

**Rules of Procedure for the Risk Committee  
of the General and Supervisory Board of Novo Banco, S.A.**

(date of last update: 12 December 2018)

**§ 1**

**Composition and Chairman**

- (1) The Risk Committee (the "**Committee**") consists of at least three members, each of whom (including election as chairman of the Risk Committee) is elected by the General and Supervisory Board from among its members.
- (2) The Committee should include a majority of members who are independent and be chaired by an independent member (the "**Chairman**"), as defined in the articles of association of Novo Banco, S.A. (the "**Bank**").
- (3) The Chairman and a sufficient number of its members must have experience in risk management issues and control practices.

**§ 2**

**Tasks**

- (1) Notwithstanding any assignment by law or administrative order, the Committee has the tasks which are set out in these Rules of Procedure.
- (2) The Committee advises and supports the General and Supervisory Board in monitoring the overall actual and future risk appetite and risk strategy as well as the effectiveness of the internal control and the risk management systems of Novo Banco, which will comprise the Bank and also any other financial entity within its scope of prudential consolidation. Therefore, the matters and competences foreseen herein shall be exercised considering the Bank and the above mentioned entities, without prejudice to the responsibilities and competences of the relevant corporate bodies and committees of such entities.
- (3) In particular, the Committee has the following tasks:
  - a) overseeing the current and forward-looking risk exposures including under stress and different stress test scenarios to assess how the Bank's risk profile reacts to internal and external events;
  - b) notwithstanding the tasks of the Remuneration Committee, verifying

whether the incentives established by the Bank's remuneration system, policies and practices take account of the risk, capital and liquidity structure of the Bank as well as the expectations, likelihood and the timing of earnings, in particular whether variable elements of remuneration may affect the Bank's risk profile and culture;

- c) overseeing the reporting of the Executive Board of Directors regarding the current state of risk culture;
- d) reviewing and prior consenting any proposals of the Executive Board of Directors aiming at the Bank granting any new credit transaction (or series of related credit transactions with the same or related borrowers) or an increase of an existing credit facility (or series of related credit facilities with the same or related borrowers) that fulfil the thresholds and conditions foreseen in § 7 (1) (h) (i) to (iv) of the Rules of Procedure for the General and Supervisory Board;
- e) assisting and making recommendations to the General and Supervisory Board in overseeing the implementation of the Bank's risk strategy and the corresponding limits set;
- f) monitoring, reviewing and, if applicable, making recommendations or approve, at least annually, the Bank's Risk Appetite Framework, the Internal Capital Adequacy Assessment Process, the Internal Liquidity Adequacy Assessment Process, key performance indicators and key risk indicators, including on provisioning and credit impairments, as well as any changes thereto;
- g) analyzing and making recommendations on whether any material financial products and services offered to clients take account of the Bank's business model and risk strategy, assessing any risks associated with such financial products and services and analyzing whether prices assigned to them are commensurate with profits gained from those products and services. The Committee may submit to the Executive Board of Directors a corrective plan to be implemented in order to correct any deficiencies detected;
- h) monitoring compliance with credit and risk policies, reviewing such policies at least annually and providing any recommendations in relation to such activities to the Executive Board of Directors;
- i) reviewing and prior consenting any proposals of the Executive Board of

Directors concerning the approval of, or any material changes to, credit and risk policies as foreseen in § 7 (1) (a) of the Rules of Procedure for the General and Supervisory Board;

- j) overseeing the implementation of strategies for capital and liquidity management as well as for all of the Bank's relevant risks (financial and non-financial), such as credit, market as well as operational, reputational, information technology and legal risks, to ensure their adequacy against the approved risk appetite and strategy;
- k) providing the General and Supervisory Board with recommendations on necessary adjustments of the risk strategies, resulting from changes in the Bank's business model, from market developments or from recommendations made by the Bank's risk management department;
- l) reviewing and providing recommendations to the Executive Board of Directors in relation to any prospective material changes to the Bank's internal models, including material rating systems, with a view to controlling and ensuring the effectiveness of risk management.;
- m) overseeing the Bank's public disclosures on risk and risk management;
- n) approve the proposals of the Executive Board of Directors of further sums or acquisition or granting of additional exposures to be submitted to the Resolution Fund pursuant to Clause 6.5 of the Servicing Agreement entered into between the Bank and the Resolution Fund in connection with the Contingent Capital Agreement ("**Servicing Agreement**");
- o) assess the proposals of further sums or acquisition or granting of additional exposures made by the Resolution Fund pursuant to Clause 6.6 of the Servicing Agreement;
- p) reviewing and prior consenting any proposals of the Executive Board of Directors aiming at the Bank granting any new credit transaction (or series of related credit transactions with the same or related borrowers) or an increase of an existing credit facility (or series of related credit facilities with the same or related borrowers) that fulfil the thresholds and conditions foreseen in § 7 (1) (h) (v) of the Rules of Procedure for the General and Supervisory Board;
- q) approve the proposals of the Executive Board of Directors of exclusion to the Contingent Capital Agreement under which certain CCA assets

