiFID") and financial service protection.
- The process of continuous training of employees in all the areas in which they carry out their activity, which includes, specifically, training related to ethical aspects, in accordance with the provisions of the "Code of Conduct".

Finally, conduct risk refers to the risk of incurring in a bad practice internally by the Entity at the time of the event, either knowing the action (knowingly or bad faith by the offender), or due to a lack of knowledge that does not exempt the correct fulfilment.

Unicaja Banco Group ensures the correct creation, issue and distribution of products, as well as the provision of services, guaranteeing compliance with current legislation.

3.6 Interest rate risk in the banking book (IRRBB)

Interest rate risk in the banking book (IRRBB) is defined as the possibility of suffering losses in the margin or equity of the Entity as a result of adverse movements of interest rates on positions in the banking book.

The control functions and methodologies carried out by the Entity include the definition of the limits structure, limits control, control of the effectiveness of balance hedges as mitigation instruments and the use of stress testing measures. The analysis, measurement and control of interest rate risk by the Group involves sensitivity measurement techniques and the assessment of scenarios that could have a significant effect.

Based on the results of exposure for structural interest rate risk presented by Unicaja Banco Group at each analysis date, a series of actions are implemented to mitigate such exposure, until it is redirected to the acceptable levels defined by the risk profile of the Entity.

- The Board of Directors approves the entity's global risk management strategy and marks its general lines and controls.
- The Assets and Liabilities and Budget Committee develops the strategy within the framework and limits established by the Board of Directors.

3.7 Business and strategic risk

It is defined as the risk of incurring losses due to the erroneous analysis of the market in which it operates due to a lack of knowledge, or the incapacity to attain business targets, which may even threaten the viability and sustainability of the Entity's business model.

In order to analyse the soundness of its business model, the Group performs an identification exercise of potential vulnerabilities, both internal and external, taking into account the probability of occurrence and impact, identifying mitigating measures to address them.

3.8 Real Estate risk

This is the risk associated with the loss of value of the real estate assets held in the balance sheet of the Entity.

Unicaja Banco Group establishes limits to the real estate risk related to the assets received in payment of debts in order to control this exposure and keep it within adequate levels.

These assets are managed in the Entity with the ultimate purpose of disinvestment or leasing. To this end, Unicaja Banco Group has instrumental companies, specialised in the management of urban projects, real estate commercialisation and leasing of real estate assets.

Likewise, it has specific units to develop these strategies and coordinate the actions of the instrumental subsidiaries.

Additionally, the Entity has a decentralised governance structure that, through a framework of attributions, ensures proper management and control of it.

3.9 Liquidity risk

Liquidity risk can be defined in different ways since it is not a single concept. Usually, there are three different meanings of liquidity risk:

- Cost of undoing a position in a real or financial asset (it refers to the difficulties that may arise to undo or close a position in the market, at a particular time, without producing an impact on the market price of the instruments or the cost of the transaction (Market or Asset Liquidity).
- Deviation between the enforceability of the passive operations and the degree of completion of the active operations (funding liquidity).
- Non-adequacy between the growth capacities of the investment activity derived from the impossibility of finding financing according to the propensity of risk to leverage asset growth strategies (strategic or structural liquidity).

Likewise, the following sub-risks can be distinguished within liquidity risk:

- Funding risk
- Risk of intra-group transactions
- Foreign currency lending risk
- Contingent risk
- Intraday liquidity risk
- Franchise risk
- Risk related to pledged assets

The structural liquidity risk basically derives from the lags that occur between maturities of assets and liabilities (inflows and outflows of funds) in the different temporary bands. All this makes it necessary to improve and develop adequate systems and procedures for the identification, measurement, control and management of liquidity risk.

The Entity establishes prudent policies and objectives that contemplate not only normal market conditions but also contingency plans for stress or crisis situations, both its own and those of the market.

The adequate management of liquidity is a fundamental section in all entities, as demonstrated in the crisis period. Therefore, it is becoming more relevant in the new regulatory requirements. For this reason, the methodology used is necessarily oriented towards the control and monitoring of structural liquidity.

The key to management is to be able to respond to obligations without implying high costs or loss of profitability, either by excessive costs to cover needs in a liquidity shortage, or by excess liquidity that results in a low asset performance prioritising a policy of prudence in the balance between both possibilities and ensuring that the cost of this policy is as low as possible.

The Entity manages liquidity risk in order to ensure that, at all times, it has sufficient liquidity to meet its liability payment commitments at the maturity date, without compromising the Group's capacity to swiftly respond to strategic market opportunities while remaining within the Risk Appetite Framework (RAF) at all times. The main figures that reflect the Group's liquidity risk profile are set out in the consolidated annual accounts and in the presentations of quarterly results. Unicaja Banco Group has established limits to liquidity risk to control exposure to it and maintain it 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.

Unicaja Banco Group also practices a diversification policy in order to avoid excessively concentrated exposures to structural liquidity risk. In the same way, in its management of liabilities, it diversifies its sources of financing, guaranteeing that they are diversified by markets, terms, and products, in order to avoid difficulties at particular moments of crisis of markets.

In view of the above, liquidity monitoring is based on:

- Asset management: analysis of maturities, possibility of sale, degree of liquidity, potential use as collateral.

And on:

- Liabilities management: analysis of maturities, diversification of business sources, maturities different from contractual ones, behaviour in light of movements of interest rates.
- Access to markets: financing capacity in wholesale markets and time needed to obtain financing.

Unicaja Banco Group reports to the Bank of Spain all the information on the liquidity situation, liquidity plans and contingent commitments acquired by the Bank, within the supervisory framework.

- Liquidity Coverage Ratio (LCR), which measures the sufficiency of available, liquid and high-quality assets, existing to offset the net outflows of cash that could be suffered, in case of serious stress, up to the next 30 days. Unicaja Banco Group has no problem with liquidity risk, with an adequate fund of high-quality liquid assets (HQLA) and free of charge, which can be easily and immediately converted into cash in the markets, in order to cover their liquidity needs. in a scenario of liquidity problems of 30 natural days (net outflows and cash inflows). The LCR ratio of Unicaja Banco Group at 31 December 2018 stands at 468%, well above the required regulatory minimum established at 100%.

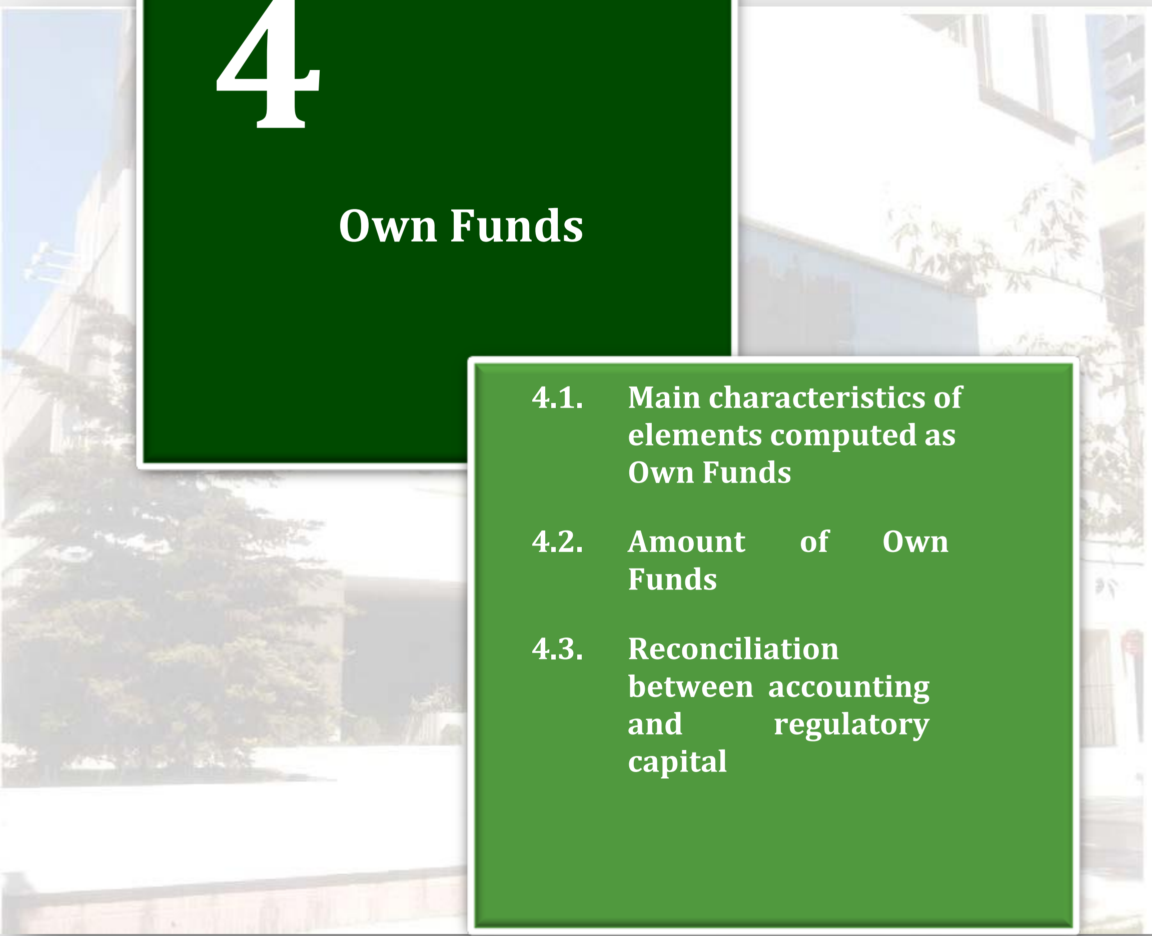
- Long-term net stable financing ratio (NSFR), to maintain minimum stable sources of financing, in line with the liquidity profiles of the assets and the possible contingent liquidity needs for long-term off-balance-sheet commitments. The fulfilment of this ratio implies that the entities have to equip themselves with stable financing structures (measured by the NSFR), setting a minimum amount of stable financing necessary according to the characteristics of the assets, which is maintained for more than a year, that is, the ratio between stable financing (liabilities) and assets that require stable financing. Unicaja Banco Group maintains an NSFR ratio of 139%, at 31 December 2018, well above the required regulatory minimum established at 100%.

The Entity also performs an internal liquidity adequacy assessment process (ILAAP) on a recurring basis that determines, among other things, that its risk management mechanisms are adequate with respect to its profile and strategy.

Finally, for liquidity risk management, Unicaja Banco Group has established a solid process consisting of the practical implementation of a range of functions involving the Board of Directors, Treasury Committee, Assets, Liabilities and Budget Committee, General Directorate of Control, Strategy and Relationships with Supervisors, General Directorate of Finance and organisational units dependent on the Assets, Liabilities and Budget Committee members.

Therefore, it has become necessary to develop a contingency plan, reviewed periodically, and based on three fundamental premises:

- Definition of stress test scenarios: systemic crisis, idiosyncratic medium and severe crisis.
- Liquidity projection in scenarios and establishment of warnings, limits and a minimum survival horizon to be able to undertake the measures.
- Identification of responsibilities and tasks in the activation and execution of the contingency plan.



4 Own Funds

4. OWN FUNDS

4.1 Main characteristics of elements computed as Own Funds

According to Title I, Part Two of Regulation (EU) No. 575/2013, the total own funds are equal to the sum of Tier 1 capital (T1) and Tier 2 capital (T2). Tier 1 capital is made up of Common Equity Tier 1 (CET1) and Additional Tier 1 capital (AT1).

Under Implementing Regulation 1423/2013, which establishes implementing technical standards concerning the disclosure of the entities' own funds requirements, the information template on transitory own funds is published in Annex III of this document.

4.1.1. Common Equity Tier 1

Unicaja Banco Group considers the following items as Common Equity Tier 1, applying the corresponding adjustments and deductions:

- Share capital.
- Share premium associated with share capital.
- Retained earnings (reserves and profits within the prudential scope, net of foreseeable dividends).
- Other accumulated comprehensive income (capital gain/capital losses on financial assets at fair value through other comprehensive income).
- Other reserves.

Tier 1 capital is considered to be of the highest quality and its components are characterised by being available for unrestricted and immediate use to cover risks or losses as soon as they occur. This quantity is recorded free of any possible tax at the moment it is calculated. These components show a stability and permanence in time higher than Tier 2 capital components.

The items deducted from capital are:

- Intangible assets
- Goodwill (Article 37 of the Regulation)
- Significant investments in entities of the financial sector (Article 43 of the Regulation)
- Deferred tax assets that depend on future returns (Article 38 of the Regulation)

The capital deductions have been calculated according to the tenth part, section 3 of the Regulation (transitional provisions), with the double limit on CET1, both for the calculation of deductions for significant interests and for deferred tax assets based on future returns arising from temporary differences. Bank of Spain Circular 2/2014 and Bank of Spain Circular 3/2014 describe the calendar for the progressive application of these deductions for credit institutions operating in Spain. This schedule was modified by Regulation EU 2016/445 of 14 March 2016 and was again amended by Circular 3/2017.

4.1.2. Additional Tier 1 Capital

The additional Tier 1 capital items have been calculated in accordance with the provisions of Chapter 3 of Title 1 of Part Two of the Regulation and are composed of capital instruments that meet the conditions established in Article 52 of section 1.

At December, 31 2018, the Group holds the following outstanding issue, consisting of Perpetual Contingent Convertible Bonds (PeCoCos).

Table 14: PeCoCo's outstanding balance at 31 December 2018

Issue	Securities issued	Nominal amount (thousand €)	Balance (thousand €)
PeCoCos	47,986,938	47,987	47,987

PeCoCos are bonds convertible into Unicaja Banco ordinary shares with a nominal value of one euro, belonging to a single class and series, represented by book entries. The conversion ratio of these bonds will be that resulting from the ratio of the nominal unit value of PeCoCos issues to the value attributed to Unicaja Banco's ordinary shares, which is set at 1.18827 euros per share, considering the difference between the nominal value of the bonds that are converted and the nominal value of the shares that are received as counterpart as a premium. At December, 32 2018, this issue had not been admitted for trading on any type of secondary market.

This type of bond grants its holders the right to discretionary remuneration, predetermined and non-cumulative, to the conversion into ordinary shares of Unicaja Banco, subject to certain conversion assumptions and to the political rights that derive from belonging to the respective syndicate of noteholders. The shares in which the aforementioned bonds eventually convert will grant their holders the same rights as Unicaja Banco shares currently in circulation.

The accrual of discretionary remuneration is conditioned on the simultaneous fulfilment of the following four conditions:

- The existence of distributable profits, once the services provided by the law and the Bylaws of Unicaja Banco have been covered;
- That there are no limitations imposed by Spanish or European regulations on current or future own funds that may be applicable;
- That the Board of Directors of Unicaja Banco, at its sole discretion, taking into account the solvency situation of Unicaja Banco or Unicaja Banco Group, has not decided to declare a case of non-remuneration, deeming it necessary not to proceed with the payment of compensation for an unlimited period of time, considering in all cases that unpaid interest will not be cumulative;
- That the Bank of Spain has not demanded the cancellation of the payment of the remuneration based on the financial and solvency situation of Unicaja Banco or Unicaja Banco Group, in accordance with the applicable regulation.

If the conditions indicated in the previous sections are partially applicable, Unicaja Banco may proceed, in its sole discretion, to pay the remuneration partially or to declare an assumption of non-remuneration. If for any reason the remuneration is not paid in full or in part to the bondholders on a payment date, they will not have the possibility of claiming that remuneration.

PeCoCos will necessarily be converted into shares, fully, in the cases indicated below, and partially, in the amount necessary to recover, where appropriate, the imbalance of own funds in the amount set by the competent authority, in the rest:

- Total mandatory advance conversion: Bonds will be converted into shares in the following cases: (i) if Unicaja Banco adopts any measure aimed at its dissolution and liquidation, voluntary or involuntary, or if it is declared bankrupt, or
  (ii) if Unicaja Banco adopts any measure that has the consequence of approving a reduction of share capital in accordance with the provisions of article 320 et seq. of the Spanish Companies Act, or 343 by referral to article 418.3 of the Spanish Companies Act.
- Contingency events: The bonds will be converted into shares in the following cases:

the capital ratios of Unicaja Banco Group, calculated quarterly, are below the limits indicated in the note relating to the issue of these instruments.

- Feasibility events: Bonds will be converted into shares in the following cases: (i) if the Bank of Spain determines that, without the conversion of the instrument, the entity would not be viable, or (ii) if the decision to inject public capital or any other measure of financial support is made, without which the entity would not be viable.
- Regulatory event: Bonds will be converted into shares in the following cases: (i) if with the entry into force of the rules of own funds computability defined in Basel III (CRD IV / CRR) in 2014, the bonds stopped being eligible at least as additional Tier 1 capital; (ii) if the bonds cease to be eligible as principal capital; or (iii) if the bonds cease to be eligible as common capital.

Taking into account the foregoing, the Directors of Unicaja Banco consider that these convertible instruments do not imply an unconditional contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities in conditions that are potentially unfavourable for the Group. Therefore, they must be classified as equity instruments, under the heading "Equity instruments issued other than capital" in the Group's consolidated balance sheet.

On 27 February 2017, the Board of Directors of Unicaja Banco, after verifying that the conditions set forth in the issue prospectus were met, agreed to make the payment of the discretionary remuneration of the PeCoCos issued by the Entity, for a total gross amount of €6,647 thousand, for the period between 29 March 2018 and 28 March 2019 (last year discretional compensation of €6,850 thousand was agreed for the active PeCoCos on March 21 2018.

4.1.3. Tier 2 Capital

Tier 2 capital considers subordinated debt issues, based on the limits and deductions established in the Regulation. All subordinated debt issues come after common creditors, for credit ranking purposes. Thus, they are classified as eligible for the purpose of the solvency ratio, although the amounts that exceed the percentages referred to in Directive 2013/36 / EU (CRD IV) and Regulation EU 575 / 2013 (CRR) that came into force in 2014 can never be eligible as own funds.

