

**ANNUAL REPORT OF THE AUDIT
AND REGULATORY COMPLIANCE
COMMITTEE OF UNICAJA BANCO,
S.A.**

FINANCIAL YEAR 2017

[This present report includes information on the auditor's independence and the report on related party transactions, pursuant to Recommendation 6 of the Good Governance Code of Listed Companies.]

Malaga, March 2018

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1. INTRODUCTION

Article 31.13 of the Board of Directors Regulations of Unicaja Banco, S.A. (hereinafter, “Unicaja Banco”, the “Company” or the “Institution”) establishes that the Audit and Regulatory Compliance Committee (hereinafter, the “Committee”) shall submit annually to the Board of Directors a report on its operation.

In compliance with the said provision, this present annual report on the Committee operation is drawn up, corresponding to the financial year 2017.

2. REGULATION

Article 529 *terdecies* of the Spanish Restated Text of Corporate Enterprises Act (*Ley de Sociedades de Capital*) establishes that listed companies shall constitute, at least, an Audit Committee, its composition, operation and responsibilities being regulated in article 529 *quaterdecies* of the said law.

Unicaja Banco’s Audit and Regulatory Compliance Committee internal regulation is set forth in Article 25 of the Bylaws and in Article 31 of the Board of Directors Regulations, which define, among others, its composition, operation and responsibilities; as well as in other internal rules where reference is made to the Committee.

The Bylaws and the Board of Directors Regulations have been amended during the financial year 2017, within the framework of the Institution’s IPO, to adapt them to the regulatory requirements and to the corporate governance practices of listed companies. Amendments include the change to the Committee’s name and functions, which will be detailed below.

Furthermore, on 21 February 2018, the Company’s Board of Directors, upon proposal of this Committee, approved the Audit and Regulatory Compliance Committee Regulations, which develop the provisions set in the Bylaws and the Board of Directors Regulations, and which assume, following its recommendations, the principles of the Technical Guide 3/2017 of 27 June of the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*, CNMV), on audit committees at public-interest companies.

3. COMPOSITION

As at 31 December 2017, the Committee composition was:

Table 1

Director	Position	Category	Appointment date
Mr. Eloy Domínguez-Adame Cobos	Chairman	Independent	25/04/2014
Mr. Agustín Molina Morales	Member	Proprietary	24/10/2013
Mr. Victorio Valle Sánchez	Member	Independent	02/12/2011
Mrs. Isabel Martín Castellá	Member	Independent	05/07/2017
Mr. Juan Fraile Cantón	Secretary	Proprietary	02/12/2011

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The only modification in the Committee composition during 2017 has been the replacement of Mrs. Petra Mateos-Aparicio Morales by Mrs. Isabel Martín Castellá. The said replacement was effective once Mrs. Isabel Martín Castellá took office as Director, attending the first Committee meeting on 5 July 2017.

All the Committee members are Directors without executive functions at the Company, and a majority of them, including the Chairman, are independent Directors.

In light of the above, the Committee composition meets the requirements for listed companies set by the Spanish Law 31/2014, of 3 December, amending the Corporate Enterprises Act, and by the Law 22/2015, of 20 July, on Auditing, for public-interest companies.

The Committee members have been appointed taking into account on their knowledge and experience in the fields of accounting, auditing or risk management.

The Committee members’ professional profile, as well as that of the rest of the Company’s directors, can be found at the Company’s corporate website (www.unicajabanco.com).

4. FUNCTIONS AND DUTIES

During the financial year 2017, the Committee has performed all the functions provided for in the laws in force applicable to the Company from time to time, assisting the Board of Directors in its oversight duties via the regular review of the process of preparation of the economic and financial information, of the internal audit and regulatory compliance functions –in the terms established below- and of the external auditor’s independence.

The Committee’s functions are set forth in Article 31 of the Board of Directors Regulations and are related to (i) information and internal control system; (ii) the external auditor; (iii) compliance with corporate governance rules; and (iv) regulatory compliance.

As it was said before, the Board of Directors Regulation have been amended to include, *inter alia*, the change to its name and the incorporation of functions –such as those related to regulatory compliance-, and to adapt its contents to the regulations applicable to listed companies and to the recommendation of the Good Governance Code of Listed Companies.

