

**ANNUAL REPORT OF THE
REMUNERATION COMMITTEE OF
UNICAJA BANCO, S.A.**

FINANCIAL YEAR 2017

Málaga, March 2018

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1. INTRODUCTION

Article 33.11 of the Board of Directors Regulations of Unicaja Banco, S.A. (hereinafter, “Unicaja Banco”, the “Company” or the “Institution”) establishes that the Remuneration Committee (hereinafter, the “Committee”) shall submit annually to the Board of Directors a report on its operation.

This present **Annual Report of Operation of the Remuneration Committee**, corresponding to the financial year 2017, is prepared pursuant to the said provision.

2. REGULATION

This Committee is set up within Unicaja Banco under the provisions of Article 36 of the Spanish Law 10/2014 of 26 June, on ordering, supervision and solvency of credit institutions, mandatorily separated from the Appointments Committee, in compliance with Norm 26 of the Bank of Spain Circular 2/2016, of 2 February, to credit institutions, on supervision and solvency.

As the Company became publicly listed on 30 June 2017, it is also subject to corporate enterprises regulations. Article 529 *terdecies* of the Consolidated Text of the Spanish Corporate Enterprises Act (*Ley de Sociedades de Capital*) establishes that listed companies shall set up, at least, an Audit Committee and one Committee –or two separated committees– for remunerations and appointments, with the minimum composition and functions indicated in the mentioned Act. Article 529 *quindecies* of the said Act regulates its composition, operation and competences.

Unicaja Banco’s Remuneration Committee internal regulation is included in Article 27 bis of the corporate Bylaws and in Article 33 of the Board of Directors Regulations, which define, among others, its composition, operation and competences.

The Bylaws and the Board of Directors Regulations, which are available at the Company’s corporate website (www.unicajabanco.com), have been amended during the financial year 2017, within the framework of the process to become publicly traded, so as to adapt them to the regulatory requirements and corporate governance practices of listed companies.

3. COMPOSITION

As at 31 December 2017, the Committee composition was:

Table 1

| Director | Position | Category | Appointment date |
|---|-----------|-------------|------------------|
| Mr. Guillermo Jiménez Sánchez | Chairman | Independent | 19/2/2016 |
| Mrs. Petra Mateos-Aparicio Morales | Director | Independent | 26/03/2015 |
| Mr. José M ^a de la Torre Colmenero | Director | Proprietary | 26/03/2015 |
| Mr. Victorio Valle Sánchez | Director | Independent | 28/07/2017 |
| Mr. Juan Fraile Cantón | Secretary | Proprietary | 26/03/2015 |

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During 2017, the Committee composition has grown from four to five members, with the incorporation of Mr. Victorio Valle Sánchez as new Director. The said incorporation was effective once the corresponding resolution was adopted at the Board of Directors meeting held on 31 May 2017. The first Committee meeting attended by Mr. Valle was that held on 28 July 2017.

All the Committee members are Directors with non-executive functions at the Company and, as shown in Table 1, the majority of them, including the Chairman, are independent Directors.

The Committee members have been appointed based on their knowledge, experience and skills needed for the functions to be performed.

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

In light of the above, the Committee composition meets the requirements set out by the regulations.

4. FUNCTIONS AND DUTIES CARRIED OUT

The Committee, throughout the financial year 2017, has carried out all the functions that the regulations applicable to the Company at any time reserve to this body, providing support to the Board of Directors in its duties to prepare the decisions related to remuneration of the Identified Group (*Colectivo Identificado*), the regular review of the remuneration policy and the scheme of incentives, in the terms explained below.

The Identified Group is composed by the directors, senior managers and employees who assume risks, those who perform control functions and all those employees receiving overall remuneration which is included in the same remuneration bracket as that of senior managers and employees who assume risks, whose professional activities bear significantly on Unicaja Banco’s risk profile at a group, parent and subsidiary level.