4.2 Amount of Own Funds

Details of Unicaja Banco Group's own funds at 31 December 2018 are set out below, indicating each of its components and deductions, and broken down into Tier 1 capital (CET1), additional Tier 1 capital (AT1) and Tier 2 capital (T2).

Table 15: Own Funds

OWN FUNDS	Amount (thousand €)
TOTAL T1	**3,580,498**
TOTAL CET 1	**3,532,601**
Disbursed capital instruments	1,610,302
Share premium	1,209,423
Own Common Equity Tier 1 instruments	-2,147
Retained earnings (*)	1,098,096
Capital adjustments of Common Equity Tier 1 due to prudential filters	-7,058
Other retained comprehensive income	-3,784
Unrealised Earnings Adjustment	0
Deductions from securitisation positions	0
Deductions from goodwill and intangibles assets	-30,120
Deferred tax assets that rely on future returns	-309,358
CET 1 Holdings in financial sector entities in which the Entity has significant investment	-32,753
TOTAL AT1	**47,897**
Equity instruments eligible as additional Tier 1 capital	47,897
TOTAL T2	**0**
TOTAL CAPITAL AND RESERVES	**3,580,498**

(*) Includes the IFRS 9 phase-in adjustment.

Unicaja Banco Group closed 2018 with equity of €3,650,498 thousand, representing 15.7% of its risk-weighted assets.

The Group maintains a solid solvency and liquidity position. The capacity to generate profits in an environment as unfavourable as that currently in place is primarily due to the improvement in the interest margin, the reduction of operating costs within the framework of a policy to improve efficiency and the reduction of impairment needs, due to both a decline in the volume of non-performing assets and the high levels of coverage that have been obtained.

The CET1 ratio, according to the regulations in force, reaches 15.4%, which also shows the high quality of Unicaja Banco Group's capital, characterised by an absolute dominance of equity and reserves over the rest of the eligible items. The level of capital is widely above all current capital requirements for the Group.

4.2.1. Changes in Own Funds during 2018

IFRS 9 entered into force on January, 1 2018 and its application gave rise to the accounting changes that affect capital ratios. The Entity chose to apply the transitional provisions on a voluntary basis in accordance with Article 473 (b) of the CRR, thereby mitigating the impact of adopting IFRS 9 with a static phase-in. Unicaja Banco Group thus adds the amount calculated in accordance with the aforementioned Article 473 (b), section 4, to its Common Equity Tier 1.

4.2.2. Capital Buffers

The current regulations in force that determine the capital requirements, establish the following capital ratios required for 2018:

- A Common Capital Tier 1 ratio of 4.5%.
- Tier 1 Capital ratio (Common plus additional) of 6%.
- A total capital ratio (including level 2) of 8%.
- An additional capital conservation buffer of 1.875%.

Regarding the countercyclical capital buffer established by Article 45 of Law 10/2014, the Bank of Spain agreed to set this buffer at 0% for credit exposures in Spain at January, 1 2016.

The European Central Bank requires that Unicaja Banco Group meets the requirements of a minimum CET 1 ratio of 8.125% and a minimum total capital ratio of 11.625% for 2018 (both phase-in). These requirements include the minimum established by Pillar I:

- the minimum Pillar I requirements of 4.5% for CET 1 and of 8% for Total Capital,
- a Pillar II requirement of 1.75%
- and a capital conservation buffer of 1.875%

In addition, it should be noted that, for the year 2019, the European Central Bank has required for Unicaja Banco Group, within the framework of the aforementioned SREP, a minimum CET1 ratio of 8.75% and a minimum total capital ratio of 12.25% (both phase- in). These requirements are applicable for the year 2019, and include the following:

- The minimum Pillar I requirements of 4.50% for CET1 and of 8% for total capital.
- A Pillar II requirement of 1.75%.
- A capital conservation buffer of 2.50%.

At 31 December 2018, the CET1 capital ratio of Unicaja Banco Group stood at 15.5%, bringing the total capital ratio to 15.7% (both including retained earnings for the year). Consequently, with the current levels of capital, Unicaja Banco Group complies with the capital requirements set by the ECB and, therefore, has no limitations on the distributions of the results referred to in Regulation (EU) No 575/2013

At 31 December 2018 and 2017, the own funds of Unicaja Banco Group amounted to €3,580,498 thousand and €3,650,408 thousand, respectively, of which €3,532,601 thousand and €3,531,781 thousand, respectively, are part of Common Equity Tier 1 (CET1).

The surplus total capital amounts to €921,685 thousand at 31 December 2018 while the surplus of CET 1 is €1,674,292 thousand at that same date (in both cases including a 1.875% buffer), taking into account the requirements for own funds in accordance with Directive 2013/36/U (CRD-IV) and Regulation (EU) No 575/2013 (CRR) (Pillar I), the additional requirements mandated for Unicaja Banco Group as a result of the SREP 2018, and the capital conservation buffer.

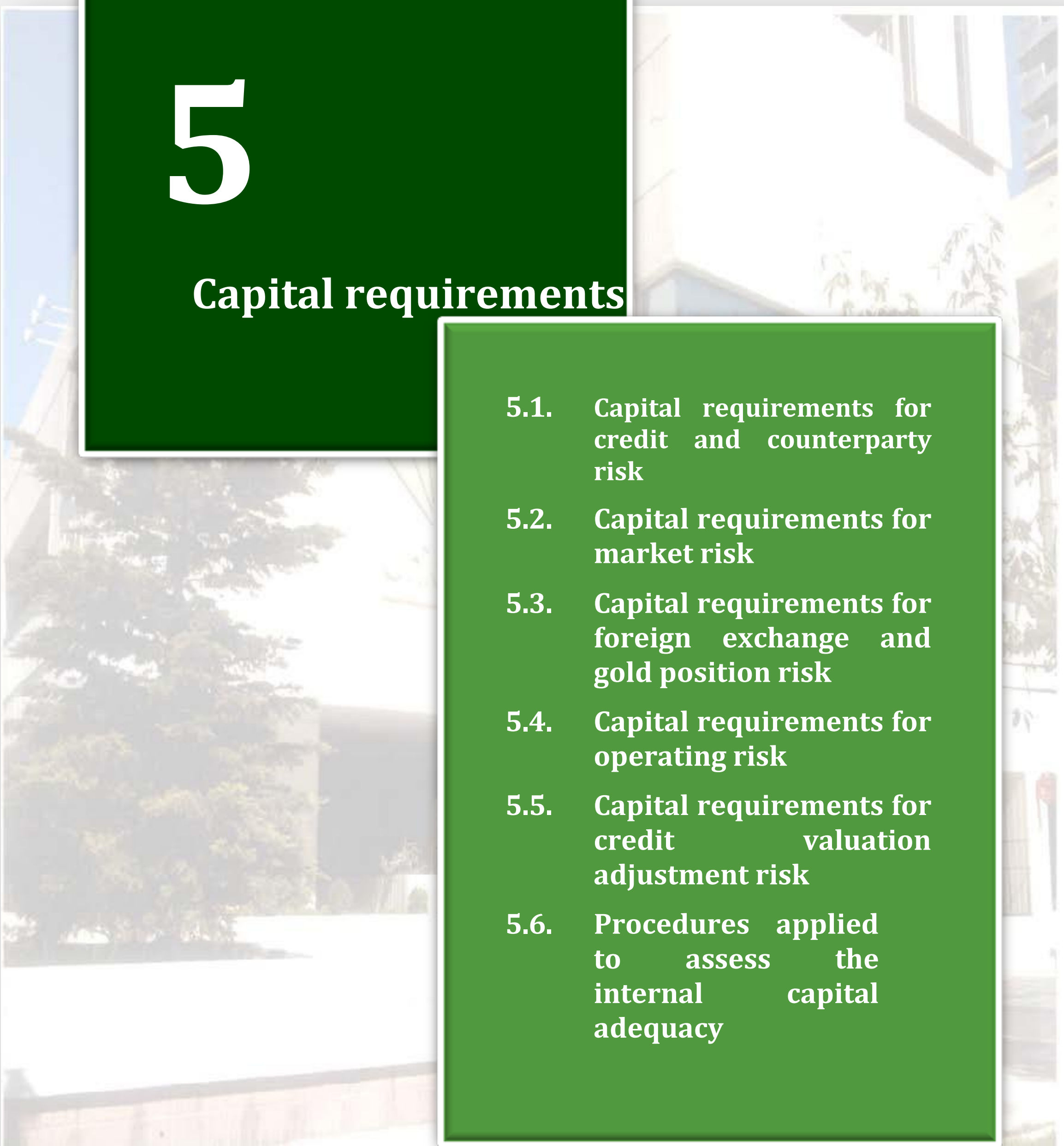
4.3 Reconciliation between accounting and regulatory capital

The scope of consolidation is not the same for regulatory purposes and for accounting purposes, resulting in differences between the information used in the calculation of regulatory capital and the equity of the Group's financial statements.

The following table shows the reconciliation between the net accounting equity and the eligible capital for regulatory purposes of Unicaja Banco Group:

Table 16: Reconciliation between accounting and regulatory capital

Million €	2018	2017
Capital and reserves	3,921	3,856
Other retained comprehensive income	17	17
Minority interests	-	29
TOTAL EQUITY (Public balance sheet)	**3,918**	**3,902**
Differences between public and reserved Balance Sheet	-1	-
TOTAL EQUITY (Reserved balance sheet)	**3,917**	**3,902**
Ineligible minority interests	-	(29)
Ineligible earnings during the year	(68)	(41)
Deductions	(372)	(259)
IFRS 9 phase-in	110	-
Tier 2 Capital	-	77
Other capital adjustments	(7)	-
TOTAL ELIGIBLE CAPITAL	**3,580**	**3,650**



5 Capital requirements

5. CAPITAL REQUIREMENTS

The amount of the capital requirements of Unicaja Banco Group, in accordance with the Part Three of the CRR, is presented below for each of the risk types, calculated as 8% of the risk-weighted assets at December, 31 2018.

Table 17: Minimum capital and reserve requirements

Thousand euro	**2018**
Credit risk	1,685,169
Market risk	290
Foreign exchange and gold position risk	-
Operating risk	134,049
Credit valuation adjustment risk	10,212
TOTAL PILLAR I REQUIREMENTS	**1,829,720**

5.1 Capital requirements for credit and counterparty risk

Capital requirements for credit and counterparty risk are defined in Regulation 575/2013, Part Three, and Title II. The capital requirements for Unicaja Banco Group eligible for consolidation are presented below by credit risk at 31 December 2018 calculated for each of the categories in which the standard method has been applied.

Table 18: Capital requirements for credit and counterparty risk

Credit risk categories	**Amount (thousand €)**
Central governments or central banks	-
Regional governments or local authorities	-
Public sector entities	32,440
Multilateral development banks	-
International organisations	-
Corporates	42,083
Businesses	330,114
Retail	259,070
Exposures secured by Real Estate	436,625
Exposures in default	98,221
Items assoc. with particularly high risk	1,196
Covered bonds	2,194
Exposures to institutions and corporates with a short term credit rating	-
Interests in collective Investment institutions	1,768
Equity exposures	109,912
Other exposures	363,416
Securitisation positions	8,132
TOTAL CREDIT RISK REQUIREMENTS	**1,685,169**

5.2 Capital requirements for market risk

Capital requirements for market risk are defined in Regulation (EU) No. 575/2013, Part Three, Title IV.

The requirements for market risk of the positions held in the trading book of the Consolidated Group at December, 31 2018 according to the application of the standard method (article 326 et seq. Of the EU Regulation) are detailed hereafter.

Table 19: Capital requirements for Market Risk

Thousand €	RWAs	Requirements
Direct Products		
General risk in debt security positions	1,010	81
Equity instrument risk	2,611	209
Currency risk	-	-
Commodity risk	-	-
Liquidation risk	-	-
Options		
Simplified method	-	-
Delta-Plus Method	-	-
Scenario-based method	-	-
Securitisation	-	-

There is no requirement for exceeding the limits for large risks since this event has not taken place.

5.3 Capital requirements for foreign exchange and gold position risk

If the 2% of the eligible own funds are not exceeded, the capital requirements for foreign exchange and gold position risk are deemed to be zero (Article 351 of the EU Regulation).

5.4 Capital requirements for operating risk

The amount of capital requirements at December, 31 2018 for operating risk has been calculated based on the standard method, amounting to **€134,049 thousand**.

5.5 Capital requirements for credit valuation adjustment risk

Credit valuation adjustment refers to an adjustment of the valuation of the portfolio of transactions with counterparty to average market prices.

This adjustment will reflect the current market value of the counterparty's credit risk with respect to the entity but will not reflect the current market value of the entity's credit risk with respect to the counterparty (article 381 of the CRR).
The amount of the requirements for Unicaja Banco Group at December, 31 2008 with respect to counterparty risk, in accordance with the standard method, totals **€10,212 thousand.**

5.6 Procedures applied to assess internal capital adequacy

In accordance with the provisions of Section 1 of Chapter 2 of Directive 2013/36 / EU (CRD IV), Unicaja Banco Group evaluates the adequacy of its internal capital following the supervisory expectation and the EBA guidelines and recommendations, through the Internal Capital Adequacy Assessment Process (ICAAP). Within this process, Unicaja Banco Group carries out a series of procedures for the measurement of internal capital needs that, in addition to the maintenance of regulatory minimum own funds, allow it to define and maintain an adequate level of equity.

The Group ensures that own funds are consistent with the risks inherent to its activity, the economic environment in which it operates, the management and control it carries out of these risks, the governance systems available to it, its strategic plan of business and its real possibilities of obtaining greater own funds.

As a starting point, within the ICAAP framework, the Entity has a periodic process of identification of material risks that allows it to identify and keep updated the risks to which the Entity may have a material exposure.

To determine the materiality of the risks, specific objective internal methodologies are used for each risk, based on quantitative analysis and founded on the methodologies used by the authorities and in stress tests.

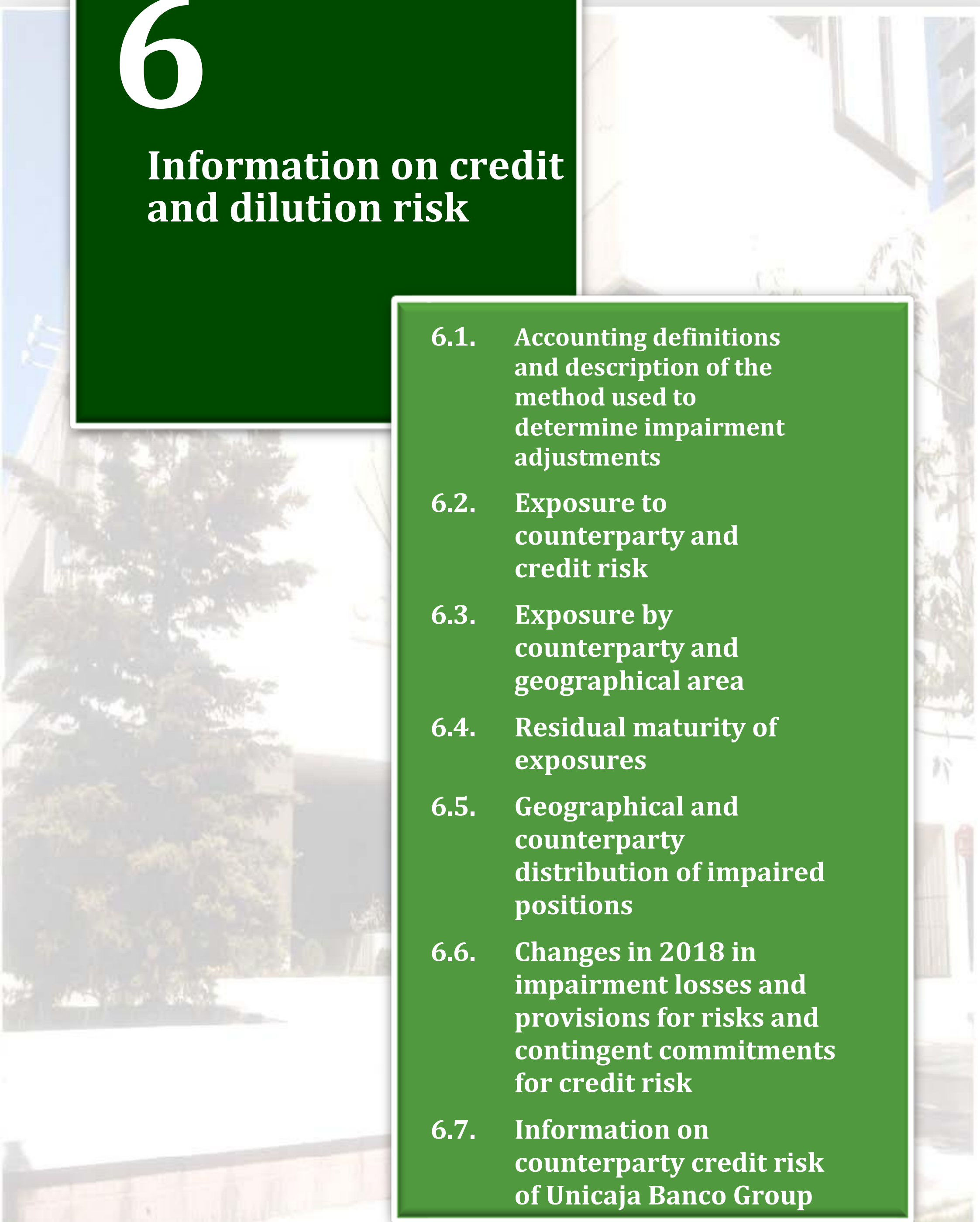
The level of risk measured is compared with a materiality threshold established for all risks and referenced to potential impacts on results or solvency.

The material risks identified are managed prudently, through their control and monitoring through the Risk Appetite Framework and are subject to quantification of internal capital.

In order to carry out such quantification and capital allocation, the Entity uses specific internal objective methodologies for each material risk, consistent with the methodologies used in the evaluation of material risks. Additionally, for the internal capital allocation of the Pillar I risks, an allocation floor is set, corresponding to the minimum regulatory capital.

