



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

Financial year 2018

[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 2019

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1. INTRODUCTION

Article 31.13 of the Board of Directors Regulations, and Article 9 of the Audit and Regulatory Compliance Committee Regulations of Unicaja Banco, S.A. (hereinafter, “Unicaja Banco”, the “Company” or the “Institution”) establish 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 Audit and Regulatory Compliance Committee is drawn up, corresponding to the financial year 2018.

2. REGULATION

Article 529 *terdecies* of the Spanish Consolidated 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, in Article 31 of the Board of Directors Regulations and in the Audit and Regulatory Compliance Committee Regulations which define, among others, its composition, operation and responsibilities; as well as in other internal rules where reference is made to the Committee.

At the meeting held 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 criteria and 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.

The rules regarding its composition, operation and responsibilities, as well as the Committee’s Regulations, are available on the Company’s corporate website: www.unicajabanco.com.

3. COMPOSITION

As at 31 December 2018¹, the Committee composition was:

Director	Position	Directorship	Appointment date
Mr. Manuel Conthe Gutiérrez	Member	Independent	11/05/2018
Mr. Victorio Valle Sánchez	Member	Independent	02/12/2011
Mr. Manuel Muela Martín-Buitrago	Member	Proprietary	11/05/2018
Ms. Petra Mateos-Aparicio Morales	Secretary	Proprietary	11/05/2018
Vacancy	-	Independent	-

¹ As at 31 December 2018, there was a vacancy in this Committee, due to the resignation presented by Mr. Eloy Domínguez-Adame Cobos, informed to the Board of Directors at its meeting held on 21 December 2018. Mr. Domínguez-Adame Cobos was also the Chairman of this Committee. The vacancy was covered by resolution adopted by the Board of Directors at its next meeting, on 24 January 2019, where a new Committee Chairman was appointed.

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Changes to the Committee composition during 2018 have been:

- 1) Due to the process of re-appointment of directors concluded on the Annual General Meeting of Directors held on 27 April 2018, the Board of Directors, at its meeting held on 11 May 2018, resolved to appoint Mr. Manuel Conthe Gutiérrez, Ms. Petra Mateos-Aparicio morales, Mr. Manuel Muela Martín-Buitrago, Mr. Victorio Valle Sánchez and Mr. Eloy Domínguez-Adame Cobos as members of this Committee. The Board of Directors, at the same meeting, resolved to appoint Mr. Eloy Domínguez-Adame Cobos and Ms. Petra Mateos-Aparicio Morales as Chairman and Secretary of the Committee, respectively.
- 2) The Board of Directors, at its meeting held on 21 December 2018, was informed of the resignation from his position as Director at Unicaja Banco presented by the independent director Mr. Eloy Domínguez-Adame Cobos, who also held the position of Chairman of the Audit and Regulatory Compliance Committee. Consequently, as at 31 December 2018 and temporarily, there was a vacancy at the Committee, and a Committee Chairman was to be appointed by the Board of Directors.
- 3) The Board of Directors, at its meeting held on 24 January 2019, resolved to appoint Mr. Manuel Conthe Gutiérrez as Chairman of this Committee, and the independent director Ms. Isabel Martín Castellá as a new member of this Committee, therefore being composed again by five members.

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

During the period in which there was a vacancy (one month), the Audit and Regulatory Compliance Committee did not held any meeting.

The Committee members, and especially its Chairman, have been appointed taking into account their knowledge and experience in the fields of accounting, auditing, regulatory compliance, financial markets. The Committee composition has sought to foster diversity, especially in terms of gender, professional experience, competence fields and knowledge, so that, as a whole, it gathers knowledge and experience adequate to the Institution's activity.

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

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

During the financial year 2018, the Committee has performed all the functions provided for in the laws and in the Bylaws for this Committee, 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 non-financial information, of the internal audit and regulatory compliance functions and of the external auditor's independence, in the terms detailed in section 6 of this report.

The Committee's functions, included in Article 4 of the Audit and Regulatory Compliance Committee Regulations and which incorporate those assigned by the laws and the Bylaws, are related to: (i) information and internal control systems; (ii) the internal auditor; (iii) the external auditor; (iv) compliance with corporate governance rules; (v) regulatory compliance; and (vi) transactions of structural and corporate modifications.

5. MEETINGS HELD

In accordance with that established in the Committee Regulations, it must meet, at least, quarterly and, additionally, as often as called by its Chair, when he/she deems it necessary, or when requested by agreement of the Committee itself or at the request of two of its members. In any case, the Committee meets on the occasion of each annual or interim financial reporting date. During the financial year 2018, the Committee has held 14 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.

The length of the Committee meetings varies depending on the items discussed, but it is always ensured that there is time enough to deal with the different items with the necessary detail. In all the meetings there is an active participation of all its members and an exchange of views of all the Committee members.

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, the Head of Regulatory Compliance and the General Director of General and Technical Secretariat recurrently attend all the meetings, remaining absent during deliberation and voting of all topics, since the Audit Committee Regulations was approved.

