# Procedures established for the identification, measurement, management, control and internal communication of the risks to which the Company is or may be exposed

The risk management and control system implemented by Grupo Unicaja Banco is organized according to the following basic lines:

- A governance and organization system of the risk function, based on the active participation and oversight of the Senior Management, which approves the Institution's general business strategies and policies, and sets the general lines of risk management and control at the Institution.
- A Risk Appetite Framework (RAF), configured within the Group as an essential instrument in the implementation of the risk policy.
- A model of prudent management of the risk exposures, where Grupo Unicaja Banco pays close attention to keep permanently a prudent and balanced risk profile, preserving the objectives of solvency, profitability and adequate liquidity, and resulting in a solid and coherent risk culture.
- A selection of appropriate methodologies for the identification, measurement, management and control of risks, in a continuous improvement process and in line with the regulatory requirements, while adapting, at the same time, the own funds requirements to the real risk level arising from the banking activity.
- A supervision model based on three lines of defense, as per the expectation of the supervisory and regulatory authorities.

At Grupo Unicaja Banco, the policies, methods and procedures related to global risk control and management are approved and regularly reviewed by the Board of Directors.

The risk control and management model requires a sound and effective organizational structure. For that purpose, the Company counts on the effective involvement of the Board of Directors and of the Senior management, and on an appropriate implementation in all the Organization.

Based on the regulatory framework in force, Unicaja Banco's organizational structure has a Directorate General of Riks Control and Relations with Supervisors (CRO - Chief Risk Officer), functionally separated from the areas which generate the exposures. The functions of the said Directorate include assuming the control -from a global perspective- of the totality of the risks incurred by the Institution. The organization of the Management at Grupo Unicaja Banco has a perfectly defined internal structure which provides support and allows for the materialization of the different decisions adopted.

## Risk Appetite Framework

The Group's risks control and management are arranged, inter alia, through the Risk Appetite Framework, approved by the Institution's Board of Directors.

Grupo Unicaja Banco uses the RAF as an instrument for the implementation of the Group's risk policy and as a key management and control tool which enables: (i) the statement of the risk appetite; (ii) the definition of the Group's risk objectives in line with the corporate strategy, acting as a guiding reference of the activities carried out; (iii) the formalization of the risk supervision and surveillance mechanism, so as to ensure compliance with the risk appetite; (iv) the integration under a common framework of all the risk control and management procedures and (v) the reinforcement and dissemination of the Group's risk culture.

The development of this Framework as the Group's general risk policy is configured as an essential element in the Institution's management and control, providing the Board of Directors and the Senior Management with the integral framework which determines the risks that the Institution is willing to assume.

This Framework also establishes different metrics for the quantification, control and monitoring of risks, which allow to react to different levels or situations. These metrics define the objective behavior of Grupo Unicaja Banco, are crosscutting to the whole the organization, and allow to disseminate the risk appetite culture across all the levels in a systemized and easy to understand manner. They also summarize the Group's objectives and limits, therefore being useful for communication, when needed, to stakeholders, and they are homogeneous, as they are applied throughout the organization.

The Group has a procedure for the identification of material risks which establishes the methodologies for the quantification of all the risks the Company is exposed to. It also defines a criterion for the selection of those risks which are material and, therefore, must be managed and controlled in a more intensive manner. This management and control involves, among other things, the allocation of internal capital within the Internal Capital Adequacy Assessment Process (ICAAP) or, in the case of liquidity risk, the allocation of a liquidity management buffer, assessed within the Internal Liquidity Adequacy Assessment Process (ILAAP). The process of quantification and identification of material risks is carried out recurrently, allowing the Insitutition to identify emerging risks at any time.

On the basis of this process, within the Risk Appetite Framework, the risk appetite and tolerance is established at least for each one of the material risks, through a qualitative statement. Risk indicators or metrics are selected, and a calibration methodology is defined to set objective thresholds, early warnings and limits.

The Directorate General of Risk Control and Relations with Supervisors (CRO) carries out the monitoring of compliance with the Risk Appetite Framework through the existing metrics for each type of risk. Its monitoring is submitted to the Senior Management and Governing Bodies.

Finally, the Institution integrates the Risk Appetite Framework with the strategy, the ICAAP and ILAAP processes, the corporate risk policies and the Recovery Plan, inter alia. The Institution ensures compliance with the established risk culture through the approval of the management framework, the development of strategies and policies, as well as the monitoring of the limits established for the management of each type of risk.