The internal capital allocated by Unicaja Banco Group, in line with the guidelines of both the EBA and the ECB, is calculated as the simple sum of the internal capital assigned to each of the material risks, obviating any possible effect of diversification among different risk types.

The internal capital available for Unicaja Banco Group to cover the capital needs for material risks is constituted by the capital instruments (CET1, AT1 and T2) defined according to Part Two, Title I of Regulation (EU) 575/2013, thus guaranteeing its quality and sufficiency.



6

Information on credit and dilution risk

6. INFORMATION ON CREDIT AND DILUTION RISK

6.1 Accounting definitions and description of the methods used to determine impairment adjustments

The concepts of non-performing and impaired positions that have been referred to in this document are based on IFRS (International Financial Reporting Standards).

In note 2.7 of the notes to the consolidated annual accounts for Unicaja Banco Group for 2018, information regarding the "impairment of the value of financial assets" can be found.

Note 10.2 reflects details of the financial assets classified as credit investments and considered to be impaired due to their credit risk. Additionally, note 10.5 shows details of those that, without being considered to be impaired, have some amount due, classified by counterparty and based on the time elapsed since the maturity of the unpaid amount at oldest dates in each transaction.

In turn, note 10.6 presents details of the evolution of credit risk hedging.

6.2 Exposure to counterparty and credit risk

The total value of the credit risk exposures of the Consolidated Group at December, 31 2018, after the adjustments indicated in article 111 of the Regulations and of value corrections for corresponding impaired assets, amounting to €57,268,734 thousand (including securitization positions) without considering the effects of the credit risk reduction.

The following table presents the average value of credit risk exposures, net of adjustments and recognized impairment losses during 2018, to which the standard method was applied to estimate the own fund requirements for credit and dilution risk.

Table 20: Average value of exposures to credit risk (standard method))

Credit risk categories	Average exposure (thousand €)
Central governments or central banks	19,440,750
Regional governments or local authorities	1,444,905
Public sector entities	1,064,764
Multilateral development banks	-
International organisations	-
Institutions	1,300,322
Corporates	4,216,740
Retail	4,790,597
Exposures secured by Real Estate	15,649,798
Exposures in default	1,253,929
Items assoc. with particularly high risk	10,263
Covered bonds	188,824
Exposures to institutions and corporates with a short term credit rating	-
Interests in collective Investment institutions	15,671
Equity exposures	1,020,313
Other exposures	4,900,316
Securitisation positions	373,301
Average exposure for credit and counterparty risk	**55,670,493**

Moreover, art. 291 of the CRR determine that there is a risk of adverse correlation when the probability of default of the counterparts is positively correlated with the general factors of market risk. The specific risk of adverse correlation will be given if it is foreseeable that the future exposure to a specific counterparty will be high when the probability of default of the counterparty is also high.

At 31 December 2018, the risk of these effects occurring is minimal given that there is no relevant exposure in this regard.

6.3 Exposure by counterparty and geographical area

Hereinafter a breakdown of the credit risk exposures of Unicaja Banco Group at 31 December 2018, following the application of the adjustments established in accordance with Articles 34 and 110 of Regulation 575/2013 and other capital deductions funds related to the asset's item, broken down by geographical area.

Table 21: Credit risk exposure by geographical area

Geographical area	Exposure amounts (thousand €)
Spain	49,468,894
Rest of the EU	5,535,369
Rest of the world	169,577
Total Exposure at 31 December 2018	**55,173,840**

The following table shows the distribution by type of counterparty of the exposures to credit risk, net of adjustments and impairment losses recognised at 31 December 2018 of the Group, to which it has been applied the standard method for calculating the own funds requirements for credit risk.

Table 22: Credit risk exposure by counterparty type

Credit risk categories	Exposure (thousand €)
Central governments or central banks	19,512,294
Regional governments or local authorities	1,386,056
Public sector entities	1,054,349
Multilateral development banks	-
International organisations	-
Institutions	1,536,445
Corporates	4,275,451
Of which: SMEs	*1,994,760*
Retail	4,673,795
Of which: SMEs	*1,494,226*
Exposures secured by Real Estate	15,383,225
Of which: SMEs	*700,567*
Exposures in default	1,171,685
Items assoc. with particularly high risk	9,966
Covered bonds	187,131
Exposures to institutions and corporates with a short term credit rating	-
Interests in collective Investment institutions	22,100
Equity exposures	965,010
Other exposures	4,651,456
Securitisation positions	344,879
Total Exposure at December, 31 2018	**55,173,840**

6.4 Residual maturity of exposures

The following table shows the distribution by term of residual maturity of the Group's exposures to credit risk at December, 31 2018, net of adjustments and impairment losses recorded, of those exposures to which the standard method has been applied, including securitisation positions, for the calculation of own funds requirements.

Table 23: Residual maturity of exposures to credit risk (thousand euros)

Exposure categories in the standard method including securitisation positions	On demand	Up to 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total
Central governments or central banks	-	-	27	3,361	16,124	**19,512**
Regional governments or local authorities	-	34	210	462	680	**1,386**
Public sector entities	-	25	39	517	473	**1,054**
Multilateral development banks	-	-	-	-	-	**-**
International organisations	-	-	-	-	-	**-**
Institutions	-	635	34	358	509	**1,536**
Corporates	-	185	709	1,920	1,461	**4,275**
Retail exposures	-	128	589	911	3,045	**4,674**
Exposures secured by Real Estate	-	2	20	533	14,828	**15,383**
Exposures in default	48	3	13	117	990	**1,172**
Items assoc. with particularly high risk	-	-	-	10	-	**10**
Covered bonds	-	39	12	137	-	**187**
Exposures to institutions and corporate with a short term credit rating	-	-	-	-	-	**-**
Collective investment undertakings	-	-	-	-	22	**22**
Equity exposures	-	-	-	-	965	**965**
Other exposures	-	25	4	17	4,605	**4,651**
Securitisation positions	-	-	4	221	120	**345**
Total Exposure at 31 December 2018	**48**	**1,077**	**1,663**	**8,563**	**43,822**	**55,174**

6.5 Geographical and counterparty distribution of impaired positions

Hereinafter the values of impaired exposures and of those are in default at December, 31 2018, broken down by significant geographical areas and the provisions for risks and contingent commitments:

Table 24: Impaired and defaulting exposures, and their provisions, by geographical area (thousand euros)

Geographical area	Non-performing exposures	Impairment provisions
Spain	1,908,455	866,282
Rest of the EU	17,454	9,029
Rest of the world	8,448	918
Total	1,934,357	876,229

Table 25: Impaired exposures by counterparty

Million euro	**Dec-18**
GROSS EXPOSURE	
Credit to Public Entities	**14**
Credit to the Private Sector	**1,912**
Corporates	**688**
Real estate development and construction	147
SMEs and self-employed	509
Other companies	32
Individuals	**1,224**
Mortgage	842
Rest	382
Temporary acquisitions and unclassified risk	**0**
NON-PERFORMING BALANCES	**1,926**
IMPAIRMENT ALLOCATIONS	
Credit to Public Entities	**7**
Credit to the Private Sector	**1,005**
Corporates	**450**
Real estate development and construction	115
SMEs and self-employed	284
Other companies	51
Individuals	**555**
Mortgage	262
Rest	293
Temporary acquisitions and unclassified risk	**8**
TOTAL ALLOCATIONS FOR IMPAIRMENT	**1,020**
Of which: individually determined	*222*
Of which: collectively determined	*798*

Information in the public scope of consolidation

At December, 31 2018 there are no generic provisions.

6.6 Changes in 2018 in impairment losses and provisions for risks and contingent commitments for credit risk

The changes that have occurred during 2018 in the impairment losses for credit risk recorded by Unicaja Banco Group and in the provisions for risks and contingent commitments for credit risk are in accordance with the provisions of the IFRS, both in the type of losses and provisions established, as in the methodology applied for its calculation.

The details of the changes made in 2018 in the value adjustments for impairment of assets and in provisions for risks and contingent commitments due to credit risk are included in notes 10.6 and 18 of the notes to the consolidated annual accounts for Unicaja Banco Group for 2018.

In addition, note 27 of the report of the consolidated annual accounts for 2018 of Unicaja Banco Group shows the movement in 2018 of the impaired financial assets of Unicaja Banco Group, which are not recorded in the balance sheet because its recovery is considered remote, although the actions to obtain the recovery of the amounts pending have not been interrupted.

Table 26: Credit quality of exposures by category

	Total gross exposure	Non-performing	Of which: outstanding >90 days
Central banks	**3,771,144**	**-**	**-**
Public entities	**1,367,627**	**13,944**	**13,415**
Credit institutions	**1,832,636**	**7**	**7**
Other financial companies	**1,231,277**	**2,493**	**2,493**
Non-financial companies	**5,775,576**	**587,367**	**324,113**
Households	**20,336,851**	**1,339,230**	**822,541**
Loans and advances	**34,315,111**	**1,943,041**	**1,162,569**

6.7 Information on counterparty credit risk of Unicaja Banco Group

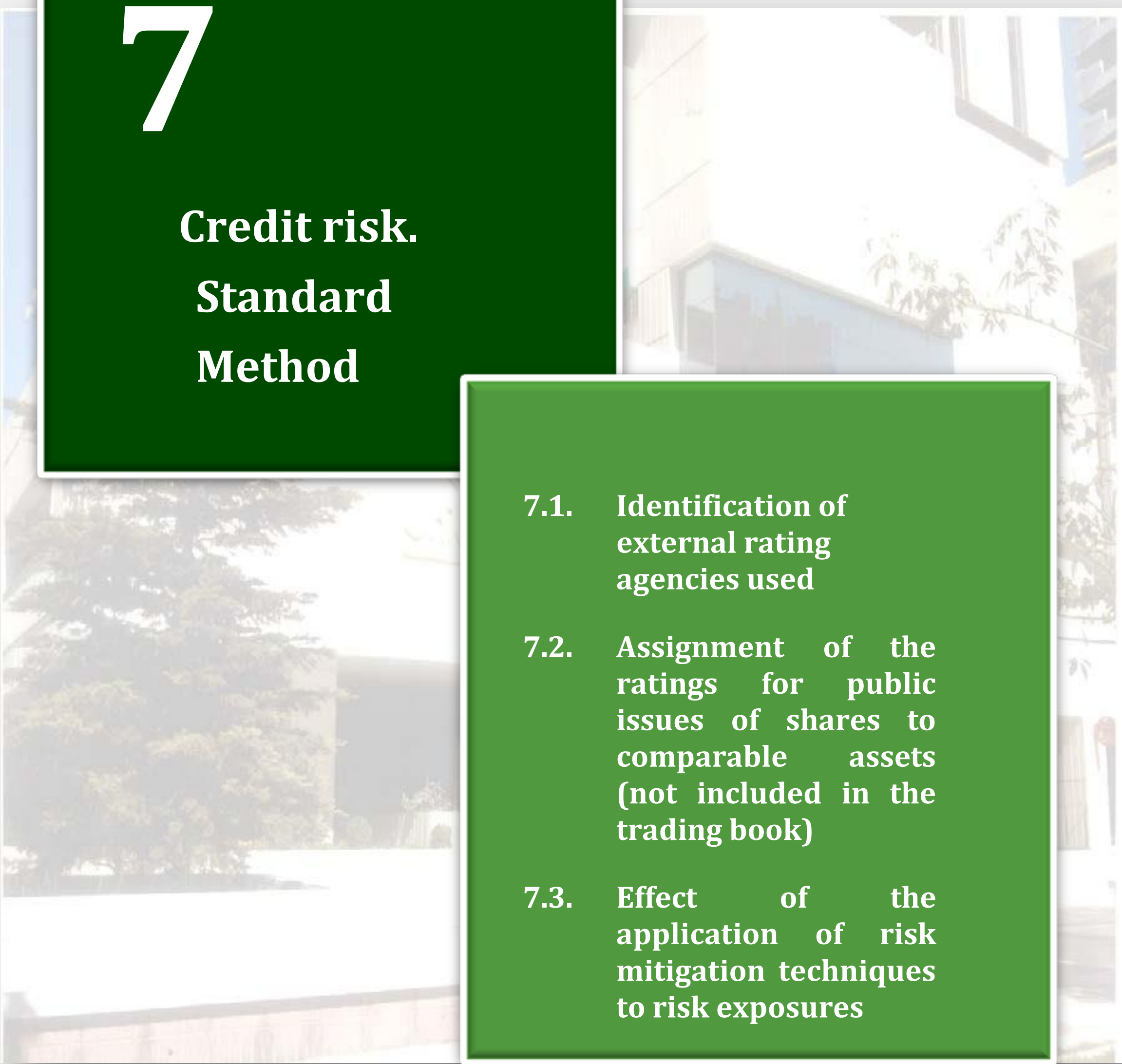
Counterparty credit risk, in accordance with article 272 of Chapter 6 of the Regulations, is considered to be the risk that the counterparty in an operation may default before the final settlement of the cash flows of that operation.

Below are details of the credit exposure of Unicaja Banco Group to counterparty credit risk for its derivative transactions at December, 31 2018, estimated as the amount of the credit exposure of Unicaja Banco Group for these financial instruments, net of the effect of the corresponding contractual compensation agreements and the guarantees received from the counterparties.

Table 27: Exposure to counterparty risk (derivatives)

Counterparty Risk (derivatives)	**Thousand €**
Positive fair value of the contracts	422,688
Less: effect of offset agreements	-63,754
Credit exposure after offset	358,934
Less: effect of collateral received	-193,150
Net exposure to derivatives	**165,784**

Exposure to counterparty risk is measured by adding to the market value (mark to market) of the instrument an estimate of future potential risk. This estimate is the result of multiplying the nominal value of the operation by a specific factor (add-on) depending on the type of risk instrument and its expiration. The collateral provided by the counterparties mitigates the exposure.



7

Credit risk. Standard Method

7.1. Identification of external rating agencies used

7.2. Assignment of the ratings for public issues of shares to comparable assets (not included in the trading book)

7.3. Effect of the application of risk mitigation techniques to risk exposures

7. CREDIT RISK. STANDARD METHOD

7.1. Identification of external rating agencies used

The external credit rating institutions used, where appropriate, by Unicaja Banco Group to determine their risk weights applicable to their exposures are those designated by the European Central Bank. There have been no changes in the rating agencies used. The use of ratings to calculate the consumption of capital is not material.

The exposures for which the external credit rating institutions are used are those mainly corresponding to fixed income, loans to large companies, public entities and institutions.

7.2. Assignment of ratings of publicly issued stocks to comparable assets (not included in the trading book)

For the assignment of credit ratings, Unicaja Banco Group applies the rules defined in article 138 of the Regulation:

- When for an exposure there is only a credit rating available, it will be used to determine the risk weighting.
- When for an exposure two credit ratings are available and these correspond to two different risk weights, the highest risk weight will be applied.
- When a qualified exposure is covered by more than two credit assessments the two credit ratings that give rise to the lowest average will be used. In the event that they differ, the higher of the two will apply.

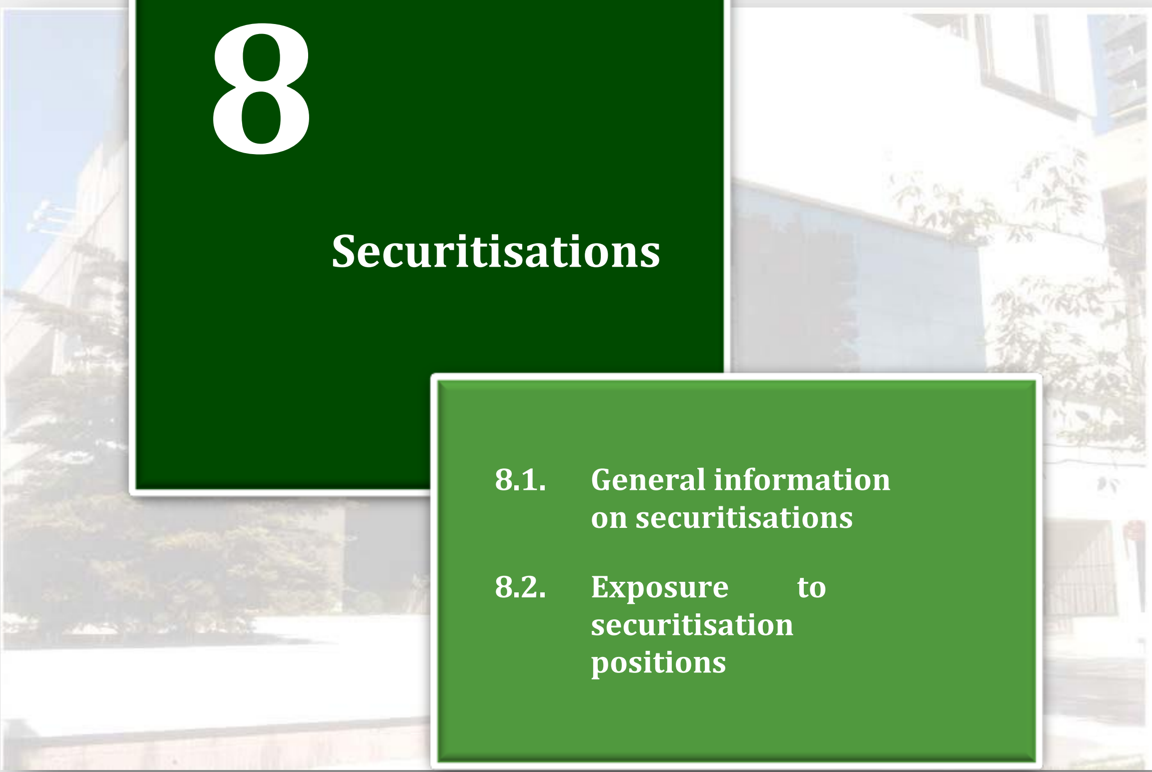
Unicaja Banco Group updates the entries or withdrawals of ratings that have taken place and the ratings are stored in an information repository generating an external ratings history of each client.

