



Remuneration Policy for Management and Supervisory Bodies



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1 Legal and Regulatory Framework

This Remuneration Policy contains the principles and rules for the remuneration of the members of the Management and Supervisory Bodies 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;
- 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;
- Directive 2014/65/UE (MIFID II) of the European Parliament and of the Council on markets in financial instruments and respective regulations.

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 Policy takes into account the objectives of the Bank, its strategy, nature, structure, culture and values and is based on the guiding principles of meritocracy and transparency to achieve the recognition of high performance. Additionally, this Policy and its implementation will observe and incentivise professional conduct from all members and reflects the principles set out in the Staff Remuneration Policy regarding equal treatment of clients, remuneration best practices regarding sale of products and prevention of conflict of interests with clients.

The level of risk that the institution is willing to assume is in line with the internal capital adequacy assessment process (ICAAP), and the risk appetite framework.

2 Scope

This Remuneration Policy is applicable to the following members of the corporate bodies of Novo Banco:

- Members of the General and Supervisory Board;
- Members of the Executive Board of Directors;
- Chartered Accountant (“ROC” or “Revisor Oficial de Contas”).

The Staff Remuneration Policy is established in a separate document which is subject to approval of the General and Supervisory Board following a proposal of recommendation of the Remuneration Committee. The Staff Remuneration Policy shall also be subject to the approval of the Executive Board of Directors.

3 Governance of the Remuneration Policy

3.1 Overview of Responsibilities

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

	Remuneration Committee	Human Capital Department	Risk Committee	Risk Management Department	Compliance Department	Legal Department	Internal Audit Department	General and Supervisory Board	Shareholders Meeting
Draft Remuneration Policy	✓	✓			✓	✓			
Prepare and Propose decisions on remuneration (e.g. criteria/allocation rules, KPIs, amounts)	✓								
Monitorize implementation of the Policy	✓	✓			✓				
Provide information that set ground for award of Fixed and Variable Remuneration		✓	✓	✓	✓		✓		
Assess impact of Variable Remuneration on Bank's risk profile	✓		✓	✓	✓		✓		
Approve the Policy								✓	✓
Approve EDB Remuneration								✓	
Approve GSB Remuneration									✓
Review and Update the Policy	✓	✓			✓	✓			

3.1.1 General and Supervisory Board

The responsibilities of the General and Supervisory Board in respect of remuneration matters and this Policy are described in the respective Rules of Procedure.

3.1.2 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 prepare decisions on remuneration (*e.g. criteria/allocation rules, amounts*) that will be approved and adopted by the General and Supervisory Board;
- To provide support and advice to the General and Supervisory Board with regard to the drafting 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 be responsible for preparing remuneration decisions regarding the remuneration of the members of the Executive Board of Directors;
- To verify whether the existing remuneration policies are updated and, if necessary, make proposals for change;
- To analyse the appointment of external consultants regarding remuneration that the General and Supervisory Board decides to contract for the provision of advice or support;
- To assess the mechanisms and systems adopted to ensure that the remuneration systems take 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 harmony with the institution's corporate strategy, objectives, culture and business values and the institution's long-term interests;
- To analyse 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 based on actual risk outcomes;
- To assess compliance with performance objectives and *ex post* risk adjustment, including the application of reduction (*malus*) and reversal (*claw back*) mechanisms, if applicable;
- To ensure the appropriateness of the information provided to shareholders on remuneration policies and practices, particularly in relation to the higher ratio;
- To collaborate with other committees whose activities may have an impact on the drafting and the correct functioning of remuneration policies and practices;
- Monitor the information related with the distribution of financial products and mortgage credit products to clients and consider this information in the preparation of the decisions related with the remuneration.

3.1.3 Risk Committee

The Risk Committee shall provide all the support requested by the Remuneration Committee in the exercise of its tasks, 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 timing 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.

3.1.4 Global Risk Department

The Global Risk Department shall provide all the support requested by the Remuneration Committee in the exercise of its tasks, 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.

3.1.5 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 effective elements, within the scope of its duties, for the definition of global premiums, performance criteria and remuneration allocations;
- Analyse 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 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 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;
- Participate in any meetings of the Remuneration Committee at the request of the Chairman of the Remuneration Committee.

3.1.6 Human Capital Department

The Human Capital Department shall provide all the support requested by the Remuneration Committee in the exercise of its tasks, 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.

3.1.7 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.

3.1.8 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 Remuneration Committee.