The mentioned amendment to the Board of Directors Regulations was reported at the Annual General Meeting of Shareholders held on 26 April 2017, as established in Article 13 of the By-laws, and it came into force when the Company became publicly listed, on 30 June 2017.

5. MEETINGS HELD

In accordance with that established in the Board of Directors Regulations, the Committee must meet, at least, quarterly. During the financial year 2017, the Committee has held 19 meetings, 100% of which were attended by all its members (in person or by proxy), with the exception of one meeting to which Mrs. Isabel Martín Castellá could not attend, apologizing for her non-attendance.

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All the Committee meetings have been duly called in advance, and its members have been provided with the appropriate documents related to the items on the meetings’ agenda, through the documentary support tool that the Institution has enabled for the members of the Board.

The length of the Committee meetings varies depending on the items discussed, but always ensuring that there is time enough to deal with the different items with the necessary detail. All the members participate actively in all the meetings.

Minutes have been drawn up for all the meetings held, and these have been unanimously approved. The minutes follow the agenda of each meeting, including in detail the items discussed and the resolutions approved. The Committee Chairman informs the Board of Directors of the topics addressed and conclusions reached, in the immediately following meeting. The minutes are at the disposal of the Board of Directors.

The Committee may require executive directors, members of the management team or other staff that it deems appropriate to attend the meetings. During the year, the Committee has maintained fluent and frequent contact with the Company’s management team. The Head of Internal Audit and the General Director of General and Technical Secretariat recurrently attend all the meetings and during all the session. The Head of Regulatory Compliance, since the duty to oversee that function was assignment to the Committee, usually attends the meetings to speak on the topics for which he is required.

Additionally, different members of the organization’s management team with knowledge or responsibility on items on the meeting agenda have been invited, so that they report on different topics and, therefore, facilitate the Committee’s exercise of its functions. In this regard, among others, the following persons have attended the meetings: General Director of Assets Recovery, Non-core Business and Investees, General Director of Control, Strategy and Relations with Supervisors, Corporate Director of Risk Credit, Corporate Director of Resources and Transformation, Head of Legal Advice and Head of Financial and Fiscal Information.

Executive directors only attend the meetings if they have been previously invited by the Chairman Committee due to the nature of the item to be discussed and exclusively to address that item, having, therefore, an exceptional nature.

Likewise, members of the Company’s external auditor (PricewaterhouseCoopers), in compliance with their role to inform the Committee, have attended the Committee meetings when they have been required to do so, in a total of 6 meetings during the financial year 2017.

The Committee Chairman has held, during the year, several meetings with representatives of the banking supervisor, so as to discuss topics related to the Committee’s functions. Both the Committee and the Board of Directors have been duly informed of said encounters.

6. SIGNIFICANT ACTIVITIES PERFORMED

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During the year 2017, the Audit and Regulatory Compliance Committee has submitted to the Board of Directors, for approval, a set of proposals in relation to different topics. The following are the main areas addressed by the Committee:

Activities related to Financial Reporting

The Committee has reviewed, prior to the Board of Directors, the annual accounts and the interim financial statements, which have been disclosed to the public and to the supervisory bodies.

The General Directorate of Control, Strategy and Relations with Supervisors, or the Head of Financial and Fiscal Information, have attended to inform about them on four occasions. This has allowed the Committee to know the process of preparation and consolidation of the financial information, and to check its adequacy to the regulations and accounting principles applicable by the competent regulators and supervisors, therefore ensuring the integrity of the financial and accounting information systems and the true and fair view of the financial situation and results.

The meetings at which the financial statements were discussed are those held on 23 March 2017, 18 May 2017, 27 July 2017 and 26 October 2017. At all those meetings, the Committee reported favourably on the financial statements, expressly mentioning that the financial information had been prepared following the principles and practices applied in the annual accounts. This has been made by the Committee with the assistance of the statutory auditor, which was present at the meetings of March, May and July.

The annual accounts and the management report, both individual and consolidated, of the year 2016, were submitted to the Annual General Meeting held on 26 April 2017 on first call. The Committee, at its meeting of 23 March 2017, reviewed and reported favourably on the said documents and financial statements prior to their approval by the Board of Directors on 24 March 2017.

The Information of Prudential Relevance (“IPR”) was reviewed by the Committee at its meeting of 25 April 2017, after having been addressed in previous meetings with regard to its preparation and conclusions.