7.3. Effect of the application of risk mitigation techniques to risk exposures

Hereinafter a breakdown of the Group's credit risk exposures at December, 31 2018, to which the standard method has been applied for its estimation, before and after applying the risk mitigation techniques (net exposure) allowed by the Regulations, broken down by exposure category and by credit quality grades (measured according to the percentage applied for the calculation of the value of risk-weighted exposure).

Table 28: Effect of the application of risk mitigation techniques for credit risk exposures (million euro)

Credit risk categories		0%	2%	10%	20%	35%	50%	75%	100%	150%	Other	TOTAL
Central Governments or central banks	Exposure Net correction and provision	16,867	-	-	-	-	-	-	-	-	-	16,867
	Fully adjusted value of Exposure	19,513	-	-	-	-	-	-	-	-	-	19,513
Regional governments or local authorities	Exposure Net correction and provision	1,427	-	-	-	-	-	-	-	-	-	1,427
	Fully adjusted value of Exposure	1,440	-	-	-	-	-	-	-	-	-	1,440
Public sector entities	Exposure Net of correction and provision	271	-	-	-	-	1,065	-	-	-	-	1,336
	Fully adjusted value of Exposure	271	-	-	-	-	1,050	-	-	-	-	1,322
Entities	Exposure Net of correction and provision	3	1,058	-	1,623	-	574	-	34	-	-	3,293
	Fully adjusted value of Exposure	3	58	-	765	-	693	-	34	-	-	1,554
Corporates	Exposure Net of correction and provision	-	-	-	-	-	115		7,804	13	-	7,932
	Fully adjusted value of Exposure	-	-	-	-	-	115		5,234	13	-	5,362
Retail	Exposure Net of correction and provision	-	-	-	-	-	-	5,826	-	-	-	5,826
	Fully adjusted value of Exposure	-	-	-	-	-	-	5,665	-	-	-	5,665
Exposures secured by Real Estate	Exposure Net of correction and provision	-	-	-	-	14,901	501	-	-	-	-	15,402
	Fully adjusted value of Exposure	-	-	-	-	14,901	501	-	-	-	-	15,402
Exposures in default	Exposure Net of correction and provision	-	-	-	-	-	-	-	1,139	114	-	1,253
	Fully adjusted value of Exposure	-	-	-	-	-	-	-	1,137	113	-	1,250
Items assoc. with particularly high risks	Exposure Net of correction and provision	-	-	-	-	-	-	-	-	10	-	10
	Fully adjusted value of Exposure	-	-	-	-	-	-	-	-	10	-	10
Covered bonds	Exposure Net of correction and provision	-	-	100	87	-	-	-	-	-	-	187
	Fully adjusted value of Exposure	-	-	100	87	-	-	-	-	-	-	187
Collective investment undertakings	Exposure Net of correction and provision	-	-	-	-	-	-	-	22	-	-	22
	Fully adjusted value of Exposure	-	-	-	-	-	-	-	22	-	-	22
Equity exposures	Exposure Net of correction and provision	-	-	-	-	-	-	-	692	-	273	965
	Fully adjusted value of Exposure	-	-	-	-	-	-	-	692	-	273	965
Other exposures	Exposure Net of correction and provision	467	-	-	3	-	-	-	3,951	-	240	4,660
	Fully adjusted value of Exposure	467	-	-	3	-	-	-	3,949	-	240	4,658
Securitisation positions	Exposure Net of correction and provision	-	-	-	245	-	99	-	263	-	1	608
	Fully adjusted value of Exposure	-	-	-	245	-	99	-	-	-	1	345



8 Securitisations

8.1. General information on securitisations

8.2. Exposure to securitisation positions

8. SECURITISATIONS

8.1 General information on securitisations

At December, 31 2018 there is no transfer of financial assets of the group through securitisation instruments. There is also no commitment of implicit support to the securitisation programs carried out by the Entity.

The main function that the Group performs in the securitisation activity is as an investor through the acquisition of securitisation bonds issued by other entities. Also, among these investments are positions in which the entity itself is in turn originator of mortgage bonds.

Unicaja Banco Group does not have securitisation exposures against the trading book.

There are also no assets pending securitisation.

- Risks associated to securitisations.

Among the main risks associated with the securitisation activity, on the investment side, the following risks stand out: credit, liquidity, prepayment and base.

In relation to the risk in terms of the priority of the securitisation positions, the securitisation bonds consist of certain tranches based on their credit risk. In order of increasing credit quality, these are:

- First loss tranche
- Intermediate risk tranche
- Senior or preferred tranche

At December, 31 2018, 99.7% of the securitisation exposures of Unicaja Banco Group corresponds to senior tranches.

- Description of the processes applied to monitor the variations of credit and market risk of the securitisation exposures.

Unicaja Banco Group periodically monitors the securitisations of which it has an active position, using the market price, among others. At 31 December 2018, 96.4% of the securitisation exposure has a market value.

- Description of the policy that the Entity applies with respect to the use of personal guarantees to mitigate the risks.

Unicaja Banco Group does not use personal guarantees specifically for the purpose of mitigating the risks of retained securitisation exposures.

- Types of SSPE used by the Entity to securitise exposures to third parties.

Unicaja Banco Group has not participated in any securitisation as a sponsor.

- Description of the internal evaluation method.

Unicaja Banco Group does not use internal evaluation methods.

Note 2.19 of the consolidated annual accounts for Unicaja Banco Group describes the accounting policies related to the transfer of assets.

8.2 Exposure to securitisation positions

Hereinafter a detail of the type of positions held in these operations by the Consolidated Group at 31 December 2018, to which the treatment set forth in article 251 of the Regulations is applied for the purpose of calculating exposures to credit risk.

Table 29: Exposure to securitisation positions

Type of securitisation positions	Exposure amounts (thousand €)
Position retained in securitisations in which the groups acts **as the originator**	312,225
Positions acquired in securitisations in which the Group acts **as an investor**	295,695

Compared to last year there has been a reduction in exposure due to the redemption of securities. Details of the net positions after the replacement effect of reducing the credit risk by Unicaja Banco Group at December, 31 2018, broken down by the ranges of weighted risk to which they have been assigned, are as follows:

Table 30: Exposure in securitisation by credit quality level

Type of securitisation positions	Exposure amount (thousand €)
Credit quality level 1 (weighted at 20%)	244,926
Credit quality level 2 (weighted at 50%)	99,056
Credit quality level 3 (weighted at 100%)	-
Credit quality level 4 (weighted at 350%)	896
Positions deducted from own funds	-
Total securitisation positions	**344,878**

9 Credit risk mitigation techniques

9. CREDIT RISK MITIGATION TECHNIQUES

9.1 General information

9.1.1 Policies and processes used for credit risk mitigation

In order to reduce exposure to credit risk and in compliance with Part Three, Title II, Chapter 4 of Regulation (EU) 575/2013 (CRR), Unicaja Banco admits guarantees that support the executed financial operations. On their own, the guarantees do not justify the assumption of risk; however, it is necessary to evaluate them in light of possible contingencies.

With regard to guarantees, the following requirements are evaluated:

a) The selection of guarantees is based on their liquidity and effectiveness, according to the following order:

- Pledge of cash deposits, pledging of securities and other assets.
- Mortgages on homes, offices, warehouses and finished multi-purpose buildings and mortgages on rural properties (previous charges deducted, if applicable).
- Personal (guarantees, sureties, incorporation of guarantors, etc.), which imply the direct and joint responsibility of the parties involved in the transaction, being persons or entities whose financial solvency is sufficiently verified to ensure full reimbursement of the transaction.

b) The amount of the guarantees must fully cover the risk assumed for all concepts, including interest. In the case of real estate guarantees, the Entity adopts a prudent relationship between the amount of the loan or credit (and its potential extensions) and the value of the guarantee. The value of the guarantee will be the mortgage value according to ECO 805/2003 or, in case of subsequent valuation, a statistical update of it.

c) Commercial discounts involve, in general, the formalisation of the corresponding coverage/counterguarantee policy.

9.1.2 Applied techniques and accepted guarantees

The main risk reduction techniques applied, according to the second section of chapter 4 of Title II, Part Three of the CRR, are the following:

- Credit risk coverage with real guarantees (mainly mortgages) or similar instruments, for example, cash deposits or fixed income issued by the central administration.
- Credit risk coverage with personal guarantees. These guarantees are granted by solvent entities such as administrations and central banks, regional administrations, public sector entities.

Unicaja Banco has no credit derivatives at 31 December 2018.

In strict application of the third section of chapter 4 of the CRR, the above techniques will be admissible if the following requirements are met:

- Value and quality of the guarantee.
- Risk assessment and control.
- Documentation and legal certainty of the guarantee.
- Documentation and execution of the guarantee.
- Insurance contracts.

Unicaja Banco has an asset valuation policy for normal, special oversight and non-performing exposures, and uses, according to the type of property, automated value estimates or appraisals according to ECO 805/2003. In addition, this policy contemplates the valuation of assets for normal exposures when a significant fall in value is detected.

9.1.3 Types of guarantors and counterparty risk in credit derivatives

With regard to counterparty risk, Unicaja Banco Group operates with collateral agreements, which valued on a daily basis, for derivatives operations and collateral management.

These bilateral agreements are signed with the counterparts with which they operate bilaterally and involve a deposit of cash as collateral. This deposit covers the net position of the credit risk originated by the operation of derivatives. Transactions subject to a collateral agreement are measured daily, so that a collateral amount to be paid or received from the counterparty is obtained with this frequency. Unicaja Banco carries out daily monitoring of the subject transactions and the deposits made by the counterparts. The amount of the collateral is requested if it is to receive, or, otherwise, the demand received from the counterparty is met.

Thus, there is no material risk in the correlation between guarantee and guarantor in derivatives operations, because the collateral received is effective.

Additionally, given the possibility of a decrease in the credit rating of Unicaja Banco Group, the effect that it could have on real guarantees that the Group should contribute is limited, since the number of collateral agreements conditioned by the rating of the Entity is not significant.

9.2 Quantitative information

Hereinafter the distribution of the credit risk exposure of Unicaja Banco Group at 31 December 2018, broken down according to the application or not of credit risk reduction techniques and, where appropriate, the credit risk reduction technique applied. Exposure data refers to exposures prior to the application of risk reduction techniques[2].

Table 31: Exposures to credit risk by application or not of risk reduction techniques

Credit risk exposure	Amount (thousand €)
Exposure to which credit risk mitigation techniques are NOT applied	54,494,426
Exposure to which credit risk mitigation techniques ARE applied	5,294,434
- Agreements to offset Balance sheet transactions	320,658
- Acq. Of Op. with repo, loans of securities and commod.	-
- Real guarantees	2,094,894
- Other real guarantees	-
- Coverage based on personal guarantees	2,878,882

Personal guarantees

Hereinafter the total value of the exposures at December, 31 2018, which are covered through the application of risk reduction techniques based on the use of personal guarantees:

Table 32: Exposures to credit risk covered by personal guarantees

Risk category	Admissible personal guarantees (thousand €)
Public sector entities	13,332
Institutions	-
Corporates	2,509,332
Retail customers	92,372
Exposures in default	805
Securitisation exposures	263,041

Real guarantees

Hereinafter the value of the exposures at December, 31 2018, covered by the application of risk reduction techniques consisting of the use of real guarantees:

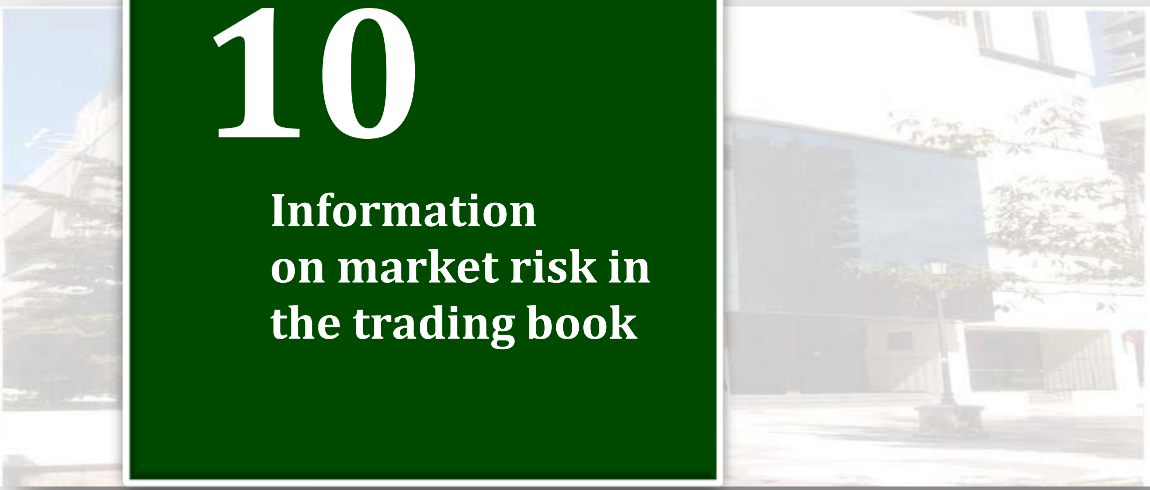
[2] Real guarantees include transactions guaranteed by means of debt securities, shares, collection rights and real rights over real estate acquired as a credit risk reduction technique.

Table 33: Exposures to credit risk covered by real guarantees

Risk category	Admissible personal guarantees (thousand €)
Regional governments or local authorities	206
Public sector entities	1,532
Institutions	1,957,954
Corporates	60,860
Retail customers	69,145
Exposures in default	2,849
Other	2,348

As discussed above, among the counterparty risk mitigation techniques, Unicaja Banco Group uses *netting agreements*[3].

3 In note 31.7 of the consolidated annual accounts report, more detail is presented about netting agreements and guarantees.



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Information on market risk in the trading book

10. INFORMATION ON THE MARKET RISK IN THE TRADING BOOK

For the purpose of calculating the own funds requirements associated with the trading book, it should be noted that Unicaja Banco Group considers as such those positions in financial instruments that are held with the intention of trading or that serve as hedges for the items in the portfolio.

For the purposes of calculating the capital requirements of Unicaja Banco Group, the trading book does not substantially differ from the one defined in accordance with the provisions of IFRS, with respect to debt securities and equity instruments.

The capital requirements for price risk associated with the trading book at December, 31 2018 amounted to €290 thousand.

At December, 31 2018, there is no exposure to large risks that exceed the specified limits.

11

Methodology applied for the calculation of capital requirements for operating risk

11. METHODOLOGY APPLIED FOR THE CALCULATION OF CAPITAL REQUIREMENTS FOR OPERATING RISK

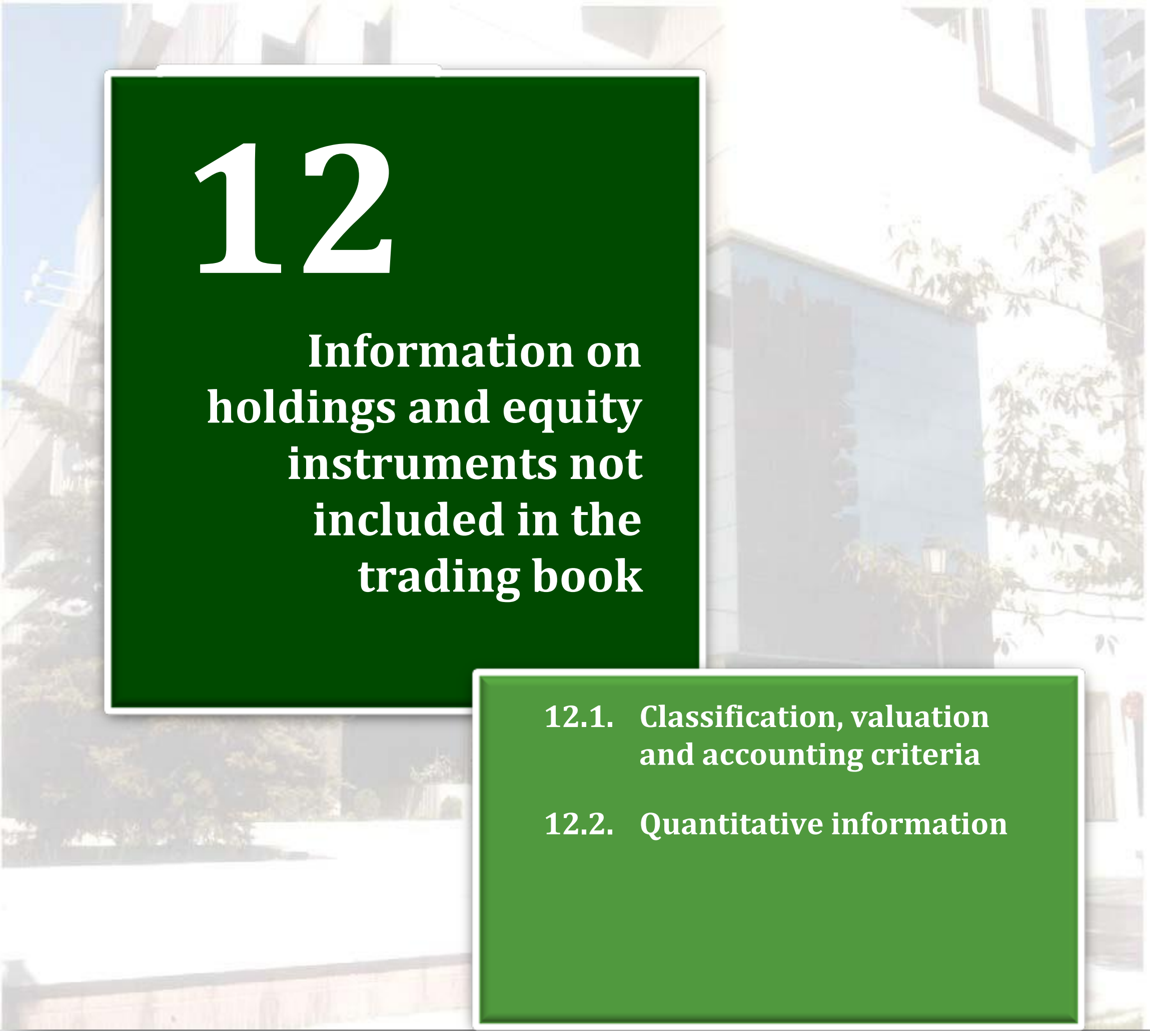
Unicaja Banco uses the standard method for the calculation of operating risk since December, 31 2017. In this regard, the CRR Articles 316-320 are met in a year of adaptation to regulatory needs. Thus, during 2017 the evolution of the internal management and control methodologies occurred in order to carry out the change of method, an action that entails a favourable impact on capital for operating risk.