## Risk management and control model

The risk management and control model adopted by the Institution considers both financial and non-financial risks, among which the following are to be noted:

- Credit risk
- Market risk
- Interest Rate Risk in Banking Book (IRRBB)
- Liquidity risk
- Real estate risk
- Operational risk
- Reputational risk
- Business and strategy risk
- Risk related to environmental, social and governance factors

<u>- Credit risk</u>

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

<u>- Market risk</u>

Market risk is defined as the possibility of a negative impact on the Institution's results due to the maintenance of portfolio positions as a result of adverse movements in the financial variables or risk factors that determine the value of such positions.

<u>- Interest Rate Risk in Banking Book (IRRBB)</u>

Interest Rate Risk in Banking Book (IRRBB) is defined as the current or future risk to both the Institution's earnings and economic value arising from adverse fluctuations in interest rates affecting interest rate sensitive instruments.

<u>- Liquidity risk</u>

Liquidity risk can be defined in different ways, as it is not a unique concept. Usually, three different meanings of liquidity risk are considered:

> -Cost of unwinding a position in a real or financial asset (refers to the difficulties that may arise to unwind or close a position in the market, at a given time, without impacting the market price of the instruments or the cost of the transaction (Market or Asset Liquidity).
>
> -Gap between the degree of demandability of the liability operations and the degree of realization of the asset operations (funding liquidity).
>
> -Mismatch between the growth capacities of the investment activity derived from the impossibility of finding financing in line with the risk appetite to leverage asset growth strategies (strategic or structural liquidity).

<u>- Real estate risk</u>

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

<u>- Operational risk</u>

Operational risk is defined as the risk of loss due to inadequate or failed internal procedures, people and systems, or to external events, including legal risk.

<u>- Reputational risk</u>

Reputational risk is defined as the probability of incurring losses in value as a result of a deterioration in the perception that its main stakeholders have of its corporate reputation.

<u>- Business and strategy risk</u>

This is defined as the risk of incurring losses due to erroneous strategic decisions, derived from an incorrect analysis of the market in which the Institution operates, either due to a lack of knowledge of the market or the inability to achieve its objectives, which could threaten the viability and sustainability of the Institution's business model. It includes the risk of change management, understood as the risk derived from projects that do not meet the objectives, change their scope or carry out a transformation process in their operation.

<u>- Risks related to environmental, social and governance factors</u>

Environmental, social and governance (ESG) factors may have a significant short, medium and long-term impact on the Institution's financial and non-financial risks, as any of these factors may have a material adverse impact on the Group's financial position, business and operating results.

Climate-related and environmental risks (ESG Environmental factor) are risks arising from the Institution's exposure to counterparties that may potentially contribute to or be adversely affected by environmental factors, including factors resulting from climate change and other environmental degradation.

These risks are generally considered to comprise two main risk factors affecting economic activities, which, in turn, have an impact on the financial system. These are:

-Physical risk, which refers to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as environmental degradation, such as air, water and land pollution, loss of biodiversity and deforestation.

Physical risk is classified, in turn, as:

- "Acute", when arising from extreme events, such as droughts, floods and storms, and,
- "Chronic", when it results from progressive changes, such as rising temperatures, sea level rise, land use change, habitat destruction and resource scarcity.

This can directly cause, for example, damage to goods or a decrease in productivity, and can also indirectly lead to further incidents, such as the disruption of supply chains.

-Transition risk refers to the Institution's financial losses that may result directly or indirectly from the process of adjusting to a lower carbon and more environmentally sustainable economy. This may be triggered, for example, by a relatively abrupt adoption of environmental policies, technological advances or changes in the market climate and consumer preferences.

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Physical and transition risks may additionally trigger further damage directly or indirectly arising from legal claims (liability risk) and loss of reputation, if the public, counterparties or investors associate the Institution or its clients, particularly corporate or institutional clients, with adverse environmental effects (reputational risk).

Accordingly, physical and transition risks are factors of existing risks, in particular of credit risk, operational risk, market risk and liquidity risk, as well as risks outside Pillar 1, such as migration risk, credit spread risk in the investment portfolio, real estate risk and strategic risk.

For further details on the aforementioned topics, please refer, among others, to the following documents available on the Bank's corporate website (www.unicajabanco.com):

- Pillar III Disclosure

- Annual accounts and half-year information

- Annual Corporate Governance Report