



REMUNERATION POLICY FOR STAFF MEMBERS OF  
NOVO BANCO

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## 1 Legal and Regulatory Framework

This Remuneration Policy contains the principles and rules for the remuneration of the Staff Members of NOVO BANCO, S.A. (“NOVO BANCO” or “Bank”) and is established pursuant Article 115.º-C of the Legal Framework of Credit Institutions and Financial Companies (“*Regime Geral das Instituições de Crédito e Sociedades Financeiras*”).

This Policy has been prepared considering the applicable regulations and legislation for this purpose, notably the following:

- Legal Framework of Credit Institutions and Financial Companies (“RGICSF”);
- EBA/GL/2015/22 - Guidelines on a sound Remuneration Policy, pursuant to Article 74(3) and Article 75(2) of Directive 2013/36/ EU, and the disclosure of information, in accordance with Article 450 of Regulation (EU) No 575/2013;
- EBA/GL/2017/11 - Guidelines on Internal Governance;
- Directive 2013/36/EU of the European Parliament and of the Council;
- Commission Delegated Regulation (EU) No 604/2014;
- Regulation (EU) No 575/2013 of the European Parliament and of the Council;
- Regulation (“Aviso”) 10/2011 of Bank of Portugal;
- Portuguese Companies Code (“Código das Sociedades Comerciais”);
- Directive 2014/65/UE (MIFID II) of the European Parliament and of the Council on markets in financial instruments and respective regulations;
- EBA/GL/2016/06 - Guidelines on remuneration policies and practices related to the sale and provision of retail banking products and services;
- Directive 2014/17/EU of the European Parliament and its transposition into portuguese law Decreto-Lei 74- A/2017;
- Report regarding risk of conduct and mis-selling of investment products by *Conselho Nacional de Supervisores Financeiros* from 3rd March 2016;
- Law 35/2018, of 20<sup>th</sup> July 2018, adopting into Portuguese law MIFID II and other European legislative acts, and changing RGICSF and the Portuguese Securities Code (“Código dos Valores Mobiliários”);
- Decree-Law no. 91/2018, of 12<sup>th</sup> November, adopting into Portuguese law the Payment Services Directive (Directive 2015/2366/UE);
- Law no. 7/2019, of 16 January, regarding the distribution of insurance and reinsurance, adopting into Portuguese law the Insurance Distribution Directive (Directive 2016/97/UE).

- The list of significant supervised entities and the list of less significant institutions of the European Central Bank.

Remuneration related regulations and legislation establish the adoption and enforcement of remuneration practices consistent with prudent, sound and effective risk management that does not constitute an incentive to take excessive risks or promote situations that generate conflicts of interest with clients.

This Remuneration Policy takes into account the objectives of the Bank, its strategy, nature, structure, culture and values and is aligned with the principles set out in the Remuneration Policy for Members of the Management and Supervisory Bodies.

Additionally, this Remuneration Policy and its implementation will observe and promote professional conduct from all members and reflects the principles regarding equal treatment of clients, remuneration best practices on the sale of products and prevention of conflict of interests with clients.

## 2 Scope

The policy takes into account the strategy of the institution, its nature, structure, culture and values and has been drafted based on the guiding principles of merit and transparency, by ensuring the recognition of high performance as well as establishing communication of rules and criteria for applying remuneration practices.

In this context, NOVO BANCO intends to attract and retain Staff Members who may contribute in a positive way to the achievement of the Bank's objectives, always in a sustainable development perspective, aligned with its risk appetite and with the intervention of all stakeholders. In this objective, the level of risk that the Bank is willing to take is in line with the internal capital adequacy assessment process (ICAAP), and with its risk appetite framework.

This Remuneration Policy also seeks to encourage responsible and ethical professional conduct by all Staff Members, fair treatment of clients and prevention of conflicts of interest and risk mitigation (such as reputational risk).

The Remuneration Policy for the Members of the Management and Supervisory Bodies (respectively, the Executive Board of Directors and the General and Supervisory Board) consists of an autonomous document, nonetheless ensuring full consistency with the principles and practices of this Remuneration Policy.

The Remuneration Policy is applicable to all Staff Members with an employment contract with NOVO BANCO, organized into three categories:

1. Identified Staff (detailed in section 4 of the Policy):

- i. Top managers of all departments of the Bank (including of the control functions, Risk-Takers functions and other relevant support functions);
- ii. General Managers of Branches;
- iii. Other Staff Members who receive a total remuneration equal to or greater than that of any employee identified by the above criteria.

2. Staff Members assigned to business structures:

- i. **Retail:** "Diretor Regional", "Dinamizador de Negócios", "Consultor 360º", "Dinamizador de Particulares de Retalho", "Dinamizador de Parcerias", "Gestores de Risco e Forças Móveis da DR", Gerente de Balcão, "Gestor de Negócios", "Gestor 360º", "Assistente de Clientes" and remaining "Diretor Centro", "Gestor" and "Assistente Comercial" from other non corporate comercial segments;
- ii. **SMEs:** "Diretor Centro Empresas", "Gerente Empresas" and "Assistente Comercial";

- iii. **Corporate:** “Diretor de Cluster”, “Gestor de Cliente” and “Assistente Comercial”.
  - iv. **Monitoring** (“DSAE”): “Diretor Centro Empresas”, “Gerente Empresas” and “Assistente Comercial”.
3. All remaining Staff Members of NOVO BANCO.