3.2 Approval

The Remuneration Policy for the members of the Executive Board of Directors and for the members of the General Supervisory Board shall be approved at the Shareholder's Meeting upon a recommendation and approval of the General and Supervisory Board following a proposal of recommendation of the Remuneration Committee. This Policy shall be acknowledged by the Executive Board of Directors.

The remuneration of the ROC shall be a fixed fee correspondent to the remuneration approved by the General Supervisory Board under the audit services engagement.

4 Remuneration Components

The Total Remuneration results from the combination between the Fixed and Variable Remuneration components. This chapter describes the structure and criteria for the allocation of the different remuneration components.

4.1 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 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 salary of employees in the bank 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 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) In addition, this Remuneration Policy has been prepared considering the existence of serious and objective reasons that justify, in the current circumstances, the payment of Variable Remuneration to the members of the Executive Board of Directors under the rules set out in this Policy. If, at any time, such reasons cease to exist, this Policy shall be reviewed accordingly.

4.2 General and Supervisory Board

The remuneration of the members of the General and Supervisory Board is exclusively composed of an annual fixed remuneration paid monthly (12 wages).

If, at any time, the amount of the remuneration of any of the members of the General and Supervisory Board exceeds the limit set out in paragraph (a) above, the portion of the 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 4.3.2.3. The provisions of paragraphs 4.3.2.3. and 4.3.2.3.1 shall apply, with the necessary adjustments, to the portion of the annual remuneration of any of the members of the General and Supervisory Board that exceed the limit set out in paragraph 4.1 (a).

Only the independent members of the General and Supervisory Board are entitled to a fixed remuneration. The remaining members of the General and Supervisory Board have no remuneration for the performance of their role.

4.3 Executive Board Members

4.3.1 Fixed Remuneration

The fixed remuneration shall take into account the complexity, level of responsibility and range of competences needed for the functions carried out. The fixed remuneration shall be paid monthly, 14 times per year. Where applicable in relation to the pension plans, refer to section 4.4 *Other Benefits*. If, at any time, the amount of the remuneration of any of the members of the Executive Board of Directors exceeds the limit set out in paragraph 4.1 (a) above, the portion of the 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 4.3.2.3.

4.3.2 Variable Remuneration

The Variable Remuneration attributed to the Executive Board Members is based on the combination of the Individual and Collective Performance Assessment and on the performance of the Bank, taking into account quantitative and qualitative criteria implemented through the Objectives and Competences¹ defined, at each time by the Remuneration Committee and communicated to the Executive Board Members.

The 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 4.3.2.3 Risk Adjustment Mechanisms. 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 once to an Executive Board Member during the first year of mandate, in accordance with applicable law and remuneration guidelines and policies.

4.3.2.1 Criteria/rules for the attribution of Variable Remuneration

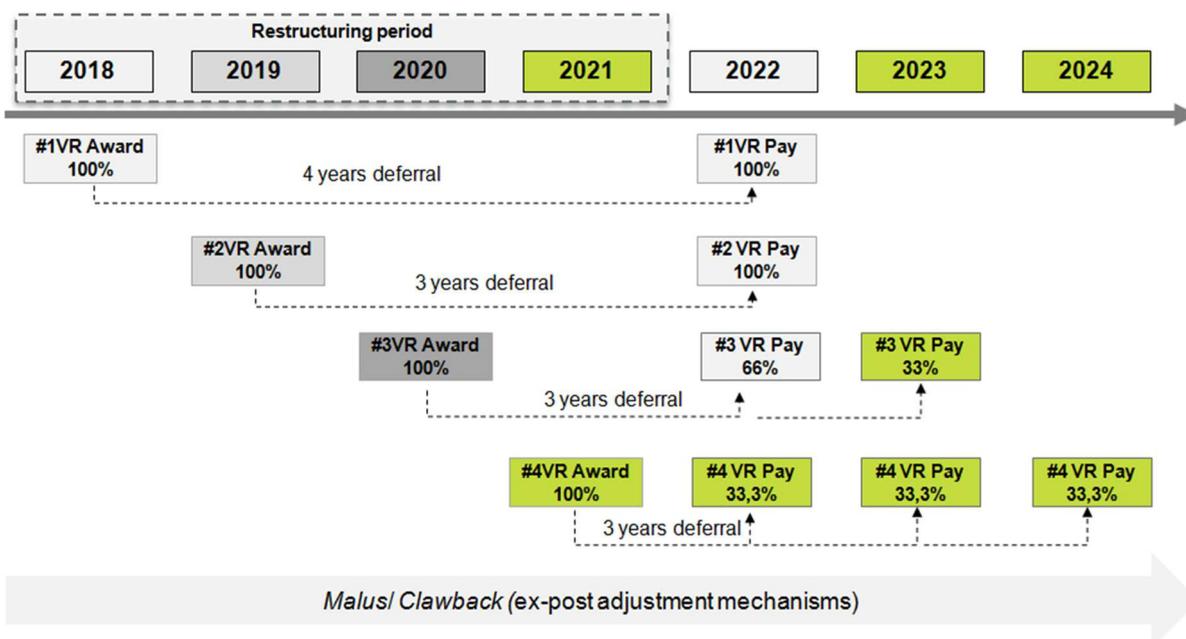
The following rules shall be applied to the Variable Remuneration:

- a) Novo Banco only considers attributing Variable Remuneration provided that the Bank has positive operating performance and that is consistent with sound and effective risk management practices;
- b) The attribution of Variable Remuneration cannot limit the Bank’s capacity to strengthen and maintain the required capital base;
- c) The total Variable Remuneration (including the staff remuneration) shall be attributed at the end of each year based on the positive operating performance;
- d) Total Variable Remuneration awarded to any Executive Board Member will be limited up to 100% of the respective fixed remuneration;
- e) The total Variable Remuneration awarded to any Executive Board Member shall be deferred by a period of at least 3 years, payable on a pro-rata basis.

¹ The weightings assigned to the Competences and the Corporate, Team and Individual Objectives should be defined in the Manual/Standard that describes the Performance Assessment Process.

- f) During the Restructuring Period, the following rules shall apply, as described in the chart below:
 - a. the Variable Remuneration awarded during the Restructuring Period shall be 100% deferred regarding the years of 2018 and 2019 and shall be fully vested at the end of the Restructuring Period; and
 - b. for the following years, the Variable Remuneration shall be deferred proportionally and the relevant portion vested at the end of the Restructuring Period;

The chart below represents the award dates and payment periods for annual Variable Remuneration of Executive Board Members under the Restructuring Period:



- g) 50% of Variable Remuneration shall consist of remuneration units, whose value is determined by the financial performance indicators of the Bank. Remuneration units have a financial equivalent effect to the attribution of shares as permitted under applicable law. Those remuneration units will have a vesting period of 3 years or 4 years if awarded in 2018. 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.

4.3.2.2 Performance Appraisal and Key Performance Indicators

The appraisal of the members of the Executive Board of Directors shall be made by the end of March each year following the year end and considering the performance and objectives defined for that year.

The annual Variable Remuneration award shall be set based on achieving financial and non-financial corporate and individual key performance indicators (“KPI’s”) agreed with each Executive Board Members by March for that year. The KPIs will be defined based on a combination of the overall Bank’s financial performance, on the member’s individual areas of responsibilities (including the development of staff members with direct reports) and the objectives of the areas they manage.

It is responsibility of the Remuneration Committee to set the abovementioned KPIs, their individual weight, assess the scale of achievement at the end of the year and define the total annual Variable Remuneration to be awarded to the members of the Executive Board of Directors.

4.3.2.3 Risk adjustment mechanisms

The Bank should be able to apply *ex-post* adjustment mechanisms to the total variable component of the remuneration and/or, if applicable, to the portion of remuneration referred in paragraph 4.3.1 that exceeds the limit set out in paragraph 4.1 (a), based on risk, through the following mechanisms:

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;

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.

4.3.2.3.1 Rules for *Malus* and *Claw Back* application

During the deferral period, and following an extremely significant event that could be attributable to the Executive Board Members or to an individual Executive Board Member.

The Remuneration Committee will determine the severity of an event and whether *malus* or *claw back* mechanisms are applicable to Variable Remuneration awarded to Executive Board Members and/or, if applicable, to the portion of remuneration referred in paragraph 4.3.1 that exceeds the limit set out in paragraph 4.1 (a). Depending on the severity of the event, Remuneration Committee should decide if *malus* or *claw back* mechanism is applicable.

Examples of a significant event where an individual Executive Board Member could lose the right to the Variable Remuneration include fraud, material breach of confidentiality obligations, individual material regulatory sanctions applied, or the member ceasing to be considered as suitable (fit and proper) by the supervisory authority in accordance with applicable laws and regulations or criminal convictions (other than a road traffic offense or other offense for which a non-custodial penalty is imposed).

The decision taken on this matter by the Remuneration Committee shall be subject to approval of the General and Supervisory Board.

4.3.2.4 Rules in case of leave situations

4.3.2.4.1 Rules for leave by initiative of the Bank

If the Executive Board Member' Mandate is terminated by the Bank without cause (without "*justa causa*", under Portuguese law), the respective member of the Executive Board of Directors will be entitled to receive the Variable Remuneration (or parts of it) awarded when such deferred variable remuneration or portions of it vest in accordance with the rules above and subject to the applicable *malus* or *claw back* adjustments.