The functions of the Committee, which are included in Article 33 of the Board of Directors Regulations, are listed below:

- (a) To arrange for the observance of the remuneration policy established by the Company.
- (b) To prepare the decisions related to remunerations, including those having an effect on risk and risk management of the Company, which shall be adopted by the Board of Directors.
- (c) To propose to the Board of Directors the remuneration policy for Board Members and Senior Managers, as well as the individual remuneration and other contractual conditions of the executive Directors and Senior Managers, and to arrange for their observance.
- (d) To prepare a specific report accompanying the proposal of the Board of Directors’ remuneration policy.
- (e) To review regularly the remuneration policy applied to Directors and Senior Managers, including the remuneration schemes with shares and their application, as well as to ensure that their individual remuneration is proportionate to that of the other Directors and Senior Managers of the Company.

- (f) To arrange for the eventual conflicts of interest not to cause a prejudice to the independence of the external advice provided to the Committee.
- (g) To verify the information on remunerations of Directors and Senior Managers included in the different corporate documents, including the annual report on remuneration of Directors.

5. MEETINGS HELD

In accordance with that established in the Board Regulations, the Committee must meet as often as determined by the Committee itself, and anytime it is called by its Chairman or requested by two of its members. During the financial year 2017, the Committee has held 9 meetings, 100% of which were attended by all its members in person.

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 of Directors.

The length of the Committee meetings has varied 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 General Director of General and Technical Secretariat attends all the meetings and during all the session. The Head of Legal Advice and the Head of Strategy and Policy for Appointments, Remunerations and Training – Human Resources Management often attend the meetings to speak on the topics for which they are required.

6. SIGNIFICANT ACTIVITIES CARRIED OUT

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

Policy for the Remuneration of Directors of Unicaja Banco and Annual Report on the Remuneration of Directors

During the year 2017, the Policy for the Remuneration of Directors for the period 2015-2017, approved in April 2015 by the General Meeting of Shareholders has been in force.

Furthermore, in accordance with external and internal regulations, the Remuneration Committee reported favourably on the Annual Report on the Remuneration of Directors corresponding to the financial year 2016 in its meeting held on 24 March 2017, which was

approved by the Board of Directors and submitted to advisory vote at the Annual General Meeting of Shareholders of the Company.

Due to the end of the validity period of the mentioned Policy for the Remuneration of Directors, in the latest meeting of the Committee in the year, held on 19 December 2017, a proposal was presented for the Policy to be applied during the new three-year period 2018-2020, once that all the necessary procedures were completed and after obtaining, when corresponding, the approval by the General Meeting of Shareholders, in accordance with Article 529 *novodecies* of the Corporate Enterprises Act.

Remuneration Policy associated to risk management at Unicaja Banco, S.A.

The Remuneration Policy associated to Risk Management applicable at Unicaja Banco was approved by the Board of Directors at the meeting held on 29 December 2016. This includes the obligation for the Remuneration Committee to check, at least annually, that an internal central and independent assessment is performed, so as to verify compliance with the remuneration policies and procedures contained therein.

This Policy is applicable to the Identified Group defined above.

In that sense, the Remuneration Committee, in its meeting held on 26 January 2017, launched the process for the internal assessment of the application of the said Policy corresponding to the year 2016, whose report was approved by the Committee in its meeting of 23 February 2017.

Additionally, the Remuneration Committee has maintained permanently updated the composition of the Identified Group, in compliance with that set in the mentioned Policy, which is available to the European Central Bank, the Bank of Spain and the external and internal auditors, at the head offices of the Directorate for Human Resources. As at the date of this present report, the Identified Group is composed by 61 positions.

Systems of incentives

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The General Scheme of Incentives for Unicaja Banco, whose subject matter is the definition of the principles and criteria applicable to the systems of incentives -effective from the financial year 2017- which must be taken into account to define and implement the variable remuneration systems at the Institution, was reported favourably by the Remuneration Committee on 28 December 2016. It was then approved by the Board of Directors. Together with this Scheme, the System of Incentives for the Commercial Network -for the year 2017- was also approved.

