UNICAJA BANCO, S.A. & SUBSIDIARY COMPANIES (UNICAJA BANCO GROUP)

CONSOLIDATED INTERIM MANAGEMENT REPORT FOR THE SIX-MONTH PERIOD ENDING 30TH JUNE 2020

1. Introduction

This Management Report presents the relevant facts and figures for the first half of 2020, so that Unicaja Banco Group's (hereinafter Unicaja Banco Group or the Group) situation and its business performance can be understood. The consolidated interim financial statements for the first six months of 2020, which this Management Report accompanies, have been filed in line with the International Financial Reporting Standards adopted by the European Union (EU-IFRS) and comply with the Bank of Spain Circular 4/2004, 22nd December, and subsequent amendments.

Unicaja Banco, S.A. (hereinafter Unicaja Banco, the parent company or the bank) was set up as a credit institution for an unlimited period on 1st December 2011. It originally operated indirectly through the financial bank of Monte de Piedad y Caja de Ahorros de Ronda, Cádiz, Almería, Málaga, Antequera y Jaén - Unicaja (currently Fundación Bancaria Unicaja), as a result of the entry into law of Act 26/2013, 27th December.

The bank is bound by the rules and regulations governing banking institutions that operate in Spain. Other public information about the Bank may be found both on its official website (www.unicajabanco.es) and at its corporate headquarters (Avenida de Andalucía, 10 y 12, Malaga).

The Bank's corporate purpose is to carry out and pursue all manner of banking activities, transactions, business, contracts and services, in general and those directly or indirectly related to this business. These activities may be complementary to the banking business or pursuant to it, provided that they are permitted and not forbidden under legislation current at the time.

The Bank's purpose includes the provision of investment services and other related ancillary services, as well as carrying out insurance broking activities, either as an independent operator or through a relationship with a particular provider; the two may not be exercised at the same time.

By virtue of the articles of association, the activities, which are in line with the requirements of Act 10/2014, 26th June, on the organisation, supervision and solvency of credit institutions and represent its corporate purpose, may be conducted wholly or in part, indirectly, in any of the forms admitted by law, and in particular by ownership of shares or interests in companies or in other entities whose purpose is identical, similar or complementary to such activities.

The Bank is registered in the Companies Registry of Malaga and as a credit institution in the Special Registry of the Bank of Spain with the number 2103. The Bank also holds a licence for the exercise of banking activity granted by the Ministry of Economy and Finance, in accordance with the provisions of article 1 and consistent with Royal Decree 1245/1995.

At 30th June 2020, 49.85% of the Bank's share capital belonged to Fundación Bancaria Unicaja, the parent entity of both the bank and the Unicaja Group. Both the bank and its parent entity are based in Malaga, are subject to Spanish legislation and file their annual accounts in the Mercantile Registry of this city.

The Bank is at the head of a sub-group of subsidiary entities, with different activities that make up the Unicaja Banco Group. This is detailed in the consolidated interim financial statements for fiscal year 2020.

Balance sheet & business turnover	€ million		Annual change YTD	
	June'20	**December'19**	**€ million**	**%**
Total assets	63 002	56 708	6 295	11.1%
Performing loans and advances to customers (excluding valuation adjustments)[1]	26 494	25 800	694	2.7%
Deposits from customers (excluding valuation adjustments)	45 627	42 335	3 292	7.8%
Off balance sheet funds	12 269	12 863	(594)	-4.6%
Total customer funds	58 257	55 558	2 699	4.9%
Of which: customers (non- market)[2]	*52 175*	*50 898*	1 277	2.5%

(1) Excluding non-performing loans, repurchase agreements through counterparties institutions or with financial intermediaries, or other financial assets (mainly bonds to hedge market transactions)
(2) Not including repurchase agreements through counterparty institutions or financial intermediaries, or market issues

Results	€ million		YoY	
	June'20	**June'19**	**€ million**	**%**
Net interest income	277.3	292.8	(15.5)	-5.3%
Gross Margin	528.2	494.5	33.7	6.8%
Operating income (before impairments)	239.1	192.4	46.7	24.3%
Impairments and other results	153.5	46.2	107.3	231.9%
Pre-tax income	85.6	146.2	(60.5)	-41.4%
Consolidated net income for the period	60.9	115.9	(55.0)	-47.5%
Net income attributed to the parent company	60.9	115.9	(55.0)	-47.5%
Consolidated results for the period (ex-Covid-19)	133.0	115.9	17,1	14.8%

(*) Excluding extraordinary provision for Covid-19

Profitability and cost-to-income ratio	%		Annual change YTD	
	June'20	**June'19**	**€ million**	**%**
ROE (net income for the year/average shareholders' equity)	3.1%	6.0%	n.a.	-2.9 pp
ROTE (net income for the year/ave. tangible comm shareholders' eq.)	3.1%	6.1%	n.a.	-2.9 pp
ROA (net income for the year/average total assets)	0.2%	0.4%	n.a.	-0.2pp
RORWA (Net income/RWA)	0.5%	1.0%	n.a.	-0.5pp
Cost-to-income ratio (op. exp. excluding amort./gross margin)	50.4%	56.7%	n.a.	-6.3 pp

Solvency	€ m/%		Annual change YTD	
	June'20	**December'19**	**€ million**	**%**
Equity	4 062	3 970	92	2.3%
Total Capital	3 952	3 892	60	1.6%
Tier 1 eligible common capital (CET1)	3 604	3 544	60	1.7%
Tier 1 eligible common capital (CET1) (*pro forma)	3 666	3 590	76	2.1%
Additional Tier 1 eligible capital	48	48	-	0.0%
Tier 2 eligible capital	300	300	-	0.0%
RWA	23 112	22 983	129	0.6%
Total Capital Ratio	17.1%	16.9%	n.a.	0.2pp
Pro forma total capital ratio	17.3%	17.1%	n.a.	0.2pp
CET1 ratio	15.6%	15.4%	n.a.	0.2pp
Pro forma CET1 ratio	15.8%	15.6%	n.a.	0.2pp
Fully loaded CET1 Ratio	14.3%	13.8%	n.a.	0,5pp
Pro forma fully loaded CET1 Ratio	14.4%	14.0%	n.a.	0,4pp

(*) Pro forma data: June 2020 includes the effect of the IFRS 9 phase-in introduced by Regulation (EU) 2020/873, subject to approval by the supervisor, and the deduction of software for prudential purposes (awaiting final RTS publication). December 2019 does not include the deduction of the authorised limit on unused treasury stock.