The calculation of capital therefore changed from being determined on a 15% base of the Relevant Indicator, to a weighted distribution according to the business lines, established in article 317 of the CRR, where the weighting coefficient ranges between 12% -18%.

At December, 31 2018, the requirements for operating risk are €134,049 thousand.

In order to identify, manage and control operating risks, Unicaja Banco develops a dual-purpose model based on a group of quantitative and qualitative tools that supplement each other to attain an effective risk identification and measurement. Accordingly:

- Quantitative management evaluates the exposure to operating risk by measuring its consequences as they have materialised in the Entity's past operating losses. From this perspective, the Entity has an operating risk loss database tool that records and quantifies the level of losses associated with operating risk events.
- Qualitative management seeks to identify, evaluate and anticipate potential operating risks that each of the Entity's areas in order to control and mitigate the risks if they materialise. Qualitative management uses self-assessment exercises and key risk indicators (KRIs) that allow the development of risk factors to be measured.



12

Information on holdings and equity instruments not included in the trading book

12. INFORMATION ON HOLDINGS AND EQUITY INSTRUMENTS NOT INCLUDED IN THE TRADING BOOK

12.1. Classification, valuation and accounting criteria

Notes 1.12.2 and 2.2 of the consolidated annual accounts report for 2018 include a description of the portfolios in which the holdings and equity instruments owned by the Group are classified, together with the registration and valuation accounting criteria that apply to each of them. These notes also indicate the models and assumptions applied to determine the value of the instruments included in each portfolio.

Shares and capital instruments not included in the trading book are classified as:

- Financial assets at fair value through other comprehensive income
- Investments in joint ventures and Associates

Regardless of its accounting classification, Unicaja Banco Group has defined criteria for the classification of holdings and equity instruments not included in the trading book, in particular as regards the permanence or stability of investments.

12.2. Quantitative information

The carrying amount of the shares owned by the Group at December, 31 2018 is 906,379 thousand euro.

The consolidated balance sheet discloses the carrying amount of the equity instruments classified as financial assets through other comprehensive income and equity stakes.

Hereinafter detail is presented on the exposures to holdings and equity instruments held by the Group at 31 December 2018, without including exposures in instruments that form part of the trading book, as it has been defined for the purposes of own fund requirements.

Table 34: Exposure to interests in equity instruments not included in the trading book

Holdings	Exposure (thousand €)
Holdings Listed on organised markets	311,472
Equities not listed on organised markets	594,907
Total	**906,379**

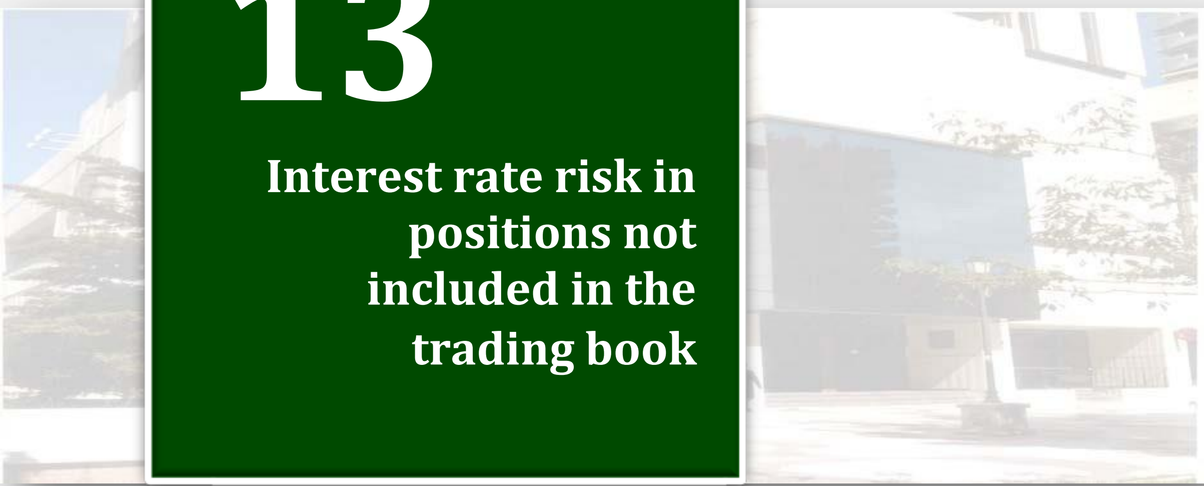
At December, 31 2018, there are no significant differences between the market value and the carrying amount of the listed portfolio.

Note 9.4 of the consolidated annual accounts for Unicaja Banco Group provides details the result of the change in the fair value of financial assets to fair value through other comprehensive income in 2018.

Note 9.1 of the Group's consolidated annual accounts provides details of the most significant disposals affecting the portfolio in 2018, indicating the amount of the results obtained.

Note 12.1 of the consolidated annual accounts for Unicaja Banco Group provides details the result of the change in fair value due to investments in joint ventures and associates recognised using the equity method.

The unrealised capital losses, net of taxes, of investments in equity instruments classified as available for sale recorded in the equity of Unicaja Banco Group amounted to €3,062 thousand.



13 Interest rate risk in positions not included in the trading book

13. INTEREST RATE RISK IN POSITIONS NOT INCLUDED IN THE TRADING BOOK

The interest rate risk in the banking book (IRRBB) refers to the current or future risk of the entity's equity and margin, as a result of the impact of adverse fluctuations in interest rates.

The management of interest rate risk is carried out in an integrated way by the Assets and Liabilities Committee (ALCO). This committee is in charge of putting into practice the procedures that ensure that Unicaja Banco Group complies with the interest rate risk control and management policies that are set by the Board of Directors.

An excessive IRRBB can threaten the bank's current capital base and/or future earnings if it is not managed properly. Changes in interest rates may affect the underlying economic value of the bank's assets, liabilities and off-balance sheet instruments, since the present value of future cash flows (and in many cases, the actual amount of cash flows) varies as these movements occur. Likewise, changes in interest rates also affect the bank's profits, by increasing or decreasing its net interest income (NII) and the level of other income and operating expenses sensitive to interest rates.

Unicaja Banco considers all the sources, or subcomponents, that originate the IRRBB, which are:

- **Interest rate reset risk or curve risk**: arises from the structure of instruments in the investment portfolio and describes the risk resulting from the term profile of changes in the interest rates applicable to the instruments. The magnitude of the risk depends on whether the changes in the term structure of interest rates arises systematically throughout the yield curve (parallel risk) or are different based on the term (non-parallel risk).
- **Base risk:** risk derived from exposure to an interest rate, which is instrumented through exposure to another interest rate with different conditions.
- **Optionality risk**: risk derived from the options on interest rates, including those implicit in other products, and that depend on the behaviour of the entity's clients. These options are automatic, prepaid portfolio and cancellation of deposits.

Unicaja Banco analyses the materiality of the different sub-components of the IRRBB and assigns capital to them according to the IRRBB Capital Adequacy Manual. The monitoring of the different subcomponents is carried out according to their materiality.

The Entity has established management and control indicators to know the evolution of the IRRBB, as well as criteria for measuring and monitoring limits and alerts on a recurring basis, so that the assumed risk is continuously monitored, both of the excesses that may occur on the limits, as well as the corrective measures that could be established.

In this regard, the measurement and analysis by Unicaja Banco Group of this risk are carried out considering the following aspects and in accordance with the following premises:

- The measurement and risk analyses are carried out continuously.
- The effects on the results of Unicaja Banco Group and on the different margins of the profit and loss account could have variations in the interest rates in the different currencies in which significant exposures are maintained.
- The analysis includes all positions that are sensitive to interest rate risk, including derivatives on interest rates, both implicit and explicit, and excluding positions that are part of the trading book, as described previously.

- In order to analyse the maturity dates of the transactions, although the contractual maturity term of the transactions is generally considered, there are operations in which another type of hypothesis is considered in terms of their maturity, either because their maturity dates are not defined or because they show a behaviour of stability or early repayments before maturity that differs significantly from their contractual conditions.

The effects of the movements in parallel and non-parallel interest rates are analysed based on the scenarios defined by current IRRBB regulation.

Based on the above analysis, Unicaja Banco Group adopts the necessary measures to guarantee an optimal management of this risk.

Note 28 of the consolidated annual accounts for Unicaja Banco Group for 2018 includes information about its level of exposure in equity and profit and loss account, for the purposes of future reasonable changes in the level of the prevailing interest rates, considering the effects of hedging activities, performing an analysis of the result of an increase and reduction of 100 basis points in interest rates, as well as certain information on sensitivity to interest rates, and the criteria that has served as the basis for preparing such information, with all the relevant hypotheses that have been used.


14
Leverage Ratio

14. LEVERAGE RATIO

Hereinafter the information required in the template on qualitative aspects "LRQua", set out in Annex I of the Implementing Regulation (EU) nº., 200/2016, which establishes technical standards in regard to the disclosure of the leverage ratio, in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council.

Table 35: LRQua: Free format text boxes for disclosure on qualitative items

Row		
1	Description of the processes used to manage the risk of excessive leverage	According to Regulation (EU) No. 575/2013, Part Seven, Article 429 (in October 2014 the European Commission modified the CRR to adopt a new calculation method), the leverage ratio is calculated as Tier 1 capital of the entity divided by the total exposure of the entity and expressed as a percentage. This ratio relates the assets of the Group (without weighting or collateralising derivatives or assets deducted from equity for solvency purposes) plus off-balance sheet risks (weighted) with its level 1 capital at the reference date. The control of excessive leverage risk is carried out, in Unicaja Banco Group, by monitoring the leverage ratio at the highest level. Unicaja Banco Group has the leverage ratio incorporated into risk management. This ratio is part of the set of integrated indicators in its Risk Appetite Framework, setting targets and limits, whose evolution is monitored by Senior Management and the Governing Bodies. This guarantees that the ratio comfortably exceeds the minimum regulatory levels.
2	Description of the factors that have had an impact on the leverage ratio during the period to which the disclosure leverage ratio refers	At 31 December 2018, the leverage ratio of Unicaja Banco Group stood at 6.26%, which is an increase of 3 b.p. over the previous year and it remained stable during the period. Contributing to this development are the €6,583 thousand increase during the year in Tier 1 capital and the €208,064 thousand decline in leverage exposure as a result of movements in balance sheet items in accordance with the Group's activities, which may be consulted in the notes to the consolidated annual accounts and presentations of quarterly results available on the Group's website.

Table 36: LRCom Table. Leverage ratio common disclosure

Thousand €		Exposures corresponding to the CRR leverage ratio
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFT and fiduciary assets, but including Real guarantees)	53,856,790
2	Asset amounts deducted when determining Tier 1 capital	-263,960
3	Total on-balance sheet exposures (excluding derivatives, SFT and fiduciary assets) (Sum of lines 1 and 2)	53,592,830
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions	12,967
5	Add-on amounts for PFE (Potential Future Exposure) associated with all derivatives transactions (mark-to-market method)	152,817
EU-5ª	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (Sum of lines 4, 5, EU-5a, 6, 7, 8, 9 and 10)	165,784
	Securities financing transactions exposures	
12	Gross SFT assets (with no recognition of clearing), after adjusting for sales accounting transactions	2.2311.424
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	15,217
EU-14ª	Exception for SFTs: counterparty credit risk exposure in accordance with Articles 429b (4) and 222 of Regulation (EU) No 575/2013	0
15	Agent transaction exposures	0
EU-15ª	(Exempted CCP component of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (Sum of lines 12, 13, 14, EU-14a, 15 and EU-15a)	2,326,641
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	3,508,699
18	(Adjustments for conversion to credit equivalent amounts)	-2,435,798
19	Other off-balance sheet exposures (sum of lines 17 and 18)	1,072,901
	Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off-balance sheet)	
EU-19ª	Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off-balance sheet)	0
EU-19b	Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet)	0
	Capital and total exposure measure	
20	Tier 1 capital	3,580,498
21	Total leverage ratio exposure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	57,158,157
	Leverage ratio	
22	Leverage ratio	6.26%
	Choice of transitional provisions and amount of fiduciary items written off	
EU-23	Choice of transitional arrangements for the definition of the capital measure	Transitory
EU-24	Amount of derecognized fiduciary items in accordance with Article 429 (11) of Regulation (EU) No 575/2013	0

Hereinafter the balance sheet exposures for the calculation of the leverage ratio, excluding Securities Financing Transactions.

Table 37: Table LRSpl. Split-up of on-balance sheet exposures (excluding derivatives, SFT and excluded exposures)

Thousand €		Value of exposure for the leverage ratio: exposures using the standard method (010)
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	53,856,790
EU-2	Trading book exposures	12,439
EU-3	Banking book exposures, of which:	53,844,351
EU-4	Covered bonds	187,131
EU-5	Exposures treated as sovereigns	18,494,316
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	627,403
EU-7	Institutions	832,157
EU-8	Secured by mortgages of properties	15,375,635
EU-9	Retail exposures	4,706,402
EU-10	Corporates	6,246,417
EU-11	Exposures in default	1,142,832
EU-12	Other exposures (e.g. equity, securitisation and other non-credit obligation assets)	6,232,058

Hereinafter the conciliation of the total exposure measure corresponding to the Leverage Ratio with the information of financial statements at December, 31 2018.

Table 38: Table LRSum. Summary of the conciliation of accounting assets and exposures corresponding to the leverage ratio

	Thousand €	Value of exposure for the leverage ratio: exposures using the standard method
1	Total assets as per published financial statements	57,504,179
2	Adjustment for entities which are consolidated for accounting purposes but outside the scope of regulatory consolidation	562,896
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	-
4	Adjustments for derivative financial instruments	-256,904
5	Adjustment for securities financing transactions (SFTs)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,072,901
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	-
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	-
7	Other adjustments	-552,644
8	Total leverage ratio total exposure	57,158,157

15 Encumbered assets

15. ENCUMBERED ASSETS

According to Implementing Regulation (EU) No. 2015/79 of the Commission, of December 18, 2014, an asset shall be considered as encumbered if it has been pledged or if it is subject to any type of agreement, to which it cannot be freely withdrawn, by virtue of which it is intended to serve as a guarantee, personal or real, in any operation, or to improve the credit quality of it.

An asset is encumbered to guarantee or collateralise obligations contracted with creditors. There are transactions that are not encumbered assets, even though they are pledged.

These are assets that have been pledged due to having been provided as collateral for financing transactions, but which bear no encumbrances since they have not been fully drawn down. Unicaja Banco Group values all types of encumbered asset, including contingent ones, as they are of capital importance, since they represent a significant risk for the Group's liquidity and solvency profile, especially with respect to those with a significant level of encumbrance.

The information reported in the following tables has been determined as the mean of values reported in 2018 in accordance with EBA instructions regarding disclosures of encumbered and unencumbered assets:

Table 39: Encumbered and unencumbered assets (thousand euros)

Guarantees received	Carrying amount of encumbered assets	Of which: admissible by central banks	Fair value of encumbered assets	Of which: admissible by central banks	Carrying amount of unencumbered assets	Of which: admissible by central banks	Fair value of unencumbered assets	Of which: admissible by central banks
Loans on demand	-	-	-	-	2,692,495	2,692,495	-	-
Equity instruments	-	-	-	-	568,402	-	478,167	-
Debt securities	6,923,990	6,923,990	6,942,612	6,942,612	11,082,005	10,920,235	11,156,506	11,026,814
Of which: issued by public entities	4,654,912	4,654,912	4,671,802	4,617,802	9,564,156	9,564,156	9,601,101	9,601,101
Of which: issued by financial companies	2,243,968	2,243,968	2,267,247	2,267,247	967,156	878,878	1,041,802	890,548
Of which: issued by non-financial companies	6,976	6,976	7,039	7,039	92,689	-	47,860	-
Loans and advances other than demand loans	6,176,159	-	-	-	23,469,070	1,968,370	-	-
Other assets	208,524	-	-	-	5,823,545	-	-	-
Total	**13,308,673**	**6,923,990**	**6,942,612**	**6,942,612**	**43,635,516**	**15,581,100**	**11,634,673**	**11,026,814**

In 2018, the average encumbered assets under the calculation criteria of the EBA ratio, represent 23.61% of the sum of assets and collateral received at the end of the year, which demonstrates the moderate use of assets by the group as collateral in the financing of the balance.

Of the total assets with encumbrances due to loans and prepayments, other than on-demand at December, 31 2018, 1.25% consists of retained assets. Notes 17.3 and 46 of the consolidated annual accounts include information regarding the mortgage bonds issued by the Group and information on the mortgage market, respectively.

Unicaja Banco Group's funding strategy is rooted in its business model, which calls for a preferentially retail bank orientation primarily serving individuals and SMEs, with a stable customer portfolio and conservative management of wholesale financing.

There has been a decline in encumbered assets throughout 2018 due to a decline in the assignment of assets and the maturity of issued mortgage bonds.

At December, 31 2018 there are no differences between the regulatory scope of consolidation used in this report and the scope of consolidation established for the application of the requirements used to define the admissibility of the HQLA. The structure of intra-group encumbrances is not a significant portion of total encumbrances. There is no significant impact by currencies other than the benchmark currency.

With regard to the item "Other assets" of unencumbered assets, the following items are included that the Group does not consider capable of being committed in the normal course of its activity: cash, investments in subsidiaries, joint ventures and associates, real estate investments, property, plant and equipment, other intangible assets -including goodwill-, deferred tax assets and other assets. These balance sheet items represent 13.4% of the total assets.