At the meeting held on 26 January 2017, the Committee reported favorably on the System of Incentives for Corporate Banking and was informed of the proposal related to the System of Incentives for the Financing at Point of Sale Unit, corresponding to the year 2017, which were also approved by the Board of Directors.

At the meeting held on 30 May, the Committee submitted to the Board of Directors for approval the Incentive Plan for the CEO and Key Staff (group composed by 14 members). With regard to the remuneration of the executive members of the Board of Directors, it is expected to be submitted to the next Annual General Meeting of Shareholders for approval,

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given that it has to be incorporated to the Policy for remuneration of Directors for the years 2018-2020 and it requires the amendment of Article 29 of the Bylaws, to allow the beneficiaries to receive ordinary shares as part of their remuneration. However, variable remuneration is only foreseen for the CEO, as the Company’s Contract with the Executive Chairman does not include variable remuneration.

At the meeting held on 28 July 2017, the Systems of Incentives for the rest of the Identified Group, Business Support Units, Centralized Business and Customer Service were also submitted to approval by the Board of Directors.

Therefore, during the year 2017, Systems of Incentives have been defined covering the full set of employees of Unicaja Banco, S.A., as well as a specific system for the CEO.

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At the meeting held on 19 December 2017, the proposal to amend the General Scheme of Incentives and the System of Incentives 2018 for the Commercial Network was favourably reported. The main modification with regard to the previous year responds to the incorporation of criteria related to MiFID II, in force since January 2018, as well as the non-inclusion of Regional Managers (*Directores Territoriales*) into this System, as they will be assigned to the specific System for the Identified Group. Both documents were subsequently approved by the Board of Directors.

Remuneration to members of the Identified Group

As it has been said in section 4, one of the Committee’s functions is to propose to the Board of Directors the remuneration policy for Directors and Senior Managers, as well as the individual remuneration and other contractual conditions of executive Directors and Senior Managers, arranging for its observance.

In this context, during the year 2017, the Committee has reported favourably on several proposals of remuneration adjustments to positions included within the Identified Group, for the purposes of the Remuneration Policy associated to Risk Management, so as to homologate remunerations among positions with the same hierarchical and competence level.

Also, on the occasion of the proposal to hire the Head of Regulatory Compliance, at the meeting of 28 June 2017, the remuneration conditions of this position were submitted to the Board of Directors for approval.

At the Committee meeting held on 29 September 2017, it reported favourably on the proposal of remuneration assignment for the performance of the position of Deputy Secretary Non-Director of Unicaja Banco’s Board of Directors and of the position of Secretary Non-Director of Alteria Corporación’s Board of Directors.

Other matters

At the meeting held on 26 January 2017, the Committee prepared the Annual Report 2016 of the Committee, verifying the launch of all the initiatives projected in the Action Plan for that year, and the Action Plan for the year 2017.

Finally, at the meeting held on 28 June 2017, the Committee submitted to approval by the Board of Directors, the proposal for a civil liability policy for directors and managers in relation to the process of becoming publicly listed.

7. ASSESSMENT OF THE COMMITTEE OPERATION AND PERFORMANCE

The Board of Directors, with the coordination of the Appointments Committee, carries out an annual assessment of the organization and operation of the Board of Directors, its Committees and certain positions, so as to make recommendations and, if applicable, possible changes.

In particular, in relation to the different support Committees, the following aspects are assessed:

- Size, composition and structure.
- Organization and operation.
- Information to the Committee.
- Committee Chairman.
- Committee Secretary.

At the meeting held on 13 March 2018, the Remuneration 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 the 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, 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 and correctly reflecting discussions and resolutions adopted in the meetings.

8. CONCLUSIONS

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

9. 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.

10. PREPARATION AND APPROVAL

This present Report has been prepared by the Remuneration Committee, at the meeting held on 13 March 2018, and approved by the Board of Directors at their meeting of 14 March 2018.