Risk Control	€ m/% June'20	€ m/% December'19	Annual change YTD € million	Annual change YTD %
Non-performing	1 320	1 351	(31)	-2.3%
NPL ratio	4.5%	4.8%	n.a.	-0,3pp
NPL coverage ratio	60.9%	54.0%	n.a.	6.9 pp
Cost of credit risk	0.88%	0.04%	n.a.	0.8pp
Foreclosed real estate available for sale (gross)	1 142	1 120	23	2.0%
Foreclosed assets coverage ratio	62.4%	62.7%	n.a.	-0,3pp

Liquidity	€ m/% June'20	€ m/% December'19	Annual change YTD € million	Annual change YTD %
Gross liquid assets	26 301	20 765	5 536	26.7%
Net liquid assets	15 095	14 011	1 084	7.7%
Net liquid assets/Total assets	24.0%	24.7%	n.a.	-0.7pp
LTD Ratio	69.7%	71.4%	n.a.	-1.7 pp
Liquidity Coverage Ratio (LCR)	346%	319%	n.a.	27 pp
Net Stable Funding Ratio (NSFR)	141%	141%	n.a.	-

Other information	Units June'20	Units December'19	Annual change YTD Number	Annual change YTD %
Branches in Spain	1 028	1 046	(18)	-1.7%
ATMs	1 486	1 485	1	0.1%
Average number of employees	6 274	6 719	(445)	-6.6%

Credit rating		June'20
Fitch	Short term	F3
	Long term	BBB-
	Outlook	RWN
Moody´s	Long term deposits	Baa3
	Short term	Prime-3
	Outlook	Stable

2. Economic and financial environment

According to the OECD's latest Economic Outlook report, the coronavirus pandemic has triggered the worst economic recession of the last hundred years, with huge repercussions on economic activity and employment. Because of the lockdown, economic activity has fallen steeply in all OECD countries, by between 20% and 30%, while international trade has plummeted. This has led governments and central banks to put exceptional and wide-reaching measures in place to support their health systems, stabilize financial markets and underpin household incomes and production fabric.

As long as a vaccine or other treatment remain unavailable, physical distancing and the strategy of test, track and isolate (TTI) will be the principal instruments for controlling the spread of the virus, although they may well be insufficient to prevent likely second waves. This strategy is indispensable if economic activity is to resume and lost ground won back.

The OECD also notes that ultra-loose monetary policy measures are needed until economic activity picks up and as long as unemployment remains at high levels, since public policy must focus on supporting the most vulnerable and making the economy more robust, capable of achieving sustainable growth in the long term. Recovery, whether of spending or investment, is dependent on confidence, and this will not bounce back completely without global cooperation. The report also argues that more resilient supply chains must be developed, with larger reserves of stocks, and greater diversification of sources.

Against this backdrop of high uncertainty, given that the likelihood of a vaccine becoming widely available this year is remote, the OECD has opted for presenting two possible scenarios: one in which the virus is brought under control and is gradually pushed back; and another, in which there is a global second wave before the end of 2020. If a second wave of infection can be avoided, global Gross Domestic Product (GDP) could fall by 6.0% this year and unemployment will rise across the OECD as a whole by 9.2%. On the contrary, if a second wave leads to the adoption of new lockdown measures, global production could fall by 7.6%, while the unemployment rate would double from its pre-pandemic rates. In the first scenario, GDP in 2021 might rise by 5.2%, and by 2.8%, in the second.

The contraction will be particularly sharp in the eurozone, where some countries have undergone strict and relatively long lockdowns (as was the case of Italy and Spain), oscillating between -9.1% and -11.5%, whereas in the US and Japan the falls were less abrupt. Turning to emerging economies, China and India will be less affected, in comparison, whereas others such as Brazil, Russia and South Africa face complex challenges (pressure on their health systems and drops in commodity prices).

The International Monetary Fund's (IMF) estimates, also published in June, suggest a slightly smaller fall in world GDP, at around 5%, which is 2 pp lower than their April forecast. The reverse suffered by advanced economies could reach 8.0%, and go over 10% in the eurozone, while its forecast for emerging economies stands at 3.0%. In this group China is an exception, since it is expected to post growth of 1.0%. The pandemic's impact on activity in the first half has been more negative than expected and recovery is estimated to be more gradual than previously thought. In general, private spending growth has been revised to the downside, while uncertainty will have a significant impact on business investment, although the support measures are partly offsetting the deterioration in private domestic demand.

These OECD and IMF forecasts for the eurozone are more negative than those published in early July by the European Commission, even taking into account the latter's downward review. The impact on economic activity in 2020 will be greater than expected, given that the tapering of lockdown measures is progressing more slowly than forecast, with the upshot that the Eurozone's GDP could shrink by 8.7% this year, against the forecast of -7.7% made in the Spring, with expected growth for 2021 of 6.1%, a 0.2 pp shaving of May's estimate. The initial figures for May and June suggest that the worst may be over, and the recovery is expected to take hold in the second half of 2020, although with uneven effect across the different member states.

The risks continue to be essentially to the downside, since the scale and duration of the pandemic are unknown, as are the possible lockdown measures that might be adopted in the future, although these forecasts are supported by the assumption that containment measures continue to taper and that there is no second wave of infections. There is also the risk that, in the long term the labour market suffers more than expected and that corporate liquidity difficulties could give rise to solvency issues, not forgetting uncertainty about the future trade relationship between the United Kingdom and the EU, or the adoption of protectionist policies. However, earlier-than-expected availability of a vaccine, a swifter relaxing of restrictions than expected and agreement on the Commission's proposal for an EU-wide recovery plan could improve these forecasts.

The Spanish economy will be one of those suffering the biggest contraction of activity in 2020, with GDP expected to fall by over 10%, according to forecasts from the main international bodies (IMF, OECD and the European Commission), with the OECD indicating a drop of around 14.5% if the more adverse scenario is confirmed, that of a second wave. This latter forecast is very similar to the one published by the Bank of Spain in a scenario of greater risk and “very slow recovery” (-15.1%), which would include the likelihood of episodes with substantial surges in the number of new infections, which would require further strict lockdowns.

Nevertheless, within the two alternative scenarios described by the supervisory body (early recovery or gradual recovery), the drop in GDP would oscillate between 9.0%, in an early recovery scenario (a fall similar to that indicated by the Government in its Stability Update Programme, submitted to the European Commission), and 11.6%, in a gradual recovery scenario. In both scenarios, uncertainty about how the illness progresses will impact household and corporates’ spending. Under the first scenario, GDP would bounce back by 7.7% and 2.4%, respectively, in 2021 and 2022, while under the second, GDP would increase by 9.1% in 2021 and by 2.1% in 2022. Thus, by the end of the horizon period, GDP would be 0.5 percentage points (pp) higher than before the crisis, in the early recovery scenario, while under the gradual recovery model GDP would still be 1.6 pp lower. The unemployment rate would rise to 18.1% this year, in the early recovery scenario, and increase to 19.6%, in the gradual recovery model.

According to these forecasts, all the components of demand, except for public spending and investment, would post significant falls in 2020, with a strong uptick in 2021. Turning to prices, the HCPI (Harmonised Consumer Price Index), excluding food and energy, is forecast to continue showing very restrained rates of variation, and downward pressures due to weak demand could be offset by the increase in the cost of some service provision because of social distancing measures in place.

The Public Administrations’ deficit could rise to 9.5% of GDP under the early recovery scenario, and to 11.2% in that of gradual recovery, remaining at high levels in both 2021 and 2022, although with some reduction. Thus, public-sector debt would grow by between 20 and 25 pp this year, posting at 114.5% and 119.3%, respectively, under each of the scenarios modelled, remaining at high levels over the next two years. In fact, public-sector debt increased during the first quarter of 2020 by around 3.5 pp from the previous quarter, coming in at 98.9% of GDP. To this has to be added private indebtedness (companies and households), although this has managed to come in below the eurozone average, mainly because of a reduction in corporate debt.

These forecasts are formulated on the basis of assumptions about interest rates, oil prices and other commodities from their listings in the ten working days before the forecasts were closed. In the case of the oil price, the Bank of Spain expects the sharp reduction in the first half of the year, due to plummeting demand because of the steep fall in activity, to be partially reversed starting around mid-year, coinciding with the expected recovery of production levels. Indeed, although Brent crude‘s listing price has been very volatile, in May prices picked up from their minimums in April, a trend that has continued in June.