NOVO BANCO shall ensure that its branches and Subsidiaries adopt the guidelines and rules in this Remuneration Policy, with the approval of their respective competent corporate bodies, as applicable and subject to the legal requirements applicable to each of such entities.

For the purposes of this Remuneration Policy, "Subsidiary" shall mean an entity (including credit institutions, insurance companies and asset management companies) headquartered in or outside of Portugal directly or indirectly controlled, managed or owned by NOVO BANCO and which is consolidated for accounting purposes (full consolidation method) in NOVO BANCO.

NOVO BANCO and its branches and Subsidiaries shall coordinate through the Human Capital Department the adoption of this Remuneration Policy.

### 3 Governance of the Remuneration Policy

#### 3.1 Overview of Responsibilities

The governance of this Remuneration Policy implies the co-operation of different areas, including the following:

	Executive Board of Directors	Human Capital Department	Risk Committee	Risk Management Department	Compliance Department	Internal Audit Department	Legal Department	Remuneration Committee	General and Supervisory Board
Draft Remuneration Policy	✓	✓			✓		✓	✓	
Approve the Policy and subsequent amendments	✓								✓ (Ratification)
Mapping and update Identified Staff		✓							
Approval of Identified Staff list	✓								
Provide information that set ground for award of Fixed and Variable Remuneration		✓	✓	✓	✓	✓			
Prepare and Propose decisions on remuneration (e.g. criteria/allocation rules, KPIs, amounts)	✓	✓						✓ (Identified Staff)	
Assess impact of Variable Remuneration on Bank's risk profile			✓	✓	✓	✓		✓	
Decide on remuneration	✓							✓ (Identified Staff)	✓ (Ratification)
Monitorize implementation of the Policy	✓	✓			✓			✓	
Review and update Policy	✓	✓			✓		✓	✓	

##### 3.1.1 Executive Board of Directors

According to legal framework and the Articles of Association, the Executive Board of Directors is responsible for:

- Approving the Remuneration Policy, following a proposal of the Remuneration Committee, and ensuring its implementation;
- Adopting decisions on remuneration (e.g. criteria/allocation rules, amounts);
- Monitoring that the Remuneration Policy is being correctly applied and is aligned with legal framework, corporate governance and risk profile of the Bank;
- Monitoring if the limitations stated in section 5.1. are not being breached;
- Deciding which Staff Members are to be classified as Identified Staff, based on the criteria set on section 4 of this Policy and deciding possible exclusions or updates;
- Assessing compliance with performance objectives and ex post risk adjustment, including the



- application of reduction (malus) and reversal (claw back) mechanisms, if applicable;
- Reviewing the Remuneration Policy according to section 8.

### 3.1.2 General and Supervisory Board

After the approval of the Executive Board of Directors, following a recommendation from the Remuneration Committee, the General and Supervisory Board approves by ratification this Remuneration Policy and its subsequent changes.

### 3.1.3 Remuneration Committee

The Remuneration Committee of the General and Supervisory Board of NOVO BANCO has been incorporated by the resolution of the General and Supervisory Board dated 18 October 2017 and pursuant article 6, no. 3, c) of the articles of association. Considering that NOVO BANCO is deemed as a significant institution, the existence of such committee is mandatory pursuant to article 115.º H of RGICSF.

The Remuneration Committee is composed of three members elected by the General and Supervisory Board, the majority of its members being independent.

The responsibilities of the Remuneration Committee are set out in the respective Rules of Procedure approved by the General and Supervisory Board and include the following:

- To provide support and advice to the General and Supervisory Board regarding the draft of the institution's remuneration policies, the monitoring of remuneration processes, policies and practices and the control of the remuneration policies compliance;
- To coordinate the proper involvement of the relevant internal structures and departments (e.g. human capital, legal, compliance and risk) within their respective areas of expertise and, where necessary, obtain external advice;
- To set and agree the Budget for Total Variable remuneration for Staff Members with the Executive Board of Directors, based on the Operating Results for the year;
- To be responsible for reviewing and agreeing remuneration decisions from the Executive Board of Directors regarding the remuneration of the Identified Staff as defined in 4.1. under;
- To assess whether the existing remuneration policies are up to date and propose any needed changes, and coordinate the annual reports referred to in section 8;
- To assess the mechanisms and systems adopted to ensure that the remuneration systems take into due account of all types of risks as well as levels of liquidity and own funds and that the global Remuneration Policy is consistent with and promotes sound and effective risk management and is in line with the institution's corporate strategy, objectives, culture and business values, as well as with the institution's long-term interests;
- To analyze a set of possible scenarios to test how remuneration policies and practices react to external and internal events, as well as the criteria used to determine remuneration allocation and ex ante risk adjustment mechanisms, based on actual risk outcomes;
- To ensure the appropriateness of the information provided to shareholders on remuneration policies and practices, particularly in relation to the higher ratio;

- To work with other committees whose activities may have an impact on the drafting and the correct functioning of remuneration policies and practices;
- To monitor information related with the distribution of financial products mortgage credit, payment services and insurance products distribution to clients and consider this information in the proposals or decisions related with the remuneration of staff members.

