



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

Financial year 2018

Malaga, March 2019

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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 2018, 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.

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 and among others, 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 rules regarding its composition, operation and responsibilities are available on the Company’s corporate website: www.unicajabanco.com.

3. COMPOSITION

As at 31 December 2018¹, the Committee composition was:

Director	Position	Category	Appointment date
Mr. Manuel Conthe Gutiérrez	Chairman	Independent	11/05/2018
Ms. Petra Mateos-Aparicio Morales	Member	Proprietary	11/05/2018
Mrs. Ana Bolado Valle	Member	Independent	11/05/2018
Mr. Agustín Molina Morales	Member	Independent	11/05/2018
<i>Vacancy</i>	-	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. 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, Mrs. Ana Bolado Valle, Mr. Agustín Molina Morales, Mr. Eloy Domínguez-Adame Cobos and Ms. Petra Mateos-Aparicio Morales as members of this Committee. The Board of Directors, at the same meeting, resolved to appoint Mr. Manuel Conthe Gutiérrez and Mr. Agustín Molina 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 was member of this Committee. Consequently, as at 31 December 2018 and temporarily, there was a vacancy at the Committee.
- 3) The Board of Directors, at its meeting held on 24 January 2019, resolved to appoint the independent director Mr. Victorio Valle Sánchez as new member and Chairman of this Committee, remaining Mr. Manuel Conthe as member, the Committee therefore being composed again by five members.

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

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

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

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

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

4. FUNCTIONS

The Committee, throughout the financial year 2018, has carried out all the functions that the laws and the Bylaws 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, developing the actions detailed in section 6 of this report.

The mentioned Identified Group is composed by the directors, senior managers, risk takers, employees 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 risk takers, 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 Directors 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 share-based remuneration schemes 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 2018, the Committee has held 6 meetings, 100% of which were attended by all its members in person, with the duly justified absence of Mrs. Ana Bolado Valle from the meeting of 27 September 2018, who had delegated her representation to the Committee Chair.

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. 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 approved in accordance with the statutory and legal provisions. 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 2018, 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

The Remuneration Committee submitted to the Board of Directors the proposal for a new Policy for the Remuneration of Directors for the period 2018-2020 (hereinafter, the 'Remuneration Policy' or the 'Policy'), preparing also the specific report of the Committee on the said Policy, which was also submitted to the Board of Directors. The Policy was approved by the Annual General Meeting of Shareholders on 27 April 2018.

Annual Report on the Remuneration of Directors

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 2017 in its meeting held on 20 March 2018. This report includes: i) information related to the Policy for the Remuneration of Directors for the current year; ii) a summary of the application of the Policy during the year 2017. The remuneration report was approved by the Board of Directors and submitted to advisory vote at the Annual General Meeting of Shareholders of the Company. It obtained a 99.056% of votes in favour at the Annual General Meeting of Shareholders held on 27 April 2018, a percentage that reflects that shareholders value positively the remuneration system of the Company.

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 of the application of the Policy is performed, so as to verify compliance with the remuneration policies and procedures contained therein.

This Policy is applicable to the Identified Group defined in section 4 above.

The Remuneration Committee, in its meeting held on 13 March 2018, prepared the report on the assessment of the application of the said Policy during the year 2017, verifying that the remuneration practices at the Institution do not encourage the assumption of risks that exceed the tolerated level and that they adjust to the guidelines and main lines of action guiding its activities.

Additionally, the Remuneration Committee has maintained permanently updated the composition of the Identified Group, which is made 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 91 positions.

Systems of Incentives

Financial year 2017

At the meeting held on 13 May 2018, the Committee reported favourably on the proposal for the application of the System of Incentives corresponding to the year 2017, according to the General

Scheme of Incentives and to the Systems of Incentives approved by the Board of Directors for the said year. The mentioned proposal was approved by the Board of Directors.

Financial year 2018

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 2018- 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 19 December 2017. It was then approved by the Board of Directors. The main modification vis-à-vis the previous year's scheme is due to the incorporation of MiFID II criteria, in force since January 2018, as well as to the non-inclusion of Regional Managers (*Directores Territoriales*) in the System of Incentives for the Commercial Network, being assigned to the specific System for the Identified Group.

At the meeting held on 25 January 2018, the Committee reported favorably on the Systems of Incentives for the Commercial Network, Corporate Banking and Financing at Point of Sale Unit (*Financiación Punto de Venta*), which were also approved by the Board of Directors.

At the meeting held on 28 June, the Committee reported favourably on the Systems of Incentives for 2018 for Executive Directors, Key Staff, rest of the Identified Group, Business Support Units, Centralized Business and Customer Service, being approved by the Board of Directors. With regard to the Executive Directors, variable remuneration is foreseen only for the CEO, as the Company's Contract with the Executive Chairman does not include variable remuneration, due to his waiving to said compensation.

Therefore, during the year 2018, a specific system of incentives for the CEO has been defined, as well as a System of Incentives covering the full set of employees of Unicaja Banco, S.A.

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.

The Remuneration Committee, at its meetings held during 2018, has reported favourably, on the basis of justified circumstances, on several proposals of remuneration adjustments, extraordinary bonus and contractual conditions related to some members of the Identified Group, for the purposes of the Remuneration Policy associated to Risk Management, prior to their submission, discussion and approval by the Board of Directors.

Other matters

At the meeting held on 25 January 2018, the Committee was informed of the renewal of the civil liability policy for directors and managers for the year 2018, automatically renewed, as it maintained the same coverage and premium as in the previous year.

At the meeting held on 13 March 2018, the Committee prepared the Annual Report 2017 of the Committee, verifying the launch of all the initiatives projected in the Action Plan for that year,

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and the Action Plan for the year 2018, which includes brief description of the main actions to be undertaken by this Body in 2018.

The Committee has received, during the year, information on the regulations which have an effect on the fields where it operates, including, the information received at the meeting held on 29 November on the main new features of the Public Consultation to the Proposal of Technical Guide of the CNMV on appointments and remuneration committees.

7. ASSESSMENT OF THE COMMITTEE OPERATION AND PERFORMANCE

The Remuneration 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 operation.
- Information to the Committee.
- Committee Chairman.
- Committee Secretary.

At the meeting held on 21 March 2019, the Remuneration Committee, in light of the analyzed information following the completion of questionnaires by each of the Committee members, 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 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 Action Plan 2018 of the Committee and 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 21 March 2019, and approved by the Board of Directors at their meeting of 22 March 2019.