The Committee has regularly monitored the implementation of the “International Financial Reporting Standards 9” (IFRS9), which regulates the recognition, classification, value measurement, impairment and general accounting of hedges of financial instruments, until it came into force on 1 January 2018.

Activities related to the External auditor

Appointment

In accordance with that established in the regulations, the Audit and Regulatory Compliance Committee, at its meeting held on 23 February, proposed to the Board of Directors to submit to the Annual General Meeting of Shareholders the re-election of PricewaterhouseCoopers Auditores, S.L. (“PwC”) as the statutory auditor of Unicaja Banco, S.A. and its consolidated group for the financial years 2017, 2018 and 2019, as it has been

doing since the Institution was established in 2011, and whose mandate expired at the end of the financial year 2016.

The re-election took into account the rotation requirements established by the Spanish Law 22/2015 of 20 July, on Auditing, and the Regulation (EU) 537/2014, applicable to public-interest entities, having no incompatibilities and meeting the requirements of independence.

Participation in the Committee and the Board

The relationship with the external auditor is frequent and fluent. In particular, during the financial year 2017, representatives of the auditor have been present at six Committee meetings and at three meetings of the Board of Directors. At the Committee meetings, the statutory auditor informs about the conclusions of the auditing procedures carried out on financial information, as well as on key features of the audited period.

The Committee, at its meeting of 23 March 2017, was informed of the statutory auditor’s written confirmation of its independence vis-à-vis the Company and companies directly or indirectly related to it, as well as of the additional services of any kind that it provides. The Committee issued, prior to the issuance of the audit report on the annual accounts, a report confirming the independence of the statutory auditor.

At that same meeting, representatives of the external auditor presented their forecast to issue favourable report on the individual and consolidated accounts for the financial year 2016.

Representatives of the external auditor have taken part in several meetings of the Audit and Regulatory Compliance Committee to present the new regulatory developments in the field of external auditing and, in particular, regarding the new report format.

Finally, the external auditor issued the corresponding report on the protection of clients’ assets, presented at the meeting of 30 May.

Activities related to Internal Audit

The Internal Audit Function depends functionally on the Audit and Regulatory Compliance Committee and, during the financial year 2017, it has carried out a permanent control and monitoring of the Institution’s activities, as well as an independent and objective review. To perform those oversight functions, it has had full access to all the information and documentation of the Institution.

At the meeting held on 26 January, the responsible for the internal audit function presented the annual plan of activities of Internal Audit for 2017. Progress achieved in the said Plan was explained by the heads of Internal Audit at the meeting held in July.

The head of Internal Audit submitted to the Committee, at the meeting held on 23 February 2017, the Annual Report of Activities of Internal Audit 2016, which includes all the actions carried out, as well as the main deficiencies detected and internal audit recommendations.

The Internal Audit function regularly reports to the Committee on the progress achieved in the compliance with the requirements and recommendations issued by its Directorate. During this financial year, this has been covered at the meetings of 25 April, 29 August and 7 November.

At the meeting held on 18 May, the Committee reported favourably on the amendment to the Internal Audit Charter and Ethics Code, which were approved by the Board of Directors at their meeting of 19 May.

At the meeting held on 26 October, the Committee approved the reinforcement of the internal audit function’s role and responsibilities in relation to the review of functions and processes in the management of non-performing assets.

Activities related to Regulatory Compliance

When the Institution became publicly listed on 30 June, the Audit and Regulatory Compliance Committee started to develop its role of oversight of all those areas related to the Company’s regulatory compliance. Thus, since the meeting held on 5 July –first meeting after the IPO-, those responsible for the regulatory compliance function started to inform of the working methodology, the reports that they prepare and their reporting to Institutions. At that session it was agreed that the Committee would monitor any requirement received from the regulators and supervisors, as well as any inspection and supervisory action.

A relevant milestone during this year has been the implementation at the Institution of “MiFID II”. The Committee has monitored its scheduling, progress and key features of the project.

Regardless of the fact that the oversight of the Regulatory Compliance function has been assigned to the Committee, the Committee had been performing the oversight in the field of money-laundering prevention and blocking terrorism financing, and prevention of criminal risk.