### **3.1.4 Risk Committee of the General Supervisory Board**

The Risk Committee shall provide all the support requested, notably it shall:

- Examine whether the incentives provided by remuneration policies and practices take into account the institution's risk, own capital and liquidity, as well as the likelihood and time schedule of profits;
- To participate in the assessment on how the structure of Variable Remuneration affects the risk profile and culture of the institution;
- Participate in any meetings of the Remuneration Committee at the request of the Chairman of the Remuneration Committee.

### **3.1.5 Global Risk Department**

The Global Risk Department shall provide all the support requested, notably it shall:

- Provide effective elements, within the scope of its duties, for the definition of global premiums, performance criteria and remuneration allocations;
- Assist in the definition of appropriate risk-adjusted performance measures (including ex post adjustments) and provide appropriate information to that effect;
- Participate in the assessment on how the structure of Variable Remuneration affects the risk profile and culture of the institution;
- Participate in any meetings of the Remuneration Committee at the request of the Chairman of the Remuneration Committee.

### **3.1.6 Compliance Department**

The Compliance Department shall provide all the support requested by the Remuneration Committee in the exercise of its tasks, notably it shall:

- Assist on the preparation and review of the Remuneration Policy;
- Provide information, within the scope of its duties, for the definition of global premiums, performance criteria and remuneration allocations;
- Propose and monitor the implementation of compliance indicators used in the eligibility of variable remuneration or incentives.
- Analyze and monitor the Remuneration Policy's implementation and compliance with the institution's laws, regulations and internal policies, such as the regulatory required reports, and report any compliance risks and non-compliance issues in respect of remuneration matters (that are

identified or are reported), to the Executive Board of Directors or to the General and Supervisory Board; Participate in the assessment on how the structure of Variable Remuneration affects the risk profile and culture of the institution;

- Inform the Remuneration Committee and/or Executive Board of Director of any situation of conflicts of interests that may be relevant in connection with the tasks and responsibilities or that may have an impact on the performance of the functions of the Remuneration Committee and/or Executive Board of Director;
- Issue an yearly evaluation on how the incentives and objectives set are compatible with laws and regulations, notably in terms of prevention of conflicts of interest and mis selling practices;
- Participate in any meetings of the Remuneration Committee at the request of the Chairman of the Remuneration Committee.

### **3.1.7 Human Capital Department**

The Human Capital Department shall provide all the support, notably it shall:

- Assist on the preparation, review and implementation of the Remuneration Policy;
- Participate in the preparation and assessment of the institution's Remuneration Policy, notably the remuneration structure, remuneration levels and incentive schemes;
- Ensure the appropriate internal and external disclosure of the Remuneration Policy;
- Participate in any meetings of the Remuneration Committee at the request of the Chairman of the Remuneration Committee;
- Submit to the Executive Board of Directors any proposal for application of risk adjustment mechanisms to the Identified Staff and Remaining Staff members.

### **3.1.8 Internal Auditing Department**

The Internal Auditing Department shall provide all the support requested by the Remuneration Committee in the exercise of its tasks, notably it shall:

- Conduct an independent analysis of the design, application and effects of the institution's;
- Remuneration Policy on its risk profile and how these effects are managed;
- Participate in any meetings of the Remuneration Committee at the request of the Chairman of the Remuneration Committee.

### **3.1.9 Legal Department**

The Legal Department shall provide all the support requested by the Remuneration Committee in the exercise of its tasks, notably it shall:

- Assist on the preparation and review of the Remuneration Policy;
- Participate in any meetings of the Remuneration Committee at the request of the Chairman of the

### **3.2 Approval**

The Policy for Staff Members of NOVO BANCO shall be approved by the Executive Board of Directors following a proposal of the Remuneration Committee and subject to later ratification from the General and Supervisory Board.

## 4 Classification of Identified Staff

The Executive Board of Directors is responsible for identifying and approving all *Identified Staff*, which are those employees whose professional activities have or may have a significant impact on the Bank's risk profile.

In this action, and in accordance with Articles 3 and 4 of the Delegated Regulation (EU) No 604/2014 of the European Commission, appropriate qualitative and quantitative criteria will be approved and used to identify core categories of staff whose professional activities have a significant impact on the institution's risk

In addition to what is stated in this Remuneration Policy, NOVO BANCO may define additional criteria that reflect the risk levels of the different activities in the institution and the impact of the Staff Members on the risk profile.

### 4.1 Mapping of Identified Staff

The application of the criteria to all Staff Members and the consequent classification is carried out by the Human Capital Department, with the active involvement of the Remuneration Committee, the General and Supervisory Board Risk Committee, the Global Risk Department, the Department of Compliance and the Internal Audit Department.