- would cease to qualify as such for the purpose of the CCA;
- r) discuss and analyze, once a year, the execution of the Servicing Agreement and the information reported provided in connection with its performance; and
  - s) overseeing any other risk matters the Committee deems relevant, or the General and Supervisory Board assigns to the Committee on an *ad hoc* basis, for the assessment and oversight of the risk situation of Novo Banco Group and making any recommendations to the Executive Board of Directors that it deems appropriate on such matters.
- (4) In case the Executive Board of Directors decides, within its competence, not to follow or implement a recommendation made by the Committee, in the exercise of the Committee's monitoring and review functions, in relation to the matters referred above, it shall forthwith inform the Committee accordingly and provide it with the grounds for not following such recommendations.
  - (5) The Committee, the Remuneration Committee, the Compliance Committee, the Nomination Committee and the Financial Affairs (Audit) Committee coordinate their activities and work together regularly and – if required – on an *ad hoc* basis, to ensure the necessary exchange of information to capture and assess all relevant risks for the performance of their tasks.
  - (6) In performing its tasks, the Committee may draw on all resources which it deems appropriate and may also enlist the services of external advisors.

### **§ 3**

#### **Meetings and voting**

- (1) Meetings of the Committee are convened by its Chairman or – if he is unavailable – by the chairman of the General and Supervisory Board, with an advance notice period of at least 14 days.
- (2) Unless otherwise expressly stipulated herein or in applicable law, the provisions in the Articles of Association and the Rules of Procedure pertaining to the General and Supervisory Board shall apply accordingly to the Committee.
- (3) The Committee is quorate if at least three of its members participate in the meetings.
- (4) In case of a tie vote, the Chairman has a casting vote.

#### **§ 4**

##### **Participation in meetings**

- (1) The chairman of the Executive Board of Directors and the Chief Risk Officer shall attend the meetings of the Committee unless the Chairman specifies otherwise from case to case.
- (2) The Chairman may allow other persons to attend the meetings of the Committee.

#### **§ 5**

##### **Right to information**

- (1) The Committee has the right to receive reports from the Executive Board of Directors that appropriately allow the Committee to monitor whether the conditions in the customer business comply with the business model and risk structure of the Bank. To the extent such conditions do not so comply, the Committee requests proposals from the Executive Board of Directors on how compliance with this requirement can be achieved, and monitors the implementation of any measures implemented.
- (2) The Committee determines the nature, scope, format and frequency of the information which the Executive Board of Directors is required to submit in relation to strategy and risks.
- (3) The Committee is authorized to obtain, through its Chairman, information directly from the Executive Board of Directors and from senior managers of the Bank reporting directly to the Executive Board of Directors, in particular the Head of Risk and the Head of Internal Audit / Group Audit.

#### **§ 6**

##### **Declarations**

The Chairman or, if he is unavailable, the chairman of the General and Supervisory Board, acts on behalf of the Committee if declarations have to be issued or received to implement the resolutions of the Committee.

## **§ 7**

### **Reporting to the General and Supervisory Board**

- (1) The Chairman reports regularly to the General and Supervisory Board on the work and decisions of the Committee and provide it with any appropriate information requested by such board.
- (2) The Chairman informs the General and Supervisory Board no later than at the next meeting about any information essential to the General and Supervisory Board in relation to any risk matters communicated by the Executive Board of Directors to the Committee. Each General and Supervisory Board member is authorized to review the reports transmitted to the Committee.

## **§ 8**

### **Final provision**

The matters that are not regulated in the current Rules of Procedure are governed by the general provisions foreseen in the General and Supervisory Board's Rules of Procedure, as applicable.