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 Control, Strategy and Relations with Supervisors, CFO (Chief Financial Officer), General Director of Assets Recovery and Non-core Business, Corporate Director of Risk Credit, and the Head of Legal Advice, among others.

Executive directors only attend the meetings if they have been previously invited by the Committee Chairman, due to the nature of the item to be discussed and exclusively to address that topic, 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 six meetings during the financial year 2018.

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

During the year 2018, 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 on four occasions to inform about them and about 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 in 2018 are those held on 20 March 2018, 25 April, 26 July and 25 October. At all those meetings, the Committee reported favourably on the financial statements, what has been made by the Committee with the information of the statutory auditor, which was present at the meetings of March, July and October.

The annual accounts and the management report –including the Annual Report on Corporate Governance-, both individual and consolidated, of the year 2017, were submitted to the Annual General Meeting of Shareholders held on 27 April 2018. The Committee, at its meeting of 20 March 2018, reviewed and reported favourably on the said documents and financial statements prior to their statement by the Board of Directors on 21 March 2018.

The Committee has been informed of the conclusions of the Financial Information Internal Control System (Sistema de Control Interno de la Información Financiera, SCIIF), as well as of the external report referred to the SCIIF of Unicaja Banco for the year 2017, which concluded that to inconsistencies or incidences had been noticed that may affect the said system.

The Information of Prudential Relevance (“IPR”) was reviewed by the Committee at its meeting of 20 March 2018, before being approved by the Board of Directors at its meeting held on 21 March 2018.

The Committee, at its meeting of 28 June 2018, following the thematic review carried out during 2017 by the European Central Bank’s Joint Supervisory Team (JST) on the adoption of the IFRS9 norm, proceeded to the review of the amendments to the governance framework of IFRS9, business models and certain internal policies, which were approved by the Board of Directors at its meeting held on 29 June 2018.

Activities related to the External auditor

Statutory Auditor of the Company

The Annual General Meeting of Shareholders held on 26 April 2017 resolved to re-elect, for a three-year period, for the years 2017, 2018 and 2019, the firm PricewaterhouseCoopers Auditores, S.L., as statutory auditors for Unicaja Banco, S.A. and its Consolidated Group of Companies.

Policy for the appointment of the auditor, approval of services and other aspects of the independence of the auditor of Grupo Unicaja Banco

The Committee, following the principles of the Technical Guide 3/2017, of 27 June, of the CNMV on audit committees at public-interest entities, at its meeting held on 15 January 2018, approved the Policy for the appointment of the auditor, approval of services and other aspects of the independence of the auditor of Grupo Unicaja Banco. This Policy sets the basis for the selection, appointment, re-election and replacement of Unicaja Banco's statutory auditor, both at an individual and consolidated level, as well as for the approval of the audit services and the conformation of the statutory auditor's independence, in accordance with the requirements of the regulations applicable in this regard.

Participation in the Committee

The relationship with the external auditor is frequent and fluent. In particular, during the financial year 2018, representatives of the auditor have been present at six Committee meetings. In addition to those mentioned below related to financial statement, it was present in other three meetings to present the degree of advance of its works and the regulatory news. At the Committee meetings, the statutory auditor informs about the conclusions of the auditing procedures carried out on the financial information, as well as on key features of the audited period.

The Committee, at its meeting of 20 March 2018, was informed of the statutory auditor's written confirmation of 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 annual accounts for the financial year 2017, as well as the additional Report for the Audit and Regulatory Compliance Committee on the said annual accounts.

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.

Finally, the external auditor issued the corresponding report on the protection of clients' assets.

Activities related to Internal Audit

The Internal Audit Function depends functionally on the Audit and Regulatory Compliance Committee and, during the financial year 2018, 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 first meeting of the year, the responsible for the Internal Audit Function presented the Annual Plan of Activities of Internal Audit for 2018. 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 submits to the Committee, yearly, the Annual Report of Activities of Internal Audit 2017, 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.

The Committee, upon proposal of the head of Internal Audit, approved the Strategic Plan of Internal Audit 2019-2021 and reported favourably on a proposal of the organizational structure of the Internal Audit function, so as to adapt it to the best sectorial practices.

Activities related to compliance with the Corporate Governance rules

Adaptation to International Guidelines and Guidances

During this year, the Committee has monitored the situation of the procedure of internal adaptation to the EBA/ESMA Guidelines on the assessment of the suitability of members of the management body and key holder functions (EBA/GL/2017/12), and the EBA Guidelines on internal governance (EBA/GL/2017/11).

Process of reporting on non-financial and diversity information

The Committee was informed of the design of a system for the assessment of the non-financial risks and of the scheme of work for the preparation of a Non-Financial Annual Report, to be approved and published together with the Annual Accounts.

Communication and relation strategy with shareholders and investors

The Committee reported favourably and resolved to submit to the Board of Directors the Report on the Application of the Policy for the Communication and Contact with Shareholders, Institutional Investors and Proxy Advisors.

Modification of the CSR Policy

The Committee reported favourably on the Corporate Social Responsibility Report corresponding to the year 2017, arranging for its publication on the Company's corporate website.