In terms of interest rates, money policy interventions have contributed to limiting the tightening of interest rate curves in the eurozone. Specifically, at the beginning of June the European Central Bank decided to extend provisioning for its pandemic emergency purchase programme (PEPP) by a further EUR 600 billion, to EUR 1.35 billion, and the purchase horizon to at least the end of June 2021. The US Federal Reserve, meanwhile, has started to buy corporate bonds on the secondary market. Interest rates traded on the futures markets suggest that the 3-month Euribor could stay at similar rates to where it was in 2019, while sovereign debt yields would spike over the forecast horizon, after the downward trend of 2019, an upturn which would be more intense if the scenario looked more unfavourable.

The pandemic’s impact on economic activity is visible in the indicators published recently. Compared to the first quarter, the Quarterly National Accounts issued by INE (National Statistics Institute) show a quarterly drop in GDP of 5.2% and 4.1% year-on-year (YoY) compared to -3.6% and -3.1%, respectively, in the eurozone as a whole), posting a YoY reduction of close to 6% in household consumption and around 6.5% in investment, with investment in machinery and equipment falling by over 9%. There were similar falls in most productive sectors, particularly in manufacturing and construction; in services, the hardest-hit activities were trade, transport, hospitality and artistic and recreational activities.

According to a recent article by the Bank of Spain, in these latter segments, added value in the last two weeks of the quarter with strict lockdown fell by around 70% from its pre-crisis level, while the contraction in the economy as a whole was 34%, similar to Italy and France, but worse than that of Germany (-13.0%). Turning to the second quarter, Bank of Spain estimates point to a quarter-on-quarter reversal of around 20%, as a direct consequence of the pandemic containment measures.

Some indicators for the second quarter appear to show a degree of stabilisation starting in May, with the beginning of the easing of lockdown measures, after posting very steep falls across the board in April. Sales in major corporates sank by 32.5% in April, in year-on-year terms (-12.4% in March), with a 31.9% drop in domestic sales and a contraction of 35.3% in exports, a fall that moderated in May. Meanwhile, the number of property sales registered in April plummeted by nearly 50%, with a sharper fall in May, and residential sales down by slightly over 50% compared to May 2019, at just 22,394 transfers, affecting both second-hand and new housing purchases.

However, the numbers of workers affiliated to social security registered a brake on job destruction, with 68,208 more people signed up in June than in May. This was the second consecutive monthly rise, after the crash of nearly 800,000 affiliations lost between February and April (there were nearly 900,000 fewer affiliations between 12th and 31st March). In seasonally adjusted figures, in June there was a rise of 29,447 people from May, the first after three consecutive falls. In year-on-year terms, the average number of Social Security affiliations had fallen by June by around 895,000 workers, down to 18,624,337, a contraction in relative terms of 4.6%.

Furthermore, we should bear in mind that to 30th June, around 1.8 million workers were on total or partial furlough schemes (ERTE); of these, 1,556,919 were recorded as cases of force majeure. This means that around 1.5 million workers have come off force majeure furlough since the end of April, and around a million just in the last month, June. By activity sectors, food and beverage services, accommodation services, retail trade (apart from motor vehicles) and wholesale trade account for just over half of the workers furloughed by reason of force majeure.

Finally, we should highlight the fact that some qualitative indicators have improved, although they still reflect the contraction of activity Specifically, the PMI (purchasing managers' index) showed significant upticks in May and June, in both manufacturing and services, although they are still shrinking, except in China, and in the eurozone, in France. In the case of Spain, there is also an improvement, in both the industrial and service PMI, with the latter positioned around 50. Likewise, the OECD's composite leading indicators (CLIs) have risen in May and June, although they are still below the longterm trend.

3. Highlights of the period

Unicaja Banco Group posted net results of EUR 61 million in the first half of the year, after provisioning EUR 103 million for Covid-19.

Unicaja Banco is showing its capacity to post results that mitigate the temporary impacts of Covid-19, and is putting significant effort into provisioning:

- Business has been affected by the state of alert, having a negative impact on net interest income which has dropped by 5.3% with respect to the same period a year earlier, while net fees remain over the year to date at similar levels to those of the first half of 2019.
- Operating costs have fallen by 4.3% compared to 2019, an outcome of the significant cost containment measures put in place to off-set the effects of Covid-19.
- Operating income before impairments is up by 24.3%, boosted by the cost savings, booking the profits from the Caser shareholders' agreement, and the rise in trading income.
- This improvement in income has enabled the bank to book Covid-19 provisioning bringing the total in the financial year to date to EUR 103 M, while keeping the loan and foreclosed assets recurrent impairments at levels similar to those of the same period a year earlier.
- Notwithstanding, net profit, excluding the effect of the provisions for Covid-19, is 14.8% higher than in 2019.

Commercial activity shows a positive overall balance despite the difficult climate.

- Performing loans to clients (excluding reverse repos) grow 2.7% in the year, driven by the growth in credit to the public sector (+9.6%) and to businesses (+8.4%).
- Customer funds exhibited a very good evolution during the period (+2.5%), with a noteworthy growth in private sector deposits.

Risk indicators remain positive despite the economic slowdown:

- Non-performing assets (NPAs) fell by 26.2% year-on-year (EUR 873 million); of these, NPLs dropped by 23.8% and foreclosed assets by 28.8%. The NPL ratio shrank by -1.4 pp year-on-year, posting at 4.5%.
- The coverage ratio for non-performing assets (NPAs) rose by 5.0 pp year-on-year.

Financial strength and high levels of solvency:

- The Group has a comfortable liquidity position, with a LTD ratio of 69.7% and a LCR of 346%.
- The high level of solvency at the close of the first half of the year, with pro forma CET1 at 15.8% and total capital at 17.3%, represents a surplus of EUR 1,176 million above SREP requirements.

(*) Pro forma data: Excluding the deduction of the authorised limit on unused treasury stock

4. Profitability and impairments

At the close of the first six-month period of 2020, the Group reported a net profit of EUR 60.9 million after making a EUR 103 million provision for the Covid 19 crisis. Excluding this extraordinary provision, pre-tax income for the first half of the year would have been 15% higher than that posted for the same period in 2019. This net profit comes in the first instance from core revenues (net interest income and fees) of EUR 391 million, which amounts to 1.4% of average total assets.

Income Statements. Unicaja Banco Group
€ millions

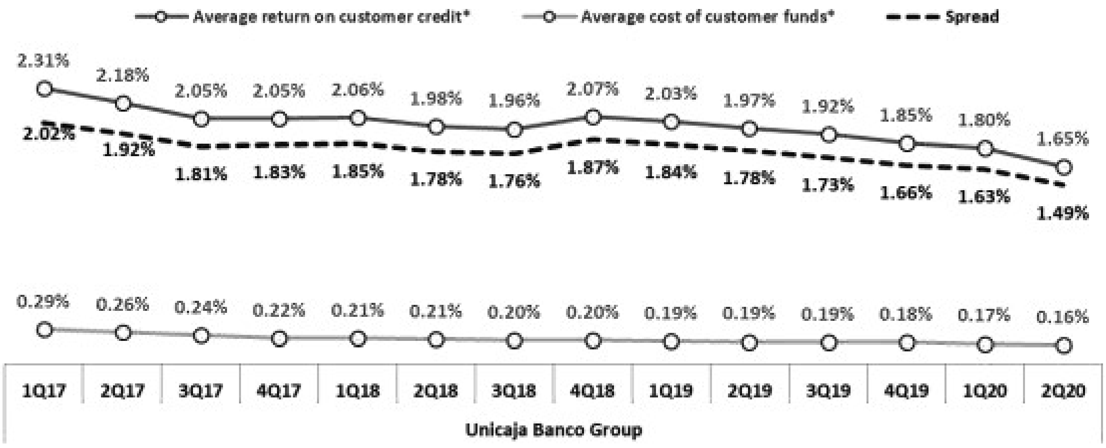
	jun-20	jun-19	Abs. Val.	% change
Net interest income	**277.3**	**292.8**	**-15.5**	**-5.3%**
[redacted]				
Gross income	**528.2**	**494.5**	**33.7**	**6.8%**
[redacted]				
Pre-provision profit	**239.1**	**192.4**	**46.7**	**24.3%**
[redacted]				
Pre-tax income	**85.6**	**146.2**		[redacted]
[redacted]				
Consolidated results for the period	**60.9**	**115.9**	**-55.0**	**-47.5%**
[redacted]				