Table 40. Real guarantees received by type of asset Thousand euro

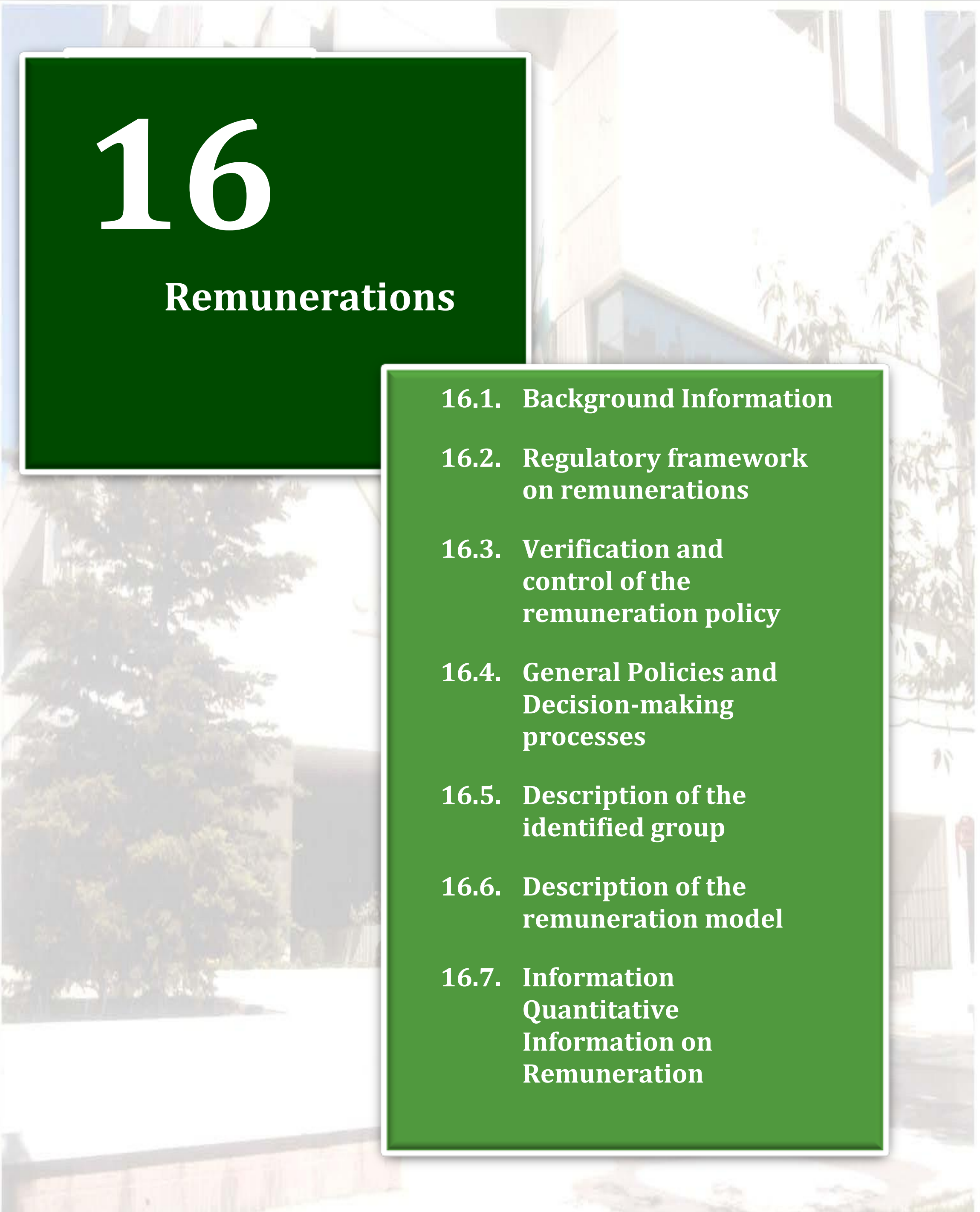
Guarantees received	Fair value of guarantees received from securities or own titles representative of debts issued (encumbered)	Of which: admissible by central banks	Fair value of guarantees received from securities or own titles representative of debts issued (available for encumbrance)	Of which: admissible by central banks
On-demand loans	-	-	-	-
Equity instruments	-	-	-	-
Debt securities	696,014	696,014	1,308,478	1,231,965
Of which: issued by public entities	696,014	696,014	1,199,279	1,199,279
Of which: issued by financial companies	-	-	287,525	-
Of which: issued by non-financial companies	-	-	-	-
Loans and advances other than demand loans	-	-	-	-
Other collateral received	-	-	363,710	-
Own debt securities issued, other than covered bonds or securitisation bonds of own assets	-	-	-	-
Total	**696,014**	**696,014**	**1,672,188**	**1,231,965**

Table 41. Liabilities associated with assets and real guarantees received with encumbrances

Data (Thousand €)	Associated liabilities, contingent liabilities or securities with encumbrances	Assets, guarantees received and own debt securities issued, other than secured bonds and securitisation bonds covering assets with encumbrances
Carrying amount selected financial liabilities	12,816,421	13,960,989

Encumbered assets act as collateral for certain obligations. Encumbrances amount to 12,816,421 thousand euros and include mortgage bonds, arranged in ECB facilities, guarantees and financing through the temporary assignment of assets.

At December, 31 2018 the degree of excess collateral measured as the mortgage portfolio as part of active mortgage bonds was 357%.



16
Remunerations

16. REMUNERATIONS

16.1 Background Information

The Ordinary General Shareholders Meeting held on April, 27 2018 approved the "Director Remuneration Policy for Directors of Unicaja Banco, SA" for the 2018-2020 period, in accordance with the provisions of banking, supervision and solvency regulations and in the Revised Text of the Spanish Companies Act (Ley de Sociedades de Capital). On the other hand, the Board of Directors of Unicaja Banco approved in December 2016 the "Remuneration Policy Associated with Risk Management".

The remuneration policy of Unicaja Banco, S.A. aims to generate and increase sustainable long-term value, harmonising the interests of the various stakeholders involved, through prudent and responsible risk management.

In this sense, the general remuneration policy of Unicaja Banco Group is aimed at establishing a global remuneration, including salaries and discretionary pension benefits, aligning its principles with the requirements for credit institutions in remuneration matters. This policy is compatible with an adequate and effective risk management, promotes this type of management and does not offer incentives to assume risks that exceed the level tolerated by the Entity. It is also compatible with the business strategy, objectives, values and long-term interests of the Group and includes measures to avoid conflicts of interest. To this end, transparency is crucial for the achievement of all these objectives.

The remuneration system will be governed, accordingly, by the following principles, as foreseen in the "Remuneration Policy Associated with Risk Management":

- Promote and be compatible with an adequate and effective risk management, not offering incentives to assume risks that exceed the level tolerated by the Entity, taking as a reference the Risk Appetite Framework approved by the Board of Directors.

- Be compatible with the company's business strategy, objectives, values and long-term interests, avoiding conflicts of interest. As for the business strategy, the "Business Plan" approved by the Board of Directors will be assessed, when appropriate.

- Staff performing control functions within the Entity will be independent of the business units that they supervise, will have the necessary authority to perform their duties and will be remunerated, depending on the achievement of the objectives related to their functions, regardless of the results of the business areas that it controls.

- The remuneration of senior managers responsible for risk management and compliance functions will be directly supervised by the Remuneration Committee.

- The criteria for the establishment of the different components of the global remuneration will be clearly distinguished, according to the following parameters:

  - Fixed remuneration reflects, mainly, the relevant professional experience and the responsibility in the Entity as stipulated in the job description.

  - On the other hand, variable remuneration, when it is expected to be accrued and collected, must reflect a sustainable performance adapted to the risk, as well as a performance higher than that required to comply with the provisions of the job description.

Hereinafter the information that meets the requirements of the regulations and the recommendations on transparency regarding the remuneration policy.

Considering that the scope of application of this report covers Unicaja Banco Group companies eligible for consolidation, the information regarding the Group and its parent Unicaja Banco, S.A. is set out below.

16.2 Regulatory framework on remunerations

Since the beginning of the international financial crisis, numerous regulatory initiatives have been adopted with regard to remuneration, some as recommendation and others mandatory, at national, European and international levels. The following table includes, but does not exhaustively list, some of the most notable initiatives:

Table 42. Regulatory framework on remuneration

Regulatory Initiatives	Source	Date
Principles for sound remuneration practices	FSB	April 2009
High-level principles for remuneration policies	CEBS	April 2009
Recommendation on remuneration in the financial sector	EU	April 2009
Incorporation of remuneration issues in Directives 2009/111/CE and 2010/76/EU	EU - (CRD III)	May 2009
Principles for remuneration policies	EU	June 2010
Green Book on Corporate Governance	EU	June 2010
Law 2/2011, on Sustainable Economy	Courts	March 2011
Law 6/2011, amending diverse financial regulations	Courts	April 2011
Royal Decree 771/2011, amending Royal Decree 216/2008 on own funds of financial entities	Government	June 2011
Circular 4/2011, of Bank of Spain, amending Circular 3/2008 on own funds	Bank of Spain	November 2011
Royal Decree-Law 2/2012, on the consolidation of the banking system	Government	February 2012
Order ECC/1762/2012, for entities benefiting from public aid	Ministry of Economy	August 2012

Regulation 575/2013 of the European Parliament and of the Council	EU	June 2013
Directive 2013/36/EU	EU	June 2013
Circular 4/2013, which establishes the annual remuneration report models for directors of listed companies and members of the Board of Directors	CNMV	June 2013
Royal Decree Law 14/2013, on urgent measures for the adaptation of Spanish law to EU regulations on supervision and solvency of financial entities	Government	November 2013
Law 10/2014, on regulation, supervision and solvency of credit institutions	Courts	June 2014
Law 31/2014 amending the Spanish Corporation Law for the improving of the Corporate Governance	Courts	December 2014
Royal Decree 84/2015 which enables Law 10/2014	Government	February 2015
Circular 7/2015, of the CNMV, of December 22, that modifies Circulars 4/2013 and 5/2013	CNMV	December 2015
Circular 2/2016, of the Bank of Spain, to credit institutions, on supervision and solvency, that completes the adaptation of the Spanish legal system to Directive 2013/36 / EU and to Regulation 575/2013 of the EU	Bank of Spain	February 2016
Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013	EBA	June 2016
Guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services	EBA	December 2016
Internal Governance Guidelines (GL 2017/2011)	EBA	March 2018

Hereinafter, basic regulations with regard to Spain in the elaboration of this report:

- Regulation No. 575/2013 of the European Parliament and of the Council of June 26, 2013 on the prudential requirements of credit institutions and investment companies, amending Regulation (EU) No 648/2012.
- Transposition of the CRD IV through Law 10/2014, of June 26, on regulation, supervision and solvency of credit institutions
- Royal Decree 84/2015, of February 13, which enables Law 10/2014, on regulation, supervision and solvency of credit institutions, of June 26.
- Circular 2/2016, of February 2, of the Bank of Spain, on supervision and solvency of credit institutions, which completes the adaptation of the Spanish legal system to

Directive 2013/36 / EU and Regulation (EU) No. 575/2013.

In this sense, art. 85 of Law 10/2014, art. 93 of Royal Decree 84/2015 and Rule 59 of Circular 2/2016, all of them related to Part Eight of Regulation (EU) No. 575/2013, provide that the Credit Institutions shall disclose, as soon as possible, at least annually and duly integrated in a single document called Pillar 3 Information Disclosure, specific information on its financial situation and activity in which the market and other stakeholders may have interest in order to assess the risks faced by these groups and entities, their market strategy, their risk control, their internal organisation and their situation in order to comply with the minimum requirements of own funds provided for in the solvency regulations. Information on the remuneration policy and practices, including salaries and discretionary pension benefits, will be reported with regard to Senior Management, employees who assume risks and those who exercise control functions, as well as employees that receive a global remuneration that includes it in the same remuneration scale as that of management, senior executives and employees who assume risks and whose professional activities have an important impact on the risk profile of the entity ("Identified Group").

This report complies with the information requirements on the remuneration, especially those established in art. 450 of Regulation (EU) No. 575/2013.

When the Spanish regulations described above are not specific enough, the guidelines developed by the European Banking Authority ("EBA") have been taken as reference for the establishment of the remuneration systems and policies of Unicaja Banco Group.

16.3 Verification and control of the remuneration policy

The remuneration policy of Unicaja Banco complies with the requirements for Credit Institutions. With respect to the parent company Unicaja Banco, the aforementioned reference documents are the "Directors Remuneration Policy for Unicaja Banco, SA" for the period 2018-2020 and the "Risk Management Remuneration Policy ".

Likewise, the Entity has a General Incentive Scheme for Unicaja Banco, applicable to all the members of the Identified Group at the parent.

The latter applies to the so-called "identified Group", which is composed of directors, senior managers, employees who assume risks, those who exercise control functions, and all employees who receive a global remuneration that includes it in the same remuneration scale as that of senior executives and employees who assume risks, whose professional activities have an important impact on Unicaja's Banco risk profile, at the group, parent company and subsidiary levels.

The Remuneration Committee must ensure that both the Remuneration Policy and its application is evaluated at least once a year, in order to verify whether the remuneration guidelines and procedures adopted by the supervisory body are complied with.

In this sense, it has been verified that the Entity's remuneration practices do not encourage the assumption of risks above the tolerated level and are aligned with the guidelines that govern its activity. In short, as stated in the Policy, its practical application is adapted, in compliance with the principle of proportionality that inspires the regulations in this matter, to the low risk profile held by Unicaja Banco, as well as the small amount of its potential and effective variable compensation throughout 2018.

The remuneration schemes at the Entity are aligned with the “Risk Appetite Framework” for Unicaja Banco Group, which is approved by the Board of Directors.

16.4 General Policies and Decision-Making Processes

As indicated in previous sections of this chapter, the general remuneration policy of Unicaja Banco Group is consistent with adequate and effective risk management, promotes this type of management and does not offer incentives to assume risks that exceed the level of risk tolerated by the Group. In addition, the policy is consistent with the business strategy, objectives, values and long-term interests of Unicaja Banco Group and includes measures to avoid conflicts of interest.

Hereinafter the organisational structure of Unicaja Banco related to the " Risk Management Remuneration Policy", as well as the decision-making process, regardless of the competences attributed to the General Shareholders' Meeting, both legal and statutorily.

Board of Directors

The Board of Directors of Unicaja Banco is the governance body responsible for establishing the general principles of the Policy, periodically reviewing them. It is also responsible for supervising and guaranteeing the correct application of these principles in Unicaja Banco. Consequently, the Board of Directors approves the Policy and its subsequent amendments, with the support of the Remuneration and Risk Committees, when appropriate.

The Bylaws states that the Board of Directors will submit proposals for appointments to the position of Director for the consideration of the General Meeting. Appointed directors will hold the position for four years and may be re-elected indefinitely for equal terms.

Remuneration Committee

The Board of Directors has set up a Remuneration Committee, which is entrusted with the function of proposing and reporting on remuneration matters; in particular, with respect to the "identified group" that, in any case, will include the members of the Board of Directors, the general managers and those responsible for control functions. In making their decisions, the Remuneration Committee shall take into account the long-term interests of the shareholders, investors and other stakeholders of the Entity, as well as the public interest. The Remuneration Committee will be composed of a minimum of three Directors and a maximum of five, who do not perform executive functions in the Entity. The majority of them and, in any case, the Chair, must be independent directors. The members of the Remuneration Committee will be appointed by the Board of Directors taking into account the knowledge, experience and skills necessary for the functions to be performed. At least one of the members of the Committee must have knowledge and experience in the matter of remuneration policies.

Without adversely affecting other functions attributed to it by law (essentially, article 529 of Legislative Royal Decree 1/2010 approving the Spanish Companies Act, and article 39 of Royal Decree 84/2015), the Bylaws, or the Regulation, the Remuneration Committee has the following functions:

- Ensure the enforcement of the remuneration policy established by Unicaja Banco.
- Prepare decisions regarding remuneration, including those that have implications for the risk and risk management of the Entity, which the Board of Directors must adopt.
- Propose to the Board of Directors the remuneration policy for the Directors and Senior Managers, as well as the individual remuneration and the other contractual conditions of the executive Managers and the Senior Managers, ensuring their enforcement.
- Prepare a specific report, together with the proposal of the Remuneration Policy of the Board of Directors.

Throughout 2018, the Remuneration Committee of Unicaja Banco has held a total of 6 meetings.

At December, 31 2018, the members of the Remuneration Committee were the following:

- Mr. Manuel Conthe Gutiérrez (Chairman)
- Mr. Agustín Molina Morales (Secretary)
- Mrs. Ana Bolado Valle (Member)
- Mrs. Petra Mateos-Aparicio Morales (Member)

Mr. Eloy Domínguez-Adame Cobos resigned from his position as director and, consequently, as a member of the Remuneration Committee in accordance with the published relevant event dated December, 21 2018.

Risk Committee

Regarding the Risk Committee and with exclusive reference to this section, its functions include collaborating in the establishment of rational remuneration policies and practices.

Notwithstanding the functions of the Remuneration Committee, the Risk Committee will examine whether the incentive policy takes into consideration risk, capital, liquidity, and the probability and opportunity that profits will be obtained.

Throughout 2018, the Risk Committee of Unicaja Banco has held a total of 12 meetings.

At December, 31 2018, the members of the Risk Committee were the following:

- Mrs. Isabel Martín Castellá (Chairwoman)
- Mrs. María Teresa Sáez Ponte (Secretary)
- Mrs. Ana Bolado Valle (Member)
- Mr. Juan Fraile Cantón (Member)
- Mrs. María Antonia Otero Quintas (Member)

Other bodies and units

In the organisational structure of Unicaja Banco, the different functions related to the remuneration policy fall to the following Directorates, notwithstanding that other Directorates, Departments or corporate functions intervene in the process of elaboration, application or revision of the policy: Directorate of the Secretariat of Governing and Management Bodies, strategy, Appointments, Remuneration and Training Policy Department – Admin. HR, Internal Audit Directorate, Corporate Directorate of Global Risk Control and Regulatory Compliance Directorate.