Activities related to Regulatory Compliance

The Regulatory Compliance Function depends functionally on the Audit and Regulatory Compliance Committee and, the head of Regulatory Compliance regularly reports on the main incidences detected and the recommendations made, as well as on the reports that this unit prepares and the report to Bodies, including requirements received from regulators and supervisors, as well as inspection and supervisory actions.

At the first meeting of the year, the head of the Regulatory Compliance Function presented the Programme of Actions of the Regulatory Compliance Unit for the year 2018.

The Regulatory Compliance Function regularly reports on the actions carried out by the Regulatory Compliance Unit, deriving, on the one hand, from the implementation of the controls incorporated to the Programme of Actions of the Unit and, on the other hand, from the description of the activities developing the subjects within the remit of the said Unit. During this year, these reports have been discussed in four meetings.

The Committee has continued with the monitoring of the implementation at the Institution of “MiFID II”, started in the financial year 2017, reporting regularly on the timing, progress achieved and key features of the project.

A relevant milestone during this year has been the adaptation to the new General Data Protection Regulation and the appointment of the Data Protection Officer (DPO), the Committee being informed of the monitoring and coordination, related to this adaptation, carried out by the Regulatory Compliance Unit.

Money-Laundering Prevention and Terrorist Financing Blocking

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 annual report.

Prevention of Criminal Risk

The Committee analyzed the Annual Report of the Committee for the Prevention of Criminal Risk 2017, 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”. The Company has a Policy for the Identification and Management of Conflicts of Interest and related party transactions of Directors, significant shareholders and senior managers, which develops the provisions of the Regulations.

During this year, the Committee 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 as per its condition as shareholder with a stake higher than 30% 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”. The Committee is in charge of overseeing compliance with the Protocol.

Other activities

Tax

The Committee is in charge of overseeing the monitoring and control of the Institution's tax strategy. Once a year, it is informed of the report on monitoring and control of the Tax Strategy of Grupo Unicaja Banco.

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, prior to the merger, 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 was 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), concluded in September 2018, the Committee has been in charge of monitoring the development of the proposed calendar. Especially, at the meeting held on 25 January 2018, it has informed of the issuance of a fairness opinion, by Rothschild, S.A., for the Board of Directors. The fairness opinion concluded that the proposed exchange rate was reasonable from a financial point of view for Unicaja Banco shareholders. Considering the mentioned opinion, the Committee resolved to report favourably to the Board of Directors on the approval and subscription of the common draft terms of merger.

Treasury shares

The Committee receives regular information on the situation and variation of the Company's treasury shares, both direct and indirect, verifying compliance with the recommendations of the CNMV on this topic and the maximum limit set in the Corporate Enterprises Law.

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 deriving 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.

7. ASSESSMENT OF THE COMMITTEE OPERATION AND PERFORMANCE

The Audit and Regulatory Compliance Committee carries out, annually, a self-assessment of the Committee's organization and performance, so as to make recommendations and, if applicable, possible changes.

In particular, the following areas have been assessed:

- Size, composition and structure.
- Organization and performance.
- Information to the Committee.
- Committee's Chairman.
- Committee's Secretary.

At the meeting held on 21 March 2019, in light of the analyzed information following the completion of questionnaires by each of the Committee members, the Audit and Regulatory Compliance Committee has favourably assessed the quality and efficiency of the Committee's operation during the year 2018.

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, 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.

Without prejudice to the above, it intends to continue improving in terms of coordination of activities with the Risk Committee.

8. INFORMATION ON THE COMMITTEE'S OPINION ON THE INDEPENDENCE OF THE STATUTORY AUDITOR IN THE YEAR 2018

On 25 February 2019, the Committee has received a report from the external auditor where it confirms in writing its independence vis-à-vis the Bank and any entities directly or indirectly related to it, as well as information on the additional services of any kind rendered during 2018 to these institutions by the mentioned auditors or companies, or by persons or entities related to the same, in accordance with the provisions of the Spanish Law 22/2015 of 20 July, on Account Auditing, and in the International Audit Standards adopted in Spain by the Instituto de Contabilidad y Auditoría de Cuentas (NIA-ES).

The Committee, at the same meeting, issued a report confirming the independence of the external auditor, and, in particular, confirming that no additional services, other than audit services, established in the Consolidated Text of Account Auditing and its development regulations, have been rendered or are being rendered that may involve a threat for the independence of external auditors. The mentioned report, issued prior to the accounts audit report, includes the contents set forth in

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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.

9. TRAINING

In 2018, Unicaja Banco implemented a plan of specialized training for the Audit and Regulatory Compliance Committee, covering topics within its areas of competence, with the goal of contributing to a better development of its oversight functions. The training plan for the year covered the following areas: General Data Protection Regulations, whistleblowing channel and non-financial risks.

10. 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 Action Plan 2018 of the Committee and the applicable internal and external regulations.

11. 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.

12. PREPARATION AND APPROVAL

This present Report has been prepared by the Audit and Regulatory Compliance Committee, at the meeting held on 21 March 2019, and approved by the Board of Directors at their meeting of 22 March 2019.