The customer spread has narrowed, affected by the performance of reference rates, as well as by the impact of suppressing floor clauses and the reduction in fees that are booked under interest income, both those linked to originating transactions, which have fallen as a result of Covid-19, in the consumer segment, and defaults, where the institution has decided not to charge during the state of alert, as a way of supporting its customers.

YIELDS & COSTS

Million euros / %	June-2020			June-2019			YoY J'2020-J'2019			Breakdown YoY(J'2020/J'2019)		
	Average balances	FI/FE	Yield/ cost (%)	Average balances	FI/FE	Yield/ cost (%)	Average balances	FI/FE	Yield/ cost (%)	Impact balance	Impact price	Net
[redacted]												
F.I. Net loans	26,770	230	1.73	26,876	266	2.00	-106	-36	-0.27	-1	-36	0
[redacted]												
TOTAL ASSETS	57,744	342	1.19	56,560	370	1.32	1,184	-27	-0.13	8	-34	-1
[redacted]												
F.E. customer deposits*	38,422	31	0.16	37,477	35	0.19	945	-4	-0.02	1	-4	0
[redacted]												
TOTAL LIABILITIES & EQUITY	57,744	65	0.23	56,560	77	0.27	1,184	-12	-0.05	2	-13	0
CUSTOMER SPREAD*			1.56			1.81			-0.25			
NET INTEREST INCOME	57,744	277	0.97	56,560	293	1.04	1,184	-15	-0.08	6	-21	0

F.I : Financial income
F.E. Financial expense
(*) F.I. Net lending less F.C. of customer deposits
(1) It does not include Fixed Income Portfolio from Unión del Duero Vida.



(*) Excluding Repo and reverse repurchase agreements

Nevertheless, Unicaja has succeeded in offsetting this temporary negative impact on its core revenue, posting a 6.8% rise in its gross income from the first half of 2019. This has been achieved, in the first place, thanks to the rise in results from trading income (EUR 37.7 million higher than the same period in de 2019), from capital gains on its fixed income portfolio; and secondly, from the netting out of other products/operating charges (EUR 21.7 million up from the same period last year). This last increase can be accounted for by the profits from a shareholders' agreement relating to the investee company Caser. This improved revenue has also offset the performance of revenues from dividends and results of institutions valued on the equity method, which have fallen by EUR 9 and 1 million respectively, because of the drop in their profits (in some cases with cancellations of previously announced dividends) which, across the board, companies are reporting as a consequence of the pandemic.

Also with the aim of palliating the negative effects of the temporary reduction in revenues, a major cost containment drive has got underway, which has reduced expenditure in transformation (administration costs + amortisations and depreciations) by 4.3% from the same period last year, well above the forecast for the current 2020 period in the strategic plan. This push represents a EUR 13 million reduction in transformation costs as a whole in the first half of 2020 compared to the same period in 2019.

Finally, impairments and other results came to a net total of EUR 153 million, which is a EUR 107 million increase with respect to the same period a year earlier. Were it not for the extraordinary provisions of EUR 103 million for Covid-19 mentioned above, the difference would have been only EUR 4 million. Impairments linked to foreclosures remain at minimum levels, while those designed to cover loan losses, excluding the extraordinary Covid-19 provisioning mentioned, are EUR 9 million higher than in the same period in 2019, representing in any event very low ordinary cost of risk.

Breakdown of impairments and other results
€ millions

	Jun-20	Jun-19	Change
[redacted]			
TOTAL IMPAIRMENTS AND OTHER RESULTS	**152.8**	**46.2**	**106.6**

5. Business magnitudes

Total customer funds managed by the Group at the end of the first half of 2020 came to EUR 58,257 million.

Customer funds. Unicaja Banco Group.
€ millions. Excludes value adjustments.

	30/06/2020	Compos.	31/12/2019	chg. year.	%chg. year.
Total funds on balance sheet	**45,987**	**78.9%**	**42,695**	**3,292**	**7.7%**
Customer deposits	**45,627**	**78.3%**	**42,335**	**3,292**	**7.8%**
Public sector	**2,891**	**5.0%**	**2,812**	**79**	**2.8%**
Private sector	**42,736**	**73.4%**	**39,523**	**3,213**	**8.1%**
[redacted]					
Issues	**360**	**0.6%**	**360**	**0**	**0.0%**
[redacted]					
Off-balance sheet funds	**12,269**	**21.1%**	**12,863**	**-594**	**-4.6%**
TOTAL CUSTOMER FUNDS	**58,257**	**100.0%**	**55,558**	**2,699**	**4.9%**
Of which:					
Retail customer funds	**52,175**	**89.6%**	**50,898**	**1,277**	**2.5%**
On balance sheet	*39,905*	*68.5%*	*38,035*	*1,870*	*4.9%*
Off balance sheet	*12,269*	*21.1%*	*12,863*	*-594*	*-4.6%*
Markets	**6,082**	**10.4%**	**4,660**	**1,422**	**30.5%**

The bulk of managed funds are customer deposits (EUR 45,627 million), of which EUR 31,335 million are private sector clients' sight deposits, EUR 8,760 million are term deposits (including EUR 3,266 million in non-negotiable mortgage covered bond issues) and EUR 2,640 million are repos. Customer funds managed using off-balance sheet instruments and insurance amounted to EUR 12,269 million, consisting mainly of customer funds raised through investment funds (EUR 5,119million), pension funds (EUR 2,231 million) and savings insurance (EUR 4,027 million).

As to the origin of the funds, 89.6% (91.6% at the close of 2019) relates to retail customers' banking business (EUR 52,175 million), while the remaining 10.4% (EUR 6,082 million) is represented by funds raised in wholesale markets through issuances, multi-issuer covered bonds or repos. The largest rise so far this year on market balances (+30.4%) compared to retail customer funds (+2.5%), is not structural; it is the result of short-term treasury transactions, which have triggered a very short-term increase in market financing and liquidity in central banks. The issuance section remains unchanged in 2020 since the EUR 300 million subordinated liability Tier II issue conducted in the second half of 2019, which was fully placed on wholesale markets. The balance of the category (EUR 60 million) consists of mortgage securities also in the hands of third parties booked under the markets section.