NOVO BANCO's *Identified Staff* comprises the following persons:

- **Top Managers:** All Staff Members with direct reporting to the Executive Board of Directors, notably General Managers, Board Advisors, Coordinating Officers and other Management Officers, who are primarily responsible for any Department of the Bank, including: the (i) Compliance Officer, Internal Audit Officer and Risk Officer; the (ii) Head of Commercial Departments (Retail, Private, SMEs, Corporate, International), Head of Treasury and Finance, Head of Credit Department, Head of Credit Recovery (Retail and Corporate) and Head of DSAE, Head of Marketing, Head of Real Estate Management and Head of Rating Department; and (iii) Head of the following areas: Legal Affairs, Human Capital, Information Systems, Accounting, Consolidation and Taxation and Planning and Capital Management;
- **Members of the Risk Committee of the Executive Board of Directors and Members of the Product Committee** (which are not Top Managers);
- **Other Staff Members** (which are not Top Managers):
  - Whose total remuneration exceeds, in absolute terms, EUR 500.000 per year;
  - Who have been awarded in the financial preceding year a total remuneration equal to or greater than the lowest total remuneration paid to any employee identified by the above criteria; or
  - Included in the 0.3% of the effective Staff Members with the highest total remunerations in the Institution;

In all cases, provided that they have a material impact on the Bank's risk profile.

Human Capital Department shall draw up a list of proposed Identified Staff, as they correspond to the categories indicated above, which shall be submitted for approval by the Executive Board of Directors, with prior knowledge of the Remuneration Committee. For the purpose of this Remuneration Policy, only the Staff Members included in this list shall be considered as Identified Staff.

This list shall be reviewed annually by the Human Capital Department and any changes to the list will be subject to the above described procedure.

Nevertheless, the Human Capital Department will propose the immediate update of the list whenever there are changes of the people that hold such positions or changes in the organization of the departments of the Bank, also following, in those cases, the procedure indicated above.

The Human Capital Department will communicate to each of the persons who are part of the list of *Identified Staff* their *Identified Staff* status for the purposes of this Remuneration Policy, providing all the necessary information and explanations regarding this status.

## 5 Remuneration Components

The Total Remuneration results from the combination between the Fixed and Variable Remuneration components, as described hereunder.

This chapter describes the structure and criteria for the allocation of the different remuneration components.

### 5.1 Limitations to remuneration

The state aid measures notified by Portugal in the context of the sale of NOVO BANCO have been considered as compatible with the internal market pursuant to the Treaty on the Functioning of the European Union and as a result certain commitments have been undertaken by the Portuguese State towards the European Commission (State Aid no.SA.49275 (2017/N)) until the end of the Restructuring Period - currently, 31 December 2021 (“**Restructuring Period**”).

This situation implies, however, the following limitations regarding the remuneration of NOVO BANCO’s Staff Members and Members of the Management and Supervisory Bodies (as stated on the *Remuneration Policy for Members of the Management and Supervisory Bodies*):

- a. According to the above commitments, the Bank will apply strict executive remuneration policies and will not pay to any employee, director or manager a total annual remuneration (wage, pension contribution, bonus) higher than 10 times the average annual salary of NOVO BANCO’s Staff Members until 30 June 2020. In the period between 30 June 2020 and the end of the Restructuring Period, annual remuneration payments above those limits can be made if the Bank does not breach any of the targets specified in the viability commitments. For avoidance of doubt, the Bank will in any case be able to pay deferred bonuses to its staff for performance during the Restructuring Period after the Restructuring Period has ended;
- b. Until the end of the Restructuring Period, the total remuneration and respective conditions set out in this Remuneration Policy may be affected if the commitments are not achieved, in total or partially, being therefore this Remuneration Policy subject to any limitations that may result therefrom and applicable from time to time;
- c. The award of variable remuneration to Staff Members may never put at risk the maintenance of a sound capital base and the timely termination of extraordinary public financial support to NOVO BANCO.

If, at any time, the amount of the total annual remuneration to any employee, director or manager exceeds the limit set out in paragraph (a) above, the portion of the total annual remuneration that exceeds such limit shall not be paid during the Restructuring Period and shall be deferred and paid only after the end of such period, being such portion subject to the risk adjustments mechanisms identified at 5.4.

### 5.2 Fixed Remuneration

The Fixed Remuneration is paid to all Staff Members of NOVO BANCO with an employment contract and comprises all amounts received, on a regular and periodic basis, in exchange for the work performed.

The Fixed Remuneration component should reflect the relevant professional experience and organizational responsibility established in the description of the duties of the employee as part of the employment conditions, thus having a guaranteed character. The remuneration of independent control functions should reflect the nature of their responsibilities as to fixed/ variable ratio.

Fixed Remuneration may consist of several components, which must comply with a set of conditions, notably:

- a) To reflect in a non-discretionary way the level of professional experience and the seniority of the Staff Members;
- b) To be transparent with regard to the individual amount awarded to the employee;
- c) To be permanent, that is, to remain during the period of time associated with the specific position and organizational responsibilities;
- d) Cannot be reduced, suspended or cancelled by the Bank, unless such reduction, suspension or cancellation is permitted by law;
- e) Do not depend on performance

The table below describes the several components that comprise NOVO BANCO's *Fixed Remuneration*. Without prejudice, the Executive Board of Directors may decide to grant new fixed installments, provided that the rules and principles established in the Collective Bargaining Agreements subscribed by NOVO BANCO ("*Acordo Coletivo de Trabalho celebrado entre várias instituições de crédito e a Federação dos Sindicatos Independentes da Banca*" and "*Acordo Coletivo de Trabalho celebrado entre várias instituições de crédito e a Federação do Setor Financeiro*", both published in Boletim do Trabalho e Emprego", 29, 8 August 2016 – "**ACT**") are complied with.