The general mission established for each of these Directorates is:

- Directorate of the Secretariat of Governing and Management Bodies: Organise, call and assist with all activities carried out by the Governing Bodies and Management, communicating the resolutions it adopts and performing monitoring tasks. Management of the organisation of the documentation that is necessary for the meetings held by the Governing Bodies and Management; prepare the minutes for the meetings; issue communications and send documentation to the bodies and institutions that are appropriate with respect to the activities carried out by the Governing Bodies and Management, in addition to coordinating the completion of the reports and memoranda that must be approved or taken into consideration.

- Directorate of Strategy and Appointments, Remuneration and Training – HR Administration Policy: Propose and execute the Human Resources policy, developing systems and procedures adapted to the needs of Unicaja Banco, in addition to the participation and assessment in the preparation and evaluation of the Remuneration Policy of the Entity, including the remuneration structure, levels of remuneration and incentive programs, so that not only the staff needed by the Entity is attracted and retained, but also the adequacy of the Policy to the risk profile of the Entity.

- Internal Audit Directorate: Carry out an independent and objective review of the quality and effectiveness of the Entity's internal control system and the risk management framework, in addition to performing, at least once a year, an internal, central and independent, evaluation of Unicaja Banco's Remuneration Policy in order to verify if the remuneration guidelines and procedures adopted by the Board of Directors are being enforced.

- Corporate Directorate of Global Risk Control: Assume responsibility for the control of all the risks incurred by the Entity, taking as a reference the RAF in force at any given moment; contribute to defining the measurement of results that are in line with the risk, as well as evaluating how the variable remuneration structure affects the risk profile and the culture at the Entity; validate and evaluate the risk adjustment data and cooperate as necessary with the Remuneration and Risk Committees.
- Regulatory Compliance Directorate: Ensure compliance with applicable external and internal regulations, as well as analyse how the Remuneration Policy affects the Entity's compliance with the legislation, internal policies and risk culture, and communicate all compliance risks and non-compliance problems detected, for their analysis by the Board of Directors in its supervisory role.

16.5 Description of the identified group

For the purposes of the "Remuneration Policy Associated with Risk Management, as shown previously, the Group consists of senior managers, employees who assume risks, those who exercise control functions, and all employees who receive a global remuneration that includes it. In the same remuneration scale as that of senior executives and employees who assume risks, whose activities have an important impact on Unicaja's risk profile, at the group, parent company and subsidiary levels.

The Entity's Remuneration Committee will always maintain the composition of the Identified Group up to date, which will be available to the European Central Bank, the Bank of Spain and the internal external auditors at the main offices of the Strategy, Appointments, Remuneration and Training Policy Department - Admin. HR

As of December, 31 2018 the Group consisted of 91 employees, which is 1.33% of the total employees at Unicaja Banco Group. Specifically, this group was composed of:

- 2 Unicaja Banco Executive Directors.
- 10 Unicaja Banco non-Executive Directors.
- 4 Independent Directors of Banco Europeo de Finanzas
- 16 Senior Management members of Unicaja Banco.
- 14 Senior Management members of Group companies.
- Unicaja Executives in the areas of: Risk Acceptance, Analysis of Businesses and Institutions, Analysis of Individuals, Syndicated and Corporate Financing, Credit Risk Control and Monitoring, Credit Risk Models, Treasury and Capital Markets, Asset Management, Market Analysis and Strategy, Balance Sheet Management, Real Estate, Non-Core/Investee Business, Corporate Banking, Specialised Banking, Business Banking, Financial Information and Tax, Legal, Technical Counsel, Efficiency and Analysis, Appointments, Remuneration and Training Policy – Admin. HR., Transformation, Planning and

Strategy, Marketing, Operations, Customer Service and Organisation.

- Executives at Banco Europeo de Finanzas in the areas of: Internal Audit and Administration and Accounting
- The Territorial Managers at Unicaja Banco in: Malaga, Castilla La Mancha-Madrid, Eastern Andalusia and Western Andalusia, Leon and Salamanca.
- The Deputy Director for Regulatory Compliance at Unicaja Banco
- The Directors of Unicaja Banco Capital Areas, Key Processes and 'Stress Test' and Validation of Models and Data Quality.
- Unicaja Managers for the Office, Treasury back and Contracting Desk and Middle Office units.
- IT Manager at Banco Europeo de Finanzas.
- Chair's Office Advisor at Unicaja Banco

16.6 Description of the remuneration model

The remuneration system applicable to the entities that make up Unicaja Banco Group, associated with risk management, is applied to the "identified group".

This system is in line with the provisions of the "Risk Management Remuneration Policy", taking into account that its practical application is adapted to the proportionality principle that inspires the regulations in this matter, the low risk profile held by Unicaja Banco, as well as the reduced amount of its variable compensation.

The most relevant aspects of the remuneration structure of the Group are identified below.

Global remuneration

The remuneration policy and practices govern the overall remuneration applicable to the identified group, including salaries and discretionary pension benefits that can be assimilated to variable remuneration.

As general principles of the global remuneration policy, as indicated in previous sections of this chapter, it is established that the remuneration will promote, and be compatible with, an adequate and effective risk management, without incentives to assume risks that exceed the Entity's risk tolerance, taking the RAF approved by the Board of Directors as a reference, as well as the business strategy and the long-term objectives, values and interests of Unicaja Banco Group, avoiding conflicts of interest.

As a reinforcement of the application of the remuneration policy, the "identified group" is required to commit not to use personal coverage or insurance strategies, related to remuneration and responsibilities that undermine the effects of alignment with risk included in their remuneration systems.

In this respect, it has been verified that the Entity's remuneration practices do not encourage the assumption of risks above the tolerated level and are aligned with the guidelines that govern its activity.

Variable remuneration

When the remuneration includes variable components, a balanced and efficient balance between these and the fixed components must be maintained, so that the fixed component constitutes a sufficiently high part of the total remuneration.

In particular, the variable component will not exceed 100% of the total fixed remuneration component for any individual.

Accordingly, the variable components meet the following requirements, applying in any case the proportionality principle:

- The total variable remuneration will not limit the capacity of the Entity to strengthen its capital base.
- Variable remuneration will be reduced at the time of the evaluation of the performance, in case of appreciating a negative behaviour of the Entity's results or its capital ratios, either in relation to those of previous years or with those of similar entities, or a negative behaviour of other parameters, such as the degree of achievement of the budgeted objectives. In any case, the reduction in variable remuneration will occur whenever a requirement or recommendation of the competent authority to restrict the dividend distribution policy is in force.
- Up to 100% of the total variable remuneration will be subject to malus (reduction) and clawback (recovery) provisions.
- Guaranteed variable remuneration will not be compatible with a sound risk management or with the principle of rewarding performance, so it will not be part of possible remuneration plans and will be exceptional. It can only be applied when new personnel are hired and the Entity has a sound and solid capital base, and it will be limited to the first year of employment. Between 40% and 60% of the variable compensation to be paid by the Entity to the members of the "identifies group" will be deferred during a certain period, taking into account the economic cycle, the nature of the business, its risks and the activities of the interested party, which, in no case, will be less than three years or more than five years.
- At least 50%, whether deferred or not, will be paid to all of the members of the identified group through instruments associated with Unicaja Banco and, when possible, through other types of instruments determined by the supervisor that adequately reflect the credit rating of the Entity. These payments will have a withholding for the corresponding term and will be subject to the evolution of the Entity's own funds.

In these cases, in which the remuneration is linked to results, the right to receive it and its total amount will be based on objective indicators.

The Bylaws provide that part of the remuneration of the executive Directors may be variable, correlated with some indicator of the performance of the Director or of the entity. The Remuneration Policy framework within the Company's General Incentive Scheme, in the part specifically referring to Executive Directors and contractual agreements with them, states that the Board of Directors will set and assess for each year the specific variables/objectives and other conditions to determine the accrual, quantification and payment of variable remuneration, at the proposal of the Remuneration Committee, and this remuneration may vary from one Executive Director to another. In 2018 only the Incentive System for the CEO of Unicaja Banco was approved since the Executive Chair expressly waived this benefit.

The CEO's Incentive System, developed within the framework of the current legislation and the Remuneration Policy of the Entity, provides a bonus of up to 25% of the annual fixed remuneration, based on both quantitative and qualitative objectives and subject to the principles of deferral, payment in instruments, retention and subjection to reduction and/or recovery clauses (malus/clawback).

With regard to the rest of the "identified group", for 2018 the incentive system for Key Personnel and the incentive system for the rest of the identified group were approved, both involving the parent Unicaja Banco.

In both cases, a bonus is foreseen in terms of quantitative and qualitative objectives. Both systems are subject to the principles of deferral, payment in instruments, retention and reduction and/or recovery clauses. In the case of the incentive system for key personnel, a bonus of up to 25% of the director's expected annual fixed cash remuneration is foreseen, while in the incentive system for the rest of the identified group the maximum amount of the bonus is established based on the executive position.

The criteria for results on which the right to variable remuneration is based are fundamentally objective and its measurement is carried out at Entity, Unit and Individual level.

In addition, for the latter collective, by virtue of the interpretation of the proportionality principle, the neutralisation of the principles of deferral, withholding and payment in instruments is allowed.

The main parameters used to calculate the accrual of variable remuneration are based on the variables included in both the Business Plan and the Entity's RAF, as well as other qualitative variables.

Discretionary pension benefits

Discretionary pension benefits are, in general, discretionary payments granted by a credit institution on an individual basis to its staff under a pension plan or a different instrument that provides retirement benefits and that can be assimilated to variable remuneration. In no case shall they include benefits granted to an employee in accordance with the Entity's pension system, affecting all the workforce.

Aligned with the "Risk Management Remuneration Policy", the discretionary pension commitments will be established under criteria that, in any case, are aligned with the interests of the Entity, so that their periods of accrual and effectiveness do not give rise to remunerations for this concept that are not in accordance with the economic situation of the Entity at the time of going into effect.

For executive directors, general managers and personnel assimilated to the latter, a significant portion of the contributions to pension commitments or savings insurances covering similar contingencies, which is not less than 15%, will be based on variable components and will have discretionary benefits treatment.

Risk adjustment requirements applicable to variable remuneration

In the three incentive systems approved in 2018 for application to the Identified Group (Incentive System of the CEO, Incentive System for Key Personnel and Incentive System for the Rest of the Identified Group, all involving the parent Unicaja Banco) the following requirements are foreseen:

- Between 40% and 60% of the variable remuneration will be deferred for a period, taking into account the business cycle, the nature of the business, its risks and the activities of the interested party under consideration and that, under no circumstances, may it be less than three years or more than five years.

- At least 50%, whether deferred or not, will be paid, when possible, through other types of instruments determined by the supervisor that adequately reflect the credit rating of the Entity.

Other payments

Payments made by early termination of contracts of the "identified group" will be reasonable and proportionate and will attend to the effective time of the provision made and the agreed future benefit that will not be made, without, in any case, implying a loss of the solvency of the Entity. In general, the indemnities provided for in the Statute Workers' Rights or in the special regulations that may be applicable, as well as those agreed upon, as the case may be, in the contracts signed. In 2018 to members of the “Identified Group” left the Group and indemnities totalling €748 thousand were paid.

Remuneration for Directors in their capacity as such

The remuneration of the Directors in their capacity as such shall consist of a fixed allowance and attendance fees for meetings of the Board of Directors and its Committees.

General remuneration of executive Directors

Executive Directors shall also have the right to receive remuneration composed of:

- A fixed part, right for the services and responsibilities assumed.
- A variable part, correlated with some indicator of the performance of the Entity.
- A benefit part, consisting of appropriate retirement and insurance systems.
- A compensation in case of separation or any other form of termination of the legal relationship with the Entity, for reasons not attributable to the Director.

The CEO waived the medical insurance coverage offered by the Company for 2018 and successive years, as well as the severance payment and variable remuneration systems.

16.7 Quantitative Information on Remunerations

In compliance with the regulatory framework of remuneration transparency, information is disclosed on the remuneration accrued during the year ended December, 31 2018, in thousand euro, by the members of the "identified group" of Unicaja Banco Group:

	Board of Directors Non-executive directors	Board of Directors Executive Directors	Investment Banking	Commercial Banking	Asset Management	Corporate Operations	Independent control functions	Rest
1. Identified group (employed or not)	10	2						
2. Number of employees identified as full-time equivalents			1	18	7	24	10	19
Of which: Senior executives			-	2	-	10	4	-
Of which: control functions			-	-	-	-	6	-
3. Amount of total fixed remuneration	785	1,515	191	2,532	932	4,449	1,325	1,298
Of which: in cash	785	1,515	191	2,532	932	4,449	1,325	1,298
Of which: to shares or instruments related	-	-	-	-	-	-	-	-
Of which: in other instruments	-	-	-	-	-	-	-	-
4. Amount of total variable remuneration	-	-	-	-	-	-	-	-
Of which: in cash	-	-	-	-	-	-	-	-
Of which: to shares or instruments related	-	-	-	-	-	-	-	-
Of which: in other instruments	-	-	-	-	-	-	-	-
5. Total amount of deferred variable remuneration accrued	-	-	-	-	-	-	-	-
Of which: in cash	-	-	-	-	-	-	-	-
Of which: to shares or instruments related	-	-	-	-	-	-	-	-
Of which: in other instruments	-	-	-	-	-	-	-	-
Additional information on the total amount of variable remuneration								
6. Total amount of deferred variable remuneration accrued in previous years, as in art. 450.1 (h) (iii) of Regulation (EU) No. 575/2013	-	-	-	-	-	-	-	-
7. Amount of the explicit ex-post adjustment for performance applied during the year for remuneration accrued in past years	-	-	-	-	-	-	-	-
8. Number of recipients of guaranteed variable remuneration	-	-	-	-	-	-	-	-
9. Total amount of guaranteed variable remuneration during the year	-	-	-	-	-	-	-	-
10. Number of recipients of severance indemnities for early termination of contract	-	-	-	1	-	-	1	-
11. Total amount of severance indemnities paid during the year	-	-	-	548	-	-	200	-
12. Total amount of severance paid to one person, in accordance with Art. 450.1 (h) (v) Regulation (EU) No. 575/2013	-	-	-	548	-	-	200	-

	Board of Directors Non-Executive Directors	Board of Directors . Executive Directors	Investment Banking	Commercial Banking	Asset Management	Corporate Operations	Independent control functions	Rest
13. Number of recipients of discretionary pension benefits during the year	-	-	-	-	-	-	-	-
14. Total amount of contributions to discretionary benefits during the year	-	-	-	-	-	-	-	-
Other additional information								
15. Total amount of variable remuneration accrued in multi-year periods in programs that are not updated annually	-	-	-	-	-	-	-	-
16. Number of recipients of discretionary pension benefits that have left the entity (either through retirement or other reasons)	-	-	-	-	-	-	-	-
17. Total amount of discretionary pension benefits paid or withheld in the year to persons who have left the entity (whether by retirement or other reasons)	-	-	-	-	-	-	-	-

Finally, it should be noted that no one in Unicaja Banco Group has earned more than one million euros in 2018.

17. ANNEX I: Main characteristics of the capital instruments of Unicaja Banco Group at 31/12/2018

Issuer	Unicaja Banco, S.A.	Unicaja Banco, S.A.
Unique identifier (e.g., CUSIP, ISIN or Bloomberg identifier for private placement)	ES0180907000	ES0280907009
Legislation applicable to the instrument	Spanish Legislation	Spanish Legislation
Regulatory treatment		
Transitional CRR tools	Common Equity Tier 1	Additional Tier 1 Capital
Eligible at solo/(sub-)consolidated/solo and (sub-)consolidated	Individual and (sub)consolidated	Individual and (sub)consolidated
Instrument type (types to be specified by each jurisdiction)	Shares	Perpetual Contingent Convertible bonds in newly issued assets (PeCoCos)
Amount recognised in regulatory capital (currency in millions, as of the most recent reporting date)	1,610	49
Nominal amount of instrument	1,610	49
Issue price	N/A	100%
Redemption price	N/A	100%

Accounting classification	Equity	Equity
Original date of issue	N/A	28/03/2014
Perpetual or dated	Perpetual	Perpetual
Original maturity date	Without maturity	Without maturity
Issuer call subject to prior supervisory approval	No	No
Optional call date, contingent call dates and redemption amount	N/A	N/A
Subsequent call dates, if applicable	N/A	N/A
Coupons/dividends		
Fixed or floating dividend /coupon	Variable	Fixed
Coupon rate and any related index	N/A	13.8824% annual
Fully discretionary, party discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary

Fully discretionary, party discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
Existence of step up or other incentive to redeem	No	No
Cumulative or non-cumulative	Non-cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger(s)	N/A	1. Total mandatory advance conversion: (i) If Unicaja Banco adopts any measure aimed at its dissolution and liquidation, voluntary or involuntary, or if it is declared bankrupt. (ii) If Unicaja Banco adopts any measure that has the consequence of approving a reduction of share capital in accordance with the provisions of articles 320 et seq. of the Spanish Companies Act, or 343 by referral of article 418.3 of the Spanish Companies Act. 2. Contingency events: (i) If Unicaja Banco Group presents a Core Tier 1 ratio of less than 7%, calculated in accordance with the definition used in Recommendation EBA/RDC/2011 and applied in the EBA stress test or any other percentage of own funds

		lower than the minimum that may be established by Spanish or European legislation as applicable, provided that the aforementioned Recommendation remains in force. (ii) When the entity subject to Circular 7/2012 of the Bank of Spain according to the first standard, presents a principal capital of less than 7%. (iii) If Unicaja Banco or Unicaja Banco Group presents a CET 1 lower than the 5.125% calculated in accordance with Circular 3/2008 according to its successive amendments or any rule that complements or replaces them at any time and, particularly, CRD IV / CRR. (iv) If having a Tier 1 capital ratio lower than 6%, calculated according to Circular 3/2008 or any Spanish regulations on own funds applicable at any time, Unicaja Banco or Unicaja Banco Group, present significant accounting losses. It will be understood that there are "significant accounting losses" when the accumulated losses in the last four quarters have reduced the capital and the previous reserves of Unicaja Banco, or Unicaja Banco Group, by one third.