This strong growth in retail customer deposits so far this year, together with the recovery in the second quarter of part of the fall in customer funds in insurance and off-balance sheet products at the end of March due to the pandemic, raises the aggregate increase in retail customer funds to 2.5% year to date and to 4.6% in the last twelve months. So far this year, on-balance sheet funds have risen by 4.9%, of which we would highlight the 2.8% increase in public administrations and a 7.1% rise in private-sector sight balances. Turning to off-balance sheet funds and insurance, which taken together have fallen by 4.6%, this is the result of the fall in the valuations of these products in the first quarter, which at June had still not totally recovered. All this has triggered an increase in the weight of private-sector sight funds in managed customer funds as a whole.

Loans and advances to customers (without valuation adjustments) came to EUR 29,225 million at the end of June 2020. The largest weight in the loan portfolio corresponds to credit to the private sector, supported by collateral representing 56% of all credit.

Loans & advances to customers of Unicaja Banco Group
€ millions.

	30/06/2020	Compos.	31/12/2019	abs. v.	rel.v.
Public sector	1,881	6%	1,717	164	9.6%
Private sector	27,343	94%	26,515	828	3.1%
[redacted]					
Total loans and advances to customer, excluding valuation adjustments	29,225	100.0%	28,232	993	3.5%
[redacted]					
Total loans and advances to customers	28,498		27,558	939	3.4%
[redacted]					

(*) Excluding non-performing loans, repurchase agreements through counterparties institutions or with financial intermediaries, or other financial assets (mainly bonds to hedge market transactions)

Loans classified by credit risk(*)
€ millions

	30/06/2020	Compos.	31/12/2019	abs. v.	rel.v.
TOTAL LOANS AND ADVANCES TO CUSTOMERS	**29,225**	**100%**	**28,232**	**993**	**3.5%**
1. Performing loans to public sector	**1,868**	**6%**	**1,704**	**164**	**9.6%**
2. Performing loans to private sector	**24,626**	**84%**	**24,097**	**530**	**2.2%**
Corporates	**7,425**	**25.4%**	**6,848**	**577**	**8.4%**
[redacted]					
Individuals	**17,202**	**58.9%**	**17,249**	**-47**	**-0.3%**
[redacted]					
3. NPLs	**1,320**	**4.5%**	**1,351**	**-31**	**-2.3%**
4. Reverse purchase agreements and other	**1,411**	**4.8%**	**1,081**	**330**	**30.5%**

[redacted]

Performing loans balance of the Group stands at EUR 27,905 million. Of these, EUR 1,868 million correspond to loans to public sector, EUR 24,626 million to private sector loans and EUR 1,411 million to reverse repos and other unclassified balances, the latter being collateral for financing transactions in markets and derivatives, as well as to suspense account awaiting settlement. By portfolio type, the most important are retail loans with mortgage guarantees, representing 51.0% of total performing loans, and the SME and self-employed portfolio, accounting for another 13.0%.

Performing loan balances have posted positively in the course of the year despite the slowdown in lending, resulting from the declaration of the state of alert. So it is that if the contingency impact of extraordinary advances posted at the end of June is stripped out, performing loans to customers are EUR 294 million higher than at the end of 2019. This rise combines the growth of transactions with public administrations (EUR 164 million) and corporates (EUR 577 million) with the reduction of positions with individuals (- EUR 447 million, excluding the temporary positions indicated), a consequence of the slowdown in the second quarter of the mortgage market and of the sharp reduction in demand for consumer credit.

Thus, the most negatively affected segment is that of individuals, both in terms of mortgage lending, where production over the half year has been 35% lower than in the same period in 2019, and that of personal loans, where production was 45% down on the first half of 2019. On the contrary, loans to SMEs, boosted in recent months by the supply of special lines of financing designed to shore up the consequences of the pandemic, and large corporates are posting increases over the same period last year.

6. Credit quality

The Group continues with its effective strategy of reducing its non-performing assets, with the balance of the latter standing at EUR 1,320 million at the end of June 2020, representing a decrease of 72% over existing non-performing balances at the end of 2014.

In the previous 12 months, it has fallen by 23.8% (EUR -411 million), representing a further improvement in the NPL ratio, which has edged to 4.5%, representing a drop of 1.4 pp in the last 12 months. Due to the Covid 19 crisis, the pace of outflows of this balance sheet item has slowed in the year. Nonetheless, the bank posted a EUR 31 million decrease, while gross entries where EUR 114 million. On the other hand, despite the slowdown, there is considerable improvement in recoveries, which, excluding write-offs, means the Entity has recorded seventeen consecutive quarters of net outflows (if the effect of the Banks of Spain Circular 4/2016 in Q4 2016 is stripped out).

In addition, so far this year, an extraordinary provision of EUR 103 million has been made to cover the impact of the Covid 19 crisis on credit risks. This means that coverage levels have risen significantly, improving both in terms of the first six months (6.9 pp) and in the last 12 months (8.8 pp), to reach 60.9%. Excluding the extraordinary provisions, the levels of credit risks are slightly higher than those recorded last year.

7. Foreclosed assets

At 30 June 2020, the balance of foreclosed assets, net of provisions, amounted to EUR 430 million euros (Eur 1,142 million gross), representing only 0.7% of Unicaja Banco Group's total assets. 52.9% of the foreclosed assets, at net book value, are finished new housing.

Foreclosed real estate assets. Unicaja Banco Group
June 2020. € millions

	Net book value	Value adjust.	Gross value	Coverage (%)
Real estate from construction & development	**172**	**395**	**567**	**69.6%**
[redacted]				
From retail mortgages	**193**	**182**	**375**	**48.5%**
Other foreclosed assets	**64**	**136**	**200**	**67.9%**
TOTAL FORECLOSED ASSETS	**430**	**713**	**1,142**	**62.4%**

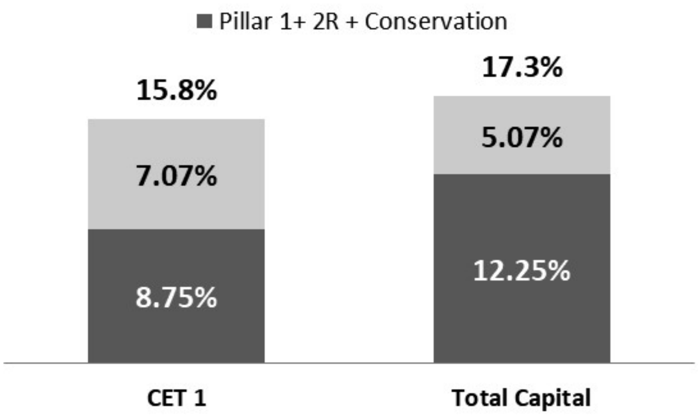
Note: The amount of the coverage includes both value corrections from impairments linked to foreclosures and the coverages prior to acquiring the assets, which covered the impairment of the credit instruments from which they came.

Foreclosed real estate assets have fallen in the last 12 months 28.8% in gross terms, a drop of EUR 461 million. This has increased the coverage ratio, which now stands at 62.4%, with provisions at the end of June 2020 amounting to EUR 713 million.

8. Solvency

Unicaja Banco Group has a common equity tier 1 ratio (CET1) of 15.8% and a total capital ratio of 17.3%. In fully loaded terms Unicaja Banco has a CET1 ratio of 14.4% and a total capital ratio of 15.9%. If we exclude from this fully loaded ratio the deduction of the authorised limit on unused treasury stock to 30th June, the ratios would stand at 14.3% and 15.8% respectively.

The levels required by the ECB (including progressive application of systemic and conservation buffers) for 2020, sets the CET1 ratio at 8.75% and the total capital ratio at 12.25%. This means that the Group has, excluding the limit on unused treasury stock mentioned above at June 2020, a surplus of 707 basis points (EUR 1,639 million) over its CET1 requirements and of 507 basis points (EUR 1,176 million) over its total capital requirements.