**Table II** –Fixed Remuneration Components.

Categories	Frequency	Description
Base Salary	14 months	Amount paid to Staff Members corresponding the exercise of activity performed according to the normal working period that has been defined in the employment contract and / or in the ACT.
Seniority Payments (" <i>Diuturnidades</i> ")	14 months	Remuneration amount to which the employee is entitled on the basis of his/her seniority.
Additional Salary	14 months	Additional amount corresponding to the exercise of the activity performed according to the normal working period.
Exemption from working hours remuneration (" <i>IHT</i> ")	14 months	Amount paid to Staff Members who are available to, as a rule, work beyond normal working hours (as stipulated in the Labor Code and ACT).



Additionally, in compliance with the provisions of the law and the ACT, NOVO BANCO attributes other benefits or amounts to its Staff Members, notably:

- a) Meal allowance;
- b) Remuneration for overtime work;
- c) Subsidy for eventual cash shortage;
- d) Functional allowance;
- e) Displacement Allowance;
- f) Reimbursement of expenses and other allowances due for travel, transport, installation and other equivalent;
- g) Childhood and study allowances.

### 5.3 Variable Remuneration

Variable Remuneration means all remuneration that is not fixed remuneration.

As a Significant Financial Institution, NOVO BANCO is obliged to comply with a set of specific requirements that must be considered in the award of Variable Remuneration.

Variable Remuneration is conditional upon the verification of certain conditions and objectives, is not contractually ensured and may be subject to adjustments pursuant to the mechanisms set out in section 5.4 (*Risk Adjustment Mechanisms*). Thus, the Variable Remuneration attributed to the Staff Members of NOVO BANCO is based on the combination of the performance of each employee, the respective Department and of NOVO BANCO, taking into account quantitative and qualitative criteria appraised through Objectives and Competencies. Exceptionally, and provided that the Bank has a sound and strong capital base, guaranteed variable remuneration in the form of “sign-on” or welcome bonus may be awarded and fully paid only once to an employee, during the first year after his/her admission in the Bank, in accordance with applicable law and remuneration guidelines and policies.

There are three types of Variable Remuneration for Staff Members:

- a. **Bonus:** to be awarded based on minimum criteria of merit and individual and collective performance for each year and only upon the verification of certain conditions;
- b. **Commercial Incentives:** corresponding to quarterly payments that aim to remunerate the best commercial performances, provided that the monitoring of mis-selling practices and other qualitative indicators of the activity is ensured;
- c. **Commercial Campaigns:** correspond to the awarding of Prizes (in cash or in kind) without regularity or a previously defined format. The Campaigns and respective Prizes are considered and evaluated in accordance with the internal rules applying to the Product evaluation, approval, distribution and monitoring and aim to incentivize a particular Product / Family of Products or a particular segment of Bank’s commercial offer for a limited time period, within the limits and conditions permitted by law for monetary and non-monetary incentives.

Other commercial incentives or bonuses for specific categories of employees in special circumstances not foreseen in this Policy (including, incentives which may be agreed by the Bank with third parties) may

be attributed under the terms and conditions to be defined and communicated to the relevant employees, provided that the principles set out in this Policy and in the applicable law are complied with.

Additionally, the variable remuneration of Staff Members who, regardless of the category in which they fit in:

- a. may have an impact on the services provided to clients or business conduct of NOVO BANCO, including but not limited to: (i) customer service personnel, business teams or other personnel indirectly involved in the provision of investment or ancillary services; (ii) persons involved in the handling of complaints or in the design and development of products;
- b. involved in the preparation, marketing and concession of consumer credit agreements;
- c. involved in the preparation, marketing and offer of deposits or payment services;
- d. involved in the sale and marketing on insurance products;
- e. all employees who supervise directly and indirectly the teams in all abovementioned activities.

**shall comply with the following principles (as applicable):**

- a. The underlying performance appraisal should take into account not only quantitative criteria, but also qualitative criteria linked to the employee's compliance with rules and regulations applicable to customer commercial interactions, in particular regarding information duties, duty to prevent conflicts of interest, record keeping duties and audit trail. Moreover, the quantitative criteria's dimension shall comply with legal, and or regulatory rules applicable;
- b. The qualitative criteria cannot be compensated by exceeding financial performance evaluation criteria, and if qualitative and compliance criteria are insufficiently met, they may be reason for non-payment;
- c. The remuneration shall be structured in such a way as to avoid any conflict with one's obligation to act in the interests of the clients and in order not to incentivize such employees to favor their interests or interests of third party providers instead of clients;
- d. The remuneration cannot be attributed if it is based on the distribution of banking products to non-professional customers, when the employee could propose a different banking product that best corresponds to the needs of that customer;
- e. Remuneration cannot be attributed if it is based on the distribution of a single product or bundling of financial products to non-professional customers, when any of those are not adequate to the needs of that customer;
- f. Remuneration cannot be attributed if it is based on insurance distribution to non-professional customers, when the employee could offer a different insurance product which would better meet the customer's needs.