Money-Laundering Prevention and Terrorist Financing Blocking

The Committee has been carrying out an occasional monitoring of the action plan on Money-Laundering Prevention and Terrorist Financing Blocking, approved by the Company’s Board of Directors on 26 April 2016, overseeing the implementation of the actions therein contained, including the implementation of new IT tools and controls. For its development and implementation, the Institution collaborates with external auditors and, additionally, is verified in full by Internal Audit.

At the meeting held on 26 January 2017, the Committee was informed of the Annual Report on Self-Assessment of Money-Laundering and Terrorist Financing Risk, which concludes, after analyzing the different risk factors inherent to the activity, that the risk profile in this area is low.

In accordance with the applicable regulations, the internal control measures related to money laundering prevention and terrorist financing blocking are annually examined by an

external expert. The Committee was informed of the corresponding report at the meeting of 23 March 2017.

Prevention of Criminal Risk

At the meeting held on 23 February, the Committee was informed of the annual report of the Committee for the Prevention of Criminal Risk for the financial year 2016, which includes the main actions undertaken and which concludes that the measures adopted to prevent criminal risk at the Institution are suitable for that purpose.

Activities in relation to related party transactions

Article 7.4 of the Board of Directors Regulations establishes that the Board of Directors is responsible for “the examination and approval of transactions that the Company enters into with Directors, Senior Managers, significant shareholders or represented at the Board, or with people related to them (“related party transactions”), prior favorable report of the Audit and Regulatory Compliance Committee”.

During this year, it has issued reports on the proposals to grant transactions with related parties. The Committee has verified that all the proposals with related parties that it has received had been proposed in market conditions and following the risk assessment criteria applicable at Unicaja Banco.

Transactions with significant shareholders

With regard to transactions with significant shareholders, the Audit and Regulatory Compliance Committee arranges for the relationship with them to be correct and suitable.

With respect to Fundación Bancaria Unicaja, the Spanish Law 26/2013, of 27 December, on savings banks and banking foundations, and its implementing provisions, result in a series of obligations to be met considering the significant and controlling shareholding that it has in Unicaja Banco. In order to regulate the relationship between both parties, the Company and the Fundación executed, in December 2016, the “Internal Protocol of Relationships”, which repealed the previous one. The Committee is in charge of overseeing compliance with the Protocol.

At the meeting held on 23 February, the Audit and Regulatory Compliance Committee issued a report favourable to the execution of the “Protocol on Information Flows”, which develops that established in the internal Protocol of relationships, regulating the treatment of information between both institutions.

Other activities

Board of Directors Regulations

At the meeting held on 23 March 2017, the Committee submitted to the Board of Directors a proposal to amend the Board of Directors Regulations, to implement, inter alia, the change to its denomination and the incorporation of functions, as well as to adapt its contents to the new regulations applicable to listed companies and to the recommendations of the Good Governance Code of Listed Companies.

Tax

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The Committee is in charge of overseeing the monitoring and control of the Institution’s tax strategy. At the meeting of 21 December, the Committee reported favourably, for it to be submitted to approval by the Board of Directors, on the control and governance framework of the group’s tax issues (“tax strategy”), as well as adherence to the Code of Good Tax Practices of the Forum of Large Enterprises, as per the wording proposed by the Spanish tax agency (Agencia Estatal de Administración Tributaria).

EspañaDuero

The Committee has overviewed the relationships with the subsidiary EspañaDuero. During this year, a relevant part of the relationship has been determined by the project to delegate functions of the subsidiary to the parent company, so as to avoid duplicate functions and processes at a Group level, increasing efficiency in the allocation of resources and the subsequent cost reduction. This project has been supported by the framework agreement for the Provision of Services between Unicaja Banco (provider) and EspañaDuero (recipient). The function developed by this Committee has been to verify that the integration is carried out in the best interest for both parties, that it is subject to market conditions and that the principle of equal treatment is observed.

With regard to the process of merger by absorption of Unicaja Banco (as absorbing company) and EspañaDuero (as absorbed company), the Committee is in charge of monitoring the development of the proposed calendar.

Monitoring of the action plan for *floor clauses*

The Audit and Regulatory Compliance Committee has monitored and overviewed, during this year, the situation of the Institution with regard to this kind of clauses and, in particular, of the actions carried out derived from the Spanish Royal Decree-Law 1/2017 of 20 January, on urgent measures for consumer protection regarding *floor clauses*

Requirements of regulators and supervisors

The Committee has been informed of the requirements received, with sectorial or individual nature, from the regulators and supervisors.