The Texas ratio comes in at 45.1% at the close of the first quarter of 2020. The lower this ratio, the better the quality of the balance sheet and liquidity. In the case of the Group, the ratio has gone down by 15.0 pp in the year.

(*) Pro forma data: June 2020 includes the effect of the IFRS 9 phase-in introduced by Regulation (EU) 2020/873, subject to approval by the supervisor, and the deduction of software for prudential purposes (awaiting final RTS publication).

9. Liquidity

Unicaja Banco Group had at 30 June 2020 a liquid and discountable assets position at the European Central Bank, net of assets used, of EUR 15,095 million, representing 24.0% of the balance sheet total. This large volume of liquid assets will enable the forthcoming wholesale funding maturities in the markets to be managed comfortably (EUR 690 million in 2021 and EUR 182 million in 2022).

Discountable liquid assets of the Unicaja Banco Group
€ millions

Liquid Assets	
[redacted]	
Total liquid assets (at ECB discount value)	**26,301**
Used liquid assets	
[redacted]	
Total used liquid assets	**11,206**
Discountable liquid assets available	**15,095**
Percent of total assets	**24.0%**

(1) Interbanking deposits + surplus in ECB account and operating accounts

Debt securities maturities
€ millions

	Debt securities (*)
2020	[redacted]
2021	[redacted]
2022	[redacted]

(*) Includes multi issuer covered bonds

The Group's high liquidity levels are reflected in its LTD ratio which, at the end of June 2020, stands at 69.7%. The ratio is an indicator of the Group's very comfortable liquidity level and has improved over the course of the year, thanks to the strong growth in customer deposits in this period.

LTD ratio performance Unicaja Banco Group (*)	Ratio %
[redacted]	

(*) Loan to deposits (no valuation adjustments in either case). Excludes transactions balances in wholesale markets for both credit and deposits.

10. Branch network

Unicaja Banco Group operates exclusively in Spain and mainly in the autonomous communities of Andalusia, Castilla y León and Madrid, Castilla La Mancha and Extremadura. 83% of Unicaja Banco Group's offices are in the Communities of Andalusia and Castilla y León; of these, the provinces of Málaga (with 17%), Valladolid (8%), León (7%), Salamanca (7%), Almería (6%) and Cádiz (6%), have the greatest specific weighting in the Unicaja Banco Group. At 30th June 2020, Unicaja Banco Group had a network of 1,029 offices: 1,028 offices in Spain, in 38 provinces and in Ceuta and Melilla; and 1 correspondent office in the United Kingdom (offices "open to the public" according to the Bank of Spain's definition include "ventanillas desplazadas" (or small branches with reduced business hours and offices abroad).

Business network distribution					
Country	Autonomous Region	Branches open to public at 30/06/2020		Branches open to public at 31/12/2019	
		Number of branches	Share (%)	Number of branches	Share (%)
SPAIN	Andalucia	501	48.7%	501	47.9%
	Aragon	1	0.1%	1	0.1%
	Asturias	3	0.3%	3	0.3%
	Cantabria	1	0.1%	1	0.1%
	Castile-Leon	349	33.9%	364	34.8%
	Castile-La Mancha	49	4.8%	50	4.8%
	Catalonia	1	0.1%	1	0.1%
	Ceuta	1	0.1%	1	0.1%
	Community of Valencia	2	0.2%	2	0.2%
	Extremadura	40	3.9%	42	4.0%
	Galicia	6	0.6%	6	0.6%
	La Rioja	1	0.1%	1	0.1%
	Madrid	67	6.5%	67	6.4%
	Melilla	3	0.3%	3	0.3%
	Murcia	1	0.1%	1	0.1%
	Navarra	1	0.1%	1	0.1%
	Basque Country	1	0.1%	1	0.1%
Total number of Branches in Spain		**1,028**	**99.9%**	**1,046**	**99.9%**
Country	City	Branches open to public at 30/06/2020		Branches open to public at 31/12/2019	
		Number of branches	Share (%)	Number of branches	Share (%)
UK	London	1	100.0%	1	100.0%
Total number of Branches abroad		**1**	**0.1%**	**1**	**0.1%**
Total Branches		**1,029**	**100%**	**1,047**	**100%**

At 31st September 2020, according to the Statement FI-132 on market share published by Bank of Spain, in the autonomous communities of Andalusia and Castilla-Leon, the bank's market share of customer deposits was 12.8% and 21.6% respectively, and of customer loans 9.7% and 12.7% respectively. Unicaja Banco Group has 12.8% of the offices in Andalusia and 20.7% of those in Castilla y León, according to the latest information available from the Bank of Spain on 31st March 2020.

11. Risk Management and Control

The risk management and control system rolled out by the Unicaja Banco Group is organised in accordance with the following basic mechanisms:

- The governance and organisation system in the risk function is abed on the participation and active supervision on the part of Senior Management, who approves the general business strategies and policies of the Bank and sets the general lines of risk management and control in the entity.
- A Risk Propensity Framework (also known as the Risk Appetite Framework, or RAF) that is put in place in the Group as a fundamental instrument for implementing risk policy.
- The Group follows a conservative approach to risk exposure and strives to maintain a permanently prudent and balanced risk profile, keeping to its solvency, profitability and capital adequacy targets. This translates into a solid and consistent risk culture.
- A selection of suitable risk identification, measurement, management and control in continual improvement and in line with the regulatory requirements, and, at the same time, bringing own resources' requirements in line with the level of risk arising from the banking business.
- A supervision model based on three lines of defence, in agreement with the expectations of the supervisory and regulatory authorities.

At the Unicaja Banco Group, policies, methods and procedures related to Global Risk Management are approved and periodically reviewed by the Board of Directors.

Centred on legal framework in force, the organizational structure of Unicaja Banco includes the Global Risk Control and Supervisor Relations Division, which reports to Unicaja Banco's Control, Strategy and Supervisor Relations Division. It is functionally independent of the areas that originate the risk. One of the duties of this Department is to take overall control of all the risks incurred by the Bank. On a departmental level, the organisation has a well-defined internal structure that acts as support and allows the decisions taken to be implemented.

11.1. Risk Appetite Framework

The management and control of the Group's risks is organised by policies that include the "Risk Appetite Framework", which is approved by the Bank's Board of Directors.

The Unicaja Banco Group uses the RAF as an instrument for implementing the Group's risk policy and as a key management and control tool that allows it to: (i) formalise the statement of risk appetite; (ii) outline the risk objectives of the Group in line with the corporate strategy, and so acting as an important reference of activities carried out, (iii) formalise the mechanism for supervising and monitoring risks, such that compliance with the risk appetite is ensured, (iv) integrate in a single common framework all of the risk control and management processes, and (v) disseminate its risk culture.
The development of this Framework as the Group's general risk policy is organised as a fundamental element in the management and control of the Bank, providing the Board of Directors and the Senior Management with an integral framework that determines the risks that the Entity is willing to take to reach its business objectives.

In addition, this framework sets up different metrics to quantify, control and follow-up on risks, allowing the entity to react given certain thresholds or circumstances. These metrics characterise the target behaviour of the Unicaja Banco Group, they are transversal for the entire organisation, and so allow the risk appetite culture to be transmitted to all levels in a systematic and understandable manner. These in turn, summarise the Group's objectives and limits, making them highly useful for communication to lobby groups, if any, and they are uniform, as they are applied throughout the organisation.