### **5.3.1 Variable Remuneration of Identified Staff and Internal Control Functions**

As a Significant Financial Institution, NOVO BANCO is obliged to comply with a set of specific requirements that must be considered in the attribution of Variable Remuneration to Identified Staff.

The Identified Staff must be evaluated and remunerated in such a way as to avoid any conflict with

his/her obligation to act in the interests of the clients;

In this sense, the Performance Indicator used by NOVO BANCO to calculate the variable component of the remuneration of the Identified Staff shall:

- Consider quantitative and qualitative performance criteria, including financial and non-financial criteria for Staff Members, business units and the Bank;
- Be processed in a multi-year framework to ensure that the evaluation process is based on long-term performance and that the effective award of the portions of the Variable Remuneration (Bonus) are deferred over the period defined below taking into account the business cycle of the Bank and its business risks and promoting the retention of Identified Staff;
- Not encourage excessive risk-taking or abusive product sales; Include risk adjustment mechanisms ("Malus" and "Claw Back").

### **Internal Control Functions**

The Variable Remuneration of the members of the Identified Staff which provide internal control functions' should not be linked to the performance of the activities monitored and controlled by such members of the Staff, or set in a way that may otherwise compromise their objectivity and independence.

#### **5.3.1.1 Bonus**

The following rules shall be applied in the award of Bonus:

- a. It is only awarded if the Bank had positive Operating Results in the previous year;
- b. The award of Bonus and its payment, including the deferred portions, cannot limit the Bank's capacity to strengthen and maintain the required capital base and must be aligned with the level of risk that the Bank is willing to assume according with the internal capital adequacy assessment process.
- c. The total Bonus budget to be allocated each year to Staff Members shall be set by the Remuneration Committee;
- d. Bonus or the respective deferred portions shall only be paid at the respective dates (at the end of the first quarter following year of appraisal) provided that such payment is sustainable in light of the financial global situation of the Bank and if it is justified in light of the performance of the Bank, Business Unit and individual performance of the Staff Member;
- e. Identified Staff will only be entitled to the deferred portions of the Bonus, as described below, provided that the respective employment contract is in force at the date of the payment of each portion;
- f. The Bonus awarded cannot exceed 100% of the annual Fixed Remuneration component for each employee;
- g. The Executive Board of Directors defines the criteria / rules for allocation of Bonus, using quantitative and qualitative indicators (KPIs), in accordance with the principles set forth in this Policy and applicable laws and regulations.
- h. The Executive Board of Directors will propose to the Remuneration Committee for approval of variable remuneration to be attributed to each of the Identified Staff members.

At year end, the Remuneration Committee will set and agree upon the budget for total Variable Remuneration for Staff Members (under section 5.3.) based on the operating results for that year. The Staff Member Variable Remuneration budget will be reviewed, discussed and agreed with the CEO of the Executive Board of Directors prior to finalization.

### **5.3.1.2 Payment Method**

The Variable Remuneration awarded to the Identified Staff shall be paid out on a pro-rata basis over a period of three years, provided that condition set out in paragraph e) of 5.3.1.1 is fulfilled

Each of the three payments, when due, shall be carried out as follows:

- 50% is paid in cash;
- The other 50% shall consist of remuneration units, whose value is determined by the financial performance indicators of the Bank. Remuneration units have an equivalent effect to the attribution of shares as permitted under applicable law.

The remuneration units will be settled in cash on the due payment date and will be awarded reflecting the financial performance indicators of the Bank.

## **5.3.2 Variable remuneration for Staff Members Assigned to Business Structures:**

### **5.3.2.1 Commercial Incentives**

The Commercial Incentives Program is defined and approved by the Executive Board of Directors and has the following assumptions:

- a. The commercial incentives program's budget is yearly reviewed by the Executive Board of Directors, but cannot exceed 5% of the Bank's payroll.
- b. It is applicable only and exclusively for Staff Members assigned to business structures as referred in number 2 of section 2 of this Remuneration Policy;
- c. Staff Members eligible for this commercial incentives program are excluded from Bonus;
- d. This Incentives Program predicts a quarterly payment, although part of the total incentive will be calculated and paid in connection with the annual achievement the objectives evaluation. For specific Segments, EBD might decide otherwise and set a different frequency of payment and objectives evaluation;
- e. The performance indicators used by the Incentives Program (SOI) will be an aggregate of the *Commercial Performance, Quality Indicator and Compliance Indicator*;
- f. For calculation purposes:
  - i. Each function has a reference bonus applied to each employee independently of his/her fixed remuneration;
  - ii. Only performances equal or above 90% are eligible to commercial incentives;

- g. Full details of Commercial Incentives Program and its calculation methodology will be published in a separate document;
- h. The program is subject to risk adjustment mechanisms as described in section 5.4. of this Remuneration Policy.