Credit risk monitoring (retail portfolio)

During this year, the Committee has carried out a detailed monitoring of the total credit granted by Grupo Unicaja Banco and, in particular, of the implemented credit models and the situation and management of the retail mortgage portfolio.

Non-performing assets plan

The Committee receives periodic detailed information on the monitoring of non-performing assets, carrying out a review of the Company’s strategy and monitoring its evolution. During this year, the Committee has monitored the actions implemented in the plan for the reduction of non-performing assets.

Amendment of the CSR Policy

Article 31.8 of the Board of Directors Regulations assigns to the Audit and Regulatory Compliance Committee the monitoring of the corporate social responsibility strategy and practices and the assessment of its level of compliance. At the meeting held in December 2017, the Committee reported favourably on a proposal to update the Corporate Social

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Responsibility Policy, to adapt it to the recommendations of the Good Governance Code of Listed Companies.

7. ASSESSMENT OF THE COMMITTEE OPERATION AND PERFORMANCE

The Board of Directors, with the support of the Appointments Committee, carries out an annual assessment of the structure, size, organization, operation and information received by the Audit and Regulatory Compliance Committee to address the topics within its remit, the performance of the Committee’s Chairman and Secretary, so as to make recommendations and, if applicable, possible changes.

At the meeting held on 20 February 2018, the Committee, in light of the analyzed information following the completion of questionnaires by each of the Committee members, has favourably assessed the Committee’s operation quality and efficiency during the year 2017.

The Committee has concluded that it has a sufficient number of members and that its composition is appropriate in terms of category of its members, as well as with regard to their knowledge and experience. Furthermore, in the assessment process, the number and frequency of meetings has been positively valued, with the conviction that they have been enough for the effective performance of its functions, in a complex financial year in which the Company has become publicly traded, and that information enough has been made available to address the items on the agenda of the meetings, with the necessary advance and via the appropriate media.

As a result of the assessment, the Committee considers that the Chairman leads properly the discussions and deliberations, promoting debate and active participation of the members, and that the Secretary addresses properly the questions he receives, duly reflecting discussions and resolutions adopted in the meetings.

8. INFORMATION ON THE COMMITTEE’S OPINION ON THE INDEPENDENCE OF THE STATUTORY AUDITOR

On 20 March 2018, the Committee has received a report from the external auditor where it confirms its compliance with the requirements of independence vis-à-vis the Bank and any entities directly or indirectly related to it, in accordance with the applicable regulations, as well as detailed and individualized information on the additional services of any kind rendered and the corresponding fees received by the external auditors or by persons or entities related to the same, in accordance with the applicable regulations.

The Committee, at the same meeting, issued a report expressing a favourable opinion on the independence of the external auditor, concluding that there are no objective reasons which compromise its quality or independence. The mentioned report, issued prior to the accounts audit report, includes the contents set forth in section 4.f) of Article 529 *quaterdecies* of the Corporate Enterprises Law, and in Article 31.8 b) ii) and v) of the Board Regulations.

This conclusion was reached after:

1. Verifying that all the services rendered by the auditor, both related to audit services and other services provided, meet the independence requirements.
2. Checking that the fee limits established in Article 4 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council, on specific requirements regarding statutory audit of public-interest entities, have not been exceeded, considering that the limits refer to the average of the fees paid in the last three financial years for the statutory audits, and that we are still in the first year of application of the regulation, as it comes into force for the financial years started from 17 June 2016.

9. CONCLUSIONS

All the activities reported above have allowed the Committee to appropriately comply with the functions, obligations and responsibilities that it has been assigned under the applicable internal and external regulations.

10. DISCLOSURE

Following Recommendation 6 of the Good Governance Code of Listed Companies, this present report shall be published on the Institution’s corporate website (www.unicajabanco.com) prior to holding the Annual General Meeting of Shareholders.

11. PREPARATION AND APPROVAL

This present Report has been prepared by the Audit and Regulatory Compliance Committee, at the meeting held on 20 March 2018, and approved by the Board of Directors at their meeting of 21 March 2018.