The Group has a system for identifying material risks, which establishes methods for quantifying all the risks to which the Bank is exposed. It also defines criteria for selecting risks that are material and, thus, require more intensive management and control. This intensive management and control entails, among other things, allocating internal capital within the Internal Capital Adequacy Assessment Process (ICAAP), or, in the case of liquidity risk, the allocation of a liquidity management buffer as part of the Internal Liquidity Adequacy Assessment Process (ILAAP). The process of quantifying and identifying material risks is conducted recurrently, allowing the Bank to identify emerging risks at all times.

Taking this process as a base, the appetite and tolerance is established in the Risk Appetite Framework for at least each material risk, as well as for certain risks which, despite no viewed as material are still subject to ECB supervision, a qualitative statement to select a set of risk indicators or metrics and a calibration methodology is defined that allows target thresholds, early warnings and limits to be established.

The Global Risk Control Department monitors compliance with the Risk Appetite Framework using the existing metrics for each kind of risk. Any findings are put to top management, as well as to Governance Bodies.

Finally, the Bank has integrated the Risk Appetite Framework with the strategy, the ICAAP, the ILAAP, corporate risk policies and the Recovery Plan, among others.

11.2. Governance

The management and control model requires a robust, efficient organisational structure. This requires the effective involvement of the Board of Directors and the Senior Management, and it must have suitable coordination with the Organisation as a whole.

Below is a list of levels directly involved, indicating their main functions and responsibilities in the area of risk management and control, without prejudice to other functions provided by the Law, the Articles of Association as well as in the regulations and manuals of the Entity, as the case may be.

Board of Directors

All policies, methods and procedures related to Global Risk Management are approved by the bank's Board of Directors. Hence, within this scope, the main functions attributed to this body are:

- Approve the risk control and management policy, including tax policy, and a periodic monitoring of the internal reporting and control systems.
- Approve the RAF and subsequent amendments, at the proposal of the Risk Committee.
- Take the RAF into consideration in the ordinary management of the Bank and especially, in adopting strategic decisions.
- To be informed, at least once a quarter, on RAF monitoring by the Risk Committee, notwithstanding any other information that may be required at any time.
- To adopt the appropriate relief measures, when these are deemed necessary.
- To approve, where appropriate, adherence to situations that entail the breaching of thresholds.

Risk Committee

Among its main functions includes:

- Advise the bank's Board of Directors on the entity's current and future global risk appetite and its strategy in this area, as well as helping the Board in monitoring the application of this strategy.
- Ensure that the risk control and management systems work properly and, in particular, adequately identify, manage and quantify all important risks that affect the Company.
- Ensure that the risk control and management system mitigates risks adequately within the policy established by the Board of Directors.
- Play an active part in drawing up the Company's risk management policy, ensuring that this identifies at least:
    - The different kinds of financial and non-financial risk (including operational, technological, legal, social, environmental, political and reputational risk) that the Company faces, including contingent liabilities and other off-balance sheet risks among the financial and economic risks.
    - Setting the level of risk that is acceptable to the Company.
    - The measures envisaged to mitigate the impact of the risks identified, in the event that they should materialise.
    - The internal reporting and control systems to be used to control and manage the aforementioned risks, including contingent liabilities or off-balance sheet risks.
- In particular, as part of the RAF:
    - Propose the approval of the RAF and subsequent amendments to the Board of Directors.
    - Report to the Board of Directors about monitoring the RAF at least every quarter, or at any time at their request.
    - Request information from the different Departments about the RAF whenever they may consider this advisable.
    - Propose the appropriate relief measures, when these are deemed necessary.
    - To propose to the Board of Directors, where appropriate, adherence to situations that entail the breaching of thresholds

Audit and Regulatory Compliance Committee

The committee's functions relate to:

- Internal information and control systems, supervising the effectiveness of the system for the internal control of financial information (SCIIF, in the Spanish acronym), among other matters.
- Internal auditor
- Accounts auditors
- Compliance with the rules of corporate governance
- Regulatory compliance.
- Structural and corporate amendments that the Group plans to carry out.

These functions also include the assessment of everything to do with the company's non-financial risks – including operational, technological, legal, social, environmental, political and reputational risks.

Technology & Innovation Committee

The functions of this Committee include the general tracking of technological risk.

Strategy & Transformation Committee

Its functions include the following related to the RAF:

- Validate and raise with the governing bodies, where appropriate, draft proposals about the institution's strategic planning, among them the RAF.
- Relay the main criteria of the RAF, whether the initial ones or any future amendments, to the rest of the Bank through the appropirate Departments in each area, in order to maintain a sound "risk culture" in Unicaja Banco.
- Assess the implications of the RAF, in their respective areas of competence, in co-ordination with the Internal Committees of the Entity, which will, in turn, forward these on to the qualified Departments should this be necessary:

11.3. Risk Control Model

The Entity's risk management and control model takes into account, among others, the following risks:

- Credit, concentration and NPL management risks
- Market risk.
- Operational risk.
- Interest rate risk in the banking book (IRRBB).
- Business and strategy risk.
- Real Estate risk.
- Liquidity risk.

Credit, concentration and NPL management risks

Credit risk is defined as the risk of losses incurred as a result of default on payments due to the Bank. This is inherent to its daily operations.

Unicaja Banco has a Manual of Customer Credit Risk, Policies, Functions and Procedures, approved by the Board of Directors, as the right control and management framework for the credit risks inherent to the Bank's lending.

This defines the mandatory policies and procedures for risks, it details the activities and tasks, delimits the responsibilities of the different areas involved in the processes of granting and monitoring transactions, it establishes the risk appetite decided upon by the Bank and how this is articulated through risk limits and types of transactions and it documents all general and special aspects associated with much of the lending operation in a structured and uniform manner.

Likewise, Unicaja Banco Group has scoring and rating models that are built into its admissions, tracking and recoveries procedures. PD, LGD and EAD estimates are taken into account and used widely, such as when originating transactions, calculating provisions or in classifying credit transactions. The Board of Directors is responsible for authorising the risk models.

The principles developed to such end are in line with the Bank's current situation and included in the "Manual of credit risk policies, functions and procedures" and with the regulatory requirements of the Bank of Spain, including the following points:

- Concession criteria linked to the borrower's payment capacity.
- Payback plan tailored to the customer.
- Prudent ratio between the sum of the transaction and the value of its guarantee (LTV).
- Transaction marketing policy.
- Guarantee appraisal policy.
- Consideration given to the variability of interest rates and the exchange rate in lending denominated in foreign currency.
- Interest rate risk hedging.
- Policy for exceptions to the transaction conditions.
- Warning the customer about breaching their payment obligations.
- Debt renegotiation policy.
- Information about the cost of services linked to the loan transaction.
- Obligation to provide information to purchasers acquiring houses by subrogating a developer loan.

Unicaja Banco Group has systems in place to comply with Act 5/2015 to support business activity, which recognises the unalienable rights of SMEs and self-employed workers in those situations in which a credit institution decides to revoke or reduce the flow of funding.
Furthermore, depending on the beneficiaries, type, guarantees and characteristics, the granting of a transaction must be put to a decentralised approval process, based on the joint authorities of the following decision-making bodies:

- Board of Directors.
- Credit Committee.
- Credit Committee of the Corporate Credit Risk Division.
- Credit Committee of Corporate Banking.
- Credit Committee of the Territorial Divisions
- Credit Committee of Department of Territorial Divisions
- Credit Committee of the Branch

The functions and methodologies used for controlling credit risk are implemented both in the admission phase and in the lending operation monitoring phase.