### 5.3.2.2 Commercial Campaigns

When setting up a Commercial Campaign, Marketing Departments shall take into account the following:

- a. Each campaign and its respective prizes/awards must be approved by the Bank Product Committee;
- b. No campaigns can be set up regarding Mortgage Loans;
- c. The campaigns concerning the award of Variable Remuneration regarding financial products subject to MIFID II regulation must comply with the following rules:
  - i. It is based on the combination of the performance of each employee, the respective Department and NOVO BANCO;
  - ii. The underlying performance appraisal of the Staff Member should take into account not only quantitative criteria, but also qualitative criteria reflecting compliance with the applicable regulations (in particular regarding information duties, suitability duties, the duty to prevent conflicts of interest, record keeping and evidence), the fair treatment of clients and the quality of services provided to clients.
  - iii. For this purpose, attention is paid notably (but not exclusively) to internal enquiries, to duly formalized sales and to claims presented by clients in respect to the products or services rendered;
  - iv. The qualitative criteria cannot be compensated with better quantitative criteria, and in the limit, they may be exclusive for payment effect;
  - v. Staff Members must be evaluated and remunerated in such a way as to avoid any conflict with his/her obligation to act in the interests of the clients;
  - vi. In particular, it shall not make any arrangement by way of remuneration, sales targets or otherwise that could provide an incentive to its staff to recommend a particular financial instrument to a retail client when the investment firm could offer a different financial instrument which would better meet those clients' needs.
  - vii. Remuneration cannot be attributed if it is based on the distribution of packages of financial products to non-professional customers, when the package in integrated terms is not adequate to the needs of that customer;
  - viii. If the Staff Members took excessive risk in their actions or did abusive product sales, a Variable Remuneration shall not be attributed.
- d. It is exclusive for Staff Members included in business structures as referred on number 2 of section 2 of this Remuneration Policy;

No employee shall receive throughout a civil year, a total aggregate amount of prizes/awards in Commercial Campaigns, higher than his/her monthly fixed remuneration. So that Human Capital Department can assure this rule, each prize/award (in cash or in kind) has to be prior communicated

and authorized by the Human Capital Department.

### 5.3.3 Variable Remuneration for Remaining Staff Members

The Variable Remuneration for this category of Staff Members shall consist in Bonus and its award is governed by the rules described in section 5.3.1.1 of this Remuneration Policy, as applicable.

The Variable Remuneration awarded to the Remaining Staff Members shall be paid, in principle, until the end of the first quarter of the following year of appraisal, provided that the respective employment contract is in force at the date of the payment.

## 5.4 Risk adjustment mechanisms

The Bank should be able to apply *risk* adjustment mechanisms to the total Variable Remuneration, based on risk, through the following mechanisms:

- a. Reduction (*Malus*): allows the Bank to reduce all or part of the Variable Remuneration subject to deferral and whose payment is not yet considered as an acquired right;
- b. Reversal (*Claw Back*): allows the Bank to recover amounts already paid or whose payment is already an acquired right, and the relevant member is obliged to return such amounts.

### 5.4.1 Rules for *Malus* and *Claw Back* application

#### 5.4.1.1 Application to Identified Staff

The abovementioned mechanisms are applicable to the total Variable Remuneration for Identified Staff, during the deferral period, and following an extremely significant event that could be attributable to a Staff Member.

The Board of Directors will determine the severity of an event and whether *Malus* or *Claw Back* mechanisms are applicable to Variable Remuneration awarded to Identified Staff. Depending on the severity of the event, the Remuneration Committee and the Executive Board of Directors should decide if *malus* or *claw back* mechanism is applicable.

Examples of a significant event where a Staff Member shall lose the right to the Variable Remuneration include fraud, material breach of confidentiality obligations, individual material regulatory sanctions applied, or, if applicable to such Staff Member, the member ceasing to be considered suitable (fit and proper) by the supervisory authority in accordance with the applicable laws and regulations or criminal

convictions (other than road traffic offense or other offense for which a non-custodial penalty is imposed).

The decision taken on this matter is subject to approval of the Executive Board of Directors and the Remuneration Committee.

#### **5.4.1.2 Application to Staff Members Assigned to Business Structures**

The Commercial Incentives Program includes a risk adjustment mechanism that intends to recover any amounts which are detected to have been unduly paid. For this purpose, one of the following events must occur:

- a. Disciplinary procedures or dismissal with just grounds ("*justa causa*") subsequent to manipulation of commercial performance results;
- b. Fraudulent sale;
- c. Adulterate records or evidences related to the sales process;
- d. The existence of any facts that determines the non-compliance by the Staff Member with any of the rules established by law or regulation or non-compliance of the remuneration with the rules established under section 5.3.2.1. and 5.3.2.2, clause c).

The Compliance Department shall identify such events based on internal information or relayed by other Departments and inform the Human Capital Department, which will then assure that:

- a. The employee is informed of the detected event and the respective amount that was considered unduly paid;
- b. The employee will not receive further variable remuneration until the unduly amount is offset by future positive performances.

#### **5.4.1.3 Application to all Remaining Staff Members**

Claw Back mechanism shall apply if and when is detected any failure to comply with the rules applicable to the professional practice of the services provided contained in laws, regulations, internal regulations or codes of conduct by the employee, according to the analysis made by the Compliance, Audit and Legal Departments, and duly communicated to the Human Capital Department.

The Human Capital Department shall analyse the abovementioned information relayed and propose a determination of the event's severity and whether the Claw Back mechanism is applicable to bonus awarded to the Remaining Staff Members for Executive Board of Directors approval.