If the Executive Board Member' Mandate is terminated by the Bank with cause ("*justa causa*", under Portuguese law), the respective Member of the Executive Board of Directors shall have no right to any deferred portion of Variable Remuneration.

4.3.2.4.2 Rules for leave by initiative of the Executive Board Member

If a member of the Executive Board of Directors voluntarily resigns before the end of the fixed term mandate for which he/she is appointed, the Remuneration Committee will determine whether the individual member continues to have the right to any deferred portion of Variable Remuneration that is not yet vested, subject to the applicable *malus* or *claw back* adjustments and on the date specified for the payment of each deferred portion. The Remuneration Committee will also consider adherence to non-compete undertaking and notice period in making its decision.

Notwithstanding, if the resignation of any member of the Executive Board of Directors occurs during the Restructuring Period, he/she will receive the Variable Remuneration (or parts of it) that have been awarded, regarding each year of the fixed term mandate until the date of end of functions, when such deferred variable remuneration or portions of it vest in accordance with the rules above and subject to the applicable *malus* or *claw back* adjustments.

4.3.3 Other Benefits

Other benefits such as health insurance, mobile phones, etc. are applicable in line with what is attributed to the staff of the Bank in accordance with internal regulations.

In case any Executive Board Member happens to be an employee of the Bank, he/she would be able to maintain, during the term of office, the benefits that result from the employment contract and the Collective Bargaining Agreement (CBA) regulation that were applicable prior to being appointed to the Executive Board of Directors, should the applicable laws and regulations do not provide otherwise.

Such benefits can be related to:

- a) Health benefits: Bank employees are eligible to health system SAMS;
- b) Credit conditions: special mortgage rates stated on CBA and personal loans program for employees;
- c) Pension plan: defined benefit pension plan stated on CBA and defined contribution plan for middle management.

5 Conflicts of interest

Conflicts of interest relating to the Remuneration Policy and the Variable Remuneration awarded 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 "four-eyes" principle.

The Remuneration Policy shall pursue the goal that no significant conflicts of interest arise for members of the Management and Supervisory Bodies in the exercise of their functions,

The Remuneration Committee is responsible for monitoring adherence to Novo Banco's Remuneration Policy with the goal of prevention of conflicts of interest established in the applicable laws, regulations and guidelines and will notify the Chairperson of the General and Supervisory Board if significant conflicts of interest arise for members of the Management and Supervisory Bodies in the exercise of their functions relating to this Remuneration Policy. In the event the conflicts of interest arise for Chairperson of the General and Supervisory Board, the above referred notice shall be sent to the

Chairperson of the Compliance Committee of the General and Supervisory Board, who then shall inform the General and Supervisory Board accordingly.

The Remuneration Committee and the General Supervisory Board may consult the Compliance Department and/or request it to provide appropriate information relevant for the evaluation of the situation.

No member of the General and Supervisory Board will participate in the discussion nor in the decision of situations of conflicts of interest affecting or involving such member.

Decisions taken by the General and Supervisory Board regarding any conflicts of interest arising for members of the General and Supervisory Board relating to this Remuneration Policy shall be subject to ratification by the Shareholders.

The General and Supervisory Board shall inform the Shareholders of any decisions taken regarding conflicts of interest arising to the members of the Executive Board of Directors relating to this Remuneration Policy.

Should the Compliance Department be made aware of any situation of conflict of interest relating to this Policy it shall inform the Remuneration Committee.

The Remuneration Committee and the General and Supervisory Board shall inform the Compliance Department of the situations of conflicts of interest submitted to their analysis. The Compliance Department will include the same in the registry of the situations of conflicts of interest.

6 Record keeping and Policy 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 five years.

A review and update, if required, of the Policy and its implementation shall be made annually by the Remuneration Committee, with the involvement of any required departments, in order to assure that:

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

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

7 Disclosure of information

Upon approval, this Remuneration Policy shall be disclosed internally to the institution and Novo Banco should also appropriately disclose the information externally (*on its website*), as well as make

the approach, principles and objectives of compensation incentives transparent internally. In addition, Novo Banco has the duty to disclose information on the practices and Remuneration Policy applicable to the members of the Management and Supervisory Bodies.

8 Final Rule

This Policy was approved by the Shareholders' Meeting upon a recommendation and approval of the General and Supervisory Board and will enter into force from 5th of April 2019 onwards.