		3. Viability events: (i) If the Bank of Spain determines that, without the conversion of the instrument, the entity would not be viable. (ii) If the decision to inject public capital or any other measure of financial support is adopted, without which the entity would not be viable. 4. Regulatory events: (i) If, with the entry into force and application of Basel III (CRD IV / CRR), on eligible own funds, in 2014, Unicaja Banco Bonds will no longer be eligible as Additional Tier 1 Ratio. (ii) If Unicaja Banco Bonds cease to be eligible as principal, in accordance with Circular 7/2012. (iii) If Unicaja Banco Bonds cease to be eligible as ordinary capital (Core Tier 1) calculated according to the definition used in EBA/REC/2011 Recommendation and applied in the EBA stress test.
If convertible, fully or partially	N/A	Fully or partially
If convertible, conversion rate	N/A	1.18827 euros per share
If convertible, optional or mandatory conversion	N/A	Mandatory

If convertible, specify instrument type convertible into	N/A	Newly issued ordinary shares (CET 1)
If convertible, specify issuer of the instrument it converts into	N/A	Unicaja Banco, S.A.
Write-down features	No	Yes
If write-down, write-down triggers	N/A	The conversion price of Unicaja Banco's bonds could be higher than real value of its ordinary shares at the time of its conversion.
If write-down, full or partial	N/A	Fully or partially
If write-down, permanent or temporary	N/A	Permanent
If temporary write-down, description of write-up mechanism	N/A	N/A
Positions in subordination hierarchy in liquidation (specify instrument type immediately superior)	N/A	Shares
Non-compliant transitional features	No	No
If yes, specify non-compliant features	N/A	N/A

18. ANNEX II: Guidelines on liquidity management disclosure (LCR-EBA/GL/2017/01)

Thousands of euros

UNICAJA BANCO (Consolidated Group)	Total Weighted Value (Average)
LIQUIDITY BUFFER	13,626
TOTAL NET CASH OUTFLOW	2,867
LIQUIDITY COVERAGE RATIO	**475%**

19. ANNEX III: Information on transitory own funds

	COMMON EQUITY TIER 1 (CET1) CAPITAL INSTRUMENTS AND RESERVES	31/12/2018	REGULATION EU No. 575/2013 REFERENCE ARTICLE	SUBJECT TO THE TREATMENT PRECEDING REGULATION (EU) No. 575/2013 OR RESIDUAL AMOUNT REPEALED BY REGULATION (EU) No. 575/2913 (**).
1.	Capital instruments and the related share premium accounts	2,817,578	26 (1), 27, 28, 29, EBA list 26 (3)	
	Of which: Type 1 instrument		EBA list 26 (3)	
	Of which: Type 2 instrument		EBA list 26 (3)	
	Of which: Type 3 instrument		EBA list 26 (3)	
2.	Retained earnings (*)	1,098,096	26 (1) (c)	
3.	Accumulated and other comprehensive (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	-3,784	26 (1)	
3.a.	Funds for general banking risk		26 (1) (f)	
4.	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase-out from CET1		486 (2)	
	Exempt contributions of capital from the public sector up until 1 January 2018.		483(2)	
5.	Minority interests (amount allowed in consolidated CET1)		84, 479, 480	
5.a.	Independently reviewed interim profits net of any foreseeable charge or dividend		26 (2)	
6.	Common equity tier 1 (CET1) capital Regulatory adjustments	3,911,890		
	Common Equity Tier 1 (CET 1) capital: regulatory adjustments			
7.	Additional value adjustments (negative amount)	3,906	34, 105	
8.	Intangible assets (net of related tax liability) (negative amount)	30,120	36 (1) (b), 38, 472 (4)	
9.	Empty set in the EU			
10.	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	285,047	36 (1) (c), 38, 472 (5)	-380,781
11.	Fair value reserves related to gains or losses on cash flow hedges	904	33 (a)	
12.	Negative amounts resulting from the calculation of expected loss amounts (equities)		36 (1) (d), 40, 159, 472 (6)	

(*) Includes the IFRS 9 phase-in adjustment.
(**) Deductions are consigned

13.	Any increase in equity that results from securitised assets (negative amount)		32 (1)	
	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	2,249	33 (b)	
15.	Defined-benefit pension fund assets (negative amount)		36 (1) (e), 41, 472 (7)	
16.	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		36 (1) (f), 42, 472 (8)	
17.	Holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		36 (1) (g), 44, 472 (9)	
18.	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	
19.	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) a (3),79, 472 (10)	
20.	Empty set in the EU			
20.a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	36 (1) (k)	
20.b	Of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91	
20.c	of which: securitisation positions (negative amount)	0	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258	
20.d	of which: incomplete transactions (negative amount)		36(1) (k) (iii), 379 (3)	
21.	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
22.	Amount exceeding the 15% threshold (negative amount)	57,064	48 (1)	
23.	of which: direct and indirect holdings by the company in common equity tier 1	32,753	36 (1) (i), 48 (1) (b), 470, 472 (11)	
24.	Empty set in the EU			

25.	of which: deferred tax assets arising from temporary differences	24,311	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)	
25.a	Losses for the current financial year (negative amount)		36 (1) (a), 472 (3)	
5.b	Foreseeable tax charges relating to CET1 items (negative amount)		36(1) (l)	
26.	Regulatory adjustments applied to CET1 relative to amounts subject to treatment prior to CRR			
26.a	Regulatory adjustments relative to non-realised gains and losses by virtue of articles 467 and 468			
	Of which: …filter for unrealised losses 1		467	
	Of which: …filter for unrealised losses 2		467	
	Of which: …filter for unrealised gains 1		468	
	Of which: …filter for unrealised gains 2		468	
26.b	Amount to be deducted or added to CET1 referring to other filters and deductions required prior to CRR		481	
	Of which: …		481	
27.	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)		36 (1) (j)	
28.	Total regulatory adjustments to common Tier 1 capital	379,290		
29.	**COMMON EQUITY TIER 1 (CET1) CAPITAL**	**3,532,601**		**-380,781**

Additional Tier 1 Capital: Instruments				
30.	Capital instruments and the related share premium accounts	47,897	51, 52	
31.	of which: classified as equity under applicable accounting standards	47,897		
32.	of which: classified as liabilities under applicable accounting standards			
33.	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase-out from AT1		486 (3)	
	Exempt contributions of capital from the public sector up until 1 January 2018.		483 (3)	
34.	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties		85, 86, 480	
35.	of which: instruments issued by subsidiaries subject to phase-out		486 (3)	
36.	Additional Tier 1 (AT1) capital before regulatory adjustments	47,897		
Additional Tier 1 Capital: regulatory adjustments				
37.	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		52 (1) (b), 56 (a), 57, 475 (2)	
38.	Holdings of the AT 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		56 (b), 58, 475 (3)	
39.	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (c), 59, 60, 79, 475 (4)	
40.	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		56 (d), 59, 79, 475 (4)	
41.	Regulatory adjustments applied to Additional Tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase-out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0		

41.a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to Article 472 of Regulation (EU) No 575/2013	0	472, 472(3)(a), 472 (4), 472 (6), 472(8) (a), 472 (11) (a) (a), 472 (11) (a)	
	of which: items that must be indicated line by line, for example, insufficient net provisional losses compared to expected losses, etc.			
41.b	Residual amounts deducted from AT1 with regard to T2 capital during the transitory period, by virtue of article 475 of Regulation (EU) No 575/2013		477, 477 (3), 477 (4) (a)	
	of which: items that must be indicated line by line, for example, reciprocal holdings in tier 2 equity instruments, direct holdings in immaterial investments in the capital of other financial sector companies, etc.			
41.c	Amount to be deducted or added to CET1 referring to other filters and deductions required prior to CRR		467, 468, 481	
	Of which: … possible filter for unrealised losses		467	
	Of which: …Possible filter for unrealised gains		468	
	Of which: …		481	
42.	Qualifying T2 deductions that exceed the T2 capital of the entity (negative amount)		56 (e)	
43.	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0		
44.	ADDITIONAL TIER 1 (AT1) CAPITAL	47,897		
45.	TIER 1 CAPITAL (TIER 1 CAPITAL = COMMON TIER 1 CAPITAL + ADDITIONAL TIER 1 CAPITAL)	3,580,498		
Tier 2 Capital: Instruments and provisions				
46.	Capital instruments and the related share premium accounts		62, 63	
47.	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase-out from T2		486 (4)	
	Exempt contributions of capital from the public sector up until 1 January 2018.		483 (4)	
48.	Qualifying own fund instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties		87, 88, 480	
49.	of which: instruments issued by subsidiaries subject to phase-out		485 (4)	
50.	Credit risk adjustments	0	62 (c) and (d)	

51.	Tier 2 (T2) capital before regulatory adjustments			
	Tier 2: Regulatory adjustments			
52.	Direct and indirect holdings by an institution of own T2 instruments (negative amount)		63 (b) (i), 66 (a), 67, 477 (2)	
53.	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		66(b), 68, 477 (3)	
54.	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)		66 (c), 69, 79, 477 (4)	
54.a	Of which, new holdings not subject to transitory mechanisms			
54.b	Of which, existing holdings before 1 January 2013 and subject to transitory mechanisms			
55.	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)		66 (d), 69, 79, 577 (4)	
56.	Regulatory adjustments applied to T2 capital with regard to the amounts subject to the treatment prior to the RRC and transitory treatments subject to gradual elimination, pursuant to the provided in Regulation (EU) No 575/2013 (this is, residual amounts established in the CRR)	0		
56.a	Residual amounts deducted from T2 capital with regard to the CET1 deduction during the transitory period, by virtue of article 472 of Regulation (EU) No 575/2013		472, 472(3)(a), 472 /4), 472 (6), 472 (8) (a), 472 (9), 472 (10) (a), 472 (11) (a)	
	of which: items that must be indicated line by line, for example, significant net provisional losses, intangible assets or provisions compared to expected losses, etc.			
56.b	Residual amounts deducted from T2 capital with regard to the AT1 deduction during the transitory period, as provided in article 475 of Regulation (EU) No 575/2013	0	475, 475 (2) (a), 475 (3), 475 (4) (a)	

	of which: items that must be indicated line by line, for example, reciprocal holdings in additional tier 1 equity instruments, direct holdings in immaterial investments in the capital of other financial sector companies, etc.			
56.c	Amount to be deducted or added to T2 referring to other filters and deductions required prior to CRR		467, 468, 481	
	Of which: … possible filter for unrealised losses		467	
	Of which: …Possible filter for unrealised gains		468	
	Of which: …		481	
57.	Total regulatory adjustments to Tier 2 (T2) capital	0		
58.	TIER 2 (T2) CAPITAL	0		
59.	TOTAL CAPITAL (TOTAL CAPITAL = TIER 1 CAPITAL + TIER 2 CAPITAL)	3,580,498		**380,781**
59.a	Risk-weighted assets with regard to the amounts subject to the prior treatment to RRC and transitory treatments subject to gradual elimination, pursuant to the provided in Regulation (EU) No 575/2013 (this is, residual amounts established in the CRR)			
	Of which:… Items not deducted from CET 1 (Regulation (EU) no. 575/2013, residual amounts) (Items that must be indicated line by line, for example, deferred tax assets that depend on future profits net of associated tax liabilities, indirect holdings in own funds tier 1, etc.)		472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)	
	Of which: …Items not deducted from additional tier 1 (Regulation (EU) no. 575/2013, residual amounts) (items that must be indicated line by line, for example, reciprocal holdings in tier 2 equity instruments, direct holdings in immaterial investments in the capital of other financial sector companies, etc.		475, 475 (2) (b), 475 2 (c), 475 (4) (b)	
	Items not deducted from Tier 2 (Regulation (EU) no. 575/2013, residual amounts) (items that must be indicated line by line, for example, indirect holdings in own fund Tier 2 equity instruments, indirect holdings in immaterial investments in the capital of other financial sector companies, etc.)		477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	

60.	TOTAL RISK-WEIGHTED ASSETS	22,871,497		
Capital ratios and buffers				
61.	Common Equity Tier 1 (as a percentage of total risk exposure amount)	15.45%	92 (2) (a), 465	
62.	Tier 1 (as a percentage of total risk exposure amount)	15.65%	92 (2) (b), 465	
63.	Total capital (as a percentage of total risk exposure amount)	15.65%	92 (2) (c)	
64.	Institution-specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a), plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)		DRC 128, 129 and 130	
65.	of which: capital conservation buffer requirement			
66.	of which: countercyclical capital buffer requirement			
67.	of which: systemic risk buffer requirement			
67.a.	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		DRC 131	
68.	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)		DRC 128	
69.	(not part of EU regulations)			
70.	(not part of EU regulations)			
71.	(not part of EU regulations)			
Capital ratios and buffers				
72.	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	250,329	36 (1) (h), 45 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)	
73.	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	305,348	36 (1) (i), 45, 48, 470, 472 (11)	
74.	Empty set in the EU			
75.	Deferred tax assets deriving from temporary differences (lesser amount	268,895	36 (1) (c), 38, 48, 470, 472 (5)	
Applicable caps on the inclusion of provisions in tier 2				

76.	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	0	62	
77.	Cap on inclusion of credit risk adjustments in T2 under standardised approach	174,146	62	
78.	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)		62	
79.	Cap on inclusion of credit risk adjustments in T2 under internal ratings-based approach		62	
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2014 and 1 January 2022)				
80.	Current cap on CET1 instruments subject to phase-out arrangements		484 (3), 486 (2) and (5)	
81.	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		484 (2), 486 (2) and (5)	
82.	Current cap on AT1 instruments subject to phase-out arrangements		484 (4), 486 (3) and (5)	
83.	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		484 (4), 486 (3) and (5)	
84.	Current cap on T2 instruments subject to phase-out arrangements		484 (5), 486 (4) and (5)	
85.	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		484 (5), 486 (4) and (5)	

20. ANNEX IV: Template IFRS 9-FL: comparison of institution's own funds and capital and leverage ratios and without the application of transitional arrangements of IFRS 9 or analogous ECL

Million € and %		31/12/2018	30/09/2018	30/06/2018	31/03/2018
Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	3,533	3,634	3,664	3,685
2	Common Equity Tier 1 (CET 1) as if IFRS 9 or similar ECL transitional arrangements had not been applied	3,422	3,523	3,553	3,575
3	Tier 1 equity	3,580	3,682	3,712	3,734
4	Tier 1 (T1) as if IFRS 9 or similar ECL transitional arrangements had not been applied	3,470	3,571	3,602	3,623
5	Total capital	3,580	3,682	3,712	3,804
6	Total capital as if IFRS 9 or similar ECL transitional arrangements had not been applied	3,470	3,571	3,602	3,712
Risk-weighted assets (amount)					
7	Total risk-weighted assets	22,871	23,259	23,878	23,959
8	Total risk-weighted assets as if IFRS 9 or similar ECL transitional arrangements had not been applied	22,764	23,152	23,771	23,877
Capital ratios					
9	Common Equity Tier 1 (CET1) (as a percentage of risk exposure amount)	15.4%	15.6%	15.3%	15.4%
10	Common Equity Tier 1 (CET 1) (as a percentage of risk exposure amount) as if IFRS 9 or similar ECL transitional arrangements had not been applied	15.0%	15.2%	14.9%	15.0%
11	Tier 1 (T1) (as a percentage of risk exposure amount)	15.7%	15.8%	15.5%	15.6%
12	Tier 1 (T1) (as a percentage of risk exposure) as if IFRS 9 or similar ECL transitional arrangements had not been applied	15.2%	15.4%	15.2%	15.2%
13	Total capital (as a percentage of risk exposure amount)	15.7%	15.8%	15.5%	15.9%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or similar ECL transitional arrangements had not been applied	15.2%	15.4%	15.2%	15.5%
Leverage ratio					
15	Leverage ratio total exposure measure	57,158	57,419	58,141	59,209
16	Leverage ratio	6.3%	6.4%	6.4%	6.3%
17	Leverage ratio as if IFRS 9 or similar ECL transitional arrangements had not been applied	6.1%	6.2%	6.2%	6.1%

21. ANNEX V: Map of CRR Articles

CRR Article	Item	Location
431	Scope of application of disclosure requirements	1.4 Pillar III disclosure
432	Immaterial, reserved or confidential information	1.4 Pillar III disclosure
433	Disclosure frequency	1.4 Pillar III disclosure
434	Disclosure means	1.4 Pillar III disclosure
435	Risk management policies and objectives	3. Risk policies and management objectives 2.2 Governing bodies
436	Scope of application	2.3 Scope of application
437	Capital and reserves	4. Own Funds
438	Capital requirements	5. Capital requirements
439	Exposure to counterparty risk	5.5 Capital requirements for credit valuation adjustment risk (CVA) 5.6 Procedures applied to assess the internal capital adequacy 6.2 Exposure to counterparty and credit risk 9.1.3 Types of guarantors and counterparty risk in credit derivatives
440	Capital Buffers	1.3 Prudential Regulatory Framework 4.2.2 Capital buffers 19. Annex III: Information template for transitory own funds
441	Indicators of global systemic importance	N/A
442	Credit risk adjustments	6. Information on Credit and Dilution Risks
443	Unencumbered assets	15. Encumbered Assets
444	Use of credit rating agencies (ECAI)	7. Credit risk. Standard Method
445	Exposure to market risk	5.2 Capital requirements for market risk 10. Information on the market risk of the trading book
446	Operating risk	5.4 Capital requirements for operating risk 11. Methodology applied for the calculation of capital requirements for operating risk
447	Equities exposures that are not included in the trading book	12. Information on holdings and equity instruments not included in the trading book

448	Exposure to interest rate risk in positions not included in the trading book	13. Interest rate risk in positions not included in the trading book
449	Exposure to securitisation positions	8. Securitisations
450	Remuneration policy	16. Remunerations
451	Leveraging	14. Leverage ratio 17. Annex I: Main characteristics of the capital instruments of Unicaja Banco Group at 31/12/2018
452	Application of the IRB method to credit risk	N/A
453	Application of credit Risk mitigation techniques	9. Credit risk mitigation techniques
454	Application of advanced methods to calculate operating risk	11. Methodology applied for the calculation of capital requirements for operating risk
455	Application of internal market risk models	N/A