### **5.5 Rules in case of termination of contracts**

#### **5.5.1 Rules for termination by initiative of the Bank**

If the Employment Contract is terminated by the Bank without cause (without "*justa causa*", under

Portuguese law), the Staff Member will be entitled to receive all the deferred portions of the Bonus subject to the applicable *malus* or *claw back* adjustments and on the date specified for each deferred payment.

If the employment contract is terminated by the Bank with cause ("*justa causa*", under Portuguese law), the Staff member will have no right to Bonus or any deferred portion of Bonus.

### **5.5.2 Rules for termination by initiative of the Staff Member**

If the Staff Member decides to terminate the respective employment contract, he/she shall have no right to Bonus or any deferred portion of Bonus.

### **5.5.3 Rules for termination in case of retirement**

If the Employment Contract is terminated due to retirement, the Staff Member will be entitled to receive all the deferred portions of the Bonus subject to the applicable *malus* or *claw back* adjustments and on the date specified for each deferred payment.

## **5.6 Other Benefits**

In accordance with the Collective Bargaining Agreement ("ACT") subscribed by NOVO BANCO, Staff Members have access to Pension Plans that vary according to the date they were admitted in the Bank, notably:

- Staff Members admitted before 1/1/2008 (according to the ACT), have access to a Defined Benefit Plan. Staff Members who have joined NOVO BANCO from BIC Bank have a benefit greater than that defined in the ACT. Both Plans are described in the Agreement establishing NOVO BANCO's Pension Fund;
- Staff Members admitted after 1/1/2008 (according to the ACT), have only access to a Defined Contribution Plan;

Additionally, by management decision, NOVO BANCO also has another Defined Contribution Pension Plan established in July 2011, destined exclusively to the population of Managers at that date.



## 6 Conflicts of interest

Conflicts of interest relating to the Remuneration Policy and the remuneration allocated must be identified and appropriately addressed, in particular by the definition of objective allocation criteria, based on the internal information system, appropriate controls and the double-check principle.

The Remuneration Policy shall pursue the goal that no significant conflicts of interest arise for any Employee in the exercise of their functions, in accordance with NOVO BANCO's conflicts of interest policy in force.

To mitigate the risks associated with conflicts of interest regarding the Remuneration Policy, NOVO BANCO seeks to:

- a. Take into account the interests of shareholders, the rights and interests of consumers, market practices in terms of remuneration and the stage of maturity of its business;
- b. Not associate remuneration exclusively with a quantitative goal, marketing or sale of banking products or services;
- c. Ensure that the remuneration and performance assessments do not introduce incentives benefiting Employees' own interests, or the interests of the Bank to the detriment of those of its clients;
- d. Avoid promoting the marketing or sale of a particular product or category of products in relation to other products, such as products which are more profitable for the institution or for Employee, to the detriment of the interests of the consumer.
- e. Ensure that the Variable Remuneration is not paid through means or methods that aim at or facilitate non-compliance with the Remuneration Policy. This may include, among other situations, entering into agreements between the Bank and third parties in which the Staff Member has a personal or financial interest;
- f. Any employee shall inform the Compliance Department if, by any chance, a conflict of interest arises in relation to the present Policy;
- g. The abovementioned notification will be assessed by the Compliance Department under the applicable Portuguese laws and internal regulation such as Code of Conduct, Conflict of Interest Policy, Related Party Transactions Policy, as well as the Articles of Association of NOVO BANCO.

The Compliance Department will inform the General and Supervisory Board and Executive Board of Directors:

Of any communication received on conflict of interests related to the Remuneration Policy and its respective assessment;

## 7 Disclosure of information

NOVO BANCO should appropriately disclose the information externally (*on its website*), as well as make the approach, principles and objectives of compensation incentives transparent internally. It should also provide sufficient general information on the basic characteristics of its overall remuneration policies and practices and ensure that they are easily accessible.

In addition, NOVO BANCO has the duty to disclose information on the practices and Remuneration Policy applicable certain members of the Staff. Upon approval, this Remuneration Policy shall be disclosed internally to the institution and made available at NOVO BANCO's website.

## 8 Record keeping, Review and Update

NOVO BANCO shall file this Policy and keep the records for at least five years. These records shall be used for audit or legal purposes at request.

This Policy is supplemented by a set of internal procedures which shall be detailed in a specific document. Such document must identify, date and justify any updates and shall be appropriately filed for a period of at least 5 years.

A review and update, if required, of the Policy and its implementation shall be made yearly by the Executive Board of Directors, with the support of the Remuneration Committee and the involvement of any required departments, in order to ensure that:

- It is being correctly implemented;
- the remunerations that have been paid are aligned with this Policy, with the risk profile and the long term objectives of the Bank;
- it is compliant with national and international regulation and applicable legal framework;

A Report regarding the annual review and assessment on this Policy shall be prepared once a year by the Remuneration Committee and presented to the Shareholders Meeting, to the Executive Board of Directors and the General and Supervisory Board.

Notwithstanding the above, the Remuneration Committee shall undertake an, at least, yearly review of the Policy and of its respective implementation regarding the Identified Staff.

## 9 Final Dispositions

This Policy amends the version that was approved by the Executive Board of Directors and approved by ratification by the General and Supervisory Board on the 27th of March 2018 and will enter into force from 10<sup>th</sup> of april 2019 onwards.