Pursuant to the regulations in effect, the Unicaja Banco Group has a re-financing, re-structuring, renovation or re-negotiation policy with a view to independently manage the actions taken in problem risk management concerning actions related to performing risks.

Moreover, the Unicaja Banco Group has methodologies, procedures tools, and operating standards for checking and recovering non-performing assets.

Market risk.

Market risk is defined as the potential losses for the Bank on positions they keep in the markets resulting from adverse movements of financial variables or risk factors that determine the value of such positions.

Although market risk is allotted to trading positions for solvency purposes, the Unicaja Banco Group has developed policies, processes and tools for managing market risk for the entire portfolio of securities booked at fair value, including sovereign exposures and share-holdings.

In order to manage market risk adequately, the Group has tools that enable it to define, calculate and monitor market risks and the limits authorised therein, in particular "Value at Risk" (VaR) and operating limits on credit /counterparty risk that affect Unicaja Banco Group's transactions in capital markets.

The market risk assessment and analysis process is based on implementing the following functions:

- Market data management.
- Measurement.
- Control.

Through of limits and diversification, the Group can control exposure to market risks, by defining an action framework for the different operations that the Bank engages in the financial markets, such that these are conducted within this framework. The limit structure is also used as a means of diversification to prevent highly concentrated exposure to market risk.

The responsibility for identifying and controlling risk ultimately lies with the Unicaja Banco Group's Governing Bodies, such that the Senior Management is responsible for, and must play an active part in the entire risk management process (planning, approval, valuation and control of all risks inherent to the positions taken by the Bank in financial markets).

Operational risk

Operational risk is defined as the risk of incurring losses due to the inadequacy or failure of processes, staff or internal systems, or due to external events. Reputational, model, technological, behavioural, legal and tax risk are included as operational risk, while strategic risk is not.

Likewise, operational risk includes technology risk, reputational risk and behavioural risk.

Technological risk is the risk associated with technological tools, operating systems and new technologies. It is a broad risk that encompasses all and any I.T. or technological action.
Reputational risk is defined as the risk of loss as a result of a deterioration of the Entity's image, either due to events that have occurred in the Entity itself or due to external events (macro-environment) that affect the industry's reputation in general. Reputational risk may be a consequence of other risks: reputation loss arising from other events, that we think of as "opportunity cost".

The Unicaja Banco Group has traditionally been very demanding in aspects pertaining to managing reputational risk. Customer satisfaction and the Bank's good image are standing objectives of all its employees as well as of the highest levels of management and administration of the Company.

This on-going effort to maintain and strengthen the Entity's good image is founded on the global culture and translates into specific measures that include, among others:

- The Bank's strategic objectives.
- The Code of Conduct, the Corporate Social Responsibility Policy and the Criminal Risk Prevention Programme approved by the Board of Directors of the Bank.

- The steps taken by the three lines of defence.
- Compliance with the general regulatory framework and, in particular, with the market regulations on financial instruments and investor protection ("MiFID") and Protection of Users of Financial Services.
- The process of continued education of employees in all areas in which the Bank operates, specifically including training in ethical aspects, in accordance with the Bank's Code of Conduct.

Lastly, behavioural risk is the risk of internal mal-practise incurred by the Bank at the time of an event, whether it knew about the action (in an informed manner or in bad faith on the part of the perpetrator) or due to ignorance, which does not exempt the bank from behaving correctly.

The Unicaja Banco Group ensures that its products are correctly developed, issued and distributed and that its services are provided correctly, guaranteeing compliance with the legislation in force.

The Unicaja Banco Group has established a set of procedures to compile operational loss events. These provide the Group with the necessary information to implement the pertinent operational risk management mitigation policy instruments. The Bank relies on an Operational Risk Framework, approved by the Board of Directors, and has disseminated and implemented it throughout the Organisation.

Starting December 2017, the Entity uses the Standard Method as a methodology for quantifying operational risk in terms of capital, with a view to enhancing operational risk management, in line with the Bank's risk culture.

Interest rate risk in the banking book (IRRBB)

Interest rate risk on the banking book (IRRBB) is defined as the current or future risk to both the results and the value of the Entity as a result of adverse movements in interest rates which impact instruments that are sensitive to interest rates.

The control functions and methodologies implemented by the Bank include defining the limit structure, thresholds control and control over the effectiveness of balance sheet hedging as mitigation instruments and the use of stress-testing measures. As such, the Group's analysis, measurement and control of the interest rate risk uses techniques to measure sensitivity and scenario testing that could significantly affect the Bank.

Based on the findings of exposure to structural interest rate risk by the Unicaja Banco Group, a series of actions are organised, aimed at mitigating this exposure to bring it down to the acceptable levels defined in the Bank's risk profile.

- The Board of Directors approves the overall Bank's risk management strategy and sets the general lines and controls of this management.

- The Assets, Liabilities and Budget Committee (ALBCO) develops the strategy within the framework and the limits set by the Board of Directors.

Business and strategy risk

This is the risk of incurring losses arising from an inaccurate analysis of the market in which the Bank operates, from a lack of knowledge thereof or from failure to achieve business objectives, which could eventually threaten the feasibility and sustainability of the Bank's business model.

To analyse the robustness of its business model, the Group conducts an exercise to identify both its potential internal and external vulnerabilities, bearing in mind the probability of occurrence and its impact. It also defines mitigation measures in order to cope with them.

Real Estate risk

This is the risk associated with the loss of value of the real estate assets on the Bank's balance sheet.

The Unicaja Banco Group sets limits to real estate risks on those assets received in foreclosures with a view to controlling this exposure and keeping it within suitable levels.

These assets are managed by the Bank with the final purpose of selling or leasing them. To such end, the Unicaja Banco Group has special purpose vehicles that specialise in managing urban development projects, marketing real estate and leasing real estate assets. It also has specific units for developing these strategies and co-ordinating its subsidiary companies.

Furthermore, the Bank has a decentralised governance structure that ensures that this is managed and controlled properly by means of an authority framework.

Liquidity risk.

Liquidity risk can be defined in different ways because it is not a single concept. There are three generally accepted types of liquidity risk, which we will classify here as follows:

- The cost of unwinding a position in a real or financial asset (this refers to the difficulties that may arise when undoing or closing a market position at a particular moment without impacting on the market price of instruments or on the transaction cost (Market or Asset Liquidity).
- Mismatch between current liabilities and the rate of asset transactions (*funding liquidity*).
- Inappropriateness of the investment activity's growth capacity resulting from the inability to find financing that matches the risk appetite to leverage asset growth strategies (strategic or structural liquidity).

The Bank establishes prudent policies and objectives that not only contemplate normal market conditions, but also contingency plans for situations of stress or crisis, either within the organisation or in the market.

The Unicaja Banco Group has set limits on liquidity risk to control exposure to it and to keep such exposure within authorised levels.

In general, liquidity is considered adequate if potentially liquid assets and the funding capacity are greater than the needs arising from the business and from refinancing in the markets. The greater this difference is, the greater the liquidity available.

The Unicaja Banco Group also follows a policy of diversification to avoid exposure to overly concentrated structural liquidity risk. In managing its liabilities, it also diversifies its sources of funding, guaranteeing that these are diversified by markets, terms and products, in order to prevent difficulties in particular moments of crisis or in the market.